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January 21, 2016

Board of Directors  
Major Health Partners  
150 West Washington Street  
Shelbyville, IN 46176

We have reviewed the audit report prepared by Blue & Co., LLP, Independent Public Accountants, for the period January 1, 2014 to December 31, 2014. 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, 2014 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.

*Paul D. Joyce*  
Paul D. Joyce, CPA  
State Examiner



**CONSOLIDATED FINANCIAL STATEMENTS**  
**AND**  
**SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2014 AND 2013**

# MAJOR HEALTH PARTNERS

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## 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, 2014 and 2013, 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to 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, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the basic 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 24, 2015

## **REQUIRED SUPPLEMENTARY INFORMATION**

## MAJOR HEALTH PARTNERS

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2014 AND 2013

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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. (MAI), Major Hospital Foundation and MDSolutions, LLC. Please read it in conjunction with MHP's financial statements that follow this MD&A.

#### FINANCIAL HIGHLIGHTS

- During 2014, MHP issued Indiana Finance Authority Hospital Revenue Bonds, Series 2014A with a face amount of \$53,505,000 for construction of a replacement acute care hospital.
- MHP reported a positive change in net position for 2014 of approximately \$25.5 million compared to a positive change in net position of approximately \$12.7 million in 2013, representing an increase of approximately \$12.8 million in comparison to the 2013 results.
- MHP spent approximately \$1.6 million on equipment and capital projects in 2014 net of disposals. Included in capital expenditures is the construction in progress related to the construction of a replacement acute care hospital. Major capital equipment expenditures include the addition of two radiology digital detectors at the Hospital and Renovo, a central sterile booster pump, two ultrasound units, a laboratory analyzer, OR equipment, a health information scanner, hospital signage, grounds equipment, and ongoing normal equipment replacement. Capital expenditures related to information technology include a SAN upgrade, radiology PACs software upgrade, firewall upgrade, software licenses, servers, and PC replacements. The Hospital spent money for ongoing building maintenance and improvements, including renovations at the main campus. In 2014, the Hospital disposed of a Nursing home facility including the associated land and equipment.

#### 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.

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## MAJOR HEALTH PARTNERS

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2014 AND 2013

#### 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

	2014	2013	2012
<b>Assets and deferred outflows</b>			
Current assets	\$ 93,767,127	\$ 52,444,906	\$ 29,997,523
Assets whose use is limited	154,863,819	76,028,499	60,607,198
Capital assets, net	43,079,192	46,130,345	44,971,189
Other assets	5,612,921	7,025,240	9,987,935
Total assets	297,323,059	181,628,990	145,563,845
<b>Deferred outflows - interest rate swaps</b>	-0-	146,290	387,726
Total assets and deferred outflows	<u>\$ 297,323,059</u>	<u>\$ 181,775,280</u>	<u>\$ 145,951,571</u>
<b>Liabilities</b>			
Current liabilities	\$ 79,420,538	\$ 37,223,575	\$ 18,860,356
Other liabilities	1,022,832	1,014,612	985,766
Long term debt	80,973,319	33,094,276	28,396,494
Total liabilities	161,416,689	71,332,463	48,242,616
<b>Net position</b>			
Net investment in capital assets	12,487,977	11,317,184	15,578,641
Restricted	1,144,809	1,586,288	1,475,534
Unrestricted	122,273,584	97,539,345	80,654,780
Total net position	<u>135,906,370</u>	<u>110,442,817</u>	<u>97,708,955</u>
Total liabilities and net position	<u>\$ 297,323,059</u>	<u>\$ 181,775,280</u>	<u>\$ 145,951,571</u>

The significant changes in Major Health Partners' assets resulted from an increase in current assets of approximately \$41.3 million and an increase in assets whose use is limited of approximately \$78.8 million. The increase in current assets is due to operating additional long-term care facilities during 2014 which increased patient accounts receivable, inventories and other current assets. Assets whose use is limited increased as a result of long-term care operations, investment return and proceeds from the issuance of long-term debt to be used for the construction of the new hospital. Total liabilities increased in 2014 by approximately \$90.1 million in comparison to 2013. The increase is attributable to an increase in operating payables (including long-term care operations) and long-term debt.



## MAJOR HEALTH PARTNERS

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2014 AND 2013

#### OPERATING RESULTS AND CHANGES IN NET POSITION AND CASH FLOWS

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

	2014	2013	2012
<b>Revenues</b>			
Net patient service revenue	\$ 323,959,745	\$ 192,996,493	\$ 121,996,164
Other operating revenue	4,094,914	4,723,247	2,594,030
Total revenues	328,054,659	197,719,740	124,590,194
<b>Expenses</b>			
Salaries and benefits	64,158,227	63,550,079	57,720,755
Supplies	17,391,564	16,011,109	15,515,642
Depreciation and amortization	7,176,002	5,622,455	5,245,716
Other operating expenses	214,571,810	102,314,086	39,731,569
Total expenses	303,297,603	187,497,729	118,213,682
Operating income	24,757,056	10,222,011	6,376,512
<b>Non-operating revenue (expense), net</b>	(1,549,447)	701,780	3,077,241
Excess of revenues over expenses	23,207,609	10,923,791	9,453,753
<b>Transfers from noncontrolling interest</b>	2,255,944	1,810,071	-0-
Change in net position	25,463,553	12,733,862	9,453,753
<b>Net position</b>			
Beginning of year	110,442,817	97,708,955	88,255,202
End of year	<u>\$ 135,906,370</u>	<u>\$ 110,442,817</u>	<u>\$ 97,708,955</u>

#### SOURCES OF REVENUE

During 2014, 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 58% of MHP's acute care gross revenues in 2014 but 49% of MHP's acute care net patient service revenues.

Major Health Partners' service mix significantly changed between 2014 and 2013. Inpatient revenue accounted for 15% and 20% of gross revenue in 2014 and 2013, respectively. Outpatient revenue was 48% and 60% of total gross revenue in 2014 and 2013, respectively. Long-term care revenue was 37% and 20% of total gross revenue in 2014 and 2013, respectively.

## MAJOR HEALTH PARTNERS

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2014 AND 2013

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Medicare	44%	43%	41%
Medicaid	14%	14%	15%
Anthem	15%	14%	15%
Commercial	17%	20%	21%
Self Pay	10%	9%	8%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

### OPERATING AND FINANCIAL PERFORMANCE

Major Health Partners had income from operations of approximately \$24.8 million in 2014, which resulted in a return on equity of 18.2% compared to income from operations of approximately \$10.2 million in 2013 and return on equity of 9.3%.

This following section highlights the major financial factors for 2014 for MHP:

- The Hospital's discharges slightly increased from 2,741 in 2013 to 2,790 in 2014. The Hospital's adjusted patient days increased to 36,814 in 2014 compared to 34,655 in 2013.
- Overall net patient service revenue increased approximately \$131.0 million in 2014. The increase was driven by long-term care operations as MHP operated more long-term care facilities in 2014 compared to 2013. Of the total increase in net patient service revenue, approximately \$114 million related to the increase in long-term care patient revenues. The Hospital received approximately \$1.7 million from the State for the Indiana Medicaid Municipal Hospital Payment Adjustment, which was a decrease from the 2013 amount of approximately \$4.4 million.
- MAI' total operating revenue increased approximately \$2.3 million or 11% from year 2013 to year 2014 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 slightly decreased by approximately \$0.6 million in 2014 mainly due to a decrease in management revenue generated by Major Affiliates.
- Operating expenses increased by approximately \$116.0 million in 2014. This increase is result of an increase in supplies, purchased services (including expenses associated with long-term care operations), depreciation and rent.
- Salaries and wages and benefits expense remained consistent between 2014 and 2013.
- Medical Professional fees for the Hospital decreased by approximately \$1.6 million between 2014 and 2013. The decrease was the result of a change in the arrangement with the contracted ER physician group. In 2013, the hospital billed for the professional component of the ER visit and paid a professional fee to the contracted ER physicians. In 2014, the contracted ER physicians billed and collected the professional fee.

## MAJOR HEALTH PARTNERS

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2014 AND 2013

- Supplies increased by approximately \$1.4 million between 2014 and 2013. The increase was the result of increased pharmaceutical expense.
- Purchased services increased approximately \$102.0 million or 134.3% in 2014. 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:

	2014	2013	2012
Cash flows from			
Operating activities	\$ 34,238,940	\$ 18,946,341	\$ 14,245,507
Capital and related financing	41,753,141	152,700	(9,200,153)
Investing	1,168,658	(6,010,309)	(7,151,292)
Change in cash and cash equivalents	<u>\$ 77,160,739</u>	<u>\$ 13,088,732</u>	<u>\$ (2,105,938)</u>

Cash and cash equivalents increased by approximately \$77.2 million in 2014 compared to an increase of approximately \$13.1 million in 2013. The majority of the 2014 increase relates to cash generated from operations and proceeds from the issuance of long-term debt with a face amount of \$53,505,000.

### CAPITAL ASSETS

During 2014, Major Health Partners invested approximately \$11.0 million in capital assets along with retirements and transfers of approximately \$9.4 million. The change in capital assets is outlined in the following table:

	2014	2013	2012
Land and land improvements	\$ 8,485,889	\$ 11,581,078	\$ 11,328,726
Leasehold improvements	4,441,242	2,639,906	2,322,553
Buildings and improvements	49,854,703	52,238,324	49,735,425
Equipment	39,458,655	38,258,162	36,739,841
Construction in progress	5,056,023	940,307	255,963
Total property and equipment	<u>107,296,512</u>	<u>105,657,777</u>	<u>100,382,508</u>
Less accumulated depreciation	<u>64,217,320</u>	<u>59,527,432</u>	<u>55,411,319</u>
Capital assets, net	<u>\$ 43,079,192</u>	<u>\$ 46,130,345</u>	<u>\$ 44,971,189</u>

Capital assets have decreased due to retirements and disposals in 2014. 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.

## **MAJOR HEALTH PARTNERS**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2014 AND 2013**

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#### **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, 2014 AND 2013

#### ASSETS AND DEFERRED OUTFLOWS

	2014	2013
<b>Current assets</b>		
Cash and cash equivalents	\$ 16,827,184	\$ 14,536,069
Patient accounts receivable, net of allowance for uncollectible accounts of \$4,177,000 in 2014 and \$4,477,000 in 2013	44,870,457	22,866,389
Inventory and other current assets	31,161,007	13,493,964
Current portion of assets whose use is limited	908,479	1,548,484
Total current assets	93,767,127	52,444,906
<b>Assets whose use is limited</b>		
Internally designated	103,183,178	76,346,747
Held by trustee for construction	51,333,278	-0-
Donor restricted funds	1,255,842	1,230,236
Total assets whose use is limited	155,772,298	77,576,983
Less current portion	908,479	1,548,484
Noncurrent assets whose use is limited	154,863,819	76,028,499
<b>Capital assets, net</b>	43,079,192	46,130,345
<b>Property held for sale</b>	2,176,627	4,576,627
<b>Other assets, net</b>	3,436,294	2,448,613
Total assets	297,323,059	181,628,990
<b>Deferred outflows - interest rate swaps</b>	-0-	146,290
Total assets and deferred outflows	<u>\$ 297,323,059</u>	<u>\$ 181,775,280</u>

See accompanying notes to consolidated financial statements.

## MAJOR HEALTH PARTNERS

### CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2014 AND 2013

#### LIABILITIES AND NET POSITION

	2014	2013
<b>Current liabilities</b>		
Accounts payable and accrued expenses	\$ 64,310,015	\$ 20,702,867
Accrued wages and related liabilities	11,007,218	10,101,823
Estimated third-party settlements	3,152,131	4,700,000
Current portion of long-term debt		
Loans payable and capital leases	42,695	870,401
Revenue bonds payable	908,479	848,484
Total current liabilities	79,420,538	37,223,575
<b>Derivative liability</b>	-0-	146,290
<b>Other liabilities</b>	1,022,832	868,322
<b>Long term debt, net of current portion</b>		
Loans payable and capital leases	341,602	7,363,760
Revenue bonds payable	80,631,717	25,730,516
Total long term debt	80,973,319	33,094,276
Total liabilities	161,416,689	71,332,463
<b>Net position</b>		
Net investment in capital assets	12,487,977	11,317,184
Restricted		
Expendable - other specific purpose	400,995	375,389
Non-expendable	743,814	1,210,899
Total restricted net position	1,144,809	1,586,288
Unrestricted	122,273,584	97,539,345
Total net position	135,906,370	110,442,817
Total liabilities and net position	\$ 297,323,059	\$ 181,775,280

See accompanying notes to consolidated financial statements.

## MAJOR HEALTH PARTNERS

### CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
<b>Revenues</b>		
Net patient service revenue	\$ 323,959,745	\$ 192,996,493
Other revenue	4,094,914	4,723,247
Total revenues	328,054,659	197,719,740
<b>Expenses</b>		
Salaries and wages	49,618,293	48,607,237
Employee benefits	14,539,934	14,942,842
Medical professional fees	3,311,853	4,921,728
Supplies	17,391,564	16,011,109
Purchased services	177,963,107	75,966,074
Rent and maintenance	24,894,947	12,440,390
Utilities	1,745,314	1,592,641
Insurance	888,700	746,300
Depreciation and amortization	7,176,002	5,622,455
Hospital assessment fee	2,731,912	3,625,421
Other expenses	3,035,977	3,021,532
Total expenses	303,297,603	187,497,729
Operating income	24,757,056	10,222,011
<b>Nonoperating revenues (expenses)</b>		
Investment income	2,766,852	3,558,468
Interest expense	(700,502)	(928,350)
Loss on impairment of goodwill	-0-	(2,475,000)
Loss on impairment of land held for sale	(2,400,000)	-0-
Bond issuance costs	(1,088,391)	-0-
Other nonoperating revenue (expense)	(127,406)	546,662
Nonoperating revenues (expenses), net	(1,549,447)	701,780
Excess of revenues over expenses	23,207,609	10,923,791
<b>Transfers from noncontrolling interest</b>	2,255,944	1,810,071
Change in net position	25,463,553	12,733,862
<b>Net position</b>		
Beginning of year	110,442,817	97,708,955
End of year	<u>\$ 135,906,370</u>	<u>\$ 110,442,817</u>

See accompanying notes to consolidated financial statements.

# MAJOR HEALTH PARTNERS

## CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
<b>Operating activities</b>		
Cash received from patient services	\$ 300,407,808	\$ 182,338,839
Cash paid for salaries, wages and benefits	(63,252,832)	(62,495,184)
Cash paid to vendors and suppliers	(207,453,955)	(108,569,671)
Other receipts, net	4,537,919	7,672,357
Net cash flows from operating activities	34,238,940	18,946,341
<b>Capital and related financing activities</b>		
Principal payments on long-term debt	(8,712,937)	(1,579,387)
Proceeds from issuance of long-term debt	53,505,000	7,000,000
Bond premium	2,338,759	-0-
Interest on long-term debt	(700,502)	(928,350)
Transfers from noncontrolling interest	2,255,944	1,810,071
Purchases of capital assets	(11,010,958)	(6,163,219)
Proceeds from the sale of capital assets	6,596,912	-0-
Bond issuance costs	(1,088,391)	-0-
Other	(1,430,686)	13,585
Net cash flows from capital and related financing activities	41,753,141	152,700
<b>Investing activities</b>		
Investment income	2,766,852	3,558,468
Other nonoperating revenues (expenses)	(127,406)	546,662
Purchase of investments	(27,038,225)	(27,732,537)
Proceeds from sale of investments	25,567,437	17,617,098
Net cash flows from investing activities	1,168,658	(6,010,309)
Net change in cash and cash equivalents	77,160,739	13,088,732
<b>Cash and cash equivalents:</b>		
Beginning of year	27,676,807	14,588,075
End of year	\$ 104,837,546	\$ 27,676,807
<b>Reconciliation of cash and cash equivalents to the consolidated balance sheet</b>		
Cash and cash equivalents		
In current assets	\$ 16,827,184	\$ 14,536,069
In assets whose use is limited		
Internally designated	36,641,029	13,111,379
Held by trustee for construction	51,333,278	-0-
Donor restricted	36,055	29,359
Total cash and cash equivalents	\$ 104,837,546	\$ 27,676,807

See accompanying notes to consolidated financial statements.



## MAJOR HEALTH PARTNERS

### CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
<b>Reconciliation of operating income to net cash from operating activities</b>		
Operating income	\$ 24,757,056	\$ 10,222,011
Adjustments to reconcile operating income to net cash flows from operating activities		
Depreciation and amortization	7,176,002	5,622,455
Bad debts	10,152,273	12,005,075
Changes in operating assets and liabilities		
Patient accounts receivable	(32,156,341)	(23,262,729)
Inventory and other current assets	(17,667,043)	(6,243,554)
Other assets	(987,681)	2,962,695
Accounts payable and accrued expenses	43,607,148	15,985,493
Accrued wages and related liabilities	905,395	1,054,895
Estimated third-party settlements	(1,547,869)	600,000
Net cash flows from operating activities	<u>\$ 34,238,940</u>	<u>\$ 18,946,341</u>
<b>Non cash investing and financing activities</b>		
Interest rate swap and deferred outflows	\$ 146,290	\$ 241,436
Loss on impairment of land held for sale	\$ 2,400,000	\$ -0-
Loss on impairment of goodwill	\$ -0-	\$ 2,475,000

See accompanying notes to consolidated financial statements.

# MAJOR HEALTH PARTNERS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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### 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.

The 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.

## MAJOR HEALTH PARTNERS

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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

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

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

MAI owns 100% of MedWorks, Inc. (MedWorks), which operates a pharmacy located in Shelbyville, Indiana. MedWorks owns 100% of Major Multi Specialty Associates, LLC, Family Orthopedic and Rehabilitation Center, LLC, and Priority Care, 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.

#### 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.

## MAJOR HEALTH PARTNERS

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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These investments consist primarily of cash and cash equivalents, certificates of deposit, US government securities, mutual funds, 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, 2011 with differences reflected as deductions from revenue in 2014. Amounts for unresolved cost reports for 2012 through 2014 are reflected in estimated third-party settlements on the consolidated balance sheets. MHP did not recognize any change in net position in 2014 and 2013, 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.

## MAJOR HEALTH PARTNERS

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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#### 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.

#### Endowments

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.

#### Charity Care

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 \$ 2,504,000 and \$2,411,000 arose from providing services to charity patients for 2014 and 2013, 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 2015.

#### 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.

## MAJOR HEALTH PARTNERS

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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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

#### 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 and increased by funds held by trustee for construction of the property and equipment related to the borrowings (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. During 2014, MHP capitalized interest of approximately \$534,000. No interest was capitalized during 2013.

#### 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. 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.

## MAJOR HEALTH PARTNERS

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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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. MHP had an appraisal performed of Westpark as MHP intended to sell Westpark. As a result of that appraisal, during 2013, MHP deemed the goodwill to be impaired. Additionally, Westpark had experienced a significant decline in census. As a result, MHP recorded an impairment loss for the remaining goodwill balance of \$2,475,000 during 2013. 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. During 2014, MHP sold Westpark which resulted in loss of approximately \$400,000 which is included in the other operating revenue (expense) line of the consolidated statements of revenues, expenses and changes in net position.

#### 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. During 2014, the interest rate swap agreements matured and were not renewed.

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

## MAJOR HEALTH PARTNERS

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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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 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 MAI and MedWorks 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, 2014 and 2013, 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, 2013. 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 \$154,000 and \$224,000 for 2014 and 2013, respectively.



## MAJOR HEALTH PARTNERS

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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#### 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 2014 and 2013, MHP recognized approximately \$520,000 and \$939,000, 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.

## MAJOR HEALTH PARTNERS

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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#### 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 24, 2015.

## 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 \$1,700,000 and \$4,400,000 for 2014 and 2013, respectively. These programs are Federal programs administered by the State of Indiana.

## MAJOR HEALTH PARTNERS

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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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 2014 and 2013, MHP recognized HAF Program expense of approximately \$2,700,000 and \$3,600,000, respectively. The Medicaid rate increases under the HAF Program are included in net 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 2014 and 2013:

	2014	2013
Patient service revenue		
Inpatient	\$ 67,402,440	\$ 67,941,398
Outpatient	218,710,752	200,320,025
Long-term care	168,929,582	68,073,283
Gross patient service revenue	455,042,774	336,334,706
Deductions from revenue		
Contractual allowances	114,607,245	125,527,443
Charity care	6,323,511	5,805,695
Bad debts	10,152,273	12,005,075
Total deductions from revenue	131,083,029	143,338,213
Net patient service revenue	<u>\$ 323,959,745</u>	<u>\$ 192,996,493</u>

### 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.

## MAJOR HEALTH PARTNERS

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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Held by trustee for construction – Amounts deposited with a trustee and limited to use in accordance with the requirements of a trust indenture and funds from long-term debt borrowings to be expended for capital.

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:

	2014	2013
Internally designated		
Cash and cash equivalents	\$ 36,641,029	\$ 13,111,379
Certificates of deposit	1,000,000	1,000,000
US Government securities	26,944,231	24,629,082
Mutual funds	36,301,001	35,073,368
Corporate equity securities	1,865,677	2,123,036
Corporate debt securities	431,240	409,882
Total internally designated	103,183,178	76,346,747
Held by trustee for construction		
Cash and cash equivalents	51,333,278	-0-
Donor restricted		
Cash and cash equivalents	36,055	29,359
US Government securities	81,645	44,264
Mutual funds	250,678	432,836
Corporate equity securities	720,845	548,662
Corporate debt securities	166,619	175,115
Total donor restricted	1,255,842	1,230,236
Total assets whose use is limited	<u>\$ 155,772,298</u>	<u>\$ 77,576,983</u>

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 Depositary 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 deposit funds which are carried at contract value. Net realized gains and losses on security transactions are determined on the specific identification cost basis.

# MAJOR HEALTH PARTNERS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

MHP's investments generally are reported at fair value, as discussed in Note 1. As of December 31, 2014 and 2013, 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, 2014					
Investment Maturities (in years)					
	Carrying Amount	Less than 1	1-5	6-10	More than 10
US Government securities	\$ 27,025,876	\$ 163,096	\$ 16,966,962	\$ 5,399,517	\$ 4,496,301
Certificates of deposit	1,000,000	1,000,000	-0-	-0-	-0-
Mutual funds	36,551,679	36,551,679	-0-	-0-	-0-
Corporate equity securities	2,586,522	2,586,522	-0-	-0-	-0-
Corporate debt securities	597,859	7,042	369,101	177,828	43,888
	<u>\$ 67,761,936</u>	<u>\$ 40,308,339</u>	<u>\$ 17,336,063</u>	<u>\$ 5,577,345</u>	<u>\$ 4,540,189</u>

  

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
	<u>\$ 64,436,245</u>	<u>\$ 39,779,949</u>	<u>\$ 15,954,684</u>	<u>\$ 5,268,894</u>	<u>\$ 3,432,718</u>

*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 deposit 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, 2014 AND 2013

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Deposits and investments consist of the following as of December 31, 2014 and 2013:

	2014	2013
Carrying amount		
Deposits	\$ 104,837,546	\$ 27,676,807
Investments	67,761,936	64,436,245
	<u>\$ 172,599,482</u>	<u>\$ 92,113,052</u>
Included in the balance sheet captions		
Cash	\$ 16,827,184	\$ 14,536,069
Internally designated	103,183,178	76,346,747
Held by trustee for construction	51,333,278	-0-
Restricted funds	1,255,842	1,230,236
	<u>\$ 172,599,482</u>	<u>\$ 92,113,052</u>

#### 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.

## MAJOR HEALTH PARTNERS

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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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, 2014 and 2013.

- *Money market mutual funds:* Generally transact subscription and redemption activity at a \$1 stable net asset value (NAV); however, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of the securities held in the fund.
- *U.S. government securities:* Valued using pricing models maximizing the use of observable inputs for similar securities.
- *Mutual funds:* Valued at the daily closing price as reported by the fund. Mutual funds held by MHP are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV 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.
- *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 2014 and 2013.

# MAJOR HEALTH PARTNERS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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, 2014.

	December 31, 2014			
	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Assets whose use is limited				
Money market mutual funds	\$ 51,333,278	\$ -0-	\$ 51,333,278	\$ -0-
US Government securities				
US treasury notes	17,203,023	17,203,023	-0-	-0-
Federal home loan bank	4,702,931	-0-	4,702,931	-0-
Mortgage backed securities	5,119,922	-0-	5,119,922	-0-
Total US Government securities	27,025,876	17,203,023	9,822,853	-0-
Mutual funds				
Fixed income	11,537,569	11,537,569	-0-	-0-
Large cap blended	11,342,613	11,342,613	-0-	-0-
Small cap blended	2,602,278	2,602,278	-0-	-0-
Large cap growth	4,458,142	4,458,142	-0-	-0-
Mid cap blended	3,122,599	3,122,599	-0-	-0-
Mid cap value	3,027,174	3,027,174	-0-	-0-
Other	461,304	461,304	-0-	-0-
Total mutual funds	36,551,679	36,551,679	-0-	-0-
Corporate equity securities				
Large cap growth	474,279	474,279	-0-	-0-
Large cap core	672,833	672,833	-0-	-0-
Large cap value	702,423	702,423	-0-	-0-
Other	736,987	736,987	-0-	-0-
Total corporate equity securities	2,586,522	2,586,522	-0-	-0-
Corporate debt securities				
Financial services	197,424	-0-	197,424	-0-
Other	400,435	-0-	400,435	-0-
Total corporate debt securities	597,859	-0-	597,859	-0-
	118,095,214	\$ 56,341,224	\$ 10,420,712	\$ -0-
Cash and cash equivalents	36,677,084			
Certificates of deposit	1,000,000			
Total assets whose use is limited	\$ 155,772,298			

Assets measured at fair value on a non-recurring basis as of December 31, 2014 are as follows:

	December 31, 2014			
	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Other assets				
Property held for sale	\$ 2,176,627	\$ -0-	\$ 2,176,627	\$ -0-

During 2014, MHP had land held for sale appraised which resulted in an impairment loss of \$2,400,000. The fair value of the land held for sale is determined by reference to market prices and information for similar assets. 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.



# MAJOR HEALTH PARTNERS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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
<b>Assets</b>				
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 value	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 cash equivalents	13,140,738			
Certificates of deposit	1,000,000			
Total assets whose use is limited	\$ 77,576,983			
<b>Liabilities</b>				
Derivative - interest rate swap	\$ 146,290	\$ -0-	\$ 146,290	\$ -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 MHP's fixed rate revenue bonds approximates fair value based upon the timing of when the bonds were issued. 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.

# MAJOR HEALTH PARTNERS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

### 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, 2014 and 2013, 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, 2014 and 2013:

	2014	2013
Compton Endowment	\$ 521,714	\$ 521,714
McFadden Endowment	333,133	333,133
Noncontrolling interest	(111,033)	356,052
	<u>\$ 743,814</u>	<u>\$ 1,210,899</u>

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, 2012	\$ 97,277,625	\$ 431,330	\$ 97,708,955
Excess of revenues over expenses	12,809,140	(1,885,349)	10,923,791
Transfers from noncontrolling interest	-0-	1,810,071	1,810,071
Balance, December 31, 2013	110,086,765	356,052	110,442,817
Excess (deficit) of revenues over expenses	25,930,638	(2,723,029)	23,207,609
Transfers from noncontrolling interest	-0-	2,255,944	2,255,944
Change in net position	<u>25,930,638</u>	<u>(467,085)</u>	<u>25,463,553</u>
Balance, December 31, 2014	<u>\$ 136,017,403</u>	<u>\$ (111,033)</u>	<u>\$ 135,906,370</u>

# MAJOR HEALTH PARTNERS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

### 7. CAPITAL ASSETS

#### Capital Assets, Net

A summary of property and equipment, including assets under capital leases for 2014 and 2013 follows:

	December 31, 2013	Additions	Disposals	Transfers	December 31, 2014
Land and land improvements	\$ 11,581,078	\$ 261,134	\$ (3,356,323)	\$ -0-	\$ 8,485,889
Leasehold improvements	2,639,906	2,334,449	(533,113)	-0-	4,441,242
Buildings and improvements	52,238,324	124,377	(3,154,218)	646,220	49,854,703
Equipment	38,258,162	3,481,260	(2,328,569)	47,802	39,458,655
Construction in progress	940,307	4,809,738	-0-	(694,022)	5,056,023
Total property and equipment	105,657,777	11,010,958	(9,372,223)	-0-	107,296,512
Less accumulated depreciation					
Land improvements	1,943,501	245,326	(63,509)	-0-	2,125,318
Leasehold improvements	925,126	164,264	-0-	-0-	1,089,390
Buildings and improvements	27,780,083	3,573,156	(908,614)	-0-	30,444,625
Equipment	28,878,722	3,051,521	(1,372,256)	-0-	30,557,987
Total accumulated depreciation	59,527,432	7,034,267	(2,344,379)	-0-	64,217,320
Capital assets, net	\$ 46,130,345	\$ 3,976,691	\$ (7,027,844)	\$ -0-	\$ 43,079,192

  

	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	116,064	-0-	-0-	925,126
Buildings and improvements	26,045,902	1,734,783	(602)	-0-	27,780,083
Equipment	26,854,228	2,911,711	(887,217)	-0-	28,878,722
Total accumulated depreciation	55,411,319	5,004,063	(887,950)	-0-	59,527,432
Capital assets, net	\$ 44,971,189	\$ 1,159,156	\$ -0-	\$ -0-	\$ 46,130,345

As of December 31, 2014, MHP had a remaining commitment of approximately \$80,000,000 primarily related to the construction of a replacement acute care hospital.

#### Assets under Capital Leases

The assets acquired through capital leases are as follows:

	2014	2013
Equipment	\$ 309,061	\$ 309,061
Less accumulated depreciation	309,061	294,899
	<u>\$ -0-</u>	<u>\$ 14,162</u>

## MAJOR HEALTH PARTNERS

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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#### 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. Land held for sale is included within the property held for sale section of the consolidated balance sheets.

#### 8. LONG TERM DEBT

A summary of long term debt as of December 31, 2014 is as follows:

- Indiana Finance Authority Hospital Revenue Bonds, Series 2009 in the original aggregate principal amount of \$30,000,000, were issued during 2009, to finance or refinance various health care facilities. On June 23, 2009, a financial institution purchased from the Indiana Finance Authority all of the Series 2009 Bonds in a private placement. On December 5, 2014, the Series 2009 Bonds were assigned to another financial institution. The Series 2009 Bonds bear interest at a variable rate, adjusted monthly, equal to the lesser of (a) 12% per annum or (b) a rate equal to the sum of (i) 67% of one month LIBOR plus (ii) 0.98% (rate as of December 31, 2014 – 1.092%). The Series 2009 Bonds may be, at the option of the Hospital, converted to another interest rate mode and remarketed to another bondholder or holders. The Series 2009 Bonds are subject to mandatory tender and purchase on December 1, 2024 (Tender Date). If the Series 2009 Bonds cannot be remarketed on the Tender Date, the Hospital would be required to purchase the Series 2009 Bonds at a price equal to the remaining principal amount of the Series 2009 Bonds. The Series 2009 Bonds are secured by certain revenues of the Hospital which approximated \$100,000,000. The Series 2009 Bonds mature in monthly installments through December 1, 2024 and on December 1, 2034 (final maturity).
- Indiana Finance Authority Hospital Revenue Bonds, Series 2014A, in the original principal amount of \$53,505,000, were issued during 2014 for construction of a replacement acute care hospital. The Series 2014A Bonds bear fixed interest at rates ranging from 3.50% to 5.00%, payable semiannually on April 1 and October 1 of each year. Principal payments due in annual installments on October 1 of each year, from October 1, 2017, through October 1, 2044 (final maturity). The Series 2014A Bonds are secured by certain revenues of the Hospital similar to the Series 2009 Bonds, as well as a mortgage on certain real estate, building and improvements comprising the replacement acute care hospital. The net book value of this collateral as of December 31, 2014 approximated \$5,000,000.
- The capital lease obligation with fixed interest of 4.5% executed for property and equipment was due in monthly installments of \$1,881 including interest. The capital lease obligation matured during 2014.
- Note payable with an original amount of \$7,000,000 with a local financial institution. This note was paid in full during 2014.

# MAJOR HEALTH PARTNERS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

- Loans payable with an original amount of \$2,300,000 with a local financial institutions, due in monthly installments of approximately \$13,000 which included interest with a balloon payment in 2016 at an interest rate of the daily LIBOR plus 300 basis points as of December 31, 2014 (3.17%), was secured by certain assets of a subsidiary. This loan was paid in full during 2014.
- 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 a fixed interest rate of 7.7% and is unsecured.

The revenue bonds require the Hospital to maintain certain financial ratios. As of December 31, 2014, the Hospital was in compliance with the financial ratios.

The following is a progression for long term debt for 2014 and 2013:

	December 31, 2013	Additional Borrowings	Payments	December 31, 2014	Current Portion
Revenue bonds					
2009 Bonds	\$ 26,579,000	\$ -0-	\$ (863,073)	\$ 25,715,927	\$ 908,479
2014A Bonds	-0-	53,505,000	-0-	53,505,000	-0-
Loans payable					
Capital lease obligations	14,808	-0-	(14,808)	-0-	-0-
Note payable	6,416,667	-0-	(6,416,667)	-0-	-0-
Loans payable	1,802,686	-0-	(1,418,389)	384,297	42,695
	<u>34,813,161</u>	<u>\$ 53,505,000</u>	<u>\$ (8,712,937)</u>	<u>79,605,224</u>	<u>\$ 951,174</u>
Unamortized bond premium	-0-			2,319,269	
Total long term debt	<u>\$ 34,813,161</u>			<u>\$ 81,924,493</u>	
	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	<u>\$ 29,392,548</u>	<u>\$ 7,000,000</u>	<u>\$ (1,579,387)</u>	<u>\$ 34,813,161</u>	<u>\$ 1,718,885</u>

Scheduled principal and interest repayments on long term debt and payments on capital lease obligations for the years succeeding December 31, 2014 are as follows:

Years Ending December 31,	Principal	Interest	Total Payments
2015	\$ 951,174	\$ 2,937,710	\$ 3,888,884
2016	1,066,581	2,964,460	4,031,041
2017	2,102,707	2,941,608	5,044,315
2018	2,178,022	2,877,292	5,055,314
2019	2,260,286	2,811,659	5,071,945
2020-2024	12,390,526	12,943,604	25,334,130
2025-2029	7,630,000	11,219,370	18,849,370
2030-2034	23,935,928	9,069,720	33,005,648
2035-2039	11,905,000	5,640,250	17,545,250
2040-2044	15,185,000	2,315,000	17,500,000
	<u>\$ 79,605,224</u>	<u>\$ 55,720,673</u>	<u>\$ 135,325,897</u>

# MAJOR HEALTH PARTNERS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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The interest rate swap agreements matured in 2014. The interest rate swap agreements did 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 paid a fixed rate on a portion of the debt. A portion of the debt service requirements to maturity for the Series 2009 Bonds were based on that fixed rate. MHP was exposed to variable rates if the counterparty to the swaps defaulted or the swap agreements terminated.

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 had three interest rate swap agreements in effect as of December 31, 2013 for the Indiana Finance Authority Hospital Revenue Bonds, Series 2009. These agreements matured during 2014.

#### 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%.

#### 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 remained the same for the term of the bonds that are disclosed in the Long Term Debt note. As rates vary, variable-rate bond interest payments and net swap payments would have varied.

As of December 31, 2013, MHP had determined the swaps to be effective hedges. Accordingly, the fair value of the swaps was recorded and subsequent changes in fair value were recorded only in the consolidated balance sheets while the swaps remained effective hedges. Following is an analysis of the recording of the interest rate swap agreements:

	2014	2013
Deferred outflow	<u>\$ -0-</u>	<u>\$ 146,290</u>
Liability		
Interest rate swap agreements	<u>\$ -0-</u>	<u>\$ 146,290</u>

See Fair Value Measurements note for additional information.

## MAJOR HEALTH PARTNERS

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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#### 10. ACCOUNTS RECEIVABLE AND PAYABLE

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities as of December 31, 2014 and 2013 is as follows:

	2014	2013
Patient accounts receivable		
Receivable from patients and their insurance carriers	\$ 17,013,493	\$ 17,772,774
Receivable from Medicare	9,516,021	7,809,249
Receivable from Medicaid	2,306,914	1,346,422
Receivable from long-term care operations	35,041,239	12,006,200
Total patient accounts receivable	63,877,667	38,934,645
Less contractual allowances	(14,830,556)	(11,591,021)
Less allowance for uncollectible amounts	(4,176,654)	(4,477,235)
Patient accounts receivable, net	<u>\$ 44,870,457</u>	<u>\$ 22,866,389</u>
Accounts payable and accrued expenses		
Payable to employees (including payroll taxes and benefits)	\$ 11,007,218	\$ 10,101,823
Payable to suppliers and other accrued expenses	64,310,015	20,702,867
Total accounts payable and accrued expenses	<u>\$ 75,317,233</u>	<u>\$ 30,804,690</u>

#### 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 2014 and 2013 were approximately \$2,301,000 and \$1,904,000, respectively. Employees are not permitted to contribute to the plan.

## MAJOR HEALTH PARTNERS

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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#### 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	
	2014	2013	2014	2013
Medicare	33%	29%	44%	43%
Medicaid	8%	5%	14%	14%
Anthem	14%	15%	15%	14%
Other third party payors	25%	27%	17%	20%
Self-pay	20%	24%	10%	9%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

#### 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 \$200,000 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 \$7,006,000 and \$7,428,000 in 2014 and 2013, respectively.



## MAJOR HEALTH PARTNERS

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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A progression of unpaid claims for 2014 and 2013 follows:

	<u>2014</u>	<u>2013</u>
Unpaid claims, beginning of year	\$ 1,295,000	\$ 1,060,000
Incurred claims and changes in estimates	7,005,683	7,427,979
Claim payments	<u>(6,805,683)</u>	<u>(7,192,979)</u>
Unpaid claims, end of year	<u>\$ 1,495,000</u>	<u>\$ 1,295,000</u>

#### 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 2014 and 2013 was approximately \$22,606,000 and \$10,375,000, 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 the 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:

<u>Years Ending December 31,</u>	
2015	\$ 250,000
2016	250,000
2017	250,000
2018	250,000
2019	250,000
Thereafter	<u>2,250,000</u>
	<u>\$ 3,500,000</u>

# MAJOR HEALTH PARTNERS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

### 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.

	2014			
	MAI	Foundation	MDSolutions	Total
Assets and deferred outflows				
Current assets	\$ 4,079,247	\$ 495,457	\$ 1,530,719	\$ 6,105,423
Capital assets	10,730,744	17,144	978	10,748,866
Other assets	3,764,740	4,940,371	-0-	8,705,111
Total assets and deferred outflows	<u>\$ 18,574,731</u>	<u>\$ 5,452,972</u>	<u>\$ 1,531,697</u>	<u>\$ 25,559,400</u>
Liabilities				
Long-term debt	\$ 1,592,072	\$ -0-	\$ -0-	\$ 1,592,072
Other liabilities	5,102,079	20,123	385,496	5,507,698
Total liabilities	<u>6,694,151</u>	<u>20,123</u>	<u>385,496</u>	<u>7,099,770</u>
Net position				
Net investment in capital assets	8,566,098	17,144	978	8,584,220
Restricted	(111,033)	1,255,842	-0-	1,144,809
Unrestricted	3,425,515	4,159,863	1,145,223	8,730,601
Total net position	<u>11,880,580</u>	<u>5,432,849</u>	<u>1,146,201</u>	<u>18,459,630</u>
Total liabilities and net position	<u>\$ 18,574,731</u>	<u>\$ 5,452,972</u>	<u>\$ 1,531,697</u>	<u>\$ 25,559,400</u>
Revenues				
Net patient service revenue	\$ 21,090,631	\$ -0-	\$ -0-	\$ 21,090,631
Other	1,897,256	1,046,759	1,214,645	4,158,660
Total revenues	<u>22,987,887</u>	<u>1,046,759</u>	<u>1,214,645</u>	<u>25,249,291</u>
Expenses				
Depreciation	924,712	6,639	35,035	966,386
Other expenses	29,639,891	589,771	1,103,317	31,332,979
Total expenses	<u>30,564,603</u>	<u>596,410</u>	<u>1,138,352</u>	<u>32,299,365</u>
Operating income (loss)	(7,576,716)	450,349	76,293	(7,050,074)
Nonoperating revenues (expenses)	<u>(236,368)</u>	<u>276,188</u>	<u>15,245</u>	<u>55,065</u>
Excess (deficit) revenues over expenses	(7,813,084)	726,537	91,538	(6,995,009)
Transfers	<u>8,458,242</u>	<u>-0-</u>	<u>86,270</u>	<u>8,544,512</u>
Change in net position	645,158	726,537	177,808	1,549,503
Net position				
Beginning of year	11,235,422	4,706,312	968,393	16,910,127
End of year	<u>\$ 11,880,580</u>	<u>\$ 5,432,849</u>	<u>\$ 1,146,201</u>	<u>\$ 18,459,630</u>
Net cash flows from				
Operating activities	\$ (7,216,260)	\$ 456,988	\$ 803,049	\$ (5,956,223)
Capital and related financing activities	8,073,652	(388,889)	64,124	7,748,887
Investing activities	206,184	77,758	-0-	283,942
Total	<u>1,063,576</u>	<u>145,857</u>	<u>867,173</u>	<u>2,076,606</u>
Cash and cash equivalents				
Beginning of year	3,290,645	288,326	565,659	4,144,630
End of year	<u>\$ 4,354,221</u>	<u>\$ 434,183</u>	<u>\$ 1,432,832</u>	<u>\$ 6,221,236</u>

# MAJOR HEALTH PARTNERS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

	2013			
	MAI	Foundation	MDSolutions	Total
Assets and deferred outflows				
Current assets	\$ 5,275,609	\$ 329,067	\$ 765,723	\$ 6,370,399
Capital assets	11,866,734	22,376	2,145,547	14,034,657
Other assets	904,471	4,775,694	(13,726)	5,666,439
Total assets and deferred outflows	<u>\$ 18,046,814</u>	<u>\$ 5,127,137</u>	<u>\$ 2,897,544</u>	<u>\$ 26,071,495</u>
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	<u>11,235,422</u>	<u>4,706,312</u>	<u>968,393</u>	<u>16,910,127</u>
Total liabilities and net position	<u>\$ 18,046,814</u>	<u>\$ 5,127,137</u>	<u>\$ 2,897,544</u>	<u>\$ 26,071,495</u>
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	<u>29,189,314</u>	<u>1,033,091</u>	<u>1,142,185</u>	<u>31,364,590</u>
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
End of year	<u>\$ 11,235,422</u>	<u>\$ 4,706,312</u>	<u>\$ 968,393</u>	<u>\$ 16,910,127</u>
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				
Beginning of year	2,129,115	315,421	257,181	2,701,717
End of year	<u>\$ 3,290,645</u>	<u>\$ 288,326</u>	<u>\$ 565,659</u>	<u>\$ 4,144,630</u>

## **SUPPLEMENTARY INFORMATION**

# MAJOR HEALTH PARTNERS

## CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2014

<b>ASSETS</b>	Hospital	MAI	Foundation	MDSolutions	Eliminations	Total
<b>Current assets</b>						
Cash and cash equivalents	\$ 11,040,131	\$ 4,354,221	\$ -0-	\$ 1,432,832	\$ -0-	\$ 16,827,184
Patient accounts receivable, net	43,339,431	1,531,026	-0-	-0-	-0-	44,870,457
Inventory and other current assets	30,850,396	865,031	495,457	97,887	(1,147,764)	31,161,007
Current portion of assets whose use is limited	908,479	-0-	-0-	-0-	-0-	908,479
Total current assets	86,138,437	6,750,278	495,457	1,530,719	(1,147,764)	93,767,127
<b>Assets whose use is limited</b>						
Internally designated	99,498,649	-0-	3,684,529	-0-	-0-	103,183,178
Held by trustee for construction	51,333,278	-0-	-0-	-0-	-0-	51,333,278
Donor restricted funds	-0-	-0-	1,255,842	-0-	-0-	1,255,842
Total assets whose use is limited	150,831,927	-0-	4,940,371	-0-	-0-	155,772,298
Less current portion	908,479	-0-	-0-	-0-	-0-	908,479
Noncurrent assets whose use is limited	149,923,448	-0-	4,940,371	-0-	-0-	154,863,819
<b>Capital assets, net</b>	32,330,326	10,730,744	17,144	978	-0-	43,079,192
<b>Property held for sale</b>	2,176,627	-0-	-0-	-0-	-0-	2,176,627
<b>Other assets</b>	4,742,069	1,093,709	-0-	-0-	(2,399,484)	3,436,294
Total assets	<u>\$ 275,310,907</u>	<u>\$ 18,574,731</u>	<u>\$ 5,452,972</u>	<u>\$ 1,531,697</u>	<u>\$ (3,547,248)</u>	<u>\$ 297,323,059</u>

See report of independent auditors on pages 1 and 2.

# MAJOR HEALTH PARTNERS

## CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2014

<b>LIABILITIES AND NET POSITION</b>	Hospital	MAI	Foundation	MDSolutions	Eliminations	Total
<b>Current liabilities</b>						
Accounts payable and accrued expenses	\$ 63,782,852	\$ 1,097,626	\$ 16,371	\$ 31,051	\$ (617,885)	\$ 64,310,015
Accrued wages and related liabilities	8,239,974	2,409,047	3,752	354,445	-0-	11,007,218
Estimated third-party settlements	3,152,131	-0-	-0-	-0-	-0-	3,152,131
Current portion of long-term debt						
Loans payable and capital leases	0	42,695	-0-	-0-	-0-	42,695
Revenue bonds payable	908,479	-0-	-0-	-0-	-0-	908,479
Intercompany notes payable	-0-	529,879	-0-	-0-	(529,879)	-0-
Total current liabilities	76,083,436	4,079,247	20,123	385,496	(1,147,764)	79,420,538
<b>Other liabilities</b>	-0-	1,022,832	-0-	-0-	-0-	1,022,832
<b>Long term debt, net of current portion</b>						
Loans payable and capital leases	-0-	341,602	-0-	-0-	-0-	341,602
Revenue bonds payable	80,631,717	-0-	-0-	-0-	-0-	80,631,717
Intercompany notes payable	-0-	1,250,470	-0-	-0-	(1,250,470)	-0-
Total long term debt	80,631,717	1,592,072	-0-	-0-	(1,250,470)	80,973,319
Total liabilities	156,715,153	6,694,151	20,123	385,496	(2,398,234)	161,416,689
<b>Net position</b>						
Net investment in capital assets	2,123,408	8,566,098	17,144	978	1,780,349	12,487,977
Restricted						
Expendable - other specific purpose	-0-	-0-	400,995	-0-	-0-	400,995
Non-expendable	-0-	(111,033)	854,847	-0-	-0-	743,814
Total restricted net position	-0-	(111,033)	1,255,842	-0-	-0-	1,144,809
Unrestricted	116,472,346	3,425,515	4,159,863	1,145,223	(2,929,363)	122,273,584
Total net position	118,595,754	11,880,580	5,432,849	1,146,201	(1,149,014)	135,906,370
Total liabilities and net position	<u>\$ 275,310,907</u>	<u>\$ 18,574,731</u>	<u>\$ 5,452,972</u>	<u>\$ 1,531,697</u>	<u>\$ (3,547,248)</u>	<u>\$ 297,323,059</u>

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, 2014

	Hospital	MAI	Foundation	MDSolutions	Eliminations	Total
<b>Revenue</b>						
Net patient service revenue	\$ 303,020,934	\$ 21,090,631	\$ -0-	\$ -0-	\$ (151,820)	\$ 323,959,745
Other	2,256,856	1,897,256	1,046,759	1,214,645	(2,320,602)	4,094,914
Total revenue	305,277,790	22,987,887	1,046,759	1,214,645	(2,472,422)	328,054,659
<b>Expenses</b>						
Salaries and wages	33,987,223	15,543,977	125,945	238,550	(277,402)	49,618,293
Employee benefits	9,992,855	4,418,441	8,547	120,091	-0-	14,539,934
Medical professional fees	3,311,853	-0-	-0-	-0-	-0-	3,311,853
Supplies	12,287,942	5,123,782	-0-	11,478	(31,638)	17,391,564
Purchased services	177,028,923	2,158,681	-0-	216,943	(1,441,440)	177,963,107
Rent and maintenance	24,523,981	624,441	-0-	309,000	(562,475)	24,894,947
Utilities	1,171,901	554,991	-0-	18,422	-0-	1,745,314
Insurance	377,042	510,377	-0-	1,281	-0-	888,700
Depreciation and amortization	6,201,526	924,712	6,639	35,035	8,090	7,176,002
Hospital assessment fee	2,731,912	-0-	-0-	-0-	-0-	2,731,912
Other expenses	1,890,502	705,201	455,279	187,552	(202,557)	3,035,977
Total expenses	273,505,660	30,564,603	596,410	1,138,352	(2,507,422)	303,297,603
Operating income (loss)	31,772,130	(7,576,716)	450,349	76,293	35,000	24,757,056
<b>Nonoperating revenues (expenses)</b>						
Investment income	2,601,201	-0-	276,188	-0-	(110,537)	2,766,852
Interest expense	(650,355)	(138,538)	-0-	(22,146)	110,537	(700,502)
Loss on impairment of land	(2,400,000)	-0-	-0-	-0-	-0-	(2,400,000)
Bond issuance costs	(1,088,391)	-0-	-0-	-0-	-0-	(1,088,391)
Other nonoperating revenues (expenses)	520,263	(97,830)	-0-	37,391	(587,230)	(127,406)
Nonoperating revenues (expenses), net	(1,017,282)	(236,368)	276,188	15,245	(587,230)	(1,549,447)
Revenues over (under) expenses	30,754,848	(7,813,084)	726,537	91,538	(552,230)	23,207,609
<b>Transfers (to) from</b>	(6,172,290)	8,458,242	-0-	86,270	(116,278)	2,255,944
Change in net position	24,582,558	645,158	726,537	177,808	(668,508)	25,463,553
<b>Net position</b>						
Beginning of year	94,013,196	11,235,422	4,706,312	968,393	(480,506)	110,442,817
End of year	\$ 118,595,754	\$ 11,880,580	\$ 5,432,849	\$ 1,146,201	\$ (1,149,014)	\$ 135,906,370

See report of independent auditors on pages 1 and 2.

# MAJOR HEALTH PARTNERS

## CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2013

ASSETS AND DEFERRED OUTFLOWS	Hospital	MAI	Foundation	MDSolutions	Eliminations	Total
<b>Current assets</b>						
Cash and cash equivalents	\$ 10,679,765	\$ 3,290,645	\$ -0-	\$ 565,659	\$ -0-	\$ 14,536,069
Patient accounts receivable, net	21,560,253	1,306,136	-0-	-0-	-0-	22,866,389
Inventory and other current assets	14,985,718	678,828	329,067	200,064	(2,699,713)	13,493,964
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
<b>Assets whose use is limited</b>						
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
<b>Capital assets, net</b>	32,095,688	11,866,734	22,376	2,145,547	-0-	46,130,345
<b>Property held for sale</b>	4,576,627	-0-	-0-	-0-	-0-	4,576,627
<b>Other assets</b>	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
<b>Deferred outflows - interest rate swaps</b>	146,290	-0-	-0-	-0-	-0-	146,290
Total assets and deferred outflows	<u>\$ 160,664,353</u>	<u>\$ 18,046,814</u>	<u>\$ 5,127,137</u>	<u>\$ 2,897,544</u>	<u>\$ (4,960,568)</u>	<u>\$ 181,775,280</u>



# MAJOR HEALTH PARTNERS

## CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2013

<b>LIABILITIES AND NET POSITION</b>	<b>Hospital</b>	<b>MAI</b>	<b>Foundation</b>	<b>MDSolutions</b>	<b>Eliminations</b>	<b>Total</b>
<b>Current liabilities</b>						
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
<b>Derivative liability</b>	146,290	-0-	-0-	-0-	-0-	146,290
<b>Other liabilities</b>	-0-	868,322	-0-	-0-	-0-	868,322
<b>Long term debt, net of current portion</b>						
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
<b>Net position</b>						
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
Total restricted net position	-0-	(131,563)	1,230,236	487,615	-0-	1,586,288
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	MAI	Foundation	MDSolutions	Eliminations	Total
<b>Revenue</b>						
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
<b>Expenses</b>						
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	(20,848.0)	16,011,109
Purchased services	75,256,179	1,883,144	-0-	237,516	(1,410,765)	75,966,074
Rental 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
<b>Nonoperating revenues (expenses)</b>						
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
Revenues over (under) expenses	18,771,617	(8,285,963)	317,545	145,701	(25,109)	10,923,791
<b>Transfers (to) from</b>	(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
<b>Net position</b>						
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

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