



CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2017 AND 2016

CPAs / ADVISORS



MAJOR HEALTH PARTNERS

TABLE OF CONTENTS DECEMBER 31, 2017 AND 2016

	Page
Report of Independent Auditors	1
Required Supplementary Information	
Management’s Discussion and Analysis (Unaudited).....	MDA - i
Consolidated Financial Statements	
Consolidated Balance Sheets.....	3
Consolidated Statements of Revenues, Expenses and Changes in Net Position.....	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	8
Supplementary Information	
Consolidating Balance Sheet – December 31, 2017	34
Consolidating Statement of Revenues, Expenses and Changes in Net Position – Year Ended December 31, 2017	36
Consolidating Balance Sheet – December 31, 2016	37
Consolidating Statement of Revenues, Expenses and Changes in Net Position – Year Ended December 31, 2016	39



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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), a component unit of Shelby County, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, 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 *Uniform Compliance Guidelines for Audits of Hospitals and State and Local Governments by Authorized Independent Public Accountants*, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the 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.

Board of Trustees
Major Health Partners
Shelbyville, Indiana

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of MHP as of December 31, 2017 and 2016, 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 Governmental Accounting Standards Board (GASB), 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 supplementary information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Blue & Co., LLC

Indianapolis, Indiana
April 30, 2018

REQUIRED SUPPLEMENTARY INFORMATION

MAJOR HEALTH PARTNERS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2017 AND 2016

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, MedWorks, Inc. (MedWorks), Major Affiliates, Inc. (MAI), Major Hospital Foundation and MDSolutions, LLC. MAI and MDSolutions dissolved effective December 31, 2015. Please read it in conjunction with MHP's consolidated financial statements that follow this MD&A.

FINANCIAL HIGHLIGHTS

- MHP reported a positive change in net position for 2017 of approximately \$28.7 million compared to a positive change in net position of approximately \$34.4 million in 2016, representing a decrease of approximately \$5.7 million in comparison to the 2016 results.
- MHP spent approximately \$23.7 million on equipment and capital projects in 2017. Disposals totaled approximately \$29.7 million during 2017. Included in capital expenditures are the final payments for construction and equipment related to the replacement acute care hospital that opened in January 2017. Other major capital equipment expenditures include medical equipment for a cosmetic practice, radiography room equipment, ultrasound machines, and surgical case carts. Capital expenditures related to information technology include a PACS upgrade for Imaging, IT network equipment and software. The Hospital spent money for ongoing building maintenance and improvements, including starting construction to replace the Radiation Oncology linear accelerator.

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 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.

MAJOR HEALTH PARTNERS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2017 AND 2016

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 economic resources measurement focus and on 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.

MHP's NET POSITION

Table 1: Balance Sheets

	2017	2016	2015
Assets			
Current assets	\$ 116,560,720	\$ 104,117,064	\$ 105,122,212
Assets whose use is limited, net	140,055,453	129,163,966	145,718,578
Capital assets, net	150,575,580	138,860,028	86,469,521
Other assets, net	4,984,097	5,283,416	5,598,917
Total assets	<u>\$ 412,175,850</u>	<u>\$ 377,424,474</u>	<u>\$ 342,909,228</u>
Liabilities			
Current liabilities	\$ 106,205,104	\$ 98,412,977	\$ 96,017,508
Other liabilities	1,552,797	1,178,109	978,490
Long term debt, net	75,107,057	77,224,292	79,743,740
Total liabilities	<u>182,864,958</u>	<u>176,815,378</u>	<u>176,739,738</u>
Net position			
Net investment in capital assets	74,218,925	60,369,009	18,869,078
Restricted	2,996,545	3,263,355	1,723,199
Unrestricted	152,095,422	136,976,732	145,577,213
Total net position	<u>229,310,892</u>	<u>200,609,096</u>	<u>166,169,490</u>
Total liabilities and net position	<u>\$ 412,175,850</u>	<u>\$ 377,424,474</u>	<u>\$ 342,909,228</u>

MAJOR HEALTH PARTNERS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2017 AND 2016

The significant changes in MHP's assets resulted from an increase in current assets of approximately \$12.4 million, an increase in assets whose use is limited of approximately \$10.9 million and an increase in capital assets of approximately \$11.7 million. Current assets and assets whose use is limited increased as a result of positive net income and investment return during the year. Capital assets increased as a result of the completion of the replacement hospital project. Total liabilities increased in 2017 by approximately \$6.0 million in comparison to 2016. The increase is attributable to an increase in accounts payable and accrued expenses stemming from an increase in expenses during 2017 compared to 2016.

OPERATING RESULTS AND CHANGES IN NET POSITION AND CASH FLOWS

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

	2017	2016	2015
Revenues			
Net patient service revenue	\$ 441,408,941	\$ 403,665,392	\$ 397,635,277
Other operating revenue	2,130,981	4,016,816	3,110,885
Total revenues	443,539,922	407,682,208	400,746,162
Expenses			
Salaries and benefits	86,785,228	78,848,139	67,556,252
Supplies	23,131,651	18,682,339	18,026,236
Depreciation and amortization	10,896,563	6,731,615	7,442,133
Other operating expenses	301,553,296	276,511,882	280,160,704
Total expenses	422,366,738	380,773,975	373,185,325
Operating income	21,173,184	26,908,233	27,560,837
Non-operating revenue	4,874,249	5,156,519	15,716
Excess of revenues over expenses	26,047,433	32,064,752	27,576,553
Transfers from noncontrolling interest	2,654,363	2,374,854	2,686,567
Change in net position	28,701,796	34,439,606	30,263,120
Net position			
Beginning of year	200,609,096	166,169,490	135,906,370
End of year	\$ 229,310,892	\$ 200,609,096	\$ 166,169,490

MAJOR HEALTH PARTNERS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2017 AND 2016

SOURCES OF REVENUE

During 2017, MHP 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 64% of MHP's acute care gross revenues in 2017 but 54% of MHP's acute care net patient service revenues.

MHP's service mix remained relatively consistent between 2017 and 2016. Acute inpatient revenue accounted for 13% of gross revenue in both 2017 and 2016. Acute outpatient revenue was 47% of total gross revenue in both 2017 and 2016. Long-term care revenue was 40% of total gross revenue in both 2017 and 2016.

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

	2017	2016	2015
Medicare	44%	43%	44%
Medicaid	20%	20%	21%
Anthem	17%	15%	14%
Commercial	16%	18%	16%
Self Pay	3%	4%	5%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

OPERATING AND FINANCIAL PERFORMANCE

MHP had income from operations of approximately \$21.2 million in 2017, which resulted in a return on equity of 9.2% compared to income from operations of approximately \$26.9 million in 2016 and return on equity of 13.4%.

This following section highlights the major financial factors for 2017 for MHP:

- The Hospital's discharges increased from 2,835 in 2016 to 3,067 in 2017. The Hospital's adjusted patient days increased to 42,999 in 2017 compared to 41,637 in 2016.
 - Overall net patient service revenue increased approximately \$37.7 million in 2017. The increase was driven by an increase in volumes and revenue generated from new service lines. The Hospital received approximately \$3.2 million from the State for the Indiana Medicaid Municipal Hospital Payment Adjustment, which was an increase from the 2016 amount of approximately \$2.4 million.
 - Other operating revenue for MHP decreased approximately \$1.9 million during 2017. The decrease was the result of a decrease in donations for the Foundation.
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MAJOR HEALTH PARTNERS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2017 AND 2016

- Operating expenses increased by approximately \$41.6 million in 2017. This increase is result of an increase in salaries and employee benefits as well as purchased services.
- Salaries and wages expense for MHP increased by approximately \$5.9 million between 2017 and 2016. The increase was primarily the result of additional employees hired during the year to accommodate new services and employees hired for the new replacement hospital that opened in January, 2017. Employee benefits increased by approximately \$2.0 million between 2017 and 2016 as a result of additional employees and higher than normal health insurance claims for 2017.
- Medical professional fees for MHP increased by approximately \$561,000 between 2017 and 2016. The increase was primarily the result of contracting physicians in anesthesia.
- Supplies increased by approximately \$4.4 million between 2017 and 2016. The increase was the result of increased pharmaceutical expense due to the higher cost of new oncology drugs and increased cost to acquire replacement drugs due to shortages.
- Purchased services increased approximately \$24.8 million or 10.7% in 2017. 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:

	2017	2016	2015
Cash flows from			
Operating activities	\$ 33,745,012	\$ 37,316,609	\$ 42,156,833
Noncapital financing activities	2,654,363	2,374,854	2,686,567
Capital and related financing	(27,547,815)	(60,811,388)	(52,359,658)
Investing	(1,067,253)	23,199,807	(23,147,526)
Change in cash and cash equivalents	<u>\$ 7,784,307</u>	<u>\$ 2,079,882</u>	<u>\$ (30,663,784)</u>

Cash and cash equivalents increased by approximately \$7.8 million in 2017 compared to an increase of approximately \$2.1 million in 2016. The majority of the 2017 increase relates to cash generated from operations and investing activities.

MAJOR HEALTH PARTNERS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2017 AND 2016

CAPITAL ASSETS

During 2017, MHP invested approximately \$23.7 million in capital assets along with retirements and transfers of approximately \$29.7 million. The change in capital assets is outlined in the following table:

	2017	2016	2015
Land and land improvements	\$ 14,646,018	\$ 8,533,127	\$ 8,436,964
Leasehold improvements	7,166,065	7,101,528	6,069,456
Buildings and improvements	105,293,847	42,579,818	39,392,657
Equipment	61,665,961	41,093,966	36,144,014
Construction in progress	3,904,451	99,365,523	50,468,863
Total property and equipment	192,676,342	198,673,962	140,511,954
Less accumulated depreciation	42,100,762	59,813,934	54,042,433
Capital assets, net	\$ 150,575,580	\$ 138,860,028	\$ 86,469,521

Capital assets have increased primarily due to the completion of the new replacement hospital facility in 2017. 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. More detailed information about MHP's capital assets is presented in the notes to the consolidated financial statements.

DEBT

MHP has debt outstanding in the Indiana Finance Authority Hospital Revenue Bonds, 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.

MAJOR HEALTH PARTNERS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2017 AND 2016

CONTACTING MHP's 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 2451 Intelliplex Dr., Shelbyville, IN 46176.

MAJOR HEALTH PARTNERS

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
	<u>2017</u>	<u>2016</u>
Current assets		
Cash and cash equivalents	\$ 24,692,313	\$ 18,664,838
Patient accounts receivable, net of allowance for uncollectible accounts of \$14,371,720 in 2017 and \$12,852,152 in 2016	52,588,680	44,148,475
Inventory and other current assets	37,152,707	39,160,467
Current portion of assets whose use is limited	2,127,020	2,143,284
Total current assets	<u>116,560,720</u>	<u>104,117,064</u>
Assets whose use is limited		
Internally designated	138,070,196	127,483,812
Held by trustee for construction	877,422	876,557
Donor restricted funds	3,234,855	2,946,881
Total assets whose use is limited	<u>142,182,473</u>	<u>131,307,250</u>
Less current portion	2,127,020	2,143,284
Noncurrent assets whose use is limited	<u>140,055,453</u>	<u>129,163,966</u>
Capital assets, net	150,575,580	138,860,028
Property held for investment	1,926,460	1,926,460
Other assets, net	3,057,637	3,356,956
Total assets	<u>\$ 412,175,850</u>	<u>\$ 377,424,474</u>

See accompanying notes to consolidated financial statements.

MAJOR HEALTH PARTNERS

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2017 AND 2016

LIABILITIES AND NET POSITION

	2017	2016
Current liabilities		
Accounts payable and accrued expenses	\$ 88,988,188	\$ 81,814,293
Accrued wages and related liabilities	11,889,896	11,105,400
Estimated third-party settlements	3,200,000	3,350,000
Current portion of long-term debt		
Revenue bonds payable	2,127,020	2,143,284
Total current liabilities	106,205,104	98,412,977
Other liabilities	1,552,797	1,178,109
Long term debt, net of current portion		
Revenue bonds payable	75,107,057	77,224,292
Total long term debt	75,107,057	77,224,292
Total liabilities	182,864,958	176,815,378
Net position		
Net investment in capital assets	74,218,925	60,369,009
Restricted		
Expendable - other specific purpose	624,680	336,706
Non-expendable	2,371,865	2,926,649
Total restricted net position	2,996,545	3,263,355
Unrestricted	152,095,422	136,976,732
Total net position	229,310,892	200,609,096
Total liabilities and net position	\$ 412,175,850	\$ 377,424,474

See accompanying notes to consolidated financial statements.

MAJOR HEALTH PARTNERS

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Revenues		
Net patient service revenue	\$ 441,408,941	\$ 403,665,392
Other revenue	2,130,981	4,016,816
Total revenues	443,539,922	407,682,208
Expenses		
Salaries and wages	66,922,491	61,015,697
Employee benefits	19,862,737	17,832,442
Medical professional fees	3,171,861	2,610,874
Supplies	23,131,651	18,682,339
Purchased services	256,016,949	231,242,370
Rent and maintenance	33,513,377	33,678,030
Utilities	1,570,411	1,616,976
Insurance	1,334,623	1,248,294
Depreciation and amortization	10,896,563	6,731,615
Hospital assessment fee	2,040,579	2,653,871
Other expenses	3,905,496	3,461,467
Total expenses	422,366,738	380,773,975
Operating income	21,173,184	26,908,233
Nonoperating revenues (expenses)		
Investment income	8,871,079	4,923,266
Interest expense	(2,656,902)	(334,027)
Other nonoperating revenue (expense)	(1,339,928)	567,280
Nonoperating revenues (expenses), net	4,874,249	5,156,519
Excess of revenues over expenses	26,047,433	32,064,752
Transfers from noncontrolling interest	2,654,363	2,374,854
Change in net position	28,701,796	34,439,606
Net position		
Beginning of year	200,609,096	166,169,490
End of year	\$ 229,310,892	\$ 200,609,096

See accompanying notes to consolidated financial statements.

MAJOR HEALTH PARTNERS

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

	2017	2016
Operating activities		
Cash received from patient services	\$ 432,818,736	\$ 401,968,621
Cash paid for salaries, wages and benefits	(86,000,732)	(75,774,388)
Cash paid to vendors and suppliers	(314,805,831)	(293,211,352)
Other receipts, net	1,732,839	4,333,728
Net cash flows from operating activities	33,745,012	37,316,609
Noncapital financing activities		
Transfers from noncontrolling interest	2,654,363	2,374,854
Net cash flows from noncapital financing activities	2,654,363	2,374,854
Capital and related financing activities		
Principal payments on long-term debt	(2,055,540)	(1,364,786)
Interest on long-term debt	(2,656,902)	(334,027)
Purchases of capital assets	(23,673,571)	(59,120,259)
Proceeds from the sale of capital assets	140,737	9,095
Other	697,461	(1,411)
Net cash flows from capital and related financing activities	(27,547,815)	(60,811,388)
Investing activities		
Investment income	8,871,079	4,923,266
Other nonoperating revenues (expenses)	(1,339,928)	567,280
Purchase of investments	(111,875,355)	(98,282,409)
Proceeds from sale of investments	103,276,951	115,991,670
Net cash flows from investing activities	(1,067,253)	23,199,807
Net change in cash and cash equivalents	7,784,307	2,079,882
Cash and cash equivalents:		
Beginning of year	76,253,644	74,173,762
End of year	\$ 84,037,951	\$ 76,253,644
Reconciliation of cash and cash equivalents to the consolidated balance sheet		
Cash and cash equivalents		
In current assets	\$ 24,692,313	\$ 18,664,838
In assets whose use is limited		
Internally designated	59,269,112	57,483,524
Donor restricted	76,526	105,282
Total cash and cash equivalents	\$ 84,037,951	\$ 76,253,644

See accompanying notes to consolidated financial statements.

MAJOR HEALTH PARTNERS

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

	2017	2016
Reconciliation of operating income to net cash from operating activities		
Operating income	\$ 21,173,184	\$ 26,908,233
Adjustments to reconcile operating income to net cash flows from operating activities		
Depreciation and amortization	10,896,563	6,960,050
Bad debts	6,879,729	6,446,547
Changes in operating assets and liabilities		
Patient accounts receivable	(15,319,934)	(7,941,187)
Inventory and other current assets	2,007,760	3,308,699
Other assets	299,319	315,501
Accounts payable and accrued expenses	7,173,895	15,705
Accrued wages and related liabilities	784,496	1,505,192
Estimated third-party settlements	(150,000)	(202,131)
Net cash flows from operating activities	<u>\$ 33,745,012</u>	<u>\$ 37,316,609</u>

See accompanying notes to consolidated financial statements.

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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. Generally, 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.

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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.

MedWorks, Inc. (MedWorks) is a blended component unit of the Hospital. MedWorks, which operates a pharmacy located in Shelbyville, Indiana. MedWorks owns 100% of Major Multispecialty 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. Following the dissolution of MAI, the Hospital became the 100% owner of MedWorks. Although MedWorks is legally separate from the Hospital, MedWorks is reported as if it were a part of the Hospital as the two Governing Boards are substantially the same. These entities have been consolidated for financial statement presentation.

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

The separate financial statements for each of the entities discussed above may be obtained through contacting management of MHP.

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.

Measurement Focus and Basis of Accounting

The consolidated financial statements are reported using the economic resources measurement focus and on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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.

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Assets Whose Use is Limited

Assets whose use is limited are stated at fair market value in the consolidated financial statements. These assets include investments designated by the Hospital Board for internal purposes, investments restricted by donors for a specific purpose and investments held by trustees for debt service.

These investments consist primarily of cash and cash equivalents, certificates of deposit, US government securities, mutual funds, 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, 2014 with differences reflected as deductions from revenue in 2017. Amounts for unresolved cost reports for 2015 through 2017 are reflected in estimated third-party settlements on the consolidated balance sheets.

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.

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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.

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 \$498,000 and \$1,068,000 arose from providing services to charity patients for 2017 and 2016, 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. There were no significant changes to MHP's charity care policy during 2017.

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.

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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 2018.

The composition of inventory and other current assets includes the following as of December 31:

	2017	2016
Inventory	\$ 3,293,755	\$ 3,216,817
Prepaid expenses	4,342,710	4,330,252
Other receivables	29,516,242	31,613,398
Total	<u>\$ 37,152,707</u>	<u>\$ 39,160,467</u>

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 \$2,500 for the Hospital, \$500 for other consolidated entities, and meet certain useful life thresholds. Maintenance, repairs and minor renewals are expensed as incurred.

MHP provides for depreciation of property and equipment using annual rates, which are sufficient to depreciate the cost of depreciable assets over their estimated useful lives using the straight-line method. The range of useful lives in computing depreciation is as follows:

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

Classification of Net Position

Net position of MHP is classified in four components. (1) Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the current balance of any outstanding borrowings used to finance the purchase or construction of those assets 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.

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

(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.

Restricted Resources

When MHP has both restricted and unrestricted resources available to finance a particular program, it is MHP's policy to use restricted resources before unrestricted resources.

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 revenues or expenses.

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 2017 and 2016, MHP capitalized interest, net of related income, of approximately \$151,000 and \$2,510,000, respectively.

Income Taxes

The Hospital is a governmental instrumentality organized under Title 16, Article 22, of the Indiana statutes. The Hospital is exempt from federal income tax under the Internal Revenue Code of 1986 as a charitable, educational, and scientific organization as described under Section 501(c)(3). 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 unit of the Foundation is tax-exempt organizations under Internal Revenue Code 501(c)(3). As such, the Foundation is generally exempt from income taxes. However, the Foundation is required to file Federal Form 990 – Return of Organization Exempt from Income Tax, which is an informational return only.

The blended component unit of MedWorks was organized as 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.

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

The remaining consolidated subsidiaries of 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, 2017 and 2016, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying 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, 2016. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

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 \$127,000 and \$135,000 for 2017 and 2016, respectively.

Electronic Health Records (EHR) Incentive Payments

MHP receives EHR incentive payments under the Medicare and Medicaid programs. To qualify for the EHR incentive payments, MHP must meet "meaningful use" criteria that become more stringent over time. MHP periodically submits and attests to its use of certified EHR technology, satisfaction of meaningful use objectives, and various patient data. These submissions generally include performance measures for each annual EHR reporting period (Federal fiscal year ending September 30).

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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 2017 and 2016, MHP recognized approximately \$84,000 and \$9,000, 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. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

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 30, 2018.

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Recently Issued Accounting Pronouncement

During June of 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases*, which will be effective for periods beginning after June 15, 2019. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

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.

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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 \$3,200,000 and \$2,400,000 for 2017 and 2016, respectively. These programs are Federal programs administered by the State of Indiana.

The Hospital participates in the Hospital Assessment Fee (HAF) Program. The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share (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 2017 and 2016, MHP recognized HAF Program expense of approximately \$2,000,000 and \$2,700,000, 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 2017 and 2016:

	2017	2016
Patient service revenue		
Inpatient	\$ 86,227,864	\$ 74,848,349
Outpatient	297,733,853	261,926,969
Long-term care	249,443,213	227,708,786
Gross patient service revenue	<u>633,404,930</u>	<u>564,484,104</u>
Deductions from revenue		
Contractual allowances	183,805,556	151,544,700
Charity care	1,310,704	2,827,465
Bad debts	6,879,729	6,446,547
Total deductions from revenue	<u>191,995,989</u>	<u>160,818,712</u>
Net patient service revenue	<u>\$ 441,408,941</u>	<u>\$ 403,665,392</u>

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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 Indiana Code 16-22-3-13.

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:

	2017	2016
Internally designated		
Cash and cash equivalents	\$ 59,269,112	\$ 57,483,524
Certificates of deposit	1,077,633	1,077,633
US Government securities	35,041,911	39,976,057
Mutual funds	40,013,961	26,340,330
Corporate equity securities	2,240,175	2,019,039
Corporate debt securities	427,404	587,229
Total internally designated	138,070,196	127,483,812
Held by trustee for construction		
Money market mutual funds	877,422	876,557
Donor restricted		
Cash and cash equivalents	76,526	105,282
US Government securities	140,946	125,159
Mutual funds	617,023	525,369
Corporate equity securities	2,015,771	1,697,392
Corporate debt securities	384,589	493,679
Total donor restricted	3,234,855	2,946,881
Total assets whose use is limited	\$ 142,182,473	\$ 131,307,250

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

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

4. DEPOSITS AND INVESTMENTS

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

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

MHP's investments generally are reported at fair value, as discussed in Note 1. As of December 31, 2017 and 2016, 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, 2017				
	Investment Maturities (in years)				
	Carrying Amount	Less than 1	1-5	6-10	More than 10
US Government securities	\$ 35,182,857	\$ 200,708	\$ 21,432,673	\$ 5,796,703	\$ 7,752,773
Certificates of deposit	1,077,633	1,077,633	0-	0-	0-
Mutual funds	40,630,984	40,630,984	0-	0-	0-
Money market mutual funds	877,422	877,422	0-	0-	0-
Corporate equity securities	4,255,946	4,255,946	0-	0-	0-
Corporate debt securities	811,993	0-	484,741	220,161	107,091
	\$ 82,836,835	\$ 47,042,693	\$ 21,917,414	\$ 6,016,864	\$ 7,859,864

	December 31, 2016				
	Investment Maturities (in years)				
	Carrying Amount	Less than 1	1-5	6-10	More than 10
US Government securities	\$ 40,101,216	\$ 154,009	\$ 16,899,150	\$ 6,980,489	\$ 16,067,568
Certificates of deposit	1,077,633	1,077,633	0-	0-	0-
Mutual funds	26,865,699	26,865,699	0-	0-	0-
Money market mutual funds	876,557	876,557	0-	0-	0-
Corporate equity securities	3,716,431	3,716,431	0-	0-	0-
Corporate debt securities	1,080,908	4,033	665,961	322,838	88,076
	\$ 73,718,444	\$ 32,694,362	\$ 17,565,111	\$ 7,303,327	\$ 16,155,644

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.

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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 places no limit on the amount it may invest in any one issuer. 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. MHP does not have a formal policy for credit and concentration risk.

Deposits and investments consist of the following as of December 31, 2017 and 2016:

	2017	2016
Carrying amount		
Deposits	\$ 84,037,951	\$ 76,253,644
Investments	82,836,835	73,718,444
	<u>\$ 166,874,786</u>	<u>\$ 149,972,088</u>
Included in the balance sheet captions		
Cash	\$ 24,692,313	\$ 18,664,838
Internally designated	138,070,196	127,483,812
Held by trustee for construction	877,422	876,557
Restricted funds	3,234,855	2,946,881
	<u>\$ 166,874,786</u>	<u>\$ 149,972,088</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.
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MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

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

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2017 and 2016.

- *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.

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 2017 and 2016.

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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, 2017.

	December 31, 2017			
	Total	Level 1	Level 2	Level 3
Assets				
Assets whose use is limited				
Money market mutual funds	\$ 877,422	\$ -0-	\$ 877,422	\$ -0-
US Government securities				
US treasury notes	22,587,200	-0-	22,587,200	-0-
Federal home loan bank	3,557,266	-0-	3,557,266	-0-
Mortgage backed securities	9,038,391	-0-	9,038,391	-0-
Total US Government securities	35,182,857	-0-	35,182,857	-0-
Mutual funds				
Fixed income	527,391	527,391	-0-	-0-
Large cap blended	16,421,486	16,421,486	-0-	-0-
Small cap blended	6,901,706	6,901,706	-0-	-0-
Large cap growth	7,761,837	7,761,837	-0-	-0-
Mid cap blended	5,211,966	5,211,966	-0-	-0-
Other	3,806,598	3,806,598	-0-	-0-
Total mutual funds	40,630,984	40,630,984	-0-	-0-
Corporate equity securities				
Consumer	616,103	616,103	-0-	-0-
Finance	659,327	659,327	-0-	-0-
Healthcare	473,387	473,387	-0-	-0-
Services	307,839	307,839	-0-	-0-
Technology	671,605	671,605	-0-	-0-
Other	1,527,685	1,527,685	-0-	-0-
Total corporate equity securities	4,255,946	4,255,946	-0-	-0-
Corporate debt securities				
Financial services	276,712	-0-	276,712	-0-
Other	535,281	-0-	535,281	-0-
Total corporate debt securities	811,993	-0-	811,993	-0-
	81,759,202	<u>\$ 44,886,930</u>	<u>\$ 36,872,272</u>	<u>\$ -0-</u>
Cash and cash equivalents	59,345,638			
Certificates of deposit	1,077,633			
Total assets whose use is limited	<u>\$ 142,182,473</u>			

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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, 2016.

	December 31, 2016			
	Total	Level 1	Level 2	Level 3
Assets				
Assets whose use is limited				
Money market mutual funds	\$ 876,557	\$ -0-	\$ 876,557	\$ -0-
US Government securities				
US treasury notes	17,712,493	-0-	17,712,493	-0-
Federal home loan bank	4,682,961	-0-	4,682,961	-0-
Mortgage backed securities	17,705,762	-0-	17,705,762	-0-
Total US Government securities	40,101,216	-0-	40,101,216	-0-
Mutual funds				
Fixed income	6,398,754	6,398,754	-0-	-0-
Large cap blended	10,025,277	10,025,277	-0-	-0-
Small cap blended	4,929,907	4,929,907	-0-	-0-
Large cap growth	279,022	279,022	-0-	-0-
Mid cap blended	4,469,954	4,469,954	-0-	-0-
Other	762,785	762,785	-0-	-0-
Total mutual funds	26,865,699	26,865,699	-0-	-0-
Corporate equity securities				
Consumer	490,393	490,393	-0-	-0-
Finance	498,961	498,961	-0-	-0-
Healthcare	457,784	457,784	-0-	-0-
Services	381,635	381,635	-0-	-0-
Technology	543,499	543,499	-0-	-0-
Other	1,344,159	1,344,159	-0-	-0-
Total corporate equity securities	3,716,431	3,716,431	-0-	-0-
Corporate debt securities				
Financial services	458,696	-0-	458,696	-0-
Other	622,212	-0-	622,212	-0-
Total corporate debt securities	1,080,908	-0-	1,080,908	-0-
	72,640,811	\$ 30,582,130	\$ 42,058,681	\$ -0-
Cash and cash equivalents	57,588,806			
Certificates of deposit	1,077,633			
Total assets whose use is limited	<u>\$ 131,307,250</u>			

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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, 2017 and 2016, represent the principal amounts of permanent endowments, restricted to investment in perpetuity, as well as the noncontrolling interest in MedWorks. 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, 2017 and 2016:

	2017	2016
Compton endowment	\$ 521,714	\$ 521,714
McFadden endowment	333,133	333,133
Benessee endowment	877,664	877,664
Una Vie endowment	877,664	877,664
Noncontrolling interest	(238,310)	316,474
	\$ 2,371,865	\$ 2,926,649

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, 2015	\$ 165,640,292	\$ 529,198	\$ 166,169,490
Excess (deficit) of revenues over expenses	34,652,330	(2,587,578)	32,064,752
Transfers from noncontrolling interest	-0-	2,374,854	2,374,854
Balance, December 31, 2016	200,292,622	316,474	200,609,096
Excess (deficit) of revenues over expenses	29,256,580	(3,209,147)	26,047,433
Transfers from noncontrolling interest	-0-	2,654,363	2,654,363
Change in net position	29,256,580	(554,784)	28,701,796
Balance, December 31, 2017	\$ 229,549,202	\$ (238,310)	\$ 229,310,892

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

7. CAPITAL ASSETS

Capital Assets, Net

A summary of property and equipment, including assets under capital leases for 2017 and 2016 follows:

	December 31,				December 31,
	2016	Additions	Disposals	Transfers	2017
Land and land improvements	\$ 8,533,127	\$ 1,363,563	\$ (501,414)	\$ 5,250,742	\$ 14,646,018
Leasehold improvements	7,101,528	1,049,399	(990,230)	5,368	7,166,065
Buildings and improvements	42,579,818	87,632	(20,954,543)	83,580,940	105,293,847
Equipment	41,093,966	4,437,559	(7,225,004)	23,359,440	61,665,961
Construction in progress	99,365,523	16,735,418	-0-	(112,196,490)	3,904,451
Total property and equipment	<u>198,673,962</u>	<u>23,673,571</u>	<u>(29,671,191)</u>	<u>-0-</u>	<u>192,676,342</u>
Less accumulated depreciation					
Land improvements	2,440,122	523,635	(109,804)	-0-	2,853,953
Leasehold improvements	1,012,563	93,538	(625,482)	-0-	480,619
Buildings and improvements	25,558,514	4,670,149	(20,952,953)	-0-	9,275,710
Equipment	30,802,735	5,831,782	(7,144,037)	-0-	29,490,480
Total accumulated depreciation	<u>59,813,934</u>	<u>11,119,104</u>	<u>(28,832,276)</u>	<u>-0-</u>	<u>42,100,762</u>
Capital assets, net	<u>\$ 138,860,028</u>	<u>\$ 12,554,467</u>	<u>\$ (838,915)</u>	<u>\$ -0-</u>	<u>\$ 150,575,580</u>

	December 31,				December 31,
	2015	Additions	Disposals	Transfers	2016
Land and land improvements	\$ 8,436,964	\$ 96,163	\$ -0-	\$ -0-	\$ 8,533,127
Leasehold improvements	6,069,456	1,032,072	-0-	-0-	7,101,528
Buildings and improvements	39,392,657	10,116	-0-	3,177,045	42,579,818
Equipment	36,144,014	3,998,379	(958,251)	1,909,824	41,093,966
Construction in progress	50,468,863	53,983,529	-0-	(5,086,869)	99,365,523
Total property and equipment	<u>140,511,954</u>	<u>59,120,259</u>	<u>(958,251)</u>	<u>-0-</u>	<u>198,673,962</u>
Less accumulated depreciation					
Land improvements	2,121,601	318,521	-0-	-0-	2,440,122
Leasehold improvements	903,250	109,313	-0-	-0-	1,012,563
Buildings and improvements	22,929,400	2,629,114	-0-	-0-	25,558,514
Equipment	28,088,182	3,649,994	(935,441)	-0-	30,802,735
Total accumulated depreciation	<u>54,042,433</u>	<u>6,706,942</u>	<u>(935,441)</u>	<u>-0-</u>	<u>59,813,934</u>
Capital assets, net	<u>\$ 86,469,521</u>	<u>\$ 52,413,317</u>	<u>\$ (22,810)</u>	<u>\$ -0-</u>	<u>\$ 138,860,028</u>

As of December 31, 2017, MHP had no significant property commitments.

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Property Held for Investment

MHP currently holds approximately 40 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 investment is included within the property held for investment section of the consolidated balance sheets. During 2015, a portion of the land was sold.

8. LONG TERM DEBT

A summary of long term debt as of December 31, 2017 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, 2017 – 2.54%). 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, interest only payments beginning January 1, 2025 through December 1, 2033, and a principal balloon payment 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, 2017 approximated \$100,000,000.
- Loan payable with an original amount of \$628,000 with an unrelated third party was due in monthly installments of \$5,900 through 2022 at a fixed interest rate of 7.7% and was unsecured. This loan was paid in full during 2016.

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

The revenue bonds require the Hospital to maintain certain financial ratios. As of December 31, 2017, the Hospital was in compliance with the financial ratios.

The following is a progression for long term debt for 2017 and 2016:

	December 31, 2016	Additional Borrowings	Payments	December 31, 2017	Current Portion
Revenue bonds					
2009 Bonds	\$ 23,699,224	\$ -0-	\$(1,055,540)	\$ 22,643,684	\$ 1,087,020
2014A Bonds	53,505,000	-0-	(1,000,000)	52,505,000	1,040,000
	<u>77,204,224</u>	<u>\$ -0-</u>	<u>\$(2,055,540)</u>	<u>75,148,684</u>	<u>\$ 2,127,020</u>
Unamortized bond premium	<u>2,163,352</u>			<u>2,085,393</u>	
Total long term debt	<u>\$ 79,367,576</u>			<u>\$ 77,234,077</u>	
	December 31, 2015	Additional Borrowings	Payments	December 31, 2016	Current Portion
Revenue bonds					
2009 Bonds	\$ 24,722,408	\$ -0-	\$(1,023,184)	\$ 23,699,224	\$ 1,143,284
2014A Bonds	53,505,000	-0-	-0-	53,505,000	1,000,000
Loans payable					
Loans payable	341,602	-0-	(341,602)	-0-	-0-
	<u>78,569,010</u>	<u>\$ -0-</u>	<u>\$(1,364,786)</u>	<u>77,204,224</u>	<u>\$ 2,143,284</u>
Unamortized bond premium	<u>2,241,311</u>			<u>2,163,352</u>	
Total long term debt	<u>\$ 80,810,321</u>			<u>\$ 79,367,576</u>	

Scheduled principal and interest repayments on long term debt and payments on capital lease obligations for the years succeeding December 31, 2017 are as follows:

Years Ending December 31,	Principal	Interest	Total Payments
2018	\$ 2,127,020	\$ 2,831,969	\$ 4,958,989
2019	2,202,248	2,771,514	4,973,762
2020	2,275,620	2,708,696	4,984,316
2021	2,356,788	2,643,667	5,000,455
2022	2,442,332	2,576,238	5,018,570
2023-2027	23,977,780	11,774,785	35,752,565
2028-2032	8,725,000	10,031,379	18,756,379
2033-2037	10,835,000	6,946,964	17,781,964
2038-2042	13,780,000	3,763,750	17,543,750
2043-2044	6,426,896	493,000	6,919,896
	<u>\$ 75,148,684</u>	<u>\$ 46,541,962</u>	<u>\$ 121,690,646</u>

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

9. ACCOUNTS RECEIVABLE AND PAYABLE

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities as of December 31, 2017 and 2016 is as follows:

	2017	2016
Patient accounts receivable		
Receivable from patients and their insurance carriers	\$ 16,801,207	\$ 15,982,848
Receivable from Medicare	14,244,502	9,767,296
Receivable from Medicaid	5,478,654	3,847,723
Receivables related to long-term care operations	51,804,151	44,163,414
Total patient accounts receivable	88,328,514	73,761,281
Less contractual allowances	(21,368,114)	(16,760,654)
Less allowance for uncollectible amounts	(14,371,720)	(12,852,152)
Patient accounts receivable, net	<u>\$ 52,588,680</u>	<u>\$ 44,148,475</u>
Accounts payable and accrued expenses		
Payable to employees (including payroll taxes and benefits)	\$ 11,889,896	\$ 11,105,400
Payable to suppliers and other accrued expenses	88,988,188	81,814,293
Total accounts payable and accrued expenses	<u>\$ 100,878,084</u>	<u>\$ 92,919,693</u>

10. PENSION PLAN

Plan Description

MHP has a defined contribution pension plan as authorized by IC 16-22-3-11. The plan is administered by MHP and 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 2017 and 2016 were approximately \$2,779,000 and \$2,512,000, respectively. Employees are not permitted to contribute to the plan.

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

11. 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 acute care accounts receivable and gross revenue from patients and third party payors are as follows as of December 31:

	Receivables		Revenues	
	2017	2016	2017	2016
Medicare	39%	33%	44%	43%
Medicaid	15%	13%	20%	20%
Anthem	14%	17%	17%	15%
Other third party payors	24%	25%	16%	18%
Self-pay	8%	12%	3%	4%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Substantially all of the patient accounts receivables and related revenues from long-term care operations are concentrated in Medicare and Medicaid.

12. ESTIMATED MALPRACTICE COSTS

MHP has a self-insurance plan for professional liability insurance. A third-party claims administrator has been retained to process all benefit claims. Claims are processed and presented for payment upon occurrence. MHP makes periodic deposits into a trust fund for the proper administration and protection of the fund.

The Indiana Medical Malpractice Act, IC 34-18 (Act) provides a maximum recovery of \$1,650,000 for an occurrence of malpractice until June 30, 2019, and \$1,800,000 thereafter. The Act requires MHP to maintain medical malpractice liability insurance in the amount of at least \$400,000 per occurrence (\$8,000,000 or \$12,000,000 in the annual aggregate based on hospital bed size) until June 30, 2019. Starting July 1, 2019, the Act will require MHP to maintain medical malpractice liability insurance in the amount of at least \$500,000 per occurrence (\$10,000,000 or \$15,000,000 in the annual aggregate based on hospital bed size). The Act also requires MHP to pay a surcharge to the State Patient's Compensation Fund (Fund). The Fund is used to pay medical malpractice claims in excess of per occurrence and the annual aggregate amounts as noted above, under certain terms and conditions. No accrual for possible losses attributable to incidents that may have occurred but that have not been identified has been made because the amount, if any, is not reasonably estimable. The Fund is on a claims-made basis and as long as this coverage is continuous or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be insured.

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon MHP's claim experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

13. RISK MANAGEMENT

Medical Benefits to Employees and Dependents

MHP is self-funded for medical and related health benefits provided to employees and their families. A stop/loss policy through commercial insurance covers individual claims in excess of \$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 \$11,196,000 and \$9,434,000 in 2017 and 2016, respectively.

A progression of unpaid claims for 2017 and 2016 follows:

	2017	2016
Unpaid claims, beginning of year	\$ 1,705,000	\$ 1,495,000
Incurred claims and changes in estimates	11,196,382	9,434,339
Claim payments	(11,196,382)	(9,224,339)
Unpaid claims, end of year	<u>\$ 1,705,000</u>	<u>\$ 1,705,000</u>

14. RENTAL EXPENSE

MHP has leases expiring at various times through 2018. 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 2017 and 2016 was approximately \$33,500,000 and \$33,700,000, respectively.

15. COUNTY AND CITY ECONOMIC DEVELOPMENT

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.

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

The County and City have each pledged \$125,000 each calendar year through 2028 (or such earlier date as all outstanding bonds issued to finance or refinance the projects are defeased). The Hospital recognizes the amounts as revenue when received. A schedule of expected payments is as follows:

Years Ending	
December 31,	
2018	\$ 250,000
2019	250,000
2020	250,000
2021	250,000
2022	250,000
Thereafter	1,500,000
	<u>\$ 2,750,000</u>

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

16. 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.

	2017		
	MedWorks	Foundation	Total
Assets			
Current assets	\$ 5,570,509	\$ 758,540	\$ 6,329,049
Capital assets	1,230,100	23,769	1,253,869
Due from Hospital	36,695	13,782	50,477
Other assets	2,067,767	7,092,871	9,160,638
Total assets	<u>\$ 8,905,071</u>	<u>\$ 7,888,962</u>	<u>\$ 16,794,033</u>
Liabilities			
Due to Hospital	\$ 649,303	\$ 12,077	\$ 661,380
Other liabilities	4,980,340	9,766	4,990,106
Total liabilities	<u>5,629,643</u>	<u>21,843</u>	<u>5,651,486</u>
Net position			
Net investment in capital assets	1,230,100	23,769	1,253,869
Restricted	(238,310)	3,234,855	2,996,545
Unrestricted	2,283,638	4,608,495	6,892,133
Total net position	<u>3,275,428</u>	<u>7,867,119</u>	<u>11,142,547</u>
Total liabilities and net position	<u>\$ 8,905,071</u>	<u>\$ 7,888,962</u>	<u>\$ 16,794,033</u>
Revenues			
Net patient service revenue	\$ 22,961,733	\$ -0-	\$ 22,961,733
Other	20,205	780,868	801,073
Total revenues	<u>22,981,938</u>	<u>780,868</u>	<u>23,762,806</u>
Expenses			
Depreciation	216,107	4,157	220,264
Other expenses	35,429,090	1,541,340	36,970,430
Total expenses	<u>35,645,197</u>	<u>1,545,497</u>	<u>37,190,694</u>
Operating loss	(12,663,259)	(764,629)	(13,427,888)
Nonoperating revenues (expenses)	<u>(424,434)</u>	<u>952,879</u>	<u>528,445</u>
Excess (deficit) revenues over expenses	(13,087,693)	188,250	(12,899,443)
Transfers	<u>12,204,733</u>	<u>-0-</u>	<u>12,204,733</u>
Change in net position	(882,960)	188,250	(694,710)
Net position			
Beginning of year	4,158,388	7,678,869	11,837,257
End of year	<u>\$ 3,275,428</u>	<u>\$ 7,867,119</u>	<u>\$ 11,142,547</u>
Net cash flows from			
Operating activities	\$ (12,447,152)	\$ (760,472)	\$ (13,207,624)
Capital and related financing activities	12,204,733	219,373	12,424,106
Investing activities	(406,853)	189,417	(217,436)
Total	<u>(649,272)</u>	<u>(351,682)</u>	<u>(1,000,954)</u>
Cash and cash equivalents			
Beginning of year	3,658,503	628,506	4,287,009
End of year	<u>\$ 3,009,231</u>	<u>\$ 276,824</u>	<u>\$ 3,286,055</u>

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

	2016		
	MedWorks	Foundation	Total
Assets			
Current assets	\$ 5,848,217	\$ 622,425	\$ 6,470,642
Capital assets	1,242,265	26,487	1,268,752
Due from Hospital	32,747	78,089	110,836
Other assets	1,786,901	6,966,521	8,753,422
Total assets	<u>\$ 8,910,130</u>	<u>\$ 7,693,522</u>	<u>\$ 16,603,652</u>
Liabilities			
Due to Hospital	\$ 626,533	\$ 4,500	\$ 631,033
Other liabilities	4,125,209	10,153	4,135,362
Total liabilities	<u>4,751,742</u>	<u>14,653</u>	<u>4,766,395</u>
Net position			
Net investment in capital assets	1,242,265	26,487	1,268,752
Restricted	316,474	2,946,881	3,263,355
Unrestricted	2,599,649	4,705,501	7,305,150
Total net position	<u>4,158,388</u>	<u>7,678,869</u>	<u>11,837,257</u>
Total liabilities and net position	<u>\$ 8,910,130</u>	<u>\$ 7,693,522</u>	<u>\$ 16,603,652</u>
Revenues			
Net patient service revenue	\$ 20,391,434	\$ -0-	\$ 20,391,434
Other	48,867	2,478,455	2,527,322
Total revenues	<u>20,440,301</u>	<u>2,478,455</u>	<u>22,918,756</u>
Expenses			
Depreciation	240,006	5,155	245,161
Other expenses	30,730,764	1,415,385	32,146,149
Total expenses	<u>30,970,770</u>	<u>1,420,540</u>	<u>32,391,310</u>
Operating income (loss)	(10,530,469)	1,057,915	(9,472,554)
Nonoperating revenues (expenses)	<u>301,870</u>	<u>367,806</u>	<u>669,676</u>
Excess (deficit) revenues over expenses	(10,228,599)	1,425,721	(8,802,878)
Transfers	<u>9,924,846</u>	<u>-0-</u>	<u>9,924,846</u>
Change in net position	(303,753)	1,425,721	1,121,968
Net position			
Beginning of year	4,462,141	6,253,148	10,715,289
End of year	<u>\$ 4,158,388</u>	<u>\$ 7,678,869</u>	<u>\$ 11,837,257</u>
Net cash flows from			
Operating activities	\$ (10,290,463)	\$ 1,063,070	\$ (9,227,393)
Capital and related financing activities	9,924,846	(614,047)	9,310,799
Investing activities	(81,178)	(273,195)	(354,373)
Total	<u>(446,795)</u>	<u>175,828</u>	<u>(270,967)</u>
Cash and cash equivalents			
Beginning of year	4,105,298	452,678	4,557,976
End of year	<u>\$ 3,658,503</u>	<u>\$ 628,506</u>	<u>\$ 4,287,009</u>

The separate financial statements for each of the entities discussed above may be obtained through contacting management of MHP.

SUPPLEMENTARY INFORMATION

MAJOR HEALTH PARTNERS

CONSOLIDATING BALANCE SHEET DECEMBER 31, 2017

ASSETS	Hospital	MedWorks	Foundation	Eliminations	Total
Current assets					
Cash and cash equivalents	\$ 21,683,082	\$ 3,009,231	\$ -0-	\$ -0-	\$ 24,692,313
Patient accounts receivable, net	51,011,255	1,577,425	-0-	-0-	52,588,680
Inventory and other current assets	36,073,476	983,853	758,540	(663,162)	37,152,707
Current portion of assets whose use is limited	2,127,020	-0-	-0-	-0-	2,127,020
Total current assets	110,894,833	5,570,509	758,540	(663,162)	116,560,720
Assets whose use is limited					
Internally designated	134,198,398	-0-	3,871,798	-0-	138,070,196
Held by trustee for construction	877,422	-0-	-0-	-0-	877,422
Donor restricted funds	-0-	-0-	3,234,855	-0-	3,234,855
Total assets whose use is limited	135,075,820	-0-	7,106,653	-0-	142,182,473
Less current portion	2,127,020	-0-	-0-	-0-	2,127,020
Noncurrent assets whose use is limited	132,948,800	-0-	7,106,653	-0-	140,055,453
Capital assets, net	149,321,711	1,230,100	23,769	-0-	150,575,580
Property held for sale	1,926,460	-0-	-0-	-0-	1,926,460
Other assets	953,175	2,104,462	-0-	-0-	3,057,637
Total assets	\$ 396,044,979	\$ 8,905,071	\$ 7,888,962	\$ (663,162)	\$ 412,175,850

See report of independent auditors on pages 1 and 2.

MAJOR HEALTH PARTNERS

CONSOLIDATING BALANCE SHEET DECEMBER 31, 2017

LIABILITIES AND NET POSITION	Hospital	MedWorks	Foundation	Eliminations	Total
Current liabilities					
Accounts payable and accrued expenses	\$ 88,374,151	\$ 1,259,382	\$ 17,817	\$ (663,162)	\$ 88,988,188
Accrued wages and related liabilities	9,068,406	2,817,464	4,026	-0-	11,889,896
Estimated third-party settlements	3,200,000	-0-	-0-	-0-	3,200,000
Current portion of long-term debt					
Revenue bonds payable	2,127,020	-0-	-0-	-0-	2,127,020
Total current liabilities	102,769,577	4,076,846	21,843	(663,162)	106,205,104
Other liabilities	-0-	1,552,797	-0-	-0-	1,552,797
Long term debt, net of current portion					
Revenue bonds payable	75,107,057	-0-	-0-	-0-	75,107,057
Total long term debt	75,107,057	-0-	-0-	-0-	75,107,057
Total liabilities	177,876,634	5,629,643	21,843	(663,162)	182,864,958
Net position					
Net investment in capital assets	72,965,056	1,230,100	23,769	-0-	74,218,925
Restricted					
Expendable - other specific purpose	-0-	-0-	624,680	-0-	624,680
Non-expendable	-0-	(238,310)	2,610,175	-0-	2,371,865
Total restricted net position	-0-	(238,310)	3,234,855	-0-	2,996,545
Unrestricted	145,203,289	2,283,638	4,608,495	-0-	152,095,422
Total net position	218,168,345	3,275,428	7,867,119	-0-	229,310,892
Total liabilities and net position	\$ 396,044,979	\$ 8,905,071	\$ 7,888,962	\$ (663,162)	\$ 412,175,850

See report of independent auditors on pages 1 and 2.

MAJOR HEALTH PARTNERS

CONSOLIDATING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2017

	Hospital	MedWorks	Foundation	Eliminations	Total
Revenue					
Net patient service revenue	\$ 419,492,933	\$ 22,961,733	\$ -0-	\$ (1,045,725)	\$ 441,408,941
Other	5,273,047	20,205	780,868	(3,943,139)	2,130,981
Total revenue	<u>424,765,980</u>	<u>22,981,938</u>	<u>780,868</u>	<u>(4,988,864)</u>	<u>443,539,922</u>
Expenses					
Salaries and wages	47,742,384	19,263,242	131,137	(214,272)	66,922,491
Employee benefits	14,976,612	4,876,736	9,389	-0-	19,862,737
Medical professional fees	3,171,861	-0-	-0-	-0-	3,171,861
Supplies	18,924,723	5,123,663	-0-	(916,735)	23,131,651
Purchased services	255,484,741	2,544,860	-0-	(2,012,652)	256,016,949
Rent and maintenance	33,030,407	1,906,155	-0-	(1,423,185)	33,513,377
Utilities	1,476,316	94,095	-0-	-0-	1,570,411
Insurance	584,897	749,726	-0-	-0-	1,334,623
Depreciation and amortization	10,676,299	216,107	4,157	-0-	10,896,563
Hospital assessment fee	2,040,579	-0-	-0-	-0-	2,040,579
Other expenses	2,956,089	870,613	1,400,814	(1,322,020)	3,905,496
Total expenses	<u>391,064,908</u>	<u>35,645,197</u>	<u>1,545,497</u>	<u>(5,888,864)</u>	<u>422,366,738</u>
Operating income (loss)	33,701,072	(12,663,259)	(764,629)	900,000	21,173,184
Nonoperating revenues (expenses)					
Investment income	7,918,200	-0-	952,879	-0-	8,871,079
Interest expense	(2,656,902)	-0-	-0-	-0-	(2,656,902)
Other nonoperating revenues (expenses)	(15,494)	(424,434)	-0-	(900,000)	(1,339,928)
Nonoperating revenues (expenses), net	<u>5,245,804</u>	<u>(424,434)</u>	<u>952,879</u>	<u>(900,000)</u>	<u>4,874,249</u>
Revenues over (under) expenses	38,946,876	(13,087,693)	188,250	-0-	26,047,433
Transfers (to) from	<u>(9,550,370)</u>	<u>12,204,733</u>	<u>-0-</u>	<u>-0-</u>	<u>2,654,363</u>
Change in net position	29,396,506	(882,960)	188,250	-0-	28,701,796
Net position					
Beginning of year	188,771,839	4,158,388	7,678,869	-0-	200,609,096
End of year	<u>\$ 218,168,345</u>	<u>\$ 3,275,428</u>	<u>\$ 7,867,119</u>	<u>\$ -0-</u>	<u>\$ 229,310,892</u>

See report of independent auditors on pages 1 and 2.

MAJOR HEALTH PARTNERS

CONSOLIDATING BALANCE SHEET DECEMBER 31, 2016

ASSETS	Hospital	MedWorks	Foundation	Eliminations	Total
Current assets					
Cash and cash equivalents	\$ 15,006,335	\$ 3,658,503	\$ -0-	\$ -0-	\$ 18,664,838
Patient accounts receivable, net	42,977,128	1,171,347	-0-	-0-	44,148,475
Inventory and other current assets	38,165,902	1,018,367	622,425	(646,227)	39,160,467
Current portion of assets whose use is limited	2,143,284	-0-	-0-	-0-	2,143,284
Total current assets	98,292,649	5,848,217	622,425	(646,227)	104,117,064
Assets whose use is limited					
Internally designated	123,793,932	-0-	3,689,880	-0-	127,483,812
Held by trustee for construction	876,557	-0-	-0-	-0-	876,557
Donor restricted funds	-0-	-0-	2,946,881	-0-	2,946,881
Total assets whose use is limited	124,670,489	-0-	6,636,761	-0-	131,307,250
Less current portion	2,143,284	-0-	-0-	-0-	2,143,284
Noncurrent assets whose use is limited	122,527,205	-0-	6,636,761	-0-	129,163,966
Capital assets, net	137,591,276	1,242,265	26,487	-0-	138,860,028
Property held for sale	1,926,460	-0-	-0-	-0-	1,926,460
Other assets	1,129,459	1,819,648	407,849.0	-0-	3,356,956
Total assets	<u>\$ 361,467,049</u>	<u>\$ 8,910,130</u>	<u>\$ 7,693,522</u>	<u>\$ (646,227)</u>	<u>\$ 377,424,474</u>

See report of independent auditors on pages 1 and 2.

MAJOR HEALTH PARTNERS

CONSOLIDATING BALANCE SHEET DECEMBER 31, 2016

LIABILITIES AND NET POSITION	Hospital	MedWorks	Foundation	Eliminations	Total
Current liabilities					
Accounts payable and accrued expenses	\$ 81,481,197	\$ 968,696	\$ 10,627	\$ (646,227)	\$ 81,814,293
Accrued wages and related liabilities	8,496,437	2,604,937	4,026	-0-	11,105,400
Estimated third-party settlements	3,350,000	-0-	-0-	-0-	3,350,000
Current portion of long-term debt					
Revenue bonds payable	2,143,284	-0-	-0-	-0-	2,143,284
Total current liabilities	95,470,918	3,573,633	14,653	(646,227)	98,412,977
Other liabilities	-0-	1,178,109	-0-	-0-	1,178,109
Long term debt, net of current portion					
Revenue bonds payable	77,224,292	-0-	-0-	-0-	77,224,292
Total long term debt	77,224,292	-0-	-0-	-0-	77,224,292
Total liabilities	172,695,210	4,751,742	14,653	(646,227)	176,815,378
Net position					
Net investment in capital assets	59,100,257	1,242,265	26,487	-0-	60,369,009
Restricted					
Expendable - other specific purpose	-0-	-0-	336,706	-0-	336,706
Non-expendable	-0-	316,474	2,610,175	-0-	2,926,649
Total restricted net position	-0-	316,474	2,946,881	-0-	3,263,355
Unrestricted	129,671,582	2,599,649	4,705,501	-0-	136,976,732
Total net position	188,771,839	4,158,388	7,678,869	-0-	200,609,096
Total liabilities and net position	\$ 361,467,049	\$ 8,910,130	\$ 7,693,522	\$ (646,227)	\$ 377,424,474

MAJOR HEALTH PARTNERS

CONSOLIDATING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2016

	Hospital	MedWorks	Foundation	Eliminations	Total
Revenue					
Net patient service revenue	\$ 384,232,653	\$ 20,391,434	\$ -0-	\$ (958,695)	\$ 403,665,392
Other	3,947,106	48,867	2,478,455	(2,457,612)	4,016,816
Total revenue	<u>388,179,759</u>	<u>20,440,301</u>	<u>2,478,455</u>	<u>(3,416,307)</u>	<u>407,682,208</u>
Expenses					
Salaries and wages	43,818,455	17,448,835	130,114	(381,707)	61,015,697
Employee benefits	12,967,909	4,855,184	9,349	-0-	17,832,442
Medical professional fees	2,610,874	-0-	-0-	-0-	2,610,874
Supplies	15,495,701	4,021,156	-0-	(834,518)	18,682,339
Purchased services	231,357,346	1,529,710	-0-	(1,644,686)	231,242,370
Rental and maintenance	32,671,751	1,204,554	-0-	(198,275)	33,678,030
Utilities	1,436,258	180,718	-0-	-0-	1,616,976
Insurance	554,676	693,618	-0-	-0-	1,248,294
Depreciation and amortization	6,486,454	240,006	5,155	-0-	6,731,615
Hospital assessment fee	2,653,871	-0-	-0-	-0-	2,653,871
Other expenses	2,545,677	796,989	1,275,922	(1,157,121)	3,461,467
Total expenses	<u>352,598,972</u>	<u>30,970,770</u>	<u>1,420,540</u>	<u>(4,216,307)</u>	<u>380,773,975</u>
Operating income (loss)	35,580,787	(10,530,469)	1,057,915	800,000	26,908,233
Nonoperating revenues (expenses)					
Investment income	4,555,460	-0-	367,806	-0-	4,923,266
Interest expense	(323,307)	(10,720)	-0-	-0-	(334,027)
Other nonoperating revenues (expenses)	1,054,690	312,590	-0-	(800,000)	567,280
Nonoperating revenues (expenses), net	<u>5,286,843</u>	<u>301,870</u>	<u>367,806</u>	<u>(800,000)</u>	<u>5,156,519</u>
Revenues over (under) expenses	40,867,630	(10,228,599)	1,425,721	-0-	32,064,752
Transfers (to) from	<u>(7,549,992)</u>	<u>9,924,846</u>	<u>-0-</u>	<u>-0-</u>	<u>2,374,854</u>
Change in net position	33,317,638	(303,753)	1,425,721	-0-	34,439,606
Net position					
Beginning of year	155,454,201	4,462,141	6,253,148	-0-	166,169,490
End of year	<u>\$ 188,771,839</u>	<u>\$ 4,158,388</u>	<u>\$ 7,678,869</u>	<u>\$ -0-</u>	<u>\$ 200,609,096</u>

See report of independent auditors on pages 1 and 2.