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July 15, 2008

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

We have reviewed the audit report prepared by Blue & Company, LLC, Independent Public Accountants, for the period January 1, 2007 to December 31, 2007. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of Major Hospital, as of December 31, 2007, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

STATE BOARD OF ACCOUNTS

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MAJOR HOSPITAL

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

CPAs / ADVISORS



MAJOR HOSPITAL
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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Major Hospital
Shelbyville, Indiana

We have audited the accompanying consolidated balance sheets of Major Hospital (the Hospital) as of December 31, 2007 and 2006 and the related consolidated statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Guidelines for Audits of County and City Hospitals by Independent Certified Public Accountants, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the consolidated financial position of the Hospital as of December 31, 2007 and 2006, and the consolidated results of its operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Board of Trustees
Major Hospital
Shelbyville, Indiana

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

Blue & Co., LLC

April 25, 2008

REQUIRED SUPPLEMENTARY INFORMATION

MAJOR HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2007 AND 2006

This section of Major Hospital's annual consolidated financial statements presents background information and management's discussion and analysis of the Hospital's financial performance during the year ended December 31, 2007. This MD&A does include a discussion and analysis of the activities and results of the Hospital and its blended component units, Major Affiliates, Inc., Major Hospital Foundation and MDSolutions, LLC. Please read it in conjunction with the Hospital's financial statements that follow this MD&A.

FINANCIAL HIGHLIGHTS

- The Hospital's consolidated net assets increased approximately \$7.6 million or 12.1% in 2007.
- The Hospital reported a change in net assets for 2007 of approximately \$7.6 million compared to a change in net assets of \$5.6 million in 2006, representing an increase of approximately \$2 million in comparison to the year 2006 results.
- Major Hospital spent \$2.3 million on equipment and capital projects in 2007 net of disposals. While the Hospital did not have any major building renovations or capital projects in 2007, the Hospital spent capital on upgrading and normal replacement of equipment. The Hospital spent \$605,000 on computer software and equipment which includes an upgrade to the Traceview monitoring system in the OB department, implementing a charge capture system in the Materials Management, and purchasing of a Nurse Call system. The Foundation provided \$78,000 of the Funding for the Nurse Call system. Other capital equipment purchased in 2007 includes several pieces of surgery equipment, a digital mammography system, defibrillators for clinical areas, and an ultrasound machine.

USING THIS ANNUAL REPORT

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

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

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

MAJOR HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2007 AND 2006

Finally, the consolidated statement of cash flows' purpose is to provide information about the Hospital'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 what was the change in cash balance during the year.

HOSPITAL'S NET ASSETS

Table 1: Assets, Liabilities, and Net Assets

	<u>2007</u>	<u>2006</u>
Assets		
Current assets	\$ 25,590,336	\$ 22,906,067
Assets whose use is limited	37,322,318	32,988,243
Capital assets, net	38,496,507	41,178,482
Other assets	7,242,833	7,102,390
Total assets	<u>\$ 108,651,994</u>	<u>\$ 104,175,182</u>
Liabilities		
Current liabilities	\$ 9,816,570	\$ 9,700,575
Long-term debt	28,475,875	31,720,433
Total liabilities	<u>38,292,445</u>	<u>41,421,008</u>
Net Assets		
Invested in capital assets, net of related debt	14,179,775	13,755,409
Restricted		
For debt service - held by trustee	1,190,000	1,145,000
Other specific purposes	1,605,813	1,371,892
Unrestricted	53,383,961	46,481,873
Total net assets	<u>70,359,549</u>	<u>62,754,174</u>
Total liabilities and net assets	<u>\$ 108,651,994</u>	<u>\$ 104,175,182</u>

The significant changes in the Hospital assets resulted from an increase in current assets of \$2.7 million. Cash and cash equivalents increased by \$2.1 million in 2007. Of this amount, \$3.4 million is due to additional cash received from the State of Indiana for the Indiana Medicaid Municipal Hospital Payment Adjustment along with additional cash received from an overall operating gain. The Hospital received \$2 million under this program in 2006. Net Patient Accounts Receivable has increased by \$674,000 from 2006. Total liabilities have decreased by \$3.2 million in 2007 in comparison to 2006. Major Hospital paid additional principal toward our bonds along with the annual required payments.

MAJOR HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2007 AND 2006

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET ASSETS

Table 2: Operating Results and Changes in Net Assets

	<u>2007</u>	<u>2006</u>
Revenues		
Net patient service revenue	\$ 79,007,161	\$ 70,413,205
Other operating revenue	1,374,009	1,460,461
Total revenues	<u>80,381,170</u>	<u>71,873,666</u>
Expenses		
Salaries and benefits	40,240,775	36,877,440
Supplies	13,067,319	11,169,063
Depreciation and amortization	5,172,195	5,140,694
Other operating expenses	15,565,683	14,338,278
Total expenses	<u>74,045,972</u>	<u>67,525,475</u>
Operating income	6,335,198	4,348,191
Non-operating revenue (expense), net	<u>1,270,177</u>	<u>695,348</u>
Net income from continuing operations	7,605,375	5,043,539
Income from operations of discontinued component, including gain on disposal of \$556,913 in 2006	<u>-0-</u>	<u>591,591</u>
Change in net assets	7,605,375	5,635,130
Net assets		
Beginning of year	62,754,174	57,119,044
End of year	<u>\$ 70,359,549</u>	<u>\$ 62,754,174</u>

MAJOR HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2007 AND 2006

SOURCES OF REVENUE

During 2007, the Hospital derived substantially all of its revenue from patient service and other related activities. A significant portion of the patient service revenue is from patients that are insured by government health programs, principally Medicare and Medicaid, which are highly regulated and subject to frequent and substantial changes. Revenues from the Medicare and Medicaid programs represented 57% of the Hospital's gross revenues in 2007 but only 36% of the Hospital's net patient service revenues.

Following is a table of major sources of gross patient revenues for 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Medicare	42%	42%
Medicaid	15%	12%
Anthem	15%	13%
Commercial	21%	28%
Self Pay	7%	5%
	<u>100%</u>	<u>100%</u>

The Hospital's service mix remained consistent between 2007 and 2006. Inpatient revenue accounted for 32% of gross revenue in 2007 and 2006. Outpatient revenue was 68% of total gross revenue in 2007 and 2006.

OPERATING AND FINANCIAL PERFORMANCE

The Hospital had a gain from operations of \$6.3 million in 2007, which resulted in a return on equity of 9.0% compared to a gain from operations of \$4.3 million in 2006 and return on equity of 6.9%. The debt service coverage for the Hospital increased from 2.6 in 2006 to 2.7 in 2007. This has increased due to higher profitability.

This following section highlights the major financial factors for 2007 for Major Hospital, excluding the component units:

- The Hospital's discharges for 2007 decreased 2% from 2,943 in 2006 to 2,891 in 2007. The Hospital's adjusted patient days decreased by 2% to 30,882 in 2007 compared to 31,566 in 2006. Although discharges and adjusted patient days have decreased in 2007, the Hospital remained profitable due to pricing changes and increased volume in the outpatient areas.

MAJOR HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2007 AND 2006

- In 2007, Major Hospital received \$3.4 million from the State for the Indiana Medicaid Municipal Hospital Payment Adjustment. This money is treated as income when received and has a direct impact to net patient services revenue. This money along with the 3.1% charge master increase, a 6% volume increase in outpatients, and the impact of moving the Hospitalist physicians' revenue to the Hospital's books in June has contributed to the overall net revenue increase of \$8.9 million.
- Operating expenses increased \$5.7 million or 10.8% in 2007. This growth is attributable to the need of additional resources to provide services to the Hospital's increasing patient volumes and new services.
- Salaries and wages and benefits expense increased by \$2.9 million or 10.5%. The increase in wages is due to the additional staffing needed to handle increased volume in some of our outpatient services. The increase in benefits is due to higher medical insurance claims, an increase in pension expense due to more employees becoming eligible for the plan in 2007, along with additional payroll taxes and benefit expense related to adding staff.
- Medical Professional fees for the Hospital increased by 17% or \$755,000 in 2007. This increase is the result of moving the Hospitalist physician revenue and expenses to the Hospital books in June. In 2006, the Hospital began the Hospitalist program whereby a primary care physician remains onsite throughout the day to monitor patients. Prior to June 2007, this revenue and the related wage expenses for this program were recorded on the physician office books. This category also experienced an increase due to paying on-call pay to physicians in the Surgery department.
- Supplies increased by 20.4% or \$1.7 million in 2007. This increase is attributed to higher drug cost for the Pharmacy due to increased volume in Oncology. Oncology volume was up 30% in 2007 and this area has higher drug cost. Patient Chargeable supply expense has also increased due to expanded pain management services with implantable devices.
- Purchased Services increased 15% or \$638,000 in 2007. A portion of this increase is due to entering into a joint venture for echocardiology services in September. The Hospital prepares the billing for this venture and pays the venture a percentage of cash collections. This totaled \$200,000 for the last four months of the year. We also had several areas of the Hospital that used temporary contract labor to fill vacant positions. This included areas such as laboratory, physical therapy, and grounds.

MAJOR HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2007 AND 2006

The following section highlights the major financial factors for 2007 for the component units of Major Hospital:

- Major Affiliates' total operating revenue decreased from year 2006 to year 2007 by \$105,000 for both its' patient services and office rental. This is a result of moving office locations and the turnover of multiple doctors as a result of vacated positions and the Hospitalist program. These changes throughout the year affected both patient volume and billing opportunities, which brought down charges within the practice for the year. Total investment/non-operating revenue increased \$187,000 resulting in a total revenue increase of \$81,000 dollars from 2006 to 2007.
- Operating expenses for Major Affiliates increased from year 2006 to year 2007 by \$787,000 dollars. This was a result of increases in multiple areas. Wages and benefits increased \$400,000 dollars mainly due to switching the medical insurance offered to the employees from the traditional plan through Principal Financial, at low introductory rates, to the Hospital plan, which is self funded and charged at COBRA rates. Also, workers compensation premiums increased slightly, as did salaries from annual pay increases. Medical supply expense increased by \$200,000 dollars due to higher cost of drugs and vaccines. Bad debt expense increased \$75,000 from year 2006 to year 2007. This increase is due to more patients without insurance or having a high deductible insurance plan that shifts the expense to the patient.

CAPITAL ASSETS

During 2007, the Hospital invested \$3.8 million in capital assets along with retirements and transfers of \$1.6 million. The change in capital assets is outlined in the following table:

	<u>2007</u>	<u>2006</u>
Land and land improvements	\$ 4,937,621	\$ 4,949,685
Leasehold improvements	1,512,838	861,977
Buildings and improvements	41,302,577	40,941,178
Equipment	31,603,741	28,681,227
Construction in progress	3,141	1,725,702
Total property and equipment	<u>79,359,918</u>	<u>77,159,769</u>
Less accumulated depreciation	<u>40,863,411</u>	<u>35,981,287</u>
Capital assets, net	<u>\$ 38,496,507</u>	<u>\$ 41,178,482</u>

MAJOR HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2007 AND 2006

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

DEBT

The Hospital has debt outstanding in the IHFFA Variable Construction Bonds, capital lease obligations and notes payable. More detailed information about the Hospital's long-term debt is presented in the notes to the consolidated financial statements.

ECONOMIC OUTLOOK

Management believes that the hospital industry's and the Hospital's operating margins will continue to be under immense pressure because of negative changes in payor mix and growth in operating expenses that are in excess of the increases in contractually arranged and legally established payments received for services rendered. Another factor that poses a challenge to management is the increasing competitive market for the delivery of health care services. The ongoing challenge facing the Hospital 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 the Hospital is the increase in labor costs due to the increasing competition for quality health care workers.

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

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

MAJOR HOSPITAL

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 11,538,086	\$ 9,449,513
Investments	137,293	422,192
Patient accounts receivable, net of allowance allowance for uncollectible accounts of \$4,668,041 in 2007 and \$2,895,144 in 2006	9,722,342	9,048,658
Related party receivable	62,693	106,391
Inventory and other current assets	2,939,922	2,734,313
Current portion of assets whose use is limited	<u>1,190,000</u>	<u>1,145,000</u>
Total current assets	25,590,336	22,906,067
Assets whose use is limited		
Internally designated	37,581,245	33,039,041
Donor restricted funds	<u>931,073</u>	<u>1,094,202</u>
Total assets whose use is limited	38,512,318	34,133,243
Less current portion	<u>1,190,000</u>	<u>1,145,000</u>
Noncurrent assets whose use is limited	37,322,318	32,988,243
Capital assets, net	38,496,507	41,178,482
Property held for sale	6,145,076	6,256,081
Other assets, net	<u>1,097,757</u>	<u>846,309</u>
Total assets	<u>\$ 108,651,994</u>	<u>\$ 104,175,182</u>

See accompanying notes to consolidated financial statements.

MAJOR HOSPITAL

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2007 AND 2006

LIABILITIES AND NET ASSETS

	<u>2007</u>	<u>2006</u>
Current liabilities		
Accounts payable and accrued expenses	\$ 2,112,399	\$ 2,422,199
Related party payable	26,916	83,656
Accrued wages and related liabilities	4,964,972	4,510,456
Estimated third-party settlements	726,350	725,543
Current portion of long term debt		
Loans payable and capital leases	795,933	813,721
Revenue bonds payable	1,190,000	1,145,000
Total current liabilities	<u>9,816,570</u>	<u>9,700,575</u>
Long term debt, net of current portion		
Loans payable and capital leases	2,745,875	3,300,433
Revenue bonds payable	25,730,000	28,420,000
Total long term debt	<u>28,475,875</u>	<u>31,720,433</u>
Total liabilities	38,292,445	41,421,008
Net assets		
Invested in capital assets, net of related debt	14,179,775	13,755,409
Restricted		
For debt service and capital	1,190,000	1,145,000
Expendable - other specific purpose	748,013	514,092
Non-expendable	857,800	857,800
Total restricted net assets	<u>16,975,588</u>	<u>16,272,301</u>
Unrestricted	53,383,961	46,481,873
Total net assets	<u>70,359,549</u>	<u>62,754,174</u>
Total liabilities and net assets	<u>\$ 108,651,994</u>	<u>\$ 104,175,182</u>

See accompanying notes to consolidated financial statements.

MAJOR HOSPITAL

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
Revenues		
Net patient service revenue	\$ 79,007,161	\$ 70,413,205
Other revenue	1,374,009	1,460,461
Total revenues	80,381,170	71,873,666
Expenses		
Salaries and wages	32,363,708	30,262,972
Employee benefits	7,877,067	6,614,468
Medical professional fees	5,209,244	4,474,270
Supplies	13,067,319	11,169,063
Purchased services	4,892,862	4,438,079
Repairs and maintenance	1,531,700	1,465,670
Utilities	1,240,045	1,231,385
Insurance	762,120	826,374
Depreciation and amortization	5,172,195	5,140,694
Other expenses	1,929,712	1,902,500
Total expenses	74,045,972	67,525,475
Operating income	6,335,198	4,348,191
Nonoperating revenues (expenses)		
Investment income	2,788,425	2,354,788
Interest expense	(1,510,367)	(1,671,151)
Other non-operating revenues (expenses)	(7,881)	11,711
Nonoperating revenues (expenses), net	1,270,177	695,348
Net income from continuing operations	7,605,375	5,043,539
Income from operations of discontinued component, including gain on disposal of \$-0- and \$556,913, in 2007 and 2006, respectively	-0-	591,591
Change in net assets	7,605,375	5,635,130
Net assets		
Beginning of year	62,754,174	57,119,044
End of year	\$ 70,359,549	\$ 62,754,174

See accompanying notes to consolidated financial statements.

MAJOR HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
Operating activities		
Cash received from patient services	\$ 78,334,284	\$ 69,315,853
Cash paid for salaries, wages and benefits	(39,786,259)	(35,978,882)
Cash paid to vendors and suppliers	(29,073,565)	(24,957,201)
Other receipts, net	1,248,000	658,929
Net cash flows from operating activities	10,722,460	9,038,699
Capital and related financing activities		
Payments on long term debt	(3,845,346)	(3,300,852)
Interest on long term debt	(1,510,367)	(1,671,151)
Net payments on line of credit	-0-	(100,056)
Purchases of property and equipment	(3,555,808)	(3,592,711)
Loss (gain) on disposal of property and equipment	(125,439)	357,401
Proceeds from sale of property and equipment	-0-	133,259
Net cash flows from capital and related financing activities	(9,036,960)	(8,174,110)
Investing activities		
Investment income	2,788,425	2,354,788
Proceeds from sales of subsidiaries	-0-	770,241
Discontinued operations	-0-	591,591
Other investing activities	284,899	(392,298)
Other changes in assets whose use is limited, net	(3,039,961)	362,070
Net cash flows from investing activities	33,363	3,686,392
Net change in cash and cash equivalents	1,718,863	4,550,981
Cash and cash equivalents:		
Beginning of year	12,024,542	7,473,561
End of year	\$ 13,743,405	\$ 12,024,542
Reconciliation of cash and cash equivalents to the consolidated balance sheet		
Cash and cash equivalents		
In current assets	\$ 11,538,086	\$ 9,449,513
In assets whose use is limited - internally designated	2,161,640	2,548,275
In assets whose use is limited - donor restricted	43,679	26,754
Total cash and cash equivalents	\$ 13,743,405	\$ 12,024,542

See accompanying notes to consolidated financial statements.

MAJOR HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Reconciliation of operating income to net cash from operating activities		
Operating income	\$ 6,335,198	\$ 4,348,191
Adjustments to reconcile operating income to net cash flows from operating activities		
Depreciation and amortization	5,172,195	5,147,118
Bad debts	8,947,649	5,190,186
Changes in operating assets and liabilities		
Patient accounts receivable	(9,621,333)	(6,777,129)
Other accounts receivable	43,698	146,599
Inventory and other current assets	7,718	64,558
Other assets	(251,448)	147,460
Accounts payable and accrued expenses	(309,800)	240,633
Related party liabilities	(56,740)	(265,475)
Accrued wages and related liabilities	454,516	898,558
Estimated third-party settlements	807	(102,000)
Net cash flows from operating activities	<u>\$ 10,722,460</u>	<u>\$ 9,038,699</u>
Supplemental cash flows information		
Cash paid for interest	\$ 1,510,367	\$ 1,671,151
Non cash investing and financing activities		
Property and equipment in accounts payable	\$ -0-	\$ 8,264
Additions to property included in debt	\$ 289,157	\$ 317,596
Additions to property included in accounts payable	\$ -0-	\$ 127,172

See accompanying notes to consolidated financial statements.

MAJOR HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

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

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

Accounting principles generally accepted in the United States require that these consolidated financial statements present the Hospital and its significant component units, collectively referred to as the "primary government." The blended component units discussed below are included in the Hospital's reporting entity because of the significance of their operational or financial relationships with the Hospital. Blended component units, although legally separate entities, are in substance part of the primary government's operations and exist solely to provide services for the primary government; data from these units is consolidated with data of the primary government.

Blended Component Units

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

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

Major Affiliates, Inc. is a blended component unit of the Hospital. Major Hospital owns a 100% interest in Major Affiliates, Inc. Although it is legally separate from the Hospital, Major Affiliates, Inc. is reported as if it were a part of the Hospital because the two Governing Boards are substantially the same. Major Affiliates owns 100% of Southeast OB/GYN, LLC, Major Sports & Musculoskeletal care, LLC, and Shelby Surgical Associates, LLC. These entities are physician practices and provide health care services to the community.

MAJOR HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

Major Affiliates, Inc. also owns 100% of MedWorks, Inc., which operates a pharmacy located in Shelbyville, Indiana. MedWorks, Inc. owns 100% of Intelliplex Data Solutions, LLC (Intelliplex). Intelliplex sells various technology based products and services to customers in the health care industry. Intelliplex was dissolved during 2007. MedWorks also owns 100% of Shelby County Family Practice, Inc. and Internal Medicine Associates of Shelby County, Inc. These practices provide health care services to the community. These entities have been consolidated for financial statement presentation.

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

Use of Estimates

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

Enterprise Fund Accounting

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

Accounting Standards

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

Cash and Cash Equivalents

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

MAJOR HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

Investments

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

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

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

Other investments are generally reported at fair value.

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

Patient Accounts Receivable and Patient Service Revenues

Patient revenues and the related accounts receivable are recorded at the time services to patients are performed. The Hospital is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). The Hospital is reimbursed for Medicare and Medicaid inpatient services based on a fixed price per discharge for each diagnosis related grouping (DRG). The Hospital is reimbursed for Medicare and Medicaid outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At the Hospital's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program. These programs have audited the year-end cost report filed with the Medicare program through December 31, 2005 with differences reflected as deductions from revenue in 2007. Amounts from the unresolved cost report for 2006 are reflected in estimated third-party settlements on the consolidated balance sheets. During 2007, the Hospital recognized approximately \$-0- and \$250,000 in 2007 and 2006, respectively, due to the differences between original estimates and subsequent revisions for the final settlement of cost reports.

MAJOR HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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

Grants and Contributions

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

Charity Care

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

Inventory

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

Assets Whose Use is Limited

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

MAJOR HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

Capital Assets and Depreciation

Capital assets such as property and equipment are stated at cost and include expenditures for new additions and other costs added to existing facilities which exceed \$500 and meet certain useful life thresholds. Maintenance, repairs and minor renewals are expensed as incurred. The Hospital provides for depreciation of property and equipment using annual rates, which are sufficient to depreciate the cost of depreciable assets over their estimated useful lives using the straight-line method. The range of useful lives in computing depreciation is as follows:

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

Net Assets

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

Consolidated Statements of Revenues, Expenses and Changes in Net Assets

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

MAJOR HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

Consolidated Statements of Cash Flows

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

Costs of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Bond Issue Costs

The Hospital provides for the amortization of costs incurred for the issuance of bonds over the life of the debt. Bond issue costs were \$444,405. Issue costs are amortized utilizing the straight-line method. Accumulated amortization as of December 31, 2007 and 2006 was \$123,384 and \$103,867, respectively. Bond issue costs are recorded in other assets on the consolidated balance sheets.

Fair Value of Financial Instruments

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

The fair values of assets whose use is limited are estimated based on quoted market prices for those or similar investments. The fair value of the Hospital's long-term debt is estimated based on market prices for similar issues on current rates offered to the Hospital. As of December 31, 2007 and 2006, the carrying value of the Hospital long-term debt approximated its fair value.

Federal or State Income Taxes

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

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

MAJOR HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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

Compensated Absences

The Hospital's policy on compensated absences (which include vacation, sick leave and holidays) allows full time employees and regular part time employees to accrue days off, to a maximum of 496 hours. Compensated absences are accrued when incurred and reported as a liability on the consolidated balance sheet.

Advertising

The Hospital's policy is to expense advertising costs when the advertising first takes place. Advertising expense was \$127,727 and \$234,011 for 2007 and 2006, respectively.

Litigation

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

Risk Management

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

MAJOR HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

2. NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for reimbursement to the Hospital at amounts different from its established rates. Estimated contractual adjustments under third-party reimbursement programs represent the difference between the Hospital'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. The Hospital'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 the Hospital to perform such reviews. Medicare outpatient services are primarily reimbursed on predetermined rates based on the services provided.

Medicaid

The Hospital 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.

The Hospital is eligible for the Indiana Medicaid Supplemental programs including Medicaid Disproportionate Share Hospital and Municipal Upper Payment Limit programs. The Hospital recognized reimbursement from these programs within net patient revenue of approximately \$3,400,000 and \$2,000,000 during the years ended December 31, 2007 and 2006, respectively. These programs are Federal programs administered by the state. There is currently a one year moratorium on a change in regulation related to eligibility to participate in the program, which left unchanged would expire in May 2008. The ultimate outcome and potential impact of the change in the regulation is unknown.

MAJOR HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

Other Payors

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

The following is a summary of net patient service revenue for 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Patient service revenue		
Inpatient	\$ 52,131,765	\$ 43,054,207
Outpatient	109,541,374	90,890,274
Gross patient service revenue	<u>161,673,139</u>	<u>133,944,481</u>
Deductions from revenue		
Contractual allowances	71,459,366	55,644,445
Charity care	2,258,963	2,696,645
Bad debts	8,947,649	5,190,186
Total deductions from revenue	<u>82,665,978</u>	<u>63,531,276</u>
Net patient service revenue	<u>\$ 79,007,161</u>	<u>\$ 70,413,205</u>

3. CHARITY CARE

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy. The charity care provided during 2007 and 2006 was \$2,258,963 and \$2,696,645, respectively.

4. INVESTMENTS

Investments consist of mutual funds and certificates of deposit of \$137,293 and \$422,192 and are recorded at fair value as of December 31, 2007 and 2006, respectively.

MAJOR HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

5. ASSETS WHOSE USE IS LIMITED

The classification "Assets whose use is limited" includes:

Internally Designated – Amounts transferred by the Hospital'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 the Hospital buildings as authorized by IC 16-22-3-13.

Funds Held by Trustee for Debt Service and Capital – Hospital Association funds 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 asset acquisition and construction.

Restricted – Amounts designated by outside parties for other specific purposes.

Assets whose use is limited that are required for obligations classified as current liabilities are reported in current assets. The composition of assets whose use is limited includes the following as of December 31:

	<u>2007</u>	<u>2006</u>
Internally designated		
Cash and cash equivalents	\$ 2,161,640	\$ 2,548,275
Certificates of deposit	2,155,622	2,045,961
US Government securities	18,721,344	16,452,809
Equity mutual funds	13,116,258	10,324,058
Corporate equity securities	1,357,883	1,594,224
Corporate debt securities	68,498	73,714
Total designated	<u>37,581,245</u>	<u>33,039,041</u>
Donor restricted		
Cash and cash equivalents	43,679	26,754
US Government securities	115,087	324,262
Equity mutual funds	433,253	743,186
Corporate equity securities	339,054	-0-
Total donor restricted	<u>931,073</u>	<u>1,094,202</u>
Total assets whose use is limited	<u>\$ 38,512,318</u>	<u>\$ 34,133,243</u>

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

MAJOR HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

6. DEPOSITS AND INVESTMENTS

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

Investments are carried at fair market value. Net realized gains and losses on security transactions are determined on the specific identification cost basis. Funded depreciation investments consist of cash equivalents and US Government securities. Market value approximated cost as of December 31, 2007 and 2006.

The Hospital's investments generally are reported at fair value, as discussed in Note 1. As of December 31, 2007 and 2006, the Hospital had the following investments and maturities, all of which were held in the Hospital's name by custodial banks that are agents of the Hospital:

December 31, 2007

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

December 31, 2006

	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
US Government securities	\$ 16,777,071	\$ 7,700,793	\$ 4,416,936	\$ 3,328,754	\$ 1,330,588
Certificates of deposit	2,437,273	1,569,873	867,400	-0-	-0-
Equity mutual funds	11,098,124	11,098,124	-0-	-0-	-0-
Stocks	1,594,224	1,594,224	-0-	-0-	-0-
Corporate debt	73,714	22,013	51,701	-0-	-0-
	<u>\$ 31,980,406</u>	<u>\$ 21,985,027</u>	<u>\$ 5,336,037</u>	<u>\$ 3,328,754</u>	<u>\$ 1,330,588</u>

MAJOR HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

Interest rate risk - The Hospital does have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

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

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

Deposits and investments consist of the following as of December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Carrying amount		
Deposits	\$ 13,743,405	\$ 12,024,542
Investments	36,444,292	31,980,406
	<u>\$ 50,187,697</u>	<u>\$ 44,004,948</u>
Included in the balance sheet captions		
Cash and cash equivalents	\$ 11,538,086	\$ 9,449,513
Investments	137,293	422,192
Internally designated	37,581,245	33,039,041
Restricted funds	931,073	1,094,202
	<u>\$ 50,187,697</u>	<u>\$ 44,004,948</u>

MAJOR HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

7. CAPITAL ASSETS

Capital Assets, Net

A summary of property and equipment, including assets under capital leases for 2007 and 2006 follows:

	December 31, 2006	Additions	Retirements/ Transfers	December 31, 2007
Land and land improvements	\$ 4,949,685	\$ 8,470	\$ (20,534)	\$ 4,937,621
Leasehold improvements	861,977	22,861	628,000	1,512,838
Buildings and improvements	40,941,178	358,852	2,547	41,302,577
Equipment	28,681,227	2,733,604	188,910	31,603,741
Construction in progress	1,725,702	721,178	(2,443,739)	3,141
Total property and equipment	<u>77,159,769</u>	<u>3,844,965</u>	<u>(1,644,816)</u>	<u>79,359,918</u>
Less accumulated depreciation				
Land improvements	517,665	147,021	-0-	664,686
Leasehold improvements	432,509	79,283	(17,719)	494,073
Buildings and improvements	16,507,838	1,497,752	(2,139)	18,003,451
Equipment	18,523,275	3,418,712	(240,786)	21,701,201
Total accumulated depreciation	<u>35,981,287</u>	<u>5,142,768</u>	<u>(260,644)</u>	<u>40,863,411</u>
Capital assets, net	<u>\$ 41,178,482</u>	<u>\$ (1,297,803)</u>	<u>\$ (1,384,172)</u>	<u>\$ 38,496,507</u>

	December 31, 2005	Additions	Retirements/ Transfers	December 31, 2006
Land	\$ 4,951,030	\$ -0-	\$ (1,345)	\$ 4,949,685
Land improvements	857,166	21,624	(17,556)	861,234
Buildings and improvements	39,702,730	241,586	996,862	40,941,178
Equipment	27,379,225	1,511,074	(208,329)	28,681,970
Construction in progress	1,550,035	2,271,459	(2,095,792)	1,725,702
Total property and equipment	<u>74,440,186</u>	<u>4,045,743</u>	<u>(1,326,160)</u>	<u>77,159,769</u>
Less accumulated depreciation				
Land improvements	379,170	149,488	(10,993)	517,665
Leasehold improvements	360,712	71,797	-0-	432,509
Buildings and improvements	15,055,655	1,453,788	(1,605)	16,507,838
Equipment	16,240,653	3,436,662	(1,154,040)	18,523,275
Total accumulated depreciation	<u>32,036,190</u>	<u>5,111,735</u>	<u>(1,166,638)</u>	<u>35,981,287</u>
Capital assets, net	<u>\$ 42,403,996</u>	<u>\$ (1,065,992)</u>	<u>\$ (159,522)</u>	<u>\$ 41,178,482</u>

Depreciation expense for 2007 and 2006 amounted to \$5,142,768 and \$5,111,735, respectively.

MAJOR HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

Assets Under Capital Leases

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

	2007	2006
Equipment	\$ 3,221,943	\$ 3,221,943
Less accumulated depreciation	2,619,801	2,510,952
	<u>\$ 602,142</u>	<u>\$ 710,991</u>

Property Held For Sale

The Hospital currently holds approximately 53 acres of land available for sale. The land is located in the Intelliplex Park where the Hospital's Cancer Center was constructed. The land is valued at cost plus improvements and will be sold in lots in varying size.

8. LONG TERM DEBT

A summary of long term debt as of December 31, 2007 is as follows:

- The \$34,260,000, 2003 IHFFA Adjustable Rate Demand Revenue Bonds are due in installments of \$1,025,000 to \$2,240,000, plus variable interest (3.81% at December 31, 2007) through 2025.
- The capital lease obligations with interest of 10% executed for property and equipment are due in monthly installments of varying amounts from \$29,385 to \$41,672 including interest, due through October 2008 to July 2009.
- Loans payable of \$2,300,000 with local financial institutions, due in monthly installments through 2010 with a balloon payment in 2011 at an interest rate of prime as of December 31, 2007 (6.24%), secured by certain Hospital assets.
- Loans payable of \$628,000 with a local financial institution is due in monthly installments of \$5,900 through 2022 at an interest rate of 7.7% and is secured by certain Hospital assets.

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

MAJOR HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

The bonds require the Hospital to maintain certain financial ratios. As of December 31, 2007, the Hospital was in compliance with the ratios.

The following represents a progression for long term debt for 2007 and 2006:

	December 31, 2006	Additional Borrowings	Payments	December 31, 2007	Current Portion
Revenue bonds					
2003 IHFFA Bonds	\$ 29,565,000	\$ -0-	\$ (2,645,000)	\$ 26,920,000	\$ 1,190,000
Loans payable					
Capital lease obligations	1,539,597	-0-	(763,135)	776,462	727,608
Loans payable	2,574,557	628,000	(437,211)	2,765,346	68,325
Total long term debt	<u>\$ 33,679,154</u>	<u>\$ 628,000</u>	<u>\$ (3,845,346)</u>	<u>\$ 30,461,808</u>	<u>\$ 1,985,933</u>

	December 31, 2005	Additional Borrowings	Payments	December 31, 2006	Current Portion
Revenue bonds					
2003 IHFFA Bonds	\$ 32,170,000	\$ -0-	\$ (2,605,000)	\$ 29,565,000	\$ 1,145,000
Loans payable					
Capital lease obligations	2,192,410	-0-	(652,813)	1,539,597	725,770
Loans payable	2,300,000	317,596	(43,039)	2,574,557	87,951
Total long term debt	<u>\$ 36,662,410</u>	<u>\$ 317,596</u>	<u>\$ (3,300,852)</u>	<u>\$ 33,679,154</u>	<u>\$ 1,958,721</u>

Scheduled principal and interest repayments on long term debt and payments on capital lease obligations for the years succeeding December 31, 2007 are as follows:

Years Ending December 31,	Principal	Interest	Total Payments
2008	\$ 1,985,933	\$ 1,200,630	\$ 3,186,563
2009	1,361,495	1,112,306	2,473,801
2010	1,363,045	1,061,467	2,424,512
2011	3,367,650	896,039	4,263,689
2012	1,413,914	834,870	2,248,784
2013 - 2017	8,189,771	3,343,294	11,533,065
2018 - 2022	9,305,000	1,754,047	11,059,047
2023 - 2027	3,475,000	185,781	3,660,781
	<u>\$ 30,461,808</u>	<u>\$ 10,388,434</u>	<u>\$ 40,850,242</u>

MAJOR HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

The Hospital has an available letter of credit for approximately \$27,000,000 with a bank for the Series 2003 bonds. The letter of credit is intended to provide credit enhancement and liquidity support for the Hospital's tax-exempt bonds. Advances bear interest at 45 basis points annually. The letter of credit is collateralized by the Hospital's gross revenues as well as designated assets. The letter of credit expires in December 2010. There was no balance outstanding as of December 31, 2007 and 2006.

As of December 31, 2007, one of the Hospital's affiliates had a line of credit which bears interest at the sum of the Prime Rate minus Twenty-Five (25) Basis Points. The line of credit expired in January 2007 and was not renewed. Outstanding balances on the line of credit were \$-0- and \$-0- as of December 31, 2007 and 2006, respectively and were secured by operating assets.

9. PENSION PLAN

Plan Description

The Hospital has a defined contribution pension plan as authorized by IC 16-22-3-11. The plan provides retirement, disability and death benefits to plan members and beneficiaries. The plan was established by written agreement between the Hospital 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 the Hospital's accounting department.

Funding Policy

The contribution requirements of plan members are established by the written agreement between the Hospital'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 2007 and 2006 were \$1,073,549 and \$855,013, respectively. Employees are not permitted to contribute to the plan.

MAJOR HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

10. CONCENTRATIONS OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third party payors at December 31, 2007 and 2006 was as follows:

	<u>2007</u>	<u>2006</u>
Medicare	26%	25%
Medicaid	8%	8%
Blue Cross	15%	16%
Other third party payors	25%	31%
Self-pay	26%	20%
	<u>100%</u>	<u>100%</u>

The Hospital maintains its cash in accounts, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes it is not exposed to any significant credit risk on cash and cash equivalents.

11. ESTIMATED MALPRACTICE COSTS

The Indiana Medical Malpractice Act, IC 27-12 (the Act), provides a recovery for an occurrence of malpractice and for any injury or death of a patient due to an act of malpractice in excess of certain thresholds. The Act requires the Hospital to maintain medical malpractice liability insurance on a per occurrence basis and in the annual aggregate for amounts below the thresholds of the Act. Management is not aware of any related material adverse effects to its financial condition.

12. RISK MANAGEMENT

Medical Benefits to Employees and Dependents

The Hospital is self funded for medical and related health benefits provided to employees and their families. A stop/loss policy through commercial insurance covers individual claims in excess of \$125,000 per year. Provisions are also made for unexpected and unusual claims. Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Self funded health insurance and related expenses were \$2,973,846 and \$2,290,796 in 2007 and 2006, respectively.

MAJOR HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

13. DISCONTINUED OPERATIONS

During 2006, MedWorks sold the inventory, patient files and a non-compete agreement for the Clinic Pharmacy to CVS for a gain of \$556,913 in 2006. The cost of the inventory at the time of sale was \$213,327. Operating results and the gain on the disposition is included in Major Affiliates balances in the income (loss) from operations of the discontinued component line item of the consolidating statement of operations and changes in equity.

14. COMMITMENTS AND CONTINGENCIES

The Shelby County Council and City of Shelbyville Common Council each passed an ordinance pledging a portion of their share of economic development income tax (EDIT) for the purpose of land acquisition, construction and installation of public infrastructure improvements at the Shelbyville/Shelby County Advanced Technological Industrial Park. Shelby County, the City of Shelbyville, and Major Hospital (a component unit of the City of Shelbyville) share administrative and financial responsibility for this project.

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

Years Ending December 31,		
2008	\$	250,000
2009		250,000
2010		250,000
2011		250,000
2012		250,000
Thereafter		<u>4,000,000</u>
		<u>\$ 5,250,000</u>

SUPPLEMENTARY INFORMATION

MAJOR HOSPITAL

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2007

ASSETS	Hospital	Major Affiliates	Foundation	MDSolutions	Eliminations	Total
Current assets						
Cash and cash equivalents	\$ 10,659,838	\$ 615,602	\$ -0-	\$ 262,646	\$ -0-	\$ 11,538,086
Investments	32,279	105,014	-0-	-0-	-0-	137,293
Patient accounts receivable, net	8,565,828	1,156,514	-0-	-0-	-0-	9,722,342
Related party receivable	-0-	62,693	-0-	-0-	-0-	62,693
Inventory and other current assets	3,734,323	206,160	33,256	46,938	(1,080,755)	2,939,922
Current portion of assets whose use is limited	1,190,000	-0-	-0-	-0-	-0-	1,190,000
Total current assets	24,182,268	2,145,983	33,256	309,584	(1,080,755)	25,590,336
Assets whose use is limited						
Internally designated	34,682,864	-0-	2,898,381	-0-	-0-	37,581,245
Donor restricted funds	-0-	-0-	931,073	-0-	-0-	931,073
Total assets whose use is limited	34,682,864	-0-	3,829,454	-0-	-0-	38,512,318
Less current portion	(1,190,000)	-0-	-0-	-0-	-0-	(1,190,000)
Noncurrent assets whose use is limited	33,492,864	-0-	3,829,454	-0-	-0-	37,322,318
Capital assets, net	29,359,378	6,570,021	2,460	2,564,648	-0-	38,496,507
Property held for sale	6,145,076	-0-	-0-	-0-	-0-	6,145,076
Other assets	5,361,868	506,499	24,265	95,692	(4,890,567)	1,097,757
Total assets	<u>\$ 98,541,454</u>	<u>\$ 9,222,503</u>	<u>\$ 3,889,435</u>	<u>\$ 2,969,924</u>	<u>\$ (5,971,322)</u>	<u>\$ 108,651,994</u>

See report of independent auditors on pages 1 and 2.

MAJOR HOSPITAL

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2007

LIABILITIES AND NET ASSETS	Hospital	Major Affiliates	Foundation	MDSolutions	Eliminations	Total
Current liabilities						
Accounts payable and accrued expenses	\$ 1,518,397	\$ 255,887	\$ -0-	\$ 338,115	\$ -0-	\$ 2,112,399
Related party payable	-0-	692,786	5,742	45,239	(716,851)	26,916
Accrued wages and related liabilities	4,218,992	629,810	5,928	110,242	-0-	4,964,972
Estimated third-party settlements	677,350	49,000	-0-	-0-	-0-	726,350
Current portion of long-term debt						
Loans payable and capital leases	727,608	20,683	-0-	47,642	-0-	795,933
Revenue bonds payable	1,190,000	-0-	-0-	-0-	-0-	1,190,000
Related party notes payable	-0-	363,904	-0-	-0-	(363,904)	-0-
Total current liabilities	8,332,347	2,012,070	11,670	541,238	(1,080,755)	9,816,570
Long term debt, net of current portion						
Loans payable and capital leases	48,854	586,070	-0-	2,110,951	-0-	2,745,875
Revenue bonds payable	25,730,000	-0-	-0-	-0-	-0-	25,730,000
Related party notes payable	-0-	4,426,143	-0-	-0-	(4,426,143)	-0-
Total long term debt	25,778,854	5,012,213	-0-	2,110,951	(4,426,143)	28,475,875
Total liabilities	34,111,201	7,024,283	11,670	2,652,189	(5,506,898)	38,292,445
Net assets						
Invested in capital assets net of related debt	7,807,992	1,173,221	2,460	406,055	4,790,047	14,179,775
Restricted						
For debt service and capital	1,190,000	-0-	-0-	-0-	-0-	1,190,000
Expendable - other specific purpose	232,296	-0-	515,717	-0-	-0-	748,013
Nonexpendable	22,953	-0-	834,847	-0-	-0-	857,800
Unrestricted	55,177,012	1,024,999	2,524,741	(88,320)	(5,254,471)	53,383,961
Total net assets	64,430,253	2,198,220	3,877,765	317,735	(464,424)	70,359,549
Total liabilities and net assets	\$ 98,541,454	\$ 9,222,503	\$ 3,889,435	\$ 2,969,924	\$ (5,971,322)	\$ 108,651,994

See report of independent auditors on pages 1 and 2.

MAJOR HOSPITAL

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

	Hospital	Major Affiliates	Foundation	MDSolutions	Eliminations	Total
Revenue						
Net patient service revenue	\$ 67,608,476	\$ 11,566,732	\$ -0-	\$ -0-	\$ (168,047)	\$ 79,007,161
Other	1,022,166	895,851	188,688	1,093,448	(1,826,144)	1,374,009
Total revenue	<u>68,630,642</u>	<u>12,462,583</u>	<u>188,688</u>	<u>1,093,448</u>	<u>(1,994,191)</u>	<u>80,381,170</u>
Expenses						
Salaries and wages	24,350,009	7,608,214	70,563	334,922	-0-	32,363,708
Employee benefits	5,860,220	1,862,140	3,343	153,210	(1,846)	7,877,067
Medical professional fees	5,203,311	5,933	-0-	-0-	-0-	5,209,244
Supplies	9,919,031	3,151,515	-0-	24,821	(28,048)	13,067,319
Purchased services	4,933,782	1,500,451	-0-	162,852	(1,704,223)	4,892,862
Repairs and maintenance	1,186,778	339,908	-0-	120,285	(115,271)	1,531,700
Utilities	1,009,406	216,404	-0-	14,235	-0-	1,240,045
Insurance	554,214	207,906	-0-	-0-	-0-	762,120
Depreciation and amortization	4,501,667	553,987	3,184	113,357	-0-	5,172,195
Other expenses	1,304,217	282,217	337,018	151,063	(144,803)	1,929,712
Total expenses	<u>58,822,635</u>	<u>15,728,675</u>	<u>414,108</u>	<u>1,074,745</u>	<u>(1,994,191)</u>	<u>74,045,972</u>
Operating income (loss)	9,808,007	(3,266,092)	(225,420)	18,703	-0-	6,335,198
Nonoperating revenues (expenses)						
Investment income	2,757,902	13,838	284,522	-0-	(267,837)	2,788,425
Interest expense	(1,319,876)	(311,625)	-0-	(146,703)	267,837	(1,510,367)
Other nonoperating revenues (expenses)	(49,308)	22,709	-0-	19,233	(515)	(7,881)
Nonoperating revenues (expenses), net	<u>1,388,718</u>	<u>(275,078)</u>	<u>284,522</u>	<u>(127,470)</u>	<u>(515)</u>	<u>1,270,177</u>
Net income (loss) from continuing operations	11,196,725	(3,541,170)	59,102	(108,767)	(515)	7,605,375
Transfers (to) from affiliates	(3,172,923)	3,172,923	-0-	96,764	(96,764)	-0-
Change in net assets	8,023,802	(368,247)	59,102	(12,003)	(97,279)	7,605,375
Net assets						
Beginning of year	56,406,451	2,566,467	3,818,663	329,738	(367,145)	62,754,174
End of year	<u>\$ 64,430,253</u>	<u>\$ 2,198,220</u>	<u>\$ 3,877,765</u>	<u>\$ 317,735</u>	<u>\$ (464,424)</u>	<u>\$ 70,359,549</u>

See report of independent auditors on pages 1 and 2.

MAJOR HOSPITAL

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2006

ASSETS	Hospital	Major Affiliates	Foundation	MDSolutions	Eliminations	Total
Current assets						
Cash and cash equivalents	\$ 8,258,068	\$ 974,857	\$ -0-	\$ 216,588	\$ -0-	\$ 9,449,513
Investments	31,016	391,176	-0-	-0-	-0-	422,192
Patient accounts receivable, net	7,891,433	1,157,225	-0-	-0-	-0-	9,048,658
Related party receivable	-0-	106,391	-0-	-0-	-0-	106,391
Inventory and other current assets	3,093,671	416,641	34,876	70,438	(881,313)	2,734,313
Current portion of assets whose use is limited	1,145,000	-0-	-0-	-0-	-0-	1,145,000
Total current assets	<u>20,419,188</u>	<u>3,046,290</u>	<u>34,876</u>	<u>287,026</u>	<u>(881,313)</u>	<u>22,906,067</u>
Assets whose use is limited						
Internally designated	30,389,880	-0-	2,649,161	-0-	-0-	33,039,041
Donor restricted funds	-0-	-0-	1,094,202	-0-	-0-	1,094,202
Total assets whose use is limited	<u>30,389,880</u>	<u>-0-</u>	<u>3,743,363</u>	<u>-0-</u>	<u>-0-</u>	<u>34,133,243</u>
Less current portion	(1,145,000)	-0-	-0-	-0-	-0-	(1,145,000)
Noncurrent assets whose use is limited	<u>29,244,880</u>	<u>-0-</u>	<u>3,743,363</u>	<u>-0-</u>	<u>-0-</u>	<u>32,988,243</u>
Capital assets, net	32,187,502	6,297,617	3,714	2,689,649	-0-	41,178,482
Property held for sale	6,256,081	-0-	-0-	-0-	-0-	6,256,081
Other assets	5,580,765	264,208	49,528	109,000	(5,157,192)	846,309
Total assets	<u><u>\$ 93,688,416</u></u>	<u><u>\$ 9,608,115</u></u>	<u><u>\$ 3,831,481</u></u>	<u><u>\$ 3,085,675</u></u>	<u><u>\$ (6,038,505)</u></u>	<u><u>\$ 104,175,182</u></u>

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MAJOR HOSPITAL

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2006

LIABILITIES AND NET ASSETS	Hospital	Major Affiliates	Foundation	MDSolutions	Eliminations	Total
Current liabilities						
Accounts payable and accrued expenses	\$ 1,917,483	\$ 192,581	\$ 1,646	\$ 310,489	\$ -0-	\$ 2,422,199
Related party payable	-0-	531,469	5,585	83,030	(536,428)	83,656
Accrued wages and related liabilities	3,586,910	812,502	5,587	105,457	-0-	4,510,456
Estimated third-party settlements	676,543	49,000	-0-	-0-	-0-	725,543
Current portion of long-term debt						
Loans payable and capital leases	722,202	47,369	-0-	44,150	-0-	813,721
Revenue bonds payable	1,145,000	-0-	-0-	-0-	-0-	1,145,000
Related party notes payable	-0-	344,885	-0-	-0-	(344,885)	-0-
Total current liabilities	<u>8,048,138</u>	<u>1,977,806</u>	<u>12,818</u>	<u>543,126</u>	<u>(881,313)</u>	<u>9,700,575</u>
Long term debt, net of current portion						
Loans payable and capital leases	813,827	273,795	-0-	2,212,811	-0-	3,300,433
Revenue bonds payable	28,420,000	-0-	-0-	-0-	-0-	28,420,000
Related party notes payable	-0-	4,790,047	-0-	-0-	(4,790,047)	-0-
Total long term debt	<u>29,233,827</u>	<u>5,063,842</u>	<u>-0-</u>	<u>2,212,811</u>	<u>(4,790,047)</u>	<u>31,720,433</u>
Total liabilities	37,281,965	7,041,648	12,818	2,755,937	(5,671,360)	41,421,008
Net assets						
Invested in capital assets net of related debt	7,342,554	841,521	3,714	432,688	5,134,932	13,755,409
Restricted						
For debt service and capital	1,145,000	-0-	-0-	-0-	-0-	1,145,000
Expendable - other specific purpose	193,353	-0-	320,739	-0-	-0-	514,092
Nonexpendable	22,953	-0-	834,847	-0-	-0-	857,800
Unrestricted	47,702,591	1,724,946	2,659,363	(102,950)	(5,502,077)	46,481,873
Total net assets	<u>56,406,451</u>	<u>2,566,467</u>	<u>3,818,663</u>	<u>329,738</u>	<u>(367,145)</u>	<u>62,754,174</u>
Total liabilities and net assets	<u>\$ 93,688,416</u>	<u>\$ 9,608,115</u>	<u>\$ 3,831,481</u>	<u>\$ 3,085,675</u>	<u>\$ (6,038,505)</u>	<u>\$ 104,175,182</u>

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MAJOR HOSPITAL

CONSOLIDATING STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2006

	Hospital	Major Affiliates	Foundation	MDSolutions	Eliminations	Total
Revenue						
Net patient service revenue	\$ 58,732,727	\$ 11,763,257	\$ -0-	\$ -0-	\$ (82,779)	\$ 70,413,205
Other	934,061	686,808	378,532	1,118,341	(1,657,281)	1,460,461
Total revenue	<u>59,666,788</u>	<u>12,450,065</u>	<u>378,532</u>	<u>1,118,341</u>	<u>(1,740,060)</u>	<u>71,873,666</u>
Expenses						
Salaries and wages	22,362,065	7,496,836	49,509	354,562	-0-	30,262,972
Employee benefits	4,978,336	1,545,215	3,532	88,472	(1,087)	6,614,468
Medical professional fees	4,447,675	26,595	-0-	-0-	-0-	4,474,270
Supplies	8,236,492	2,907,500	-0-	25,071	-0-	11,169,063
Purchased services	4,295,862	1,502,550	-0-	180,599	(1,540,932)	4,438,079
Repairs and maintenance	1,251,113	191,194	-0-	86,013	(62,650)	1,465,670
Utilities	1,024,393	195,988	-0-	11,004	-0-	1,231,385
Insurance	441,653	384,721	-0-	-0-	-0-	826,374
Depreciation and amortization	4,554,210	499,506	2,809	84,169	-0-	5,140,694
Other expenses	1,489,085	287,491	129,389	131,926	(135,391)	1,902,500
Total expenses	<u>53,080,884</u>	<u>15,037,596</u>	<u>185,239</u>	<u>961,816</u>	<u>(1,740,060)</u>	<u>67,525,475</u>
Operating income (loss)	6,585,904	(2,587,531)	193,293	156,525	-0-	4,348,191
Nonoperating revenues (expenses)						
Investment income	2,353,681	16,176	270,794	-0-	(285,863)	2,354,788
Interest expense	(1,513,259)	(290,054)	-0-	(153,701)	285,863	(1,671,151)
Other nonoperating revenues (expenses)	(226,826)	167,811	-0-	(63,610)	134,336	11,711
Nonoperating revenues (expenses), net	<u>613,596</u>	<u>(106,067)</u>	<u>270,794</u>	<u>(217,311)</u>	<u>134,336</u>	<u>695,348</u>
Net income (loss) from continuing operations before minority interest	7,199,500	(2,693,598)	464,087	(60,786)	134,336	5,043,539
Income (loss) from operations of discontinued component, including a gain on disposal of \$556,913	-0-	591,591	-0-	-0-	-0-	591,591
Net income (loss)	7,199,500	(2,102,007)	464,087	(60,786)	134,336	5,635,130
Transfers (to) from affiliates	(1,815,772)	1,815,772	-0-	97,430	(97,430)	-0-
Change in net assets	5,383,728	(286,235)	464,087	36,644	36,906	5,635,130
Net assets						
Beginning of year	51,022,723	2,852,702	3,354,576	293,094	(404,051)	57,119,044
End of year	<u>\$ 56,406,451</u>	<u>\$ 2,566,467</u>	<u>\$ 3,818,663</u>	<u>\$ 329,738</u>	<u>\$ (367,145)</u>	<u>\$ 62,754,174</u>

See report of independent auditors on pages 1 and 2.