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March 25, 2010

Board of Directors
Morgan Hospital and Medical Center
2209 John R. Wooden Drive
P.O. Box 1717
Martinsville, IN 46151

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

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

STATE BOARD OF ACCOUNTS

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MORGAN HOSPITAL AND MEDICAL CENTER AND AFFILIATED ORGANIZATIONS

CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2008 AND 2007

MORGAN HOSPITAL AND MEDICAL CENTER AND AFFILIATED ORGANIZATIONS

TABLE OF CONTENTS
DECEMBER 31, 2008 AND 2007

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blue

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Morgan Hospital and Medical Center
Martinsville, Indiana

We have audited the accompanying consolidated balance sheets of Morgan Hospital and Medical Center and Affiliated Organizations (the "Medical Center"), component units of Morgan County, as of December 31, 2008 and 2007, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Medical Center'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 the 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 financial position of the Medical Center as of December 31, 2008 and 2007, and the results of its operations and changes in net assets, and its 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 vi 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.

Blue & Co., LLC

September 21, 2009

MORGAN HOSPITAL AND MEDICAL CENTER AND AFFILIATED ORGANIZATIONS

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

Management's discussion and analysis of Morgan Hospital & Medical Center and Affiliated Organizations (the "Medical Center") presents information concerning the financial performance during the years ended December 31, 2008 and 2007. This management discussion and analysis includes the activities and results of Morgan Hospital & Medical Center (the "Hospital") and its related entities, which are included in the Consolidated Financial Statements of the Hospital.

The Hospital is located in Martinsville (Morgan County), Indiana and consists of a campus that houses the main Hospital and a physician practice (Morgan Health Services, Inc.) ("MHS"), along with three off-site physician practices (Morgantown, Mooresville, and Martinsville), and a specialty physician practice (Morgan Physician Specialists, LLC) ("MPS").

FINANCIAL HIGHLIGHTS

The Medical Center's net assets decreased $2,112,416 from 2007 to 2008 which includes income from operations of $2,041,142 and non-operating expenses of $4,153,558.

- For the year ended December 31, 2008, the Medical Center's total operating revenues increased 11.5% to $54,662,993 and expenses increased 5.4% to $52,621,851. Income from operations increased $2,950,345 to $2,041,142. The increase in income from operations can be attributed to increased net patient service revenue due to a 2008 average rate increase of 9.75% and an increase in Medicaid DSH and UPL payments of $1,567,084 from 2007 to 2008.

- During 2008, the revenues in the Intensive Care Unit increased $564,889, the OB/GYN unit increased $84,150, and the Nursery increased $76,148, while revenues in the remaining inpatient units decreased. Outpatient revenue increased in every department except respiratory therapy, occupational therapy, EKG, and pharmacy.

FINANCIAL STATEMENTS

The Consolidated Financial Statements of the Medical Center present information about the Medical Center using financial reporting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information. The Consolidated Balance Sheets include all of the Medical Center's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to the Medical Center's creditors (liabilities). It also provides the basis for compiling rate of return, evaluating the capital structure of the Medical Center and assessing the liquidity and financial flexibility of the Medical Center. All of the current and prior year's revenues and expenses are accounted for in the Consolidated Statements of Operations and Changes in Net Assets. These statements measure the financial results of the Medical Center's operations and present revenues earned and expenses incurred. The Consolidated Statements of Cash Flows provide information about the Medical Center's cash flows from operating activities, capital and related financing activities, and investing activities, plus provide information on the sources and uses of cash during both the current and prior year.

FINANCIAL ANALYSIS

The Consolidated Balance Sheets and the Consolidated Statements of Operations and Changes in Net Assets report information about the Medical Center's activities. These two statements report the net assets of the Medical Center and its changes. Increases or decreases in the Medical Center's net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic conditions, population changes (including uninsured and medically indigent individuals and families) and new or changed governmental legislation should also be considered.

A summary of the Medical Center's Consolidated Balance Sheets as of December 31, 2008 and 2007, is presented below:

	2008	2007	$ Change	% Change
Cash and investments	$ 17,727,540	$ 17,582,504	$ 145,036	0.8%
Capital assets	22,579,437	25,067,393	(2,487,956)	-9.9%
Other assets	8,761,198	10,051,638	(1,290,440)	-12.8%
Total assets	$ 49,068,175	$ 52,701,535	$ (3,633,360)	-6.9%
Long-term debt, including current portion	$ 16,133,372	$ 18,503,340	$ (2,369,968)	-12.8%
Other current and noncurrent liabilities	6,939,056	6,090,032	849,024	13.9%
Total liabilities	23,072,428	24,593,372	(1,520,944)	-6.2%
Net assets				
Investment in capital assets net of related debt	6,446,065	6,564,053	(117,988)	-1.8%
Restricted for donor-designated purposes	577,626	27,626	550,000	1990.9%
Unrestricted	18,972,056	21,516,484	(2,544,428)	-11.8%
Total net assets	25,995,747	28,108,163	(2,112,416)	-7.5%
Total liabilities and net assets	$ 49,068,175	$ 52,701,535	$ (3,633,360)	-6.9%

As can be seen from the table above, net assets decreased in 2008 to $25,995,747. The change in net assets resulted from income from operations of $2,041,142 and non-operating expenses of $4,153,558, of which $918,944 was interest expense, $2,189,577 was investment loss, $1,529,277 was the negative change in value of interest rate swaps, and the remainder was from contribution income and other expenses.

A summary of the Medical Center's Consolidated Statements of Operations for the years ended December 31, 2008 and 2007, is presented below:

	2008	2007	$ Change	% Change
Operating revenues				
Net patient service revenue	$ 54,191,544	$ 48,310,409	$ 5,881,135	12.2%
Other revenue	471,449	706,786	(235,337)	-33.3%
Total operating revenues	54,662,993	49,017,195	5,645,798	11.5%
Operating expenses				
Salaries and benefits	30,589,862	29,138,564	1,451,298	5.0%
Supplies and other	18,562,191	17,059,082	1,503,109	8.8%
Depreciation and amortization	3,469,798	3,728,752	(258,954)	-6.9%
Total operating expenses	52,621,851	49,926,398	2,695,453	5.4%
Income (loss) from operations	2,041,142	(909,203)	2,950,345	324.5%
Nonoperating revenues (expenses)	(4,153,558)	(1,611,066)	(2,542,492)	-157.8%
Change in net assets	$ (2,112,416)	$ (2,520,269)	$ 407,853	16.2%
Net assets, end of year	$ 25,995,747	$ 28,108,163	$ (2,112,416)	-7.5%

Additional information concerning the changes from above is discussed under the Operating and Financial Performance section of the Management's Discussion and Analysis.

FINANCIAL ANALYSIS – CASH FLOWS

The Medical Center's cash flows increased $5,284,183 due mostly to significant cash inflows from income from operations, changes in assets whose use is limited, change in interest rate swaps, and noncapital contributions being greater than significant cash outflows from principal payments on long-term debt and capital leases, interest expense, purchases of capital assets, and investment losses.

SOURCES OF REVENUE

During the year ended December 31, 2008, the Medical Center derived substantially all of its revenues from patient services and other related activities. Revenues include, among other items, revenues from the Medicare and Medicaid programs, insurance carriers, and patients. The table below presents the percentage of gross revenue for patient services, by payor, for the years ended December 31, 2008 and 2007.

Payor Mix	2008	2007
Medicare	39.1 %	39.4 %
Medicaid	15.3	14.5
Blue Cross	15.9	16.2
Other third-party payors	22.9	23.5
Self-pay	6.8	6.4
Total	100.0 %	100.0 %

The Medical Center provides care under payment arrangements with Medicare, Medicaid, and various commercial insurance carriers. Services provided under those arrangements are paid at predetermined rates or discounts from gross charges. Provisions have been made in the consolidated financial statements for contractual adjustments, which represent the difference between the standard charges for services and the actual or estimated payment.

OPERATING AND FINANCIAL PERFORMANCE

Overall, the Medical Center's financial performance from operations improved in 2008 compared to 2007. This section will discuss highlights of 2008 operations and changes in activity.

Revenues

Net patient service revenues increased 12.2% in 2008 primarily as a result of an increase in Medicaid DSH and UPL payments received and growth in outpatient care procedures provided. Further discussion follows:

- Inpatient activity levels for all units except the nursery, as measured by admissions, decreased by 82, or 3.5%. Total patient days (excluding nursery) decreased to 8,874, a decrease of 6.4%. The decrease was attributable to a decrease in patient admissions and length of stay in all inpatient units. The decreased admissions are partly attributed to the loss of physicians and an industry trend toward less inpatient utilization.

- Outpatient activity levels as measured by visits/registrations increased 2.0% for the Hospital and 9.0% MPS and MHS.

- The provision for bad debts as a percentage of gross revenue declined from 7.9% in 2007 to 6.8% in 2008. The Medical Center's provision for bad debts continues to remain high compared to other communities due to the economy in the region, higher deductibles and co-pays, and the increased number of uninsured patients.

Expenses

Total operating expenses increased by 5.4% or $2,695,453. Further discussion follows:

- Salaries and benefits increased $1,451,298 or 5.0% as a result of merit increases (avg. 2.0%), replacement of contract labor with permanent staff, and an increase in healthcare claims between years.

- Supplies and other expenses increased $1,503,109 or 8.8% as a result of increased inflation in supply and drug costs, as well as an increase in purchased services, utilities, and insurance expenses.

Capital Assets

During 2008, the Medical Center purchased $961,442 of capital assets and retired $249,145 of capital assets for a net increase of $712,297 as outlined in the table below:

	2008	2007	$Change	%Change
Land and land improvements	$ 2,252,572	$ 2,231,328	$ 21,244	1.0%
Buildings	22,549,914	22,549,914	-0-	0.0%
Equipment	38,286,760	37,092,091	1,194,669	3.2%
Construction in progress	108,973	612,589	(503,616)	-82.2%
	63,198,219	62,485,922	712,297	1.1%
Less accumulated depreciation	(40,618,782)	(37,418,529)	(3,200,253)	8.6%
Capital assets, net	$ 22,579,437	$ 25,067,393	$ (2,487,956)	-9.9%

Gross capital assets have increased due to the addition of the new software modules and computer hardware related to the final phases of the Meditech installation; upgrades to various pieces of operating room equipment, a new ultrasound machine for the women's life services unit, and a variety of upgrades to the facility itself.

The Medical Center budgeted $3,000,000 for 2008 capital expenditures but only had purchases of $961,442. The positive variance from actual of $2,038,558 was primarily due to a concerted effort to only spend capital dollars on essential needs.

Long-Term Debt

At the end of the 2008 fiscal year, the Medical Center had long-term debt (including current portion) of $16,133,372. Included in this amount is $12,283,485 of bonds payable that are secured by a letter of credit with a bank. The bank's letter of credit securing the bonds will expire in December 2011, unless extended or earlier terminated.

ECONOMIC FACTORS AND 2009 BUDGET

The Medical Center's Board and management considered many factors when establishing the 2009 Budget. Included was the status of the economy, which takes into account market factors and other environmental factors such as the following items:

- Population growth of Morgan County, Indiana and the expanding need for services
- Advances in medical equipment and information systems technology and the need to replace obsolete equipment
- Decreasing reimbursement from governmental and commercial insurance payors
- Increasing number of uninsured, under-insured, and patients who need financial assistance
- Increasing costs of medical supplies, pharmaceuticals, and medical malpractice insurance
- Nationwide workforce shortages in key nursing and other healthcare specialist positions
- Increasing awareness and expectations from the public on the quality of services

CONTACTING THE MEDICAL CENTER'S CHIEF FINANCIAL OFFICER

This report is designed to provide our citizens, customers, and creditors with a general overview of the Medical Center's finances. These consolidated financial statements include the activities of the Hospital, MHS, MPS, and Morgan County Memorial Hospital Foundation, Inc. Separately-issued audited financial statements are available for both MHS and MPS. If you have questions about this report or need additional information, contact the Chief Financial Officer, Susan Havers, at 765-349-6506.

MORGAN HOSPITAL AND MEDICAL CENTER AND AFFILIATED ORGANIZATIONS

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2008 AND 2007

ASSETS

	2008	2007
Current assets		
Cash and cash equivalents	$ 4,442,225	$ 2,586,462
Certificates of deposit	2,385,455	2,269,416
Patient accounts receivable, net of estimated uncollectibles of $6,024,478 in 2008 and $4,266,429 in 2007	6,930,649	7,418,689
Inventories	1,049,351	1,102,160
Prepaid expenses and other current assets	429,428	852,546
Estimated third party payor settlements	-0-	300,000
Other assets, current portion	10,737	20,490
Current portion of assets whose use is limited	9,596,234	-0-
Total current assets	24,844,079	14,549,763
Assets whose use is limited, net of amount required to meet current obligations	1,303,626	12,726,626
Capital assets		
Land	1,697,186	1,697,186
Land improvements	555,386	534,142
Buildings	22,549,914	22,549,914
Fixed equipment	5,662,332	5,652,648
Movable equipment	32,624,428	31,439,443
	63,089,246	61,873,333
Less accumulated depreciation	40,618,782	37,418,529
	22,470,464	24,454,804
Construction in progress	108,973	612,589
Capital assets, net	22,579,437	25,067,393
Other assets, net of current portion	341,033	357,753
Total assets	$ 49,068,175	$ 52,701,535

See accompanying notes to consolidated financial statements.

MORGAN HOSPITAL AND MEDICAL CENTER
AND AFFILIATED ORGANIZATIONS

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2008 AND 2007

LIABILITIES AND NET ASSETS

	2008	2007
Current liabilities		
Accounts payable	$ 1,643,673	$ 1,722,945
Accrued payroll and payroll withholdings	788,402	1,307,384
Accrued expenses	1,456,024	1,684,023
Estimated third-party payor settlements	25,000	-0-
Current portion of obligations under capital leases	1,763,357	1,829,419
Current portion of long-term debt	12,356,536	468,106
Total current liabilities	18,032,992	7,011,877
Long-term liabilities		
Obligations under capital leases, net of current portion	1,803,951	3,629,751
Long-term debt, net of current portion	209,528	12,576,064
Interest rate swaps	2,299,957	770,680
Other	726,000	605,000
Total long-term liabilities	5,039,436	17,581,495
Total liabilities	23,072,428	24,593,372
Net assets		
Invested in capital assets net of related debt	6,446,065	6,564,053
Restricted		
Expendable for donor-designated purposes	577,626	27,626
Unrestricted	18,972,056	21,516,484
Total net assets	25,995,747	28,108,163
Total liabilities and net assets	$ 49,068,175	$ 52,701,535

See accompanying notes to consolidated financial statements.

MORGAN HOSPITAL AND MEDICAL CENTER
AND AFFILIATED ORGANIZATIONS

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

	2008	2007
Operating revenues		
Net patient service revenue	$ 54,191,544	$ 48,310,409
Other revenue	471,449	706,786
Total operating revenues	54,662,993	49,017,195
Operating expenses		
Salaries and wages	23,420,899	23,200,507
Employee benefits and payroll taxes	7,168,963	5,938,057
Professional medical fees	1,261,624	974,900
Medical supplies	3,113,557	2,627,764
Other supplies	877,143	972,935
Drugs	2,941,531	2,599,315
Purchased services	6,110,389	5,715,859
Utilities	1,206,931	904,659
Insurance	722,933	672,802
Depreciation and amortization	3,469,798	3,728,752
Rent	661,904	678,628
Other operating expenses	1,666,179	1,912,220
Total operating expenses	52,621,851	49,926,398
Income (loss) from operations	2,041,142	(909,203)
Nonoperating revenues (expenses)	(4,153,558)	(1,611,066)
Change in net assets	(2,112,416)	(2,520,269)
Net assets, beginning of year	28,108,163	30,628,432
Net assets, end of year	$ 25,995,747	$ 28,108,163

See accompanying notes to consolidated financial statements.

MORGAN HOSPITAL AND MEDICAL CENTER
AND AFFILIATED ORGANIZATIONS

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

	2008	2007
Operating activities		
Cash received for patient services	$ 55,004,584	$ 50,322,551
Cash paid to/for employees	(31,108,844)	(28,959,611)
Cash paid to vendors and suppliers	(28,068,787)	(18,101,741)
Other receipts, net	471,449	706,786
Net cash flows from operating activities	(3,701,598)	3,967,985
Noncapital financing activities		
Noncapital contributions	669,344	111,483
Capital and related financing activities		
Principal payments on obligations under capital leases	(1,949,842)	(1,866,661)
Principal payments on long-term debt	(485,000)	(455,000)
Interest expense	(918,944)	(932,745)
Purchases of capital assets	(824,444)	(2,487,169)
Change in bond discount	6,894	6,894
Proceeds from sale of capital assets	-0-	3,640
Loss on disposal of capital assets	3,395	857,298
Net cash flows from capital and related financing activities	(4,167,941)	(4,873,743)
Investing activities		
Investment income	(3,718,854)	203,162
Change in certificates of deposit	(116,039)	(269,416)
Change in assets whose use is limited	5,805,186	(642,872)
Other nonoperating revenues (expenses)	(185,104)	(992,966)
Change in interest rate swaps	1,529,277	719,290
Change in other long-term liabilities	121,000	121,000
Change in other assets	2,678	599,767
Net cash flows from investing activities	3,438,144	(262,035)
Net change in cash and cash equivalents	(3,762,051)	(1,056,310)
Cash and cash equivalents, beginning of year	5,168,956	6,225,266
Cash and cash equivalents, end of year	$ 1,406,905	$ 5,168,956
Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents in current assets	$ 4,442,225	$ 2,586,462
Cash and cash equivalents in assets whose use is limited	(3,035,320)	2,582,494
Total cash and cash equivalents	$ 1,406,905	$ 5,168,956

See accompanying notes to consolidated financial statements.

MORGAN HOSPITAL AND MEDICAL CENTER
AND AFFILIATED ORGANIZATIONS

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

	2008	2007
Reconciliation of income from operations to net cash and cash equivalents from operating activities		
Income (loss) from operations	$ 2,041,142	$ (909,203)
Adjustments to reconcile income (loss) from operations to net cash flows from operating activities		
Depreciation	3,446,003	3,704,958
Amortization	23,795	23,794
Provision for bad debts	9,802,628	9,845,478
Changes in operating assets and liabilities		
Patient accounts receivable	(9,314,588)	(7,758,336)
Inventories	52,809	(309,088)
Prepaid expenses and other current assets	(9,173,116)	(97,602)
Accounts payable	(158,290)	83,313
Accrued payroll and payroll withholdings	(518,982)	178,953
Accrued expenses	(227,999)	(719,282)
Estimated third party payor settlements	325,000	(75,000)
Net cash flows from operating activities	$ (3,701,598)	$ 3,967,985
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$ 889,225	$ 945,495
Supplemental disclosures of noncash capital and related financing activities		
Capital assets acquired included in accounts payable	$ 79,018	$ 264,389
Capital assets acquired under capital leases	$ 57,980	$ 2,507,216

See accompanying notes to consolidated financial statements.

1. NATURE OF OPERATIONS

Morgan Hospital and Medical Center (the "Hospital") is a not-for-profit, acute care hospital located in Martinsville, Indiana. The Hospital is county owned and operates under the Indiana County Hospital Law, Indiana Code 16-22 for the purpose of providing healthcare services to the residents of Morgan County and the surrounding area. The Hospital's primary sources of support are from patient revenues and investment income. Patient revenues include funds received from Medicare, state agencies, insurance companies, and the patients themselves.

Morgan Health Services, Inc. ("MHS") is a not-for-profit corporation located in Martinsville, Indiana. MHS was organized to manage the practices of physicians that are affiliated with the Hospital. MHS's primary source of support is from patient revenues.

Morgan Physician Specialists, LLC ("MPS") consists of surgical and specialty physician practices located in Martinsville, Indiana. MPS was organized for the purpose of acquiring and holding multi-specialty physician practices to serve the residents of Morgan County and the surrounding area. MPS's primary source of support is from patient revenues.

Morgan County Memorial Hospital Foundation, Inc. (the "Foundation") is a not-for-profit organization located in Martinsville, Indiana. The Foundation operates for the benefit of the Hospital, and is a blended component unit of the Hospital. The Foundation's primary source of support is from contributions received.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by the Hospital, MHS, MPS, and the Foundation (collectively the "Medical Center") in the preparation of the consolidated financial statements are summarized below:

Reporting Entity and Consolidation Policy

The accompanying consolidated financial statements include the accounts of the Hospital, MHS, MPS, and the Foundation. The Board of County Commissioners of Morgan County appoints the governing Board of Trustees of the Hospital, and a financial benefit/burden relationship exists between the Hospital and the Morgan County government. For these reasons, the Hospital is considered a component unit of Morgan County. Similarly, due to their organized purposes, the Foundation, MHS, and MPS are considered blended component units of the Hospital. Intercompany transactions and balances have been eliminated in consolidation.

The separate financial statements of MHS, MPS, and the Foundation may be obtained through contacting the Hospital as follows:

Morgan Hospital and Medical Center
2209 John R. Wooden Drive
Martinsville, IN 46151

Management's Estimates

Management uses estimates and assumptions in preparing the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, if any, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Proprietary Fund Accounting

The Medical Center utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis of accounting using the economic resources measurement focus. Substantially all revenues and expenses are subject to accrual.

Accounting Standards

Pursuant to Governmental Accounting Standards Board (GASB) standards, the Medical Center 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.

Risk Management

The Medical Center 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; natural disasters; and employee health, dental, and accident benefits. 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. The Medical Center is insured for medical malpractice claims and judgments.

Cash and Cash Equivalents

Cash and cash equivalents as reported on the consolidated balance sheets include petty cash and other cash on hand amounts, checking accounts, and savings accounts that are readily available for use, excluding amounts included in assets whose use is limited.

Cash and cash equivalents as reported on the consolidated statements of cash flows include investments in highly liquid assets with maturity dates of 90 days or less when purchased.

Patient Accounts Receivable and Net Patient Service Revenue

Patient accounts receivable and net patient service revenue are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including the estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are estimated and accrued in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Allowance for Patient Uncollectible Accounts

The Medical Center estimates an allowance for uncollectible patient accounts receivable based on an evaluation of the aging of the accounts, historical losses, current economic conditions, and other factors unique to their service area and the healthcare industry.

Inventories

Inventories consist of medical supplies, pharmaceuticals, and office supplies and are valued at the lower of cost or market, with cost being determined on the first-in, first-out (FIFO) method.

Assets Whose Use is Limited

Assets whose use is limited include assets set aside by the Hospital's Board of Trustees for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes; assets that have been restricted by donors for specific purposes; and insurance benefit plan assets related to an executive deferred compensation agreement.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair market value in the consolidated balance sheets. Investment income or loss, including realized gains and losses on investments, net change in the market value of assets whose use is limited, interest, and dividends, is included in nonoperating revenues (expenses) when earned.

Capital Assets

The Medical Center's capital assets are reported at historical cost and include expenditures for additions and repairs which substantially increase the useful lives of capital assets. Maintenance, repairs, and minor improvements are expensed as incurred. Contributed capital assets are reported at their estimated fair value at the time of their donation. All capital assets other than land and construction in progress are depreciated using the straight-line method of depreciation over their estimated useful lives based upon the American Hospital Association Guide for Estimated Useful Lives for Fixed Assets.

Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Other Assets

Other assets consist of notes receivable, bond issues costs, and goodwill relating to the purchase of physician practices. Bond issue costs are being amortized over the lives of the bonds on the straight-line method, and goodwill is being amortized over a 5-year period using the straight-line method.

Net Assets

Net assets of the Medical Center are classified in four 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 expendable net assets* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Medical Center, including amounts deposited with trustees as required by revenue bond indentures. *Restricted nonexpendable net assets* equal the principal portion of permanent endowments, if any. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt* or *restricted.*

Consolidated Statement of Operations and Changes in Net Assets

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 and incidental transactions are reported as nonoperating revenues (expenses). Nonoperating revenues (expenses) which are excluded from income (loss) from operations include interest expense, investment income, contributions, fair value change of interest rate swaps, and net change in the market value of assets whose use is limited.

Charity Care

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Amounts determined to qualify as charity care are reported as reductions in net patient service revenue.

Advertising and Public Relations Costs

Advertising and public relations costs are charged to operations when incurred. Advertising and public relations costs charged to operations were $637,197 and $863,850 for the years ended December 31, 2008 and 2007, respectively.

Income Taxes

The Hospital, Foundation and MHS are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from income taxes on related income pursuant to Section 501(a) of the Code. MPS is organized as a single-member Limited Liability Company (LLC). The Hospital is the sole member of MPS. As such, MPS is not required to file a separate State or Federal tax return.

Accounting for Uncertainty in Income Taxes

The FASB has issued accounting standards, which clarify accounting principles generally accepted in the United States of America for recognition, measurement, presentation, and disclosure relating to uncertain tax positions. These standards apply to business enterprises, not-for-profit entities, and pass-through entities, such as S corporations and limited liability companies. The Medical Center evaluates uncertain tax positions in accordance with FASB Accounting Standards Codification and makes such accruals and disclosures as might be required thereunder.

Grants and Contributions

From time to time, the Medical Center receives grants as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues (expenses).

Reclassifications

Certain 2007 amounts have been reclassified to provide for consistency with reporting of 2008 information. These reclassifications have no effect on the previously reported change in net assets or net assets.

3. BANK DEPOSITS AND INVESTMENTS

Deposits and investments are comprised of the following at December 31, 2008 and 2007:

	2008	2007
Carrying amount		
Cash and cash equivalents	$ 10,453,139	$ 5,168,956
Certificates of deposit	2,564,884	2,453,422
Mutual funds	4,159,517	9,960,126
Total	$ 17,177,540	$ 17,582,504

	2008	2007
Included in the consolidated balance sheet captions:		
Cash and cash equivalents	$ 4,442,225	$ 2,586,462
Certificates of deposit	2,385,455	2,269,416
Assets whose use is limited	10,349,860	12,726,626
Total	$ 17,177,540	$ 17,582,504

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Medical Center's deposits may not be returned to it. The Medical Center does not have a deposit policy for custodial credit risk. Deposits with financial institutions are insured by the Federal Depository Insurance Corporation ("FDIC") up to the FDIC limits. This includes any deposit accounts issued or offered by a qualifying institution. The Medical Center's deposits with financial institutions in the State of Indiana for the years ended December 31, 2008 and 2007, were entirely insured by the FDIC or by the Indiana Public Deposit Insurance Fund.

Investments are carried at fair market value or cost which approximates fair value. Net realized gains and losses on security transactions are determined on the specific identification cost basis. As of December 31, 2008 and 2007, the Medical Center had the following investments and maturities, all of which were held in the Medical Center's name by custodial banks or investment companies that are agents of the Medical Center:

December 31, 2008					
		Investment Maturities (in years)			
	Carrying Amount	Less than 1	1 - 5	6 - 10	More than 10
Certificates of deposit	$ 2,564,884	$ 2,564,884	$ -0-	$ -0-	$ -0-

December 31, 2007					
		Investment Maturities (in years)			
	Carrying Amount	Less than 1	1 - 5	6 - 10	More than 10
Certificates of deposit	$ 2,453,422	$ 2,453,422	$ -0-	$ -0-	$ -0-

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

The Medical Center does not 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 – Investments

Credit risk is the risk that, in the event of a failure of a financial institution, the Medical Center would not be able to recover deposits, the value of its investments, or collateral securities that are in the possession of an outside party.

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

Concentration of Credit Risk

The Medical Center places no limit on the amount it may invest in any one issuer. The Medical Center maintains its deposits and investments, which at times may exceed federally insured limits. The Medical Center believes that it is not exposed to any significant credit risk on investments.

4. PATIENT ACCOUNTS RECEIVABLE

Patient accounts receivable reported as current assets at December 31, 2008 and 2007, consist of the following:

	2008	2007
Receivable from Medicare	$ 1,027,619	$ 923,346
Receivable from Medicaid	217,540	183,561
Receivable from Blue Cross	1,047,887	1,035,941
Receivable from other insurance carriers	3,171,461	2,865,273
Receivable from patients	7,490,620	6,676,997
Total patient accounts receivable	12,955,127	11,685,118
Less allowance for uncollectible amounts	6,024,478	4,266,429
Patient accounts receivable, net	$ 6,930,649	$ 7,418,689

5. ASSETS WHOSE USE IS LIMITED

Assets whose use is limited that are required for obligations classified as current liabilities or are receivable within one year are reported in current assets, if any. Assets whose use is limited are reported at market value or cost which approximates fair value and include the following at December 31, 2008 and 2007:

Total Investment Summary by Class

	2008	%	2007	%
Cash and cash equivalents	$ 6,010,914	55.1 %	$ 2,582,494	20.3 %
Certificates of deposit	179,429	1.7	184,006	1.4
Mutual funds	4,159,517	38.2	9,960,126	78.3
Donation receivable	550,000	5.0	-0-	0.0
Total assets whose use is limited	10,899,860	100.0 %	12,726,626	100.0 %
Less amount required for current obligations	9,596,234		-0-	
Assets whose use is limited, net of amount required to meet current obligations	$ 1,303,626		$ 12,726,626	

Total Investment Summary by Fund

	2008	%	2007	%
Board-Designated Funds	$ 8,022,595	73.6 %	$ 10,556,395	82.9 %
Building Fund	1,573,639	14.4	1,537,605	12.1
Donor-Restricted Funds	577,626	5.3	27,626	0.2
Insurance Benefit Plan	726,000	6.7	605,000	4.8
Total	$ 10,899,860	100.0 %	$ 12,726,626	100.0 %

Board-Designated Funds

The Medical Center's Board of Trustees approved the funding of depreciation expense to meet the capital equipment replacement needs of the facility. Depreciation is funded totally with expenditures for capital equipment reducing the funded depreciation balance. Board-designated funds also include amounts intended for specific purposes, as established by the Medical Center's Board. All income earned by the board-designated accounts is left to accumulate as additions to the funds. Board-designated funds remain under the control of the Board which may at its discretion later use the funds for other purposes. Therefore, all board-designated funds are included in unrestricted net assets.

Building Fund

The Medical Center's Board of Trustees established a building fund to reserve amounts for the construction or purchase of medical facilities or other long term capital projects. All income earned by the Building Fund account is left to accumulate as an addition to the fund.

Insurance Benefit Plan Assets

The insurance benefit plan assets are equal to the amount of premiums paid for an executive insurance benefit program.

Donor-Restricted Funds

Donor-restricted funds represent donations that have been restricted by donors for specific purposes.

Fair Value Measurements

In September 2006, FASB issued an accounting standard, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value. This standard applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements. In February 2008, the FASB issued additional guidance that delays the effective date of the standard for all nonfinancial assets and liabilities, except those that are recognized or disclosed in the consolidated financial statements on a recurring basis (at least annually). The effective date for nonfinancial assets and nonfinancial liabilities has been delayed one year to fiscal years beginning after November 15, 2008. The Medical Center has not completed its analysis of the potential impact of the adoption of the standard on nonfinancial assets and nonfinancial liabilities on the consolidated financial statements. The standard establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The standard did not have a material impact on the Medical Center's consolidated financial position and results of operations.

Following is a description of the Medical Center's valuation methodologies for assets and liabilities measured at fair value.

The Medical Center has an established process for determining fair values. Fair value is based upon quoted market prices, where available. If listed prices or quotes are not available, valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments include unobservable parameters that are applied consistently over time.

The three-level valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Any changes to the valuation methodology are reviewed by management to confirm the changes are justified. As markets and products develop and the pricing for certain products becomes more or less transparent, the Medical Center continues to refine its valuation methodologies. The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Medical Center believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Fair values of financial instruments at December 31, 2008 follow:

Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets			
Mutual funds	$ 4,159,517	$ -0-	$ -0-
Liabilities			
Interest rate swaps	$ -0-	$ 2,299,957	$ -0-

Risks and Uncertainties

The national and world-wide investment market conditions deteriorated significantly in 2008 and continue to be volatile. The Medical Center holds investments in equity mutual funds. Such investments are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with these securities and the level of uncertainty related to changes in value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the amounts reported in the accompanying consolidated financial statements. The Medical Center's management is currently unable to determine the effect, if any, the decline in market conditions may ultimately have on the Medical Center's investment portfolio and ability to fund certain projects.

6. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2008 and 2007, was as follows:

	2008			
	Beginning Balance	Additions	Retirements / Transfers	Ending Balance
Land	$ 1,697,186	$ -0-	$ -0-	$ 1,697,186
Land improvements	534,142	21,244	-0-	555,386
Buildings	22,549,914	-0-	-0-	22,549,914
Fixed equipment	5,652,648	9,684	-0-	5,662,332
Movable equipment	31,439,443	742,523	442,462	32,624,428
Construction in progress	612,589	187,991	(691,607)	108,973
Total historical cost	62,485,922	961,442	(249,145)	63,198,219
Less accumulated depreciation for				
Land improvements	(342,774)	(26,655)	-0-	(369,429)
Buildings	(11,680,872)	(472,023)	-0-	(12,152,895)
Fixed equipment	(4,199,141)	(166,381)	-0-	(4,365,522)
Movable equipment	(21,195,742)	(2,780,944)	245,750	(23,730,936)
Total accumulated depreciation	(37,418,529)	(3,446,003)	245,750	(40,618,782)
Capital assets, net	$ 25,067,393	$ (2,484,561)	$ (3,395)	$ 22,579,437

	2007			
	Beginning Balance	Additions	Retirements / Transfers	Ending Balance
Land	$ 1,697,186	$ -0-	$ -0-	$ 1,697,186
Land improvements	489,536	44,606	-0-	534,142
Buildings	22,070,318	479,596	-0-	22,549,914
Fixed equipment	5,634,742	47,644	(29,738)	5,652,648
Movable equipment	28,923,866	4,074,339	(1,558,762)	31,439,443
Construction in progress	-0-	612,589	-0-	612,589
Total historical cost	58,815,648	5,258,774	(1,588,500)	62,485,922
Less accumulated depreciation for				
Land improvements	(319,006)	(23,768)	-0-	(342,774)
Buildings	(11,220,419)	(460,453)	-0-	(11,680,872)
Fixed equipment	(4,063,164)	(165,504)	29,527	(4,199,141)
Movable equipment	(18,838,544)	(3,055,233)	698,035	(21,195,742)
Total accumulated depreciation	(34,441,133)	(3,704,958)	727,562	(37,418,529)
Capital assets, net	$ 24,374,515	$ 1,553,816	$ (860,938)	$ 25,067,393

7. COMPENSATED ABSENCES

The Hospital and MHS provide paid time off (PTO) policies to employees for vacation, personal days, and holidays. Upon employment, full and part-time employees accrue PTO from the date of hire. After completion of 30 days of service, full and part-time employees qualify for PTO with pay for the total amount accrued. The maximum number of hours that employees may carry over to the following year as of December 31st, is 208 for the Hospital and 40 for MHS.

The rate at which employees earn PTO depends upon credited length of service, and is as follows:

Length of Service	Hospital Hours Earned Per Year	MHS Hours Earned Per Year D.O.H. Pre-2004	MHS Hours Earned Per Year D.O.H. 2004 and After
0 - 5 years	208	208	160
6 - 14 years	248	248	160
15 or more years	288	288	160

PTO days are accrued when incurred and reported as accrued expenses in the consolidated financial statements. The PTO accrual at December 31, 2008 and 2007, was $638,595 and $943,794, respectively.

8. EMPLOYEE HEALTH BENEFIT PLAN

The Medical Center operates a self-funded health plan covering substantially all eligible employees. The Medical Center has an annual stop loss limit on the plan of $110,000 per claim. Claim expenditures and liabilities 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. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amounts of pay out, and other economic and social factors.

Changes in the balances of claims liabilities during the years ended December 31, 2008 and 2007, were as follows:

	2008	2007
Accrued liability, beginning of year	$ 356,198	$ 456,779
Incurred claims and changes in estimates	4,019,593	2,916,105
Claim payments	(3,881,493)	(3,016,686)
Accrued liability, end of year	$ 494,298	$ 356,198

9. PENSION PLAN

The Medical Center sponsors separate defined contribution pension plans that cover all eligible employees who work over 1,000 hours a year. To be eligible for enrollment, employees must have completed one year of employment and be 21 years of age. The Hospital contributes for each eligible participant an amount equal to 7 percent of compensation that does not exceed 150 percent of the social security contribution. MHS annually determines the amount to contribute to their plan. This contribution is discretionary. MPS sponsors various defined contribution pension plans that cover all eligible employees (physicians) according to the terms of each physician's individual employment agreement. The Medical Center incurred expenses related to these plans of $1,122,897 and $980,191 for the years ended December 31, 2008 and 2007, respectively.

10. OBLIGATIONS UNDER CAPITAL LEASES

The Medical Center is the lessee of equipment under capital leases expiring in various years through 2012. The assets and liabilities under the capital lease are originally recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. Amortization of assets held under the capital lease is included in depreciation expenses and was $1,447,316 and $1,320,211 for the years ended December 31, 2008 and 2007, respectively. The capital lease obligations carry imputed interest rates between 4.12 and 8.41 percent, and are collateralized by the leased equipment.

Following is a summary of equipment held under capital leases:

	2008	2007
Equipment	$ 6,882,143	$ 8,131,634
Less: accumulated amortization	3,230,165	3,090,320
	$ 3,651,978	$ 5,041,314

Capital lease activity for the years ended December 31, 2008 and 2007, was as follows:

	2008				
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Obligations under capital leases	$ 5,459,170	$ 57,980	$ 1,949,842	$ 3,567,308	$ 1,763,357

	2007				
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Obligations under capital leases	$ 4,818,615	$ 2,507,216	$ 1,866,661	$ 5,459,170	$ 1,829,419

Debt service requirements on obligations under capital leases at December 31, 2008, are as follows:

Year Ending December 31,	Principal	Interest
2009	$ 1,763,357	$ 134,366
2010	1,156,255	56,046
2011	536,390	20,812
2012	111,306	2,613
Total	$ 3,567,308	$ 213,837

11. LONG-TERM DEBT

At December 31, 2008 and 2007, the Medical Center was obligated for long-term debt agreements as follows:

	2008	2007
Economic Development Revenue Bonds, Series 2002A, dated December 17, 2002, payable in annual principal installments commencing December 1, 2003 through December 1, 2027, in amounts ranging from $45,000 to $95,000. Variable interest rate determined weekly (3.75% at December 31, 2008). Interest is paid in monthly installments. Secured by letter of credit from Fifth Third Bank.	$ 1,405,000	$ 1,460,000
Economic Development Revenue Bonds, Series 2002B, dated December 17, 2002, payable in annual principal installments commencing December 1, 2004 through December 1, 2027, in amounts ranging from $255,000 to $780,000. Variable interest rate determined weekly (3.75% at December 31, 2008); Interest is paid in monthly installments. Secured by letter of credit from Fifth Third Bank.	10,985,000	11,270,000

Floating Rate Demand Notes, Series 2002, dated December 17, 2002, payable in annual principal installments commencing December 1, 2003 through December 1, 2010, in the amounts ranging from \$95,000 to \$150,000. As of December 31, 2008, notes were being held as a bank bond due to a failed tender. Variable interest rate determined weekly (3.19% at December 31, 2008). Effective January 30, 2009, the bank bond was converted to a commercial loan with a local bank, carrying a fixed interest rate of 5.5% per annum. Principal and interest payments of \$8,633 are due monthly from March 2009 through February 2012. Secured by deposit accounts and certificates of deposit.	285,000	430,000
Total long-term debt	12,675,000	13,160,000
Less unamortized bond discounts	(108,936)	(115,830)
Less current portion	(12,356,536)	(468,106)
Long-term debt, net of current portion	$ 209,528	$ 12,576,064

On December 17, 2002, Morgan County, Indiana issued $14,030,000 of Adjustable Rate Demand Economic Development Revenue Bonds, Series 2002A and 2002B (the "Bonds") on behalf of the Medical Center. The proceeds of the Bonds were used to finance the acquisition, construction, and equipping of certain economic development facilities, including a new oncology center, a new medical office building and other capital improvements to the Medical Center; advance refund the Morgan County Hospital Association First Mortgage Revenue Refunding Bonds, Series 1993 and other loans and capital leases of the Medical Center; pay capitalized interest on the Series 2002 Bonds; and pay certain costs related to the issuance of the Series 2002 Bonds. The bank's letter of credit securing the Bonds will expire in December 2011, unless extended or earlier terminated. In the event of a "Remarketing Drawing" as defined by the bank's letter of credit, principal plus accrued interest on such Remarketing Drawing is to be paid by the Medical Center within 367 days from the Remarketing Drawing.

Interest Rate Swap Agreements

The Derivatives and Hedging Topic of the FASB Accounting Standards Codification requires companies to recognize all of their derivative instruments as either assets or liabilities. The accounting for changes in fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship.

In conjunction with the Bonds, the Medical Center purchased three separate interest swap rates (the "Swaps"), with a highly rated counterparty, having original notional amounts of $4,000,000, $5,000,000, and $4,790,000. The Medical Center's use of the interest rate swaps is for interest rate exposure management purposes. At December 31, 2008 and 2007, the Swaps had notional amounts as follows:

	2008 Notional Amount	2007 Notional Amount	Maturity
Swap A	$ 2,655,000	$ 2,940,000	12/1/09
Swap B	5,000,000	5,000,000	5/1/15
Swap C	4,735,000	4,790,000	12/1/27
	$ 12,390,000	$ 12,730,000	

The Swaps are floating to fixed rate, which require the Medical Center to pay and receive as follows:

	Fixed Interest Rate Paid	Variable Interest Rate Received
Swap A	3.45%	Bond Market Association Municipal Swap Index
Swap B	3.82%	Bond Market Association Municipal Swap Index
Swap C	3.99%	67% of LIBOR

None of the Swaps has been designated as a hedge for accounting purposes. The change in fair market value of the Swaps is included as a component of investment income in nonoperating revenues (expenses). The fair value of the Swaps is reported as a long-term liability of $2,299,957 and $770,680 in the consolidated balance sheets at December 31, 2008 and 2007, respectively.

Long-term debt activity for the years ended December 31, 2008 and 2007, was as follows:

	2008				
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Revenue bonds, series 2002A	$ 1,460,000	$ -0-	$ (55,000)	$ 1,405,000	$ 1,405,000
Revenue bonds, series 2002B	11,270,000	-0-	(285,000)	10,985,000	10,985,000
Floating rate demand notes	430,000	-0-	(145,000)	285,000	74,314
Bond discounts	(115,830)	-0-	6,894	(108,936)	(107,778)
Total long-term debt	$ 13,044,170	$ -0-	$ (478,106)	$ 12,566,064	$ 12,356,536

	2007				
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Revenue bonds, series 2002A	$ 1,510,000	$ -0-	$ (50,000)	$ 1,460,000	$ 55,000
Revenue bonds, series 2002B	11,545,000	-0-	(275,000)	11,270,000	285,000
Floating rate demand notes	560,000	-0-	(130,000)	430,000	135,000
Bond discounts	(122,724)	-0-	6,894	(115,830)	(6,894)
Total long-term debt	$ 13,492,276	$ -0-	$ (448,106)	$ 13,044,170	$ 468,106

Debt service requirements on long-term debt at December 31, 2008, are as follows:

Year Ending December 31,	Principal	Interest
2009	$ 12,356,536	$ 483,341
2010	93,206	9,236
2011	99,673	3,927
2012	16,649	118
2013	-0-	-0-
2014-2018	-0-	-0-
2019-2023	-0-	-0-
2024-2027	-0-	-0-
Total	$ 12,566,064	$ 496,622

Agreements relating to these long-term debt agreements and corresponding letters of credit contain various restrictive covenants, including covenants related to debt service coverage ratio, unrestricted liquidity position, and debt to tangible net assets ratio requirements. The Medical Center was in violation of certain of these restrictive covenants as of December 31, 2008, and has obtained a covenant violation waiver letter from Fifth Third Bank for these violations. The Medical Center is expected to have another debt covenant violation during 2009. Therefore, long term debt amounts secured by the bank letter of credit have been reported as current liabilities within the consolidated balances sheets.

12. INSURANCE BENEFIT PLAN

The Medical Center funds an executive insurance benefit plan for the Medical Center CEO. The plan accumulates cash value over time. The Medical Center records an asset and liability amount for the amount of premiums paid into the plan. The asset relating to the executive insurance benefit plan is reported in assets whose use is limited, net of amount required to meet current obligations on the consolidated balance sheets. The liability is reported as other long-term liabilities on the consolidated balance sheets.

13. NET PATIENT SERVICE REVENUE

The Medical Center has agreements with third-party payors that provide for payments at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

- ***Medicare***. The Medical Center is a provider of services to patients entitled to coverage under Title XVIII (Medicare) of the Health Insurance Act. The Medical Center is reimbursed for Medicare inpatient services based on a fixed price per discharge for each diagnosis related grouping (DRG) and Medicare 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 Medical Center'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. The Medical Center's classification of patients under the Medicare program and the appropriateness of their admissions are subject to an independent review by a peer review organization under contract with the Medical Center. As of December 31, 2008, the Medical Center's submitted Medicare cost reports have been final settled with the Fiscal Intermediary through December 31, 2006. For the years ending December 31, 2008 and 2007, the Hospital (increased) decreased contractual allowances by ($325,000) and $75,000, respectively, as a result of (unfavorable) favorable changes for estimated third-party payor settlements.

- ***Medicaid***. The Medical Center is a provider of services to patients entitled to coverage under Title XIX (Medicaid) of the Health Insurance Act. The Medical Center is reimbursed for Medicaid inpatient services based on a fixed price per discharge for each diagnosis related grouping (DRG) 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. There is no cost settlement for either of the inpatient or outpatient. For the years ended December 31, 2008 and 2007, the Medical Center received and recorded in net patient service revenue $4,072,611 and $2,505,527, respectively, relating to net Medicaid Disproportionate Share Hospital ("DSH") payments and Indiana Medicaid Municipal Hospital Upper Payment Limit ("UPL") adjustments.

- ***Other***. The Medical Center has also entered into preferred provider agreements with certain commercial insurance carriers. The basis for payment to the Medical Center under these agreements is a discount from established charges.

For the years ended December 31, 2008 and 2007, net patient service revenue was as follows:

	2008	2007
Gross patient service revenue		
Inpatient routine services	$ 11,840,380	$ 12,083,563
Inpatient ancillary services	27,859,267	22,679,295
Outpatient ancillary services	104,144,285	89,412,992
Total gross patient service revenue	143,843,932	124,175,850
Deductions from revenue		
Contractual allowances	78,135,232	64,077,227
Charity care	1,714,528	1,942,736
Bad debts	9,802,628	9,845,478
Total deductions from revenue	89,652,388	75,865,441
Total net patient service revenue	$ 54,191,544	$ 48,310,409

GASB requires bad debts to be reported as a deduction from gross patient service revenue while FASB requires bad debts to be reported as an operating expense.

14. CHARITY CARE

The Medical Center 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 under its charity care policy. The following information measures the level of charity care provided for the years ended December 31, 2008 and 2007:

	2008	2007
Charges foregone, based on established rates	$ 1,714,528	$ 1,942,736

15. NONOPERATING REVENUES (EXPENSES)

For the years ended December 31, 2008 and 2007, nonoperating revenues (expenses) were as follows:

	2008	2007
Investment income (loss)	$ (2,189,577)	$ 922,452
Investment income (loss) - fair value change of interest rate swaps	(1,529,277)	(719,290)
Interest expense	(918,944)	(932,745)
Loss on disposal of capital assets	(3,395)	(857,298)
Contribution income	559,446	-0-
Other	(71,811)	(24,185)
Total nonoperating revenues (expenses)	$ (4,153,558)	$ (1,611,066)

GASB requires interest expense to be reported as a nonoperating expense while FASB requires interest expense to be reported as an operating expense.

16. PROFESSIONAL LIABILITY INSURANCE

The Indiana Medical Malpractice Act, IC 34-18, provides a maximum recovery of $250,000 for an occurrence of malpractice and $1,250,000 for an injury or death of a patient due to an act of malpractice. The Act requires physicians to maintain medical malpractice liability insurance in the minimum amount of $250,000 per occurrence and $750,000 in the annual aggregate and hospitals to maintain medical malpractice liability insurance in the minimum amount of $250,000 per occurrence and $5,000,000 in the annual aggregate for hospitals with 100 or fewer occupied beds and $7,500,000 for hospitals with more than 100 occupied beds. The Act also requires the Medical Center to pay a surcharge to the State Patient's Compensation Fund. This fund may be used to pay medical malpractice claims in excess of the annual aggregate amount noted above, under certain terms and conditions.

The Medical Center is insured against professional liability claims on a claims-made basis. Liabilities for incurred but not reported losses at December 31, 2008 and 2007, are not determinable; however, in management's opinion, such liabilities, if any, will not have a material effect on the Medical Center's financial position and its malpractice and general liability insurance is adequate to cover losses, if any. Should the claims-made policies not be renewed or replaced with appropriate insurance coverage, claims based upon occurrences during these terms, but reported subsequently, will be uninsured. The Medical Center intends to continue carrying such insurance. Professional liability insurance coverage is $250,000 per occurrence and $7,500,000 in the aggregate. In addition, the Medical Center has umbrella coverage of $3,000,000 per occurrence and in the aggregate. Professional liability insurance expense for the years ended December 31, 2008 and 2007, was $543,879 and $477,848, respectively.

17. CONCENTRATIONS OF CREDIT RISK

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

	2008		2007	
	Revenues	Receivables	Revenues	Receivables
Medicare	39 %	23 %	39 %	24 %
Medicaid	15	10	15	8
Blue Cross	16	10	16	10
Other third-party payors	23	21	24	23
Patients	7	36	6	35
	100 %	100 %	100 %	100 %

18. CONTINGENCIES

There are a variety of legal proceedings and claims by others against the Medical Center in a variety of matters arising out of the conduct of the Medical Center's business. The ultimate resolution of such claims would not, in the opinion of management, have a material adverse effect on the consolidated financial statements.

19. TRANSFERS

For the years ended December 31, 2008 and 2007, MHS received transfers from the Hospital totaling $1,472,890 and $1,687,687, respectively. MPS received transfers from the Hospital in the amount of $1,473,081 and $1,206,561, for the years ended December 31, 2008 and 2007, respectively. These transfers have been eliminated in consolidation.

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Medical Center in estimating the fair value of its financial instruments:

Cash and Cash Equivalents

The carrying amount reported in the consolidated balance sheets for cash and cash equivalents approximates its fair value.

Investments and Assets Whose Use is Limited

These assets are reported in the consolidated balance sheets at fair value or cost that approximates fair value. The fair value amounts are based on quoted market prices, if available, or are estimated using quoted market prices for similar securities.

Accounts Payable, Accrued Payroll and Payroll Withholdings, and Accrued Expenses

The carrying amounts reported in the consolidated balance sheets for accounts payable, accrued payroll and payroll withholdings, and accrued expenses approximate their fair value.

Estimated Third-Party Payor Settlements

The carrying amount reported in the consolidated balance sheets for estimated third-party payor settlements approximates its fair value.

Long-Term Debt, Obligations Under Capital Leases and Deferred Compensation Liabilities

The carrying amount and fair value reported in the consolidated balance sheets for the combined amounts of long-term debt and obligations under capital leases were $16,133,372 and $16,147,698, respectively, for 2008 and $18,503,340 and $18,141,543, respectively, for 2007. The carrying amount reported in the consolidated balance sheets for deferred compensation liabilities approximates its fair value.

Interest Rate Swaps

The carrying amount reported in the consolidated balance sheets for interest rate swaps approximates their fair value.