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December 28, 2010

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

We have reviewed the audit report prepared by Blue & Co., LLC, Independent Public Accountants, for the period January 1, 2009 to December 31, 2009. 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 the Major Health Partners, as of December 31, 2009 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



**CONSOLIDATED FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
DECEMBER 31, 2009 AND 2008**

CPAs / ADVISORS



MAJOR HEALTH PARTNERS

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Major Health Partners
Shelbyville, Indiana

We have audited the accompanying consolidated balance sheets of Major Health Partners (MHP) as of December 31, 2009 and 2008 and the related consolidated statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the MHP's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the consolidated financial position of MHP as of December 31, 2009 and 2008, 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 as listed in the table of contents is not a required part of the basic consolidated financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Trustees
Major Health Partners
Shelbyville, Indiana

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

Blue & Co., LLC

April 21, 2010

REQUIRED SUPPLEMENTARY INFORMATION

MAJOR HEALTH PARTNERS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2009 AND 2008

This section of Major Health Partners' (MHP) annual consolidated financial statements presents background information and management's discussion and analysis (MD&A) of MHP's financial performance during the year ended December 31, 2009. This MD&A does include a discussion and analysis of the activities and results of MHP which is the consolidated entity that consists of Major Hospital (the Hospital) and its blended component units, Major Affiliates, Inc., Major Hospital Foundation and MDSolutions, LLC. Please read it in conjunction with MHP's financial statements that follow this MD&A.

FINANCIAL HIGHLIGHTS

- MHP reported a positive change in net assets for 2009 of approximately \$7.4 million compared to a negative change in net assets of approximately \$253,000 in 2008, representing an increase of approximately \$7.7 million in comparison to the year 2008 results.
- MHP spent \$5.5 million on equipment and capital projects in 2009 net of disposals. In 2009, Major Health Partners purchased a new medical oncology software module, a pediatric monitoring system, beds for the Post Surgical Unit, radiology and physical therapy equipment for the new orthopedic facility (Renovo), an electronic medical record (EMR) software system for the physician offices, renovated areas at Rampart to accommodate the Home Health department, moved the outpatient lab draw to a facility across from the main campus, and completed construction of the Renovo facility at Intelliplex. MHP also spent money on upgrading and normal equipment replacement.

USING THIS ANNUAL REPORT

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

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

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

Finally, the consolidated statement of cash flows' purpose is to provide information about MHP's cash flows from operating activities, financing activities including capital additions, and investing activities. This statement provides information on the sources and uses of cash and the change in the cash balance during the year.

MAJOR HEALTH PARTNERS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2009 AND 2008

THE BALANCE SHEET AND STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

One of the most important questions asked about MHP's finances is, "Is MHP as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses and changes in net assets report information about MHP's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These statements report MHP's net assets and changes in them. Think of MHP's net assets—the difference between assets and liabilities—as one way to measure MHP's financial health, or financial position. Over time, increases or decreases in MHP's net assets are one indicator of whether its financial health is improving or deteriorating. Consider other nonfinancial factors, however, such as changes in MHP's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of MHP.

MAJOR HEALTH PARTNERS' NET ASSETS

Table 1: Assets, Liabilities, and Net Assets

	<u>2009</u>	<u>2008</u>
Assets		
Current assets	\$ 18,480,755	\$ 20,518,718
Assets whose use is limited	50,581,047	42,431,736
Capital assets, net	45,192,403	40,125,219
Other assets	6,147,662	5,846,817
Total assets	<u>\$ 120,401,867</u>	<u>\$ 108,922,490</u>
Liabilities		
Current liabilities	\$ 10,850,953	\$ 11,394,619
Other liabilities	534,828	198,967
Long-term debt	31,471,804	27,222,540
Total liabilities	<u>42,857,585</u>	<u>38,816,126</u>
Net Assets		
Invested in capital assets, net of related debt	12,792,431	11,236,731
Restricted	868,122	1,096,773
Unrestricted	63,883,729	57,772,860
Total net assets	<u>77,544,282</u>	<u>70,106,364</u>
Total liabilities and net assets	<u>\$ 120,401,867</u>	<u>\$ 108,922,490</u>

MAJOR HEALTH PARTNERS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2009 AND 2008

The significant changes in Major Health Partners' assets resulted from a decrease in current assets of approximately \$2 million. Cash and cash equivalents decreased by \$2.4 million in 2009. This is the result of moving funds from short-term operating cash to investment accounts. Net patient accounts receivable increased by \$780,000 from 2008. Total liabilities increased by \$4 million in 2009 in comparison to 2008.

OPERATING RESULTS AND CHANGES IN NET ASSETS AND CASH FLOWS

Table 2: Operating Results and Changes in Net Assets

	<u>2009</u>	<u>2008</u>
Revenues		
Net patient service revenue	\$ 85,396,891	\$ 84,425,977
Other operating revenue	1,048,197	1,453,491
Total revenues	<u>86,445,088</u>	<u>85,879,468</u>
Expenses		
Salaries and benefits	45,900,808	45,534,238
Supplies	13,269,864	12,760,970
Depreciation and amortization	4,939,930	5,053,644
Other operating expenses	17,654,444	18,650,389
Total expenses	<u>81,765,046</u>	<u>81,999,241</u>
Operating income	4,680,042	3,880,227
Non-operating revenue (expense), net	<u>2,757,876</u>	<u>(4,133,412)</u>
Change in net assets	7,437,918	(253,185)
Net assets		
Beginning of year	70,106,364	70,359,549
End of year	<u>\$ 77,544,282</u>	<u>\$ 70,106,364</u>

MAJOR HEALTH PARTNERS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2009 AND 2008

Table 3: Statements of Cash Flows

The final required statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

	<u>2009</u>	<u>2008</u>
Cash flows from		
Operating activities	\$ 8,569,666	\$ 11,624,542
Capital and related financing	(8,766,403)	(7,848,046)
Investing	<u>(4,956,712)</u>	<u>(5,169,732)</u>
Change in cash and cash equivalents	<u>\$ (5,153,449)</u>	<u>\$ (1,393,236)</u>

Cash and cash equivalents decreased \$5.2 million in 2009 compared to a decrease of \$1.4 million in 2008. The majority of the 2009 decrease relates to property additions of over \$11 million and the classification of assets whose use is limited.

SOURCES OF REVENUE

During 2009, Major Health Partners derived substantially all of its revenue from patient service and other related activities. A significant portion of the patient service revenue is from patients that are insured by government health programs, principally Medicare and Medicaid, which are highly regulated and subject to frequent and substantial changes. Revenues from the Medicare and Medicaid programs represented 56% of MHP's gross revenues in 2009 but only 42% of MHP's net patient service revenues.

Following is a table of major sources of gross patient revenues for 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Medicare	42%	44%
Medicaid	14%	13%
Anthem	17%	16%
Commercial	20%	20%
Self Pay	<u>7%</u>	<u>7%</u>
	<u>100%</u>	<u>100%</u>

MAJOR HEALTH PARTNERS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2009 AND 2008

Major Health Partners' service mix remained consistent between 2009 and 2008. Inpatient revenue accounted for 27% and 30% of gross revenue in 2009 and 2008, respectively. Outpatient revenue was 73% and 70% of total gross revenue in 2009 and 2008, respectively.

OPERATING AND FINANCIAL PERFORMANCE

Major Health Partners had a gain from operations of \$4.7 million in 2009, which resulted in a return on equity of 6.0% compared to a gain from operations of \$3.9 million in 2008 and return on equity of 5.5%.

This following section highlights the major financial factors for 2009 for Major Hospital, excluding the component units:

- The Hospital's discharges for 2009 decreased from 2,698 in 2008 to 2,688 in 2009. The Hospital's adjusted patient days increased to 31,504 in 2009 compared to 31,206 in 2008. Although discharges decreased and adjusted patient days increased in 2009, the Hospital remained profitable from operations due to pricing changes and increased volume in the outpatient areas.
- In 2009, Major Hospital received \$2.5 million from the State for the Indiana Medicaid Municipal Hospital Payment Adjustment. In 2008, the Hospital received \$6.2 million from the State. This money is treated as income when received and has a direct impact to net patient services revenue. Even though the Hospital received a reduced amount of State payments, the 5% charge master increase and 4% increase in outpatient volume contributed to the overall net revenue increase of \$1 million.
- Operating expenses decreased \$1.4 million in 2009. This decrease is result of a concentrated effort to gain efficiencies in different areas in order to reduce expenses. The Hospital did not have any new major service lines start up in 2009.
- Salaries and wages and benefits expense decreased by \$ 1.4 million or 4%. Early in 2009, the Hospital took steps to reduce overall expenses due to the downturn in the economy and the anticipation of the impact to MHP. The Hospital took steps to manage open positions and adjust benefits that were currently offered to employees.
- Medical Professional fees for the Hospital increased by 3% or \$178,000 in 2009. This is the result of additional wages for hospital employed physicians and medical directorships.
- Supplies increased by 3% or \$248,000 in 2009. This increase is mainly the result of inflationary increases passed along by vendors.

MAJOR HEALTH PARTNERS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2009 AND 2008

- Purchased Services decreased 7% or \$365,000 in 2009. In 2009, the Hospital utilized less contracted labor and outside services in the day to day operations of hospital. In 2008, the Hospital used consulting groups for new service lines which did not occur in 2009.
- Repairs and Maintenance increased 23% or \$305,000. This is the result of additional expenses incurred to maintain the facility and maintenance contracts purchased for new equipment that was previously under warranty.

The following section highlights the major financial factors for 2009 for the component units of Major Hospital:

- Major Affiliates' total operating revenue increased \$1.7 million or 13% from year 2008 to year 2009 for both its' patient services and office rental. During year 2008 two new services were established, orthopedics and urgent care, which assisted in offsetting any reductions in revenue from other MHP physician practices.
- Operating expenses for Major Affiliates increased from year 2008 to year 2009 by \$2 million dollars. Wages and benefits were a majority of this increase due to staffing the new practices and recruiting an OB physician.

CAPITAL ASSETS

During 2009, Major Health Partners invested \$11.2 million in capital assets along with retirements and transfers of \$5.7 million. The change in capital assets is outlined in the following table:

	<u>2009</u>	<u>2008</u>
Land and land improvements	\$ 7,177,428	\$ 6,502,797
Leasehold improvements	1,595,580	1,352,179
Buildings and improvements	47,677,741	41,700,567
Equipment	29,947,340	30,535,629
Construction in progress	1,223,462	2,007,386
Total property and equipment	<u>87,621,551</u>	<u>82,098,558</u>
Less accumulated depreciation	<u>42,429,148</u>	<u>41,973,339</u>
Capital assets, net	<u>\$ 45,192,403</u>	<u>\$ 40,125,219</u>

MAJOR HEALTH PARTNERS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2009 AND 2008

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

DEBT

Major Health Partners' has debt outstanding in the IFA Construction Bonds, capital lease obligations and notes payable. More detailed information about MHP's long-term debt is presented in the notes to the consolidated financial statements.

ECONOMIC OUTLOOK

Management believes that the hospital industry's and MHP's operating margins will be impacted with the recent passage of health care reform. MHP expects this reform to impact both the number of people insured and the payments it receives for services rendered. MHP along with the hospital industry as a whole will be under immense pressure to operate more efficiently with less reimbursement. The ongoing challenge facing Major Health Partners is to continue to provide quality patient care in this competitive environment, and to attain reasonable rates for services that are provided while still managing costs.

CONTACTING MAJOR HEALTH PARTNERS' FINANCIAL MANAGEMENT

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

MAJOR HEALTH PARTNERS

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 5,013,611	\$ 7,382,714
Investments	32,682	141,117
Patient accounts receivable, net of allowance for uncollectible accounts of \$3,199,825 in 2009 and \$3,972,650 in 2008	9,744,889	8,960,965
Inventory and other current assets	2,958,573	2,798,922
Current portion of assets whose use is limited	731,000	1,235,000
Total current assets	<u>18,480,755</u>	<u>20,518,718</u>
Assets whose use is limited		
Internally designated	50,395,876	42,967,169
Held by trustee for debt service and capital	48,049	-0-
Donor restricted funds	868,122	699,567
Total assets whose use is limited	<u>51,312,047</u>	<u>43,666,736</u>
Less current portion	731,000	1,235,000
Noncurrent assets whose use is limited	<u>50,581,047</u>	<u>42,431,736</u>
Capital assets, net	45,192,403	40,125,219
Property held for sale	4,576,627	4,576,627
Other assets, net	<u>1,571,035</u>	<u>1,270,190</u>
Total assets	<u><u>\$ 120,401,867</u></u>	<u><u>\$ 108,922,490</u></u>

See accompanying notes to consolidated financial statements.

MAJOR HEALTH PARTNERS

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2009 AND 2008

LIABILITIES AND NET ASSETS

	<u>2009</u>	<u>2008</u>
Current liabilities		
Accounts payable and accrued expenses	\$ 1,902,599	\$ 2,171,488
Accrued wages and related liabilities	6,235,186	6,657,183
Estimated third-party settlements	1,785,000	900,000
Current portion of long term debt		
Loans payable and capital leases	197,168	430,948
Revenue bonds payable	731,000	1,235,000
Total current liabilities	<u>10,850,953</u>	<u>11,394,619</u>
Derivative liability	116,705	-0-
Other liabilities	418,123	198,967
Long term debt, net of current portion		
Loans payable and capital leases	2,524,804	2,727,540
Revenue bonds payable	28,947,000	24,495,000
Total long term debt	<u>31,471,804</u>	<u>27,222,540</u>
Total liabilities	42,857,585	38,816,126
Net assets		
Invested in capital assets, net of related debt	12,792,431	11,236,731
Restricted		
Expendable - other specific purpose	13,275	241,926
Non-expendable	854,847	854,847
Total restricted net assets	<u>13,660,553</u>	<u>12,333,504</u>
Unrestricted	63,883,729	57,772,860
Total net assets	<u>77,544,282</u>	<u>70,106,364</u>
Total liabilities and net assets	<u>\$ 120,401,867</u>	<u>\$ 108,922,490</u>

See accompanying notes to consolidated financial statements.

MAJOR HEALTH PARTNERS

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
Revenues		
Net patient service revenue	\$ 85,396,891	\$ 84,425,977
Other revenue	1,048,197	1,453,491
Total revenues	86,445,088	85,879,468
Expenses		
Salaries and wages	36,468,733	35,588,544
Employee benefits	9,432,075	9,945,694
Medical professional fees	5,763,404	5,588,175
Supplies	13,269,864	12,760,970
Purchased services	6,130,743	6,298,067
Repairs and maintenance	1,745,605	1,631,657
Utilities	1,357,311	1,342,383
Insurance	736,414	839,843
Depreciation and amortization	4,939,930	5,053,644
Other expenses	1,920,967	2,950,264
Total expenses	81,765,046	81,999,241
Operating income	4,680,042	3,880,227
Nonoperating revenues (expenses)		
Investment income (loss)	3,745,058	(2,849,500)
Interest expense	(974,881)	(1,118,469)
Other non-operating expenses	(12,301)	(165,443)
Nonoperating revenues (expenses), net	2,757,876	(4,133,412)
Change in net assets	7,437,918	(253,185)
Net assets		
Beginning of year	70,106,364	70,359,549
End of year	\$ 77,544,282	\$ 70,106,364

See accompanying notes to consolidated financial statements.

MAJOR HEALTH PARTNERS

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
Operating activities		
Cash received from patient services	\$ 85,497,967	\$ 85,361,004
Cash paid for salaries, wages and benefits	(46,322,805)	(43,842,027)
Cash paid to vendors and suppliers	(31,425,119)	(30,892,413)
Other receipts, net	819,623	997,978
Net cash flows from operating activities	8,569,666	11,624,542
Capital and related financing activities		
Payments on long term debt	(26,797,577)	(2,176,714)
Proceeds from long term debt	30,000,000	-0-
Interest on long term debt	(974,881)	(1,118,469)
Purchases of property and equipment	(10,921,674)	(4,849,918)
Loss (gain) on disposal of property and equipment	(72,271)	297,055
Net cash flows from capital and related financing activities	(8,766,403)	(7,848,046)
Investing activities		
Investment income	3,745,058	(2,849,500)
Other investing activities	108,435	(3,824)
Other changes in assets whose use is limited, net	(8,810,205)	(2,316,408)
Net cash flows from investing activities	(4,956,712)	(5,169,732)
Net change in cash and cash equivalents	(5,153,449)	(1,393,236)
Cash and cash equivalents:		
Beginning of year	12,350,169	13,743,405
End of year	\$ 7,196,720	\$ 12,350,169
Reconciliation of cash and cash equivalents to the consolidated balance sheet		
Cash and cash equivalents		
In current assets	\$ 5,013,611	\$ 7,382,714
In assets whose use is limited - internally designated	2,103,740	4,930,089
In assets whose use is limited - held by trustee	48,049	-0-
In assets whose use is limited - donor restricted	31,320	37,366
Total cash and cash equivalents	\$ 7,196,720	\$ 12,350,169

See accompanying notes to consolidated financial statements.

MAJOR HEALTH PARTNERS

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
Reconciliation of operating income to net cash from operating activities		
Operating income	\$ 4,680,042	\$ 3,880,227
Adjustments to reconcile operating income to net cash flows from operating activities		
Depreciation and amortization	4,939,930	5,053,644
Bad debts	8,414,682	8,354,348
Changes in operating assets and liabilities		
Patient accounts receivable	(9,198,606)	(7,592,971)
Inventory and other current assets	(159,651)	189,718
Other assets	(300,845)	(158,458)
Accounts payable and accrued expenses	(268,889)	32,173
Accrued wages and related liabilities	(421,997)	1,692,211
Estimated third-party settlements	885,000	173,650
Net cash flows from operating activities	\$ 8,569,666	\$ 11,624,542
Supplemental cash flows information		
Cash paid for interest	\$ 974,881	\$ 1,118,469
Non cash investing and financing activities		
Revaluation of capital lease obligation	\$ -0-	\$ 603,394
Transfer of property held for sale to land	\$ -0-	\$ 1,565,176
Equipment acquired through capital lease	\$ 309,061	\$ -0-
Disposal of equipment through capital lease expiration	\$ 1,326,591	\$ 65,618

See accompanying notes to consolidated financial statements.

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

The consolidated financial statements of Major Health Partners (MHP) refer to Major Hospital (the Hospital) and its subsidiaries.

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

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

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

Blended Component Units

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

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

Major Affiliates, Inc. is a blended component unit of the Hospital. Major Hospital owns a 100% interest in Major Affiliates, Inc. Although it is legally separate from the Hospital, Major Affiliates, Inc. is reported as if it were a part of the Hospital because the two Governing Boards are substantially the same.

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Major Affiliates includes Southeast Indiana OB/GYN, LLC (Southeast OB/GYN), Major Sports & Musculoskeletal Care, LLC, (Major Sports) and Shelby Surgical Associates, LLC, (SSA) which are all physician practices and are wholly owned subsidiaries of Major Affiliates. These entities provide various health care services to the community.

During 2009, Southeast OBGYN and Major Sports were liquidated and became departments of Major Multi Specialty Associates, LLC which is 100% owned by MedWorks, Inc.

Major Affiliates, Inc. also owns 100% of MedWorks, Inc., which operates a pharmacy located in Shelbyville, Indiana. MedWorks owns 100% of Major Multi Specialty Associates, LLC, Family Orthopedic and Rehabilitation Center, LLC, Priority Care, LLC. MedWorks also owns 60% and 70% of Onsite Solutions, LLC as of December 31, 2009 and 2008. These practices provide health care services to the community. These entities have been consolidated for financial statement presentation.

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

Use of Estimates

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

Enterprise Fund Accounting

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

Accounting Standards

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

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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.

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 contract 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.

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

Assets Whose Use is Limited

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

Patient Accounts Receivable and Patient Service Revenues

Patient revenues and the related accounts receivable are recorded at the time services to patients are performed. MHP is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). MHP is reimbursed for Medicare and Medicaid inpatient services based on a fixed price per discharge for each diagnosis related grouping (DRG).

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

MHP is reimbursed for Medicare and Medicaid outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At the MHP's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients.

The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program. Amounts from the unresolved cost report for 2008 are reflected in estimated third-party settlements on the consolidated balance sheets. MHP recognized approximately \$75,000 and \$175,000 in 2009 and 2008, respectively, due to the differences between original estimates and subsequent revisions for the final settlement of cost reports.

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

Grants and Contributions

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

Endowments

Endowments are provided to MHP through the Foundation on a voluntary basis by individuals and private organizations. Permanent endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor has not provided specific instructions, the Foundation's governing board is permitted to expend the net appreciation of the investments of endowment funds

Charity Care

MHP provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because MHP does not collect amounts deemed to be charity care, they are not reported as revenue. The charity care provided during 2009 and 2008 was \$4,302,309 and \$3,380,516, respectively.

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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.

Capital Assets and Depreciation

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

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

Net Assets

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

Consolidated Statements of Revenues, Expenses and Changes in Net Assets

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

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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 \$239,488 and \$444,405 as of December 31, 2009 and 2008. Issue costs are amortized utilizing the straight-line method. Accumulated amortization as of December 31, 2009 and 2008 was \$24,360 and \$176,016, respectively. Bond issue costs are recorded in other assets on the consolidated balance sheets.

Federal or State Income Taxes

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

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

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

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

Compensated Absences

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

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Advertising

MHP's policy is to expense advertising costs when the advertising first takes place. Advertising expense was \$224,023 and \$312,745 for 2009 and 2008, respectively.

Litigation

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

Risk Management

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

Reclassifications

Certain amounts in the 2008 consolidated financial statements have been reclassified to conform to the 2009 presentation.

Subsequent Events

MHP evaluated events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements are issued which is April 21, 2010.

2. NET PATIENT SERVICE REVENUE

MHP has agreements with third-party payors that provide for reimbursement to MHP at amounts different from its established rates. Estimated contractual adjustments under third-party reimbursement programs represent the difference between the MHP's billings at standard rates and amounts reimbursed by third-party payors. They also include any differences between estimated third-party reimbursement settlements for prior years and subsequent final settlements. A summary of the reimbursement arrangements with major third-party payors is as follows:

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Medicare

Medicare inpatient services are reimbursed based on a predetermined amount for each case based on the diagnosis associated with the patient (Prospective Payment Hospital). These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The prospectively determined rates are not subject to retroactive adjustment with the exception of a few select items, such as bad debts. MHP's classification of patients under the Prospective Payment Hospital and the appropriateness of patient admissions are subject to validation reviews by the Medicare peer review organization which is under contract with MHP to perform such reviews. Medicare outpatient services are primarily reimbursed on predetermined rates based on the services provided.

Medicaid

MHP is reimbursed for Medicaid inpatient services under a prospectively determined rate-per-discharge and is not subject to retroactive adjustment. The differences between standard charges and reimbursement from these programs are recorded as contractual adjustments. Reimbursement for Medicaid outpatient services is based on predetermined rates, and is not subject to retroactive cost based settlements.

MHP is eligible for the Indiana Medicaid Supplemental programs including Medicaid Disproportionate Share Hospital and Municipal Upper Payment Limit programs. MHP recognized reimbursement from these programs within net patient revenue of approximately \$2,500,000 and \$6,200,000 during the years ended December 31, 2009 and 2008, respectively. These programs are Federal programs administered by the State of Indiana.

Other Payors

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

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

The following is a summary of net patient service revenue for 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Patient service revenue		
Inpatient	\$ 53,120,125	\$ 52,883,475
Outpatient	<u>142,408,923</u>	<u>123,912,170</u>
Gross patient service revenue	<u>195,529,048</u>	<u>176,795,645</u>
Deductions from revenue		
Contractual allowances	97,415,166	80,634,804
Charity care	4,302,309	3,380,516
Bad debts	<u>8,414,682</u>	<u>8,354,348</u>
Total deductions from revenue	<u>110,132,157</u>	<u>92,369,668</u>
Net patient service revenue	<u>\$ 85,396,891</u>	<u>\$ 84,425,977</u>

3. INVESTMENTS

Investments consist of mutual funds of \$32,682 as of December 31, 2009 and mutual funds and certificates of deposit totaling \$141,117 as of December 31, 2008. The mutual funds are recorded at fair value and the certificates of deposit are recorded at contract value.

4. ASSETS WHOSE USE IS LIMITED

The classification "Assets whose use is limited" includes:

Internally designated – Amounts transferred by MHP's Board of Trustees through funding depreciation expense. Such amounts are to be used for equipment and building, remodeling, repairing, replacing or making additions to MHP buildings as authorized by IC 16-22-3-13.

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Funds held by trustee – MHP funds deposited with a trustee and limited as to use in accordance with the requirements of a trust indenture for debt service and capital 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>2009</u>	<u>2008</u>
Internally designated		
Cash and cash equivalents	\$ 2,103,740	\$ 4,930,089
Certificates of deposit	7,462,568	7,967,628
US Government securities	21,565,296	19,312,756
Mutual funds - fixed income	4,744,788	2,395,571
Mutual funds - equity	12,999,739	7,251,378
Corporate equity securities	1,292,546	959,908
Corporate debt securities	227,199	149,839
Total internally designated	<u>50,395,876</u>	<u>42,967,169</u>
Held by trustee		
Cash and cash equivalents	48,049	-0-
Donor restricted		
Cash and cash equivalents	31,320	37,366
US Government securities	65,713	49,599
Mutual funds - equity	297,788	227,676
Corporate equity securities	338,136	238,178
Corporate debt securities	135,165	146,748
Total donor restricted	<u>868,122</u>	<u>699,567</u>
Total assets whose use is limited	<u>\$ 51,312,047</u>	<u>\$ 43,666,736</u>

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

5. 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.

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Investments are carried at fair market value except for certificates of deposit and money market funds which are carried at contract 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.

MHP's investments generally are reported at fair value, as discussed in Note 1. As of December 31, 2009 and 2008, MHP had the following investments and maturities, all of which were held in MHP's name by custodial banks that are agents of MHP:

December 31, 2009					
	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
US Government securities	\$ 21,631,009	\$ 5,015,930	\$ 8,643,046	\$ 4,174,116	\$ 3,797,917
Certificates of deposit	7,462,568	7,462,568	-0-	-0-	-0-
Mutual funds - fixed income	4,744,788	4,744,788	-0-	-0-	-0-
Mutual funds - equity	13,330,209	13,330,209	-0-	-0-	-0-
Corporate equity securities	1,630,682	1,630,682	-0-	-0-	-0-
Corporate debt securities	362,364	997	244,583	104,419	12,365
	\$ 49,161,620	\$ 32,185,174	\$ 8,887,629	\$ 4,278,535	\$ 3,810,282

December 31, 2008					
	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
US Government securities	\$ 19,362,355	\$ 4,039,082	\$ 8,958,036	\$ 4,685,886	\$ 1,679,351
Certificates of deposit	8,075,878	8,075,878	-0-	-0-	-0-
Mutual funds - fixed income	2,395,571	2,395,571	-0-	-0-	-0-
Mutual funds - equity	7,511,921	7,511,921	-0-	-0-	-0-
Corporate equity securities	1,198,086	1,198,086	-0-	-0-	-0-
Corporate debt securities	296,587	-0-	149,556	116,104	30,927
	\$ 38,840,398	\$ 23,220,538	\$ 9,107,592	\$ 4,801,990	\$ 1,710,278

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

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

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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

Deposits and investments consist of the following as of December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Carrying amount		
Deposits	\$ 7,196,720	\$ 12,350,169
Investments	<u>49,161,620</u>	<u>38,840,398</u>
	<u>\$ 56,358,340</u>	<u>\$ 51,190,567</u>
Included in the balance sheet captions		
Cash and cash equivalents	\$ 5,013,611	\$ 7,382,714
Investments	32,682	141,117
Internally designated	50,395,876	42,967,169
Held by trustee for debt service and capital	48,049	-0-
Restricted funds	<u>868,122</u>	<u>699,567</u>
	<u>\$ 56,358,340</u>	<u>\$ 51,190,567</u>

6. FAIR VALUE MEASUREMENTS

Major classes of assets and liabilities that are measured at fair value are categorized according to a fair value hierarchy that prioritizes the inputs to value techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

- Level 1 inputs are readily determinable using unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2 inputs are derived from quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets (other than those included in Level 1) which are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

If the inputs used fall within different levels of the hierarchy, the categorization is based upon the lowest level input that is significant to the fair value measurement.

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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

Cash and cash equivalents, accounts payable, other current liabilities, salaries, wages and related liabilities and estimated third-party settlements: The carrying amount reported in the consolidated balance sheets for cash and cash equivalents, accounts payable, other current liabilities, salaries, wages and related liabilities and estimated third-party settlements approximate fair value.

Long-term debt: The carrying value of MHP's variable rate revenue bonds approximates fair value based upon current traded value. The carrying value of loans payable and capital lease obligations approximates fair value.

7. ENDOWMENT – RESTRICTED NON-EXPENDABLE NET ASSETS

MHP, through the Foundation, has restricted non-expendable net assets. Unless a contributor provides specific instructions, the Foundation's governing board is permitted to expend the net appreciation (realized and unrealized) of the investments in its endowments. When administering its power to spend net appreciation, the governing board is required to consider the Foundation's and supported organization's long- and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions. Any net appreciation that is spent is required to be spent for the purposes designated by the contributor. The Foundation's governing board chooses to spend the investment income (including changes in the value of investments) under the established investment policy.

Restricted non-expendable net assets as of December 31, 2009 and 2008, represent the principal amounts of permanent endowments, restricted to investment in perpetuity. Investment earnings from the Foundation's permanent endowments are expendable to support the programs as established by the contributors.

The following is a summary of the restricted non-expendable net asset as of December 31, 2009 and 2008:

	2009	2008
Compton Endowment	\$ 521,714	\$ 521,714
McFadden Endowment	333,133	333,133
	<u>\$ 854,847</u>	<u>\$ 854,847</u>

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

8. CAPITAL ASSETS

Capital Assets, Net

A summary of property and equipment, including assets under capital leases for 2009 and 2008 follows:

	December 31, 2008	Additions	Disposals	Transfers	December 31, 2009
Land and land improvements	\$ 6,502,797	\$ 604,410	\$ (12,770)	\$ 82,991	\$ 7,177,428
Leasehold improvements	1,352,179	241,800	-0-	1,601	1,595,580
Buildings and improvements	41,700,567	5,039,221	(424,703)	1,362,656	47,677,741
Equipment	30,535,629	2,681,251	(5,270,269)	2,000,729	29,947,340
Construction in progress	2,007,386	2,664,053	-0-	(3,447,977)	1,223,462
Total property and equipment	<u>82,098,558</u>	<u>11,230,735</u>	<u>(5,707,742)</u>	<u>-0-</u>	<u>87,621,551</u>
Less accumulated depreciation					
Land improvements	800,328	184,380	(12,068)	-0-	972,640
Leasehold improvements	430,628	100,059	(101,089)	-0-	429,598
Buildings and improvements	19,489,617	1,550,707	(138,221)	-0-	20,902,103
Equipment	21,252,766	3,074,085	(4,202,044)	-0-	20,124,807
Total accumulated depreciation	<u>41,973,339</u>	<u>4,909,231</u>	<u>(4,453,422)</u>	<u>-0-</u>	<u>42,429,148</u>
Capital assets, net	<u>\$ 40,125,219</u>	<u>\$ 6,321,504</u>	<u>\$ (1,254,320)</u>	<u>\$ -0-</u>	<u>\$ 45,192,403</u>

	December 31, 2007	Additions	Disposals	Transfers	December 31, 2008
Land	\$ 4,937,621	\$ 1,565,176	\$ -0-	\$ -0-	\$ 6,502,797
Land improvements	1,512,838	15,254	(175,913)	-0-	1,352,179
Buildings and improvements	41,302,577	129,567	(14,214)	282,637	41,700,567
Equipment	31,603,741	2,956,199	(4,089,721)	65,410	30,535,629
Construction in progress	3,141	2,352,292	-0-	(348,047)	2,007,386
Total property and equipment	<u>79,359,918</u>	<u>7,018,488</u>	<u>(4,279,848)</u>	<u>-0-</u>	<u>82,098,558</u>
Less accumulated depreciation					
Land improvements	664,686	138,622	(2,980)	-0-	800,328
Leasehold improvements	510,508	96,324	(176,204)	-0-	430,628
Buildings and improvements	18,003,451	1,495,528	(9,362)	-0-	19,489,617
Equipment	21,684,766	3,296,629	(3,728,629)	-0-	21,252,766
Total accumulated depreciation	<u>40,863,411</u>	<u>5,027,103</u>	<u>(3,917,175)</u>	<u>-0-</u>	<u>41,973,339</u>
Capital assets, net	<u>\$ 38,496,507</u>	<u>\$ 1,991,385</u>	<u>\$ (362,673)</u>	<u>\$ -0-</u>	<u>\$ 40,125,219</u>

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Assets Under Capital Leases

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

	2009	2008
Equipment	\$ 309,061	\$ 3,601,605
Less accumulated depreciation	8,275	3,372,327
	<u>\$ 300,786</u>	<u>\$ 229,278</u>

Property Held For Sale

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

9. LONG TERM DEBT

A summary of long term debt as of December 31, 2009 is as follows:

- The \$34,260,000, 2003 IHFFA Adjustable Rate Demand Revenue Bonds were retired during 2009 with a portion of the proceeds from the issuance of the \$30,000,000 Indiana Finance Authority Hospital Revenue Bonds, Series 2009. The Series 2009 Bonds are variable interest rate and mature June 1, 2029. The defeasance of the Series 2003 Bonds resulted in a loss of approximately \$250,000 which is amortized through July 2014.
- On June 23, 2009, the Hospital, the Indiana Finance Authority (Authority) and Regions Bank (Bank) entered into a Bond Purchase Agreement (Agreement) whereby the Bank purchased from the Authority all of the Series 2009 Bonds in a private placement. The Agreement provides that the Bank will hold the Series 2009 Bonds during the Initial Monthly Mode Period which runs through July 2014. During this Initial Monthly Mode Period, the Series 2009 Bonds bear interest at the lesser of 12% per annum or a rate of 59.5% of one month LIBOR plus 1.73% (rate as of December 31, 2009 – 1.87%). At the end of the Initial Monthly Mode Period, the Series 2009 Bonds may be converted to another interest rate mode and remarketed to another bondholder or holders or renewed for another Monthly Mode Period with the Bank. The Series 2009 Bonds could be converted to another interest rate mode to accommodate market conditions at that time. If the Series 2009 Bonds cannot be remarketed at the end of the Initial Monthly Mode Period, the Hospital would be subject to payment of the remaining principal of approximately \$29,678,000 at the end of the Initial Monthly Mode Period. The Series 2009 Bonds are secured ultimately by the gross revenues of the Hospital.

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

- The capital lease obligations with interest of 4.5% executed for property and equipment are due in monthly installments of varying amounts from \$1,881 to \$6,192 including interest, due through July 2012 to August 2014.
- Loans payable of \$2,300,000 with local financial institutions, due in monthly installments with a balloon payment in 2011 at an interest rate of prime as of December 31, 2009 (1.63%), 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 revenue bonds require the Hospital to maintain certain financial ratios. As of December 31, 2009, the Hospital was in compliance with the financial ratios.

The following represents a progression for long term debt for 2009 and 2008:

	December 31, 2008	Additional Borrowings	Payments	December 31, 2009	Current Portion
Revenue bonds					
2003 Bonds	\$ 25,730,000	\$ -0-	\$(25,730,000)	\$ -0-	\$ -0-
2009 Bonds	-0-	30,000,000	(322,000)	29,678,000	731,000
Loans payable					
Capital lease obligations	525,033	309,061	(558,312)	275,782	86,240
Loans payable	2,633,455	-0-	(187,265)	2,446,190	110,928
Total long term debt	\$ 28,888,488	\$ 30,309,061	\$(26,797,577)	\$ 32,399,972	\$ 928,168
	December 31, 2007	Additional Borrowings	Payments	December 31, 2008	Current Portion
Revenue bonds					
2003 Bonds	\$ 26,920,000	\$ -0-	\$ (1,190,000)	\$ 25,730,000	\$ 1,235,000
Loans payable					
Capital lease obligations	776,462	603,394	(854,823)	525,033	326,407
Loans payable	2,765,346	-0-	(131,891)	2,633,455	104,541
Total long term debt	\$ 30,461,808	\$ 603,394	\$ (2,176,714)	\$ 28,888,488	\$ 1,665,948

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Scheduled principal and interest repayments on long term debt and payments on capital lease obligations for the years succeeding December 31, 2009 are as follows:

Years Ending December 31,	Principal	Interest	Interest Rate Swap, Net	Total Payments
2010	\$ 928,168	\$ 637,605	\$ (13,950)	\$ 1,551,823
2011	2,689,093	589,839	(13,950)	3,264,982
2012	885,063	566,799	(13,950)	1,437,912
2013	880,002	547,770	(13,950)	1,413,822
2014	26,633,349	528,537	(13,950)	27,147,936
2015 - 2019	250,363	103,637	-0-	354,000
2020 - 2024	133,934	11,288	-0-	145,222
	<u>\$ 32,399,972</u>	<u>\$ 2,985,475</u>	<u>\$ (69,750)</u>	<u>\$ 35,315,697</u>

The interest rate swap agreements do not affect the obligation of MHP under the indenture to repay principal and interest on the Series 2009 Bonds. However, during the term of the swap agreements, MHP effectively pays a fixed rate on a portion of the debt. A portion of the debt service requirements to maturity for the Series 2009 Bonds are based on that fixed rate. MHP will be exposed to variable rates if the counterparty to the swaps defaults or the swap agreements are terminated. A termination of the swap agreements may also result in MHP making or receiving a termination payment. As of December 31, 2009, the variable rate on the Series 2009 Bonds was higher than the swap agreements fixed rates. Thus, the amounts reported in the interest rate swap, net column of the above table is negative. See the footnote on Derivative Instruments – Interest Rate Swaps for additional information.

10. DERIVATIVE INSTRUMENTS – INTEREST RATE SWAPS

Objectives and Strategies for Using Derivatives

MHP makes limited use of derivative financial instruments for the purpose of managing interest rate risk. In particular, forward interest rate swaps (which are designated as cash flow hedges) are used to manage the risk associated with interest rates on variable-rate borrowing and to lower its overall borrowing costs.

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

During 2009, MHP entered into two interest rate swap agreements with a financial institution for a total principal amount of \$13,000,000. The agreements effectively changes MHP's interest rate exposure on a portion of its issued Indiana Finance Authority Hospital Revenue Bonds, Series 2009 to a fixed 1.605% on \$3,000,000 and 1.810% on \$10,000,000. The agreements expire July 1, 2014. MHP is exposed to credit loss in the event of nonperformance by the other parties to the interest rate swap agreements. However, MHP does not anticipate nonperformance by the counterparties.

The derivatives are not designated as hedging instruments, and are marked-to-market on the consolidated balance sheets at fair value. As of December 31, 2009, the fair value of the total derivative liability is \$116,705. The related loss in the consolidated statements of revenues, expenses and changes in net assets is included as a component of other non-operating expenses for the reporting period. The loss on derivatives amounted to \$116,705 for 2009.

See Fair Value Measurements footnote for additional information.

11. PENSION PLAN

Plan Description

MHP has a defined contribution pension plan as authorized by IC 16-22-3-11. The plan provides retirement, disability and death benefits to plan members and beneficiaries. The plan was established by written agreement between the Board of Trustees and the Plan Administrator. The Plan Administrator issues a publicly available financial report that includes financial statements and required supplementary information of the plan. The report is available by contacting MHP's accounting department.

Funding Policy

The contribution requirements of plan members are established by the written agreement between MHP's Board of Trustees and the plan administrator. The current employer contribution rate is 7% of annual covered payroll. Employer contributions to the plan for 2009 and 2008 were \$1,526,865 and \$1,555,201, respectively. Employees are not permitted to contribute to the plan.

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

12. CONCENTRATIONS OF CREDIT RISK

MHP is located in Shelbyville, Indiana. MHP grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables and revenue from patients and third-party payors as of December 31, 2009 and 2008 was as follows:

	Receivables		Revenues	
	2009	2008	2009	2008
Medicare	26%	26%	42%	44%
Medicaid	7%	8%	14%	13%
Blue Cross	14%	16%	17%	16%
Other third party payors	33%	26%	20%	20%
Self-pay	20%	24%	7%	7%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

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

13. ESTIMATED MALPRACTICE COSTS

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

14. RISK MANAGEMENT

Medical Benefits to Employees and Dependents

MHP is self funded for medical and related health benefits provided to employees and their families. A stop/loss policy through commercial insurance covers individual claims in excess of \$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 \$3,434,812 and \$4,231,163 in 2009 and 2008, respectively.

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

15. 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:

<u>Years Ending December 31,</u>	
2010	\$ 250,000
2011	250,000
2012	250,000
2013	250,000
2014	250,000
Thereafter	<u>3,500,000</u>
	<u><u>\$ 4,750,000</u></u>

SUPPLEMENTARY INFORMATION

MAJOR HEALTH PARTNERS

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2009

ASSETS	Hospital	Major Affiliates	Foundation	MDSolutions	Eliminations	Total
Current assets						
Cash and cash equivalents	\$ 3,874,976	\$ 952,342	\$ -0-	\$ 186,293	\$ -0-	\$ 5,013,611
Investments	32,682	-0-	-0-	-0-	-0-	32,682
Patient accounts receivable, net	8,387,170	1,357,719	-0-	-0-	-0-	9,744,889
Inventory and other current assets	3,668,778	576,531	93,991	124,162	(1,504,889)	2,958,573
Current portion of assets whose use is limited	731,000	-0-	-0-	-0-	-0-	731,000
Total current assets	<u>16,694,606</u>	<u>2,886,592</u>	<u>93,991</u>	<u>310,455</u>	<u>(1,504,889)</u>	<u>18,480,755</u>
Assets whose use is limited						
Internally designated	47,890,147	-0-	2,505,729	-0-	-0-	50,395,876
Held by trustee for debt service and capital	48,049	-0-	-0-	-0-	-0-	48,049
Donor restricted funds	-0-	-0-	868,122	-0-	-0-	868,122
Total assets whose use is limited	<u>47,938,196</u>	<u>-0-</u>	<u>3,373,851</u>	<u>-0-</u>	<u>-0-</u>	<u>51,312,047</u>
Less current portion	(731,000)	-0-	-0-	-0-	-0-	(731,000)
Noncurrent assets whose use is limited	<u>47,207,196</u>	<u>-0-</u>	<u>3,373,851</u>	<u>-0-</u>	<u>-0-</u>	<u>50,581,047</u>
Capital assets, net	30,862,514	12,018,178	22,234	2,289,477	-0-	45,192,403
Property held for sale	4,576,627	-0-	-0-	-0-	-0-	4,576,627
Other assets	<u>4,985,564</u>	<u>828,403</u>	<u>-0-</u>	<u>91,774</u>	<u>(4,334,706)</u>	<u>1,571,035</u>
Total assets	<u>\$ 104,326,507</u>	<u>\$ 15,733,173</u>	<u>\$ 3,490,076</u>	<u>\$ 2,691,706</u>	<u>\$ (5,839,595)</u>	<u>\$ 120,401,867</u>

See report of independent auditors on pages 1 and 2.

MAJOR HEALTH PARTNERS

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2009

LIABILITIES AND NET ASSETS	Hospital	Major Affiliates	Foundation	MDSolutions	Eliminations	Total
Current liabilities						
Accounts payable and accrued expenses	\$ 1,310,620	\$ 1,293,229	\$ 64,291	\$ 334,201	\$ (1,099,742)	\$ 1,902,599
Accrued wages and related liabilities	5,121,588	949,237	6,969	157,392	-0-	6,235,186
Estimated third-party settlements	1,785,000	-0-	-0-	-0-	-0-	1,785,000
Current portion of long-term debt						
Loans payable and capital leases	86,240	29,088	-0-	81,840	-0-	197,168
Revenue bonds payable	731,000	-0-	-0-	-0-	-0-	731,000
Intercompany notes payable	-0-	405,147	-0-	-0-	(405,147)	-0-
Total current liabilities	<u>9,034,448</u>	<u>2,676,701</u>	<u>71,260</u>	<u>573,433</u>	<u>(1,504,889)</u>	<u>10,850,953</u>
Derivative liability	116,705	-0-	-0-	-0-	-0-	116,705
Other liabilities	-0-	418,123	-0-	-0-	-0-	418,123
Long term debt, net of current portion						
Loans payable and capital leases	189,542	525,779	-0-	1,809,483	-0-	2,524,804
Revenue bonds payable	28,947,000	-0-	-0-	-0-	-0-	28,947,000
Intercompany notes payable	-0-	3,637,025	-0-	-0-	(3,637,025)	-0-
Total long term debt	<u>29,136,542</u>	<u>4,162,804</u>	<u>-0-</u>	<u>1,809,483</u>	<u>(3,637,025)</u>	<u>31,471,804</u>
Total liabilities	38,287,695	7,257,628	71,260	2,382,916	(5,141,914)	42,857,585
Net assets						
Invested in capital assets net of related debt	908,732	7,421,139	22,234	398,154	4,042,172	12,792,431
Restricted						
Expendable - other specific purpose	-0-	-0-	13,275	-0-	-0-	13,275
Nonexpendable	-0-	-0-	854,847	-0-	-0-	854,847
Unrestricted	65,130,080	1,054,406	2,528,460	(89,364)	(4,739,853)	63,883,729
Total net assets	<u>66,038,812</u>	<u>8,475,545</u>	<u>3,418,816</u>	<u>308,790</u>	<u>(697,681)</u>	<u>77,544,282</u>
Total liabilities and net assets	<u>\$ 104,326,507</u>	<u>\$ 15,733,173</u>	<u>\$ 3,490,076</u>	<u>\$ 2,691,706</u>	<u>\$ (5,839,595)</u>	<u>\$ 120,401,867</u>

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MAJOR HEALTH PARTNERS

CONSOLIDATING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2009

	Hospital	Major Affiliates	Foundation	MDSolutions	Eliminations	Total
Revenue						
Net patient service revenue	\$ 71,405,840	\$ 14,022,920	\$ -0-	\$ -0-	\$ (31,869)	\$ 85,396,891
Other	777,990	344,297	325,881	1,163,381	(1,563,352)	1,048,197
Total revenue	<u>72,183,830</u>	<u>14,367,217</u>	<u>325,881</u>	<u>1,163,381</u>	<u>(1,595,221)</u>	<u>86,445,088</u>
Expenses						
Salaries and wages	26,383,219	9,694,008	66,675	324,831	-0-	36,468,733
Employee benefits	6,803,657	2,463,943	5,331	159,524	(380)	9,432,075
Medical professional fees	5,762,604	800	-0-	-0-	-0-	5,763,404
Supplies	10,092,371	3,159,917	-0-	17,576	-0-	13,269,864
Purchased services	5,002,630	1,985,126	-0-	230,220	(1,087,233)	6,130,743
Repairs and maintenance	1,622,182	363,428	-0-	91,187	(331,192)	1,745,605
Utilities	1,058,338	282,926	-0-	16,047	-0-	1,357,311
Insurance	387,589	348,550	-0-	275	-0-	736,414
Depreciation and amortization	4,169,850	617,104	4,880	148,096	-0-	4,939,930
Other expenses	1,900,833	201,278	154,844	181,972	(517,960)	1,920,967
Total expenses	<u>63,183,273</u>	<u>19,117,080</u>	<u>231,730</u>	<u>1,169,728</u>	<u>(1,936,765)</u>	<u>81,765,046</u>
Operating income (loss)	9,000,557	(4,749,863)	94,151	(6,347)	341,544	4,680,042
Nonoperating revenues (expenses)						
Investment income	3,386,531	720	586,557	-0-	(228,750)	3,745,058
Interest expense	(896,275)	(272,611)	-0-	(34,745)	228,750	(974,881)
Other nonoperating revenues (expenses)	407,821	(25,002)	-0-	(99,112)	(296,008)	(12,301)
Nonoperating revenues (expenses), net	<u>2,898,077</u>	<u>(296,893)</u>	<u>586,557</u>	<u>(133,857)</u>	<u>(296,008)</u>	<u>2,757,876</u>
Excess (deficit) of revenues over expenses	11,898,634	(5,046,756)	680,708	(140,204)	45,536	7,437,918
Transfers (to) from affiliates	(9,287,934)	9,287,934	-0-	78,831	(78,831)	-0-
Change in net assets	2,610,700	4,241,178	680,708	(61,373)	(33,295)	7,437,918
Net assets						
Beginning of year	63,428,112	4,234,367	2,738,108	370,163	(664,386)	70,106,364
End of year	<u>\$ 66,038,812</u>	<u>\$ 8,475,545</u>	<u>\$ 3,418,816</u>	<u>\$ 308,790</u>	<u>\$ (697,681)</u>	<u>\$ 77,544,282</u>

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MAJOR HEALTH PARTNERS

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2008

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

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MAJOR HEALTH PARTNERS

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2008

LIABILITIES AND NET ASSETS	Hospital	Major Affiliates	Foundation	MDSolutions	Eliminations	Total
Current liabilities						
Accounts payable and accrued expenses	\$ 1,492,668	\$ 747,450	\$ 183,525	\$ 339,961	\$ (592,116)	\$ 2,171,488
Accrued wages and related liabilities	5,651,256	854,406	4,920	146,601	-0-	6,657,183
Estimated third-party settlements	900,000	-0-	-0-	-0-	-0-	900,000
Current portion of long-term debt						
Loans payable and capital leases	326,407	26,939	-0-	77,602	-0-	430,948
Revenue bonds payable	1,235,000	-0-	-0-	-0-	-0-	1,235,000
Intercompany notes payable	-0-	383,972	-0-	-0-	(383,972)	-0-
Total current liabilities	<u>9,605,331</u>	<u>2,012,767</u>	<u>188,445</u>	<u>564,164</u>	<u>(976,088)</u>	<u>11,394,619</u>
Other liabilities	-0-	198,967	-0-	-0-	-0-	198,967
Long term debt, net of current portion						
Loans payable and capital leases	198,626	554,867	-0-	1,974,047	-0-	2,727,540
Revenue bonds payable	24,495,000	-0-	-0-	-0-	-0-	24,495,000
Intercompany notes payable	-0-	4,042,171	-0-	-0-	(4,042,171)	-0-
Total long term debt	<u>24,693,626</u>	<u>4,597,038</u>	<u>-0-</u>	<u>1,974,047</u>	<u>(4,042,171)</u>	<u>27,222,540</u>
Total liabilities	34,298,957	6,808,772	188,445	2,538,211	(5,018,259)	38,816,126
Net assets						
Invested in capital assets net of related debt	3,793,451	2,622,060	7,373	387,704	4,426,143	11,236,731
Restricted						
Expendable - other specific purpose	189,476	-0-	52,450	-0-	-0-	241,926
Nonexpendable	-0-	-0-	854,847	-0-	-0-	854,847
Unrestricted	59,445,185	1,612,307	1,823,438	(17,541)	(5,090,529)	57,772,860
Total net assets	<u>63,428,112</u>	<u>4,234,367</u>	<u>2,738,108</u>	<u>370,163</u>	<u>(664,386)</u>	<u>70,106,364</u>
Total liabilities and net assets	<u>\$ 97,727,069</u>	<u>\$ 11,043,139</u>	<u>\$ 2,926,553</u>	<u>\$ 2,908,374</u>	<u>\$ (5,682,645)</u>	<u>\$ 108,922,490</u>

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MAJOR HEALTH PARTNERS

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

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

See report of independent auditors on pages 1 and 2.