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May 21, 2012

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, 2011 to December 31, 2011. 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, 2011 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

MAJOR HEALTH PARTNERS

CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2011 AND 2010

CPAs / ADVISORS

blue

MAJOR HEALTH PARTNERS

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blue

Blue & Co., LLC / One American Square, Suite 2200 / Box 82062 / Indianapolis, IN 46282
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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, 2011 and 2010 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, 2011 and 2010, and its consolidated results of 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.

Board of Trustees
Major Health Partners
Shelbyville, Indiana

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information listed in the accompanying table of contents is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, changes in net assets, and cash flows of the individual entities, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Blue & Co., LLC

April 19, 2012

REQUIRED SUPPLEMENTARY INFORMATION

This section of Major Health Partners' (MHP) annual consolidated financial statements presents background information and management's discussion and analysis (MD&A) of MHP's financial performance. This MD&A does include a discussion and analysis of the activities and results of MHP which is the consolidated entity that consists of Major Hospital (the Hospital) and its blended component units, Major Affiliates, Inc., 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 2011 of approximately $3.9 million compared to a positive change in net assets of approximately $6.4 million in 2010, representing a decrease of approximately $2.5 million in comparison to the 2010 results.

- MHP spent $2.9 million on equipment and capital projects in 2011 net of disposals. Major capital equipment expenditures include radiology imaging software, digital radiographic room, radiographic/fluoroscopic imaging system, OB monitoring and documentation upgrade, lab PCR testing equipment, surgical resectoscope instruments, surgery table, and central sterile instrument cleaning equipment. Capital expenditures related to information technology include a data repository/reporting system, backup servers, and an offsite disaster recovery and storage system. The Hospital also spent money for ongoing building maintenance and improvements, including a chiller 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.

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

The balance sheet and the statement of revenues, expenses and changes in net assets report information about MHP's resources and its activities. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These statements report MHP's net 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: Balance Sheets

	2011	2010	2009
Assets			
Current assets	$ 27,654,676	$ 19,243,479	$ 18,480,755
Assets whose use is limited	52,384,336	56,157,234	50,581,047
Capital assets, net	42,730,261	44,421,983	45,192,403
Other assets	7,085,238	6,335,212	6,147,662
Deferred outflows	551,660	485,000	-0-
Total assets and deferred outflows	$ 130,406,171	$ 126,642,908	$ 120,401,867
Liabilities			
Current liabilities	$ 12,064,517	$ 11,163,196	$ 10,850,953
Other liabilities	981,136	1,067,683	534,828
Long-term debt	29,424,123	30,418,945	31,471,804
Total liabilities	42,469,776	42,649,824	42,857,585
Net Assets			
Invested in capital assets, net of related debt	12,336,598	13,032,658	12,792,431
Restricted	950,005	983,799	868,122
Unrestricted	74,649,792	69,976,627	63,883,729
Total net assets	87,936,395	83,993,084	77,544,282
Total liabilities and net assets	$ 130,406,171	$ 126,642,908	$ 120,401,867

The significant changes in Major Health Partners' assets resulted from an increase in current assets of approximately $8.4 million and a decrease in assets whose use is limited of approximately $3.8 million. The increase in current assets is due to the increase in cash and cash equivalents that resulted from operations and the transfer of funds from assets whose use is limited. Total liabilities remained consistent in 2011 in comparison to 2010.

OPERATING RESULTS AND CHANGES IN NET ASSETS AND CASH FLOWS

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

	2011	2010	2009
Revenues			
Net patient service revenue	$ 93,259,735	$ 88,996,560	$ 85,396,891
Other operating revenue	3,378,258	1,272,450	1,048,197
Total revenues	96,637,993	90,269,010	86,445,088
Expenses			
Salaries and benefits	51,890,722	47,641,589	45,900,808
Supplies	15,515,531	14,657,881	13,269,864
Depreciation and amortization	5,171,449	5,075,381	4,939,930
Other operating expenses	20,899,516	19,732,081	17,654,444
Total expenses	93,477,218	87,106,932	81,765,046
Operating income	3,160,775	3,162,078	4,680,042
Non-operating revenue (expense), net	782,536	3,286,724	2,757,876
Change in net assets	3,943,311	6,448,802	7,437,918
Net assets			
Beginning of year	83,993,084	77,544,282	70,106,364
End of year	$ 87,936,395	$ 83,993,084	$ 77,544,282

SOURCES OF REVENUE

During 2011, 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 57% of MHP's gross revenues in 2011 but only 40% of MHP's net patient service revenues.

Major Health Partners' service mix remained consistent between 2011 and 2010. Inpatient revenue accounted for 25% and 26% of gross revenue in 2011 and 2010, respectively. Outpatient revenue was 75% and 74% of total gross revenue in 2011 and 2010, respectively.

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

	2011	2010	2009
Medicare	42%	41%	42%
Medicaid	15%	15%	14%
Anthem	16%	15%	17%
Commercial	19%	21%	20%
Self Pay	8%	8%	7%
	100%	100%	100%

OPERATING AND FINANCIAL PERFORMANCE

Major Health Partners had a gain from operations of $3.2 million in 2011, which resulted in a return on equity of 3.6% compared to a gain from operations of $3.2 million in 2010 and return on equity of 3.8%.

This following section highlights the major financial factors for 2011 for MHP:

- The Hospital's discharges decreased from 2,701 in 2010 to 2,670 in 2011. The Hospital's adjusted patient days increased to 33,468 in 2011 compared to 32,494 in 2010. The Hospital remained profitable from operations as a result of these increases and pricing changes.

- In 2011 and 2010, Major Hospital received $2.3 million and $2.5 million, respectively, from the State for the Indiana Medicaid Municipal Hospital Payment Adjustment. These funds are treated as income when received and have a direct impact to net patient services revenue. Even though the Hospital received nearly the same State payment, inpatient volumes were relatively flat, the 6% rate increase and continued growth in outpatient business contributed to the overall net patient revenue increase of $4.2 million.

- Major Affiliates' total operating revenue increased $2.2 million or 15.7% from year 2010 to year 2011 for both its' patient services and office rental. This is a result of increased pharmacy revenues, new physician practices and a general increase in volumes of the physician practices.

- Other Operating Revenue for MHP increased by $2.1 million in 2011 mainly due to revenue received for EHR meaningful use initiatives.

- Operating expenses increased by $6.4 million in 2011. This increase is result of an increase in salaries, wages and benefits and an overall increase in expenses due to new physician practices and growth in existing outpatient services.

- Salaries and wages and benefits expense increased by $4.2 million or 8.9%. Positions were added for new physician practices, nursing home pharmacy expansion, and service line growth at the hospital. The majority of the increase in benefits is due to higher medical insurance expense. Major Hospital has a self-funded insurance program which can cause expenses to fluctuate from year to year based on actual claims paid. In 2011, the Hospital experienced higher claims than prior years.

- Medical Professional fees for the Hospital remained consistent between 2011 and 2010.

- Supplies increased by $858,000 million or 5.9% in 2011. This increase is the result of inflationary adjustments passed along from vendors, growth in surgery, and new physician practices.

- Purchased services increased $767,000 or 11.7% in 2011. The majority of this increase relates to the Hospital and is the result of additional legal and consulting expense for strategic and revenue cycle initiatives. MHP also experienced higher purchased service fees in outpatient areas proportionate to growth in those areas.

Table 3: Statements of Cash Flows

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

	2011	2010	2009
Cash flows from			
Operating activities	$ 7,599,232	$ 8,020,097	$ 8,569,666
Capital and related financing	(5,576,863)	(6,166,396)	(8,766,403)
Investing	3,777,517	1,843,706	(4,956,712)
Change in cash and cash equivalents	$ 5,799,886	$ 3,697,407	$ (5,153,449)

Cash and cash equivalents increased by $5.8 million in 2011 compared to an increase of $3.7 million in 2010. The majority of the 2011 increase relates to operating cash flows and the classification of assets whose use is limited and decreased spending on property and equipment.

CAPITAL ASSETS

During 2011, Major Health Partners invested $3.7 million in capital assets along with retirements and transfers of $739,000. The change in capital assets is outlined in the following table:

	2011	2010	2009
Land and land improvements	$ 8,290,857	$ 7,447,161	$ 7,177,428
Leasehold improvements	1,606,997	1,593,517	1,595,580
Buildings and improvements	48,969,315	48,790,571	47,677,741
Equipment	34,956,167	32,587,263	29,947,340
Construction in progress	292,231	777,983	1,223,462
Total property and equipment	94,115,567	91,196,495	87,621,551
Less accumulated depreciation	51,385,306	46,774,512	42,429,148
Capital assets, net	$ 42,730,261	$ 44,421,983	$ 45,192,403

Capital assets have decreased due to higher depreciation expense for facilities and equipment placed in service in prior years. Assets purchased during 2011 did not exceed depreciation expense for the year. As previously mentioned MHP strives to meet the needs of the community and provide high quality care by adding new equipment and facilities or by replacing or upgrading equipment as it becomes obsolete.

DEBT

MHP has debt outstanding in the Indiana Finance Authority Hospital Revenue 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 health care industry's and MHP's operating margins will continue to be under pressure because of changes in payor mix and growth in operating expenses that are in excess of the increases in contractually arranged and legally established payments received for services rendered. Another factor that poses a challenge to management is the increasing competitive market for the delivery of health care services. The ongoing challenge facing MHP is to continue to provide quality patient care in this competitive environment, and to attain reasonable rates for the services that are provided while managing costs. The most significant cost factor affecting MHP is the increases in labor costs due to the increasing competition for quality health care workers.

CONTACTING MAJOR HEALTH PARTNERS' FINANCIAL MANAGEMENT

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

MAJOR HEALTH PARTNERS

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2011 AND 2010

ASSETS

	2011	2010
Current assets		
Cash and cash equivalents	$ 11,635,244	$ 5,482,174
Patient accounts receivable, net of allowance for uncollectible accounts of $3,428,852 in 2011 and $3,592,517 in 2010	10,973,621	9,497,118
Inventory and other current assets	4,257,811	3,506,187
Current portion of assets whose use is limited	788,000	758,000
Total current assets	27,654,676	19,243,479
Assets whose use is limited		
Internally designated	52,222,331	55,931,435
Donor restricted funds	950,005	983,799
Total assets whose use is limited	53,172,336	56,915,234
Less current portion	788,000	758,000
Noncurrent assets whose use is limited	52,384,336	56,157,234
Capital assets, net	42,730,261	44,421,983
Property held for sale	4,576,627	4,576,627
Other assets, net	2,508,611	1,758,585
Deferred outflows	551,660	485,000
Total assets and deferred outflows	$ 130,406,171	$ 126,642,908

See accompanying notes to consolidated financial statements.

MAJOR HEALTH PARTNERS

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2011 AND 2010

LIABILITIES AND NET ASSETS

	2011	2010
Current liabilities		
Accounts payable and accrued expenses	$ 2,309,194	$ 2,260,242
Accrued wages and related liabilities	7,460,783	6,632,574
Estimated third-party settlements	1,325,000	1,300,000
Current portion of long term debt		
Loans payable and capital leases	181,540	212,380
Revenue bonds payable	788,000	758,000
Total current liabilities	12,064,517	11,163,196
Derivative liability	551,660	485,000
Other liabilities	429,476	582,683
Long term debt, net of current portion		
Loans payable and capital leases	2,023,123	2,229,945
Revenue bonds payable	27,401,000	28,189,000
Total long term debt	29,424,123	30,418,945
Total liabilities	42,469,776	42,649,824
Net assets		
Invested in capital assets, net of related debt	12,336,598	13,032,658
Restricted		
Expendable - other specific purpose	95,158	128,952
Non-expendable	854,847	854,847
Total restricted net assets	13,286,603	14,016,457
Unrestricted	74,649,792	69,976,627
Total net assets	87,936,395	83,993,084
Total liabilities and net assets	$ 130,406,171	$ 126,642,908

See accompanying notes to consolidated financial statements.

MAJOR HEALTH PARTNERS

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
Revenues		
Net patient service revenue	$ 93,259,735	$ 88,996,560
Other revenue	3,378,258	1,272,450
Total revenues	96,637,993	90,269,010
Expenses		
Salaries and wages	40,064,606	37,469,821
Employee benefits	11,826,116	10,171,768
Medical professional fees	5,598,323	5,754,867
Supplies	15,515,531	14,657,881
Purchased services	7,308,525	6,541,755
Equipment rental and maintenance	3,025,725	3,058,938
Utilities	1,397,516	1,433,393
Insurance	635,053	703,748
Depreciation and amortization	5,171,449	5,075,381
Other expenses	2,934,374	2,239,380
Total expenses	93,477,218	87,106,932
Operating income	3,160,775	3,162,078
Nonoperating revenues (expenses)		
Investment income	1,428,424	3,997,676
Interest expense	(892,261)	(874,057)
Other nonoperating revenue	246,373	163,105
Nonoperating revenues (expenses), net	782,536	3,286,724
Change in net assets	3,943,311	6,448,802
Net assets		
Beginning of year	83,993,084	77,544,282
End of year	$ 87,936,395	$ 83,993,084

See accompanying notes to consolidated financial statements.

MAJOR HEALTH PARTNERS

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
Operating activities		
Cash received from patient services	$ 91,808,232	$ 88,759,331
Cash paid for salaries, wages and benefits	(51,062,513)	(47,244,201)
Cash paid to vendors and suppliers	(37,149,014)	(34,534,468)
Other receipts, net	4,002,527	1,039,435
Net cash flows from operating activities	7,599,232	8,020,097
Capital and related financing activities		
Principal payments on long term debt	(995,662)	(1,010,647)
Interest on long term debt	(892,261)	(874,057)
Purchases of property and equipment	(3,657,645)	(4,327,157)
Loss (gain) on disposal of property and equipment	(31,295)	45,465
Net cash flows from capital and related financing activities	(5,576,863)	(6,166,396)
Investing activities		
Purchase of other assets, net	(1,343,000)	-0-
Investment income	1,428,424	3,997,676
Other investing activities	-0-	32,682
Other nonoperating expenses	246,373	(321,895)
Purchase of investments	(12,988,224)	(10,759,648)
Proceeds from sale of investments	16,433,944	8,894,891
Net cash flows from investing activities	3,777,517	1,843,706
Net change in cash and cash equivalents	5,799,886	3,697,407
Cash and cash equivalents:		
Beginning of year	10,894,127	7,196,720
End of year	$ 16,694,013	$ 10,894,127
Reconciliation of cash and cash equivalents to the consolidated balance sheet		
Cash and cash equivalents		
In current assets	$ 11,635,244	$ 5,482,174
In assets whose use is limited - internally designated	5,030,076	5,385,193
In assets whose use is limited - donor restricted	28,693	26,760
Total cash and cash equivalents	$ 16,694,013	$ 10,894,127

See accompanying notes to consolidated financial statements.

MAJOR HEALTH PARTNERS

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
Reconciliation of operating income		
to net cash from operating activities		
Operating income	$ 3,160,775	$ 3,162,078
Adjustments to reconcile operating income		
to net cash flows from operating activities		
Depreciation and amortization	5,171,449	5,075,381
Bad debts	8,164,078	8,254,911
Changes in operating assets and liabilities		
Patient accounts receivable	(9,640,581)	(8,007,140)
Inventory and other current assets	(751,624)	(547,614)
Other assets	592,974	(187,550)
Accounts payable and accrued expenses	48,952	357,643
Accrued wages and related liabilities	828,209	397,388
Estimated third-party settlements	25,000	(485,000)
Net cash flows from operating activities	$ 7,599,232	$ 8,020,097
Non cash investing and financing activities		
Interest rate swap and deferred outflows	$ 66,660	$ 485,000

See accompanying notes to consolidated financial statements.

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

Major Affiliates includes Shelby Surgical Associates, LLC, (SSA) which was a physician surgical practice that was a wholly owned subsidiary of Major Affiliates. During 2011, SSA was dissolved. Major Affiliates' primary purpose is to further the mission of Major Hospital through recruiting physicians to the Shelbyville region and leasing office space to physicians.

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, and Dr. Bala and Associates, LLC (Bala). MedWorks also owns 70% of Onsite Solutions, LLC. These practices provide health care services to the community. These entities have been consolidated for financial statement presentation. During 2011, the Hospital purchased a physician practice and subsequently organized a new LLC, Bala, as a subsidiary of MedWorks.

The non-controlling interest of Onsite Solutions, LLC is not significant and is included in unrestricted net assets for financial statement reporting purposes.

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.

Cash and Cash Equivalents

Cash and cash equivalents include deposits and investments in highly liquid debt instruments with an original maturity date of 90 days or less from the date of purchase. MHP maintains its cash in accounts, which at times, may exceed federally insured limits. MHP has not experienced any losses in such accounts. MHP believes it is not exposed to any significant credit risk on cash and cash equivalents.

Assets Whose Use is Limited

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

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

Patient Accounts Receivable and Patient Service Revenues

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

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

These programs have audited the year-end cost report filed with the Medicare program through December 31, 2007 with differences reflected as deductions from revenue in 2011. Amounts for unresolved cost reports for 2008 through 2011 are reflected in estimated third-party settlements on the consolidated balance sheets. MHP did not recognize any change in net assets in 2011 and 2010, due to the differences between original estimates and subsequent revisions for the final settlement of cost reports.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying consolidated financial statements.

Accounts receivable for patients, insurance companies, and governmental agencies are based on gross charges less an allowance for contractual adjustments and interim payment advances. An allowance for contractual adjustments and interim payment advances is based on expected payment rates from payors based on current reimbursement methodologies. This amount also includes amounts received as interim payments against unpaid claims by certain payors.

An allowance for uncollectible accounts is established on an aggregate basis by using historical write-off rate factors applied to unpaid accounts based on aging. Loss rate factors are based on historical loss experience and adjusted for economic conditions and other trends affecting MHP's ability to collect outstanding amounts. Uncollectible amounts are written off against the allowance for doubtful accounts in the period they are determined to be uncollectible.

Grants and Contributions

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

Endowments

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

Charity Care

MHP provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy on a sliding scale on the basis of financial need. Because MHP does not pursue collection of approved charity care balances, the charges are not reflected in net revenue. Rather, charges approved for charity are posted to gross revenue and subsequently written off as a charity adjustment before the resulting net patient service revenue.

Of MHP's total expenses reported (approximately $93,477,00 and $87,107,000 during 2011 and 2010, respectively), an estimated $2,746,000 and $2,449,000 arose from providing services to charity patients during 2011 and 2010, respectively. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total expenses divided by gross patient service revenue.

Inventory

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

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:

Description	Range of Useful Lives
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.

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. No amounts were capitalized as of December 31, 2011 and 2010.

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 approximately $244,000 as of December 31, 2011 and 2010. Issue costs are amortized utilizing the straight-line method. Accumulated amortization as of December 31, 2011 and 2010 was approximately $122,000 and $73,000, respectively. Bond issue costs are recorded in other assets on the consolidated balance sheets. Annual amortization expense related to bond issue costs is approximately $49,000.

Goodwill

During 2011, MHP acquired 100% of Dr. Bala and Associates through an asset purchase. The acquisition price was approximately $1,500,000. MHP recorded goodwill of approximately $1,100,000 related to this acquisition. The remainder of the acquisition price was allocated at fair value to patient accounts receivable, inventory, capital assets and identifiable intangibles. Goodwill is included within other assets on the consolidated balance sheets and is amortized over an estimated useful life of approximately 10 years. Annual amortization expense related to goodwill is approximately $100,000.

Hedge Accounting

During 2010, MHP adopted the requirements of GASB No. 53, Accounting and Financial Reporting for Derivative Instruments. MHP is a party to interest rate swap agreements which are derivative instruments. The guidance requires governmental entities to evaluate each derivative instrument to determine whether the instrument is an effective hedge.

For those instruments deemed to be an effective hedge, governmental entities are required to practice hedge accounting and the instrument continues to be reevaluated at the end of each future reporting period. Under hedge accounting, the fair value of the instrument is recorded on the consolidated balance sheet with the offsetting entry to deferred outflows or deferred inflows, which also reported on the consolidated balance sheet.

For those instruments deemed to be an ineffective hedge, governmental entities are required to practice investment accounting and the instruments are not evaluated in future reporting periods. Once deemed ineffective, the instrument is considered ineffective for the remainder of its term. Under investment accounting, the fair value of the instrument is recorded on the consolidated balance sheets with the offsetting entry posted to investment income.

MHP’s interest rate swap agreements were determined to be effective hedges as of December 31, 2011 and 2010.

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). As such, the Hospital is generally exempt from income taxes. No income tax filings are required of the Hospital as it is a governmental instrumentality.

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

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. MDSolutions has filed its federal and state income tax returns for periods through December 31, 2010. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

MedWorks, Inc. is a corporation subject to Federal and state income taxes. Income taxes for these entities are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due plus deferred taxes. However, the effects of recording a deferred tax provision have been deemed immaterial and have not been recorded in the accompanying consolidated financial statements.

The remaining consolidated subsidiaries of Major Affiliates, Inc. and MedWorks, Inc. are organized as limited liability companies, whereby net taxable income is taxed directly to the members of the limited liability companies. Thus, the consolidated financial statements do not include any provision for Federal or State income taxes related to these entities.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by MHP (and their affiliates) and recognize a tax liability if MHP has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities.

Management has analyzed the tax positions taken by MHP and has concluded that as of December 31, 2011 and 2010, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements. MHP is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

These entities have filed their federal and state income tax returns for periods through December 31, 2010. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

Compensated Absences

MHP's policy on compensated absences (which include vacation, sick leave and holidays) allows full time employees and regular part time employees to accrue days off, to a maximum of 372 hours. Compensated absences are accrued when incurred and reported as a liability on the consolidated balance sheet.

Advertising

MHP's policy is to expense advertising costs when the advertising first takes place. Advertising expense was $209,000 and $176,000 for 2011 and 2010, respectively.

Electronic Health Records (EHR) Incentive Payments

MHP receives EHR incentive payments under the Medicare and Medicaid programs. To qualify for the EHR incentive payments, MHP must meet "meaningful use" criteria that become more stringent over time. MHP periodically submits and attests to its use of certified EHR technology, satisfaction of meaningful use objectives, and various patient data. These submissions generally include performance measures for each annual EHR reporting period (Federal fiscal year ending September 30th). The related EHR incentive payments are paid out over a four year transition schedule and are based upon data that is captured in MHP's cost reports. The payment calculation is based upon an initial amount as adjusted for discharges, Medicare and Medicaid utilization using inpatient days multiplied by a factor of total charges excluding charity care to total charges, and a transitional factor that ranges from 100% in first payment year and thereby decreasing by 25% each payment year until it is completely phased out in the fifth year.

MHP recognizes EHR incentive payments as revenue when there is reasonable assurance that MHP will comply with the conditions of the meaningful use objectives and any other specific contract requirements. In addition, the financial statement effects of the revenue must be both recognizable and measurable. During 2011 and 2010, MHP recognized approximately $1,700,000 and $-0-, respectively, in EHR incentive payments as other revenue using the ratable recognition method. Under the ratable recognition method, MHP recognizes revenue ratably over the entire EHR reporting period when it is reasonably assured at the outset of the EHR reporting period that it will comply with the minimum requirements of the program.

EHR incentive revenue is included in other revenue in the consolidated statement of revenues, expenses and changes in net assets. EHR incentive income recognized is based on management's estimate and amounts are subject to change, with such changes impacting operations in the period the changes occur.

Receipt of these funds is subject to the fulfillment of certain obligations by MHP as prescribed by the programs, subject to future audits and may be subject to repayment upon a determination of noncompliance.

Litigation

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

Risk Management

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

Reclassifications

Certain amounts in the prior year consolidated financial statements have been reclassified for comparative purposes to conform to the current year presentation. The reclassifications had no effect on the previously reported consolidated net assets and consolidated change in net assets.

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 19, 2012.

2. NET PATIENT SERVICE REVENUE

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

Medicare

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

Medicaid

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

MHP is eligible for the Indiana Medicaid Supplemental programs including Medicaid Disproportionate Share Hospital and Municipal Upper Payment Limit programs. MHP recognized reimbursement from these programs within net patient revenue of approximately $2,300,000 and $2,500,000 for 2011 and 2010, 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.

The following is a summary of net patient service revenue for 2011 and 2010:

	2011	2010
Patient service revenue		
Inpatient	$ 57,092,417	$ 54,929,798
Outpatient	174,329,084	156,041,311
Gross patient service revenue	231,421,501	210,971,109
Deductions from revenue		
Contractual allowances	123,198,681	107,788,847
Charity care	6,799,007	5,930,791
Bad debts	8,164,078	8,254,911
Total deductions from revenue	138,161,766	121,974,549
Net patient service revenue	$ 93,259,735	$ 88,996,560

3. ASSETS WHOSE USE IS LIMITED

The classification “Assets whose use is limited” includes:

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

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:

	2011	2010
Internally designated		
Cash and cash equivalents	$ 5,030,076	$ 5,385,193
Certificates of deposit	50,000	7,224,857
US Government securities	21,008,355	20,775,460
Mutual funds	24,439,341	20,785,269
Corporate equity securities	1,451,989	1,496,545
Corporate debt securities	242,570	264,111
Total internally designated	52,222,331	55,931,435
Donor restricted		
Cash and cash equivalents	28,693	26,760
US Government securities	64,540	49,742
Mutual funds	326,188	333,155
Corporate equity securities	368,401	404,899
Corporate debt securities	162,183	169,243
Total donor restricted	950,005	983,799
Total assets whose use is limited	$ 53,172,336	$ 56,915,234

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

4. DEPOSITS AND INVESTMENTS

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

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

MHP’s investments generally are reported at fair value, as discussed in Note 1. As of December 31, 2011 and 2010, 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, 2011				
	Investment Maturities (in years)				
	Carrying Amount	Less than 1	1-5	6-10	More than 10
US Government securities	$ 21,072,895	$ 56,605	12,140,790	5,385,269	3,490,231
Certificates of deposit	50,000	50,000	-0-	-0-	-0-
Mutual funds	24,765,529	24,765,529	-0-	-0-	-0-
Corporate equity securities	1,820,390	1,820,390	-0-	-0-	-0-
Corporate debt securities	404,753	61,696	211,111	113,313	18,633
	$ 48,113,567	$ 26,754,220	$ 12,351,901	$ 5,498,582	$ 3,508,864

	December 31, 2010				
	Investment Maturities (in years)				
	Carrying Amount	Less than 1	1-5	6-10	More than 10
US Government securities	$ 20,825,202	$ -0-	$ 12,921,550	$ 5,149,004	$ 2,754,648
Certificates of deposit	7,224,857	7,224,857	-0-	-0-	-0-
Mutual funds	21,118,424	21,118,424	-0-	-0-	-0-
Corporate equity securities	1,901,444	1,901,444	-0-	-0-	-0-
Corporate debt securities	433,354	73,911	217,299	121,227	20,917
	$ 51,503,281	$ 30,318,636	$ 13,138,849	$ 5,270,231	$ 2,775,565

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

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

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

Deposits and investments consist of the following as of December 31, 2011 and 2010:

	2011	2010
Carrying amount		
Deposits	$ 16,694,013	$ 10,894,127
Investments	48,113,567	51,503,281
	$ 64,807,580	$ 62,397,408
Included in the balance sheet captions		
Cash and cash equivalents	$ 11,635,244	$ 5,482,174
Internally designated	52,222,331	55,931,435
Restricted funds	950,005	983,799
	$ 64,807,580	$ 62,397,408

5. FAIR VALUE MEASUREMENTS

During 2011, MHP changed its accounting policies to expand the level of detail provided on assets whose use is limited by disaggregating mutual funds by investment objective, corporate equity securities by style and corporate debt securities by industry. The change was made to adopt Financial Accounting Standards Board's Accounting Standards Update No. 2010-06, Fair Value Measurements and Disclosures (Topic 820) - Improving Disclosures about Fair Value Measurements. Accordingly, the accounting change has been retrospectively applied to prior periods presented as if the policy had always been used. MHP's assets whose is limited are reported at fair value in the accompanying consolidated balance sheets.

Fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction value hierarchy, which requires an entity to maximize the use of observable inputs when measuring fair value.

The following provides a description of the three levels of inputs that may be used to measure fair value under the standard, the types of MHP's assets whose is limited that fall under each category and the valuation methodologies used to measure these investments at fair value.

Level 1 Fair Value Measurements

Inputs to the valuation methodology are quoted prices available in the active markets for identical investments as of the reporting date.

The fair value of US Government securities and corporate equity securities is based on the closing price reported in the active market in which the individual security is traded.

The fair value of mutual funds is based on quoted net asset values of the shares held by MHP at year-end. The net asset value is based on the value of the underlying assets owned by the fund, minus its liabilities and then divided by the number of shares outstanding. The net asset value is quoted in an active market.

Level 2 Fair Value Measurements

Inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date and fair value can be determined through the use of models or other valuation methodologies.

The fair value of US Government securities and corporate debt securities is generally based on the closing price reported in the active market in which the bond is traded. Some corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks.

The fair value of the derivative is based on expected cash flows over the life of the trade.

Level 3 Fair Value Measurements

Inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability and the reporting entity makes estimates and assumptions related to the pricing of the asset or liability including assumptions regarding risk.

The preceding methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values.

Furthermore, although MHP 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 fair value measurement at the reporting date.

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2011 are as follows:

	December 31, 2011			
	Total	Level 1	Level 2	Level 3
Assets				
Assets whose use is limited				
US Government securities				
US treasury notes	$ 9,264,888	$ 9,264,888	$ -0-	$ -0-
FNMA	5,281,847	-0-	5,281,847	-0-
Federal home loan bank	2,274,185	-0-	2,274,185	-0-
Mortgage pass through pools	4,251,975	-0-	4,251,975	-0-
Total US Government securities	21,072,895	9,264,888	11,808,007	-0-
Mutual funds				
Fixed income	9,102,874	9,102,874	-0-	-0-
Large cap blended	5,859,149	5,859,149	-0-	-0-
Small cap blended	1,443,966	1,443,966	-0-	-0-
Large cap value	1,304,615	1,304,615	-0-	-0-
Large cap growth	1,149,765	1,149,765	-0-	-0-
Mid cap blended	1,107,396	1,107,396	-0-	-0-
Other	4,797,764	4,797,764	-0-	-0-
Total mutual funds	24,765,529	24,765,529	-0-	-0-
Corporate equity securities				
Large cap growth	553,404	553,404	-0-	-0-
Large cap core	360,647	360,647	-0-	-0-
Large cap value	290,639	290,639	-0-	-0-
Other	615,700	615,700	-0-	-0-
Total corporate equity securities	1,820,390	1,820,390	-0-	-0-
Corporate debt securities				
Consumer	150,317	-0-	150,317	-0-
Financial services	60,948	-0-	60,948	-0-
Other	193,488	-0-	193,488	-0-
Total corporate debt securities	404,753	-0-	404,753	-0-
	48,063,567	$ 35,850,807	$ 12,212,760	$ -0-
Cash and equivalents	5,058,769			
Certificates of deposit	50,000			
Total assets whose use is limited	$ 53,172,336			
Liabilities				
Derivative	$ 551,660	$ -0-	$ 551,660	$ -0-

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2010 are as follows:

	December 31, 2010			
	Total	Level 1	Level 2	Level 3
Assets				
Assets whose use is limited				
US Government securities				
US treasury notes	$ 9,155,987	$ 9,155,987	$ -0-	$ -0-
FNMA	5,219,764	-0-	5,219,764	-0-
Federal home loan bank	2,247,454	-0-	2,247,454	-0-
Mortgage pass through pools	4,201,997	-0-	4,201,997	-0-
Total US Government securities	20,825,202	9,155,987	11,669,215	-0-
Mutual funds				
Large cap blended	7,433,165	7,433,165	-0-	-0-
Fixed income	5,244,006	5,244,006	-0-	-0-
Small cap blended	1,831,877	1,831,877	-0-	-0-
Other	1,823,165	1,823,165	-0-	-0-
Large cap value	1,655,090	1,655,090	-0-	-0-
Large cap growth	1,458,640	1,458,640	-0-	-0-
Mid cap blended	1,404,889	1,404,889	-0-	-0-
Other	267,592	267,592	-0-	-0-
Total mutual funds	21,118,424	21,118,424	-0-	-0-
Corporate equity securities				
Large cap growth	578,427	578,427	-0-	-0-
Large cap core	376,954	376,954	-0-	-0-
Large cap value	303,781	303,781	-0-	-0-
Small cap value	642,282	642,282	-0-	-0-
Total corporate equity securities	1,901,444	1,901,444	-0-	-0-
Corporate debt securities				
Financial services	160,939	-0-	160,939	-0-
Technology	62,255	-0-	62,255	-0-
Industrial	210,160	-0-	210,160	-0-
Total corporate debt securities	433,354	-0-	433,354	-0-
	44,278,424	$ 32,175,855	$ 12,102,569	$ -0-
Cash and equivalents	5,411,953			
Certificates of deposit	7,224,857			
Total assets whose use is limited	$ 56,915,234			
Liabilities				
Derivative	$ 485,000	$ -0-	$ 485,000	$ -0-

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

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

Long-term debt: The carrying value of MHP's variable rate revenue bonds approximates fair value based upon current traded value. The carrying value of loans payable and capital lease obligations approximates fair value based on current fixed rates available to similar entities with similar credit ratings.

6. 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, 2011 and 2010, 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 assets as of December 31, 2011 and 2010:

	2011	2010
Compton Endowment	$ 521,714	$ 521,714
McFadden Endowment	333,133	333,133
	$ 854,847	$ 854,847

7. CAPITAL ASSETS

Capital Assets, Net

A summary of property and equipment, including assets under capital leases for 2011 and 2010 follows:

	December 31, 2010	Additions	Disposals	Transfers	December 31, 2011
Land and land improvements	$ 7,447,161	$ 8,719	$ -0-	$ 834,977	$ 8,290,857
Leasehold improvements	1,593,517	1,682	11,798	-0-	1,606,997
Buildings and improvements	48,790,571	159,522	(6,601)	25,823	48,969,315
Equipment	32,587,263	2,668,129	(743,770)	444,545	34,956,167
Construction in progress	777,983	819,593	-0-	(1,305,345)	292,231
Total property and equipment	91,196,495	3,657,645	(738,573)	-0-	94,115,567
Less accumulated depreciation					
Land improvements	1,200,107	250,477	701	-0-	1,451,285
Leasehold improvements	548,120	125,088	3,520	-0-	676,728
Buildings and improvements	22,671,371	1,776,516	(132,600)	-0-	24,315,287
Equipment	22,354,914	2,970,601	(383,509)	-0-	24,942,006
Total accumulated depreciation	46,774,512	5,122,682	(511,888)	-0-	51,385,306
Capital assets, net	$ 44,421,983	$ (1,465,037)	$ (226,685)	$ -0-	$ 42,730,261

	December 31, 2009	Additions	Disposals	Transfers	December 31, 2010
Land	$ 7,177,428	$ 273,713	$ (3,980)	$ -0-	$ 7,447,161
Land improvements	1,595,580	13,855	(15,918)	-0-	1,593,517
Buildings and improvements	47,677,741	190,120	(2,060)	924,770	48,790,571
Equipment	29,947,340	1,513,334	(730,255)	1,856,844	32,587,263
Construction in progress	1,223,462	2,336,135	-0-	(2,781,614)	777,983
Total property and equipment	87,621,551	4,327,157	(752,213)	-0-	91,196,495
Less accumulated depreciation					
Land improvements	972,640	226,766	701	-0-	1,200,107
Leasehold improvements	429,598	125,244	(6,722)	-0-	548,120
Buildings and improvements	20,902,103	1,771,043	(1,775)	-0-	22,671,371
Equipment	20,124,807	2,903,561	(673,454)	-0-	22,354,914
Total accumulated depreciation	42,429,148	5,026,614	(681,250)	-0-	46,774,512
Capital assets, net	$ 45,192,403	$ (699,457)	$ (70,963)	$ -0-	$ 44,421,983

Assets Under Capital Leases

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

	2011	2010
Equipment	$ 309,061	$ 309,061
Less accumulated depreciation	206,879	107,667
	$ 102,182	$ 201,394

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.

8. LONG TERM DEBT

A summary of long term debt as of December 31, 2011 is as follows:

- Indiana Finance Authority Hospital Revenue Bonds, Series 2009 for $30,000,000 were issued during 2009. The Series 2009 Bonds are variable interest rate and mature June 1, 2029. 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, 2011 – 1.89%). 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 $28,189,000 at the end of the Initial Monthly Mode Period. The Series 2009 Bonds are secured ultimately by the gross revenues of the Hospital.

- 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 with an original amount of $2,300,000 with local financial institutions, due in monthly installments with a balloon payment in 2013 at an interest rate of LIBOR plus 300 basis points as of December 31, 2011 (3.26%), secured by certain Hospital assets.

- Loans payable with an original amount of $628,000 with a local financial institution is due in monthly installments of $5,900 through 2022 at 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, 2011, the Hospital was in compliance with the financial ratios.

The following represents a progression for long term debt for 2011 and 2010:

	December 31, 2010	Additional Borrowings	Payments	December 31, 2011	Current Portion
Revenue bonds					
2009 Bonds	$ 28,947,000	$ -0-	$ (758,000)	$ 28,189,000	$ 788,000
Loans payable					
Capital lease obligations	189,542	-0-	(90,202)	99,340	63,148
Loans payable	2,252,783	-0-	(147,460)	2,105,323	118,392
Total long term debt	$ 31,389,325	$ -0-	$ (995,662)	$ 30,393,663	$ 969,540

	December 31, 2009	Additional Borrowings	Payments	December 31, 2010	Current Portion
Revenue bonds					
2009 Bonds	$ 29,678,000	$ -0-	$ (731,000)	$ 28,947,000	$ 758,000
Loans payable					
Capital lease obligations	275,782	-0-	(86,240)	189,542	90,202
Loans payable	2,446,190	-0-	(193,407)	2,252,783	122,178
Total long term debt	$ 32,399,972	$ -0-	$ (1,010,647)	$ 31,389,325	$ 970,380

Scheduled principal and interest repayments on long term debt and payments on capital lease obligations for the years succeeding December 31, 2011 are as follows:

Years Ending December 31,	Principal	Interest	Interest Rate Swaps, Net	Total Payments
2012	$ 969,540	$ 609,696	$ 296,620	$ 1,875,856
2013	2,406,327	542,315	296,620	3,245,262
2014	26,633,195	31,663	296,620	26,961,478
2015	42,537	28,263	-0-	70,800
2016	45,939	24,861	-0-	70,800
2017 - 2021	291,047	62,953	-0-	354,000
2022	5,078	38	-0-	5,116
	$ 30,393,663	$ 1,299,789	$ 889,860	$ 32,583,312

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, 2011, the variable rate on the Series 2009 Bonds was lower than the swap agreements fixed rates. Thus, the amounts reported in the interest rate swap, net column of the above table is positive. See the footnote on Derivative Instruments – Interest Rate Swaps for additional information.

9. DERIVATIVE INSTRUMENTS – INTEREST RATE SWAPS

Contracts

MHP has three interest rate swap agreements in effect as of December 31, 2011 for the Indiana Finance Authority Hospital Revenue Bonds, Series 2009.

Objectives and Strategies for Using Derivatives

As a means to manage the risk associated with interest rate risk on its variable rate debt, MHP entered into interest rate swaps agreements in connection with its Indiana Finance Authority Hospital Revenue Bonds, Series 2009. The intention of the swap agreements was to effectively change MHP's variable interest rate on the Series 2009 bonds to fixed rates ranging from 2.98% to 3.54%.

Terms, Fair Values and Credit Risk

The swap agreements relate to the Series 2009 bond with notional amounts totaling \$16,000,000. The counter party is the same for each swap agreements. The terms and fair values of the outstanding swaps as of December 31, 2011 are as follows:

Notional Amount	Effective Date	Fixed Rate	Variable Rate	Fair Value	Termination Date
$ 10,000,000	8/19/2009	3.540%	1.891%	$ (382,028)	7/1/2014
$ 3,000,000	10/2/2009	3.335%	1.891%	(98,641)	7/1/2014
$ 3,000,000	7/1/2010	2.980%	1.891%	(70,991)	7/1/2014
				$ (551,660)	

As of December 31, 2011, the negative fair values of the agreements may be countered by reductions in total interest payments under the swap agreements should the variable rate on the 2009 Series bonds increase. The variable rate on the swaps is 59.50% of the USD-LIBOR BBA plus 1.73% and resets monthly.

The counterparty carries a guarantee by an entity (“counterparty guarantor”) rated Ba2 by Moody’s Investors Service (Moody’s), BBB- by Standard and Poor’s (S&P), and BBB by Fitch Ratings (Fitch). To mitigate the potential for credit risk, the fair value of the swap must be collateralized based on a schedule of the counterparty guarantor credit ratings classifications and exposure thresholds as provided in the agreements.

Basis Risk

The swap and the bonds interest rates are both pegged to USD-LIBOR-BBA index; therefore, basis risk relating to the swap is minimal.

Termination Risk

MHP or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If at the time of termination the swap has a negative fair value, MHP would be liable to the counterparty for a payment equal to the swaps’ fair values.

Swap Payments and Associated Debt

Using rates as of December 31, 2011, debt service requirements of the variable rate debt and net swap payments of the Series 2009 bonds, assuming current interest rates remain the same for the term of the bonds are disclosed in the Long Term Debt note. As rates vary, variable-rate bond interest payments and net swap payments will vary.

MHP has determined the swaps to be effective hedges. Accordingly, the fair value of the swaps has been recorded and subsequent changes in fair value will be recorded only in the consolidated balance sheets while the swaps remain effective hedges. Following is an analysis of the recording of the interest rate swap agreements:

	2011	2010
Deferred outflow	$ 551,660	$ 485,000
Liability		
Interest rate swap agreements	$ 551,660	$ 485,000

See Fair Value Measurements note for additional information.

10. 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 2011 and 2010 were approximately $1,723,000 and $1,787,000, respectively. Employees are not permitted to contribute to the plan.

11. CONCENTRATIONS OF CREDIT RISK

MHP is located in Shelbyville, Indiana. MHP grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. Concentrations of accounts receivable and gross revenue from patients and third party payors are as follows as of December 31:

	Receivables		Revenues	
	2011	2010	2011	2010
Medicare	29%	28%	42%	41%
Medicaid	8%	8%	15%	15%
Anthem	14%	15%	16%	15%
Other third party payors	30%	28%	19%	21%
Self-pay	19%	21%	8%	8%
	100%	100%	100%	100%

12. ESTIMATED MALPRACTICE COSTS

The Indiana Medical Malpractice Act, IC 27-12 (the Act), provides a recovery for an occurrence of malpractice and for any injury or death of a patient due to an act of malpractice in excess of certain thresholds. The Act provides for a maximum recovery of $1,250,000 per occurrence ($7,500,000 annual aggregate) with the first $250,000 covered by MHP's insurance and the remainder by the Fund. The Act requires MHP to maintain medical malpractice liability insurance on a per occurrence basis and in the annual aggregate for amounts below the thresholds of the Act. Management is not aware of any related material adverse effects to its financial position, results from operations, and cash flows.

13. RISK MANAGEMENT

Medical Benefits to Employees and Dependents

MHP is self-funded for medical and related health benefits provided to employees and their families. A stop/loss policy through commercial insurance covers individual claims in excess of $175,000 per year. Provisions are also made for unexpected and unusual claims. Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Self-funded health insurance and related expenses were approximately $6,147,000 and $4,800,000 in 2011 and 2010, respectively. A progression of unpaid claims for 2011 and 2010 follows:

	2011	2010
Unpaid claims, beginning of year	$ 600,000	$ 600,000
Incurred claims and changes in estimates	6,147,366	4,800,335
Claim payments	(5,987,366)	(4,800,335)
Unpaid claims, end of year	$ 760,000	$ 600,000

14. RENTAL EXPENSE

MHP has leases expiring at various times through 2015. Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operating as incurred. The majority of the leases are cancellable. Total rent expense for 2011 and 2010 was approximately $1,489,000 and $1,428,800, respectively.

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:

Years Ending December 31,	
2012	$ 250,000
2013	250,000
2014	250,000
2015	250,000
2016	250,000
Thereafter	3,000,000
	$ 4,250,000

16. SUBSEQUENT EVENT

Subsequent to December 31, 2011, MHP entered into multiple agreements with distinct lessor entities to lease long-term care facilities operated by related management companies. Additionally, MHP entered into agreements with the related management companies to manage the leased long-term care facilities. As part of the agreements, MHP will pay the management companies a fee to continue managing the long-term care facilities on behalf of MHP in accordance with the terms of the agreements. While the leases are in effect, the performance of all activities of the management companies shall be on behalf of MHP. Furthermore, MHP retains ultimate authority and legal responsibility for the operation and control of the long-term care facilities. Under these agreements, all gross patient revenues from the operation of the long-term care facilities will be the property of MHP and MHP shall be responsible for all operating expenses and working capital requirements. The agreements expire on December 31, 2016 and are automatically extended for successive terms of two years unless appropriately terminated. All parties involved can terminate the agreement without cause with 180 days written notice.

SUPPLEMENTARY INFORMATION

MAJOR HEALTH PARTNERS

CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2011

ASSETS	Hospital	Major Affiliates	Foundation	MDSolutions	Eliminations	Total
Current assets						
Cash and cash equivalents	$ 9,837,788	$ 1,690,536	$ -0-	$ 106,920	$ -0-	$ 11,635,244
Patient accounts receivable, net	9,699,485	1,274,136	-0-	-0-	-0-	10,973,621
Inventory and other current assets	4,360,860	745,453	110,995	326,792	(1,286,289)	4,257,811
Current portion of assets whose use is limited	788,000	-0-	-0-	-0-	-0-	788,000
Total current assets	24,686,133	3,710,125	110,995	433,712	(1,286,289)	27,654,676
Assets whose use is limited						
Internally designated	49,437,957	-0-	2,784,374	-0-	-0-	52,222,331
Donor restricted funds	-0-	-0-	950,005	-0-	-0-	950,005
Total assets whose use is limited	49,437,957	-0-	3,734,379	-0-	-0-	53,172,336
Less current portion	788,000	-0-	-0-	-0-	-0-	788,000
Noncurrent assets whose use is limited	48,649,957	-0-	3,734,379	-0-	-0-	52,384,336
Capital assets, net	29,676,061	10,789,439	8,638	2,256,123	-0-	42,730,261
Property held for sale	4,576,627	-0-	-0-	-0-	-0-	4,576,627
Other assets	5,076,263	481,373	-0-	18,686	(3,067,711)	2,508,611
Deferred outflows	551,660	-0-	-0-	-0-	-0-	551,660
Total assets and deferred outflows	$ 113,216,701	$ 14,980,937	$ 3,854,012	$ 2,708,521	$ (4,354,000)	$ 130,406,171

See report of independent auditors on pages 1 and 2.

MAJOR HEALTH PARTNERS

CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2011

LIABILITIES AND NET ASSETS	Hospital	Major Affiliates	Foundation	MDSolutions	Eliminations	Total
Current liabilities						
Accounts payable and accrued expenses	$ 1,665,632	$ 943,269	$ 12,757	$ 522,761	$ (835,225)	$ 2,309,194
Accrued wages and related liabilities	5,853,493	1,296,134	2,901	308,255	-0-	7,460,783
Estimated third-party settlements	1,325,000	-0-	-0-	-0-	-0-	1,325,000
Current portion of long-term debt						
Loans payable and capital leases	63,148	33,914	-0-	84,478	-0-	181,540
Revenue bonds payable	788,000	-0-	-0-	-0-	-0-	788,000
Intercompany notes payable	-0-	451,064	-0-	-0-	(451,064)	-0-
Total current liabilities	9,695,273	2,724,381	15,658	915,494	(1,286,289)	12,064,517
Derivative liability	551,660	-0-	-0-	-0-	-0-	551,660
Other liabilities	-0-	429,476	-0-	-0-	-0-	429,476
Long term debt, net of current portion						
Loans payable and capital leases	36,192	460,457	-0-	1,526,474	-0-	2,023,123
Revenue bonds payable	27,401,000	-0-	-0-	-0-	-0-	27,401,000
Intercompany notes payable	-0-	2,758,472	-0-	-0-	(2,758,472)	-0-
Total long term debt	27,437,192	3,218,929	-0-	1,526,474	(2,758,472)	29,424,123
Total liabilities	37,684,125	6,372,786	15,658	2,441,968	(4,044,761)	42,469,776
Net assets						
Invested in capital assets net of related debt	1,387,721	7,085,532	8,638	645,171	3,209,536	12,336,598
Restricted						
Expendable - other specific purpose	-0-	-0-	95,158	-0-	-0-	95,158
Nonexpendable	-0-	-0-	854,847	-0-	-0-	854,847
Unrestricted	74,144,855	1,522,619	2,879,711	(378,618)	(3,518,775)	74,649,792
Total net assets	75,532,576	8,608,151	3,838,354	266,553	(309,239)	87,936,395
Total liabilities and net assets	$ 113,216,701	$ 14,980,937	$ 3,854,012	$ 2,708,521	$ (4,354,000)	$ 130,406,171

See report of independent auditors on pages 1 and 2.

MAJOR HEALTH PARTNERS

CONSOLIDATING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2011

	Hospital	Major Affiliates	Foundation	MDSolutions	Eliminations	Total
Revenue						
Net patient service revenue	$ 77,728,476	$ 15,579,010	$ -0-	$ -0-	$ (47,751)	$ 93,259,735
Other	2,977,451	586,128	489,810	1,030,950	(1,706,081)	3,378,258
Total revenue	80,705,927	16,165,138	489,810	1,030,950	(1,753,832)	96,637,993
Expenses						
Salaries and wages	28,928,816	10,768,232	70,289	307,329	(10,060)	40,064,606
Employee benefits	8,927,445	2,736,527	5,242	156,902	-0-	11,826,116
Medical professional fees	5,598,323	-0-	-0-	-0-	-0-	5,598,323
Supplies	11,199,094	4,297,618	-0-	18,819	-0-	15,515,531
Purchased services	6,162,873	2,008,431	-0-	300,910	(1,163,689)	7,308,525
Equipment rental and maintenance	3,005,378	412,161	-0-	103,533	(495,347)	3,025,725
Utilities	1,028,228	347,614	-0-	21,674	-0-	1,397,516
Insurance	316,805	317,000	-0-	1,248	-0-	635,053
Depreciation and amortization	4,218,818	869,442	6,362	68,737	8,090	5,171,449
Other expenses	1,968,499	386,787	464,698	207,216	(92,826)	2,934,374
Total expenses	71,354,279	22,143,812	546,591	1,186,368	(1,753,832)	93,477,218
Operating income (loss)	9,351,648	(5,978,674)	(56,781)	(155,418)	-0-	3,160,775
Nonoperating revenues (expenses)						
Investment income	1,630,075	-0-	(16,418)	-0-	(185,233)	1,428,424
Interest expense	(797,689)	(224,625)	-0-	(55,180)	185,233	(892,261)
Other nonoperating revenues (expenses)	114,971	(67,505)	-0-	(23,287)	222,194	246,373
Nonoperating revenues (expenses), net	947,357	(292,130)	(16,418)	(78,467)	222,194	782,536
Excess (deficit) of revenues over expenses	10,299,005	(6,270,804)	(73,199)	(233,885)	222,194	3,943,311
Transfers (to) from affiliates	(7,240,022)	7,240,022	-0-	338,190	(338,190)	-0-
Change in net assets	3,058,983	969,218	(73,199)	104,305	(115,996)	3,943,311
Net assets						
Beginning of year	72,473,593	7,638,933	3,911,553	162,248	(193,243)	83,993,084
End of year	$ 75,532,576	$ 8,608,151	$ 3,838,354	$ 266,553	$ (309,239)	$ 87,936,395

See report of independent auditors on pages 1 and 2.

MAJOR HEALTH PARTNERS

CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2010

ASSETS	Hospital	Major Affiliates	Foundation	MDSolutions	Eliminations	Total
Current assets						
Cash and cash equivalents	$ 4,166,947	$ 1,205,167	$ -0-	$ 110,060	$ -0-	$ 5,482,174
Patient accounts receivable, net	8,530,381	966,737	-0-	-0-	-0-	9,497,118
Inventory and other current assets	4,504,284	620,399	97,395	77,275	(1,793,166)	3,506,187
Current portion of assets whose use is limited	758,000	-0-	-0-	-0-	-0-	758,000
Total current assets	17,959,612	2,792,303	97,395	187,335	(1,793,166)	19,243,479
Assets whose use is limited						
Internally designated	53,045,532	-0-	2,885,903	-0-	-0-	55,931,435
Donor restricted funds	-0-	-0-	983,799	-0-	-0-	983,799
Total assets whose use is limited	53,045,532	-0-	3,869,702	-0-	-0-	56,915,234
Less current portion	758,000	-0-	-0-	-0-	-0-	758,000
Noncurrent assets whose use is limited	52,287,532	-0-	3,869,702	-0-	-0-	56,157,234
Capital assets, net	30,819,036	11,391,181	15,201	2,196,565	-0-	44,421,983
Property held for sale	4,576,627	-0-	-0-	-0-	-0-	4,576,627
Other assets	4,126,341	890,337	-0-	144,685	(3,402,778)	1,758,585
Deferred outflows	485,000	-0-	-0-	-0-	-0-	485,000
Total assets and deferred outflows	$ 110,254,148	$ 15,073,821	$ 3,982,298	$ 2,528,585	$ (5,195,944)	$ 126,642,908

See report of independent auditors on pages 1 and 2.

MAJOR HEALTH PARTNERS

CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2010

LIABILITIES AND NET ASSETS	Hospital	Major Affiliates	Foundation	MDSolutions	Eliminations	Total
Current liabilities						
Accounts payable and accrued expenses	$ 1,481,574	$ 1,580,227	$ 68,768	$ 495,350	$ (1,365,677)	$ 2,260,242
Accrued wages and related liabilities	5,377,439	1,109,175	1,977	143,983	-0-	6,632,574
Estimated third-party settlements	1,300,000	-0-	-0-	-0-	-0-	1,300,000
Current portion of long-term debt						
Loans payable and capital leases	90,202	31,408	-0-	90,770	-0-	212,380
Revenue bonds payable	758,000	-0-	-0-	-0-	-0-	758,000
Intercompany notes payable	-0-	427,489	-0-	-0-	(427,489)	-0-
Total current liabilities	9,007,215	3,148,299	70,745	730,103	(1,793,166)	11,163,196
Derivative liability	485,000	-0-	-0-	-0-	-0-	485,000
Other liabilities	-0-	582,683	-0-	-0-	-0-	582,683
Long term debt, net of current portion						
Loans payable and capital leases	99,340	494,371	-0-	1,636,234	-0-	2,229,945
Revenue bonds payable	28,189,000	-0-	-0-	-0-	-0-	28,189,000
Intercompany notes payable	-0-	3,209,535	-0-	-0-	(3,209,535)	-0-
Total long term debt	28,288,340	3,703,906	-0-	1,636,234	(3,209,535)	30,418,945
Total liabilities	37,780,555	7,434,888	70,745	2,366,337	(5,002,701)	42,649,824
Net assets						
Invested in capital assets net of related debt	1,682,494	7,228,378	15,201	469,561	3,637,024	13,032,658
Restricted						
Expendable - other specific purpose	-0-	-0-	128,952	-0-	-0-	128,952
Nonexpendable	-0-	-0-	854,847	-0-	-0-	854,847
Unrestricted	70,791,099	410,555	2,912,553	(307,313)	(3,830,267)	69,976,627
Total net assets	72,473,593	7,638,933	3,911,553	162,248	(193,243)	83,993,084
Total liabilities and net assets	$ 110,254,148	$ 15,073,821	$ 3,982,298	$ 2,528,585	$ (5,195,944)	$ 126,642,908

See report of independent auditors on pages 1 and 2.

MAJOR HEALTH PARTNERS

CONSOLIDATING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2010

	Hospital	Major Affiliates	Foundation	MDSolutions	Eliminations	Total
Revenue						
Net patient service revenue	$ 75,669,038	$ 13,386,358	$ -0-	$ -0-	$ (58,836)	$ 88,996,560
Other	951,029	585,809	425,001	993,012	(1,682,401)	1,272,450
Total revenue	76,620,067	13,972,167	425,001	993,012	(1,741,237)	90,269,010
Expenses						
Salaries and wages	27,387,422	9,696,265	61,676	324,458	-0-	37,469,821
Employee benefits	7,533,630	2,480,658	4,762	152,718	-0-	10,171,768
Medical professional fees	5,754,867	-0-	-0-	-0-	-0-	5,754,867
Supplies	11,101,594	3,541,990	-0-	14,297	-0-	14,657,881
Purchased services	5,362,282	1,963,059	-0-	281,935	(1,065,521)	6,541,755
Equipment rental and maintenance	3,093,187	375,476	-0-	86,824	(496,549)	3,058,938
Utilities	1,083,226	327,890	-0-	22,277	-0-	1,433,393
Insurance	377,624	325,311	-0-	813	-0-	703,748
Depreciation and amortization	4,098,469	854,323	7,033	107,466	8,090	5,075,381
Other expenses	1,617,001	313,492	315,827	180,317	(187,257)	2,239,380
Total expenses	67,409,302	19,878,464	389,298	1,171,105	(1,741,237)	87,106,932
Operating income (loss)	9,210,765	(5,906,297)	35,703	(178,093)	-0-	3,162,078
Nonoperating revenues (expenses)						
Investment income	3,748,217	-0-	457,034	-0-	(207,575)	3,997,676
Interest expense	(801,592)	(249,287)	-0-	(30,753)	207,575	(874,057)
Other nonoperating revenues (expenses)	268,487	-0-	-0-	(19,091)	(86,291)	163,105
Nonoperating revenues (expenses), net	3,215,112	(249,287)	457,034	(49,844)	(86,291)	3,286,724
Excess (deficit) of revenues over expenses	12,425,877	(6,155,584)	492,737	(227,937)	(86,291)	6,448,802
Transfers (to) from affiliates	(5,318,972)	5,318,972	-0-	81,395	(81,395)	-0-
Change in net assets	7,106,905	(836,612)	492,737	(146,542)	(167,686)	6,448,802
Net assets						
Beginning of year	65,366,688	8,475,545	3,418,816	308,790	(25,557)	77,544,282
End of year	$ 72,473,593	$ 7,638,933	$ 3,911,553	$ 162,248	$ (193,243)	$ 83,993,084

See report of independent auditors on pages 1 and 2.