



March 20, 2012

Leanne M. Duffy, Account Manager  
U.S. Bank Corporate Trust Services  
225 E. Robinson Street, Suite 250  
Orlando, FL 32801

RE: Master Trust Indenture Between MRHS, Inc. &  
SunTrust Bank Central Florida, N.A.

Dear Ms. Duffy:

As required in Section 3.10 of the above-referenced Master Trust Agreement, enclosed is one (1) copy of the Audited Financial Statements, opinion of independent Certified Public Accountants for the year ended September 30, 2011.

In addition, enclosed are the Management Discussion of Operations and Financial Performance, the Continuing Disclosure Report - FY2011 and the Officer Certification Report (Debt Service Coverage and No Defaults).

This filing fulfills the annual disclosure requirements as set forth in the bond documents.

If you require further information, please let me know.

Sincerely,

MUNROE REGIONAL HEALTH SYSTEM, INC.  
d/b/a Munroe Regional Medical Center

A handwritten signature in blue ink, appearing to read "Richard D. Mutarelli", is written over a faint, larger version of the same signature.

Richard D. Mutarelli  
Executive Vice President  
Chief Financial Officer

RDM:scd

Enclosures

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**MUNROE REGIONAL MEDICAL CENTER**  
**FY 2011**  
**MANAGEMENT'S DISCUSSION OF**  
**OPERATIONS AND FINANCIAL PERFORMANCE**

**2011 Patient Activity & Statistics**

Total admissions were down about 7% from the prior year. However combined medical/surgical (Med/Surg) admissions and medical observation patients treated were down by less than 2% as Interqual admission criteria was utilized for the full fiscal year. (Adopted April 1, 2010).

The Med/Surg average length of stay for patients admitted in FY2011 increased to 4.8 days from 4.6 days in 2010 while the Case Mix Index remained constant at 1.58.

Surgical activity in FY2011 returned to levels experienced in 2008 & 2009 as the boost received in FY2010 from the additional operating room capacity and related huge increase (42%) in Orthopaedic Surgeries was not replicated.

Emergency Department visits declined by about 2% to about 97,000 visits while Outpatient visits increased about 2% to about 53,000 visits.

**Operating Results**

Net patient service revenue for the Medical Center was down by \$6M or 2.1% from FY2010 per the GASB Audited Financial Statement format. Please note that FY2010 revenue included about \$8M in Medicaid funding related to prior periods and receipt of Low Income Pool dollars.

In addition to the aforementioned patient activity decrease, reductions in Medicaid rates in the 4<sup>th</sup> Quarter of about 14% also contributed to the net patient service revenue decline.

Operating expenses for fiscal year 2011 were about \$285M, an increase of about \$4.4M or 1.6% from fiscal year 2010. The primary factor influencing limited growth in expenses is related to less patient activity.

In FY11 the excess of revenues over expenses before capital contributions was \$6.4M or a total margin of about 2%.

## **Cash Flow & Ratios**

At September 30, 2011 and 2010, Unrestricted Cash & Investments and Funded Depreciation assets of the Medical Center were \$119M and \$153M respectively, a decrease of about \$34M.

- Long Term Debt was reduced by approximately \$11.4M as the outstanding balance on the Series 1999 Bonds was liquidated.
- Investment of about \$24M in Property, Plant and Equipment was made during 2011.
- Net days in Accounts Receivable were 46 days; an increase of 9 days from the prior year.
- The current ratio was 2.0 and is right in line with Moody's "A" rated peer group.
- The maximum Annual Debt service coverage ratio was 4.58 to 1 in 2011.
- Days Cash on Hand decreased to 137 days.

**Munroe Regional Health System**  
**Continuing Disclosure – 2011 Annual Report**

## Admissions by Specialty

The table set forth below shows the number of admissions by specialty for fiscal years 2007 – 2011:

| <b><u>Fiscal Year</u></b> | <b><u>Medical/<br/>Surgical</u></b> | <b><u>Obstetrics</u></b> | <b><u>Pediatrics</u></b> | <b><u>Subtotal</u></b> | <b><u>Newborn</u></b> | <b><u>Total</u></b> |
|---------------------------|-------------------------------------|--------------------------|--------------------------|------------------------|-----------------------|---------------------|
| 2007                      | 21,581                              | 3,007                    | 671                      | 25,259                 | 3,017                 | 28,276              |
| 2008                      | 20,673                              | 2,938                    | 470                      | 24,081                 | 2,940                 | 27,021              |
| 2009                      | 20,604                              | 2,914                    | 559                      | 24,077                 | 2,922                 | 26,999              |
| 2010                      | 21,058                              | 2,592                    | 552                      | 24,202                 | 2,614                 | 26,816              |
| 2011                      | 19,374                              | 2,663                    | 457                      | 22,494                 | 2,668                 | 25,162              |

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Source: Medical Center.

## Inpatient Days by Type

The table set forth below shows the number of patient days by type for fiscal year 2007 – 2011:

| <b><u>Fiscal Year</u></b> | <b><u>Medical/<br/>Surgical</u></b> | <b><u>Medical/<br/>Surgical/<br/>Cardiac<br/>Intensive<br/>Care Unit</u></b> | <b><u>Cardio<br/>Vascular<br/>Intensive<br/>Care Unit</u></b> | <b><u>Obstetrics</u></b> | <b><u>Pediatrics</u></b> | <b><u>Subtotal<br/>Adult</u></b> | <b><u>Newborn</u></b> | <b><u>Total</u></b> |
|---------------------------|-------------------------------------|--|---|--------------------------|--------------------------|----------------------------------|-----------------------|---------------------|
| 2007                      | 89,498                              | 7,875  | 2,094   | 7,306                    | 1,994                    | 108,767                          | 7,404                 | 116,171             |
| 2008                      | 88,135                              | 8,293  | 2,107   | 7,222                    | 1,474                    | 107,231                          | 7,657                 | 114,888             |
| 2009                      | 86,011                              | 8,367  | 2,163   | 7,073                    | 1,570                    | 105,184                          | 7,407                 | 112,591             |
| 2010                      | 86,480                              | 8,233  | 2,067   | 6,346                    | 1,589                    | 104,715                          | 6,521                 | 111,236             |
| 2011                      | 84,197                              | 7,764  | 1,856   | 6,416                    | 1,225                    | 101,458                          | 6,840                 | 108,298             |

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Source: Medical Center.

**Munroe Regional Health System**  
**Continuing Disclosure – 2011 Annual Report**

**Description of Medical Staff**

The following table shows the distribution of active Medical Staff with respect to clinical specialties for as of September 30, 2011:

| Specialty                       | Physicians<br>on Staff<br>Thru 2011 | Percent (%) of<br>FY 2011<br>Admissions | Number of<br>Board<br>Certified | Average<br>Age |
|---------------------------------|-------------------------------------|---|---------------------------------|----------------|
| Cardiology                      | 31                                  | 1.71%                                   | 33                              | 53             |
| Cardiovascular Surgery          | 4                                   | 2.52%                                   | 3                               | 58             |
| Critical Care                   | 4                                   | 0.00%                                   | 18                              | 50             |
| Emergency Medicine              | 38                                  | 0.06%                                   | 28                              | 50             |
| Endocrinology                   | 4                                   | 0.00%                                   | 4                               | 50             |
| Family Practice                 | 42                                  | 15.84%                                  | 39                              | 50             |
| Gastroenterology                | 16                                  | 0.02%                                   | 13                              | 51             |
| General Surgery                 | 14                                  | 2.52%                                   | 27                              | 55             |
| Gynecology                      | 4                                   | 0.45%                                   | 0                               | 56             |
| Hematology/Oncology             | 11                                  | 0.02%                                   | 5                               | 47             |
| Internal Medicine               | 82                                  | 48.79%                                  | 148                             | 48             |
| Invasive Cardiology             | 5                                   | 0.04%                                   | 9                               | 46             |
| Neonatology                     | 5                                   | 0.01%                                   | 5                               | 40             |
| Nephrology                      | 12                                  | 0.62%                                   | 12                              | 49             |
| Neurological Surgery            | 4                                   | 2.18%                                   | 4                               | 52             |
| Neurology                       | 10                                  | 0.02%                                   | 8                               | 58             |
| OB/GYN                          | 9                                   | 12.01%                                  | 15                              | 53             |
| Oral/Maxillofacial Surgery      | 1                                   | 0.02%                                   | 1                               | 58             |
| Orthopaedic Surgery             | 13                                  | 3.54%                                   | 12                              | 52             |
| Otolaryngology                  | 7                                   | 0.13%                                   | 7                               | 55             |
| Pediatrics                      | 21                                  | 1.88%                                   | 34                              | 51             |
| Plastic Surgery                 | 5                                   | 0.13%                                   | 6                               | 51             |
| Podiatry                        | 12                                  | 0.28%                                   | 11                              | 45             |
| Pulmonary                       | 13                                  | 0.74%                                   | 14                              | 52             |
| Radiation Diagnostics           | 18                                  | 0.00%                                   | 27                              | 49             |
| Urological Surgery              | 11                                  | 2.54%                                   | 12                              | 51             |
| Vascular Surgery                | <u>5</u>                            | <u>1.45%</u>                            | <u>2</u>                        | 62             |
| <b>Others</b>                   | 66                                  | 1.12%                                   |                                 |                |
| <b>Physicians</b>               | 401                                 | 97.52%                                  | 578                             | 50             |
| <b>Certified Nurse Midwives</b> | 17                                  | 1.36%                                   | 14                              | 56             |
| <b>TOTAL</b>                    | <b>484</b>                          | <b>100.00%</b>                          | <b>592</b>                      |                |

Source: Medical Center.

**OTHERS:** Allergy & Immunology (3); Anesthesiology (21); Dermatology (4); Infectious Disease (4); Medical Oncology (1); Ophthalmology (2); Pain Management (1); Palliative Med. (4); Pathology (4); Phy Med/Rehab (3); Psychiatry (5); Psychology (3); Radiation Oncology (10) & Rheumatology (1)

**Munroe Regional Health System**  
**Continuing Disclosure – 2011 Annual Report**

**Changes in Active Medical Staff**

The chart below depicts the changes in the Medical Center's Medical Staff for the last five fiscal years:

|                              | <u><b>2007</b></u> | <u><b>2008</b></u> | <u><b>2009</b></u> | <u><b>2010</b></u> | <u><b>2011</b></u> |
|------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Staff at beginning of period | 405                | 408                | 428                | 415                | 423                |
| Additions to Staff           | 41                 | 51                 | 42                 | 41                 | 49                 |
| Deletions to Staff           | 38                 | 31                 | 55                 | 33                 | 39                 |
| Staff at end of period       | 408                | 428                | 415                | 423                | 412                |

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Source: Medical Center.

**Medical Staff Admissions by Physicians Age Group**  
**Fiscal Year 2011**

The age distribution of physicians and their share of 2011 admissions  
within each age category are shown below:

| <b>Age<br/>Distribution</b> | <b>Number of<br/>FY 2011<br/>Physicians with<br/>Admissions</b> | <b>Number of<br/>FY 2011<br/>Admissions</b> | <b>Percent (%) of<br/>FY 2011 Total<br/>Admissions</b> | <b>Average Age<br/>per Physician</b> |
|-----------------------------|---|---|--|--------------------------------------|
| 25-34                       | 8   | 440   | 1.96%  | 32                                   |
| 35-44                       | 66  | 9,504                                       | 42.25%   | 40                                   |
| 45-54                       | 100   | 6,723                                       | 29.89%   | 50                                   |
| 55-59                       | 53  | 3,046                                       | 13.54%   | 57                                   |
| 60-64                       | 30  | 1,655                                       | 7.36%  | 62                                   |
| 65+                         | 14  | 1,126                                       | 5.01%  | 68                                   |
| <b>Grand Total</b>          | <b>268</b>  | <b>22,494</b>                               | <b>100.00%</b>   | <b>51</b>                            |

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Source: Medical Center.

**Munroe Regional Health System**  
**Continuing Disclosure – 2011 Annual Report**

The profile of the top 10 admitting physicians for the Medical Center for the fiscal year ended September 30, 2011 is presented below. These ten practitioners accounted for 33.27% of the Medical Center's total admissions for fiscal year 2011. The average age of the group is 44 years.

**Top Ten Admitting Physicians**  
**Fiscal Year 2011**

| <b>Specialty</b>      | <b>Age</b> | <b>Number of Admissions</b> | <b>Percent of Total Admissions</b> | <b>Board Certified</b> |
|-----------------------|------------|-----------------------------|------------------------------------|------------------------|
| Internal Medicine     | 43         | 1,089                       | 4.50%                              | Y                      |
| Internal Medicine     | 40         | 881                         | 3.64%                              | Y                      |
| Internal Medicine     | 42         | 727                         | 3.00%                              | Y                      |
| Obstetrics/Gynecology | 49         | 726                         | 3.00%                              | Y                      |
| Obstetrics/Gynecology | 47         | 709                         | 2.93%                              | Y                      |
| Family Practice       | 37         | 702                         | 2.90%                              | Y                      |
| Obstetrics/Gynecology | 66         | 688                         | 2.84%                              | Y                      |
| Internal Medicine     | 36         | 673                         | 2.78%                              | Y                      |
| Family Practice       | 42         | 645                         | 2.67%                              | Y                      |
| Internal Medicine     | 38         | 643                         | 2.66%                              | Y                      |
| <b>Totals</b>         |            | <b>7,483</b>                | <b>33.27%</b>                      |                        |

Source: Medical Center

**Overall Historical Utilization**

The table below presents utilization statistics for the Medical Center for the fiscal years ended September 30, 2007 through September 30, 2011:

|                       | <b><u>2007</u></b> | <b><u>2008</u></b> | <b><u>2009</u></b> | <b><u>2010</u></b> | <b><u>2011</u></b> |
|-----------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Admissions            | 25,259             | 24,081             | 24,077             | 24,202             | 22,494             |
| Observation Patients  | 2,305              | 3,529              | 2,690              | 4,010              | 5,254              |
| Births                | 3,017              | 2,940              | 2,922              | 2,614              | 2,668              |
| Patient Days          | 108,767            | 107,231            | 105,184            | 104,715            | 101,458            |
| Length of Stay (Days) | 4.29               | 4.44               | 4.39               | 4.33               | 4.50               |
| Average Daily Census  | 298                | 293                | 288                | 287                | 278                |
| Inpatient Surgery     | 7,465              | 7,099              | 6,740              | 6,814              | 6,480              |
| Emergency Room Visits | 91,618             | 93,638             | 96,306             | 99,389             | 97,323             |
| Outpatient Visits     | 50,133             | 50,537             | 51,609             | 51,878             | 52,657             |
| Outpatient Surgery    | 4,824              | 4,647              | 5,117              | 5,767              | 5,237              |
| Open Heart Surgery    | 428                | 407                | 445                | 469                | 404                |

Source: Medical Center.

**Munroe Regional Health System  
Continuing Disclosure – 2011 Annual Report**

## **Bed Complement by Specialty**

The bed complement of the Medical Center as of September 30, 2011 is summarized below:

| <u><b>Service</b></u> | <b>Current Number of Beds</b> |                       |
|-----------------------|-------------------------------|-----------------------|
|                       | <u><b>Licensed</b></u>        | <u><b>Staffed</b></u> |
| Medical/Surgical      | 329                           | 325                   |
| OB/GYN                | 32                            | 20                    |
| Medical/Surgical ICU  | 44                            | 44                    |
| Pediatrics            | <u>16</u>                     | <u>10</u>             |
| <b>Total</b>          | <b>421</b>                    | <b>399</b>            |

## **Market Share by Admissions**

The following table shows the market share by admissions between the Medical Center and the two Ocala Regional facilities

| <u><b>Facility</b></u>                                  | <u><b>2007</b></u> | <u><b>2008</b></u> | <u><b>2009</b></u> | <u><b>2010</b></u> | <u><b>2011 (*)</b></u> |
|---|--------------------|--------------------|--------------------|--------------------|------------------------|
| Munroe Regional Medical Center                          | 64.1%              | 61.3%              | 60.3%              | 61.3%              | 59.5%                  |
| Ocala Regional Medical Center<br>& West Marion Hospital | 35.9%              | 38.7%              | 39.7%              | 38.7%              | 40.5%                  |

(\*) *AHCA – 9 months of AHCA data Oct.-June*

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Source: Medical Center.



**Munroe Regional Health System**  
**Continuing Disclosure – 2011 Annual Report**

## Sources of Patient Service Revenue

A substantial portion of the Medical Center's patient revenues are derived from third-party payers. The following table illustrates revenue sources (i.e., payer mix) by patient classification for the Medical Center for the last five fiscal years:

| <b><u>Payer Classification</u></b> | <b><u>2007</u></b> | <b><u>2008</u></b> | <b><u>2009</u></b> | <b><u>2010</u></b> | <b><u>2011</u></b> |
|------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Medicare                           | 58%                | 58%                | 57%                | 58%                | 61%                |
| Medicaid                           | 9%                 | 9%                 | 11%                | 11%                | 12%                |
| Commercial Indemnity               | 5%                 | 4%                 | 4%                 | 3%                 | 4%                 |
| Commercial Managed Care            | 22%                | 23%                | 22%                | 21%                | 16%                |
| Private Self-Pay and Other         | 6%                 | 6%                 | 6%                 | 7%                 | 7%                 |
| Total                              | 100%               | 100%               | 100%               | 100%               | 100%               |

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Source: Medical Center

## Historical Debt Service Coverage (In thousands)

|  | <b><u>2011</u></b> | <b><u>2010</u></b> |
|--|--------------------|--------------------|
| Excess of Revenues, Gains and other Support over Expenses and Losses | 6,434              | 18,668             |
| Plus: Unrealized <Gain>/Loss on Investments                          | 4,554              | <5,160>            |
| Plus: Depreciation and Amortization                                  | 14,875             | 14,573             |
| Plus: Interest Expense   | <u>4,160</u>       | <u>4,288</u>       |
| Equals: Net Income Available for Debt Service                        | 30,022             | 32,369             |
| Maximum Annual Debt Service Requirement                              | 7,538              | 9,544              |
| Maximum Annual Debt Service Coverage Ratio                           | 4.6                | 3.9                |

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Source: Medical Center

**Munroe Regional Health System**  
**Continuing Disclosure – 2011 Annual Report**

MUNROE REGIONAL MEDICAL CENTER  
PROFORMA OF DEBT SERVICE COVERAGE RATIO  
FYE SEPTEMBER 30, 2011

Debt Service Requirement - Adjusted Net Income Must Be At Least 115% of Debt Service for Year.

|   |                                |    |                          |
|---|--------------------------------|----|--------------------------|
| Excess of Revenues over Expenses before Capital Contributions |                                | \$ | 6,433,801                |
| Add:  |                                |    |                          |
|   | Depreciation and Amortization  | \$ | 14,875,051               |
|   | Interest                       |    | <u>4,159,637</u>         |
|   |                                |    | 19,034,688               |
| Add:  |                                |    |                          |
|   | Unrealized loss on investments |    | <u>4,553,710</u>         |
| Net Income Available for Debt Service                         |                                | \$ | <u><u>30,022,199</u></u> |

Bond Service Requirements:

|                     |                              |    |                          |
|---------------------|------------------------------|----|--------------------------|
|                     | Maximum Annual Debt Service: |    |                          |
|                     | Series 2007 - Principal      | \$ | 3,560,000                |
|                     | Series 2007 - Interest       |    | 1,432,250                |
|                     | Series 2009 - Principal      |    | 1,480,000                |
|                     | Series 2009 - Interest       |    | <u>82,443</u>            |
|                     |                              | \$ | 6,554,693                |
| Factor (115%)       |                              |    | <u>115%</u>              |
| Required Net Income |                              | \$ | <u><u>7,537,896</u></u>  |
| Required Net Income |                              | \$ | 7,537,896                |
| Adjusted Net Income |                              |    | <u>30,022,199</u>        |
| Excess (Deficiency) |                              | \$ | <u><u>22,484,303</u></u> |

|  |      |
|--|------|
| Annual Debt Service Coverage Ratio             | 4.58 |
| Annual Debt Service Coverage Ratio Requirement | 1.15 |

**Munroe Regional Health System**  
**Continuing Disclosure – 2011 Annual Report**

**Historical Capitalization and Liquidity**  
**(In thousands)**

The table below sets forth the Medical Center's unrestricted cash and investments at September 30, 2011 and September 30, 2010. Total long-term debt outstanding is shown on a historical basis.

|   | <b><u>2011</u></b> | <b><u>2010</u></b> |  |
|---|--------------------|--------------------|--|
| Total Unrestricted Cash & Investments & Funded Depreciation | \$ 119,405         | \$ 151,938         |  |
|   |                    |                    |  |
| Total Long-Term Debt Outstanding                            | 101,750            | 111,941            |  |
| Unrestricted Net Assets                                     | <u>151,457</u>     | <u>165,116</u>     |  |
| Total Capitalization  | <u>\$ 253,207</u>  | <u>\$ 217,057</u>  |  |
|   |                    |                    |  |
| Total Long-Term Debt as a percent of Total Capitalization   | 40.2%              | 40.4%              |  |
| Days Cash on Hand   | 137                | 170                |  |
| Cash to Debt  | 117.4%             | 135.7%             |  |

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Source: Medical Center

**Munroe Regional Health System  
Continuing Disclosure – 2011 Annual Report**

**OFFICER'S CERTIFICATE**

Munroe Regional Health System, Inc. has met the long-term debt service coverage ratio for fiscal year 2011. To the best of my knowledge, no members of the Obligated Group are in default in the performance of any covenant contained in the Master Trust Indenture date July 1, 1999.



Richard D. Mutarelli  
Executive Vice President & CFO  
Administrative Officer

February 28, 2012  
Date