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January 23, 2013

Board of Directors  
Riverview Hospital  
395 Westfield Road  
Noblesville, IN 46060

We have reviewed the audit report prepared by Blue & Company, 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 Riverview Hospital, 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



**CONSOLIDATED FINANCIAL STATEMENTS**  
**AND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2011 AND 2010**

*CPAs / ADVISORS*



# RIVERVIEW HOSPITAL

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## REPORT OF INDEPENDENT AUDITORS

Board of Trustees  
Riverview Hospital  
Noblesville, Indiana

We have audited the accompanying consolidated balance sheets of Riverview Hospital (Hospital) 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 Hospital's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Hospital as of December 31, 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  
Riverview Hospital  
Noblesville, Indiana

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic 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 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 financial statements, and other knowledge we obtained during our audit of the basic 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.

*Blue & Co., LLC*

March 26, 2012

# RIVERVIEW HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) DECEMBER 31, 2011 (WITH COMPARATIVE TOTALS FOR 2010 AND 2009)

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This section of Riverview Hospital's (Hospital) annual consolidated financial statements presents background information and management's discussion and analysis of the Hospital's financial performance during the years ended December 31, 2011 and 2010. The financial information included herein includes the Hospital's Discrete Component Unit, Riverview Hospital Memorial Foundation, Inc. Please read it in conjunction with the Hospital's consolidated financial statements that follow this MD&A.

### FINANCIAL HIGHLIGHTS

- Assets whose use is limited decreased approximately \$1,814,000 compared to prior year primarily due to the decrease in required funds held by Trustee with the refinancing of the 1999 bonds. This compares to a decrease in 2010 of approximately \$1,629,000 due to the refinancing of the 2002 bonds.
- The Hospital reported an increase in net assets of approximately \$4,962,000 for the year ended 2011. This compares to a change in net assets of approximately \$6,259,000 for the year ended 2010.

### USING THIS ANNUAL REPORT

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

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

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

# RIVERVIEW HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) DECEMBER 31, 2011 (WITH COMPARATIVE TOTALS FOR 2010 AND 2009)

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

### THE HOSPITAL'S BALANCE SHEETS

#### Assets, Liabilities, and Net Assets

	2011	2010	2011 - 2010 Change	2009
<b>Assets</b>				
Current assets	\$ 54,314,008	\$ 44,595,069	\$ 9,718,939	\$ 37,984,328
Capital assets, net	88,787,502	88,608,230	179,272	92,187,319
Assets whose use is limited	40,991,213	42,805,099	(1,813,886)	44,434,228
Other assets	2,267,810	2,307,203	(39,393)	2,455,196
Total assets	<u>\$ 186,360,533</u>	<u>\$ 178,315,601</u>	<u>\$ 8,044,932</u>	<u>\$ 177,061,071</u>
<b>Liabilities</b>				
Current liabilities	\$ 21,001,393	\$ 14,705,704	\$ 6,295,689	\$ 13,697,412
Long-term debt and other liabilities	44,474,344	47,687,685	(3,213,341)	53,700,498
Total liabilities	65,475,737	62,393,389	3,082,348	67,397,910
<b>Net assets</b>				
Invested in capital assets, net of related debt	41,702,124	37,690,317	4,011,807	35,981,705
Restricted	6,376,685	6,865,899	(489,214)	11,226,658
Unrestricted - controlling interest	72,310,990	71,365,996	944,994	62,454,798
Net assets before non-controlling	120,389,799	115,922,212	4,467,587	109,663,161
Unrestricted - non-controlling interest	494,997	-0-	494,997	-0-
Total net assets	<u>120,884,796</u>	<u>115,922,212</u>	<u>4,962,584</u>	<u>109,663,161</u>
Total liabilities and net assets	<u>\$ 186,360,533</u>	<u>\$ 178,315,601</u>	<u>\$ 8,044,932</u>	<u>\$ 177,061,071</u>

The significant changes in the Hospital's assets included current assets, which increased by approximately \$9,719,000 due to the expansion into long term care. The significant changes in the Hospital's liabilities included long-term debt and other liabilities, which decreased by approximately \$3,213,000 after the refinancing revenue bonds and current year principal payments. Current liabilities increased by \$6,296,000 due to the timing of payroll, changes in other employee benefits, additional accounts payable, and the increase in the current portion of bonds payable. The net assets increased approximately \$4,963,000 due to gains from operations.

# RIVERVIEW HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)  
 DECEMBER 31, 2011  
 (WITH COMPARATIVE TOTALS FOR 2010 AND 2009)

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## OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET ASSETS

### Operating Results and Changes in Net Assets

	2011	2010	2011 - 2010 Change	2009
<b>Operating revenue</b>				
Net patient service revenue	\$ 182,487,273	\$ 133,544,270	\$ 48,943,003	\$ 131,474,449
Other operating revenue	5,533,930	4,702,615	831,315	5,188,365
Total operating revenue	188,021,203	138,246,885	49,774,318	136,662,814
<b>Operating expenses</b>				
Salaries and benefits	69,937,082	68,087,395	1,849,687	66,499,725
Medical supplies and drugs	25,002,447	21,256,635	3,745,812	19,396,412
Depreciation and amortization	9,577,745	9,839,658	(261,913)	10,089,503
Other operating expenses	77,431,513	34,980,890	42,450,623	35,435,104
Total operating expenses	181,948,787	134,164,578	47,784,209	131,420,744
Operating income	6,072,416	4,082,307	1,990,109	5,242,070
<b>Nonoperating income, net</b>	(1,109,832)	2,176,744	(3,286,576)	5,467,475
Change in net assets	4,962,584	6,259,051	(1,296,467)	10,709,545
Less amount attributable to non-controlling interest	494,997	-0-	494,997	-0-
Change in net assets attributable to controlling interest	4,467,587	6,259,051	(1,791,464)	10,709,545
<b>Net assets, beginning of year</b>	115,922,212	109,663,161	6,259,051	98,953,616
<b>Net assets, end of year</b>	\$ 120,884,796	\$ 115,922,212	\$ 4,962,584	\$ 109,663,161

## SOURCES OF REVENUE

During 2011, the Hospital derived substantially all of its revenue from patient service and other related activities. A significant portion of the patient service revenue is from patients that are insured by government health programs, principally Medicare and Medicaid, which are highly regulated and subject to frequent and substantial changes. Revenues from the Medicare and Medicaid programs represented 59% of the Hospital's gross revenues in 2011 but only 34% of the Hospital's net patient service revenues. This compares to 2010 where revenues from Medicare and Medicaid represented 52% of the Hospital's gross revenues but 31% of its net patient service revenues.

# RIVERVIEW HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) DECEMBER 31, 2011 (WITH COMPARATIVE TOTALS FOR 2010 AND 2009)

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Following is a table of major sources of gross patient revenues for 2011, 2010, and 2009:

<u>Payor</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Self Pay	10%	10%	9%
Medicare	46%	44%	45%
Medicaid	13%	8%	8%
Anthem/Blue Cross	16%	19%	18%
Other Commercial	15%	19%	20%
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

The Hospital's outpatient services represented approximately 51% and 62% of the Hospital's gross patient revenue in 2011 and 2010, respectively. This change is due to the expansion into long term care.

### OPERATING AND FINANCIAL PERFORMANCE

The Hospital's 2011 return on equity was 4.1%, compared to 5.4% for 2010 and 9.8% for 2009. The Hospital's debt service coverage ratio was approximately 3.2 for 2011 and 3.8 for 2010.

The following section highlights the major financial factors for 2011:

- Net patient service revenue increased approximately \$48,943,000 during 2011, a 36.6% increase over 2010. Operating expenses increased approximately \$47,784,000, or 35.6%. This is mainly due to the expansion into long term care.
- Salaries and Benefits were the expense classifications with the largest increase over 2010. Salary and benefits expense increased approximately \$1,849,700 from 2010 to 2011. Benefit expense actually decreased approximately \$663,000 from 2010 primarily due to decreased medical claims. The average hourly rate paid increased 1.3% in 2011, due primarily to staff merit increases.

# RIVERVIEW HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)  
DECEMBER 31, 2011  
(WITH COMPARATIVE TOTALS FOR 2010 AND 2009)

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## THE HOSPITAL'S STATEMENT 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?"

	2011	2010	2011 - 2010 Change	2009
<b>Cash flows from activities</b>				
Operating	\$ 13,121,388	\$ 15,081,175	\$ (1,959,787)	\$ 13,441,109
Non-capital financing	328,171	393,496	(65,325)	500,111
Capital and related financing	(15,098,053)	(14,303,366)	(794,687)	(9,905,263)
Investing	309,035	(1,075,491)	1,384,526	516,732
Total	<u>(1,339,459)</u>	<u>95,814</u>	<u>(1,435,273)</u>	<u>4,552,689</u>
<b>Cash and cash equivalents</b>				
Beginning of year	20,129,049	20,033,235		15,480,546
End of year	<u>\$ 18,789,590</u>	<u>\$ 20,129,049</u>		<u>\$ 20,033,235</u>

Changes in the Hospital's cash flows are primarily related to the increase in cash used for capital and related financing activities due to increased principal payments on long-term debt and capital leases. There was also an increase in the purchase of capital assets.

# RIVERVIEW HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) DECEMBER 31, 2011 (WITH COMPARATIVE TOTALS FOR 2010 AND 2009)

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### CAPITAL ASSETS

During 2011, the Hospital's net capital assets have increased by \$179,000. This compares to a decrease of approximately \$3,579,000 for 2010. The change in capital assets is outlined in the following table:

	<u>2011</u>	<u>2010</u>	<u>Change</u>	<u>2009</u>
Land and improvements	\$ 13,174,437	\$ 13,103,109	\$ 71,328	\$ 12,973,294
Buildings and improvements	87,772,414	86,585,250	1,187,164	84,941,571
Equipment	97,657,081	99,613,505	(1,956,424)	102,346,176
Construction in progress	<u>3,666,770</u>	<u>1,785,403</u>	<u>1,881,367</u>	<u>1,482,115</u>
Total capital assets	202,270,702	201,087,267	1,183,435	201,743,156
Less accumulated depreciation	<u>113,483,200</u>	<u>112,479,037</u>	<u>1,004,163</u>	<u>109,555,837</u>
Capital assets, net	<u>\$ 88,787,502</u>	<u>\$ 88,608,230</u>	<u>\$ 179,272</u>	<u>\$ 92,187,319</u>

Net capital assets have increased as depreciation nearly equals capital additions. The Hospital continually evaluates facilities and equipment to ensure that everything is upgraded as necessary.

### DEBT

The Hospital has the following debt outstanding, which after deferred loss on refunding approximates \$47,085,000 as of December 31, 2011:

- 2004 tax-exempt revenue bonds
- 2005 tax-exempt revenue bonds
- 2010 tax-exempt revenue bonds
- 2011 tax-exempt revenue bonds
- Capital lease obligations

More detailed information about the Hospital's long-term debt is presented in the Notes to the Consolidated Financial Statements.

# RIVERVIEW HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)  
DECEMBER 31, 2011  
(WITH COMPARATIVE TOTALS FOR 2010 AND 2009)

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## ECONOMIC OUTLOOK

Management believes that the healthcare industry's and the Hospital's operating margins will continue to be under pressure as a result of the changes in payor mix and growth in operating expenses, that exceed any increases in contractually arranged and legally established payments received for services provided. Another factor that poses a challenge to management is the increasing competitive market for the delivery of health care services. This competitive market challenge will potentially be offset by the expected growth in our service area. The Hospital will still be faced with the challenge of providing quality services in an increasingly competitive environment, while at the same time managing costs. The Hospital will be affected by the increases in labor costs due to the competition for health care workers. The Hospital is also affected by the current economic downturn and federal healthcare reform.

## CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital's Fiscal Services Department.

# RIVERVIEW HOSPITAL

## CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2011

(WITH COMPARATIVE CONSOLIDATED TOTALS AT 2010)

	ASSETS				
	2011			2010	
	Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
<b>Current assets</b>					
Cash and cash equivalents	\$ 16,440,707	\$ 320,022	\$ -0-	\$ 16,760,729	\$ 16,954,457
Current portion of assets whose use is limited	2,835,607	224,458	-0-	3,060,065	2,844,843
Patient accounts receivable, less allowances for uncollectible accounts and charity of \$6,261,778 and \$6,741,004, respectively	25,871,553	-0-	-0-	25,871,553	20,133,120
Related party receivables	442,990	-0-	-0-	442,990	273,248
Inventories	2,244,609	-0-	-0-	2,244,609	2,172,290
Other current assets	5,932,415	1,647	-0-	5,934,062	2,217,111
<b>Total current assets</b>	<b>53,767,881</b>	<b>546,127</b>	<b>-0-</b>	<b>54,314,008</b>	<b>44,595,069</b>
<b>Assets whose use is limited</b>					
Board designated funds					
Long-term investments	37,674,593	-0-	-0-	37,674,593	37,852,038
<b>Total board designated funds</b>	<b>37,674,593</b>	<b>-0-</b>	<b>-0-</b>	<b>37,674,593</b>	<b>37,852,038</b>
Trustee held assets					
Professional liability insurance funds	835,188	-0-	-0-	835,188	932,005
Debt service	1,475,524	-0-	-0-	1,475,524	2,663,436
<b>Total trustee held assets</b>	<b>2,310,712</b>	<b>-0-</b>	<b>-0-</b>	<b>2,310,712</b>	<b>3,595,441</b>
Restricted by donor					
Expendable for various purposes upon donors' specific restriction	394,636	1,367,171	-0-	1,761,807	1,484,624
Nonexpendable permanent endowments	-0-	2,304,166	-0-	2,304,166	2,717,839
<b>Total donor-restricted assets</b>	<b>394,636</b>	<b>3,671,337</b>	<b>-0-</b>	<b>4,065,973</b>	<b>4,202,463</b>
<b>Total assets whose use is limited</b>	<b>40,379,941</b>	<b>3,671,337</b>	<b>-0-</b>	<b>44,051,278</b>	<b>45,649,942</b>
Less current portion	2,835,607	224,458	-0-	3,060,065	2,844,843
<b>Noncurrent assets whose use is limited</b>	<b>37,544,334</b>	<b>3,446,879</b>	<b>-0-</b>	<b>40,991,213</b>	<b>42,805,099</b>
<b>Capital assets</b>					
Land	10,915,010	-0-	-0-	10,915,010	10,915,010
Depreciable capital assets	187,673,549	15,380	-0-	187,688,929	188,388,456
Construction in progress	3,666,763	-0-	-0-	3,666,763	1,785,393
	202,255,322	15,380	-0-	202,270,702	201,088,859
Less accumulated depreciation	113,467,820	15,380	-0-	113,483,200	112,480,629
<b>Capital assets, net</b>	<b>88,787,502</b>	<b>-0-</b>	<b>-0-</b>	<b>88,787,502</b>	<b>88,608,230</b>
<b>Other assets</b>	<b>2,267,810</b>	<b>-0-</b>	<b>-0-</b>	<b>2,267,810</b>	<b>2,307,203</b>
<b>Total assets</b>	<b>\$ 182,367,527</b>	<b>\$ 3,993,006</b>	<b>\$ -0-</b>	<b>\$ 186,360,533</b>	<b>\$ 178,315,601</b>

See accompanying notes to consolidated financial statements.

# RIVERVIEW HOSPITAL

## CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2011

(WITH COMPARATIVE CONSOLIDATED TOTALS AT 2010)

### LIABILITIES AND NET ASSETS

	2011			2010	
	Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
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<b>Current liabilities</b>					
Current portion of bonds payable	\$ 2,835,607	\$ -0-	\$ -0-	\$ 2,835,607	\$ 2,585,849
Current portion of capital lease obligations	622,834	-0-	-0-	622,834	670,800
Accounts payable and other accruals	8,723,816	6,504	-0-	8,730,320	4,621,425
Related party payables	382,910	-0-	-0-	382,910	598,053
Salaries, wages and related payables	6,739,810	-0-	-0-	6,739,810	5,718,804
Estimated third-party payor settlements	100,000	-0-	-0-	100,000	100,000
Deferred income	129,494	-0-	-0-	129,494	-0-
Other current liabilities	1,460,418	-0-	-0-	1,460,418	410,773
Total current liabilities	20,994,889	6,504	-0-	21,001,393	14,705,704
<b>Noncurrent liabilities</b>					
Long-term bonds and notes payable	42,834,323	-0-	-0-	42,834,323	46,361,562
Long-term capital lease obligations	792,614	-0-	-0-	792,614	1,299,702
Other long-term liabilities	824,698	22,709	-0-	847,407	26,421
Total noncurrent liabilities	44,451,635	22,709	-0-	44,474,344	47,687,685
Total liabilities	65,446,524	29,213	-0-	65,475,737	62,393,389
<b>Net assets</b>					
Invested in capital assets, net of related debt	41,702,124	-0-	-0-	41,702,124	37,690,317
Restricted					
For debt service and professional liability insurance	2,310,712	-0-	-0-	2,310,712	2,663,436
Expendable for various purposes upon donors' specific restriction	394,636	1,367,171	-0-	1,761,807	1,484,624
Nonexpendable permanent endowments	-0-	2,304,166	-0-	2,304,166	2,717,839
Total restricted	2,705,348	3,671,337	-0-	6,376,685	6,865,899
Unrestricted	72,018,534	292,456	-0-	72,310,990	71,365,996
Net assets - controlling interest	116,426,006	3,963,793	-0-	120,389,799	115,922,212
Non-controlling interest	494,997	-0-	-0-	494,997	-0-
Total net assets	116,921,003	3,963,793	-0-	120,884,796	115,922,212
Total liabilities and net assets	\$ 182,367,527	\$ 3,993,006	\$ -0-	\$ 186,360,533	\$ 178,315,601

See accompanying notes to consolidated financial statements.

# RIVERVIEW HOSPITAL

## CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2010

	ASSETS			
	2010			
	Hospital	Foundation	Eliminations	Total reporting entity
<b>Current assets</b>				
Cash and cash equivalents	\$ 16,585,859	\$ 368,598	\$ -0-	\$ 16,954,457
Current portion of assets whose use is limited	2,585,849	258,994	-0-	2,844,843
Patient accounts receivable, less allowance for uncollectible accounts and charity of \$6,741,004 and \$6,640,965, respectively	20,133,120	-0-	-0-	20,133,120
Related party receivables	273,248	-0-	-0-	273,248
Inventories	2,172,290	-0-	-0-	2,172,290
Other current assets	2,212,175	4,936	-0-	2,217,111
<b>Total current assets</b>	<u>43,962,541</u>	<u>632,528</u>	<u>-0-</u>	<u>44,595,069</u>
<b>Assets whose use is limited</b>				
Board designated funds				
Cash and cash equivalents	-0-	-0-	-0-	-0-
Long-term investments	37,852,038	-0-	-0-	37,852,038
<b>Total board designated funds</b>	<u>37,852,038</u>	<u>-0-</u>	<u>-0-</u>	<u>37,852,038</u>
Trustee held assets				
Professional liability insurance funds	932,005	-0-	-0-	932,005
Debt service	2,663,436	-0-	-0-	2,663,436
<b>Total trustee held assets</b>	<u>3,595,441</u>	<u>-0-</u>	<u>-0-</u>	<u>3,595,441</u>
Restricted by donor				
Expendable for various purposes upon donors' specific restriction	370,223	1,114,401	-0-	1,484,624
Nonexpendable permanent endowments	-0-	2,717,839	-0-	2,717,839
<b>Total donor-restricted assets</b>	<u>370,223</u>	<u>3,832,240</u>	<u>-0-</u>	<u>4,202,463</u>
<b>Total assets whose use is limited</b>	41,817,702	3,832,240	-0-	45,649,942
Less current portion	2,585,849	258,994	-0-	2,844,843
<b>Noncurrent assets whose use is limited</b>	<u>39,231,853</u>	<u>3,573,246</u>	<u>-0-</u>	<u>42,805,099</u>
<b>Capital assets</b>				
Land	10,915,010	-0-	-0-	10,915,010
Depreciable capital assets	188,373,076	15,380	-0-	188,388,456
Construction in progress	1,785,393	-0-	-0-	1,785,393
	<u>201,073,479</u>	<u>15,380</u>	<u>-0-</u>	<u>201,088,859</u>
Less accumulated depreciation	112,465,249	15,380	-0-	112,480,629
<b>Capital assets, net</b>	<u>88,608,230</u>	<u>-0-</u>	<u>-0-</u>	<u>88,608,230</u>
<b>Other assets</b>	<u>2,307,203</u>	<u>-0-</u>	<u>-0-</u>	<u>2,307,203</u>
<b>Total assets</b>	<u>\$ 174,109,827</u>	<u>\$ 4,205,774</u>	<u>\$ -0-</u>	<u>\$ 178,315,601</u>

See accompanying notes to consolidated financial statements.

# RIVERVIEW HOSPITAL

## CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2010

### LIABILITIES AND NET ASSETS

	2010			
	Hospital	Foundation	Eliminations	Total reporting entity
<b>Current liabilities</b>				
Current portion of bonds payable	\$ 2,585,849	\$ -0-	\$ -0-	\$ 2,585,849
Current portion of capital lease obligations	670,800	-0-	-0-	670,800
Accounts payable	4,621,425	-0-	-0-	4,621,425
Related party payables	598,053			598,053
Salaries, wages and related payables	5,718,804	-0-	-0-	5,718,804
Estimated third-party payor settlements	100,000	-0-	-0-	100,000
Other current liabilities	410,773	-0-	-0-	410,773
Total current liabilities	14,705,704	-0-	-0-	14,705,704
<b>Noncurrent liabilities</b>				
Long-term bonds payable	46,361,562	-0-	-0-	46,361,562
Long-term capital lease obligations	1,299,702	-0-	-0-	1,299,702
Other long-term liabilities	-0-	26,421	-0-	26,421
Total noncurrent liabilities	47,661,264	26,421	-0-	47,687,685
Total liabilities	62,366,968	26,421	-0-	62,393,389
<b>Net assets</b>				
Invested in capital assets, net of related debt	37,690,317	-0-	-0-	37,690,317
Restricted				
For debt service	2,663,436	-0-	-0-	2,663,436
Expendable for various purposes upon donors' specific restriction	370,223	1,114,401	-0-	1,484,624
Nonexpendable permanent endowments	-0-	2,717,839	-0-	2,717,839
Total restricted	3,033,659	3,832,240	-0-	6,865,899
Unrestricted	71,018,883	347,113	-0-	71,365,996
Total net assets	111,742,859	4,179,353	-0-	115,922,212
Total liabilities and net assets	\$ 174,109,827	\$ 4,205,774	\$ -0-	\$ 178,315,601

See accompanying notes to consolidated financial statements.

# RIVERVIEW HOSPITAL

## CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2011 (WITH COMPARATIVE CONSOLIDATED TOTALS FOR 2010)

	2011			2010	
	Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
<b>Revenue</b>					
Net patient service revenue	\$ 182,487,273	\$ -0-	\$ -0-	\$ 182,487,273	\$ 133,544,270
Other	5,533,930	-0-	-0-	5,533,930	4,702,615
Total operating revenue	188,021,203	-0-	-0-	188,021,203	138,246,885
<b>Operating expenses</b>					
Salaries and wages	57,769,389	-0-	-0-	57,769,389	55,247,720
Employee benefits	12,167,693	-0-	-0-	12,167,693	12,839,675
Medical supplies	17,162,806	-0-	-0-	17,162,806	15,104,038
Drugs	7,839,641	-0-	-0-	7,839,641	6,152,597
Food	947,425	-0-	-0-	947,425	929,685
Utilities	3,162,971	-0-	-0-	3,162,971	2,215,391
Purchased services	54,264,405	-0-	-0-	54,264,405	19,973,700
Repairs and maintenance	4,037,006	-0-	-0-	4,037,006	3,586,048
Rental expense	8,028,793	-0-	-0-	8,028,793	2,746,251
Other supplies and expenses	6,990,913	-0-	-0-	6,990,913	5,529,815
Depreciation and amortization	9,577,745	-0-	-0-	9,577,745	9,839,658
Total operating expenses	181,948,787	-0-	-0-	181,948,787	134,164,578
Operating income	6,072,416	-0-	-0-	6,072,416	4,082,307
<b>Nonoperating income (expenses)</b>					
Investment gain (loss)	(109,526)	(154,681)	-0-	(264,207)	3,907,930
Contributions and other nonoperating	389,050	480,305	(541,184)	328,171	393,496
Grants	-0-	(541,184)	541,184	-0-	-0-
Capital contribution	345,000	-0-	-0-	345,000	-0-
Interest expense	(1,518,796)	-0-	-0-	(1,518,796)	(2,124,682)
Total nonoperating, net	(894,272)	(215,560)	-0-	(1,109,832)	2,176,744
Change in net assets	5,178,144	(215,560)	-0-	4,962,584	6,259,051
Less amount attributable to non-controlling interest	494,997	-0-	-0-	494,997	-0-
Change in net assets attributable to controlling interest	4,683,147	(215,560)	-0-	4,467,587	6,259,051
<b>Net assets</b>					
Beginning of year	111,742,859	4,179,353	-0-	115,922,212	109,663,161
End of year	\$ 116,921,003	\$ 3,963,793	\$ -0-	\$ 120,884,796	\$ 115,922,212

See accompanying notes to consolidated financial statements.

# RIVERVIEW HOSPITAL

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

	Hospital	Foundation	Eliminations	Total reporting entity
<b>Revenue</b>				
Net patient service revenue	\$ 133,544,270	\$ -0-	\$ -0-	\$ 133,544,270
Other	4,702,615	-0-	-0-	4,702,615
Total operating revenue	<u>138,246,885</u>	<u>-0-</u>	<u>-0-</u>	<u>138,246,885</u>
<b>Operating expenses</b>				
Salaries and wages	55,247,720	-0-	-0-	55,247,720
Employee benefits	12,839,675	-0-	-0-	12,839,675
Medical supplies	15,104,038	-0-	-0-	15,104,038
Drugs	6,152,597	-0-	-0-	6,152,597
Food	929,685	-0-	-0-	929,685
Utilities	2,215,391	-0-	-0-	2,215,391
Purchased services	19,973,700	-0-	-0-	19,973,700
Repairs and maintenance	3,586,048	-0-	-0-	3,586,048
Rental expense	2,746,251	-0-	-0-	2,746,251
Other supplies and expenses	5,529,815	-0-	-0-	5,529,815
Depreciation and amortization	9,839,658	-0-	-0-	9,839,658
Total operating expenses	<u>134,164,578</u>	<u>-0-</u>	<u>-0-</u>	<u>134,164,578</u>
Operating income	4,082,307	-0-	-0-	4,082,307
<b>Nonoperating income (expenses)</b>				
Investment income	3,566,367	341,563	-0-	3,907,930
Contributions and other nonoperating	558,945	385,415	(550,864)	393,496
Grants	-0-	(550,864)	550,864	-0-
Interest expense	(2,124,682)	-0-	-0-	(2,124,682)
Total nonoperating, net	<u>2,000,630</u>	<u>176,114</u>	<u>-0-</u>	<u>2,176,744</u>
Change in net assets	6,082,937	176,114	-0-	6,259,051
<b>Net assets</b>				
Beginning of year	105,659,922	4,003,239	-0-	109,663,161
End of year	<u>\$ 111,742,859</u>	<u>\$ 4,179,353</u>	<u>\$ -0-</u>	<u>\$ 115,922,212</u>

See accompanying notes to consolidated financial statements.

# RIVERVIEW HOSPITAL

## CONSOLIDATED STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2011 (WITH COMPARATIVE CONSOLIDATED TOTALS FOR 2010)

	2011			2010	
	Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
<b>Operating activities</b>					
Cash received from patient services	\$ 176,579,098	\$ -0-	\$ -0-	\$ 176,579,098	\$ 133,841,057
Cash paid for salaries, wages and benefits	(68,916,076)	-0-	-0-	(68,916,076)	(67,943,429)
Cash paid to vendors and suppliers	(101,966,601)	-0-	-0-	(101,966,601)	(55,466,765)
Other receipts and payments, net	7,418,886	6,081	-0-	7,424,967	4,650,312
Net cash flows from operating activities	13,115,307	6,081	-0-	13,121,388	15,081,175
<b>Non-capital financing activities</b>					
Contributions and other nonoperating	389,050	480,305	(541,184)	328,171	393,496
Grants	-0-	(541,184)	541,184	-0-	-0-
Net cash flows from non-capital financing activities	389,050	(60,879)	-0-	328,171	393,496
<b>Capital and related financing activities</b>					
Payments on long-term debt	(10,366,663)	-0-	-0-	(10,366,663)	(21,865,000)
Proceeds from issuance of long-term debt	7,000,000	-0-	-0-	7,000,000	19,200,000
Payments on capital leases	(707,638)	-0-	-0-	(707,638)	(660,825)
Payments for bond issuance costs	(125,516)	-0-	-0-	(125,516)	(267,682)
Deferred losses on bond refundings	(148,703)	-0-	-0-	(148,703)	(1,982,589)
Cash paid for interest	(1,711,782)	-0-	-0-	(1,711,782)	(2,662,024)
Capital contributions received	345,000	-0-	-0-	345,000	-0-
Proceeds on sale of assets	8,662	-0-	-0-	8,662	31,785
Purchase of capital assets	(9,391,413)	-0-	-0-	(9,391,413)	(6,097,031)
Net cash flows from capital and related financing activities	(15,098,053)	-0-	-0-	(15,098,053)	(14,303,366)
<b>Investing activities</b>					
Investment income	46,584	(154,681)	-0-	(108,097)	3,907,930
Purchases of investments	(19,999,554)	(4,227,538)	-0-	(24,227,092)	(18,618,980)
Proceeds from sale of investments	20,243,966	4,400,258	-0-	24,644,224	13,635,559
Net cash flows from investing activities	290,996	18,039	-0-	309,035	(1,075,491)
Net change in cash and cash equivalents	(1,302,700)	(36,759)	-0-	(1,339,459)	95,814
<b>Cash and cash equivalents</b>					
Beginning of year	19,685,226	443,823	-0-	20,129,049	20,033,235
End of year	\$ 18,382,526	\$ 407,064	\$ -0-	\$ 18,789,590	\$ 20,129,049
<b>Reconciliation of cash and cash equivalents to the balance sheets</b>					
Cash and cash equivalents					
In current assets	\$ 16,440,707	\$ 320,022	\$ -0-	\$ 16,760,729	\$ 16,954,457
In assets whose use is limited	1,941,819	87,042	-0-	2,028,861	3,174,592
Total cash and cash equivalents	\$ 18,382,526	\$ 407,064	\$ -0-	\$ 18,789,590	\$ 20,129,049

See accompanying notes to consolidated financial statements.

# RIVERVIEW HOSPITAL

## CONSOLIDATED STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2011 (WITH COMPARATIVE CONSOLIDATED TOTALS FOR 2010)

	2011			2010	
	Total Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
<b>Reconciliation of operating income</b>					
<b>to net cash flows from operating activities</b>					
Operating income	\$ 6,072,416	\$ -0-	\$ -0-	\$ 6,072,416	\$ 4,082,307
Adjustments to reconcile operating income to net cash flows from operating activities					
Depreciation and amortization	9,577,745	-0-	-0-	9,577,745	9,839,658
(Gain) loss on disposal of capital assets	21,410	-0-	-0-	21,410	(35,599)
Amortization of annuities	-0-	(3,712)	-0-	(3,712)	2,393
Provision for bad debts	13,059,724	-0-	-0-	13,059,724	8,041,879
Changes in operating assets and liabilities					
Patient accounts receivable	(18,798,157)	-0-	-0-	(18,798,157)	(7,715,375)
Inventories	(72,319)	-0-	-0-	(72,319)	(183,375)
Other current assets	(3,720,240)	3,289	-0-	(3,716,951)	(7,372)
Other assets	39,393	-0-	-0-	39,393	272,850
Accounts payable	4,102,391	6,504	-0-	4,108,895	824,730
Related party receivables/payables	(384,885)	-0-	-0-	(384,885)	(152,551)
Salaries, wages and fees payable	1,021,006	-0-	-0-	1,021,006	143,966
Deferred income	129,494	-0-	-0-	129,494	-0-
Other current liabilities	1,242,631	-0-	-0-	1,242,631	(27,550)
Other long-term liabilities	824,698	-0-	-0-	824,698	(4,786)
Net cash flows from operating activities	<u>\$ 13,115,307</u>	<u>\$ 6,081</u>	<u>\$ -0-</u>	<u>\$ 13,121,388</u>	<u>\$ 15,081,175</u>
<b>Supplemental cash flows information</b>					
Property acquired through capital lease obligation	\$ 152,584	\$ -0-	\$ -0-	\$ 152,584	\$ 20,713

See accompanying notes to consolidated financial statements.

# RIVERVIEW HOSPITAL

## CONSOLIDATED STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2010

	2010			Total reporting entity
	Hospital	Foundation	Eliminations	
<b>Operating activities</b>				
Cash received from patient services	\$ 133,841,057	\$ -0-	\$ -0-	\$ 133,841,057
Cash paid for salaries, wages and benefits	(67,943,429)	-0-	-0-	(67,943,429)
Cash paid to vendors and suppliers	(55,466,765)	-0-	-0-	(55,466,765)
Other receipts and payments, net	4,639,466	10,846	-0-	4,650,312
Net cash flows from operating activities	15,070,329	10,846	-0-	15,081,175
<b>Non-capital financing activities</b>				
Contributions and other nonoperating	558,945	385,415	(550,864)	393,496
Grants	-0-	(550,864)	550,864	-0-
Net cash flows from non-capital financing activities	558,945	(165,449)	-0-	393,496
<b>Capital and related financing activities</b>				
Payments on long-term debt	(21,865,000)	-0-	-0-	(21,865,000)
Proceeds from issuance of long-term debt	19,200,000	-0-	-0-	19,200,000
Payments on capital leases	(660,825)	-0-	-0-	(660,825)
Payments for 2010 bond issuance costs	(267,682)	-0-	-0-	(267,682)
Deferred loss on refunding of 2002 bonds	(1,982,589)	-0-	-0-	(1,982,589)
Cash paid for interest	(2,662,024)	-0-	-0-	(2,662,024)
Proceeds on sale of assets	31,785	-0-	-0-	31,785
Purchase of capital assets	(6,097,031)	-0-	-0-	(6,097,031)
Net cash flows from capital and related financing activities	(14,303,366)	-0-	-0-	(14,303,366)
<b>Investing activities</b>				
Investment income	3,566,367	341,563	-0-	3,907,930
Purchase of investments	(16,987,613)	(1,631,367)	-0-	(18,618,980)
Proceeds from sale of investments	12,105,919	1,529,640	-0-	13,635,559
Net cash flows from investing activities	(1,315,327)	239,836	-0-	(1,075,491)
Net change in cash and cash equivalents	10,581	85,233	-0-	95,814
<b>Cash and cash equivalents</b>				
Beginning of year	19,674,645	358,590	-0-	20,033,235
End of year	\$ 19,685,226	\$ 443,823	\$ -0-	\$ 20,129,049
<b>Reconciliation of cash and cash equivalents to the balance sheets</b>				
Cash and cash equivalents				
In current assets	\$ 16,585,859	\$ 368,598	\$ -0-	\$ 16,954,457
In assets whose use is limited	3,099,367	75,225	-0-	3,174,592
Total cash and cash equivalents	\$ 19,685,226	\$ 443,823	\$ -0-	\$ 20,129,049

See accompanying notes to consolidated financial statements.

# RIVERVIEW HOSPITAL

## CONSOLIDATED STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2010

	2010			Total reporting entity
	Hospital	Foundation	Eliminations	
<b>Reconciliation of operating income</b>				
<b>to net cash flows from operating activities</b>				
Operating income	\$ 4,082,307	\$ -0-	\$ -0-	\$ 4,082,307
Adjustments to reconcile operating income to net cash flows from operating activities				
Depreciation and amortization	9,839,658	-0-	-0-	9,839,658
Gain on disposal of capital assets	(35,599)	-0-	-0-	(35,599)
Amortization of annuities	-0-	2,393	-0-	2,393
Provision for bad debts	8,041,879	-0-	-0-	8,041,879
Changes in operating assets and liabilities				
Patient accounts receivable	(7,715,375)	-0-	-0-	(7,715,375)
Inventories	(183,375)	-0-	-0-	(183,375)
Other current assets	(25,214)	17,842	-0-	(7,372)
Other assets	272,850	-0-	-0-	272,850
Accounts payable	824,730	-0-	-0-	824,730
Related party receivables/payables	(147,948)	(4,603)	-0-	(152,551)
Salaries, wages and fees payable	143,966	-0-	-0-	143,966
Other current liabilities	(27,550)	-0-	-0-	(27,550)
Other long-term liabilities	-0-	(4,786)	-0-	(4,786)
Net cash flows from operating activities	\$ 15,070,329	\$ 10,846	\$ -0-	\$ 15,081,175
<b>Supplemental cash flows information</b>				
Property acquired through capital lease obligation	\$ 20,713	\$ -0-	\$ -0-	\$ 20,713

See accompanying notes to consolidated financial statements.

# RIVERVIEW HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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### 1. SIGNIFICANT ACCOUNTING POLICIES

#### Organization and Reporting Entity

Riverview Hospital(Hospital) is a hospital located in Noblesville, Indiana. The Hospital was created in 1951, by the Board of County Commissioners of Hamilton County, Indiana to operate, control and manage all matters concerning Hamilton County's health care functions. The Hospital is a county owned facility operating under the Indiana County Hospital Law, Indiana Code 16-22. The Hospital provides acute care including inpatient, outpatient and emergency care as well as long-term care. The Board of County Commissioners of Hamilton County appoints the Governing Board of the Hospital. For this reason, the Hospital is considered a discrete component unit of Hamilton County (County).

Pursuant to the provision of long-term care, the Hospital owns the operations of nine long term care facilities by way of an arrangement with the manager of the facilities, CarDon Management Company, LLC (the Manager). These facilities provide inpatient and therapy services. Generally, gross revenues from the operation of the facilities are the property of the Hospital and the Hospital is responsible for the associated operating expenses and working capital requirements. While the management and related lease agreements are in effect, the performance of all activities of the Manager shall be on behalf of the Hospital and the Hospital retains the authority and legal responsibility for the operation of the facilities.

Specifically, during 2011, the Hospital has entered into lease agreements with the long-term care facilities, collectively referred to as the Lessors, to lease the facilities managed by the Manager. Concurrently, the Hospital entered into an agreement with the Manager to manage the above leased facilities. As part of the agreements, the Hospital will pay the Manager a management fee to continue managing the facilities on behalf of the Hospital in accordance with the terms of the agreements. This management fee will consist of a 2% base management fee of Net Patient Revenues, a subordinated management fee equal to the lesser of 4.5% of net patient revenues or total net income less interest expense, rent, royalty, base management fees, and any required reserve deposits, and a quarterly incentive payment. Rental, management, and other fees paid under these agreements approximated \$13,000,000 for 2011. The agreements expire on December 31, 2016. All parties involved can terminate the agreement without cause with 90 days written notice.

Accounting principles generally accepted in the United States of America require that these consolidated financial statements present the Hospital (primary government) and its significant component units. The component units discussed below are included in the Hospital's reporting entity because of the significance of their operational or financial relationships.

# RIVERVIEW HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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Blended component units, although legally separate entities are in substance part of the government's operations and exist solely to provide services for the government; data from these units is consolidated with data of the primary government.

The consolidated financial statements of the Hospital are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of Hamilton County, attributable to the transactions of the Hospital, its Subsidiary, and its Foundation. They do not purport to, and do not, present fairly the financial position of Hamilton County as of December 31, 2011 and 2010, the changes in its financial position or its cash flows for the years then ended.

For financial reporting purposes, the Hospital's reporting entity consists of the primary government and the component unit organization for which the nature and significance of its relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete, and it is financially accountable to the primary government (discrete component unit).

### Basis of Consolidation and Blended Component Unit

Riverview Medical Imaging, LLC. (RMI) is a consolidated subsidiary as the Hospital owns 76%, which in effect renders RMI a blended component unit of the Hospital. RMI primarily owns and leases medical imaging equipment. A progression of the net assets attributable to the controlling and non-controlling interests follows:

	<u>Controlling Interest</u>	<u>Non-controlling Interest</u>	<u>Total</u>
Net asset balances			
December 31, 2010	\$ 115,922,212	\$ -0-	\$ 115,922,212
Change in net assets before capital contributions	4,467,587	149,997	4,617,584
Capital contributions	-0-	345,000	345,000
December 31, 2011	<u>\$ 120,389,799</u>	<u>\$ 494,997</u>	<u>\$ 120,884,796</u>

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

### Discrete Component Unit

Discretely presented component units are reported in a separate column in the consolidated financial statements to emphasize they are legally separate from the primary government.

# RIVERVIEW HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The discretely presented component unit is:

*Riverview Hospital Foundation, Inc. (Foundation):* A separate not-for-profit entity organized to support the operations of the Hospital. All significant transactions between the Hospital and the Foundation have been eliminated.

### Enterprise Fund Accounting

The Hospital utilizes the enterprise fund method of accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting of Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict or contradict GASB pronouncements.

### 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 disclosure 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.

### Federal or State Income Taxes

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

The blended component unit of Riverview Medical Imaging, LLC is organized as a limited liability company, whereby net taxable income is taxed directly to the members and not this entity. Thus, the financial statements do not include any provision for Federal or State income taxes. Riverview Medical Imaging, LLC has filed its federal and state income returns for periods through December 31, 2011.

# RIVERVIEW HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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These 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).

The discrete component unit of Riverview Hospital Foundation, Inc. is a tax-exempt organization under Internal Revenue Code 501(c) (3). As such, the Foundation is generally exempt from income taxes. However, the Foundation is required to file Federal Form 990 – Return of Organization from Income Tax which is an informational return only.

### Cash and Cash Equivalents

Cash and cash equivalents include all cash held in checking, savings and money market accounts available for operating purposes with original maturity dates of 90 days or less from the date of purchase. The Hospital maintains its cash in accounts, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on cash and cash equivalents.

### Investments in Debt and Equity Securities

Investments in debt and equity securities are reported at fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating revenue when earned.

### Patient Accounts Receivable and Net Patient Service Revenue

Patient revenues and the related accounts receivable are recorded at the time services to patients are performed. The Hospital is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). The Hospital is reimbursed for Medicare and Medicaid inpatient services based on a fixed price per discharge for each diagnosis related grouping (DRG). The Hospital is reimbursed for Medicare and Medicaid outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At the Hospital's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program. The Medicare program cost reports have been audited through December 31, 2009 with immaterial differences reflected as deductions from revenue in 2011. Amounts from unresolved cost reports for 2010 through 2011 are reflected in estimated third-party payor settlements on the consolidated balance sheets.

# RIVERVIEW HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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Accounts receivable for patients, insurance companies, and governmental agencies are based on gross charges net of an allowance for contractual adjustments. The allowance for contractual adjustments is based on expected payment rates from payors based on current reimbursement methodologies. In addition, management estimates an allowance for uncollectible patient accounts receivable based on an evaluation of historical losses, current economic conditions, and other factors unique to the Hospital's patient base.

### Advertising

The Hospital expenses advertising costs as they are incurred. Advertising expenses for the years ended December 31, 2011 and 2010 were \$861,671 and \$1,411,212, respectively.

### Inventories

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

### Assets Whose Use is Limited

Assets whose use is limited are stated at fair value in the consolidated financial statements. These assets include investments designated by the Hospital Board for internal purposes, investments held by trustees for capital improvements, professional liability insurance and debt service, and donor restricted funds. These investments consist primarily of cash and cash equivalents, certificates of deposit, mutual funds and U.S. Governmental securities and federally-backed mortgage obligations. Investment income, to the extent not capitalized, is reported as nonoperating income in the consolidated statements of revenues, expenses and changes in net assets.

### Capital Assets and Depreciation

The Hospital and Foundation's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using these asset lives:

<u>Description</u>	<u>Range of Useful Lives</u>
Land improvements	5-20 years
Buildings and improvements	5-40 years
Equipment	3-20 years

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# RIVERVIEW HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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### Investment in Affiliates

The Hospital has an equity interest in several joint ventures. These investments are recorded on the equity method of accounting in the Hospital's consolidated financial statements.

### Net Assets

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

### Non-controlling interest

Non-controlling interests represent the portion of the equity (net assets) that is attributable to investors that are external to and not included in the Hospital's consolidated financial statements.

### Cost of Borrowing

Except for capital assets acquired through gifts or contributions, 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.

### Grants and Contributions

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

# RIVERVIEW HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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### Restricted Resources

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

### Operating Revenues and Expenses

The reporting entity's consolidated statements of revenues, expenses and changes in net assets distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

### Charity Care

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

Of the Hospital's total expenses reported, excluding the long-term care expenses, (approximately \$135,400,000 and \$134,200,000 during the years ended December 31, 2011 and 2010, respectively), an estimated \$2,870,000 and \$4,940,000 arose from providing services to charity patients during the years ended December 31, 2011 and December 31, 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 (less bad debt expense) divided by gross patient service revenue.

### Bond Issue Costs

The Hospital provides for the amortization of costs incurred for the issuance of bonds over the life of the debt. Amortization expense for 2011 and 2010 was \$242,725 and \$142,826, respectively.

# RIVERVIEW HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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### Compensated Absences

The Hospital's employees earn time off at varying rates depending on years of service under separate policies for sick, vacation and personal leaves. Accrued vacation hours are paid at the time of termination. However, accrued sick hours are not paid at the time of termination. The estimated amount of unused time off is reported as a liability in the consolidated financial statements.

### Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; employee health dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

### Reclassifications

Certain 2010 balances were reclassified to conform to the 2011 presentation. There is no effect on the consolidated change in net assets as a result of these reclassifications.

### Subsequent Events

The Hospital evaluates events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements are issued which is March 26, 2012.

# RIVERVIEW HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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### 2. NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The following is a summary of net patient service revenue for 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Patient service revenue		
Inpatient	\$ 133,816,281	\$ 139,675,336
Outpatient	196,433,860	191,167,739
Long term care	60,605,741	-0-
Gross service patient revenue	<u>390,855,882</u>	<u>330,843,075</u>
Deductions from revenue		
Contractual allowances	188,316,204	177,074,435
Charity care	6,992,681	12,182,491
Provision for bad debts	13,059,724	8,041,879
Total deductions from revenue	<u>208,368,609</u>	<u>197,298,805</u>
Net patient service revenue	<u>\$ 182,487,273</u>	<u>\$ 133,544,270</u>

# RIVERVIEW HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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### 3. ACCOUNTS RECEIVABLE AND PAYABLE

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital at year-end consisted of these amounts as of December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
<u>Patient accounts receivable</u>		
Receivable from patients and their insurance carriers	\$ 31,573,105	\$ 30,573,948
Receivable from Medicare	16,013,105	13,910,499
Receivable from Medicaid	<u>6,000,283</u>	<u>5,367,943</u>
Total patient accounts receivable	<u>53,586,493</u>	<u>49,852,390</u>
Less allowances for contractual agreements	(21,453,162)	(22,978,266)
Less allowances for uncollectible amounts	<u>(6,261,778)</u>	<u>(6,741,004)</u>
	<u>(27,714,940)</u>	<u>(29,719,270)</u>
Patient accounts receivable, net	<u>\$ 25,871,553</u>	<u>\$ 20,133,120</u>
<u>Accounts payable and accrued expenses</u>		
Payable to suppliers	\$ 8,730,320	\$ 4,621,425
Payable to employees (including payroll taxes and benefits)	<u>6,739,810</u>	<u>5,718,804</u>
Total accounts payable and accrued expenses	<u>\$ 15,470,130</u>	<u>\$ 10,340,229</u>

### 4. ASSETS WHOSE USE IS LIMITED

#### Board Designated Funds

The Hospital funds depreciation expense to meet the capital equipment needs of the facility. Depreciation is funded totally, with expenditures for capital equipment and debt principal payments reducing the long-term investments balance. The Hospital designates other investments to fund specific projects. Interest earned by the long-term investments and other board designated investments accounts are left to accumulate as an addition to the funds. Board designated funds as of December 31, 2011 and 2010 were \$37,674,593 and \$37,852,038, respectively.

# RIVERVIEW HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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### Trustee Held Assets

The Hospital deposited funds for certain debt requirements which are held by the trustee in accordance with the trust indenture. Bond funds held as trustee held assets for debt service as of December 31, 2011 and 2010 were \$1,475,524 and 2,663,436, respectively. The Hospital also deposits certain funds related to professional liability insurance funds. Professional liability insurance funds as of December 31, 2011 and 2010 were \$835,188 and \$932,005, respectively.

### Donor-Restricted - Expendable for Various Purposes

The Hospital has funds which have been donated for specific purposes. The funds must be used for the donor specified purpose. Donor-restricted assets that are expendable for various purposes were \$1,761,807 and \$1,484,624 as of December 31, 2011 and 2010.

### Donor-Restricted Nonexpendable Endowments

The Hospital maintains several permanent funds with donor-restricted endowments that totaled \$2,304,166 and \$2,717,839 at December 31, 2011 and 2010, respectively. It is the Hospital's policy that only interest and dividends on investments are authorized for spending. Any appreciation on investments is added to the original endowment and is not authorized for spending.

Assets whose use is limited that are required for obligations classified as current liabilities are reported in current assets.

## 5. DEPOSITS AND INVESTMENTS

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

Investments are carried at fair market value. Net realized gains and losses on security transactions are determined on the specific identification cost basis. Long-term investments consist of cash equivalents, certificates of deposit, mutual funds, U.S. Government securities and federally backed mortgage obligations.

# RIVERVIEW HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

As of December 31, 2011 and 2010, the Hospital had the following investments and maturities, all of which were held in the Hospital's name by custodial banks that are agents of the Hospital.

December 31, 2011					
Hospital	Carrying amount	Investment Maturities (in Years)			
		Less than 1	1 - 5	6 - 10	More than 10
Mutual funds - equities	\$ 15,598,012	\$ 15,598,012	\$ -0-	\$ -0-	\$ -0-
Mutual funds - fixed income	22,840,110	22,840,110	-0-	-0-	-0-
	\$ 38,438,122	\$ 38,438,122	\$ -0-	\$ -0-	\$ -0-
Foundation					
Mutual funds - equities	\$ 2,920,363	\$ 2,920,363	\$ -0-	\$ -0-	\$ -0-
Certificates of deposit	75,000	75,000	-0-	-0-	-0-
	\$ 2,995,363	\$ 2,995,363	\$ -0-	\$ -0-	\$ -0-
December 31, 2010					
Hospital	Carrying amount	Investment Maturities (in Years)			
		Less than 1	1 - 5	6 - 10	More than 10
U.S. Government Securities	\$ 13,425,603	\$ 13,425,603	\$ -0-	\$ -0-	\$ -0-
Mutual funds - equities	4,403,534	4,403,534	-0-	-0-	-0-
Mutual funds - fixed income	20,889,198	20,889,198	-0-	-0-	-0-
	\$ 38,718,335	\$ 38,718,335	\$ -0-	\$ -0-	\$ -0-
Foundation					
U.S. Government Securities	\$ 543,449	\$ 60,030	\$ 168,878	\$ 84,016	\$ 230,525
Corporate equities	2,327,160	2,327,160	-0-	-0-	-0-
Certificates of deposit	125,161	125,161	-0-	-0-	-0-
	\$ 2,995,770	\$ 2,512,351	\$ 168,878	\$ 84,016	\$ 230,525

Interest rate risk - The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

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

Concentration of credit risk - The Hospital places no limit on the amount it may invest in any one issuer. The Hospital maintains its investments, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on investments.

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

# RIVERVIEW HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

Hospital	2011	2010
Carrying amount		
Deposits	\$ 18,382,526	\$ 19,685,226
Investments	38,438,122	38,718,335
	\$ 56,820,648	\$ 58,403,561
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 16,440,707	\$ 16,585,859
Board designated funds	37,674,593	37,852,038
Trustee held assets	2,310,712	3,595,441
Restricted by donor	394,636	370,223
	\$ 56,820,648	\$ 58,403,561
Foundation		
Carrying amount		
Deposits	\$ 407,064	\$ 443,823
Investments	2,995,363	2,995,770
	\$ 3,402,427	\$ 3,439,593
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 320,022	\$ 368,598
Restricted by donor	3,082,405	3,070,995
	\$ 3,402,427	\$ 3,439,593

## 6. FAIR VALUE MEASUREMENTS

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

Level 1 inputs are readily determinable using unadjusted quoted prices for identical assets or liabilities in active markets. Level 2 inputs are derived from quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets (other than those included in Level 1) which are observable for the asset or liability, either directly or indirectly. Level 3 inputs are derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable. If the inputs used fall within different levels of the hierarchy, the categorization is based upon the lowest level input that is significant to the fair value measurement.

# RIVERVIEW HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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

Hospital	2011			
	Total	Level 1	Level 2	Level 3
<b>Assets:</b>				
Investments limited as to use				
Mutual funds				
Small growth	\$ 306,561	\$ 306,561	\$ -0-	\$ -0-
Mid-cap growth	565,586	565,586	-0-	-0-
Mid-cap value	1,482,230	1,482,230	-0-	-0-
Large value	2,198,156	2,198,156	-0-	-0-
Large growth	2,988,830	2,988,830	-0-	-0-
Large blend	1,409,755	1,409,755	-0-	-0-
Foreign	3,436,832	3,436,832	-0-	-0-
Bond	22,837,407	22,837,407	-0-	-0-
Other	3,212,764	3,212,764	-0-	-0-
	<u>38,438,122</u>	<u>\$ 38,438,122</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Cash and cash equivalents	1,941,819			
	<u>\$ 40,379,941</u>			
<b>Foundation</b>				
	Total	Level 1	Level 2	Level 3
<b>Assets:</b>				
Equities				
Mid value	\$ 1,608	\$ 1,608	\$ -0-	\$ -0-
Mutual funds				
Small growth	78,193	78,193	-0-	-0-
Mid blend	323,945	323,945	-0-	-0-
Large blend	789,004	789,004	-0-	-0-
Large growth	941,492	941,492	-0-	-0-
Large value	786,121	786,121	-0-	-0-
	<u>2,920,363</u>	<u>\$ 2,920,363</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Certificates of deposit *	75,000			
	<u>\$ 2,995,363</u>			
<b>Liabilities:</b>				
Annuities payable	\$ 22,709	\$ -0-	\$ -0-	\$ 22,709

\* Certificates of deposit are reported at contract value

# RIVERVIEW HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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

Hospital	2010			
	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Investments limited as to use				
Mutual funds				
Mid-cap growth	\$ 1,074,785	\$ 1,074,785	\$ -0-	\$ -0-
Mid-cap value	1,247,379	1,247,379	-0-	-0-
Mid-cap blend	1,363,377	1,363,377	-0-	-0-
Large value	1,160,036	1,160,036	-0-	-0-
Large rowth	3,568,644	3,568,644	-0-	-0-
Large blend	2,693,294	2,693,294	-0-	-0-
Foreign	5,408,740	5,408,740	-0-	-0-
Bond	18,467,257	18,467,257	-0-	-0-
Other	3,734,823	3,734,823	-0-	-0-
	<u>\$ 38,718,335</u>	<u>\$ 38,718,335</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Cash and cash equivalents	3,099,367			
	<u>\$ 41,817,702</u>			
<b>Foundation</b>				
	Total	Level 1	Level 2	Level 3
<b>Assets:</b>				
U.S. government securities	543,449	\$ -0-	\$ 543,449	\$ -0-
Equities				
Small Value	20,152	20,152	-0-	-0-
Small Growth	59,077	59,077	-0-	-0-
Small Core	22,649	22,649	-0-	-0-
Mid Value	156,809	156,809	-0-	-0-
Mid Growth	113,951	113,951	-0-	-0-
Mid Core	96,858	96,858	-0-	-0-
Large Value	504,680	504,680	-0-	-0-
Large Growth	553,617	553,617	-0-	-0-
Large Core	445,005	445,005	-0-	-0-
Mutual funds				
Fixed Income	354,364	354,364	-0-	-0-
	<u>2,870,609</u>	<u>\$ 2,327,160</u>	<u>\$ 543,449</u>	<u>\$ -0-</u>
Certificates of deposit *	125,161			
	<u>\$ 2,995,770</u>			
<b>Liabilities:</b>				
Annuities payable	\$ 26,421	\$ -0-	\$ -0-	\$ 26,421

\* Certificates of deposit are reported at contract value

# RIVERVIEW HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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For annuities payable, fair value approximates the net present value of the estimated future cash flows related to the annuity payments stipulated within the agreement. Discount rates utilized are commensurate with the risks involved.

A reconciliation of activity for 2011 and 2010 for assets measured at fair value based upon significant unobservable (non-market) information is as follows:

	<u>2011</u>	<u>2010</u>
Balance, beginning of year	\$ 26,421	\$ 28,814
Amortization	<u>(3,712)</u>	<u>(2,393)</u>
Balance, end of year	<u>\$ 22,709</u>	<u>\$ 26,421</u>

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 upon the short-term maturities of those items.

Fair value of the Hospital's fixed rate revenue bonds is estimated using discounted cash flows based on current fixed rates available to similar entities with similar credit ratings. As of December 31, 2011, the carrying value of the fixed rate long-term debt was \$30,163,337 with a fair value of approximately \$29,462,788. This fair value was calculated based upon the present value of the discounted future cash flows of each fixed rate instrument through maturity assuming an incremental borrowing rate of 4.2%. The fair value of variable rate debt, the Series 2004 tax-exempt revenue bonds, and the capital leases, approximate their carrying value.

# RIVERVIEW HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

### 7. CAPITAL ASSETS

Capital asset progressions for 2011 and 2010 follow:

	December 31, 2010	Additions	Retirements	Transfers	December 31, 2011
<b>Hospital</b>					
Land	\$ 10,915,010	\$ -0-	\$ -0-	\$ -0-	\$ 10,915,010
Land improvements	2,188,099	47,053	-0-	24,275	2,259,427
Buildings and improvements	86,585,250	311,124	-0-	876,040	87,772,414
Equipment	99,599,717	3,894,199	(8,363,746)	2,509,939	97,640,109
Construction in progress	1,785,403	5,291,621	-0-	(3,410,254)	3,666,770
Total capital assets	<u>201,073,479</u>	<u>9,543,997</u>	<u>(8,363,746)</u>	<u>-0-</u>	<u>202,253,730</u>
<b>Less accumulated depreciation</b>					
Land improvements	1,446,782	117,913	-0-	-0-	1,564,695
Buildings and improvements	35,420,591	3,526,147	-0-	-0-	38,946,738
Equipment	75,597,876	5,713,856	(8,356,937)	-0-	72,954,795
Total accumulated depreciation	<u>112,465,249</u>	<u>9,357,916</u>	<u>(8,356,937)</u>	<u>-0-</u>	<u>113,466,228</u>
Capital assets, net	<u>\$ 88,608,230</u>	<u>\$ 186,081</u>	<u>\$ (6,809)</u>	<u>\$ -0-</u>	<u>\$ 88,787,502</u>
<b>Foundation</b>					
Equipment	\$ 15,380	\$ -0-	\$ -0-	\$ -0-	\$ 15,380
Less accumulated depreciation	15,380	-0-	-0-	-0-	15,380
Capital assets, net	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
	December 31, 2009	Additions	Retirements	Transfers	December 31, 2010
<b>Hospital</b>					
Land	\$ 10,915,010	\$ -0-	\$ -0-	\$ -0-	\$ 10,915,010
Land improvements	2,058,283	50,495	-0-	79,321	2,188,099
Buildings and improvements	84,941,571	163,172	-0-	1,480,507	86,585,250
Equipment	102,346,167	3,502,239	(6,772,041)	523,352	99,599,717
Construction in progress	1,482,125	2,386,458	-0-	(2,083,180)	1,785,403
Total capital assets	<u>201,743,156</u>	<u>6,102,364</u>	<u>(6,772,041)</u>	<u>-0-</u>	<u>201,073,479</u>
<b>Less accumulated depreciation</b>					
Land improvements	1,333,430	113,352	-0-	-0-	1,446,782
Buildings and improvements	31,942,506	3,478,085	-0-	-0-	35,420,591
Equipment	76,279,901	6,090,016	(6,772,041)	-0-	75,597,876
Total accumulated depreciation	<u>109,555,837</u>	<u>9,681,453</u>	<u>(6,772,041)</u>	<u>-0-</u>	<u>112,465,249</u>
Hospital capital assets, net	<u>\$ 92,187,319</u>	<u>\$ (3,579,089)</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 88,608,230</u>
<b>Foundation</b>					
Equipment	\$ 15,380	\$ -0-	\$ -0-	\$ -0-	\$ 15,380
Less accumulated depreciation	15,380	-0-	-0-	-0-	15,380
Foundation capital assets, net	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

# RIVERVIEW HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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### 8. LONG-TERM DEBT

On August 30, 2011, the Hospital issued \$7 million in Revenue Bonds with a fixed interest rate of 4.2% to refund approximately \$8 million of outstanding 1999 Series bonds with an average interest rate of approximately 5.4%. The net proceeds of \$8.3 million (after bond issuance costs of approximately \$126,000 and approximately \$1,460,000 of associated trusteed assets) were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1999 Series bonds. As a result, the 1999 Series bonds are considered to be defeased and the liability for those bonds and the associated trust account assets have been removed from the balance sheet. On October 14, 2011, the 1999 series bonds were called and all outstanding principal and interest was paid.

These transactions in essence created a deferred loss on the refunding of the 1999 bonds of \$148,703, calculated as follows:

Reacquisition price (funds required to be deposited in escrow fund to refund old bonds)	\$ 8,334,208 *
Net carrying amount of old bonds	<u>(8,185,505) **</u>
Deferred loss on refunding	<u><u>\$ 148,703</u></u>

\* Funds available to accomplish the refunding were:

Funds provided from issuance of new bonds	\$ 7,000,000
1999 debt service reserve fund into 2011 escrow	840,596
1999 bond interest fund into 2011 escrow	218,979
1999 bond sinking fund into 2011 escrow	400,149
Funds used for new 2011 bond issuance costs	<u>(125,516)</u>
	<u><u>\$ 8,334,208</u></u>

\*\*Net carrying amount consist of:

Principal outstanding prior to refunding	\$ 8,040,000
Unamortized bond issuance costs	(108,172)
Accrued interest on bonds prior to refunding	<u>253,677</u>
	<u><u>\$ 8,185,505</u></u>

# RIVERVIEW HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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The difference in cash flows required to service the 1999 bonds and the new 2011 bonds over the life of the bonds is \$1,750,605, calculated as follows:

Cash flow difference:	
1999 bonds debt service cash flows	\$ 11,722,163
2011 bonds debt service cash flows	(8,511,834)
Amount from 1999 debt service reserve fund	<u>(1,459,724)</u>
	<u>\$ 1,750,605</u>

The economic gain from the difference in cash flows to service the 1999 bonds and the new 2011 bonds over the life of the bonds is \$694,900, calculated as follows:

Economic gain	
*Present value of 1999 bonds debt service cash flows	\$ 9,128,725
*Present value of 2011 bonds debt service cash flows	(6,974,101)
Amount from 1999 debt service reserve fund	<u>(1,459,724)</u>
	<u>\$ 694,900</u>

\* Assumes a calculated effective interest rate of 4.28%

On December 29, 2010, the Hospital issued \$19.2 million in Revenue Bonds with a fixed interest rate of 3.9% to advance refund \$20 million of outstanding 2002 Series bonds with an average interest rate of 6.0%. The net proceeds of \$21.5 million (after bond issuance costs of approximately \$268,000 and approximately \$2,613,000 from the 2002 bond debt service reserve fund) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2002 Series bonds. As a result, the 2002 Series bonds are considered to be defeased and the liability for those bonds and the associated trust account assets have been removed from the balance sheet.

# RIVERVIEW HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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These transactions in essence created a deferred loss on the advanced refunding of the 2002 bonds of \$1,982,589, calculated as follows:

Reacquisition price (funds required to be deposited in escrow fund to refund old bonds)	\$ 21,545,739
Net carrying amount of old bonds	<u>(19,563,150)</u>
Deferred loss on refunding	<u>\$ 1,982,589</u>

\* Funds available to accomplish the refunding were:

Funds provided from issuance of new bonds	\$ 19,200,000
2002 debt service reserve fund into 2010 escrow	2,613,421
Funds used for new 2010 bond issuance costs	<u>(267,682)</u>
	<u>\$ 21,545,739</u>

\*\*Net carrying amount consist of:

Principal outstanding prior to refunding	\$ 20,000,000
Unamortized bond issuance costs	<u>(436,850)</u>
	<u>\$ 19,563,150</u>

The difference in cash flows required to service the 2002 bonds and the new 2010 bonds over the life of the bonds is \$12,071,267, calculated as follows:

Cash flow difference:	
2002 bonds debt service cash flows	\$ 40,056,194
2010 bonds debt service cash flows	(25,393,707)
Amount from 2002 debt service reserve fund	<u>(2,591,220)</u>
	<u>\$ 12,071,267</u>

The economic gain from the difference in cash flows to service the 2002 bonds and the new 2010 bonds over the life of the bonds is \$3,308,931, calculated as follows:

Economic gain	
*Present value of 2002 bonds debt service cash flows	\$ 25,008,489
*Present value of 2010 bonds debt service cash flows	(19,108,338)
Amount from 2002 debt service reserve fund	<u>(2,591,220)</u>
	<u>\$ 3,308,931</u>

Assumes a calculated effective interest rate of 3.97%

# RIVERVIEW HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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On February 4, 2011, \$5 million of the 2002 bonds were called and all outstanding principal and interest was paid. The remaining \$15 million of 2002 bonds are to be called on August 1, 2012 and all outstanding principal and interest are to be paid.

The terms and due dates of the Hospital's long-term debt, including capital lease obligations as of December 31, 2011 and 2010 follow:

- 2004 tax-exempt revenue bonds, principal maturing in varying amounts due August 1, 2032, collateralized by bond funds held by trustee and net revenues of the Hospital. Interest rate variable (averaging .25% for 2011) based on the evaluation of overall market conditions utilizing various indices from the Bond Market Association and Standard and Poor's.
- 2005 tax-exempt revenue bonds, principal maturing in varying amounts due August 1, 2017, collateralized by bond funds held by trustee and net revenues of the Hospital. Interest rates for serial bonds range from 2.50% to 4.50%.
- 2010 tax-exempt revenue bonds, principal maturing in varying amounts due December 29, 2025, collateralized by net revenues of the Hospital. Interest rate is fixed at 3.9%.
- 2011 tax-exempt revenue bonds, principal maturing in varying amounts due September 1, 2021, collateralized by net revenues of the Hospital. Interest rate is fixed at 4.2%.
- Capital lease obligations, at varying interest rates of imputed interest of 6.00% to 6.75%, collateralized by leased equipment with cost of \$3,610,203 and \$3,457,618 as of December 31, 2011 and 2010, respectively. Accumulated depreciation on capital leases was \$2,411,547 and \$1,510,118 as of December 31, 2011 and 2010, respectively.

The Hospital has an available letter of credit in an amount sufficient for repayment with a bank for the Series 2004 tax-exempt revenue bonds. The letter of credit is intended to provide credit enhancement and liquidity support for the Hospital's tax-exempt bonds. Advances bear interest at the bank's prime rate. The letter is collateralized by the Hospital's gross revenues as well as designated assets. The letter of credit expires in December 2012. There was no balance outstanding as of December 31, 2011 and 2010.



# RIVERVIEW HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

Year Ending December 31,	Long-term Debt		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2012	\$ 2,835,607	\$ 1,226,232	\$ 622,834	\$ 71,858
2013	3,035,193	1,128,116	598,588	33,338
2014	3,132,422	1,024,649	169,055	8,714
2015	3,242,401	870,353	20,034	696
2016	3,355,244	806,625	4,937	120
2017-2021	14,702,183	2,460,002	-0-	-0-
2022-2026	10,660,287	615,958	-0-	-0-
2027-2031	5,400,000	50,839	-0-	-0-
2032-2034	1,200,000	2,688	-0-	-0-
	<u>\$ 47,563,337</u>	<u>\$ 8,185,462</u>	<u>\$ 1,415,448</u>	<u>\$ 114,726</u>

## 9. PENSION PLAN

### Plan Description

The Hospital has two defined contribution pension plans: the Riverview Hospital Employees Pension Plan and the Riverview Hospital 403(b) Retirement Plan. Both cover all employees who meet eligibility requirements as to age and length of service. The plans provide retirement, disability and death benefits to plan members and beneficiaries. The plans were established by written agreement between the Hospital Board of Trustees and the plan administrators.

The Riverview Hospital Employees Pension Plan covers all eligible employees who have been employed by the Hospital prior to July 1, 2008 and is required to contribute 3% of an employee's compensation up to \$200,000. Employees who started employment subsequent to June 30, 2008 are not eligible for the plan.

Up until December 31, 2010, the Riverview Hospital 403(b) Retirement Plan was required to match 25% of an employee's contribution up to a maximum of 6% of the employee's compensation with maximum employee contribution subject to regulatory caps. As of January 1, 2011, the plan was amended so that the match rate on employee contributions became discretionary.

Employer contributions including both plans were \$1,316,927 and \$1,667,980 for 2011 and 2010, respectively.

# RIVERVIEW HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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### 10. COMMITMENTS AND CONTINGENCIES

*Operating leases - lessee:* The Hospital is committed under various noncancelable operating leases for equipment and facilities. These expire in various years through 2024 with options to renew.

The following is a schedule of future minimum lease payments under operating leases as of December 31, 2011, that have initial or remaining lease terms in excess of one year.

<u>Year ending December 31,</u>	
2012	\$ 1,437,279
2013	1,440,218
2014	1,417,587
2015	1,369,386
2016	1,407,814
2017-2021	4,182,433
2022-2026	<u>2,925,468</u>
	<u><u>\$ 14,180,185</u></u>

*Operating leases – lessor:* The Hospital leases space to tenants under operating leases with terms of one to ten years. Leased space consists of buildings with a total cost of \$9,476,144 as of December 31, 2011 and 2010, respectively, and accumulated depreciation of \$5,015,438 and \$4,749,839 as of December 31, 2011 and 2010, respectively. Total rental income for all operating leases was \$1,004,481 and \$1,082,482 for 2011 and 2010, respectively.

# RIVERVIEW HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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Future minimum rentals under the leases are as follows:

Year ending December 31,	
2012	\$ 795,190
2013	581,748
2014	444,855
2015	271,975
2016	271,409
2015-2016	<u>467,136</u>
	<u><u>\$ 2,832,313</u></u>

*Litigation:* The Hospital is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Hospital's future financial position or results of operations or cash flows.

### 11. CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables and gross patient service revenues from patients and third-party payors for 2011 and 2010 was as follows:

	Receivables		Revenues	
	2011	2010	2011	2010
Self pay	26%	23%	10%	10%
Medicare	30%	28%	46%	44%
Medicaid	11%	11%	13%	8%
Anthem/Blue Cross	9%	11%	16%	19%
Other Commercial	24%	27%	15%	19%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

# RIVERVIEW HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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### 12. JOINT VENTURES

*VHA Tri-State Health Plans, Inc.:* The Hospital has ownership in a joint venture with numerous other hospitals located throughout the State of Indiana. The purpose of the venture is to provide a preferred provider network available to employers in the service area of the investor hospital, which the hospitals would not be able to economically provide on an independent basis. The Hospital contributed capital of \$1,000 for approximately 5% ownership. The investment is recorded using the cost method and is included in other assets on the consolidated balance sheets. VHA Tri-State Health Plans, Inc. has a 3.11% ownership in HealthCare Group, Inc., which has the same purpose as VHA Tri-State Health Plans, Inc.

*Riverview Health Network:* The Hospital has ownership in Riverview Health Network. The purpose of this venture is to provide a healthcare provider network capable of contracting to provide healthcare services in exchange for a fixed periodic payment for a specific population of people. The contract negotiation and infrastructure necessary to administer the contracts are performed by the Suburban Health Organization. The Hospital and the Riverview Health Network are members of the Suburban Health Organization. All owners contributed a predetermined amount of initial capital. The Hospital owns a 50% interest and a group of physicians own the remaining 50% of the corporation. The Hospital recorded an asset of \$23,051 as of December 31, 2011 and 2010. The investment is recorded using the equity method and is included in other assets on the consolidated balance sheets.

*Riverview Surgical Management Association:* The Hospital has a 47.6% ownership in Riverview Surgical Management Association (RSMA). RSMA has been contracted by the Hospital to operate the surgery center and provide management services thereto. RSMA provides complete management and administrative services for and on behalf of the Hospital. This agreement automatically renews for successive one-year terms unless either party provides written notice at least ninety days prior to the end of the term. The Hospital recorded an asset of \$834,580 and \$897,080 as of December 31, 2011 and 2010. The investment is recorded using the equity method and is included in other assets on the consolidated balance sheets.

Amounts paid to RSMA in 2011 and 2010 were \$4,038,774 and \$4,282,728, respectively, comprising of management fees, lease payments and other expenses. Amounts receivable from RSMA as of December 31, 2011 and 2010 were \$442,990 and \$273,248, respectively. Amounts payable to RSMA as of December 31, 2011 and 2010 were \$382,910 and \$598,053, respectively. These amounts comprise the related party receivables and related party payables on the consolidated balance sheets.

# RIVERVIEW HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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### 13. SELF INSURANCE

The Hospital's employee health care insurance is provided through a combination of self-insurance and purchased insurance coverage from a commercial carrier. The Hospital maintains an estimated liability for the amount of claims incurred but not reported. Substantially all employees are covered for major medical benefits. Total self health insurance expense for 2011 and 2010 was \$5,888,919 and \$6,666,586, respectively. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Changes in balance of health claim liabilities during 2011 and 2010 are as follows:

	2011	2010
Unpaid claims, beginning of year	\$ 801,116	\$ 603,891
Incurred claims and changes in estimates	5,888,919	6,666,586
Claim payments	<u>(5,771,975)</u>	<u>(6,469,361)</u>
Unpaid claims, end of year	<u>\$ 918,060</u>	<u>\$ 801,116</u>

The estimated health claims liability is included in salaries, wages, and related payables on the consolidated balance sheets. The plan has annual reinsurance coverage at a specific level of \$160,000 per claim with a maximum reimbursement per covered employee of \$840,000.

### 14. ESTIMATED MALPRACTICE COSTS

The Hospital has a self-insurance plan for professional liability insurance. A third-party claims administrator has been retained to process all benefit claims. Claims are processed and presented for payment upon occurrence. The Hospital makes periodic deposits into a trust fund for the proper administration and protection of the fund.

# RIVERVIEW HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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The Indiana Medical Malpractice Act, IC 34-18 (Act) provides a maximum recovery of \$1,250,000 for an occurrence of malpractice. The Act requires the Hospital to maintain medical malpractice liability insurance in the amount of at least \$250,000 per occurrence and \$7,500,000 in the annual aggregate. The act also requires the Hospital to pay a surcharge to the State Patient's Compensation Fund (Fund). The Fund is used to pay medical malpractice claims in excess of per occurrence and the annual aggregate amounts as noted above, under certain terms and conditions. No accrual for possible losses attributable to incidents that may have occurred but that have not been identified has been made because the amount, if any, is not reasonably estimable. The Fund is on a claims-made basis and as long as this coverage is continuous or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be insured.