

RIVERVIEW HOSPITAL

COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

CPAs / ADVISORS



RIVERVIEW HOSPITAL

TABLE OF CONTENTS DECEMBER 31, 2007 AND 2006

	Page
Report of Independent Auditors	1
Required Supplementary Information	
Management's Discussion and Analysis (MD&A) (Unaudited).....	i
Combined Financial Statements	
Combined Balance Sheets	3
Combined Statements of Revenues, Expenses and Changes in Net Assets.....	5
Combined Statements of Cash Flows	6
Notes to Combined Financial Statements	8



Blue & Co., LLC / One American Square, Suite 2200 / Box 82062 / Indianapolis, IN 46282
main 317.633.4705 fax 317.633.4889 email blue@blueandco.com

REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Riverview Hospital
Noblesville, Indiana

We have audited the accompanying combined balance sheets of Riverview Hospital (Hospital) as of December 31, 2007 and 2006 and the related combined statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these combined 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 combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Hospital as of December 31, 2007 and 2006, and the combined results of its operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Board of Trustees
Riverview Hospital
Noblesville, Indiana

Management's discussion and analysis on pages i through vi is not a required part of the basic combined financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Blue & Co., LLC

April 30, 2008

RIVERVIEW HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) DECEMBER 31, 2007 AND 2006

This section of Riverview Hospital's (Hospital) annual combined financial statements presents background information and management's discussion and analysis of the Hospital's financial performance during the year ended December 31, 2007. 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 combined financial statements that follow this MD&A.

FINANCIAL HIGHLIGHTS

- The Hospital reported a change in net assets of approximately \$165,000 for the year ended 2007, representing a decrease of approximately \$8,564,000 in comparison to the year ended 2006 results.
- The Hospital continued its expansion of facilities and equipment in 2007 as gross capital assets increased approximately \$5,330,000 over 2006.

USING THIS ANNUAL REPORT

The Hospital's combined 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.

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.

RIVERVIEW HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) DECEMBER 31, 2007 AND 2006

THE HOSPITAL'S NET ASSETS

Assets, Liabilities, and Net Assets

	<u>2007</u>	<u>2006</u>	Change
Assets			
Current assets	\$ 36,645,946	\$ 38,336,104	\$ (1,690,158)
Capital assets, net	89,383,048	92,236,689	(2,853,641)
Assets whose use is limited	41,867,525	39,691,737	2,175,788
Other assets	<u>3,582,210</u>	<u>3,395,094</u>	<u>187,116</u>
Total assets	<u>\$ 171,478,729</u>	<u>\$ 173,659,624</u>	<u>\$ (2,180,895)</u>
Liabilities			
Current liabilities	\$ 15,101,687	\$ 15,987,794	\$ (886,107)
Long-term debt	<u>56,376,501</u>	<u>57,836,602</u>	<u>(1,460,101)</u>
Total liabilities	71,478,188	73,824,396	(2,346,208)
Net assets			
Invested in capital assets, net of related debt	31,118,419	32,392,046	(1,273,627)
Restricted	9,144,852	9,085,453	59,399
Unrestricted	<u>59,737,270</u>	<u>58,357,729</u>	<u>1,379,541</u>
Total net assets	<u>100,000,541</u>	<u>99,835,228</u>	<u>165,313</u>
Total liabilities and net assets	<u>\$ 171,478,729</u>	<u>\$ 173,659,624</u>	<u>\$ (2,180,895)</u>

The significant changes in the Hospital's assets were capital assets, which decreased \$2,854,000 as depreciation expense outpaced capital additions and current assets decreased by \$1,690,158 mainly related to patient accounts receivables.

RIVERVIEW HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)
DECEMBER 31, 2007 AND 2006

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET ASSETS

Operating Results and Changes in Net Assets

	<u>2007</u>	<u>2006</u>	<u>Change</u>
Operating revenue			
Net patient service revenue	\$ 124,601,511	\$ 123,467,828	\$ 1,133,683
Other operating revenue	3,869,007	3,884,498	(15,491)
Total operating revenue	<u>128,470,518</u>	<u>127,352,326</u>	<u>1,118,192</u>
Operating expenses			
Salaries and benefits	65,503,286	61,823,689	3,679,597
Medical supplies and drugs	17,739,880	17,923,672	(183,792)
Depreciation and amortization	9,634,760	8,519,219	1,115,541
Other operating expenses	35,678,819	32,616,625	3,062,194
Total operating expenses	<u>128,556,745</u>	<u>120,883,205</u>	<u>7,673,540</u>
Operating income (loss)	(86,227)	6,469,121	(6,555,348)
Nonoperating expense, net	<u>251,540</u>	<u>2,260,418</u>	<u>(2,008,878)</u>
Change in net assets	165,313	8,729,539	(8,564,226)
Net assets, beginning of year	<u>99,835,228</u>	<u>91,105,689</u>	<u>8,729,539</u>
Net assets, end of year	<u>\$ 100,000,541</u>	<u>\$ 99,835,228</u>	<u>\$ 165,313</u>

SOURCES OF REVENUE

During 2007, 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 47% of the Hospital's gross revenues in 2007 but only 24% of the Hospital's net patient service revenues.

RIVERVIEW HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) DECEMBER 31, 2007 AND 2006

Following is a table of major sources of gross patient revenues for 2007:

<u>Payor</u>	<u>% of Gross Revenues</u>
Medicare	40.6%
Self Pay	11.7%
Anthem/Blue Cross	16.9%
Sagamore	6.3%
Medicaid	5.9%
United Health Care	3.5%
Encore	2.1%
Cigna	1.4%
Aetna	2.4%
Other	9.2%
Total	<u>100.0%</u>

The Hospital's outpatient services represented 59% of the Hospital's gross patient revenue in 2007.

OPERATING AND FINANCIAL PERFORMANCE

The Hospital's 2007 return on equity was .16%, compared to 10.0% for 2006. The Hospital's debt service coverage ratio was approximately 2.6 for 2007.

The following section highlights the major financial factors for 2007:

- The Hospital's discharges for 2007 increased 0.2% to 6,707 from 2006's total of 6,587; the Hospital's adjusted patient days decreased .8% to 63,435 in 2007, compared to 63,930 in 2006.
- Net patient service revenue increased \$1,133,683 during 2007, a .9% increase over 2006.
- Operating expenses increased \$7,673,540 or 6.3%. The growth is attributable to the need for additional resources to provide services to the Hospital's patient volumes and market inflation.

RIVERVIEW HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) DECEMBER 31, 2007 AND 2006

- Salaries and Benefits were the expense classifications with the largest increase over 2006. Salaries and Benefits expense in 2007 was approximately \$3,680,000 greater than 2006. The increase represented a 6.0% change from 2006. Man-hours per adjusted patient day increased in 2007 to 36 hours, compared to 35 hours for 2006. The average hourly rate paid held steady in 2007.

CAPITAL ASSETS

During 2007, the Hospital invested \$5.3 million in capital assets. The change in capital assets is outlined in the following table:

	<u>2007</u>	<u>2006</u>	<u>Change</u>
Land and improvements	\$ 6,295,767	\$ 6,203,914	\$ 91,853
Buildings and improvements	72,945,404	69,692,895	3,252,509
Equipment	95,607,317	88,394,556	7,212,761
Construction in progress	<u>6,041,821</u>	<u>11,284,447</u>	<u>(5,242,626)</u>
Total capital assets	180,890,309	175,575,812	5,314,497
Less accumulated depreciation	<u>91,507,261</u>	<u>83,339,123</u>	<u>8,168,138</u>
Capital assets, net	<u>\$ 89,383,048</u>	<u>\$ 92,236,689</u>	<u>\$ (2,853,641)</u>

Over the past years, capital Assets have increased due to the continued growth in patient service demands. In 2006, the Hospital opened a new Emergency Center and continues to increase space and equipment resources to meet the needs of the community. The Hospital continually evaluates facilities and equipment to ensure that everything is upgraded as necessary.

DEBT

The Hospital has the following debt outstanding totaling \$58.3 million as of December 31, 2007:

- 1996 tax-exempt revenue bonds
- 1999 tax-exempt revenue bonds
- 2002 tax-exempt revenue bonds
- 2004 tax-exempt revenue bonds
- 2005 tax-exempt revenue bonds
- Capital lease obligations

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

RIVERVIEW HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)
DECEMBER 31, 2007 AND 2006

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.

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
COMBINED BALANCE SHEETS
DECEMBER 31, 2007 AND 2006

	2007			2006
	Hospital	Foundation	Total reporting entity	Total reporting entity (Memorandum only)
	Hospital	Foundation	Total reporting entity	Total reporting entity (Memorandum only)
Current assets				
Cash and cash equivalents	\$ 5,871,577	\$ 274,250	\$ 6,145,827	2,058,912
Current portion of assets whose use is limited	2,020,000	-0-	2,020,000	1,855,000
Patient accounts receivable, less allowance for uncollectible accounts of \$11,424,999 in 2007 and \$8,134,342 in 2006	23,522,359	-0-	23,522,359	28,886,766
Related party receivables	133,000	-0-	133,000	150,000
Inventories	2,034,349	-0-	2,034,349	2,242,409
Other current assets	2,646,804	143,607	2,790,411	3,143,017
Total current assets	<u>36,228,089</u>	<u>417,857</u>	<u>36,645,946</u>	<u>38,336,104</u>
Assets whose use is limited				
Board designated funds				
Cash and cash equivalents	232,964	-0-	232,964	184,256
Long-term investments	33,118,608	3,530,746	36,649,354	34,435,267
Total board designated funds	<u>33,351,572</u>	<u>3,530,746</u>	<u>36,882,318</u>	<u>34,619,523</u>
Trustee held assets				
Professional liability insurance funds	1,334,526	-0-	1,334,526	1,424,352
Bond funds	5,670,681	-0-	5,670,681	5,502,862
Total trustee held assets	<u>7,005,207</u>	<u>-0-</u>	<u>7,005,207</u>	<u>6,927,214</u>
Total assets whose use is limited	40,356,779	3,530,746	43,887,525	41,546,737
Less current portion	2,020,000	-0-	2,020,000	1,855,000
Noncurrent assets whose use is limited	<u>38,336,779</u>	<u>3,530,746</u>	<u>41,867,525</u>	<u>39,691,737</u>
Capital assets				
Land	4,481,710	-0-	4,481,710	4,481,710
Construction in progress	6,041,830	-0-	6,041,830	11,284,446
Depreciable capital assets	170,366,773	-0-	170,366,773	159,809,656
	180,890,313	-0-	180,890,313	175,575,812
Less accumulated depreciation	91,507,265	-0-	91,507,265	83,339,123
Capital assets, net	<u>89,383,048</u>	<u>-0-</u>	<u>89,383,048</u>	<u>92,236,689</u>
Other assets	<u>3,019,564</u>	<u>562,646</u>	<u>3,582,210</u>	<u>3,395,094</u>
Total assets	<u>\$ 166,967,480</u>	<u>\$ 4,511,249</u>	<u>\$ 171,478,729</u>	<u>\$ 173,659,624</u>

See accompanying notes to combined financial statements.

RIVERVIEW HOSPITAL

COMBINED BALANCE SHEETS DECEMBER 31, 2007 AND 2006

LIABILITIES AND NET ASSETS

	2007			2006
	Hospital	Foundation	Total reporting entity	Total reporting entity (Memorandum only)
Current liabilities				
Current portion of bonds payable	\$ 2,020,000	\$ -0-	\$ 2,020,000	\$ 1,855,000
Current portion of capital lease obligations	157,948	-0-	157,948	181,869
Accounts payable	3,313,615	-0-	3,313,615	4,806,693
Related party payables	564,234	-0-	564,234	775,025
Salaries, wages and related payables	7,948,986	-0-	7,948,986	7,361,591
Estimated third-party payor settlements	101,792	-0-	101,792	10,970
Other current liabilities	995,112	-0-	995,112	996,646
Total current liabilities	15,101,687	-0-	15,101,687	15,987,794
Noncurrent liabilities				
Long-term bonds payable	55,690,000	-0-	55,690,000	57,710,000
Long-term capital lease obligations	396,681	-0-	396,681	97,774
Physician recruitment	262,500	-0-	262,500	-0-
Other long-term liabilities	-0-	27,320	27,320	28,828
Total noncurrent liabilities	56,349,181	27,320	56,376,501	57,836,602
Total liabilities	71,450,868	27,320	71,478,188	73,824,396
Net assets				
Invested in capital assets, net of related debt	31,118,419	-0-	31,118,419	32,392,046
Restricted				
Expendable for capital acquisitions	-0-	-0-	-0-	-0-
For debt service	5,670,681	-0-	5,670,681	5,502,862
Expendable for various purposes upon donors' specific restriction	232,964	671,826	904,790	1,125,445
Nonexpendable permanent endowments	-0-	2,569,381	2,569,381	2,457,146
Total restricted	5,903,645	3,241,207	9,144,852	9,085,453
Unrestricted				
Total net assets	58,494,548	1,242,722	59,737,270	58,357,729
Total net assets	95,516,612	4,483,929	100,000,541	99,835,228
Total liabilities and net assets	\$ 166,967,480	\$ 4,511,249	\$ 171,478,729	\$ 173,659,624

See accompanying notes to combined financial statements.

RIVERVIEW HOSPITAL

COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007			2006	
	Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity (Memorandum only)
Revenue					
Net patient service revenue	\$ 124,601,511	\$ -0-	\$ -0-	\$ 124,601,511	\$ 123,467,828
Other	3,869,007	-0-	-0-	3,869,007	3,884,498
Total operating revenue	128,470,518	-0-	-0-	128,470,518	127,352,326
Operating expenses					
Salaries and wages	52,940,181	-0-	-0-	52,940,181	51,606,677
Employee benefits	12,563,105	-0-	-0-	12,563,105	10,217,012
Contract employees	958,046	-0-	-0-	958,046	1,139,323
Medical supplies	12,509,217	-0-	-0-	12,509,217	12,717,488
Drugs	5,230,663	-0-	-0-	5,230,663	5,206,184
Food	814,034	-0-	-0-	814,034	654,741
Utilities	2,227,875	-0-	-0-	2,227,875	2,215,450
Contract services and consulting fees	19,077,992	-0-	-0-	19,077,992	17,005,173
Repairs and maintenance	3,416,727	-0-	-0-	3,416,727	2,402,650
Rental expense	2,855,654	-0-	-0-	2,855,654	2,957,197
Other supplies and expenses	6,328,491	-0-	-0-	6,328,491	6,242,091
Depreciation and amortization	9,634,401	359	-0-	9,634,760	8,519,219
Total operating expenses	128,556,386	359	-0-	128,556,745	120,883,205
Operating income (loss)	(85,868)	(359)	-0-	(86,227)	6,469,121
Nonoperating income (expenses)					
Investment income	2,316,864	270,010	-0-	2,586,874	3,345,451
Contributions and other nonoperating	716,451	(33,983)	(469,763)	212,705	958,249
Grants	-0-	(469,763)	469,763	-0-	-0-
Interest expense	(2,548,039)	-0-	-0-	(2,548,039)	(2,043,282)
Total nonoperating, net	485,276	(233,736)	-0-	251,540	2,260,418
Change in net assets	399,408	(234,095)	-0-	165,313	8,729,539
Net assets					
Beginning of year	95,117,204	4,718,024	-0-	99,835,228	91,105,689
End of year	<u>\$ 95,516,612</u>	<u>\$ 4,483,929</u>	<u>\$ -0-</u>	<u>\$ 100,000,541</u>	<u>\$ 99,835,228</u>

See accompanying notes to combined financial statements.

RIVERVIEW HOSPITAL

COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007			2006	
	Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity (Memorandum only)
Operating activities					
Cash received from patient services	\$ 130,073,740	\$ -0-	\$ -0-	\$ 130,073,740	\$ 115,452,029
Cash paid for salaries, wages and benefits	(64,915,891)	-0-	-0-	(64,915,891)	(59,352,594)
Cash paid to vendors and suppliers	(55,264,269)	-0-	-0-	(55,264,269)	(50,735,529)
Other receipts and payments, net	3,442,574	325,280	-0-	3,767,854	3,530,853
Net cash flows from operating activities	13,336,154	325,280	-0-	13,661,434	8,894,759
Non-capital financing activities					
Contributions and other nonoperating Grants	716,451	(33,983)	(469,763)	212,705	958,249
	-0-	(469,763)	469,763	-0-	-0-
Net cash flows from non-capital financing activities	716,451	(503,746)	-0-	212,705	958,249
Capital and related financing activities					
Payments on long-term debt	(1,855,000)	-0-	-0-	(1,855,000)	(1,805,000)
Payments on capital leases	(227,672)	-0-	-0-	(227,672)	(330,785)
Interest expense on long-term debt	(2,548,039)	-0-	-0-	(2,548,039)	(2,043,282)
Purchase of capital assets	(6,514,897)	-0-	-0-	(6,514,897)	(17,294,332)
Net cash flows from capital and related financing activities	(11,145,608)	-0-	-0-	(11,145,608)	(21,473,399)
Investing activities					
Investment income	2,316,864	270,010	-0-	2,586,874	3,345,633
Other changes in assets whose use is limited and investments	696,557	(277,166)	-0-	419,391	2,170,500
Net cash flows from investing activities	3,013,421	(7,156)	-0-	3,006,265	5,516,133
Net change in cash and cash equivalents	5,920,418	(185,622)	-0-	5,734,796	(6,104,258)
Cash and cash equivalents					
Beginning of year	9,570,993	459,872	-0-	10,030,865	16,135,123
End of year	\$ 15,491,411	\$ 274,250	\$ -0-	\$ 15,765,661	\$ 10,030,865
Reconciliation of cash and cash equivalents to the balance sheets					
Cash and cash equivalents					
In current assets	\$ 5,871,577	\$ 274,250	\$ -0-	\$ 6,145,827	\$ 2,058,912
In assets whose use is limited	9,619,834	-0-	-0-	9,619,834	7,971,953
Total cash and cash equivalents	\$ 15,491,411	\$ 274,250	\$ -0-	\$ 15,765,661	\$ 10,030,865

See accompanying notes to combined financial statements.

RIVERVIEW HOSPITAL

COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007			2006	
	Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity (Memorandum only)
Reconciliation of operating income to net cash flows from operating activities					
Operating income	\$ (85,868)	\$ (359)	\$ -0-	\$ (86,227)	\$ 6,469,121
Adjustments to reconcile operating income to net cash flows from operating activities					
Depreciation and amortization	9,634,401	359	-0-	9,634,760	8,519,219
Loss on disposal of capital assets	(424,899)	-0-	-0-	(424,899)	-0-
Amortization of annuities	-0-	(1,508)	-0-	(1,508)	-0-
Provision for bad debts	12,979,186	-0-	-0-	12,979,186	9,465,575
Changes in operating assets and liabilities					
Patient accounts receivable	(7,614,779)	-0-	-0-	(7,614,779)	(17,170,844)
Inventories	208,060	-0-	-0-	208,060	86,802
Other current assets	(47,039)	399,645	-0-	352,606	(803,654)
Other assets	(302,722)	(72,857)	-0-	(375,579)	(416,923)
Accounts payable	(1,493,078)	-0-	-0-	(1,493,078)	545,911
Related party receivables/payables	(193,791)	-0-	-0-	(193,791)	361,961
Salaries, wages and fees payable	587,395	-0-	-0-	587,395	2,471,095
Estimated third-party payor settlements	90,822	-0-	-0-	90,822	(310,530)
Other current liabilities	(1,534)	-0-	-0-	(1,534)	(322,974)
Net cash flows from operating activities	<u>\$ 13,336,154</u>	<u>\$ 325,280</u>	<u>\$ -0-</u>	<u>\$ 13,661,434</u>	<u>\$ 8,894,759</u>
Supplemental cash flows information					
Cash paid for interest, net of amount capitalized of \$358,000 in 2007 and \$848,000 in 2006	\$ 2,522,713	\$ -0-	\$ -0-	\$ 2,522,713	\$ 2,434,614
Property acquired through capital lease obligation	\$ 502,658	\$ -0-	\$ -0-	\$ 502,658	\$ -0-

See accompanying notes to combined financial statements.

RIVERVIEW HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

1. SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

Riverview Hospital (Hospital) is an acute-care 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 the 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 inpatient, outpatient and emergency 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.

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).

Discrete Component Unit

Discretely presented component units are reported in a separate column in the combined financial statements to emphasize they are legally separate from the primary government. 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 Memorial 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. The Foundation's management adjusted net assets that were previously reported in the 2006 financial statements to reflect donor restrictions. Additionally, other adjustments were recorded to the cumulative net asset balances as of December 1, 2006 including an adjustment to reverse a revocable trust in the amount of \$88,000 which had been previously recognized as a contribution, an adjustment to recognize annuities payable of \$30,246 and other miscellaneous adjustments which increased net assets in the amount of \$9,065 for a total decrease in net assets of \$109,181 from the amount that was previously reported.

RIVERVIEW HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

Use of Estimates

The preparation of combined 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 combined financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Enterprise Fund Accounting

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 issues after November 30, 1989, that do not conflict or contradict GASB pronouncements.

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 except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating revenue when earned.

RIVERVIEW HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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. These programs have been audited and the year-end cost reports filed with the Medicare program through December 31, 2005 with differences reflected as deductions from revenue in 2007. Amounts from unresolved cost reports for 2006 through 2007 are reflected in estimated third-party payor settlements on the combined balance sheets. During 2007 and 2006, the Hospital recognized in the combined statements of revenues, expenses and changes in net assets the differences between original estimates and subsequent revisions for the final settlement of cost reports.

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

Advertising

The Hospital expenses advertising costs as they are incurred. Advertising expenses for the years ended December 31, 2007 and 2006 were \$1,458,879 and \$1,764,419, 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.

RIVERVIEW HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

Assets Whose Use is Limited

Assets whose use is limited are stated at fair value in the combined financial statements. These assets include investments designated by the Hospital Board for internal purposes and investments held by trustees for capital improvements and debt service. 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 combined 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

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 combined 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.

RIVERVIEW HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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.

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 combined 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 to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not collect amounts deemed to be charity care, they are not reported as 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 2007 and 2006 was \$83,000 and \$85,000, respectively.

RIVERVIEW HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

Fair Value of Financial Instruments

Financial instruments consist of cash and cash equivalents, patient accounts receivable, assets whose use is limited, accounts payable, accrued liabilities, estimated third-party settlements and long-term debt. The carrying amounts reported in the combined balance sheets for cash and cash equivalents, patient accounts receivable, accounts payable, accrued liabilities and estimated third-party settlements approximate fair value.

The fair values of assets whose use is limited are estimated based on quoted market prices for those or similar investments. The fair value of long-term debt obligations is estimated using discounted cash flow analyses, based on the Hospital's current incremental borrowing rates for similar types of borrowing arrangements.

Federal or State Income Taxes

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

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 combined financial statements.

Total Columns on Combined Statements

The total columns on the Combined Financial Statements for 2006 are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis in comparison to the current year.

Reclassifications

Certain amounts from the 2006 combined financial statements have been reclassified to conform to the current year presentation.

RIVERVIEW HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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.

Minimum Revenue Guarantees

FASB Staff Position No. 45-3, "Application of FASB Interpretation No. 45 to Minimum Revenue Guarantees Granted to a Business or Its Owners" ("FIN 45-3") is an amendment to FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees. FIN 45-3 addresses Indirect Guarantees of Indebtedness of Others" ("FIN 45") by adding minimum revenue guarantees to the list of examples of contracts to which FIN 45 applies.

Under FIN 45, a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. One example cited in FIN 45-3 involves a guarantee provided by a healthcare entity to a non-employed physician in order to recruit such physician to move to the entity's geographical area and establish a private practice, which is the approach the Hospital uses in recruiting physicians to the community. FIN 45 is effective for new minimum revenue guarantees issued or modified on or after January 1, 2006.

The Hospital adopted this amendment to FIN 45 effective January 1, 2006. For periods ending before January 1, 2006, the Hospital did not report the fair value of its obligations under physician revenue guarantee agreements. However, under FIN 45 as amended, the Hospital is required to report the liability for these physician revenue guarantees on its balance sheets at fair value and amortize the related prepaid physician recruitment expense over the period of the physician's contractual commitment to practice in the local community, which is typically three years. As of December 31, 2007, the Hospital recorded a physician recruitment asset and corresponding liability of \$262,500. The asset is located in other assets on the combined balance sheet. As of December 31, 2006, the Hospital had not entered or modified any physician revenue guarantee agreements on or after January 1, 2006; accordingly, the adoption of this amendment had no effect on the accompanying 2006 financial statements.

RIVERVIEW HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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. Medicare and Medicaid inpatient acute care services and outpatient services rendered to program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is a 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 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Patient service revenue		
Inpatient	\$ 111,680,141	\$ 107,494,360
Outpatient	159,793,126	152,081,942
Gross service patient revenue	<u>271,473,267</u>	<u>259,576,302</u>
Deductions from revenue		
Contractual allowances	129,129,111	123,484,481
Charity care	4,763,459	3,158,418
Provision for bad debts	12,979,186	9,465,575
Total deductions from revenue	<u>146,871,756</u>	<u>136,108,474</u>
Net patient service revenue	<u>\$ 124,601,511</u>	<u>\$ 123,467,828</u>

Revenue from the Medicare and Medicaid programs accounted for approximately 42 percent and 5 percent, respectively, of the Hospital's gross patient revenue for the year ended 2007, and 41 percent and 6 percent, respectively, of the Hospital's gross patient revenue, for the year ended 2006. 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.

3. CHARITY CARE

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of services and supplies furnished under its charity care policy. The charity care (measured at charges foregone) provided during 2007 and 2006 was \$4,763,459 and \$3,158,418, respectively.

RIVERVIEW HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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. All interest earned by the long-term investments and other board designated investments accounts are left to accumulate as an addition to the funds.

Trustee Held Assets

The Hospital deposited funds for certain debt requirements which are held by the trustee in accordance with the trust indenture.

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 COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

The reporting entity's investments generally are reported at fair value, as discussed in Note 1. As of December 31, 2007 and 2006, 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, 2007

	Carrying amount	Investment Maturities (in Years)			
		Less than 1	1 - 5	6 - 10	More than 10
Hospital					
U.S. Government Securities	\$ 2,187,396	\$ 446,515	\$ 1,599,343	\$ 114,360	\$ 27,178
Certificates of Deposit	11,855,172	5,826,037	3,500,000	2,529,135	-0-
Mutual Funds - Equities	17,449,908	17,449,908	-0-	-0-	-0-
Mutual Funds - Fixed Income	5,116,046	5,116,046	-0-	-0-	-0-
	<u>\$ 36,608,522</u>	<u>\$ 28,838,506</u>	<u>\$ 5,099,343</u>	<u>\$ 2,643,495</u>	<u>\$ 27,178</u>
Foundation					
Corporate Bonds	231,406	\$ -0-	\$ 32,297	\$ 74,065	\$ 125,044
U.S. Government Securities	268,856	8,027	44,232	-0-	216,597
Corporate Equities	2,482,088	2,482,088	-0-	-0-	-0-
Certificates of Deposit	548,396	119,481	428,915	-0-	-0-
	<u>\$ 3,530,746</u>	<u>\$ 2,609,596</u>	<u>\$ 505,444</u>	<u>\$ 74,065</u>	<u>\$ 341,641</u>

December 31, 2006

	Carrying amount	Investment Maturities (in Years)			
		Less than 1	1 - 5	6 - 10	More than 10
Hospital					
U.S. Government Securities	\$ 2,102,246	\$ 99,688	\$ 1,849,166	\$ 153,392	\$ -0-
Certificates of Deposit	15,983,160	4,212,451	11,770,709	-0-	-0-
Mutual Funds - Equities	12,422,397	12,422,397	-0-	-0-	-0-
Mutual Funds - Fixed Income	1,412,441	1,412,441	-0-	-0-	-0-
	<u>\$ 31,920,244</u>	<u>\$ 18,146,977</u>	<u>\$ 13,619,875</u>	<u>\$ 153,392</u>	<u>\$ -0-</u>
Foundation					
Corporate Bonds	\$ 153,410	\$ -0-	\$ 34,823	\$ 38,663	\$ 79,924
U.S. Government Securities	424,584	84,494	17,923	-0-	322,167
Corporate Equities	2,402,887	2,402,887	-0-	-0-	-0-
Fixed Income	22,676	22,676	-0-	-0-	-0-
Certificates of Deposit	-0-	-0-	-0-	-0-	-0-
	<u>\$ 3,003,557</u>	<u>\$ 2,510,057</u>	<u>\$ 52,746</u>	<u>\$ 38,663</u>	<u>\$ 402,091</u>

RIVERVIEW HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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, 2007 and 2006:

	2007	2006
Hospital		
Carrying amount		
Deposits	\$ 9,619,834	\$ 7,971,953
Investments	36,608,522	31,920,244
	\$ 46,228,356	\$ 39,892,197
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 5,871,577	\$ 1,599,040
Board designated funds	33,351,572	31,365,943
Trustee held assets	7,005,207	6,927,214
	\$ 46,228,356	\$ 39,892,197
Foundation		
Carrying amount		
Deposits	\$ 274,250	\$ 459,872
Investments	3,530,746	3,003,557
	\$ 3,804,996	\$ 3,713,452
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 274,250	\$ 459,872
Investments	3,530,746	3,253,580
	\$ 3,804,996	\$ 3,713,452

RIVERVIEW HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

6. CAPITAL ASSETS

Capital asset progressions for 2007 and 2006 follow:

	December 31, 2006	Additions	Retirements	Transfers	December 31, 2007
Hospital					
Land	\$ 4,481,710	\$ -0-	\$ -0-	\$ -0-	\$ 4,481,710
Land improvements	1,722,204	13,877	(7,293)	85,269	1,814,057
Buildings and improvements	69,692,895	212,990	(270,824)	3,310,343	72,945,404
Equipment	88,379,176	3,174,810	(1,409,561)	5,462,892	95,607,317
Construction in progress	11,284,447	3,615,878	-0-	(8,858,504)	6,041,821
Total capital assets	<u>175,560,432</u>	<u>7,017,555</u>	<u>(1,687,678)</u>	<u>-0-</u>	<u>180,890,309</u>
Less accumulated depreciation					
Land improvements	1,059,446	89,426	(6,057)	-0-	1,142,815
Buildings and improvements	22,519,108	2,933,207	(128,585)	-0-	25,323,730
Equipment	59,745,548	6,423,305	(1,128,137)	-0-	65,040,716
Total accumulated depreciation	<u>83,324,102</u>	<u>9,445,938</u>	<u>(1,262,779)</u>	<u>-0-</u>	<u>91,507,261</u>
Capital assets, net	<u>\$ 92,236,330</u>	<u>\$ (2,428,383)</u>	<u>\$ (424,899)</u>	<u>\$ -0-</u>	<u>\$ 89,383,048</u>
Foundation					
Equipment	\$ 15,380	\$ -0-	\$ -0-	\$ -0-	\$ 15,380
Less accumulated depreciation	15,021	359	-0-	-0-	15,380
Capital assets, net	<u>\$ 359</u>	<u>\$ 359</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

	December 31, 2005	Additions	Retirements	Transfers	December 31, 2006
Hospital					
Land	\$ 981,151	\$ 3,500,559	\$ -0-	\$ -0-	\$ 4,481,710
Land improvements	1,497,537	-0-	-0-	224,667	1,722,204
Buildings and improvements	57,853,745	291,498	-0-	11,547,652	69,692,895
Equipment	83,056,958	3,956,500	-0-	1,365,718	88,379,176
Construction in progress	14,876,709	9,545,775	-0-	(13,138,037)	11,284,447
Total capital assets	<u>158,266,100</u>	<u>17,294,332</u>	<u>-0-</u>	<u>-0-</u>	<u>175,560,432</u>
Less accumulated depreciation					
Land improvements	1,015,948	43,498	-0-	-0-	1,059,446
Buildings and improvements	20,880,832	1,638,276	-0-	-0-	22,519,108
Equipment	53,168,504	6,577,044	-0-	-0-	59,745,548
Total accumulated depreciation	<u>75,065,284</u>	<u>8,258,818</u>	<u>-0-</u>	<u>-0-</u>	<u>83,324,102</u>
Hospital capital assets, net	<u>\$ 83,200,816</u>	<u>\$ 9,035,514</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 92,236,330</u>
Foundation					
Equipment	\$ 15,380	\$ -0-	\$ -0-	\$ -0-	\$ 15,380
Less accumulated depreciation	14,304	717	-0-	-0-	15,021
Foundation capital assets, net	<u>\$ 1,076</u>	<u>\$ 717</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 359</u>

RIVERVIEW HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

7. LONG-TERM DEBT

The terms and due dates of the Hospital's long-term debt, including capital lease obligations as of December 31, 2007 and 2006 follow:

- 1996 tax-exempt revenue bonds, principal maturing in varying amounts due February 1, 2010, collateralized by bond funds held by trustee and by Hamilton County. Interest rates for serial bonds range from 4.60% to 5.20%.
- 1999 tax-exempt revenue bonds, principal maturing in varying amounts due August 1, 2024, collateralized by bond funds held by trustee and net revenues of the Hospital. Interest rates for serial bonds range from 4.60% to 5.50%.
- 2002 tax-exempt revenue bonds, principal maturing in varying amounts due August 1, 2031, collateralized by bond funds held by trustee and net revenues of the Hospital. Interest rates for serial bonds range from 6.00% to 6.125%.
- 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 (3.98% as of December 31, 2007) 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%.
- Capital lease obligations, at varying interest rates of imputed interest of 6.00% to 6.75%, collateralized by leased equipment with cost of \$2,067,093 and \$1,564,435 as of December 31, 2007 and 2006, respectively. Accumulated depreciation on capital leases was \$1,642,361 and \$1,347,472 as of December 31, 2007 and 2006, respectively.

RIVERVIEW HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

The fair value of the fixed rate tax-exempt revenue bonds, Series 1996, 1999, 2002 and 2005 approximated \$44,373,000 and \$47,483,000 (carrying value of \$38,310,000 and \$39,765,000) as of December 31, 2007 and 2006, respectively. The fair value of the fixed rate obligations is estimated using discounted cash flow analyses, based on the Hospital's current incremental borrowing rates for similar types of borrowing arrangements. The fair value of variable rate debt, Series 2004 tax-exempt revenue bonds, approximates its carrying value.

The Hospital has an available letter of credit for \$20,600,000 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 2009. There was no balance outstanding as of December 31, 2007 and 2006.

Under the terms of the revenue bond indenture, the Hospital is required to maintain certain deposits with a trustee. Such deposits are included with restricted cash and investments in the balance sheet. The revenue bond indenture also places limits on the incurrence of additional borrowings and requires that the Hospital satisfy certain measures of financial performances as long as the notes are outstanding.

The Hospital is also required to meet certain financial covenants. The Hospital believes it is in compliance with all covenants as of December 31, 2007 and 2006.

A summary of long-term debt as of December 31, 2007 and 2006 includes the following:

	December 31, 2006	Additional Borrowings	Payments	December 31, 2007	Current Portion
Revenue bonds payable					
1996 Bonds	\$ 1,865,000	\$ -0-	\$ 500,000	\$ 1,365,000	\$ 525,000
1999 Bonds	9,460,000	-0-	330,000	9,130,000	345,000
2002 Bonds	20,000,000	-0-	-0-	20,000,000	-0-
2004 Bonds	19,800,000	-0-	400,000	19,400,000	500,000
2005 Bonds	8,440,000	-0-	625,000	7,815,000	650,000
Total revenue bonds	<u>59,565,000</u>	<u>-0-</u>	<u>1,855,000</u>	<u>57,710,000</u>	<u>2,020,000</u>
Capital lease obligations	279,643	502,658	227,672	554,629	157,948
	<u>\$ 59,844,643</u>	<u>\$ 502,658</u>	<u>\$ 2,082,672</u>	<u>\$ 58,264,629</u>	<u>\$ 2,177,948</u>

RIVERVIEW HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

	December 31, 2005	Additional Borrowings	Payments	December 31, 2006	Current Portion
Revenue bonds payable					
1996 Bonds	\$ 2,340,000	\$ -0-	\$ 475,000	\$ 1,865,000	\$ 500,000
1999 Bonds	9,775,000	-0-	315,000	9,460,000	330,000
2002 Bonds	20,000,000	-0-	-0-	20,000,000	-0-
2004 Bonds	20,200,000	-0-	400,000	19,800,000	400,000
2005 Bonds	9,055,000	-0-	615,000	8,440,000	625,000
Total revenue bonds	<u>61,370,000</u>	<u>-0-</u>	<u>1,805,000</u>	<u>59,565,000</u>	<u>1,855,000</u>
Capital lease obligations	610,428	-0-	330,785	279,643	181,869
	<u>\$ 61,980,428</u>	<u>\$ -0-</u>	<u>\$ 2,135,785</u>	<u>\$ 59,844,643</u>	<u>\$ 2,036,869</u>

Scheduled principal and interest repayments on long-term debt and payments on capital lease obligations are as follows:

Year Ending December 31,	Long-term Debt		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2008	\$ 2,020,000	\$ 2,922,075	\$ 157,948	\$ 44,044
2009	2,095,000	2,854,475	141,046	29,199
2010	1,865,000	2,781,765	143,475	16,187
2011	1,625,000	2,727,055	112,160	3,897
2012	1,675,000	2,676,015	-0-	-0-
2013-2017	9,775,000	12,488,316	-0-	-0-
2018-2022	10,375,000	10,795,425	-0-	-0-
2023-2027	13,455,000	8,109,613	-0-	-0-
2028-2032	14,825,000	4,066,381	-0-	-0-
	<u>\$ 57,710,000</u>	<u>\$ 49,421,120</u>	<u>\$ 554,629</u>	<u>\$ 93,327</u>

8. PENSION PLAN

Plan Description

The Hospital has a defined contribution pension plan, Riverview Hospital Employees Pension Plan, which covers all employees who meet eligibility requirements as to age and length of service. The plan provides retirement, disability and death benefits to plan members and beneficiaries. The plan was established by written agreement between the Hospital Board of Trustees and the plan administrator. The Hospital is required to contribute 7.2% of the first \$49,864 of covered payroll and 11.5% for the amount over \$49,864 up to \$125,000 of the covered payroll. Employer contributions to the plan were \$2,047,526 and \$2,142,038 for 2007 and 2006, respectively.

RIVERVIEW HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

9. 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. Total rent expense for 2007 and 2006 was \$2,855,654 and \$2,957,197, respectively.

The following is a schedule of future minimum lease payments under operating leases as of December 31, 2007, that have initial or remaining lease terms in excess of one year.

Year ending December 31,	
2008	\$ 1,625,322
2009	1,459,010
2010	1,261,304
2011	1,137,689
2012	1,116,695
2013-2017	4,762,040
2018-2022	4,734,228
2023-2024	<u>2,925,468</u>
	<u>\$ 19,021,756</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 and \$9,443,904 as of December 31, 2007 and 2006, respectively, and accumulated depreciation of \$3,952,986 and \$3,685,336 as of December 31, 2007 and 2006, respectively. Total rental income for all operating leases was \$503,523 and \$593,273 for 2007 and 2006, respectively. Future minimum rentals under the leases are as follows:

Year ending December 31,	
2008	\$ 257,854
2009	214,447
2010	106,843
2011	58,445
2012	58,445
Thereafter	<u>24,352</u>
	<u>\$ 720,386</u>

RIVERVIEW HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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 from operations.

In March 2005, the FASB issued Interpretation No. 47, Accounting for Condition and Retirement Obligations, an interpretation of FASB Statement 143. This interpretation elaborates on the disclosures to be made by an organization in its financial statements about its obligations related to asset retirements. The interpretation is effective for fiscal years ending after December 15, 2005. Management has evaluated the Interpretation and determined the impact to be immaterial to the consolidated financial statements.

10. 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 from patients and third-party payors for 2007 and 2006 was as follows:

	<u>2007</u>	<u>2006</u>
Self pay	31%	29%
Medicare	22%	26%
Blue Cross	13%	12%
Other	34%	33%
	<u>100%</u>	<u>100%</u>

11. 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 combined 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 HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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, 2007 and 2006. The investment is recorded using the equity method and is included in other assets on the combined balance sheets.

Riverview Medical Arts Building Partnership, LLP: In 2006, the Hospital entered into a joint venture organized as a limited liability partnership. The partnership is owned 49% by the Hospital. The purpose of this venture is to acquire real estate located in Noblesville, IN, and construct a medical office building thereon, which will be leased by the Partnership for medical offices. The Hospital recorded an asset of \$285,960 and \$286,000 as of December 31, 2007 and 2006, respectively. The investment is recorded using the equity method and is included in other assets on the combined balance sheets.

Riverview Surgical Management Association: The Hospital has a 33% 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 \$704,080 and \$648,928 as of December 31, 2007 and 2006. The investment is recorded using the equity method and is included in other assets on the combined balance sheets.

Amounts paid to RSMA in 2007 and 2006 were \$5,587,657 and \$4,778,651, respectively, comprising of management fees and lease payments. Amounts receivable and payable as of December 31, 2007 and 2006 to RSMA are included in the combined balance sheets.

12. 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 2007 and 2006 was \$5,888,606 and \$4,037,035, respectively.

RIVERVIEW HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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 the past two years are as follows:

	<u>2007</u>	<u>2006</u>
Unpaid claims, beginning of year	\$ 719,920	\$ 982,456
Incurred claims and changes in estimates	5,888,606	4,037,035
Claim payments	<u>(5,389,712)</u>	<u>(4,299,571)</u>
Unpaid claims, end of year	<u>\$ 1,218,814</u>	<u>\$ 719,920</u>

13. 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.

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. 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.