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December 28, 2010

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, 2009 to December 31, 2009. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Riverview Hospital, as of December 31, 2009 and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

STATE BOARD OF ACCOUNTS



COMBINED FINANCIAL STATEMENTS
AND
REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2009 AND 2008

CPAs / ADVISORS



RIVERVIEW HOSPITAL

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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, 2009 and 2008 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, 2009 and 2008, 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.

Management's discussion and analysis as listed in the table of contents 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

March 29, 2010

RIVERVIEW HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) DECEMBER 31, 2009

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, 2009. 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

- Capital assets, net basis decreased approximately \$4,025,000 compared to prior year with the 2008 completion of various construction projects and investments in medical equipment.
- Assets whose use limited increased approximately \$8,798,000 compared to prior year primarily due to an overall enhancement in the market value of investments.
- The Hospital reported an increase in change in net assets of approximately \$10,710,000 for the year ended 2009. The main factor for the increase was an investment gain of approximately \$7,277,000 in 2009 compared to investment loss of approximately \$8,420,000 in 2008.

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, 2009

THE HOSPITAL'S BALANCE SHEETS

Assets, Liabilities, and Net Assets

	<u>2009</u>	<u>2008</u>	<u>Change</u>
Assets			
Current assets	\$ 39,776,823	\$ 36,947,237	\$ 2,829,586
Capital assets, net	92,187,319	96,212,177	(4,024,858)
Assets whose use is limited	42,082,239	33,284,090	8,798,149
Other assets	<u>3,014,690</u>	<u>3,528,331</u>	<u>(513,641)</u>
Total assets	<u>\$ 177,061,071</u>	<u>\$ 169,971,835</u>	<u>\$ 7,089,236</u>
Liabilities			
Current liabilities	\$ 13,697,412	\$ 15,256,330	\$ (1,558,918)
Long-term debt	<u>53,700,498</u>	<u>55,761,889</u>	<u>(2,061,391)</u>
Total liabilities	67,397,910	71,018,219	(3,620,309)
Net assets			
Invested in capital assets, net of related debt	35,981,705	37,846,292	(1,864,587)
Restricted	11,226,658	10,604,933	621,725
Unrestricted	<u>62,454,798</u>	<u>50,502,391</u>	<u>11,952,407</u>
Total net assets	<u>109,663,161</u>	<u>98,953,616</u>	<u>10,709,545</u>
Total liabilities and net assets	<u>\$ 177,061,071</u>	<u>\$ 169,971,835</u>	<u>\$ 7,089,236</u>

The significant changes in the Hospital's assets included assets who use is limited which increased approximately \$8,798,000 due to additional deposits of \$2,000,000 and investment gains related to the general enhancement in the market value of investments and capital assets, which decreased \$4,025,000 as depreciation outpaced capital additions. The net assets increased approximately \$10,700,000 due to gains from operations and investment gains.

RIVERVIEW HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)
DECEMBER 31, 2009

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET ASSETS

Operating Results and Changes in Net Assets

	<u>2009</u>	<u>2008</u>	<u>Change</u>
Operating revenue			
Net patient service revenue	\$ 131,474,449	\$ 133,540,097	\$ (2,065,648)
Other operating revenue	<u>5,188,365</u>	<u>5,014,029</u>	<u>174,336</u>
Total operating revenue	<u>136,662,814</u>	<u>138,554,126</u>	<u>(1,891,312)</u>
Operating expenses			
Salaries and benefits	66,499,725	65,554,972	944,753
Medical supplies and drugs	19,396,412	18,427,866	968,546
Depreciation and amortization	10,089,503	10,038,729	50,774
Other operating expenses	<u>35,435,104</u>	<u>36,089,366</u>	<u>(654,262)</u>
Total operating expenses	<u>131,420,744</u>	<u>130,110,933</u>	<u>1,309,811</u>
Operating income	5,242,070	8,443,193	(3,201,123)
Nonoperating expense, net	<u>5,467,475</u>	<u>(9,490,118)</u>	<u>14,957,593</u>
Change in net assets	10,709,545	(1,046,925)	11,756,470
Net assets, beginning of year	<u>98,953,616</u>	<u>100,000,541</u>	<u>(1,046,925)</u>
Net assets, end of year	<u>\$ 109,663,161</u>	<u>\$ 98,953,616</u>	<u>\$ 10,709,545</u>

SOURCES OF REVENUE

During 2009, 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 53% of the Hospital's gross revenues in 2009 but only 29% of the Hospital's net patient service revenues.

RIVERVIEW HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) DECEMBER 31, 2009

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

<u>Payor</u>	<u>2009</u>	<u>2008</u>
Self Pay	9%	8%
Medicare	45%	44%
Medicaid	8%	6%
Anthem/Blue Cross	18%	20%
Other Commercial	20%	22%
Total	<u>100%</u>	<u>100%</u>

The Hospital's outpatient services represented approximately 62% of the Hospital's gross patient revenue in 2009.

OPERATING AND FINANCIAL PERFORMANCE

The Hospital's 2009 return on equity was 9.7%, compared to (1.06%) for 2008. The Hospital's debt service coverage ratio was approximately 4.6 for 2009.

The following section highlights the major financial factors for 2009:

- The Hospital's discharges for 2009 decreased 3.3% to 5,744 (excluding newborns) from 2008's total of 5,939 (excluding newborns); the Hospital's adjusted patient days decreased 1.2% to 54,117 in 2009, compared to 54,778 in 2008.
- Net patient service revenue decreased \$2,066,000 during 2009, a 1.5% decrease over 2008.
- Operating expenses increased \$1,310,000, or 1.0%. The growth is attributable to market inflation.
- Salaries and Benefits were the expense classifications with the certain of the largest increases over 2008. Salaries and Benefits expense in 2009 was approximately \$945,000 greater than 2008. Man-hours per adjusted patient day decreased in 2009 to 34.9 hours, compared to 35.2 hours for 2008. The average hourly rate paid increased 4.7% in 2009, due primarily to employing additional physicians and secondarily staff merit increases.

RIVERVIEW HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) DECEMBER 31, 2009

CAPITAL ASSETS

During 2009, the Hospital's capital assets increased by \$5.3 million. The change in capital assets is outlined in the following table:

	<u>2009</u>	<u>2008</u>	<u>Change</u>
Land and improvements	\$ 12,973,293	\$ 12,835,199	\$ 138,094
Buildings and improvements	84,941,571	79,703,735	5,237,836
Equipment	102,346,167	99,870,532	2,475,635
Construction in progress	<u>1,482,125</u>	<u>3,989,034</u>	<u>(2,506,909)</u>
Total capital assets	201,743,156	196,398,500	5,344,656
Less accumulated depreciation	<u>109,555,837</u>	<u>100,186,323</u>	<u>9,369,514</u>
Capital assets, net	<u>\$ 92,187,319</u>	<u>\$ 96,212,177</u>	<u>\$ (4,024,858)</u>

Net Capital Assets have decreased due to the offset by the increase in accumulated depreciation for the assets added in 2009. The Hospital continually evaluates facilities and equipment to ensure that everything is upgraded as necessary.

DEBT

The Hospital has the following debt outstanding totaling \$56.2 million as of December 31, 2009:

- 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, 2009

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

COMBINED BALANCE SHEETS DECEMBER 31, 2009

(WITH COMPARATIVE COMBINED TOTALS AT DECEMBER 31, 2008)

ASSETS

	2009			2008	
	Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
Current assets					
Cash and cash equivalents	\$ 12,250,634	\$ 358,590	\$ -0-	\$ 12,609,224	\$ 9,467,973
Current portion of assets whose use is limited	1,865,000	-0-	-0-	1,865,000	2,095,000
Patient accounts receivable, less allowance for uncollectible accounts of \$6,694,668 and \$8,044,294, respectively	20,459,624	-0-	-0-	20,459,624	20,661,169
Related party receivables	243,531	-0-	(4,603)	238,928	208,996
Inventories	1,988,915	-0-	-0-	1,988,915	2,005,613
Other current assets	2,186,961	428,171	-0-	2,615,132	2,508,486
Total current assets	38,994,665	786,761	(4,603)	39,776,823	36,947,237
Assets whose use is limited					
Board designated funds					
Cash and cash equivalents	343,755	-0-	-0-	343,755	251,773
Long-term investments	34,259,733	2,690,401	-0-	36,950,134	28,223,715
Total board designated funds	34,603,488	2,690,401	-0-	37,293,889	28,475,488
Trustee held assets					
Professional liability insurance funds	874,475	-0-	-0-	874,475	1,117,774
Debt service	5,778,875	-0-	-0-	5,778,875	5,785,828
Total trustee held assets	6,653,350	-0-	-0-	6,653,350	6,903,602
Total assets whose use is limited	41,256,838	2,690,401	-0-	43,947,239	35,379,090
Less current portion	1,865,000	-0-	-0-	1,865,000	2,095,000
Noncurrent assets whose use is limited	39,391,838	2,690,401	-0-	42,082,239	33,284,090
Capital assets					
Land	10,915,010	-0-	-0-	10,915,010	10,915,010
Depreciable capital assets	189,346,021	-0-	-0-	189,346,021	181,494,456
Construction in progress	1,482,125	-0-	-0-	1,482,125	3,989,034
	201,743,156	-0-	-0-	201,743,156	196,398,500
Less accumulated depreciation	109,555,837	-0-	-0-	109,555,837	100,186,323
Capital assets, net	92,187,319	-0-	-0-	92,187,319	96,212,177
Other assets					
	2,455,196	559,494	-0-	3,014,690	3,528,331
Total assets	\$ 173,029,018	\$ 4,036,656	\$ (4,603)	\$ 177,061,071	\$ 169,971,835

See accompanying notes to combined financial statements.

RIVERVIEW HOSPITAL

COMBINED BALANCE SHEETS DECEMBER 31, 2009

(WITH COMPARATIVE COMBINED TOTALS AT DECEMBER 31, 2008)

LIABILITIES AND NET ASSETS

	2009			2008	
	Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
Current liabilities					
Current portion of bonds payable	\$ 1,865,000	\$ -0-	\$ -0-	\$ 1,865,000	\$ 2,095,000
Current portion of capital lease obligations	668,930	-0-	-0-	668,930	647,213
Accounts payable	3,796,695	-0-	-0-	3,796,695	3,696,195
Related party payables	716,284	4,603	(4,603)	716,284	356,431
Salaries, wages and related payables	5,574,838	-0-	-0-	5,574,838	7,368,220
Estimated third-party payor settlements	100,000	-0-	-0-	100,000	49,323
Other current liabilities	975,665	-0-	-0-	975,665	1,043,948
Total current liabilities	13,697,412	4,603	(4,603)	13,697,412	15,256,330
Noncurrent liabilities					
Long-term bonds payable	51,730,000	-0-	-0-	51,730,000	53,595,000
Long-term capital lease obligations	1,941,684	-0-	-0-	1,941,684	2,028,672
Physician recruitment	-0-	-0-	-0-	-0-	112,500
Other long-term liabilities	-0-	28,814	-0-	28,814	25,717
Total noncurrent liabilities	53,671,684	28,814	-0-	53,700,498	55,761,889
Total liabilities	67,369,096	33,417	(4,603)	67,397,910	71,018,219
Net assets					
Invested in capital assets, net of related debt	35,981,705	-0-	-0-	35,981,705	37,846,292
Restricted					
For debt service	5,778,875	-0-	-0-	5,778,875	5,785,828
Expendable for various purposes upon donors' specific restriction	1,754,389	1,075,483	-0-	2,829,872	2,861,047
Nonexpendable permanent endowments	-0-	2,617,911	-0-	2,617,911	1,958,058
Total restricted	7,533,264	3,693,394	-0-	11,226,658	10,604,933
Unrestricted	62,144,953	309,845	-0-	62,454,798	50,502,391
Total net assets	105,659,922	4,003,239	-0-	109,663,161	98,953,616
Total liabilities and net assets	\$ 173,029,018	\$ 4,036,656	\$ (4,603)	\$ 177,061,071	\$ 169,971,835

See accompanying notes to combined financial statements.

RIVERVIEW HOSPITAL

COMBINED BALANCE SHEETS DECEMBER 31, 2008

	ASSETS			Total reporting entity
	Hospital	Foundation	Eliminations	
Current assets				
Cash and cash equivalents	\$ 8,223,477	\$ 1,244,496	\$ -0-	\$ 9,467,973
Current portion of assets whose use is limited	2,095,000	-0-	-0-	2,095,000
Patient accounts receivable, less allowance for uncollectible accounts of \$8,044,294	20,661,169	-0-	-0-	20,661,169
Related party receivables	208,996	-0-	-0-	208,996
Inventories	2,005,613	-0-	-0-	2,005,613
Other current assets	3,407,453	299,633	(1,198,600)	2,508,486
Total current assets	36,601,708	1,544,129	(1,198,600)	36,947,237
Assets whose use is limited				
Board designated funds				
Cash and cash equivalents	251,773	-0-	-0-	251,773
Long-term investments	25,400,560	2,823,155	-0-	28,223,715
Total board designated funds	25,652,333	2,823,155	-0-	28,475,488
Trustee held assets				
Professional liability insurance funds	1,117,774	-0-	-0-	1,117,774
Debt service	5,785,828	-0-	-0-	5,785,828
Total trustee held assets	6,903,602	-0-	-0-	6,903,602
Total assets whose use is limited	32,555,935	2,823,155	-0-	35,379,090
Less current portion	2,095,000	-0-	-0-	2,095,000
Noncurrent assets whose use is limited	30,460,935	2,823,155	-0-	33,284,090
Capital assets				
Land	10,915,010	-0-	-0-	10,915,010
Depreciable capital assets	181,494,456	-0-	-0-	181,494,456
Construction in progress	3,989,034	-0-	-0-	3,989,034
	196,398,500	-0-	-0-	196,398,500
Less accumulated depreciation	100,186,323	-0-	-0-	100,186,323
Capital assets, net	96,212,177	-0-	-0-	96,212,177
Other assets	2,713,366	814,965	-0-	3,528,331
Total assets	\$ 165,988,186	\$ 5,182,249	\$ (1,198,600)	\$ 169,971,835

See accompanying notes to combined financial statements.

RIVERVIEW HOSPITAL

COMBINED BALANCE SHEETS DECEMBER 31, 2008

LIABILITIES AND NET ASSETS

	Hospital	Foundation	Eliminations	Total reporting entity
Current liabilities				
Current portion of bonds payable	\$ 2,095,000	\$ -0-	\$ -0-	\$ 2,095,000
Current portion of capital lease obligations	647,213	-0-	-0-	647,213
Accounts payable	3,696,195	-0-	-0-	3,696,195
Related party payables	356,431	1,198,600	(1,198,600)	356,431
Salaries, wages and related payables	7,368,220	-0-	-0-	7,368,220
Estimated third-party payor settlements	49,323	-0-	-0-	49,323
Other current liabilities	1,043,948	-0-	-0-	1,043,948
Total current liabilities	15,256,330	1,198,600	(1,198,600)	15,256,330
Noncurrent liabilities				
Long-term bonds payable	53,595,000	-0-	-0-	53,595,000
Long-term capital lease obligations	2,028,672	-0-	-0-	2,028,672
Physician recruitment	112,500	-0-	-0-	112,500
Other long-term liabilities	-0-	25,717	-0-	25,717
Total noncurrent liabilities	55,736,172	25,717	-	55,761,889
Total liabilities	70,992,502	1,224,317	(1,198,600)	71,018,219
Net assets				
Invested in capital assets, net of related debt	37,846,292	-0-	-0-	37,846,292
Restricted				
For debt service	5,785,828	-0-	-0-	5,785,828
Expendable for various purposes upon donors' specific restriction	1,490,541	1,370,506	-0-	2,861,047
Nonexpendable permanent endowments	-0-	1,958,058	-0-	1,958,058
Total restricted	7,276,369	3,328,564	-0-	10,604,933
Unrestricted	49,873,023	629,368	-0-	50,502,391
Total net assets	94,995,684	3,957,932	-0-	98,953,616
Total liabilities and net assets	\$ 165,988,186	\$ 5,182,249	\$ (1,198,600)	\$ 169,971,835

See accompanying notes to combined financial statements.

RIVERVIEW HOSPITAL

COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2009 (WITH COMPARATIVE COMBINED TOTALS AT DECEMBER 31, 2008)

	2009			2008	
	Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
Revenue					
Net patient service revenue	\$ 131,474,449	\$ -0-	\$ -0-	\$ 131,474,449	\$ 133,540,097
Other	5,188,365	-0-	-0-	5,188,365	5,014,029
Total operating revenue	136,662,814	-0-	-0-	136,662,814	138,554,126
Operating expenses					
Salaries and wages	55,955,438	-0-	-0-	55,955,438	54,543,182
Employee benefits	10,544,287	-0-	-0-	10,544,287	11,011,790
Contract employees	540,445	-0-	-0-	540,445	1,101,460
Medical supplies	13,921,495	-0-	-0-	13,921,495	13,099,040
Drugs	5,474,917	-0-	-0-	5,474,917	5,328,826
Food	963,950	-0-	-0-	963,950	940,656
Utilities	2,348,020	-0-	-0-	2,348,020	2,456,982
Contract services and consulting fees	19,830,841	-0-	-0-	19,830,841	19,081,840
Repairs and maintenance	3,490,710	-0-	-0-	3,490,710	3,359,284
Rental expense	2,844,344	-0-	-0-	2,844,344	3,246,690
Other supplies and expenses	5,416,794	-0-	-0-	5,416,794	5,902,454
Depreciation and amortization	10,089,503	-0-	-0-	10,089,503	10,038,729
Total operating expenses	131,420,744	-0-	-0-	131,420,744	130,110,933
Operating income	5,242,070	-0-	-0-	5,242,070	8,443,193
Nonoperating income (expenses)					
Investment income	6,822,857	454,301	-0-	7,277,158	(8,419,716)
Contributions and other nonoperating	819,677	391,006	(800,000)	410,683	1,600,596
Grants	-0-	(800,000)	800,000	-0-	-0-
Interest expense	(2,220,366)	-0-	-0-	(2,220,366)	(2,670,998)
Total nonoperating, net	5,422,168	45,307	-0-	5,467,475	(9,490,118)
Change in net assets	10,664,238	45,307	-0-	10,709,545	(1,046,925)
Net assets					
Beginning of year	94,995,684	3,957,932	-0-	98,953,616	100,000,541
End of year	\$ 105,659,922	\$ 4,003,239	\$ -0-	\$ 109,663,161	\$ 98,953,616

See accompanying notes to combined financial statements.

RIVERVIEW HOSPITAL

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

	Hospital	Foundation	Eliminations	Total reporting entity
Revenue				
Net patient service revenue	\$ 133,540,097	\$ -0-	\$ -0-	\$ 133,540,097
Other	5,014,029	-0-	-0-	5,014,029
Total operating revenue	<u>138,554,126</u>	<u>-0-</u>	<u>-0-</u>	<u>138,554,126</u>
Operating expenses				
Salaries and wages	54,543,182	-0-	-0-	54,543,182
Employee benefits	11,011,790	-0-	-0-	11,011,790
Contract employees	1,101,460	-0-	-0-	1,101,460
Medical supplies	13,099,040	-0-	-0-	13,099,040
Drugs	5,328,826	-0-	-0-	5,328,826
Food	940,656	-0-	-0-	940,656
Utilities	2,456,982	-0-	-0-	2,456,982
Contract services and consulting fees	19,081,840	-0-	-0-	19,081,840
Repairs and maintenance	3,359,284	-0-	-0-	3,359,284
Rental expense	3,246,690	-0-	-0-	3,246,690
Other supplies and expenses	5,902,454	-0-	-0-	5,902,454
Depreciation and amortization	10,038,729	-0-	-0-	10,038,729
Total operating expenses	<u>130,110,933</u>	<u>-0-</u>	<u>-0-</u>	<u>130,110,933</u>
Operating income	8,443,193	-0-	-0-	8,443,193
Nonoperating income (expenses)				
Investment loss	(7,550,700)	(869,016)	-0-	(8,419,716)
Contributions and other nonoperating	1,257,577	1,556,404	(1,213,385)	1,600,596
Grants	-0-	(1,213,385)	1,213,385	-0-
Interest expense	(2,670,998)	-0-	-0-	(2,670,998)
Total nonoperating, net	<u>(8,964,121)</u>	<u>(525,997)</u>	<u>-0-</u>	<u>(9,490,118)</u>
Change in net assets	(520,928)	(525,997)	-0-	(1,046,925)
Net assets				
Beginning of year	95,516,612	4,483,929	-0-	100,000,541
End of year	<u>\$ 94,995,684</u>	<u>\$ 3,957,932</u>	<u>\$ -0-</u>	<u>\$ 98,953,616</u>

See accompanying notes to combined financial statements.

RIVERVIEW HOSPITAL

COMBINED STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2009 (WITH COMPARATIVE COMBINED TOTALS AT DECEMBER 31, 2008)

	2009			2008	
	Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
Operating activities					
Cash received from patient services	\$ 131,692,136	\$ -0-	\$ -0-	\$ 131,692,136	\$ 136,272,822
Cash paid for salaries, wages and benefits	(68,293,107)	-0-	-0-	(68,293,107)	(66,135,681)
Cash paid to vendors and suppliers	(53,651,432)	-0-	-0-	(53,651,432)	(55,103,219)
Other receipts and payments, net	5,153,464	(1,063,967)	-0-	4,089,497	5,837,638
Net cash flows from operating activities	14,901,061	(1,063,967)	-0-	13,837,094	20,871,560
Non-capital financing activities					
Contributions and other nonoperating	819,677	391,006	(800,000)	410,683	1,600,596
Grants	-0-	(800,000)	800,000	-0-	-0-
Net cash flows from non-capital financing activities	819,677	(408,994)	-0-	410,683	1,600,596
Capital and related financing activities					
Payments on long-term debt	(2,095,000)	-0-	-0-	(2,095,000)	(2,020,000)
Payments on capital leases	(673,342)	-0-	-0-	(673,342)	(271,523)
Interest expense on long-term debt	(2,220,366)	-0-	-0-	(2,220,366)	(2,670,998)
Proceeds on sale of assets	6,291	-0-	-0-	6,291	27,644
Purchase of capital assets	(4,833,118)	-0-	-0-	(4,833,118)	(14,303,852)
Net cash flows from capital and related financing activities	(9,815,535)	-0-	-0-	(9,815,535)	(19,238,729)
Investing activities					
Investment income	6,822,857	454,301	-0-	7,277,158	(8,419,716)
Other changes in assets whose use is limited and investments	(7,289,465)	132,754	-0-	(7,156,711)	4,901,174
Net cash flows from investing activities	(466,608)	587,055	-0-	120,447	(3,518,542)
Net change in cash and cash equivalents	5,438,595	(885,906)	-0-	4,552,689	(285,115)
Cash and cash equivalents					
Beginning of year	14,236,050	1,244,496	-0-	15,480,546	15,765,661
End of year	<u>\$ 19,674,645</u>	<u>\$ 358,590</u>	<u>\$ -0-</u>	<u>\$ 20,033,235</u>	<u>\$ 15,480,546</u>
Reconciliation of cash and cash equivalents to the balance sheets					
Cash and cash equivalents					
In current assets	\$ 12,250,634	\$ 358,590	\$ -0-	\$ 12,609,224	\$ 9,467,973
In assets whose use is limited	7,424,011	-0-	-0-	7,424,011	6,012,573
Total cash and cash equivalents	<u>\$ 19,674,645</u>	<u>\$ 358,590</u>	<u>\$ -0-</u>	<u>\$ 20,033,235</u>	<u>\$ 15,480,546</u>

See accompanying notes to combined financial statements.

RIVERVIEW HOSPITAL

COMBINED STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2009 (WITH COMPARATIVE COMBINED TOTALS AT DECEMBER 31, 2008)

	2009			2008	
	Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
Reconciliation of operating income					
to net cash flows from operating activities					
Operating income	\$ 5,242,070	\$ -0-	\$ -0-	\$ 5,242,070	\$ 8,443,193
Adjustments to reconcile operating income to net cash flows from operating activities					
Depreciation and amortization	10,089,503	-0-	-0-	10,089,503	10,038,729
Loss on disposal of capital assets	(4,118)	-0-	-0-	(4,118)	(13,822)
Amortization of annuities	-0-	(1,752)	-0-	(1,752)	(1,603)
Provision for bad debts	10,465,007	-0-	-0-	10,465,007	11,132,575
Changes in operating assets and liabilities					
Patient accounts receivable	(10,263,462)	-0-	-0-	(10,263,462)	(8,271,385)
Inventories	16,698	-0-	-0-	16,698	28,736
Other current assets	1,220,492	(128,538)	-0-	1,091,954	281,925
Other assets	(65,418)	255,471	-0-	190,053	(281,170)
Accounts payable	(351,541)	-0-	-0-	(351,541)	382,580
Related party receivables/payables	325,318	(1,193,997)	-0-	(868,679)	(283,799)
Salaries, wages and fees payable	(1,793,382)	-0-	-0-	(1,793,382)	(580,766)
Estimated third-party payor settlements	50,677	-0-	-0-	50,677	(52,469)
Other current liabilities	(30,783)	-0-	-0-	(30,783)	48,836
Other long-term liabilities	-0-	4,849	-0-	4,849	-0-
Net cash flows from operating activities	<u>\$ 14,901,061</u>	<u>\$ (1,063,967)</u>	<u>\$ -0-</u>	<u>\$ 13,837,094</u>	<u>\$ 20,871,560</u>
Supplemental cash flows information					
Cash paid for interest	\$ 2,276,422	\$ -0-	\$ -0-	\$ 2,276,422	\$ 2,673,323
Property acquired through capital lease obligation	\$ 608,071	\$ -0-	\$ -0-	\$ 608,071	\$ 2,392,779
Property additions included in accounts payable	\$ 452,041	\$ -0-	\$ -0-	\$ 452,041	\$ -0-

See accompanying notes to combined financial statements.

RIVERVIEW HOSPITAL

COMBINED STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2008

	Hospital	Foundation	Eliminations	Total reporting entity
Operating activities				
Cash received from patient services	\$ 136,272,822	\$ -0-	\$ -0-	\$ 136,272,822
Cash paid for salaries, wages and benefits	(66,135,681)	-0-	-0-	(66,135,681)
Cash paid to vendors and suppliers	(55,103,219)	-0-	-0-	(55,103,219)
Other receipts and payments, net	5,048,986	788,652	-0-	5,837,638
Net cash flows from operating activities	20,082,908	788,652	-0-	20,871,560
Non-capital financing activities				
Contributions and other nonoperating Grants	1,257,577	1,556,404	(1,213,385)	1,600,596
	-0-	(1,213,385)	1,213,385	-0-
Net cash flows from non-capital financing activities	1,257,577	343,019	-0-	1,600,596
Capital and related financing activities				
Payments on long-term debt	(2,020,000)	-0-	-0-	(2,020,000)
Payments on capital leases	(271,523)	-0-	-0-	(271,523)
Interest expense on long-term debt	(2,670,998)	-0-	-0-	(2,670,998)
Proceeds on sale of assets	27,644	-0-	-0-	27,644
Purchase of capital assets	(14,303,852)	-0-	-0-	(14,303,852)
Net cash flows from capital and related financing activities	(19,238,729)	-0-	-0-	(19,238,729)
Investing activities				
Investment income	(7,550,700)	(869,016)	-0-	(8,419,716)
Other changes in assets whose use is limited and investments	4,193,583	707,591	-0-	4,901,174
Net cash flows from investing activities	(3,357,117)	(161,425)	-0-	(3,518,542)
Net change in cash and cash equivalents	(1,255,361)	970,246	-0-	(285,115)
Cash and cash equivalents				
Beginning of year	15,491,411	274,250	-0-	15,765,661
End of year	\$ 14,236,050	\$ 1,244,496	\$ -0-	\$ 15,480,546
Reconciliation of cash and cash equivalents to the balance sheets				
Cash and cash equivalents				
In current assets	\$ 8,223,477	\$ 1,244,496	\$ -0-	\$ 9,467,973
In assets whose use is limited	6,012,573	-0-	-0-	6,012,573
Total cash and cash equivalents	\$ 14,236,050	\$ 1,244,496	\$ -0-	\$ 15,480,546

See accompanying notes to combined financial statements.

RIVERVIEW HOSPITAL

COMBINED STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2008

	Hospital	Foundation	Eliminations	Total reporting entity
Reconciliation of operating income				
to net cash flows from operating activities				
Operating income	\$ 8,443,193	\$ -0-	\$ -0-	\$ 8,443,193
Adjustments to reconcile operating income to net cash flows from operating activities				
Depreciation and amortization	10,038,729	-0-	-0-	10,038,729
Loss on disposal of capital assets	(13,822)	-0-	-0-	(13,822)
Amortization of annuities	-0-	(1,603)	-0-	(1,603)
Provision for bad debts	11,132,575	-0-	-0-	11,132,575
Changes in operating assets and liabilities				
Patient accounts receivable	(8,271,385)	-0-	-0-	(8,271,385)
Inventories	28,736	-0-	-0-	28,736
Other current assets	(760,649)	(156,026)	1,198,600	281,925
Other assets	(28,851)	(252,319)	-0-	(281,170)
Accounts payable	382,580	-0-	-0-	382,580
Related party receivables/payables	(283,799)	1,198,600	(1,198,600)	(283,799)
Salaries, wages and fees payable	(580,766)	-0-	-0-	(580,766)
Estimated third-party payor settlements	(52,469)	-0-	-0-	(52,469)
Other current liabilities	48,836	-0-	-0-	48,836
Net cash flows from operating activities	<u>\$ 20,082,908</u>	<u>\$ 788,652</u>	<u>\$ -0-</u>	<u>\$ 20,871,560</u>
Supplemental cash flows information				
Cash paid for interest, net of amount capitalized of \$847,000	\$ 2,673,323	\$ -0-	\$ -0-	\$ 2,673,323
Property acquired through capital lease obligation	\$ 2,392,779	\$ -0-	\$ -0-	\$ 2,392,779

See accompanying notes to combined financial statements.

RIVERVIEW HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009

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 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.

RIVERVIEW HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009

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.

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.

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, 2009

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, 2007 with differences reflected as deductions from revenue in 2009. Amounts from unresolved cost reports for 2008 through 2009 are reflected in estimated third-party payor settlements on the combined balance sheets. During 2009 and 2008, the Hospital recognized \$67,256 and \$51,792 of income, respectively in the combined statements of revenues, expenses and changes in net assets for 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, 2009 and 2008 were \$1,222,082 and \$1,129,163, 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, 2009

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, 2009

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. The charity care (measured at charges foregone) provided during 2009 and 2008 was \$8,681,601 and \$6,243,696, respectively.

RIVERVIEW HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009

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 2009 and 2008 was \$76,055 and \$80,000, respectively.

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.

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

The Hospital is required to report the liability for physician revenue guarantees on its combined 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. The Hospital recorded a physician recruitment asset and corresponding liability of \$-0- and \$112,500 for 2009 and 2008, respectively. The asset is recorded in other assets on the combined balance sheets.

Subsequent Events

The Hospital evaluates events or transactions occurring subsequent to the combined balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements are issued which is March 29, 2010.

RIVERVIEW HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009

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. Revenue from the Medicare and Medicaid programs accounted for approximately 45 percent and 8 percent, respectively, of the Hospital's gross patient revenue for the year ended 2009, and 44 percent and 6 percent, respectively, of the Hospital's gross patient revenue, for the year ended 2008. 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 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Patient service revenue		
Inpatient	\$ 133,795,463	\$ 131,256,818
Outpatient	178,762,129	166,733,065
Gross service patient revenue	<u>312,557,592</u>	<u>297,989,883</u>
Deductions from revenue		
Contractual allowances	161,936,535	147,073,515
Charity care	8,681,601	6,243,696
Provision for bad debts	10,465,007	11,132,575
Total deductions from revenue	<u>181,083,143</u>	<u>164,449,786</u>
Net patient service revenue	<u><u>\$ 131,474,449</u></u>	<u><u>\$ 133,540,097</u></u>

RIVERVIEW HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009

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, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
<u>Patient accounts receivable</u>		
Receivable from patients and their insurance carriers	\$ 28,603,490	\$ 34,604,521
Receivable from Medicare	12,285,016	11,561,335
Receivable from Medicaid	4,724,802	4,100,817
Total patient accounts receivable	<u>45,613,308</u>	<u>50,266,673</u>
Less allowance for contractual agreements and uncollectible amounts	<u>(25,153,684)</u>	<u>(29,605,504)</u>
Patient accounts receivable, net	<u>\$ 20,459,624</u>	<u>\$ 20,661,169</u>
<u>Accounts payable and accrued expenses</u>		
Payable to suppliers	\$ 3,796,695	\$ 3,696,195
Payable to employees (including payroll taxes and benefits)	5,574,838	7,368,220
Total accounts payable and accrued expenses	<u>\$ 9,371,533</u>	<u>\$ 11,064,415</u>

RIVERVIEW HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009

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. Board designated funds as of December 31, 2009 and 2008 were \$37,293,889 and \$28,475,488, respectively.

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, 2009 and 2008 were \$5,778,875 and \$5,785,828, respectively. The Hospital also deposits certain funds related to professional liability insurance funds. Professional liability insurance funds as of December 31, 2009 and 2008 were \$874,475 and \$1,117,774, respectively.

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.

As of December 31, 2009 and 2008, 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.

RIVERVIEW HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009

December 31, 2009

	Carrying amount	Investment Maturities (in Years)			
		Less than 1	1 - 5	6 - 10	More than 10
Hospital					
U.S. Government Securities	\$ 2,147,047	\$ 287,634	\$ 1,795,200	\$ 64,213	\$ -0-
Certificates of deposit	750,000	750,000	-0-	-0-	-0-
Mutual funds - equities	15,349,321	15,349,321	-0-	-0-	-0-
Mutual funds - fixed income	15,586,459	15,586,459	-0-	-0-	-0-
	<u>\$ 33,832,827</u>	<u>\$ 31,973,414</u>	<u>\$ 1,795,200</u>	<u>\$ 64,213</u>	<u>\$ -0-</u>
Foundation					
U.S. Government Securities	\$ 502,442	\$ 28,754	\$ 129,976	\$ -0-	\$ 343,712
Corporate equities	2,062,936	2,062,936	-0-	-0-	-0-
Certificates of deposit	125,023	100,023	25,000	-0-	-0-
	<u>\$ 2,690,401</u>	<u>\$ 2,191,713</u>	<u>\$ 154,976</u>	<u>\$ -0-</u>	<u>\$ 343,712</u>

December 31, 2008

	Carrying amount	Investment Maturities (in Years)			
		Less than 1	1 - 5	6 - 10	More than 10
Hospital					
U.S. Government Securities	\$ 2,264,522	\$ 443,242	\$ 1,638,520	\$ 158,345	\$ 24,415
Certificates of deposit	6,031,466	2,750,000	3,281,466	-0-	-0-
Mutual funds - equities	11,826,996	11,826,996	-0-	-0-	-0-
Mutual funds - fixed income	6,420,378	6,420,378	-0-	-0-	-0-
	<u>\$ 26,543,362</u>	<u>\$ 21,440,616</u>	<u>\$ 4,919,986</u>	<u>\$ 158,345</u>	<u>\$ 24,415</u>
Foundation					
Corporate bonds	\$ 293,175	\$ 11,698	\$ 64,473	\$ 85,298	\$ 131,706
U.S. Government Securities	350,980	35,349	-0-	-0-	315,631
Corporate equities	1,392,610	1,392,610	-0-	-0-	-0-
Certificates of deposit	331,440	89,566	241,874	-0-	-0-
Privately held equity securities	454,950	454,950	-0-	-0-	-0-
	<u>\$ 2,823,155</u>	<u>\$ 1,984,173</u>	<u>\$ 306,347</u>	<u>\$ 85,298</u>	<u>\$ 447,337</u>

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.

RIVERVIEW HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009

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, 2009 and 2008:

Hospital	<u>2009</u>	<u>2008</u>
Carrying amount		
Deposits	\$ 19,674,645	\$ 14,236,050
Investments	33,832,827	26,543,362
	<u>\$ 53,507,472</u>	<u>\$ 40,779,412</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 12,250,634	\$ 8,223,477
Board designated funds	34,603,488	25,652,333
Trustee held assets	6,653,350	6,903,602
	<u>\$ 53,507,472</u>	<u>\$ 40,779,412</u>
Foundation		
Carrying amount		
Deposits	\$ 358,590	\$ 1,244,496
Investments	2,690,401	2,823,155
	<u>\$ 3,048,991</u>	<u>\$ 4,067,651</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 358,590	\$ 1,244,496
Investments	2,690,401	2,823,155
	<u>\$ 3,048,991</u>	<u>\$ 4,067,651</u>

RIVERVIEW HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009

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.

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2009 are as follows:

Hospital

	Total	Level 1	Level 2	Level 3
Assets:				
U.S. Government Securities	\$ 2,147,047	\$ -0-	\$ 2,147,047	\$ -0-
Mutual funds	30,935,780	30,935,780	-0-	-0-
	33,082,827	\$ 30,935,780	\$ 2,147,047	\$ -0-
Cash and equivalents	7,424,011			
Certificates of deposit *	750,000			
	\$ 41,256,838			

Foundation

	Total	Level 1	Level 2	Level 3
Assets:				
U.S. Government Securities	\$ 502,442	\$ -0-	\$ 502,442	\$ -0-
Equities	2,062,936	2,062,936	-0-	-0-
	2,565,378	\$ 2,062,936	\$ 502,442	\$ -0-
Certificates of deposit *	125,023			
	\$ 2,690,401			

Liabilities:

Annuities payable	\$ 28,814	\$ -0-	\$ -0-	\$ 28,814
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* Certificates of deposit are reported at contract value

RIVERVIEW HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2008 are as follows:

Hospital	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
U.S. Government Securities	\$ 2,264,522	\$ -0-	\$ 2,264,522	\$ -0-
Mutual funds	18,247,374	18,247,374	-0-	-0-
	<u>20,511,896</u>	<u>\$ 18,247,374</u>	<u>\$ 2,264,522</u>	<u>\$ -0-</u>
Cash and equivalents	6,012,573			
Certificates of deposit *	6,031,466			
	<u>\$ 32,555,935</u>			
Foundation				
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Corporate bonds	\$ 293,175	\$ -0-	\$ 293,175	\$ -0-
U.S. Government Securities	350,980	-0-	350,980	-0-
Equities	1,847,560	1,392,610	454,950	-0-
	<u>2,491,715</u>	<u>\$ 1,392,610</u>	<u>\$ 1,099,105</u>	<u>\$ -0-</u>
Certificates of deposit *	331,440			
	<u>\$ 2,823,155</u>			
Liabilities:				
Annuities payable	<u>\$ 25,717</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 25,717</u>

* Certificates of deposit are reported at contract value

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 2009 and 2008 for assets measured at fair value based upon significant unobservable (non-market) information is as follows:

	<u>2009</u>	<u>2008</u>
Balance, beginning of year	\$ 25,717	\$ 27,320
New annuities	4,849	-0-
Amortization	<u>(1,752)</u>	<u>(1,603)</u>
Balance, end of year	<u>\$ 28,814</u>	<u>\$ 25,717</u>

RIVERVIEW HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009

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

Long-term debt: 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, 2009, the carrying value of the fixed rate long-term debt was \$35,195,000 with a fair value of approximately \$37,252,000. The fair value of variable rate debt, encompassing the Series 2004 tax-exempt revenue bonds and capital leases, approximates its carrying value.

7. CAPITAL ASSETS

Capital asset progressions for 2009 and 2008 follow:

	December 31, 2008	Additions	Retirements	Transfers	December 31, 2009
Hospital					
Land	\$ 10,915,010	\$ -0-	\$ -0-	\$ -0-	\$ 10,915,010
Land improvements	1,920,189	40,367	-0-	97,727	2,058,283
Buildings and improvements	79,703,735	123,520	-0-	5,114,316	84,941,571
Equipment	99,870,532	1,656,062	(582,246)	1,401,819	102,346,167
Construction in progress	3,989,034	4,106,953	-0-	(6,613,862)	1,482,125
Total capital assets	196,398,500	5,926,902	(582,246)	-0-	201,743,156
Less accumulated depreciation					
Land improvements	1,233,476	99,954	-0-	-0-	1,333,430
Buildings and improvements	28,604,265	3,338,241	-0-	-0-	31,942,506
Equipment	70,348,582	6,477,720	(546,401)	-0-	76,279,901
Total accumulated depreciation	100,186,323	9,915,915	(546,401)	-0-	109,555,837
Capital assets, net	\$ 96,212,177	\$ (3,989,013)	\$ (35,845)	\$ -0-	\$ 92,187,319

RIVERVIEW HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009

	December 31, 2007	Additions	Retirements	Transfers	December 31, 2008
Hospital					
Land	\$ 4,481,710	\$ 6,400,000	\$ -0-	\$ 33,300	\$ 10,915,010
Land improvements	1,814,057	10,558	(4,940)	100,514	1,920,189
Buildings and improvements	72,945,403	2,236,263	-0-	4,522,069	79,703,735
Equipment	95,607,319	4,306,196	(1,183,500)	1,140,517	99,870,532
Construction in progress	6,041,820	3,743,614	-0-	(5,796,400)	3,989,034
Total capital assets	<u>180,890,309</u>	<u>16,696,631</u>	<u>(1,188,440)</u>	<u>-0-</u>	<u>196,398,500</u>
Less accumulated depreciation					
Land improvements	1,142,815	95,601	(4,940)	-0-	1,233,476
Buildings and improvements	25,323,730	3,280,535	-0-	-0-	28,604,265
Equipment	65,040,716	6,477,544	(1,169,678)	-0-	70,348,582
Total accumulated depreciation	<u>91,507,261</u>	<u>9,853,680</u>	<u>(1,174,618)</u>	<u>-0-</u>	<u>100,186,323</u>
Hospital capital assets, net	<u>\$ 89,383,048</u>	<u>\$ 6,842,951</u>	<u>\$ (13,822)</u>	<u>\$ -0-</u>	<u>\$ 96,212,177</u>

8. LONG-TERM DEBT

The terms and due dates of the Hospital's long-term debt, including capital lease obligations as of December 31, 2009 and 2008 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 (2.87% as of December 31, 2009) 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%.

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NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009

- Capital lease obligations, at varying interest rates of imputed interest of 6.00% to 6.75%, collateralized by leased equipment with cost of \$3,436,905 and \$3,203,654 as of December 31, 2009 and 2008, respectively. Accumulated depreciation on capital leases was \$820,350 and \$497,456 as of December 31, 2009 and 2008, respectively.

The Hospital has an available letter of credit for \$18,626,212 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 2012. There was no balance outstanding as of December 31, 2009 and 2008. In the event of liquidity drawing (bonds not being remarketed), the drawing is due within 367 days unless the bonds are remarketed or purchased at which time the liquidity advance is due. Reimbursements of other than liquidity drawings are due on the date such drawing is honored.

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 combined 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, 2009 and 2008.

A summary of long-term debt as of December 31, 2009 and 2008 includes the following:

	December 31, 2008	Additional Borrowings	Payments	December 31, 2009	Current Portion
Revenue bonds payable					
1996 Bonds	\$ 840,000	\$ -0-	\$ 555,000	\$ 285,000	\$ 285,000
1999 Bonds	8,785,000	-0-	365,000	8,420,000	380,000
2002 Bonds	20,000,000	-0-	-0-	20,000,000	-0-
2004 Bonds	18,900,000	-0-	500,000	18,400,000	500,000
2005 Bonds	7,165,000	-0-	675,000	6,490,000	700,000
Total revenue bonds	55,690,000	-0-	2,095,000	53,595,000	1,865,000
Capital lease obligations	2,675,885	608,071	673,342	2,610,614	668,930
	<u>\$ 58,365,885</u>	<u>\$ 608,071</u>	<u>\$ 2,768,342</u>	<u>\$ 56,205,614</u>	<u>\$ 2,533,930</u>

RIVERVIEW HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009

	December 31, 2007	Additional Borrowings	Payments	December 31, 2008	Current Portion
Revenue bonds payable					
1996 Bonds	\$ 1,365,000	\$ -0-	\$ 525,000	\$ 840,000	\$ 555,000
1999 Bonds	9,130,000	-0-	345,000	8,785,000	365,000
2002 Bonds	20,000,000	-0-	-0-	20,000,000	-0-
2004 Bonds	19,400,000	-0-	500,000	18,900,000	500,000
2005 Bonds	7,815,000	-0-	650,000	7,165,000	675,000
Total revenue bonds	<u>57,710,000</u>	<u>-0-</u>	<u>2,020,000</u>	<u>55,690,000</u>	<u>2,095,000</u>
Capital lease obligations	554,629	2,392,779	271,523	2,675,885	647,213
	<u>\$ 58,264,629</u>	<u>\$ 2,392,779</u>	<u>\$ 2,291,523</u>	<u>\$ 58,365,885</u>	<u>\$ 2,742,213</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
2010	\$ 1,865,000	\$ 2,781,765	\$ 668,930	\$ 149,365
2011	1,625,000	2,727,055	665,520	104,499
2012	1,675,000	2,676,015	589,716	65,773
2013	1,835,000	2,621,555	560,111	28,816
2014	1,885,000	2,563,298	126,337	5,750
2015-2019	9,905,000	11,843,488	-0-	-0-
2020-2024	11,465,000	9,908,300	-0-	-0-
2025-2029	14,955,000	6,633,844	-0-	-0-
2030-2032	8,385,000	1,889,250	-0-	-0-
	<u>\$ 53,595,000</u>	<u>\$ 43,644,570</u>	<u>\$ 2,610,614</u>	<u>\$ 354,203</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 403(b) Retirement plan was amended on January 1, 2008 and the Riverview Hospital Employees Pension Plan was amended on July 1, 2008.

RIVERVIEW HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009

The Riverview Hospital Employees Pension Plan was 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. As of July 1, 2008, the plan is only open to employees previously enrolled in the plan. The plan is required to contribute 3.0% of covered payroll up to \$225,000 maximum

As of January 1, 2008, the Riverview Hospital 403(b) Retirement Plan is required to match 50% of an employee's contribution up to a maximum of 6% of the employee's compensation with a maximum employee contribution of \$16,500.

Employer contributions to both plans were \$1,683,848 and \$1,502,109 for 2009 and 2008, respectively.

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. Total rent expense for 2009 and 2008 was \$2,844,344 and \$3,246,690, respectively.

The following is a schedule of future minimum lease payments under operating leases as of December 31, 2009, that have initial or remaining lease terms in excess of one year.

Year ending December 31,	
2010	\$ 1,222,250
2011	1,199,241
2012	1,143,325
2013	1,143,325
2014	1,117,725
2015-2019	6,022,113
2020-2024	<u>3,900,624</u>
	<u>\$ 15,748,603</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 \$10,638,795 and \$9,476,144 as of December 31, 2009 and 2008, respectively, and accumulated depreciation of \$4,176,796 and \$3,952,986 as of December 31, 2009 and 2008, respectively. Total rental income for all operating leases was \$620,180 and \$503,523 for 2009 and 2008, respectively.

RIVERVIEW HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009

Future minimum rentals under the leases are as follows:

<u>Year ending December 31,</u>	
2010	\$ 737,851
2011	557,921
2012	391,782
2013	297,671
2014	202,239
2015-2016	<u>193,278</u>
	<u><u>\$ 2,380,742</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 from operations.

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 2009 and 2008 was as follows:

	Receivables		Revenues	
	2009	2008	2009	2008
Self pay	26%	27%	9%	8%
Medicare	27%	23%	45%	44%
Medicaid	10%	8%	8%	6%
Anthem/Blue Cross	10%	16%	18%	20%
Other Commercial	27%	26%	20%	22%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

RIVERVIEW HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009

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 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 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, 2009 and 2008. 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, Indiana, and construct a medical office building thereon, which will be leased by the Partnership for medical offices. The Hospital has recorded an asset of approximately \$280,000 as of December 31, 2009 and 2008. 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 35% 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 approximately \$700,000 as of December 31, 2009 and 2008. The investment is recorded using the equity method and is included in other assets on the combined balance sheets.

RIVERVIEW HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009

Amounts paid to RSMA in 2009 and 2008 were \$4,589,672 and \$5,299,154, respectively, comprising of management fees, lease payments and other expenses. Amounts receivable and payable as of December 31, 2009 and 2008 to RSMA are included in the combined balance sheets.

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 2009 and 2008 was \$4,343,816 and \$4,847,090, 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 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Unpaid claims, beginning of year	\$ 1,062,524	\$ 1,218,814
Incurred claims and changes in estimates	4,343,816	4,847,090
Claim payments	<u>(4,802,449)</u>	<u>(5,003,380)</u>
Unpaid claims, end of year	<u>\$ 603,891</u>	<u>\$ 1,062,524</u>

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.

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.
