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April 2, 2014

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, 2012 to December 31, 2012. 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, 2012 and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

STATE BOARD OF ACCOUNTS



CONSOLIDATED FINANCIAL STATEMENTS

AND

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2012 AND 2011

RIVERVIEW HOSPITAL

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Riverview Hospital
Noblesville, Indiana

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Riverview Hospital (Hospital), a component unit of Hamilton County, which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Guidelines for Audits of County and City Hospitals by Independent Certified Public Accountants, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error.

Board of Trustees
Riverview Hospital
Noblesville, Indiana

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2012 and 2011, and the results of its operations, changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

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

Blue & Co., LLC

Indianapolis, Indiana

March 18, 2013

REQUIRED SUPPLEMENTARY INFORMATION

RIVERVIEW HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) DECEMBER 31, 2012 (WITH COMPARATIVE TOTALS FOR 2011 AND 2010)

Management's discussion and analysis of Riverview Memorial Hospital's (the Hospital) financial performance provides an overview of the Hospital's financial activities for the year ended December 31, 2012 with comparable information for 2011 and 2010. Please read it in conjunction with the Hospital's financial statements and accompanying notes to the financial statements included in this report.

Using This Annual Report

This annual report consists of two parts—*management's discussion and analysis*, and the *basic financial statements*.

- In the "*management's discussion and analysis*" section of this report, management discusses various components of the annual report and provide an analysis of the current financial statement information.
- The "*basic financial statements*" section of this report includes a series of financial statements, which provide information about the activities of the Hospital as a whole. The Balance Sheets reveal the assets, deferred outflows, liabilities and net position of the Hospital on December 31, 2012 and 2011 while the Statements of Revenues, Expenses and Changes in Net Position summarize the revenues and expenses, including nonoperating items for the years then ended. The Statements of Cash Flows summarize the change in cash and cash equivalents as a result of operating, investing and financing activities during the year. The Notes to the Financial Statements disclose additional information addressed within the body of the financial statements.

FINANCIAL HIGHLIGHTS

- Assets whose use is limited increased approximately \$2,700,000 compared to prior year primarily due to the increase in market values of investments during the year. This compares to a decrease in 2011 of approximately \$2,000,000 due to the refinancing of the 1999 bonds.
- The Hospital reported an increase in net position of approximately \$17,000,000 for the year ended 2012. This compares to a change in net position of approximately \$5,000,000 for the year ended 2011.

RIVERVIEW HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) DECEMBER 31, 2012 (WITH COMPARATIVE TOTALS FOR 2011 AND 2010)

Summarized Financial Statement Information

The Hospital's net position is the difference between its assets and deferred outflows and liabilities. The following information documents in summary the net position and the changes in net position related to activities of the Hospital as of December 31, 2012 and 2011 and for the years then ended.

Table 1 – Balance Sheets

	2012	2011	2012 - 2011 Change	2010
Assets				
Current assets	\$ 90,329,010	\$ 54,144,705	\$ 36,184,305	\$ 44,595,069
Capital assets, net	92,343,410	88,787,502	3,555,908	88,608,230
Assets whose use is limited	43,530,390	40,842,951	2,687,439	42,805,099
Other assets	3,093,451	2,606,584	486,867	2,307,203
Total assets	229,296,261	186,381,742	42,914,519	178,315,601
Deferred outflows - deferred loss on bond refundings	1,995,262	1,893,407	101,855	-0-
Total assets and deferred outflows	<u>\$ 231,291,523</u>	<u>\$ 188,275,149</u>	<u>\$ 43,016,374</u>	<u>\$ 178,315,601</u>
Liabilities				
Current liabilities	\$ 51,615,475	\$ 21,847,300	\$ 29,768,175	\$ 14,705,704
Long-term debt and other liabilities	41,750,340	45,543,053	(3,792,713)	47,687,685
Total liabilities	93,365,815	67,390,353	25,975,462	62,393,389
Net assets				
Invested in capital assets, net of related debt	48,472,711	41,702,124	6,770,587	37,690,317
Restricted	5,704,712	6,228,423	(523,711)	6,865,899
Unrestricted - controlling interest	83,136,575	72,459,252	10,677,323	71,365,996
Net assets before non-controlling	137,313,998	120,389,799	16,924,199	115,922,212
Unrestricted - non-controlling interest	611,710	494,997	116,713	-0-
Total net position	137,925,708	120,884,796	17,040,912	115,922,212
Total liabilities and net assets	<u>\$ 231,291,523</u>	<u>\$ 188,275,149</u>	<u>\$ 43,016,374</u>	<u>\$ 178,315,601</u>

The significant changes in the Hospital's assets included current assets, which increased by approximately \$36,000,000 from 2011 to 2012. The significant changes in the Hospital's liabilities included current liabilities, which increased approximately \$30,000,000 from 2011 to 2012. These changes occurred due to the Hospital's continued expansion into long-term care. Long-term debt and other liabilities decreased by approximately \$3,800,000 after the refinancing of the 2004 revenue bonds and current year principal payments. The net position increased approximately \$17,000,000 due to gains from operations and other non-operating activity.

RIVERVIEW HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) DECEMBER 31, 2012 (WITH COMPARATIVE TOTALS FOR 2011 AND 2010)

Table 2 – Statements of Revenues, Expenses and Changes in Net Position

	2012	2011	2012 - 2011 Change	2010
Operating revenue				
Net patient service revenue	\$ 346,595,983	\$ 182,487,273	\$ 164,108,710	\$ 133,544,270
Other operating revenue	8,362,101	5,533,930	2,828,171	4,702,615
Total operating revenue	354,958,084	188,021,203	166,936,881	138,246,885
Operating expenses				
Salaries and benefits	77,327,182	69,937,082	7,390,100	68,087,395
Medical supplies and drugs	39,995,026	25,002,447	14,992,579	21,256,635
Depreciation and amortization	10,337,509	9,577,745	759,764	9,839,658
Other operating expenses	213,381,032	77,431,513	135,949,519	34,980,890
Total operating expenses	341,040,749	181,948,787	159,091,962	134,164,578
Operating income	13,917,335	6,072,416	7,844,919	4,082,307
Nonoperating income, net	3,123,577	(1,109,832)	4,233,409	2,176,744
Change in net position	17,040,912	4,962,584	12,078,328	6,259,051
Less amount attributable to non-controlling interest	116,713	494,997	(378,284)	-0-
Change in net assets attributable to controlling interest	16,924,199	4,467,587	12,456,612	6,259,051
Net position, beginning of year	120,884,796	115,922,212	4,962,584	109,663,161
Net position, end of year	<u>\$ 137,925,708</u>	<u>\$ 120,884,796</u>	<u>\$ 17,040,912</u>	<u>\$ 115,922,212</u>

SOURCES OF REVENUE

During 2012, 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 67% of the Hospital's gross revenues in 2012 compared to 59% in 2011. This change is due to the Hospital's expanded services to long-term care patients, many of which are insured under the Medicare or Medicaid programs.

RIVERVIEW HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) DECEMBER 31, 2012 (WITH COMPARATIVE TOTALS FOR 2011 AND 2010)

Following is a table of major sources of gross patient revenues for 2012, 2011, and 2010:

<u>Payor</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Self Pay	12%	10%	10%
Medicare	45%	46%	44%
Medicaid	22%	13%	8%
Anthem/Blue Cross	10%	16%	19%
Other Commercial	11%	15%	19%
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

The Hospital's outpatient services represented approximately 35% and 51% of the Hospital's gross patient revenue in 2012 and 2011, respectively. This change is due to the continued expansion into long term care.

OPERATING AND FINANCIAL PERFORMANCE

The Hospital's 2012 return on equity was 12.3%, compared to 4.1% for 2011 and 5.3% for 2010. The Hospital's debt service coverage ratio was approximately 5.9 for 2012 and 3.2 for 2011.

The following section highlights the major financial factors for 2012:

- Net patient service revenue increased approximately \$164,000,000 during 2012, a 90% increase over 2011. Operating expenses increased approximately \$159,000,000, or 88%. This is mainly due to the continued expansion into long term care.
- Other operating expenses consisting of purchased services, rent, and other, was the expense classification with the largest increase over 2011. Other operating expenses increased approximately \$136,000,000 from 2011 to 2012. Medical supplies and drugs increased approximately \$15,000,000 from 2011 to 2012.

RIVERVIEW HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) DECEMBER 31, 2012 (WITH COMPARATIVE TOTALS FOR 2011 AND 2010)

Table 3 – Statements of Cash Flows

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

	2012	2011	2012 - 2011 Change	2010
Cash flows from activities				
Operating	\$ 25,819,576	\$ 13,121,388	\$ 12,698,188	\$ 15,081,175
Non-capital financing	(469)	328,171	(328,640)	393,496
Capital and related financing	(18,386,407)	(15,098,053)	(3,288,354)	(14,303,366)
Investing	3,151,179	309,035	2,842,144	(1,075,491)
Total	10,583,879	(1,339,459)	11,923,338	95,814
Cash and cash equivalents				
Beginning of year	18,789,590	20,129,049		20,033,235
End of year	<u>\$ 29,373,469</u>	<u>\$ 18,789,590</u>		<u>\$ 20,129,049</u>

Changes in the Hospital's cash flows are primarily related to the increase in cash provided from operating activities due to increased expansion into long-term care. There was also an increase in the purchase of capital assets.

CAPITAL ASSETS

During 2012, the Hospital's net capital assets have increased by approximately \$3,600,000. This compares to an increase of approximately \$179,000 for 2011. The change in capital assets is outlined in the following table:

	2012	2011	Change	2010
Land and improvements	\$ 12,233,004	\$ 13,176,029	\$ (943,025)	\$ 13,103,109
Buildings and improvements	92,788,115	87,772,414	5,015,701	86,585,250
Equipment	103,113,143	97,652,312	5,460,831	99,613,505
Construction in progress	3,839,664	3,666,763	172,901	1,785,403
Total capital assets	211,973,926	202,267,518	9,706,408	201,087,267
Less accumulated depreciation	119,630,516	113,480,016	6,150,500	112,479,037
Capital assets, net	<u>\$ 92,343,410</u>	<u>\$ 88,787,502</u>	<u>\$ 3,555,908</u>	<u>\$ 88,608,230</u>

RIVERVIEW HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) DECEMBER 31, 2012 (WITH COMPARATIVE TOTALS FOR 2011 AND 2010)

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

DEBT

The Hospital has the following debt outstanding which approximates \$46,000,000 as of December 31, 2012:

- 2005 tax-exempt revenue bonds
- 2010 tax-exempt revenue bonds
- 2011 tax-exempt revenue bonds
- 2012 tax-exempt revenue bonds
- Tipton Family Practice note payable
- Capital lease obligations

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

ECONOMIC OUTLOOK

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

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

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

RIVERVIEW HOSPITAL

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2012

(WITH COMPARATIVE CONSOLIDATED TOTALS AT 2011)

	2012			2011	
	Hospital	Foundation	Eliminations	Total reporting	Total reporting
				entity	entity
Current assets					
Cash and cash equivalents	\$ 24,897,579	\$ 455,186	\$ -0-	\$ 25,352,765	\$ 16,847,771
Current portion of assets whose use is limited	3,536,030	239,198	-0-	3,775,228	3,060,065
Patient accounts receivable, less allowances for uncollectible accounts of \$7,171,837 and \$6,261,778 respectively	38,287,896	-0-	-0-	38,287,896	25,871,553
Related party receivables	333,590	-0-	-0-	333,590	195,589
Inventories	2,994,543	-0-	-0-	2,994,543	2,244,609
Other current assets	19,580,520	4,468	-0-	19,584,988	5,925,118
Total current assets	89,630,158	698,852	-0-	90,329,010	54,144,705
Assets whose use is limited					
Board designated funds					
Long-term investments	41,600,906	-0-	-0-	41,600,906	37,674,593
Total board designated funds	41,600,906	-0-	-0-	41,600,906	37,674,593
Trustee held assets					
Professional liability insurance funds	642,751	-0-	-0-	642,751	835,188
Debt service	1,346,839	-0-	-0-	1,346,839	1,475,524
Total trustee held assets	1,989,590	-0-	-0-	1,989,590	2,310,712
Restricted by donor					
Expendable for various purposes upon donors' specific restriction	88,850	1,050,267	-0-	1,139,117	1,615,408
Nonexpendable permanent endowments	-0-	2,576,005	-0-	2,576,005	2,302,303
Total donor-restricted assets	88,850	3,626,272	-0-	3,715,122	3,917,711
Total assets whose use is limited	43,679,346	3,626,272	-0-	47,305,618	43,903,016
Less current portion	3,536,030	239,198	-0-	3,775,228	3,060,065
Noncurrent assets whose use is limited	40,143,316	3,387,074	-0-	43,530,390	40,842,951
Capital assets					
Land	9,814,610	-0-	-0-	9,814,610	10,915,010
Depreciable capital assets	198,304,275	15,380	-0-	198,319,655	187,688,929
Construction in progress	3,839,661	-0-	-0-	3,839,661	3,666,763
	211,958,546	15,380	-0-	211,973,926	202,270,702
Less accumulated depreciation	119,615,136	15,380	-0-	119,630,516	113,483,200
Capital assets, net	92,343,410	-0-	-0-	92,343,410	88,787,502
Other assets	3,093,451	-0-	-0-	3,093,451	2,606,584
Total assets	225,210,335	4,085,926	-0-	229,296,261	186,381,742
Deferred outflows - deferred loss on bond refundings	1,995,262	-0-	-0-	1,995,262	1,893,407
Total assets and deferred outflows	\$ 227,205,597	\$ 4,085,926	\$ -0-	\$ 231,291,523	\$ 188,275,149

See accompanying notes to consolidated financial statements.

RIVERVIEW HOSPITAL

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2012

(WITH COMPARATIVE CONSOLIDATED TOTALS AT 2011)

	2012			2011	
				Total reporting	Total reporting
	Hospital	Foundation	Eliminations	entity	entity
Current liabilities					
Current portion of bonds payable	\$ 3,536,030	\$ -0-	\$ -0-	\$ 3,536,030	\$ 2,835,607
Current portion of capital lease obligations	605,416	-0-	-0-	605,416	622,834
Accounts payable and other accruals	12,886,475	5,004	-0-	12,891,479	5,640,574
Related party payables	115,706	-0-	-0-	115,706	723,154
Salaries, wages and related payables	8,216,800	-0-	-0-	8,216,800	6,739,810
Estimated third-party payor settlements	437,727	-0-	-0-	437,727	100,000
Other current liabilities	25,812,317	-0-	-0-	25,812,317	5,185,321
Total current liabilities	51,610,471	5,004	-0-	51,615,475	21,847,300
Noncurrent liabilities					
Long-term bonds and notes payable	41,530,447	-0-	-0-	41,530,447	44,727,730
Long-term capital lease obligations	194,068	-0-	-0-	194,068	792,614
Other long-term liabilities	7,100	18,725	-0-	25,825	22,709
Total noncurrent liabilities	41,731,615	18,725	-0-	41,750,340	45,543,053
Total liabilities	93,342,086	23,729	-0-	93,365,815	67,390,353
Net position					
Invested in capital assets, net of related debt	48,472,711	-0-	-0-	48,472,711	41,702,124
Restricted					
For debt service and professional liability insurance	1,989,590	-0-	-0-	1,989,590	2,310,712
Expendable for various purposes upon donors' specific restriction	88,850	1,050,267	-0-	1,139,117	1,615,408
Nonexpendable permanent endowments	-0-	2,576,005	-0-	2,576,005	2,302,303
Total restricted	2,078,440	3,626,272	-0-	5,704,712	6,228,423
Unrestricted	82,700,650	435,925	-0-	83,136,575	72,459,252
Net position - controlling interest	133,251,801	4,062,197	-0-	137,313,998	120,389,799
Non-controlling interest	611,710	-0-	-0-	611,710	494,997
Total net position	133,863,511	4,062,197	-0-	137,925,708	120,884,796
Total liabilities and net position	\$ 227,205,597	\$ 4,085,926	\$ -0-	\$ 231,291,523	\$ 188,275,149

See accompanying notes to consolidated financial statements.

RIVERVIEW HOSPITAL

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2011

ASSETS AND DEFERRED OUTFLOWS

	2011			Total reporting entity
	Hospital	Foundation	Eliminations	
Current assets				
Cash and cash equivalents	\$ 16,440,707	\$ 407,064	\$ -0-	\$ 16,847,771
Current portion of assets whose use is limited	2,835,607	224,458	-0-	3,060,065
Patient accounts receivable, less allowance for uncollectible accounts of \$6,261,778	25,871,553	-0-	-0-	25,871,553
Related party receivables	195,589	-0-	-0-	195,589
Inventories	2,244,609	-0-	-0-	2,244,609
Other current assets	5,923,471	1,647	-0-	5,925,118
Total current assets	53,511,536	633,169	-0-	54,144,705
Assets whose use is limited				
Board designated funds				
Long-term investments	37,674,593	-0-	-0-	37,674,593
Total board designated funds	37,674,593	-0-	-0-	37,674,593
Trustee held assets				
Professional liability insurance funds	835,188	-0-	-0-	835,188
Debt service	1,475,524	-0-	-0-	1,475,524
Total trustee held assets	2,310,712	-0-	-0-	2,310,712
Restricted by donor				
Expendable for various purposes upon donors' specific restriction	394,636	1,220,772	-0-	1,615,408
Nonexpendable permanent endowments	-0-	2,302,303	-0-	2,302,303
Total donor-restricted assets	394,636	3,523,075	-0-	3,917,711
Total assets whose use is limited	40,379,941	3,523,075	-0-	43,903,016
Less current portion	2,835,607	224,458	-0-	3,060,065
Noncurrent assets whose use is limited	37,544,334	3,298,617	-0-	40,842,951
Capital assets				
Land	10,915,010	-0-	-0-	10,915,010
Depreciable capital assets	187,673,549	15,380	-0-	187,688,929
Construction in progress	3,666,763	-0-	-0-	3,666,763
	202,255,322	15,380	-0-	202,270,702
Less accumulated depreciation	113,467,820	15,380	-0-	113,483,200
Capital assets, net	88,787,502	-0-	-0-	88,787,502
Other assets	2,545,364	61,220	-0-	2,606,584
Total assets	182,388,736	3,993,006	-0-	186,381,742
Deferred outflows - deferred loss on bond refundings	1,893,407	-0-	-0-	1,893,407
Total assets and deferred outflows	\$ 184,282,143	\$ 3,993,006	\$ -0-	\$ 188,275,149

See accompanying notes to consolidated financial statements.

RIVERVIEW HOSPITAL

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2011

LIABILITIES AND NET ASSETS

	2011			
	Hospital	Foundation	Eliminations	Total reporting entity
Current liabilities				
Current portion of bonds payable	\$ 2,835,607	\$ -0-	\$ -0-	\$ 2,835,607
Current portion of capital lease obligations	622,834	-0-	-0-	622,834
Accounts payable	5,634,070	6,504	-0-	5,640,574
Related party payables	723,154	-0-	-0-	723,154
Salaries, wages and related payables	6,739,810	-0-	-0-	6,739,810
Estimated third-party payor settlements	100,000	-0-	-0-	100,000
Other current liabilities	5,185,321	-0-	-0-	5,185,321
Total current liabilities	21,840,796	6,504	-0-	21,847,300
Noncurrent liabilities				
Long-term bonds payable	44,727,730	-0-	-0-	44,727,730
Long-term capital lease obligations	792,614	-0-	-0-	792,614
Other long-term liabilities	-0-	22,709	-0-	22,709
Total noncurrent liabilities	45,520,344	22,709	-0-	45,543,053
Total liabilities	67,361,140	29,213	-0-	67,390,353
Net position				
Invested in capital assets, net of related debt	41,702,124	-0-	-0-	41,702,124
Restricted				
For debt service and professional liability insurance	2,310,712	-0-	-0-	2,310,712
Expendable for various purposes upon donors' specific restriction	394,636	1,220,772	-0-	1,615,408
Nonexpendable permanent endowments	-0-	2,302,303	-0-	2,302,303
Total restricted	2,705,348	3,523,075	-0-	6,228,423
Unrestricted	72,018,534	440,718	-0-	72,459,252
Net position - controlling interest	116,426,006	3,963,793	-0-	120,389,799
Non-controlling interest	494,997	-0-	-0-	494,997
Total net position	116,921,003	3,963,793	-0-	120,884,796
Total liabilities and net position	\$ 184,282,143	\$ 3,993,006	\$ -0-	\$ 188,275,149

See accompanying notes to consolidated financial statements.

RIVERVIEW HOSPITAL

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2012 (WITH COMPARATIVE CONSOLIDATED TOTALS FOR 2011)

	2012			2011	
	Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
Revenue					
Net patient service revenue	\$ 346,595,983	\$ -0-	\$ -0-	\$ 346,595,983	\$ 182,487,273
Other	8,362,101	-0-	-0-	8,362,101	5,533,930
Total operating revenue	354,958,084	-0-	-0-	354,958,084	188,021,203
Operating expenses					
Salaries and wages	64,556,530	-0-	-0-	64,556,530	57,769,389
Employee benefits	12,770,652	-0-	-0-	12,770,652	12,167,693
Medical supplies	27,025,514	-0-	-0-	27,025,514	17,162,806
Drugs	12,969,512	-0-	-0-	12,969,512	7,839,641
Food	1,014,596	-0-	-0-	1,014,596	947,425
Utilities	6,321,482	-0-	-0-	6,321,482	3,162,971
Purchased services	160,187,629	-0-	-0-	160,187,629	54,264,405
Repairs and maintenance	4,823,629	-0-	-0-	4,823,629	4,037,006
Rental expense	21,286,901	-0-	-0-	21,286,901	8,028,793
Hospital assessment fee	8,782,246	-0-	-0-	8,782,246	-0-
Other supplies and expenses	10,964,549	-0-	-0-	10,964,549	6,990,913
Depreciation and amortization	10,337,509	-0-	-0-	10,337,509	9,577,745
Total operating expenses	341,040,749	-0-	-0-	341,040,749	181,948,787
Operating income	13,917,335	-0-	-0-	13,917,335	6,072,416
Nonoperating income (expenses)					
Investment gain (loss)	3,977,855	361,933	-0-	4,339,788	(264,207)
Contributions and other nonoperating	263,060	426,149	(689,678)	(469)	328,171
Grants	-0-	(689,678)	689,678	-0-	-0-
Capital contribution	-0-	-0-	-0-	-0-	345,000
Interest expense	(1,215,742)	-0-	-0-	(1,215,742)	(1,518,796)
Total nonoperating, net	3,025,173	98,404	-0-	3,123,577	(1,109,832)
Change in net position	16,942,508	98,404	-0-	17,040,912	4,962,584
Less amount attributable to non-controlling interest	116,713	-0-	-0-	116,713	494,997
Change in net position attributable to controlling interest	16,825,795	98,404	-0-	16,924,199	4,467,587
Net position					
Beginning of year	116,921,003	3,963,793	-0-	120,884,796	115,922,212
End of year	\$ 133,863,511	\$ 4,062,197	\$ -0-	\$ 137,925,708	\$ 120,884,796

See accompanying notes to consolidated financial statements.

RIVERVIEW HOSPITAL

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2011

	2011			Total reporting entity
	Hospital	Foundation	Eliminations	
Revenue				
Net patient service revenue	\$ 182,487,273	\$ -0-	\$ -0-	\$ 182,487,273
Other	5,533,930	-0-	-0-	5,533,930
Total operating revenue	188,021,203	-0-	-0-	188,021,203
Operating expenses				
Salaries and wages	57,769,389	-0-	-0-	57,769,389
Employee benefits	12,167,693	-0-	-0-	12,167,693
Medical supplies	17,162,806	-0-	-0-	17,162,806
Drugs	7,839,641	-0-	-0-	7,839,641
Food	947,425	-0-	-0-	947,425
Utilities	3,162,971	-0-	-0-	3,162,971
Purchased services	54,264,405	-0-	-0-	54,264,405
Repairs and maintenance	4,037,006	-0-	-0-	4,037,006
Rental expense	8,028,793	-0-	-0-	8,028,793
Other supplies and expenses	6,990,913	-0-	-0-	6,990,913
Depreciation and amortization	9,577,745	-0-	-0-	9,577,745
Total operating expenses	181,948,787	-0-	-0-	181,948,787
Operating income	6,072,416	-0-	-0-	6,072,416
Nonoperating income (expenses)				
Investment income	(109,526)	(154,681)	-0-	(264,207)
Contributions and other nonoperating	389,050	480,305	(541,184)	328,171
Grants	-0-	(541,184)	541,184	-0-
Capital contribution	345,000	-0-	-0-	345,000
Interest expense	(1,518,796)	-0-	-0-	(1,518,796)
Total nonoperating, net	(894,272)	(215,560)	-0-	(1,109,832)
Change in net position	5,178,144	(215,560)	-0-	4,962,584
Less amount attributable to non-controlling interest	494,997	-0-	-0-	494,997
Change in net position attributable to controlling interest	4,683,147	(215,560)	-0-	4,467,587
Net position				
Beginning of year	111,742,859	4,179,353	-0-	115,922,212
End of year	\$ 116,921,003	\$ 3,963,793	\$ -0-	\$ 120,884,796

See accompanying notes to consolidated financial statements.

RIVERVIEW HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2012 (WITH COMPARATIVE CONSOLIDATED TOTALS FOR 2011)

	2012			2011	
	Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
Operating activities					
Cash received from patient services	\$ 334,969,165	\$ -0-	\$ -0-	\$ 334,969,165	\$ 176,579,098
Cash paid for salaries, wages and benefits	(76,078,717)	-0-	-0-	(76,078,717)	(68,916,076)
Cash paid to vendors and suppliers	(242,056,090)	-0-	-0-	(242,056,090)	(101,966,601)
Other receipts and payments, net	8,932,303	52,915	-0-	8,985,218	7,424,967
Net cash flows from operating activities	25,766,661	52,915	-0-	25,819,576	13,121,388
Non-capital financing activities					
Contributions and other nonoperating	263,060	426,149	(689,678)	(469)	328,171
Grants	-0-	(689,678)	689,678	-0-	-0-
Net cash flows from non-capital financing activities	263,060	(263,529)	-0-	(469)	328,171
Capital and related financing activities					
Payments on long-term debt	(19,925,084)	-0-	-0-	(19,925,084)	(10,366,663)
Proceeds from issuance of long-term debt	17,428,225	-0-	-0-	17,428,225	7,000,000
Payments on capital leases	(644,922)	-0-	-0-	(644,922)	(707,638)
Payments for bond issuance costs	(126,805)	-0-	-0-	(126,805)	(125,516)
Deferred losses on bond refundings	(241,613)	-0-	-0-	(241,613)	(148,703)
Cash paid for interest	(1,254,751)	-0-	-0-	(1,254,751)	(1,711,782)
Capital contributions received	-0-	-0-	-0-	-0-	345,000
Proceeds on sale of assets	139,973	-0-	-0-	139,973	8,662
Purchase of capital assets	(13,761,430)	-0-	-0-	(13,761,430)	(9,391,413)
Net cash flows from capital and related financing activities	(18,386,407)	-0-	-0-	(18,386,407)	(15,098,053)
Investing activities					
Investment income	4,133,965	361,933	-0-	4,495,898	(108,097)
Purchases of investments	(18,310,134)	(3,580,901)	-0-	(21,891,035)	(24,227,092)
Proceeds from sale of investments	17,057,818	3,488,498	-0-	20,546,316	24,644,224
Net cash flows from investing activities	2,881,649	269,530	-0-	3,151,179	309,035
Net change in cash and cash equivalents	10,524,963	58,916	-0-	10,583,879	(1,339,459)
Cash and cash equivalents					
Beginning of year	18,382,526	407,064	-0-	18,789,590	20,129,049
End of year	<u>\$ 28,907,489</u>	<u>\$ 465,980</u>	<u>\$ -0-</u>	<u>\$ 29,373,469</u>	<u>\$ 18,789,590</u>
Reconciliation of cash and cash equivalents to the balance sheets					
Cash and cash equivalents					
In current assets	\$ 24,897,579	\$ 455,186	\$ -0-	\$ 25,352,765	\$ 16,847,771
In assets whose use is limited	4,009,910	10,794	-0-	4,020,704	1,941,819
Total cash and cash equivalents	<u>\$ 28,907,489</u>	<u>\$ 465,980</u>	<u>\$ -0-</u>	<u>\$ 29,373,469</u>	<u>\$ 18,789,590</u>

See accompanying notes to consolidated financial statements.

RIVERVIEW HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2012 (WITH COMPARATIVE CONSOLIDATED TOTALS FOR 2011)

	2012			2011	
	Total Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
Reconciliation of operating income to net cash flows from operating activities					
Operating income	\$ 13,917,335	\$ -0-	\$ -0-	\$ 13,917,335	\$ 6,072,416
Adjustments to reconcile operating income to net cash flows from operating activities					
Depreciation and amortization	10,337,509	-0-	-0-	10,337,509	9,577,745
(Gain) loss on disposal of capital assets	11,690	-0-	-0-	11,690	21,410
Amortization of annuities	-0-	(3,984)	-0-	(3,984)	(3,712)
Provision for bad debts	13,765,047	-0-	-0-	13,765,047	13,059,724
Changes in operating assets and liabilities					
Patient accounts receivable	(26,181,390)	-0-	-0-	(26,181,390)	(18,798,157)
Inventories	(749,934)	-0-	-0-	(749,934)	(72,319)
Other current assets	(13,666,818)	(2,821)	-0-	(13,669,639)	(3,716,951)
Other assets	(486,867)	61,220	-0-	(425,647)	39,393
Accounts payable	6,783,482	(1,500)	-0-	6,781,982	4,108,895
Related party receivables/payables	(745,449)	-0-	-0-	(745,449)	(384,885)
Salaries, wages and fees payable	1,476,990	-0-	-0-	1,476,990	1,021,006
Deferred income	-0-	-0-	-0-	-0-	129,494
Other current liabilities	20,964,223	-0-	-0-	20,964,223	1,242,631
Other long-term liabilities	3,116	-0-	-0-	3,116	824,698
Net cash flows from operating activities	<u>\$ 25,766,661</u>	<u>\$ 52,915</u>	<u>\$ -0-</u>	<u>\$ 25,819,576</u>	<u>\$ 13,121,388</u>
Supplemental cash flows information					
Property acquired through capital lease obligation	\$ 28,957	\$ -0-	\$ -0-	\$ 28,957	\$ 152,584

See accompanying notes to consolidated financial statements.

RIVERVIEW HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2011

	2011			
	Hospital	Foundation	Eliminations	Total reporting entity
Operating activities				
Cash received from patient services	\$ 176,579,098	\$ -0-	\$ -0-	\$ 176,579,098
Cash paid for salaries, wages and benefits	(68,916,076)	-0-	-0-	(68,916,076)
Cash paid to vendors and suppliers	(101,966,601)	-0-	-0-	(101,966,601)
Other receipts and payments, net	7,418,886	6,081	-0-	7,424,967
Net cash flows from operating activities	13,115,307	6,081	-0-	13,121,388
Non-capital financing activities				
Contributions and other nonoperating	389,050	480,305	(541,184)	328,171
Grants	-0-	(541,184)	541,184	-0-
Net cash flows from non-capital financing activities	389,050	(60,879)	-0-	328,171
Capital and related financing activities				
Payments on long-term debt	(10,366,663)	-0-	-0-	(10,366,663)
Proceeds from issuance of long-term debt	7,000,000	-0-	-0-	7,000,000
Payments on capital leases	(707,638)	-0-	-0-	(707,638)
Payments for bond issuance costs	(125,516)	-0-	-0-	(125,516)
Deferred loss on refunding of 2002 bonds	(148,703)	-0-	-0-	(148,703)
Cash paid for interest	(1,711,782)	-0-	-0-	(1,711,782)
Capital contributions received	345,000	-0-	-0-	345,000
Proceeds on sale of assets	8,662	-0-	-0-	8,662
Purchase of capital assets	(9,391,413)	-0-	-0-	(9,391,413)
Net cash flows from capital and related financing activities	(15,098,053)	-0-	-0-	(15,098,053)
Investing activities				
Investment income	46,584	(154,681)	-0-	(108,097)
Purchase of investments	(19,999,554)	(4,227,538)	-0-	(24,227,092)
Proceeds from sale of investments	20,243,966	4,400,258	-0-	24,644,224
Net cash flows from investing activities	290,996	18,039	-0-	309,035
Net change in cash and cash equivalents	(1,302,700)	(36,759)	-0-	(1,339,459)
Cash and cash equivalents				
Beginning of year	19,685,226	443,823	-0-	20,129,049
End of year	\$ 18,382,526	\$ 407,064	\$ -0-	\$ 18,789,590
Reconciliation of cash and cash equivalents to the balance sheets				
Cash and cash equivalents				
In current assets	\$ 16,440,707	\$ 407,064	\$ -0-	\$ 16,847,771
In assets whose use is limited	1,941,819	-0-	-0-	1,941,819
Total cash and cash equivalents	\$ 18,382,526	\$ 407,064	\$ -0-	\$ 18,789,590

See accompanying notes to consolidated financial statements.

RIVERVIEW HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2011

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

See accompanying notes to consolidated financial statements.

RIVERVIEW HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

1. SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

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

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

During 2012 and 2011, the Hospital entered into lease agreements with the long-term care facilities, collectively referred to as the Lessors, to lease the facilities managed by the Managers. Concurrently, the Hospital entered into agreements with the Managers to manage the above leased facilities. As part of the agreements, the Hospital will pay the Managers a management fee to continue managing the facilities on behalf of the Hospital in accordance with the terms of the agreements. These management fees consist of base management fees, subordinated management fees, and quarterly incentive payments. The agreements expire at various times through December 31, 2016. The terms of these agreements may be renewed at the end of each term for an additional period of two years. All parties involved can terminate the agreement without cause with 90 days written notice.

Other current assets and liabilities include certain reimbursement receivables, accrued fees and expenses, and working capital balances related to the long-term care facilities.

RIVERVIEW HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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

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

The consolidated financial statements of the Hospital are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of Hamilton County, attributable to the transactions of the Hospital, its Subsidiary, and its Foundation. They do not purport to, and do not, present fairly the financial position of Hamilton County as of December 31, 2012 and 2011, the changes in its financial position or its cash flows for the years then ended.

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

Basis of Consolidation, Blended Component Unit and Non-controlling interest

Riverview Medical Imaging, LLC. (RMI) is a consolidated subsidiary as the Hospital owns 74%, which in effect renders RMI a blended component unit of the Hospital. RMI primarily owns and leases medical imaging equipment. The non-controlling interest represents the portion of the equity (net position) that is attributable to investors that are external to and not included in the Hospital's consolidated financial statements.

RIVERVIEW HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

A progression of the net position attributable to the controlling and non-controlling interests follows:

	Controlling Interest	Non-controlling Interest	Total
Net position balances December 31, 2010	\$ 115,922,212	\$ -0-	\$ 115,922,212
Change in net assets before capital contributions	4,467,587	149,997	4,617,584
Capital contributions	-0-	345,000	345,000
December 31, 2011	120,389,799	494,997	120,884,796
Change in net position	16,924,199	116,713	17,040,912
December 31, 2012	\$ 137,313,998	\$ 611,710	\$ 137,925,708

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

Discrete Component Unit

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

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

RIVERVIEW HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Federal or State Income Taxes

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

The blended component unit of Riverview Medical Imaging, LLC (RMI) is organized as a limited liability company, whereby net taxable income is taxed directly to the members and not this entity. Thus, the financial statements do not include any provision for Federal or State income taxes. Riverview Medical Imaging, LLC has filed its federal and state income returns for periods through December 31, 2012.

These tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

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

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Foundation and RMI, and recognize a tax liability if they have taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken and has concluded that as of December 2012 and 2011, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements. The Foundation and RMI are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

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.

RIVERVIEW HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Investments in Debt and Equity Securities

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

Patient Accounts Receivable and Net Patient Service Revenue

Patient revenues and the related accounts receivable are recorded at the time services to patients are performed. The Hospital is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). The Hospital is reimbursed for Medicare and Medicaid inpatient services based on a fixed price per discharge for each diagnosis related grouping (DRG). The Hospital is reimbursed for Medicare and Medicaid outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue.

At the Hospital's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program. The Medicare program cost reports have been audited through December 31, 2010 with immaterial differences reflected as deductions from revenue in 2012. Amounts from unresolved cost reports for 2011 through 2012 are reflected in estimated third-party payor settlements on the consolidated balance sheets.

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

Advertising

The Hospital expenses advertising costs as they are incurred. Advertising expenses for the years ended December 31, 2012 and 2011 were \$1,165,744 and \$861,671, respectively.

RIVERVIEW HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Inventories

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

Assets Whose Use is Limited

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

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

RIVERVIEW HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Accounting Standards

During 2012, the Hospital adopted Statement of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of GASB No. 20 for business-type activities to apply post November 30, 1989, FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. GASB No. 62 has been applied retrospectively and had no impact on the Hospital's net position, changes in net position or financial reporting disclosures.

Also during 2012, the Hospital adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which primarily resulted in renaming net assets to net position within the consolidated balance sheets and consolidated statements of revenues, expenses and changes in net position. GASB No. 63 has been applied retroactively in the accompanying financial statements. Related thereto, the Hospital early adopted GASB 65, *Items Previously Reported as Assets and Liabilities* which primarily resulted in the reclassification of the deferred loss on bond refundings (the difference between the reacquisition price and the net carrying amount of the old debt) from a contra-liability component of long-term debt to a deferred outflow.

Net Position

Net position of the Hospital is classified in various components. Net position - net investment in capital assets consists 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 position consists of assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital. Unrestricted net position is remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Hospital Assessment Fee Program

During 2012, Hospital Assessment Fee (HAF) Program for the period July 1, 2011 through June 30, 2013 was approved by Centers for Medicare & Medicaid Services retroactive to July 1, 2011. The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share (DSH) payments for Indiana hospitals as reflected in the Hospital assessment fee expense reported in the statement of revenues, expenses and changes in net position.

RIVERVIEW HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Previously, the State share was funded by governmental entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates. During 2012 and 2011, the Hospital recognized Hospital assessment fee expense of approximately \$8,780,000 and \$-0-, respectively, which resulted in Medicaid rate increases of approximately \$9,186,000 and \$-0-, respectively.

Electronic Health Records (EHR) Incentive Payments

The Hospital receives EHR incentive payments under the Medicare and Medicaid programs. To qualify for the EHR incentive payments, the Hospital must meet "meaningful use" criteria that become more stringent over time. The Hospital periodically submits and attests to its use of certified EHR technology, satisfaction of meaningful use objectives, and various patient data.

These submissions generally include performance measures for each annual EHR reporting period (Federal fiscal year ending September 30th). The related EHR incentive payments are paid out over a four year transition schedule and are based upon data that is captured in the Hospital's cost reports.

The payment calculation is based upon an initial amount as adjusted for discharges, Medicare and Medicaid utilization using inpatient days multiplied by a factor of total charges excluding charity care to total charges, and a transitional factor that ranges from 100% in first payment year and thereby decreasing by 25% each payment year until it is completely phased out in the fifth year.

The Hospital recognizes EHR incentive payments as grant income when there is reasonable assurance that the Hospital will comply with the conditions of the meaningful use objectives and any other specific agreement requirements. In addition, the financial statement effects of the income must be both recognizable and measurable. During 2012 and 2011, the Hospital recognized \$-0- and \$741,298, respectively, in EHR incentive payments as income. Under the ratable recognition method, the Hospital recognizes income ratably over the entire EHR reporting period when it is reasonably assured at the outset of the EHR reporting period that it will comply with the minimum requirements of the program.

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

RIVERVIEW HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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

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 consolidated statements of revenues, expenses and changes in net position 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.

RIVERVIEW HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Charity Care

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

Of the Hospital's total expenses reported, excluding the long-term care expenses, (approximately \$156,200,000 and \$135,500,000 during the years ended December 31, 2012 and 2011, respectively), an estimated \$3,490,000 and \$2,870,000 arose from providing services to charity patients during the years ended December 31, 2012 and December 31, 2011, respectively.

The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total expenses divided by gross patient service revenue.

Compensated Absences

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

Risk Management

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

RIVERVIEW HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Reclassifications

Certain 2011 balances were reclassified to conform to the 2012 presentation. There is no effect on the consolidated change in net position as a result of these reclassifications.

Subsequent Events

The Hospital evaluates events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements are issued which is March 18, 2013.

2. NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The following is a summary of net patient service revenue for 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Patient service revenue		
Inpatient	\$ 135,243,101	\$ 133,816,281
Outpatient	210,590,698	196,433,860
Long term care	<u>255,280,286</u>	<u>60,605,741</u>
Gross service patient revenue	601,114,085	390,855,882
Deductions from revenue		
Contractual allowances	233,024,416	188,316,204
Charity care	7,728,639	6,992,681
Provision for bad debts	<u>13,765,047</u>	<u>13,059,724</u>
Total deductions from revenue	<u>254,518,102</u>	<u>208,368,609</u>
Net patient service revenue	<u>\$ 346,595,983</u>	<u>\$ 182,487,273</u>

RIVERVIEW HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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, 2012 and 2011:

	2012	2011
<u>Patient accounts receivable</u>		
Receivable from patients and their insurance carriers	\$ 33,490,969	\$ 31,573,105
Receivable from Medicare	19,852,907	16,013,105
Receivable from Medicaid	11,426,829	6,000,283
Total patient accounts receivable	64,770,705	53,586,493
Less allowances for contractual agreements	(19,310,986)	(21,453,162)
Less allowances for uncollectible amounts	(7,171,837)	(6,261,778)
	(26,482,823)	(27,714,940)
Patient accounts receivable, net	<u>\$ 38,287,896</u>	<u>\$ 25,871,553</u>
<u>Accounts payable and accrued expenses</u>		
Payable to suppliers	\$ 12,891,479	\$ 5,640,574
Payable to employees (including payroll taxes and benefits)	8,216,800	6,739,810
Total accounts payable and accrued expenses	<u>\$ 21,108,279</u>	<u>\$ 12,380,384</u>

4. ASSETS WHOSE USE IS LIMITED

Board Designated Funds

The Hospital funds depreciation expense to meet the capital equipment needs of the facility. Depreciation is funded totally, with expenditures for capital equipment and debt principal payments reducing the long-term investments balance. The Hospital designates other investments to fund specific projects. Interest earned by the long-term investments and other board designated investments accounts are left to accumulate as an addition to the funds. Board designated funds as of December 31, 2012 and 2011 were \$41,600,906 and \$37,674,593, 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, 2012 and 2011 were \$1,346,839 and 1,475,524, respectively. The Hospital also deposits certain funds related to professional liability insurance funds. Professional liability insurance funds as of December 31, 2012 and 2011 were \$642,751 and \$835,188, respectively.

RIVERVIEW HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Donor-Restricted - Expendable for Various Purposes

The Hospital has funds which have been donated for specific purposes. The funds must be used for the donor specified purpose. Donor-restricted assets that are expendable for various purposes were \$1,139,117 and \$1,615,408 as of December 31, 2012 and 2011.

Donor-Restricted Nonexpendable Endowments

The Hospital maintains several permanent funds with donor-restricted endowments that totaled \$2,576,005 and \$2,302,303 at December 31, 2012 and 2011, respectively. It is the Hospital's policy that only interest and dividends on investments are authorized for spending. Any appreciation on investments is added to the original endowment and is not authorized for spending.

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

5. DEPOSITS AND INVESTMENTS

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

Investments are carried at fair market value. Net realized gains and losses on security transactions are determined on the specific identification cost basis. Long-term investments consist of mutual funds.

RIVERVIEW HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

As of December 31, 2012 and 2011, 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, 2012					
	Carrying amount	Investment Maturities (in Years)			
		Less than 1	1 - 5	6 - 10	More than 10
Hospital					
Mutual funds - equities	\$ 16,239,419	\$ 16,239,419	\$ -0-	\$ -0-	\$ -0-
Mutual funds - fixed income	23,430,017	23,430,017	-0-	-0-	-0-
	<u>\$ 39,669,436</u>	<u>\$ 39,669,436</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Foundation					
Mutual funds - equities	\$ 1,873,873	\$ 1,873,873	\$ -0-	\$ -0-	\$ -0-
Mutual funds - fixed income	1,101,111	1,101,111	-0-	-0-	-0-
Certificates of deposit	75,000	75,000	-0-	-0-	-0-
	<u>\$ 3,049,984</u>	<u>\$ 3,049,984</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
December 31, 2011					
	Carrying amount	Investment Maturities (in Years)			
		Less than 1	1 - 5	6 - 10	More than 10
Hospital					
Mutual funds - equities	\$ 15,598,012	\$ 15,598,012	\$ -0-	\$ -0-	\$ -0-
Mutual funds - fixed income	22,840,110	22,840,110	-0-	-0-	-0-
	<u>\$ 38,438,122</u>	<u>\$ 38,438,122</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Foundation					
Mutual funds - equities	\$ 2,920,363	\$ 2,920,363	\$ -0-	\$ -0-	\$ -0-
Certificates of deposit	75,000	75,000	-0-	-0-	-0-
	<u>\$ 2,995,363</u>	<u>\$ 2,995,363</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</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.

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.

RIVERVIEW HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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, investments, and other consist of the following as of December 31, 2012 and 2011:

Hospital	2012	2011
Carrying amount		
Deposits	\$ 28,907,489	\$ 18,382,526
Investments	39,669,436	38,438,122
	<u>\$ 68,576,925</u>	<u>\$ 56,820,648</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 24,897,579	\$ 16,440,707
Board designated funds	41,600,906	37,674,593
Trustee held assets	1,989,590	2,310,712
Restricted by donor	88,850	394,636
	<u>\$ 68,576,925</u>	<u>\$ 56,820,648</u>
Foundation		
Carrying amount		
Deposits	\$ 553,022	\$ 345,844
Investments	3,049,984	2,995,363
Pledges receivable	478,452	588,932
	<u>\$ 4,081,458</u>	<u>\$ 3,930,139</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 455,186	\$ 407,064
Restricted by donor	3,626,272	3,523,075
	<u>\$ 4,081,458</u>	<u>\$ 3,930,139</u>

RIVERVIEW HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

6. FAIR VALUE MEASUREMENTS

The Hospital's investments are reported at fair value in the accompanying consolidated balance sheets. Fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction, which requires an entity to maximize the use of observable inputs when measuring fair value.

Assets that are measured at fair value are categorized according to a fair value hierarchy that prioritizes the inputs to valuation techniques, giving the highest priority to quoted prices in active markets for identical assets and the lowest priority to unobservable value inputs. 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. The Hospital's policy is to recognize transfers, if any, between levels as of the actual date of the event or change in circumstances. There were no transfers during 2012 and 2011. The hierarchy of inputs is as follows:

Level 1 Fair Value Measurements

Inputs to the valuation methodology are quoted prices available in the active markets for identical investments as of the reporting date. Mutual funds: are valued at the daily closing price as reported by the fund. Mutual funds held by the Hospital are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Hospital are deemed to be actively traded.

Level 2 Fair Value Measurements

Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Fair Value Measurements

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

RIVERVIEW HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

The preceding methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Hospital believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2012 are as follows:

Hospital	2012			
	Total	Level 1	Level 2	Level 3
Assets:				
Investments limited as to use				
Mutual funds				
Small value	\$ 1,085,764	\$ 1,085,764	\$ -0-	\$ -0-
Mid-cap growth	527,950	527,950	-0-	-0-
Mid-cap value	2,184,245	2,184,245	-0-	-0-
Mid-cap blend	886,396	886,396	-0-	-0-
Large value	2,122,010	2,122,010	-0-	-0-
Large growth	2,663,567	2,663,567	-0-	-0-
Large blend	686,275	686,275	-0-	-0-
Foreign	4,264,207	4,264,207	-0-	-0-
Bond	23,428,837	23,428,837	-0-	-0-
Other	1,820,186	1,820,186	-0-	-0-
	<u>39,669,436</u>	<u>\$ 39,669,436</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Cash and cash equivalents	<u>4,009,910</u>			
	<u>\$ 43,679,346</u>			
Foundation				
Assets:				
Mutual funds				
Small Growth	\$ 87,762	\$ 87,762	\$ -0-	\$ -0-
Small Value	301,308	301,308	-0-	-0-
Foreign Small/Mid Value	69,898	69,898	-0-	-0-
Large Value	544,682	544,682	-0-	-0-
Large Growth	492,196	492,196	-0-	-0-
Large Blend	171,000	171,000	-0-	-0-
Foreign Large Blend	102,715	102,715	-0-	-0-
Diversified Emerging Mkts	104,312	104,312	-0-	-0-
Fixed Income	1,101,111	1,101,111	-0-	-0-
	<u>2,974,984</u>	<u>\$ 2,974,984</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Certificates of deposit *	<u>75,000</u>			
	<u>\$ 3,049,984</u>			

* Certificates of deposit are reported at contract value

RIVERVIEW HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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

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

* Certificates of deposit are reported at contract value

The carrying amount reported in the consolidated balance sheets for cash and cash equivalents, accounts payable, other current liabilities, salaries, wages and related liabilities and estimated third-party settlements approximate fair value based upon the short-term maturities of those items.

RIVERVIEW HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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, 2012, the carrying value of the fixed rate long-term debt was \$27,827,000 with a fair value of approximately \$27,177,000. This fair value was calculated based upon the present value of the discounted future cash flows of each fixed rate instrument through maturity assuming an incremental borrowing rate of 4.2%. The fair value of the variable rate debt and the capital leases approximate the carrying value based upon borrowing rates currently available to the Hospital.

RIVERVIEW HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

7. CAPITAL ASSETS

Capital asset progressions for 2012 and 2011 follow:

	December 31, 2011	Additions	Retirements	Transfers	December 31, 2012
Hospital					
Land	\$ 10,915,010	\$ -0-	\$ -0-	\$ (1,100,400)	\$ 9,814,610
Land improvements	2,261,019	139,807	-0-	17,568	2,418,394
Buildings and improvements	87,772,414	175,123	(125,476)	4,966,054	92,788,115
Equipment	97,638,524	6,234,402	(3,960,095)	3,184,932	103,097,763
Construction in progress	3,666,763	7,241,055		(7,068,154)	3,839,664
Total capital assets	202,253,730	13,790,387	(4,085,571)	-0-	211,958,546
Less accumulated depreciation					
Land improvements	1,566,288	114,208	-0-	-0-	1,680,496
Buildings and improvements	38,946,738	3,677,609	(7,868)	-0-	42,616,479
Equipment	72,953,202	6,290,999	(3,926,040)	-0-	75,318,161
Total accumulated depreciation	113,466,228	10,082,816	(3,933,908)	-0-	119,615,136
Capital assets, net	<u>\$ 88,787,502</u>	<u>\$ 3,707,571</u>	<u>\$ (151,663)</u>	<u>\$ -0-</u>	<u>\$ 92,343,410</u>
Foundation					
Equipment	\$ 15,380	\$ -0-	\$ -0-	\$ -0-	\$ 15,380
Less accumulated depreciation	15,380	-0-	-0-	-0-	15,380
Capital assets, net	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
	December 31, 2010	Additions	Retirements	Transfers	December 31, 2011
Hospital					
Land	\$ 10,915,010	\$ -0-	\$ -0-	\$ -0-	\$ 10,915,010
Land improvements	2,189,691	47,053	-0-	24,275	2,261,019
Buildings and improvements	86,585,250	311,124	-0-	876,040	87,772,414
Equipment	99,598,135	3,894,199	(8,363,746)	2,509,936	97,638,524
Construction in progress	1,785,393	5,291,621	-0-	(3,410,251)	3,666,763
Total capital assets	201,073,479	9,543,997	(8,363,746)	-0-	202,253,730
Less accumulated depreciation					
Land improvements	1,448,375	117,913	-0-	-0-	1,566,288
Buildings and improvements	35,420,591	3,526,147	-0-	-0-	38,946,738
Equipment	75,596,283	5,690,960	(8,334,041)	-0-	72,953,202
Total accumulated depreciation	112,465,249	9,335,020	(8,334,041)	-0-	113,466,228
Hospital capital assets, net	<u>\$ 88,608,230</u>	<u>\$ 208,977</u>	<u>\$ (29,705)</u>	<u>\$ -0-</u>	<u>\$ 88,787,502</u>
Foundation					
Equipment	\$ 15,380	\$ -0-	\$ -0-	\$ -0-	\$ 15,380
Less accumulated depreciation	15,380	-0-	-0-	-0-	15,380
Foundation capital assets, net	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

RIVERVIEW HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

8. LONG-TERM DEBT

On December 1, 2012, the Hospital issued \$16.9 million in Revenue bonds with a variable interest rate of the one-month LIBOR rate plus 1.295% to refund \$16.9 million of outstanding 2004 series bonds with a variable interest rate. The net proceeds of \$16.9 million (after bond issuance costs of approximately \$127,000 and approximately \$127,000 of associated trustee assets) were used to pay all outstanding principal and interest on the called 2004 series bonds.

These transactions in essence created a deferred loss on the refunding of the 2004 bonds of \$241,613 calculated as follows:

Reacquisition price (funds required to be deposited in escrow fund to refund old bonds)	\$ 16,900,421 *
Net carrying amount of old bonds	(16,658,808) **
Deferred loss on refunding	<u>\$ 241,613</u>

* Funds available to accomplish the refunding were:

Funds provided from issuance of new bonds	\$ 16,900,000
2004 bond expense fund into 2012 escrow	127,226
Funds used for new 2012 bond issuance costs	(126,805)
	<u>\$ 16,900,421</u>

**Net carrying amount consist of:

Principal outstanding prior to refunding	\$ 16,900,000
Unamortized bond issuance costs	(241,192)
	<u>\$ 16,658,808</u>

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

RIVERVIEW HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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

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

* Funds available to accomplish the refunding were:

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

**Net carrying amount consist of:

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

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

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

RIVERVIEW HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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

Economic gain

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

* Assumes a calculated effective interest rate of 4.28%

The terms and due dates of the Hospital's long-term debt, including capital lease obligations as of December 31, 2012 and 2011 follow:

- 2005 tax-exempt revenue bonds, principal maturing in varying amounts due August 1, 2017, collateralized by bond funds held by trustee and net revenues of the Hospital. Interest rates for serial bonds range from 2.50% to 4.50%.
- 2010 tax-exempt revenue bonds, principal maturing in varying amounts due December 29, 2025, collateralized by net revenues of the Hospital. Interest rate is fixed at 3.9%.
- 2011 tax-exempt revenue bonds, principal maturing in varying amounts due September 1, 2021, collateralized by net revenues of the Hospital. Interest rate is fixed at 4.2%.
- 2012 tax-exempt revenue bonds, principal maturing in varying amounts due December 1, 2027, collateralized by net revenues of the Hospital. Interest rate is variable at 1.45% as of December 31, 2012.
- Capital lease obligations, at varying interest rates of imputed interest of 6.00% to 6.75%, collateralized by leased equipment with cost of \$4,329,391 and \$4,920,433 as of December 31, 2012 and 2011, respectively. Accumulated depreciation on capital leases was \$2,743,702 and \$2,651,756 as of December 31, 2012 and 2011, respectively.

RIVERVIEW HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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 consolidated 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, 2012 and 2011. A summary of long-term debt as of December 31, 2012 and 2011 includes the following:

	December 31, 2011	Additional Borrowings	Payments	December 31, 2012	Current Portion
Revenue bonds payable					
2004 Bonds	\$ 17,400,000	-0-	17,400,000	-0-	-0-
2005 Bonds	5,065,000	-0-	755,000	4,310,000	790,000
2010 Bonds	18,239,151	-0-	999,016	17,240,135	1,038,699
2011 Bonds	6,859,186	-0-	581,591	6,277,595	606,494
2012 Bonds	-0-	16,900,000	-0-	16,900,000	935,000
Total revenue bonds	47,563,337	16,900,000	19,735,607	44,727,730	3,370,193
Tipton Family Practice note payable	-0-	528,225	189,477	338,748	165,837
Capital lease obligations	1,415,448	28,957	644,922	799,483	605,416
	<u>\$ 48,978,785</u>	<u>\$ 17,457,182</u>	<u>\$ 20,570,006</u>	<u>\$ 45,865,961</u>	<u>\$ 4,141,446</u>
	December 31, 2010	Additional Borrowings	Payments	December 31, 2011	Current Portion
Revenue bonds payable					
1999 Bonds	\$ 8,040,000	\$ -0-	\$ 8,040,000	\$ -0-	\$ -0-
2004 Bonds	17,900,000	-0-	500,000	17,400,000	500,000
2005 Bonds	5,790,000	-0-	725,000	5,065,000	755,000
2010 Bonds	19,200,000	-0-	960,849	18,239,151	999,016
2011 Bonds	-0-	7,000,000	140,814	6,859,186	581,591
Total revenue bonds	50,930,000	7,000,000	10,366,663	47,563,337	2,835,607
Capital lease obligations	1,970,502	152,584	707,638	1,415,448	622,834
	<u>\$ 52,900,502</u>	<u>\$ 7,152,584</u>	<u>\$ 11,074,301</u>	<u>\$ 48,978,785</u>	<u>\$ 3,458,441</u>

RIVERVIEW HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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
2013	\$ 3,536,030	\$ 1,553,893	\$ 605,416	\$ 34,056
2014	3,665,333	1,418,368	167,166	9,020
2015	3,627,401	1,280,900	21,968	727
2016	3,765,244	1,142,657	4,934	120
2017	3,906,068	998,966	-0-	-0-
2018-2022	15,410,961	3,182,882	-0-	-0-
2023-2027	11,155,441	809,910	-0-	-0-
	<u>45,066,477</u>	<u>\$ 10,387,575</u>	<u>\$ 799,484</u>	<u>\$ 43,923</u>

The future maturities related to the 2012 bonds are based upon the 2013 interest rate swap agreement (Note 15).

9. PENSION PLAN

Plan Description

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

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

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

Employer contributions including both plans were \$1,233,427 and \$1,316,927 for 2012 and 2011, respectively.

RIVERVIEW HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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 2017 with options to renew.

The following is a schedule of future minimum lease payments under operating leases as of December 31, 2012, that have initial or remaining lease terms in excess of one year.

Year ending December 31,	
2013	\$ 1,151,996
2014	1,114,562
2015	1,065,386
2016	1,011,555
2017	828,184
	<u>\$ 5,171,683</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 \$9,788,745 and \$9,476,144 as of December 31, 2012 and 2011, respectively, and accumulated depreciation of \$5,357,014 and \$5,015,438 as of December 31, 2012 and 2011, respectively. Total rental income for all operating leases was \$1,179,436 and \$1,001,497 for 2012 and 2011, respectively.

Future minimum rentals under the leases are as follows:

Year ending December 31,	
2013	\$ 576,948
2014	479,306
2015	271,975
2016	271,409
2017	265,393
2018-2022	364,909
	<u>\$ 2,229,940</u>

RIVERVIEW HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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, results of operations or cash flows.

11. CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables and gross patient service revenues from patients and third-party payors for 2012 and 2011 was as follows:

	Receivables		Revenues	
	2012	2011	2012	2011
Self pay	20%	26%	12%	10%
Medicare	31%	30%	45%	46%
Medicaid	18%	11%	22%	13%
Anthem/Blue Cross	7%	9%	10%	16%
Other Commercial	24%	24%	11%	15%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

12. JOINT VENTURES

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

Riverview Health Network: The Hospital has ownership in Riverview Health Network. The purpose of this venture is to provide a healthcare provider network capable of contracting to provide healthcare services in exchange for a fixed periodic payment for a specific population of people. The contract negotiation and infrastructure necessary to administer the contracts are performed by the Suburban Health Organization.

RIVERVIEW HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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, 2012 and 2011. The investment is recorded using the equity method and is included in other assets on the consolidated balance sheets.

Riverview Surgical Management Association: The Hospital has a 37.4% 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 \$1,025,100 and \$834,580 as of December 31, 2012 and 2011. The investment is recorded using the equity method and is included in other assets on the consolidated balance sheets. Amounts paid to RSMA in 2012 and 2011 were \$3,550,722 and \$4,038,774, respectively, comprising of management fees, lease payments and other expenses.

Amounts receivable from related parties as of December 31, 2012 and 2011 were \$333,590 and \$195,589, respectively. Amounts payable to related parties as of December 31, 2012 and 2011 was \$115,706 and, \$723,154, respectively. These amounts are included in the related party receivables and related party payables on the consolidated 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 2012 and 2011 was \$4,882,998 and \$5,888,919, 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.

RIVERVIEW HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Changes in balance of health claim liabilities during 2012 and 2011 are as follows:

	2012	2011
Unpaid claims, beginning of year	\$ 918,060	\$ 801,116
Incurred claims and changes in estimates	4,882,998	5,888,919
Claim payments	<u>(5,139,610)</u>	<u>(5,771,975)</u>
Unpaid claims, end of year	<u>\$ 661,448</u>	<u>\$ 918,060</u>

The estimated health claims liability is included in salaries, wages, and related payables on the consolidated balance sheets. The plan has annual reinsurance coverage at a specific level of \$160,000 per claim with a maximum reimbursement per covered employee of \$1,090,000.

14. ESTIMATED MALPRACTICE COSTS

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

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.

15. SUBSEQUENT EVENT

During January 2013, the Hospital entered into an interest rate swap agreement with a commercial bank. The swap agreement effectively changes the Hospital's interest rate exposure on its \$16,900,000 variable rate revenue bonds, series 2012, due 2027 to a fixed 2.67%. The interest rate swap agreement matures in December 2022.