RIVERVIEW HOSPITAL

COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

RIVERVIEW HOSPITAL

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CPAs / ADVISORS

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Riverview Hospital
Noblesville, Indiana

We have audited the accompanying combined balance sheets of Riverview Hospital (Hospital) as of December 31, 2008 and 2007 and the related combined statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

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

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Hospital as of December 31, 2008 and 2007, and the combined results of its operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Blue & Co., LLC

March 30, 2009

RIVERVIEW HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)
DECEMBER 31, 2008 AND 2007

This section of Riverview Hospital's (Hospital) annual combined financial statements presents background information and management's discussion and analysis of the Hospital's financial performance during the year ended December 31, 2008. The financial information included herein includes the Hospital's Discrete Component Unit, Riverview Hospital Memorial Foundation, Inc. Please read it in conjunction with the Hospital's combined financial statements that follow this MD&A.

FINANCIAL HIGHLIGHTS

- Capital assets on a net basis increased approximately $6,829,000 over prior year with the completion of various construction projects and investments in medical equipment.
- Assets whose use is limited decreased approximately $8,583,000 over prior year due to capital additions and an overall decline in the market value of investments.
- The Hospital reported a decrease in change in net assets of approximately $1,047,000 for the year ended 2008. The main factor for the decrease was an investment loss of approximately $8,419,000 in 2008 compared to investment income of approximately $2,671,000 in 2007.

USING THIS ANNUAL REPORT

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

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

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

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

THE HOSPITAL'S BALANCE SHEETS

Assets, Liabilities, and Net Assets

	2008	2007	Change
Assets			
Current assets	$ 36,947,237	$ 36,645,946	$ 301,291
Capital assets, net	96,212,177	89,383,048	6,829,129
Assets whose use is limited	33,284,090	41,867,525	(8,583,435)
Other assets	3,528,331	3,582,210	(53,879)
Total assets	$ 169,971,835	$ 171,478,729	$ (1,506,894)
Liabilities			
Current liabilities	$ 15,256,330	$ 15,101,687	$ 154,643
Long-term debt	55,761,889	56,376,501	(614,612)
Total liabilities	71,018,219	71,478,188	(459,969)
Net assets			
Invested in capital assets, net of related debt	37,846,292	31,118,419	6,727,873
Restricted	10,604,933	9,700,196	904,737
Unrestricted	50,502,391	59,181,926	(8,679,535)
Total net assets	98,953,616	100,000,541	(1,046,925)
Total liabilities and net assets	$ 169,971,835	$ 171,478,729	$ (1,506,894)

The significant changes in the Hospital's assets were capital assets, which increased $6,829,000 as capital additions outpaced depreciation expense and assets whose use is limited decreased $8,583,000 due to capital additions and investment losses related to the general decline in the market value of investments.

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET ASSETS

Operating Results and Changes in Net Assets

	2008	2007	Change
Operating revenue			
Net patient service revenue	$ 133,540,097	$ 124,601,511	$ 8,938,586
Other operating revenue	5,013,972	3,869,007	1,144,965
Total operating revenue	138,554,069	128,470,518	10,083,551
Operating expenses			
Salaries and benefits	65,554,915	65,544,527	10,388
Medical supplies and drugs	18,427,866	17,739,880	687,986
Depreciation and amortization	10,038,729	9,634,760	403,969
Other operating expenses	36,089,366	35,637,578	451,788
Total operating expenses	130,110,876	128,556,745	1,554,131
Operating income (loss)	8,443,193	(86,227)	8,529,420
Nonoperating expense, net	(9,490,118)	251,540	(9,741,658)
Change in net assets	(1,046,925)	165,313	(1,212,238)
Net assets, beginning of year	100,000,541	99,835,228	165,313
Net assets, end of year	$ 98,953,616	$ 100,000,541	$ (1,046,925)

SOURCES OF REVENUE

During 2008, 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 50% of the Hospital's gross revenues in 2008 but only 26% of the Hospital's net patient service revenues.

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

Payor	2008	2007
Medicare	44%	43%
Self Pay	8%	10%
Anthem/Blue Cross	20%	18%
Commercial	21%	23%
Medicaid	6%	5%
Other	1%	1%
Total	100%	100%

The Hospital's outpatient services represented approximately 60% of the Hospital's gross patient revenue in 2008.

OPERATING AND FINANCIAL PERFORMANCE

The Hospital's 2008 return on equity was (1.1%), compared to .16% for 2007. The Hospital's debt service coverage ratio was approximately 2.2 for 2008.

The following section highlights the major financial factors for 2008:

- The Hospital's discharges for 2008 increased 4.2% to 5,939 (excluding newborns) from 2007's total of 5,698 (excluding newborns); the Hospital's adjusted patient days increased .6% to 63,793 in 2008, compared to 63,435 in 2007.

- Net patient service revenue increased $8,939,000 during 2008, a 7.2% increase over 2007.

- Operating expenses increased $1,554,000 or 1.2%. The growth is attributable to market inflation.

- Salaries and Benefits expense in 2008 was approximately $10,000 greater than 2007. Man-hours per adjusted patient day increased in 2008 to 30.4 hours, compared to 30.0 hours in 2007. The average hourly rate paid increased 1.6% in 2008, primarily due to merit increases.

CAPITAL ASSETS

During 2008, the Hospital's capital assets increased by $6.8 million. The change in capital assets is outlined in the following table:

	2008	2007	Change
Land and improvements	$ 12,835,199	$ 6,295,767	$ 6,539,432
Buildings and improvements	79,703,735	72,945,403	6,758,332
Equipment	99,870,532	95,622,699	4,247,833
Construction in progress	3,989,034	6,041,820	(2,052,786)
Total capital assets	196,398,500	180,905,689	15,492,811
Less accumulated depreciation	100,186,323	91,522,641	8,663,682
Capital assets, net	$ 96,212,177	$ 89,383,048	$ 6,829,129

Capital Assets increased due to the continued growth in patient service demands, continuing to increase space and equipment resources to meet the needs of the community, offset by the increase in accumulated depreciation for the assets added in 2008. The Hospital continually evaluates facilities and equipment to ensure that everything is upgraded as necessary.

DEBT

The Hospital has the following debt outstanding totaling $58.4 million as of December 31, 2008:

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

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

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. Area hospitals are impacted by the discontinuation of governmental patient supplemental payments. 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.

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

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

RIVERVIEW HOSPITAL

COMBINED BALANCE SHEETS
DECEMBER 31, 2008 AND 2007

ASSETS

	2008				2007
	Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity (Memorandum only)
Current assets					
Cash and cash equivalents	$ 8,223,477	$ 1,244,496	$ -0-	$ 9,467,973	$ 6,145,827
Current portion of assets whose use is limited	2,095,000	-0-	-0-	2,095,000	2,020,000
Patient accounts receivable, less allowance for uncollectible accounts of $8,044,294 in 2008 and $11,424,999 in 2007	20,661,169	-0-	-0-	20,661,169	23,522,359
Related party receivables	208,996	-0-	-0-	208,996	133,000
Inventories	2,005,613	-0-	-0-	2,005,613	2,034,349
Other current assets	3,407,453	299,633	(1,198,600)	2,508,486	2,790,411
Total current assets	36,601,708	1,544,129	(1,198,600)	36,947,237	36,645,946
Assets whose use is limited					
Board designated funds					
Cash and cash equivalents	251,773	-0-	-0-	251,773	232,964
Long-term investments	25,400,560	2,823,155	-0-	28,223,715	36,649,354
Total board designated funds	25,652,333	2,823,155	-0-	28,475,488	36,882,318
Trustee held assets					
Professional liability insurance funds	1,117,774	-0-	-0-	1,117,774	1,334,526
Bond funds	5,785,828	-0-	-0-	5,785,828	5,670,681
Total trustee held assets	6,903,602	-0-	-0-	6,903,602	7,005,207
Total assets whose use is limited	32,555,935	2,823,155	-0-	35,379,090	43,887,525
Less current portion	2,095,000	-0-	-0-	2,095,000	2,020,000
Noncurrent assets whose use is limited	30,460,935	2,823,155	-0-	33,284,090	41,867,525
Capital assets					
Land	10,915,010	-0-	-0-	10,915,010	4,481,710
Depreciable capital assets	181,494,456	-0-	-0-	181,494,456	170,366,773
Construction in progress	3,989,034	-0-	-0-	3,989,034	6,041,830
	196,398,500	-0-	-0-	196,398,500	180,890,313
Less accumulated depreciation	100,186,323	-0-	-0-	100,186,323	91,507,265
Capital assets, net	96,212,177	-0-	-0-	96,212,177	89,383,048
Other assets	2,713,366	814,965	-0-	3,528,331	3,582,210
Total assets	$ 165,988,186	$ 5,182,249	$ (1,198,600)	$ 169,971,835	$ 171,478,729

See accompanying notes to combined financial statements.

RIVERVIEW HOSPITAL

COMBINED BALANCE SHEETS
DECEMBER 31, 2008 AND 2007

LIABILITIES AND NET ASSETS

	2008				2007
	Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity (Memorandum only)
Current liabilities					
Current portion of bonds payable	$ 2,095,000	$ -0-	$ -0-	$ 2,095,000	$ 2,020,000
Current portion of capital lease obligations	647,213	-0-	-0-	647,213	157,948
Accounts payable	3,696,195	-0-	-0-	3,696,195	3,313,615
Related party payables	356,431	1,198,600	(1,198,600)	356,431	564,234
Salaries, wages and related payables	7,368,220	-0-	-0-	7,368,220	7,948,986
Estimated third-party payor settlements	49,323	-0-	-0-	49,323	101,792
Other current liabilities	1,043,948	-0-	-0-	1,043,948	995,112
Total current liabilities	15,256,330	1,198,600	(1,198,600)	15,256,330	15,101,687
Noncurrent liabilities					
Long-term bonds payable	53,595,000	-0-	-0-	53,595,000	55,690,000
Long-term capital lease obligations	2,028,672	-0-	-0-	2,028,672	396,681
Physician recruitment	112,500	-0-	-0-	112,500	262,500
Other long-term liabilities	-0-	25,717	-0-	25,717	27,320
Total noncurrent liabilities	55,736,172	25,717	-0-	55,761,889	56,376,501
Total liabilities	70,992,502	1,224,317	(1,198,600)	71,018,219	71,478,188
Net assets					
Invested in capital assets, net of related debt	37,846,292	-0-	-0-	37,846,292	31,118,419
Restricted					
For debt service	5,785,828	-0-	-0-	5,785,828	5,670,681
Expendable for various purposes upon donors' specific restriction	1,490,541	1,370,506	-0-	2,861,047	1,460,134
Nonexpendable permanent endowments	-0-	1,958,058	-0-	1,958,058	2,569,381
Total restricted	7,276,369	3,328,564	-0-	10,604,933	9,700,196
Unrestricted	49,873,023	629,368	-0-	50,502,391	59,181,926
Total net assets	94,995,684	3,957,932	-0-	98,953,616	100,000,541
Total liabilities and net assets	$ 165,988,186	$ 5,182,249	$ (1,198,600)	$ 169,971,835	$ 171,478,729

See accompanying notes to combined financial statements.

RIVERVIEW HOSPITAL

COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008				2007
	Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity (Memorandum only)
Revenue					
Net patient service revenue	$ 133,540,097	$ -0-	$ -0-	$ 133,540,097	$ 124,601,511
Other	5,013,972	-0-	-0-	5,013,972	3,869,007
Total operating revenue	138,554,069	-0-	-0-	138,554,069	128,470,518
Operating expenses					
Salaries and wages	54,543,125	-0-	-0-	54,543,125	52,940,181
Employee benefits	11,011,790	-0-	-0-	11,011,790	12,604,346
Contract employees	1,101,460	-0-	-0-	1,101,460	958,046
Medical supplies	13,099,040	-0-	-0-	13,099,040	12,509,217
Drugs	5,328,826	-0-	-0-	5,328,826	5,230,663
Food	940,656	-0-	-0-	940,656	814,034
Utilities	2,456,982	-0-	-0-	2,456,982	2,227,875
Contract services and consulting fees	19,081,840	-0-	-0-	19,081,840	19,077,992
Repairs and maintenance	3,359,284	-0-	-0-	3,359,284	3,416,727
Rental expense	3,246,690	-0-	-0-	3,246,690	2,855,654
Other supplies and expenses	5,902,454	-0-	-0-	5,902,454	6,287,250
Depreciation and amortization	10,038,729	-0-	-0-	10,038,729	9,634,760
Total operating expenses	130,110,876	-0-	-0-	130,110,876	128,556,745
Operating income (loss)	8,443,193	-0-	-0-	8,443,193	(86,227)
Nonoperating income (expenses)					
Investment income	(7,550,700)	(869,016)	-0-	(8,419,716)	2,671,162
Contributions and other nonoperating	1,257,577	1,556,404	(1,213,385)	1,600,596	128,417
Grants	-0-	(1,213,385)	1,213,385	-0-	-0-
Interest expense	(2,670,998)	-0-	-0-	(2,670,998)	(2,548,039)
Total nonoperating, net	(8,964,121)	(525,997)	-0-	(9,490,118)	251,540
Change in net assets	(520,928)	(525,997)	-0-	(1,046,925)	165,313
Net assets					
Beginning of year	95,516,612	4,483,929	-0-	100,000,541	99,835,228
End of year	$ 94,995,684	$ 3,957,932	$ -0-	$ 98,953,616	$ 100,000,541

See accompanying notes to combined financial statements.

RIVERVIEW HOSPITAL

COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008				2007
	Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity (Memorandum only)
Operating activities					
Cash received from patient services	$ 136,272,822	$ -0-	$ -0-	$ 136,272,822	$ 130,073,740
Cash paid for salaries, wages and benefits	(66,135,681)	-0-	-0-	(66,135,681)	(64,915,891)
Cash paid to vendors and suppliers	(55,103,219)	-0-	-0-	(55,103,219)	(55,264,269)
Other receipts and payments, net	5,048,986	788,652	-0-	5,837,638	3,767,854
Net cash flows from operating activities	20,082,908	788,652	-0-	20,871,560	13,661,434
Non-capital financing activities					
Contributions and other nonoperating	1,257,577	1,556,404	(1,213,385)	1,600,596	212,705
Grants	-0-	(1,213,385)	1,213,385	-0-	-0-
Net cash flows from non-capital financing activities	1,257,577	343,019	-0-	1,600,596	212,705
Capital and related financing activities					
Payments on long-term debt	(2,020,000)	-0-	-0-	(2,020,000)	(1,855,000)
Payments on capital leases	(271,523)	-0-	-0-	(271,523)	(227,672)
Interest expense on long-term debt	(2,670,998)	-0-	-0-	(2,670,998)	(2,548,039)
Proceeds on sale of assets	27,644	-0-	-0-	27,644	-0-
Purchase of capital assets	(14,303,852)	-0-	-0-	(14,303,852)	(6,514,897)
Net cash flows from capital and related financing activities	(19,238,729)	-0-	-0-	(19,238,729)	(11,145,608)
Investing activities					
Investment income	(7,550,700)	(869,016)	-0-	(8,419,716)	2,586,874
Other changes in assets whose use is limited and investments	12,417,060	707,591	-0-	13,124,651	419,391
Net cash flows from investing activities	4,866,360	(161,425)	-0-	4,704,935	3,006,265
Net change in cash and cash equivalents	6,968,116	970,246	-0-	7,938,362	5,734,796
Cash and cash equivalents					
Beginning of year	15,491,411	274,250	-0-	15,765,661	10,030,865
End of year	$ 22,459,527	$ 1,244,496	$ -0-	$ 23,704,023	$ 15,765,661
Reconciliation of cash and cash equivalents to the balance sheets					
Cash and cash equivalents					
In current assets	$ 8,223,477	$ 1,244,496	$ -0-	$ 9,467,973	$ 6,145,827
In assets whose use is limited	14,236,050	-0-	-0-	14,236,050	9,619,834
Total cash and cash equivalents	$ 22,459,527	$ 1,244,496	$ -0-	$ 23,704,023	$ 15,765,661

See accompanying notes to combined financial statements.

RIVERVIEW HOSPITAL

COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008				2007
	Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity (Memorandum only)
Reconciliation of operating income (loss) to net cash flows from operating activities					
Operating income (loss)	$ 8,443,193	$ -0-	$ -0-	$ 8,443,193	$ (86,227)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities					
Depreciation and amortization	10,038,729	-0-	-0-	10,038,729	9,634,760
Loss on disposal of capital assets	(13,822)	-0-	-0-	(13,822)	(424,899)
Amortization of annuities	-0-	(1,603)	-0-	(1,603)	(1,508)
Provision for bad debts	11,132,575	-0-	-0-	11,132,575	12,979,186
Changes in operating assets and liabilities					
Patient accounts receivable	(8,271,385)	-0-	-0-	(8,271,385)	(7,614,779)
Inventories	28,736	-0-	-0-	28,736	208,060
Other current assets	(760,649)	(156,026)	-0-	(916,675)	352,606
Other assets	(28,851)	(252,319)	-0-	(281,170)	(375,579)
Accounts payable	382,580	-0-	-0-	382,580	(1,493,078)
Related party receivables/payables	(283,799)	1,198,600	-0-	914,801	(193,791)
Salaries, wages and fees payable	(580,766)	-0-	-0-	(580,766)	587,395
Estimated third-party payor settlements	(52,469)	-0-	-0-	(52,469)	90,822
Other current liabilities	48,836	-0-	-0-	48,836	(1,534)
Net cash flows from operating activities	$ 20,082,908	$ 788,652	$ -0-	$ 20,871,560	$ 13,661,434
Supplemental cash flows information					
Cash paid for interest, net of amount capitalized of $847,000 in 2008 and $358,000 in 2007	$ 2,673,323	$ -0-	$ -0-	$ 2,673,323	$ 2,522,713
Property acquired through capital lease obligation	$ 2,392,779	$ -0-	$ -0-	$ 2,392,779	$ 502,658

See accompanying notes to combined financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

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

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

Discrete Component Unit

Discretely presented component units are reported in a separate column in the combined financial statements to emphasize they are legally separate from the primary government. They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The discretely presented component unit is:

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

Use of Estimates

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

Federal or State Income Taxes

The Hospital is a governmental instrumentality organized under Title 16, Article 12, of the Indiana statues. 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 Memorial Foundation, Inc. is a 501(c)(3) not-for-profit organization.

Accounting for Uncertainty in Income Taxes

The Financial Accounting Standards Board (FASB) issued Interpretation No. 48 (FIN 48), which clarifies generally acceptable accounting principles for recognition, measurement, presentation and disclosure relating to uncertain tax positions. FIN 48 applies to business enterprises, not-for-profit entities, and pass-through entities, such as S corporations and limited liability companies. As permitted by FIN 48 (as amended), the Hospital elected to defer the application of FIN 48 until issuance of its December 31, 2009 financial statements. For financial statements covering periods prior to calendar 2009, the Hospital evaluates uncertain tax positions in accordance with existing generally accepted accounting principles and makes such accruals and disclosures as might be required there under.

Enterprise Fund Accounting

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

Cash and Cash Equivalents

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

Investments in Debt and Equity Securities

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

Patient Accounts Receivable and Net Patient Service Revenue

Patient revenues and the related accounts receivable are recorded at the time services to patients are performed. The Hospital is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). The Hospital is reimbursed for Medicare and Medicaid inpatient services based on a fixed price per discharge for each diagnosis related grouping (DRG). The Hospital is reimbursed for Medicare and Medicaid outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At the Hospital's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program. These programs have been audited and the year-end cost reports filed with the Medicare program through December 31, 2006 with differences reflected as deductions from revenue in 2008. Amounts from unresolved cost reports for 2007 through 2008 are reflected in estimated third-party payor settlements on the combined balance sheets. During 2008 and 2007, the Hospital recognized in the combined statements of revenues, expenses and changes in net assets the differences between original estimates and subsequent revisions for the final settlement of cost reports.

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

Advertising

The Hospital expenses advertising costs as they are incurred. Advertising expenses for the years ended December 31, 2008 and 2007 were $1,129,163 and $1,458,879, respectively.

Inventories

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

Assets Whose Use is Limited

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

The Hospital and Foundation hold Level 1 investments, in which fair market values are readily determinable using quoted prices in active markets for identical assets as determined by FAS 157: *Fair Value Measurements*. The entities also hold Level 2 investments in which fair market values are determined by significant other observable inputs.

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:

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

Investment in Affiliates

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

Net Assets

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

Cost of Borrowing

Except for capital assets acquired through gifts or contributions, interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Grants and Contributions

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

Restricted Resources

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

Operating Revenues and Expenses

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

Charity Care

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

Bond Issue Costs

The Hospital provides for the amortization of costs incurred for the issuance of bonds over the life of the debt. Amortization expense for 2008 and 2007 was $80,000 and $83,000, respectively.

Fair Value of Financial Instruments

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

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

Compensated Absences

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

Total Columns on Combined Statements

The total columns on the Combined Financial Statements for 2007 are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis in comparison to the current year.

Reclassifications

Certain amounts from the 2007 combined financial statements have been reclassified to conform to the current year presentation.

Risk Management

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

Minimum Revenue Guarantees

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

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

Under FIN 45 as amended, the Hospital is required to report the liability for these physician revenue guarantees on its balance sheets at fair value and amortize the related prepaid physician recruitment expense over the period of the physician's contractual commitment to practice in the local community, which is typically three years. The Hospital recorded a physician recruitment asset and corresponding liability of $112,500 and $262,500 for 2008 and 2007, respectively. The asset is located in other assets on the combined balance sheet.

2. NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Medicare and Medicaid inpatient acute care services and outpatient services rendered to program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Revenue from the Medicare and Medicaid programs accounted for approximately 44 percent and 6 percent, respectively, of the Hospital's gross patient revenue for the year ended 2008, and 42 percent and 5 percent, respectively, of the Hospital's gross patient revenue, for the year ended 2007. 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 2008 and 2007:

	2008	2007
Patient service revenue		
Inpatient	$ 131,256,818	$ 111,680,141
Outpatient	166,733,065	159,793,126
Gross service patient revenue	297,989,883	271,473,267
Deductions from revenue		
Contractual allowances	147,073,515	129,129,111
Charity care	6,243,696	4,763,459
Provision for bad debts	11,132,575	12,979,186
Total deductions from revenue	164,449,786	146,871,756
Net patient service revenue	$ 133,540,097	$ 124,601,511

3. CHARITY CARE

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of services and supplies furnished under its charity care policy. The charity care (measured at charges foregone) provided during 2008 and 2007 was $6,243,696 and $4,763,459, respectively.

4. ASSETS WHOSE USE IS LIMITED

Board Designated Funds

The Hospital funds depreciation expense to meet the capital equipment needs of the facility. Depreciation is funded totally, with expenditures for capital equipment and debt principal payments reducing the long-term investments balance. The Hospital designates other investments to fund specific projects. All interest earned by the long-term investments and other board designated investments accounts are left to accumulate as an addition to the funds.

Trustee Held Assets

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

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

5. DEPOSITS AND INVESTMENTS

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

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

The reporting entity's investments generally are reported at fair value, as discussed in Note 1. As of December 31, 2008 and 2007, 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, 2008

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

December 31, 2007

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

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

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

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

Deposits and investments consist of the following as of December 31, 2008 and 2007:

	2008	2007
Hospital		
Carrying amount		
Deposits	$ 14,236,050	$ 9,386,870
Investments	26,543,362	36,608,522
	$ 40,779,412	$ 45,995,392
Included in the following balance sheet captions		
Cash and cash equivalents	$ 8,223,477	$ 5,871,577
Board designated funds	25,652,333	33,118,608
Trustee held assets	6,903,602	7,005,207
	$ 40,779,412	$ 45,995,392
Foundation		
Carrying amount		
Deposits	$ 1,244,496	$ 274,250
Investments	2,823,155	3,530,746
	$ 4,067,651	$ 3,804,996
Included in the following balance sheet captions		
Cash and cash equivalents	$ 1,244,496	$ 274,250
Investments	2,823,155	3,530,746
	$ 4,067,651	$ 3,804,996

6. FAIR VALUE MEASUREMENTS

Statement on Financial Accounting Standards No. 157, Fair Value Measurements (as amended), requires certain disclosures regarding the fair value of financial instruments. Financial instruments held by the Hospital impacted by this pronouncement include the Hospital's investments and assets whose use is limited which are measured using quoted prices in active markets and other significant other observable inputs.

The Hospital partially adopted the provisions of FAS 157 for fiscal year 2008, but will delay adoption of non-financial assets and non-financial liabilities covered by FASB Staff Position No. FAS 157-2. This Staff Position permits entities to partially defer the effective date of FAS 157 for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis, until fiscal year 2009.

When fully adopted, the Hospital will apply the provisions of FAS 157-2 to certain non-financial assets and liabilities and is currently evaluating the impact of the full adoption of this statement on the activities, changes in net assets and financial position. Using the provisions within SFAS No. 157, the Hospital has characterized its investments in securities, based on the priority of the inputs used to value the investments, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities [Level 1], and the lowest priority to unobservable inputs [Level 3]. If the inputs used to measure the investments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the investment.

Investments recorded in the combined balance sheets are categorized based on the inputs to valuation techniques as follows:

Level 1 - These are investments where values are based on unadjusted quoted prices for identical assets in an active market the Hospital has the ability to access. Investments include mutual funds and corporate equity securities.

Level 2 - These are investments where values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the investments. These investments are comprised of corporate and municipal bonds that trade infrequently and privately held securities and certificates of deposit.

Level 3 - These are investments where values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect assumptions of management about assumptions market participants would use in pricing the investments. These investments could be certain private equity investments.

Based upon the levels as defined the investments as of December 31, 2008 are classified as follows:

Hospital		Fair value measurements at reporting date using:		
Investment Type	December 31, 2008	Quoted prices in active markets for identical (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
U.S. Government Securities	$ 2,264,522	$ -0-	$ 2,264,522	$ -0-
Certificates of deposit	6,031,466	-0-	6,031,466	-0-
Mutual funds	18,247,374	18,247,374	-0-	-0-
	$ 26,543,362	$ 18,247,374	$ 8,295,988	$ -0-

Foundation				
Investment Type	December 31, 2008	Quoted prices in active markets for identical (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Corporate bonds	$ 293,175	$ -0-	$ 293,175	$ -0-
U.S. Government Securities	350,980	-0-	350,980	-0-
Equities	1,847,560	1,392,610	454,950	-0-
Certificates of deposit	331,440	-0-	331,440	-0-
	$ 2,823,155	$ 1,392,610	$ 1,430,545	$ -0-

7. CAPITAL ASSETS

Capital asset progressions for 2008 and 2007 follow:

	December 31, 2007	Additions	Retirements	Transfers	December 31, 2008
Hospital					
Land	$ 4,481,710	$ 6,400,000	$ -0-	$ 33,300	$ 10,915,010
Land improvements	1,814,057	10,558	(4,940)	100,514	1,920,189
Buildings and improvements	72,945,403	2,236,263	-0-	4,522,069	79,703,735
Equipment	95,607,319	4,306,196	(1,183,500)	1,140,517	99,870,532
Construction in progress	6,041,820	3,743,614	-0-	(5,796,400)	3,989,034
Total capital assets	180,890,309	16,696,631	(1,188,440)	-0-	196,398,500
Less accumulated depreciation					
Land improvements	1,142,815	95,601	(4,940)	-0-	1,233,476
Buildings and improvements	25,323,730	3,280,535	-0-	-0-	28,604,265
Equipment	65,040,716	6,477,544	(1,169,678)	-0-	70,348,582
Total accumulated depreciation	91,507,261	9,853,680	(1,174,618)	-0-	100,186,323
Capital assets, net	$ 89,383,048	$ 6,842,951	$ (13,822)	$ -0-	$ 96,212,177
Foundation					
Equipment	$ 15,380	$ -0-	$ -0-	$ -0-	$ 15,380
Less accumulated depreciation	15,380	-0-	-0-	-0-	15,380
Capital assets, net	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-

	December 31, 2006	Additions	Retirements	Transfers	December 31, 2007
Hospital					
Land	$ 4,481,710	$ -0-	$ -0-	$ -0-	$ 4,481,710
Land improvements	1,722,204	13,877	(7,293)	85,269	1,814,057
Buildings and improvements	69,692,894	212,990	(270,824)	3,310,343	72,945,403
Equipment	88,379,178	3,174,810	(1,409,561)	5,462,892	95,607,319
Construction in progress	11,284,446	3,615,878	-0-	(8,858,504)	6,041,820
Total capital assets	175,560,432	7,017,555	(1,687,678)	-0-	180,890,309
Less accumulated depreciation					
Land improvements	1,059,446	89,426	(6,057)	-0-	1,142,815
Buildings and improvements	22,519,108	2,933,207	(128,585)	-0-	25,323,730
Equipment	59,745,548	6,423,305	(1,128,137)	-0-	65,040,716
Total accumulated depreciation	83,324,102	9,445,938	(1,262,779)	-0-	91,507,261
Hospital capital assets, net	$ 92,236,330	$ (2,428,383)	$ (424,899)	$ -0-	$ 89,383,048
Foundation					
Equipment	$ 15,380	$ -0-	$ -0-	$ -0-	$ 15,380
Less accumulated depreciation	15,021	359	-0-	-0-	15,380
Foundation capital assets, net	$ 359	$ 359	$ -0-	$ -0-	$ -0-

8. LONG-TERM DEBT

The terms and due dates of the Hospital's long-term debt, including capital lease obligations as of December 31, 2008 and 2007 follow:

- 1996 tax-exempt revenue bonds, principal maturing in varying amounts due February 1, 2010, collateralized by bond funds held by trustee and by Hamilton County. Interest rates for serial bonds range from 4.60% to 5.20%.

- 1999 tax-exempt revenue bonds, principal maturing in varying amounts due August 1, 2024, collateralized by bond funds held by trustee and net revenues of the Hospital. Interest rates for serial bonds range from 4.60% to 5.50%.

- 2002 tax-exempt revenue bonds, principal maturing in varying amounts due August 1, 2031, collateralized by bond funds held by trustee and net revenues of the Hospital. Interest rates for serial bonds range from 6.00% to 6.125%.

- 2004 tax-exempt revenue bonds, principal maturing in varying amounts due August 1, 2032, collateralized by bond funds held by trustee and net revenues of the Hospital. Interest rate variable (2.87% as of December 31, 2008) based on the evaluation of overall market conditions utilizing various indices from the Bond Market Association and Standard and Poor's.

- 2005 tax-exempt revenue bonds, principal maturing in varying amounts due August 1, 2017, collateralized by bond funds held by trustee and net revenues of the Hospital. Interest rates for serial bonds range from 2.50% to 4.50%.

- Capital lease obligations, at varying interest rates of imputed interest of 6.00% to 6.75%, collateralized by leased equipment with cost of $3,203,655 and $803,908 as of December 31, 2008 and 2007, respectively. Accumulated depreciation on capital leases was $572,977 and $230,931 as of December 31, 2008 and 2007, respectively.

The fair value of the fixed rate tax-exempt revenue bonds, Series 1996, 1999, 2002 and 2005 approximated $41,079,000 and $44,373,000 (carrying value of $36,790,000 and $38,310,000) as of December 31, 2008 and 2007, respectively. The fair value of the fixed rate obligations is estimated using discounted cash flow analyses, based on the Hospital's current incremental borrowing rates for similar types of borrowing arrangements. The fair value of variable rate debt, Series 2004 tax-exempt revenue bonds, approximates its carrying value.

The Hospital has an available letter of credit for $19,132,377 with a bank for the Series 2004 tax-exempt revenue bonds. The letter of credit is intended to provide credit enhancement and liquidity support for the Hospital's tax-exempt bonds. Advances bear interest at the bank's prime rate. The letter is collateralized by the Hospital's gross revenues as well as designated assets. The letter of credit expires in 2009. There was no balance outstanding as of December 31, 2008 and 2007. In the event of liquidity drawing (bonds not being remarketed), the drawing is due within 15 days unless the bonds are remarketed or purchased at which time the liquidity advance is due. Reimbursements of other than liquidity drawings are due on the date such drawing is honored.

Under the terms of the revenue bond indenture, the Hospital is required to maintain certain deposits with a trustee. Such deposits are included with restricted cash and investments in the 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, 2008 and 2007.

A summary of long-term debt as of December 31, 2008 and 2007 includes the following:

	December 31, 2007	Additional Borrowings	Payments	December 31, 2008	Current Portion
Revenue bonds payable					
1996 Bonds	$ 1,365,000	$ -0-	$ 525,000	$ 840,000	$ 555,000
1999 Bonds	9,130,000	-0-	345,000	8,785,000	365,000
2002 Bonds	20,000,000	-0-	-0-	20,000,000	-0-
2004 Bonds	19,400,000	-0-	500,000	18,900,000	500,000
2005 Bonds	7,815,000	-0-	650,000	7,165,000	675,000
Total revenue bonds	57,710,000	-0-	2,020,000	55,690,000	2,095,000
Capital lease obligations	554,629	2,392,779	271,523	2,675,885	647,213
	$ 58,264,629	$ 2,392,779	$ 2,291,523	$ 58,365,885	$ 2,742,213

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

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
2009	$ 2,095,000	$ 2,854,475	$ 647,213	$ 138,713
2010	1,865,000	2,781,765	586,613	100,304
2011	1,625,000	2,727,055	555,424	64,599
2012	1,675,000	2,676,015	467,789	36,176
2013	1,835,000	2,621,555	418,846	10,516
2014-2018	9,830,000	12,171,036	-0-	-0-
2019-2023	10,860,000	10,378,975	-0-	-0-
2024-2028	14,185,000	7,394,819	-0-	-0-
2029-2033	11,720,000	2,893,350	-0-	-0-
	$ 55,690,000	$ 46,499,045	$ 2,675,885	$ 350,308

9. PENSION PLAN

Plan Description

The Hospital has two defined contribution pension plans: the Riverview Hospital Employees Pension Plan and the Riverview Hospital 403(b) Retirement Plan. Both cover all employees who meet eligibility requirements as to age and length of service. The plans provide retirement, disability and death benefits to plan members and beneficiaries. The plans were established by written agreement between the Hospital Board of Trustees and the plan administrators. The Riverview Hospital 403(b) Retirement plan was amended on January 1, 2008 and the Riverview Hospital Employees Pension Plan was amended on July 1, 2008.

The Riverview Hospital Employees Pension Plan was required to contribute 7.2% of the first $49,864 of covered payroll and 11.5% for the amount over $49,864 up to $125,000 of the covered payroll. As of July 1, 2008, the plan is only open to employees previously enrolled in the plan. The plan is required to contribute 3.0% of covered payroll up to $225,000 maximum

As of January 1, 2008, the Riverview Hospital 403(b) Retirement Plan is required to match 50% of an employee's contribution up to a maximum of 6% of the employee's compensation with a maximum employee contribution of $15,500.

Employer contributions to both plans were $1,502,109 and $2,047,526 for 2008 and 2007, respectively.

10. COMMITMENTS AND CONTINGENCIES

Operating leases - lessee: The Hospital is committed under various noncancelable operating leases for equipment and facilities. These expire in various years through 2024 with options to renew. Total rent expense for 2008 and 2007 was $3,246,690 and $2,855,654, respectively.

The following is a schedule of future minimum lease payments under operating leases as of December 31, 2008, that have initial or remaining lease terms in excess of one year.

Year ending December 31,	
2009	$ 1,621,167
2010	1,423,460
2011	1,299,846
2012	1,143,325
2013	1,143,325
2014-2018	5,260,302
2019-2023	4,805,004
2024	1,950,312
	$ 18,646,741

Operating leases – lessor: The Hospital leases space to tenants under operating leases with terms of one to ten years. Leased space consists of buildings with a total cost of $10,638,795 and $9,476,144 as of December 31, 2008 and 2007, respectively, and accumulated depreciation of $4,176,796 and $3,952,986 as of December 31, 2008 and 2007, respectively. Total rental income for all operating leases was $620,180 and $503,523 for 2008 and 2007, respectively.

Future minimum rentals under the leases are as follows:

Year ending December 31,	
2009	$ 718,396
2010	457,953
2011	351,746
2012	338,971
2013	281,166
Thereafter	342,778
	$ 2,491,010

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

11. CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors for 2008 and 2007 was as follows:

	2008	2007
Self pay	27%	31%
Medicare	23%	22%
Blue Cross	16%	13%
Other	34%	34%
	100%	100%

12. JOINT VENTURES

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

Riverview Health Network: The Hospital has ownership in Riverview Health Network. The purpose of this venture is to provide a healthcare provider network capable of contracting to provide healthcare services in exchange for a fixed periodic payment for a specific population of people. The contract negotiation and infrastructure necessary to administer the contracts are performed by the Suburban Health Organization. The Hospital and the Riverview Health Network are members of the Suburban Health Organization. All owners contributed a predetermined amount of initial capital. The Hospital owns a 50% interest and a group of physicians own the remaining 50% of the corporation. The Hospital recorded an asset of $23,051 as of December 31, 2008 and 2007. The investment is recorded using the equity method and is included in other assets on the combined balance sheets.

Riverview Medical Arts Building Partnership, LLP: In 2006, the Hospital entered into a joint venture organized as a limited liability partnership. The partnership is owned 49% by the Hospital. The purpose of this venture is to acquire real estate located in Noblesville, Indiana, and construct a medical office building thereon, which will be leased by the Partnership for medical offices. The Hospital recorded an asset of $285,960 and $285,960 as of December 31, 2008 and 2007, respectively. The investment is recorded using the equity method and is included in other assets on the combined balance sheets.

Riverview Surgical Management Association: The Hospital has a 35% ownership in Riverview Surgical Management Association (RSMA). RSMA has been contracted by the Hospital to operate the surgery center and provide management services thereto. RSMA provides complete management and administrative services for and on behalf of the Hospital. This agreement automatically renews for successive one year terms unless either party provides written notice at least ninety days prior to the end of the term. The Hospital recorded an asset of $733,080 and $704,080 as of December 31, 2008 and 2007. The investment is recorded using the equity method and is included in other assets on the combined balance sheets.

Amounts paid to RSMA in 2008 and 2007 were $5,299,154 and $5,655,122, respectively, comprising of management fees, lease payments and other expenses. Amounts receivable and payable as of December 31, 2008 and 2007 to RSMA are included in the combined balance sheets.

13. SELF INSURANCE

The Hospital's employee health care insurance is provided through a combination of self-insurance and purchased insurance coverage from a commercial carrier. The Hospital maintains an estimated liability for the amount of claims incurred but not reported. Substantially all employees are covered for major medical benefits. Total self health insurance expense for 2008 and 2007 was $4,847,090 and $5,888,606, respectively.

Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported.

Changes in balance of health claim liabilities during the past two years are as follows:

	2008	2007
Unpaid claims, beginning of year	$ 1,218,814	$ 719,920
Incurred claims and changes in estimates	4,847,090	5,888,606
Claim payments	(5,003,380)	(5,389,712)
Unpaid claims, end of year	$ 1,062,524	$ 1,218,814

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.