



**COMBINED FINANCIAL STATEMENTS**

**AND**

**REQUIRED SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2010 AND 2009**

# RIVERVIEW HOSPITAL

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## REPORT OF INDEPENDENT AUDITORS

Board of Trustees  
Riverview Hospital  
Noblesville, Indiana

We have audited the accompanying combined balance sheets of Riverview Hospital (Hospital) as of December 31, 2010 and 2009 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, 2010 and 2009, and the combined results of its operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Board of Trustees  
Riverview Hospital  
Noblesville, Indiana

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

*Blue & Co., LLC*

March 28, 2011

# RIVERVIEW HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) DECEMBER 31, 2010 (WITH COMPARATIVE TOTALS FOR 2009 AND 2008)

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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 years ended December 31, 2010 and 2009. The financial information included herein includes the Hospital's Discrete Component Unit, Riverview Hospital Memorial Foundation, Inc. Please read it in conjunction with the Hospital's combined financial statements that follow this MD&A.

### FINANCIAL HIGHLIGHTS

- Capital assets, net basis decreased approximately \$3,579,000 compared to prior year with the 2008 completion of various construction projects and investments in medical equipment. This decrease was comparable to the decrease of approximately \$4,025,000 in 2009.
- Assets whose use limited increased approximately \$1,239,000 compared to prior year primarily due to the decrease in required funds held by Trustee with the refinancing of the 2002 bonds. This compares to an increase in 2009 of approximately \$8,798,000 due to an overall enhancement in the market value of investments.
- The Hospital reported an increase in net assets of approximately \$6,259,000 for the year ended 2010. This compares to a change in net assets of approximately \$10,710,000 for the year ended 2009.

### 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.

# RIVERVIEW HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) DECEMBER 31, 2010 (WITH COMPARATIVE TOTALS FOR 2009 AND 2008)

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

|  | 2010                  | 2009                  | 2010 - 2009<br>Change | 2008                  |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| <b>Assets</b>                                      |                       |                       |                       |                       |
| Current assets                                     | \$ 44,595,069         | \$ 37,984,328         | \$ 6,610,741          | \$ 36,947,237         |
| Capital assets, net                                | 88,608,230            | 92,187,319            | (3,579,089)           | 96,212,177            |
| Assets whose use is limited                        | 42,805,099            | 44,434,228            | (1,629,129)           | 33,284,090            |
| Other assets                                       | 2,307,203             | 2,455,196             | (147,993)             | 3,528,331             |
| <b>Total assets</b>                                | <b>\$ 178,315,601</b> | <b>\$ 177,061,071</b> | <b>\$ 1,254,530</b>   | <b>\$ 169,971,835</b> |
| <b>Liabilities</b>                                 |                       |                       |                       |                       |
| Current liabilities                                | \$ 14,705,704         | \$ 13,697,412         | \$ 1,008,292          | \$ 15,256,330         |
| Long-term debt and other liabilities               | 47,687,685            | 53,700,498            | (6,012,813)           | 55,761,889            |
| <b>Total liabilities</b>                           | <b>62,393,389</b>     | <b>67,397,910</b>     | <b>(5,004,521)</b>    | <b>71,018,219</b>     |
| <b>Net assets</b>                                  |                       |                       |                       |                       |
| Invested in capital assets,<br>net of related debt | 37,690,317            | 35,981,705            | 1,708,612             | 37,846,292            |
| Restricted   | 6,865,899             | 11,226,658            | (4,360,759)           | 10,604,933            |
| Unrestricted                                       | 71,365,996            | 62,454,798            | 8,911,198             | 50,502,391            |
| <b>Total net assets</b>                            | <b>115,922,212</b>    | <b>109,663,161</b>    | <b>6,259,051</b>      | <b>98,953,616</b>     |
| <b>Total liabilities and net assets</b>            | <b>\$ 178,315,601</b> | <b>\$ 177,061,071</b> | <b>\$ 1,254,530</b>   | <b>\$ 169,971,835</b> |

The significant changes in the Hospital's assets included current assets, which increased by approximately \$6,240,000 due to increased cash deposits, and capital assets, which decreased by approximately \$3,579,000 as depreciation outpaced capital additions. The significant changes in the Hospital's liabilities included long-term debt and other liabilities, which decreased by approximately \$6,000,000 after the refinancing revenue bonds and current year principal payments. The net assets increased approximately \$6,259,000 due to gains from operations and investment gains.

# RIVERVIEW HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) DECEMBER 31, 2010 (WITH COMPARATIVE TOTALS FOR 2009 AND 2008)

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

#### Operating Results and Changes in Net Assets

|                                      | 2010           | 2009           | 2010 - 2009<br>Change | 2008           |
|--------------------------------------|----------------|----------------|-----------------------|----------------|
| <b>Operating revenue</b>             |                |                |                       |                |
| Net patient service revenue          | \$ 133,544,270 | \$ 131,474,449 | \$ 2,069,821          | \$ 133,540,097 |
| Other operating revenue              | 4,702,615      | 5,188,365      | (485,750)             | 5,014,029      |
| Total operating revenue              | 138,246,885    | 136,662,814    | 1,584,071             | 138,554,126    |
| <b>Operating expenses</b>            |                |                |                       |                |
| Salaries and benefits                | 68,087,395     | 66,499,725     | 1,587,670             | 65,554,972     |
| Medical supplies and drugs           | 21,256,635     | 19,396,412     | 1,860,223             | 18,427,866     |
| Depreciation and amortization        | 9,839,658      | 10,089,503     | (249,845)             | 10,038,729     |
| Other operating expenses             | 34,980,890     | 35,435,104     | (454,214)             | 36,089,366     |
| Total operating expenses             | 134,164,578    | 131,420,744    | 2,743,834             | 130,110,933    |
| Operating income                     | 4,082,307      | 5,242,070      | (1,159,763)           | 8,443,193      |
| <b>Nonoperating income, net</b>      | 2,176,744      | 5,467,475      | (3,290,731)           | (9,490,118)    |
| Change in net assets                 | 6,259,051      | 10,709,545     | (4,450,494)           | (1,046,925)    |
| <b>Net assets, beginning of year</b> | 109,663,161    | 98,953,616     | 10,709,545            | 100,000,541    |
| <b>Net assets, end of year</b>       | \$ 115,922,212 | \$ 109,663,161 | \$ 6,259,051          | \$ 98,953,616  |

### SOURCES OF REVENUE

During 2010, 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 52% of the Hospital's gross revenues in 2010 but only 31% of the Hospital's net patient service revenues. This compares to 2009 where revenues from Medicare and Medicaid represented 53% of the Hospital's gross revenues but 29% of its net patient service revenues.

# RIVERVIEW HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) DECEMBER 31, 2010 (WITH COMPARATIVE TOTALS FOR 2009 AND 2008)

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Following is a table of major sources of gross patient revenues for 2010, 2009, and 2008:

| <u>Payor</u>      | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|-------------------|-------------|-------------|-------------|
| Self Pay          | 10%         | 9%          | 8%          |
| Medicare          | 44%         | 45%         | 44%         |
| Medicaid          | 8%          | 8%          | 6%          |
| Anthem/Blue Cross | 19%         | 18%         | 20%         |
| Other Commercial  | 19%         | 20%         | 22%         |
| Total             | <u>100%</u> | <u>100%</u> | <u>100%</u> |

The Hospital's outpatient services represented approximately 62% of the Hospital's gross patient revenue in 2010 and 2009.

### OPERATING AND FINANCIAL PERFORMANCE

The Hospital's 2010 return on equity was 5.4%, compared to 9.8% for 2009 and -1.1% for 2008. The Hospital's debt service coverage ratio was approximately 3.4 for 2010 and 4.8 for 2009.

The following section highlights the major financial factors for 2010:

- The Hospital's discharges for 2010 increased 1.5% to 5,830 (excluding newborns) from 2009's 5,744 (excluding newborns).
- Net patient service revenue increased approximately \$2,070,000 during 2010, a 1.5% increase over 2009.
- Operating expenses increased approximately \$2,744,000, or 2.1%.
- Salaries and Benefits were the expense classifications with the second largest increase over 2009. Salary expense decreased \$707,718 from 2009 to 2010. Benefit expense increased \$2,295,388 from 2009 primarily due to increased medical claims. The average hourly rate paid increased .5% in 2010, due primarily to staff merit increases.

# RIVERVIEW HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)  
DECEMBER 31, 2010  
(WITH COMPARATIVE TOTALS FOR 2009 AND 2008)

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## THE HOSPITAL'S STATEMENT OF CASH FLOWS

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

|                                   | <u>2010</u>          | <u>2009</u>          | <u>2010 - 2009<br/>Change</u> | <u>2008</u>          |
|-----------------------------------|----------------------|----------------------|-------------------------------|----------------------|
| <b>Cash flows from activities</b> |                      |                      |                               |                      |
| Operating                         | \$ 15,081,175        | \$ 13,441,109        | \$ 1,640,066                  | \$ 20,871,560        |
| Non-capital financing             | 393,496              | 500,111              | (106,615)                     | 1,600,596            |
| Capital and related financing     | (14,299,552)         | (9,905,263)          | (4,394,289)                   | (19,238,729)         |
| Investing                         | (1,075,491)          | 516,732              | (1,592,223)                   | (3,518,542)          |
| Total                             | <u>99,628</u>        | <u>4,552,689</u>     | <u>(4,453,061)</u>            | <u>(285,115)</u>     |
| <b>Cash and cash equivalents</b>  |                      |                      |                               |                      |
| Beginning of year                 | <u>20,033,235</u>    | <u>15,480,546</u>    |                               | <u>15,765,661</u>    |
| End of year                       | <u>\$ 20,132,863</u> | <u>\$ 20,033,235</u> |                               | <u>\$ 15,480,546</u> |

Changes in the Hospital's cash flows are primarily related to the increase in cash used for capital and related financing activities due to increased principal payments on long-term debt and capital leases. There was also an increase in the purchase of capital assets. Cash flows related to investing activities also decreased due to a decrease of cash flows from investment income of approximately \$3,280,000 from 2009.

# RIVERVIEW HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) DECEMBER 31, 2010 (WITH COMPARATIVE TOTALS FOR 2009 AND 2008)

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### CAPITAL ASSETS

During 2010, the Hospital's capital assets decreased by \$3,579,000. This compares to a decrease of approximately \$4,025,000 for 2009. The change in capital assets is outlined in the following table:

|                               | <u>2010</u>          | <u>2009</u>          | <u>Change</u>         | <u>2008</u>          |
|-------------------------------|----------------------|----------------------|-----------------------|----------------------|
| Land and improvements         | \$ 13,104,702        | \$ 12,973,294        | \$ 131,408            | \$ 12,835,199        |
| Buildings and improvements    | 86,599,038           | 84,941,571           | 1,657,467             | 79,703,735           |
| Equipment                     | 99,599,726           | 102,346,176          | (2,746,450)           | 99,870,532           |
| Construction in progress      | <u>1,785,393</u>     | <u>1,482,115</u>     | <u>303,278</u>        | <u>3,989,034</u>     |
| Total capital assets          | 201,088,859          | 201,743,156          | (654,297)             | 196,398,500          |
| Less accumulated depreciation | <u>112,480,629</u>   | <u>109,555,837</u>   | <u>2,924,792</u>      | <u>100,186,323</u>   |
| Capital assets, net           | <u>\$ 88,608,230</u> | <u>\$ 92,187,319</u> | <u>\$ (3,579,089)</u> | <u>\$ 96,212,177</u> |

Net Capital Assets have decreased due to depreciation outpacing capital additions. The Hospital continually evaluates facilities and equipment to ensure that everything is upgraded as necessary.

### DEBT

The Hospital has the following debt outstanding totaling \$50.9 million as of December 31, 2010:

- 1999 tax-exempt revenue bonds
- 2004 tax-exempt revenue bonds
- 2005 tax-exempt revenue bonds
- 2010 tax-exempt revenue bonds
- Capital lease obligations

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

# RIVERVIEW HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)

DECEMBER 31, 2010

(WITH COMPARATIVE TOTALS FOR 2009 AND 2008)

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## ECONOMIC OUTLOOK

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

## CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

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

# RIVERVIEW HOSPITAL

## COMBINED BALANCE SHEETS DECEMBER 31, 2010 (WITH COMPARATIVE COMBINED TOTALS AT 2009)

### ASSETS

|  | 2010           |              |              | 2009                      |                           |
|--|----------------|--------------|--------------|---------------------------|---------------------------|
|  | Hospital       | Foundation   | Eliminations | Total reporting<br>entity | Total reporting<br>entity |
| <b>Current assets</b>  |                |              |              |                           |                           |
| Cash and cash equivalents  | \$ 16,585,859  | \$ 368,598   | \$ -0-       | \$ 16,954,457             | \$ 10,816,729             |
| Current portion of assets whose use is limited   | 2,585,849      | 258,994      | -0-          | 2,844,843                 | 2,270,393                 |
| Patient accounts receivable, less allowances<br>for uncollectible accounts and charity<br>of \$6,741,004 and \$6,640,965, respectively | 20,133,120     | -0-          | -0-          | 20,133,120                | 20,459,624                |
| Related party receivables  | 273,248        | -0-          | -0-          | 273,248                   | 238,928                   |
| Inventories  | 2,172,290      | -0-          | -0-          | 2,172,290                 | 1,988,915                 |
| Other current assets   | 2,212,175      | 4,936        | -0-          | 2,217,111                 | 2,209,739                 |
| Total current assets   | 43,962,541     | 632,528      | -0-          | 44,595,069                | 37,984,328                |
| <b>Assets whose use is limited</b>   |                |              |              |                           |                           |
| Board designated funds   |                |              |              |                           |                           |
| Cash and cash equivalents  | -0-            | -0-          | -0-          | -0-                       | 343,755                   |
| Long-term investments  | 37,852,038     | -0-          | -0-          | 37,852,038                | 34,259,733                |
| Total board designated funds   | 37,852,038     | -0-          | -0-          | 37,852,038                | 34,603,488                |
| Trustee held assets  |                |              |              |                           |                           |
| Professional liability insurance funds   | 932,005        | -0-          | -0-          | 932,005                   | 874,475                   |
| Debt service   | 2,663,436      | -0-          | -0-          | 2,663,436                 | 5,778,875                 |
| Total trustee held assets  | 3,595,441      | -0-          | -0-          | 3,595,441                 | 6,653,350                 |
| Restricted by donor  |                |              |              |                           |                           |
| Expendable for various purposes upon<br>donors' specific restriction   | 370,223        | 1,114,401    | -0-          | 1,484,624                 | 2,829,872                 |
| Nonexpendable permanent endowments   | -0-            | 2,717,839    | -0-          | 2,717,839                 | 2,617,911                 |
| Total donor-restricted assets  | 370,223        | 3,832,240    | -0-          | 4,202,463                 | 5,447,783                 |
| Total assets whose use is limited  | 41,817,702     | 3,832,240    | -0-          | 45,649,942                | 46,704,621                |
| Less current portion   | 2,585,849      | 258,994      | -0-          | 2,844,843                 | 2,270,393                 |
| Noncurrent assets whose use is limited   | 39,231,853     | 3,573,246    | -0-          | 42,805,099                | 44,434,228                |
| <b>Capital assets</b>  |                |              |              |                           |                           |
| Land   | 10,915,010     | -0-          | -0-          | 10,915,010                | 10,915,010                |
| Depreciable capital assets   | 188,373,076    | 15,380       | -0-          | 188,388,456               | 189,346,021               |
| Construction in progress   | 1,785,393      | -0-          | -0-          | 1,785,393                 | 1,482,125                 |
|  | 201,073,479    | 15,380       | -0-          | 201,088,859               | 201,743,156               |
| Less accumulated depreciation  | 112,465,249    | 15,380       | -0-          | 112,480,629               | 109,555,837               |
| Capital assets, net  | 88,608,230     | -0-          | -0-          | 88,608,230                | 92,187,319                |
| <b>Other assets</b>  |                |              |              |                           |                           |
|  | 2,307,203      | -0-          | -0-          | 2,307,203                 | 2,455,196                 |
| Total assets   | \$ 174,109,827 | \$ 4,205,774 | \$ -0-       | \$ 178,315,601            | \$ 177,061,071            |

See accompanying notes to combined financial statements.

# RIVERVIEW HOSPITAL

## COMBINED BALANCE SHEETS DECEMBER 31, 2010 (WITH COMPARATIVE COMBINED TOTALS AT 2009)

### LIABILITIES AND NET ASSETS

|  | 2010           |              |              | 2009                      |                           |
|--|----------------|--------------|--------------|---------------------------|---------------------------|
|  | Hospital       | Foundation   | Eliminations | Total reporting<br>entity | Total reporting<br>entity |
| <b>Current liabilities</b>   |                |              |              |                           |                           |
| Current portion of bonds payable                                     | \$ 2,585,849   | \$ -0-       | \$ -0-       | \$ 2,585,849              | \$ 1,865,000              |
| Current portion of capital lease obligations                         | 670,800        | -0-          | -0-          | 670,800                   | 668,930                   |
| Accounts payable   | 4,621,425      | -0-          | -0-          | 4,621,425                 | 3,796,695                 |
| Related party payables   | 598,053        |              |              | 598,053                   | 716,284                   |
| Salaries, wages and related payables                                 | 5,718,804      | -0-          | -0-          | 5,718,804                 | 5,574,838                 |
| Estimated third-party payor settlements                              | 100,000        | -0-          | -0-          | 100,000                   | 100,000                   |
| Other current liabilities  | 410,773        | -0-          | -0-          | 410,773                   | 975,665                   |
| Total current liabilities  | 14,705,704     | -0-          | -0-          | 14,705,704                | 13,697,412                |
| <b>Noncurrent liabilities</b>  |                |              |              |                           |                           |
| Long-term bonds payable  | 46,361,562     | -0-          | -0-          | 46,361,562                | 51,730,000                |
| Long-term capital lease obligations                                  | 1,299,702      | -0-          | -0-          | 1,299,702                 | 1,941,684                 |
| Other long-term liabilities  | -0-            | 26,421       | -0-          | 26,421                    | 28,814                    |
| Total noncurrent liabilities   | 47,661,264     | 26,421       | -0-          | 47,687,685                | 53,700,498                |
| Total liabilities  | 62,366,968     | 26,421       | -0-          | 62,393,389                | 67,397,910                |
| <b>Net assets</b>  |                |              |              |                           |                           |
| Invested in capital assets, net of related debt                      | 37,690,317     | -0-          | -0-          | 37,690,317                | 35,981,705                |
| <b>Restricted</b>  |                |              |              |                           |                           |
| For debt service   | 2,663,436      | -0-          | -0-          | 2,663,436                 | 5,778,875                 |
| Expendable for various purposes upon<br>donors' specific restriction | 370,223        | 1,114,401    | -0-          | 1,484,624                 | 2,829,872                 |
| Nonexpendable permanent endowments                                   | -0-            | 2,717,839    | -0-          | 2,717,839                 | 2,617,911                 |
| Total restricted   | 3,033,659      | 3,832,240    | -0-          | 6,865,899                 | 11,226,658                |
| <b>Unrestricted</b>  |                |              |              |                           |                           |
| Total net assets   | 71,018,883     | 347,113      | -0-          | 71,365,996                | 62,454,798                |
| Total net assets   | 111,742,859    | 4,179,353    | -0-          | 115,922,212               | 109,663,161               |
| Total liabilities and net assets                                     | \$ 174,109,827 | \$ 4,205,774 | \$ -0-       | \$ 178,315,601            | \$ 177,061,071            |

See accompanying notes to combined financial statements.

# RIVERVIEW HOSPITAL

## COMBINED BALANCE SHEETS DECEMBER 31, 2009

| <b>ASSETS</b>  |                |              |              |                        |
|--|----------------|--------------|--------------|------------------------|
| 2009   |                |              |              |                        |
|  | Hospital       | Foundation   | Eliminations | Total reporting entity |
| <b>Current assets</b>  |                |              |              |                        |
| Cash and cash equivalents  | \$ 10,496,245  | \$ 320,484   | \$ -0-       | \$ 10,816,729          |
| Current portion of assets whose use is limited   | 1,865,000      | 405,393      | -0-          | 2,270,393              |
| Patient accounts receivable, less allowance<br>for uncollectible accounts of \$6,640,965 | 20,459,624     | -0-          | -0-          | 20,459,624             |
| Related party receivables  | 243,531        | -0-          | (4,603)      | 238,928                |
| Inventories  | 1,988,915      | -0-          | -0-          | 1,988,915              |
| Other current assets   | 2,186,961      | 22,778       |              | 2,209,739              |
| Total current assets   | 37,240,276     | 748,655      | (4,603)      | 37,984,328             |
| <b>Assets whose use is limited</b>   |                |              |              |                        |
| Board designated funds   |                |              |              |                        |
| Cash and cash equivalents  | 343,755        | -0-          | -0-          | 343,755                |
| Long-term investments  | 34,259,733     | -0-          | -0-          | 34,259,733             |
| Total board designated funds   | 34,603,488     | -0-          | -0-          | 34,603,488             |
| Trustee held assets  |                |              |              |                        |
| Professional liability insurance funds   | 874,475        | -0-          | -0-          | 874,475                |
| Debt service   | 5,778,875      | -0-          | -0-          | 5,778,875              |
| Total trustee held assets  | 6,653,350      | -0-          | -0-          | 6,653,350              |
| Restricted by donor  |                |              |              |                        |
| Expendable for various purposes upon donors' specific restriction                        |                |              |              |                        |
|  | 1,754,389      | 1,075,483    | -0-          | 2,829,872              |
| Nonexpendable permanent endowments   | -0-            | 2,617,911    | -0-          | 2,617,911              |
| Total donor-restricted assets  | 1,754,389      | 3,693,394    | -0-          | 5,447,783              |
| Total assets whose use is limited  | 43,011,227     | 3,693,394    | -0-          | 46,704,621             |
| Less current portion   | 1,865,000      | 405,393      | -0-          | 2,270,393              |
| Noncurrent assets whose use is limited   | 41,146,227     | 3,288,001    | -0-          | 44,434,228             |
| <b>Capital assets</b>  |                |              |              |                        |
| Land   | 10,915,010     | -0-          | -0-          | 10,915,010             |
| Depreciable capital assets   | 189,346,021    | -0-          | -0-          | 189,346,021            |
| Construction in progress   | 1,482,125      | -0-          | -0-          | 1,482,125              |
|  | 201,743,156    | -0-          | -0-          | 201,743,156            |
| Less accumulated depreciation  | 109,555,837    | -0-          | -0-          | 109,555,837            |
| Capital assets, net  | 92,187,319     | -0-          | -0-          | 92,187,319             |
| <b>Other assets</b>  |                |              |              |                        |
|  | 2,455,196      | -0-          | -0-          | 2,455,196              |
| Total assets   | \$ 173,029,018 | \$ 4,036,656 | \$ (4,603)   | \$ 177,061,071         |

See accompanying notes to combined financial statements.

# RIVERVIEW HOSPITAL

## COMBINED BALANCE SHEETS DECEMBER 31, 2009

### LIABILITIES AND NET ASSETS

2009

|   | Hospital       | Foundation   | Eliminations | Total reporting entity |
|---|----------------|--------------|--------------|------------------------|
| <b>Current liabilities</b>  |                |              |              |                        |
| Current portion of bonds payable                                  | \$ 1,865,000   | \$ -0-       | \$ -0-       | \$ 1,865,000           |
| Current portion of capital lease obligations                      | 668,930        | -0-          | -0-          | 668,930                |
| Accounts payable  | 3,796,695      | -0-          | -0-          | 3,796,695              |
| Related party payables  | 716,284        | 4,603        | (4,603)      | 716,284                |
| Salaries, wages and related payables                              | 5,574,838      | -0-          | -0-          | 5,574,838              |
| Estimated third-party payor settlements                           | 100,000        | -0-          | -0-          | 100,000                |
| Other current liabilities   | 975,665        | -0-          | -0-          | 975,665                |
| Total current liabilities   | 13,697,412     | 4,603        | (4,603)      | 13,697,412             |
| <b>Noncurrent liabilities</b>                                     |                |              |              |                        |
| Long-term bonds payable   | 51,730,000     | -0-          | -0-          | 51,730,000             |
| Long-term capital lease obligations                               | 1,941,684      | -0-          | -0-          | 1,941,684              |
| Other long-term liabilities                                       | -0-            | 28,814       | -0-          | 28,814                 |
| Total noncurrent liabilities                                      | 53,671,684     | 28,814       | -            | 53,700,498             |
| Total liabilities   | 67,369,096     | 33,417       | (4,603)      | 67,397,910             |
| <b>Net assets</b>   |                |              |              |                        |
| Invested in capital assets, net of related debt                   | 35,981,705     | -0-          | -0-          | 35,981,705             |
| Restricted  |                |              |              |                        |
| For debt service  | 5,778,875      | -0-          | -0-          | 5,778,875              |
| Expendable for various purposes upon donors' specific restriction | 1,754,389      | 1,075,483    | -0-          | 2,829,872              |
| Nonexpendable permanent endowments                                | -0-            | 2,617,911    | -0-          | 2,617,911              |
| Total restricted  | 7,533,264      | 3,693,394    | -0-          | 11,226,658             |
| Unrestricted  | 62,144,953     | 309,845      | -0-          | 62,454,798             |
| Total net assets  | 105,659,922    | 4,003,239    | -0-          | 109,663,161            |
| Total liabilities and net assets                                  | \$ 173,029,018 | \$ 4,036,656 | \$ (4,603)   | \$ 177,061,071         |

See accompanying notes to combined financial statements.

# RIVERVIEW HOSPITAL

## COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2010 (WITH COMPARATIVE COMBINED TOTALS FOR 2009)

|                                       | 2010           |              |              | 2009                      |                           |
|---------------------------------------|----------------|--------------|--------------|---------------------------|---------------------------|
|                                       | Hospital       | Foundation   | Eliminations | Total reporting<br>entity | Total reporting<br>entity |
| <b>Revenue</b>                        |                |              |              |                           |                           |
| Net patient service revenue           | \$ 133,544,270 | \$ -0-       | \$ -0-       | \$ 133,544,270            | \$ 131,474,449            |
| Other                                 | 4,702,615      | -0-          | -0-          | 4,702,615                 | 5,188,365                 |
| Total operating revenue               | 138,246,885    | -0-          | -0-          | 138,246,885               | 136,662,814               |
| <b>Operating expenses</b>             |                |              |              |                           |                           |
| Salaries and wages                    | 55,247,720     | -0-          | -0-          | 55,247,720                | 55,955,438                |
| Employee benefits                     | 12,839,675     | -0-          | -0-          | 12,839,675                | 10,544,287                |
| Medical supplies                      | 15,104,038     | -0-          | -0-          | 15,104,038                | 13,921,495                |
| Drugs                                 | 6,152,597      | -0-          | -0-          | 6,152,597                 | 5,474,917                 |
| Food                                  | 929,685        | -0-          | -0-          | 929,685                   | 963,950                   |
| Utilities                             | 2,215,391      | -0-          | -0-          | 2,215,391                 | 2,348,020                 |
| Purchased services                    | 19,973,700     | -0-          | -0-          | 19,973,700                | 20,371,286                |
| Repairs and maintenance               | 3,586,048      | -0-          | -0-          | 3,586,048                 | 3,490,710                 |
| Rental expense                        | 2,746,251      | -0-          | -0-          | 2,746,251                 | 2,844,344                 |
| Other supplies and expenses           | 5,529,815      | -0-          | -0-          | 5,529,815                 | 5,416,794                 |
| Depreciation and amortization         | 9,839,658      | -0-          | -0-          | 9,839,658                 | 10,089,503                |
| Total operating expenses              | 134,164,578    | -0-          | -0-          | 134,164,578               | 131,420,744               |
| Operating income                      | 4,082,307      | -0-          | -0-          | 4,082,307                 | 5,242,070                 |
| <b>Nonoperating income (expenses)</b> |                |              |              |                           |                           |
| Investment income                     | 3,566,367      | 341,563      | -0-          | 3,907,930                 | 7,187,730                 |
| Contributions and other nonoperating  | 558,945        | 385,415      | (550,864)    | 393,496                   | 500,111                   |
| Grants                                | -0-            | (550,864)    | 550,864      | -0-                       | -0-                       |
| Interest expense                      | (2,124,682)    | -0-          | -0-          | (2,124,682)               | (2,220,366)               |
| Total nonoperating, net               | 2,000,630      | 176,114      | -0-          | 2,176,744                 | 5,467,475                 |
| Change in net assets                  | 6,082,937      | 176,114      | -0-          | 6,259,051                 | 10,709,545                |
| <b>Net assets</b>                     |                |              |              |                           |                           |
| Beginning of year                     | 105,659,922    | 4,003,239    | -0-          | 109,663,161               | 98,953,616                |
| End of year                           | \$ 111,742,859 | \$ 4,179,353 | \$ -0-       | \$ 115,922,212            | \$ 109,663,161            |

See accompanying notes to combined financial statements.

# RIVERVIEW HOSPITAL

## COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2009

|                                       | Hospital              | Foundation          | Eliminations  | Total reporting<br>entity |
|---------------------------------------|-----------------------|---------------------|---------------|---------------------------|
| <b>Revenue</b>                        |                       |                     |               |                           |
| Net patient service revenue           | \$ 131,474,449        | \$ -0-              | \$ -0-        | \$ 131,474,449            |
| Other                                 | 5,188,365             | -0-                 | -0-           | 5,188,365                 |
| <b>Total operating revenue</b>        | <b>136,662,814</b>    | <b>-0-</b>          | <b>-0-</b>    | <b>136,662,814</b>        |
| <b>Operating expenses</b>             |                       |                     |               |                           |
| Salaries and wages                    | 55,955,438            | -0-                 | -0-           | 55,955,438                |
| Employee benefits                     | 10,544,287            | -0-                 | -0-           | 10,544,287                |
| Medical supplies                      | 13,921,495            | -0-                 | -0-           | 13,921,495                |
| Drugs                                 | 5,474,917             | -0-                 | -0-           | 5,474,917                 |
| Food                                  | 963,950               | -0-                 | -0-           | 963,950                   |
| Utilities                             | 2,348,020             | -0-                 | -0-           | 2,348,020                 |
| Purchased services                    | 20,371,286            | -0-                 | -0-           | 20,371,286                |
| Repairs and maintenance               | 3,490,710             | -0-                 | -0-           | 3,490,710                 |
| Rental expense                        | 2,844,344             | -0-                 | -0-           | 2,844,344                 |
| Other supplies and expenses           | 5,416,794             | -0-                 | -0-           | 5,416,794                 |
| Depreciation and amortization         | 10,089,503            | -0-                 | -0-           | 10,089,503                |
| <b>Total operating expenses</b>       | <b>131,420,744</b>    | <b>-0-</b>          | <b>-0-</b>    | <b>131,420,744</b>        |
| Operating income                      | 5,242,070             | -0-                 | -0-           | 5,242,070                 |
| <b>Nonoperating income (expenses)</b> |                       |                     |               |                           |
| Investment income                     | 6,733,429             | 454,301             | -0-           | 7,187,730                 |
| Contributions and other nonoperating  | 909,105               | 391,006             | (800,000)     | 500,111                   |
| Grants                                | -0-                   | (800,000)           | 800,000       | -0-                       |
| Interest expense                      | (2,220,366)           | -0-                 | -0-           | (2,220,366)               |
| <b>Total nonoperating, net</b>        | <b>5,422,168</b>      | <b>45,307</b>       | <b>-0-</b>    | <b>5,467,475</b>          |
| Change in net assets                  | 10,664,238            | 45,307              | -0-           | 10,709,545                |
| <b>Net assets</b>                     |                       |                     |               |                           |
| Beginning of year                     | 94,995,684            | 3,957,932           | -0-           | 98,953,616                |
| End of year                           | <u>\$ 105,659,922</u> | <u>\$ 4,003,239</u> | <u>\$ -0-</u> | <u>\$ 109,663,161</u>     |

See accompanying notes to combined financial statements.

# RIVERVIEW HOSPITAL

## COMBINED STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2010 (WITH COMPARATIVE COMBINED TOTALS FOR 2009)

|  | 2010                 |                   |               | 2009                   |                        |
|--|----------------------|-------------------|---------------|------------------------|------------------------|
|  | Hospital             | Foundation        | Eliminations  | Total reporting entity | Total reporting entity |
| <b>Operating activities</b>  |                      |                   |               |                        |                        |
| Cash received from patient services                                      | \$ 133,841,057       | \$ -0-            | \$ -0-        | \$ 133,841,057         | \$ 131,692,136         |
| Cash paid for salaries, wages and benefits                               | (67,943,429)         | -0-               | -0-           | (67,943,429)           | (68,293,107)           |
| Cash paid to vendors and suppliers                                       | (55,466,765)         | -0-               | -0-           | (55,466,765)           | (54,047,417)           |
| Other receipts and payments, net   | 4,639,466            | 10,846            | -0-           | 4,650,312              | 4,089,497              |
| Net cash flows from operating activities                                 | 15,070,329           | 10,846            | -0-           | 15,081,175             | 13,441,109             |
| <b>Non-capital financing activities</b>                                  |                      |                   |               |                        |                        |
| Contributions and other nonoperating Grants                              | 558,945              | 385,415           | (550,864)     | 393,496                | 500,111                |
|  | -0-                  | (550,864)         | 550,864       | -0-                    | -0-                    |
| Net cash flows from non-capital financing activities                     | 558,945              | (165,449)         | -0-           | 393,496                | 500,111                |
| <b>Capital and related financing activities</b>                          |                      |                   |               |                        |                        |
| Payments on long-term debt   | (21,865,000)         | -0-               | -0-           | (21,865,000)           | (2,095,000)            |
| Proceeds from issuance of long-term debt                                 | 19,200,000           | -0-               | -0-           | 19,200,000             | -0-                    |
| Payments on capital leases   | (660,825)            | -0-               | -0-           | (660,825)              | (673,342)              |
| Payments for 2010 bond issuance costs                                    | (267,682)            | -0-               | -0-           | (267,682)              | -0-                    |
| Deferred loss on refunding of 2002 bonds                                 | (1,982,589)          | -0-               | -0-           | (1,982,589)            | -0-                    |
| Cash paid for interest   | (2,662,024)          | -0-               | -0-           | (2,662,024)            | (2,276,422)            |
| Proceeds on sale of assets   | 35,599               | -0-               | -0-           | 35,599                 | 6,291                  |
| Purchase of capital assets   | (6,097,031)          | -0-               | -0-           | (6,097,031)            | (4,866,790)            |
| Net cash flows from capital and related financing activities             | (14,299,552)         | -0-               | -0-           | (14,299,552)           | (9,905,263)            |
| <b>Investing activities</b>  |                      |                   |               |                        |                        |
| Investment income  | 3,566,367            | 341,563           | -0-           | 3,907,930              | 7,187,730              |
| Other changes in assets whose use is limited and investments             | (4,881,694)          | (101,727)         | -0-           | (4,983,421)            | (6,670,998)            |
| Net cash flows from investing activities                                 | (1,315,327)          | 239,836           | -0-           | (1,075,491)            | 516,732                |
| Net change in cash and cash equivalents                                  | 14,395               | 85,233            | -0-           | 99,628                 | 4,552,689              |
| <b>Cash and cash equivalents</b>   |                      |                   |               |                        |                        |
| Beginning of year  | 19,674,645           | 358,590           | -0-           | 20,033,235             | 15,480,546             |
| End of year  | <u>\$ 19,689,040</u> | <u>\$ 443,823</u> | <u>\$ -0-</u> | <u>\$ 20,132,863</u>   | <u>\$ 20,033,235</u>   |
| <b>Reconciliation of cash and cash equivalents to the balance sheets</b> |                      |                   |               |                        |                        |
| Cash and cash equivalents  |                      |                   |               |                        |                        |
| In current assets  | \$ 16,585,859        | \$ 368,598        | \$ -0-        | \$ 16,954,457          | \$ 10,816,729          |
| In assets whose use is limited   | 3,103,181            | 75,225            | -0-           | 3,178,406              | 9,216,506              |
| Total cash and cash equivalents  | <u>\$ 19,689,040</u> | <u>\$ 443,823</u> | <u>\$ -0-</u> | <u>\$ 20,132,863</u>   | <u>\$ 20,033,235</u>   |

See accompanying notes to combined financial statements.

# RIVERVIEW HOSPITAL

## COMBINED STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2010 (WITH COMPARATIVE COMBINED TOTALS FOR 2009)

|  | 2010          |            |              | 2009                      |                           |
|--|---------------|------------|--------------|---------------------------|---------------------------|
|  | Hospital      | Foundation | Eliminations | Total reporting<br>entity | Total reporting<br>entity |
| <b>Reconciliation of operating income</b>          |               |            |              |                           |                           |
| <b>to net cash flows from operating activities</b> |               |            |              |                           |                           |
| Operating income                                   | \$ 4,082,307  | \$ -0-     | \$ -0-       | \$ 4,082,307              | \$ 5,242,070              |
| Adjustments to reconcile operating income          |               |            |              |                           |                           |
| to net cash flows from operating activities        |               |            |              |                           |                           |
| Depreciation and amortization                      | 9,839,658     | -0-        | -0-          | 9,839,658                 | 10,089,503                |
| Gain on disposal of capital assets                 | (35,599)      | -0-        | -0-          | (35,599)                  | (4,118)                   |
| Amortization of annuities                          | -0-           | 2,393      | -0-          | 2,393                     | (1,752)                   |
| Provision for bad debts                            | 8,041,879     | -0-        | -0-          | 8,041,879                 | 10,465,007                |
| Changes in operating assets and liabilities        |               |            |              |                           |                           |
| Patient accounts receivable                        | (7,715,375)   | -0-        | -0-          | (7,715,375)               | (10,263,462)              |
| Inventories  | (183,375)     | -0-        | -0-          | (183,375)                 | 16,698                    |
| Other current assets                               | (25,214)      | 17,842     | -0-          | (7,372)                   | 2,290,554                 |
| Other assets                                       | 272,850       | -0-        | -0-          | 272,850                   | 190,053                   |
| Accounts payable                                   | 824,730       | -0-        | -0-          | 824,730                   | (803,582)                 |
| Related party receivables/payables                 | (147,948)     | (4,603)    | -0-          | (152,551)                 | (2,067,279)               |
| Salaries, wages and fees payable                   | 143,966       | -0-        | -0-          | 143,966                   | (1,793,382)               |
| Estimated third-party payor settlements            | -0-           | -0-        | -0-          | -0-                       | 50,677                    |
| Other current liabilities                          | (27,550)      | -0-        | -0-          | (27,550)                  | 25,273                    |
| Other long-term liabilities                        | -0-           | (4,786)    | -0-          | (4,786)                   | -0-                       |
| Net cash flows from operating activities           | \$ 15,070,329 | \$ 10,846  | \$ -0-       | \$ 15,081,175             | \$ 13,441,109             |
| <b>Supplemental cash flows information</b>         |               |            |              |                           |                           |
| Property acquired through capital lease obligation | \$ 20,713     | \$ -0-     | \$ -0-       | \$ 20,713                 | \$ 608,071                |
| Property additions included in accounts payable    | \$ -0-        | \$ -0-     | \$ -0-       | \$ -0-                    | \$ 452,041                |

See accompanying notes to combined financial statements.

# RIVERVIEW HOSPITAL

## COMBINED STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2009

|  | Hospital             | Foundation        | Eliminations  | Total reporting<br>entity |
|--|----------------------|-------------------|---------------|---------------------------|
| <b>Operating activities</b>  |                      |                   |               |                           |
| Cash received from patient services  | \$ 131,692,136       | \$ -0-            | \$ -0-        | \$ 131,692,136            |
| Cash paid for salaries, wages and benefits                                   | (68,293,107)         | -0-               | -0-           | (68,293,107)              |
| Cash paid to vendors and suppliers   | (54,047,417)         | -0-               | -0-           | (54,047,417)              |
| Other receipts and payments, net   | 5,153,464            | (1,063,967)       | -0-           | 4,089,497                 |
| Net cash flows from operating activities                                     | 14,505,076           | (1,063,967)       | -0-           | 13,441,109                |
| <b>Non-capital financing activities</b>                                      |                      |                   |               |                           |
| Contributions and other nonoperating<br>Grants                               | 909,105              | 391,006           | (800,000)     | 500,111                   |
|  | -0-                  | (800,000)         | 800,000       | -0-                       |
| Net cash flows from non-capital<br>financing activities                      | 909,105              | (408,994)         | -0-           | 500,111                   |
| <b>Capital and related financing activities</b>                              |                      |                   |               |                           |
| Payments on long-term debt   | (2,095,000)          | -0-               | -0-           | (2,095,000)               |
| Payments on capital leases   | (673,342)            | -0-               | -0-           | (673,342)                 |
| Cash paid for interest   | (2,276,422)          | -0-               | -0-           | (2,276,422)               |
| Proceeds on sale of assets   | 6,291                | -0-               | -0-           | 6,291                     |
| Purchase of capital assets   | (4,866,790)          | -0-               | -0-           | (4,866,790)               |
| Net cash flows from capital<br>and related financing activities              | (9,905,263)          | -0-               | -0-           | (9,905,263)               |
| <b>Investing activities</b>  |                      |                   |               |                           |
| Investment income  | 6,733,429            | 454,301           | -0-           | 7,187,730                 |
| Other changes in assets whose use<br>is limited and investments              | (6,803,752)          | 132,754           | -0-           | (6,670,998)               |
| Net cash flows from investing activities                                     | (70,323)             | 587,055           | -0-           | 516,732                   |
| Net change in cash and cash equivalents                                      | 5,438,595            | (885,906)         | -0-           | 4,552,689                 |
| <b>Cash and cash equivalents</b>   |                      |                   |               |                           |
| Beginning of year  | 14,236,050           | 1,244,496         | -0-           | 15,480,546                |
| End of year  | <u>\$ 19,674,645</u> | <u>\$ 358,590</u> | <u>\$ -0-</u> | <u>\$ 20,033,235</u>      |
| <b>Reconciliation of cash and cash equivalents<br/>to the balance sheets</b> |                      |                   |               |                           |
| Cash and cash equivalents  |                      |                   |               |                           |
| In current assets  | \$ 10,496,245        | \$ 320,484        | \$ -0-        | \$ 10,816,729             |
| In assets whose use is limited   | 9,178,400            | 38,106            | -0-           | 9,216,506                 |
| Total cash and cash equivalents  | <u>\$ 19,674,645</u> | <u>\$ 358,590</u> | <u>\$ -0-</u> | <u>\$ 20,033,235</u>      |

See accompanying notes to combined financial statements.

# RIVERVIEW HOSPITAL

## COMBINED STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2009

|  | Hospital             | Foundation            | Eliminations  | Total reporting<br>entity |
|--|----------------------|-----------------------|---------------|---------------------------|
| <b>Reconciliation of operating income</b>  |                      |                       |               |                           |
| <b>to net cash flows from operating activities</b>                                       |                      |                       |               |                           |
| Operating income   | \$ 5,242,070         | \$ -0-                | \$ -0-        | \$ 5,242,070              |
| Adjustments to reconcile operating income<br>to net cash flows from operating activities |                      |                       |               |                           |
| Depreciation and amortization  | 10,089,503           | -0-                   | -0-           | 10,089,503                |
| Loss on disposal of capital assets   | (4,118)              | -0-                   | -0-           | (4,118)                   |
| Amortization of annuities  | -0-                  | (1,752)               | -0-           | (1,752)                   |
| Provision for bad debts  | 10,465,007           | -0-                   | -0-           | 10,465,007                |
| Changes in operating assets and liabilities  |                      |                       |               |                           |
| Patient accounts receivable  | (10,263,462)         | -0-                   | -0-           | (10,263,462)              |
| Inventories  | 16,698               | -0-                   | -0-           | 16,698                    |
| Other current assets   | 1,220,492            | (128,538)             | 1,198,600     | 2,290,554                 |
| Other assets   | (65,418)             | 255,471               | -0-           | 190,053                   |
| Accounts payable   | (803,582)            | -0-                   | -0-           | (803,582)                 |
| Related party receivables/payables   | 325,318              | (1,193,997)           | (1,198,600)   | (2,067,279)               |
| Salaries, wages and fees payable   | (1,793,382)          | -0-                   | -0-           | (1,793,382)               |
| Estimated third-party payor settlements  | 50,677               | -0-                   | -0-           | 50,677                    |
| Other current liabilities  | 25,273               | -                     | -0-           | 25,273                    |
| Other long-term liabilities  | -                    | 4,849                 | -0-           | 4,849                     |
| Net cash flows from operating activities   | <u>\$ 14,505,076</u> | <u>\$ (1,063,967)</u> | <u>\$ -0-</u> | <u>\$ 13,441,109</u>      |
| <b>Supplemental cash flows information</b>   |                      |                       |               |                           |
| Property acquired through capital lease obligation                                       | \$ 608,071           | \$ -0-                | \$ -0-        | \$ 608,071                |
| Property additions included in accounts payable  | \$ 452,041           | \$ -0-                | \$ -0-        | \$ 452,041                |

See accompanying notes to combined financial statements.

# RIVERVIEW HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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### 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.

The consolidated financial statements of 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 that is attributable to the transactions of the Hospital and its Foundation. They do not purport to, and do not, present fairly the financial position of Hamilton County as of December 31, 2010 and 2009, 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).

#### Discrete Component Unit

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

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

# RIVERVIEW HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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### Enterprise Fund Accounting

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

### Use of Estimates

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

### Federal or State Income Taxes

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

### Cash and Cash Equivalents

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

### Investments in Debt and Equity Securities

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

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# RIVERVIEW HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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### 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, 2008 with immaterial differences reflected as deductions from revenue in 2010. Amounts from unresolved cost reports for 2009 through 2010 are reflected in estimated third-party payor settlements on the combined balance sheets. 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, 2010 and 2009 were \$1,411,212 and \$1,222,082, 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, investments held by trustees for capital improvements 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 combined statements of revenues, expenses and changes in net assets.

# RIVERVIEW HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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### Capital Assets and Depreciation

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

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

### Investment in Affiliates

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

### Net Assets

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

### 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.

# RIVERVIEW HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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### Grants and Contributions

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

### Restricted Resources

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

### Operating Revenues and Expenses

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

### Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not collect amounts deemed to be charity care, they are not reported as revenue. The charity care (measured at charges foregone) provided during 2010 and 2009 was \$12,182,491 and \$8,681,601, respectively.

### 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 2010 and 2009 was \$142,826 and \$145,670, respectively.

# RIVERVIEW HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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### Compensated Absences

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

### Risk Management

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

### Reclassifications

Certain 2009 balances were reclassified to conform to the 2010 presentation. There is no effect on the consolidated change in net assets as a result of these reclassifications.

### Subsequent Events

The Hospital evaluates events or transactions occurring subsequent to the combined balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements are issued which is March 28, 2011.

## 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.

# RIVERVIEW HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

The following is a summary of net patient service revenue for 2010 and 2009:

|                               | 2010           | 2009           |
|-------------------------------|----------------|----------------|
| Patient service revenue       |                |                |
| Inpatient                     | \$ 139,675,336 | \$ 133,664,915 |
| Outpatient                    | 191,167,739    | 178,892,677    |
| Gross service patient revenue | 330,843,075    | 312,557,592    |
| <br>                          |                |                |
| Deductions from revenue       |                |                |
| Contractual allowances        | 177,074,435    | 161,936,535    |
| Charity care                  | 12,182,491     | 8,681,601      |
| Provision for bad debts       | 8,041,879      | 10,465,007     |
| Total deductions from revenue | 197,298,805    | 181,083,143    |
| <br>                          |                |                |
| Net patient service revenue   | \$ 133,544,270 | \$ 131,474,449 |

### 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, 2010 and 2009:

|   | 2010          | 2009          |
|---|---------------|---------------|
| <u>Patient accounts receivable</u>                          |               |               |
| Receivable from patients and their insurance carriers       | \$ 30,573,948 | \$ 28,603,490 |
| Receivable from Medicare                                    | 13,910,499    | 12,285,016    |
| Receivable from Medicaid                                    | 5,367,943     | 4,724,802     |
| Total patient accounts receivable                           | 49,852,390    | 45,613,308    |
| <br>  |               |               |
| Less allowances for contractual agreements                  | (22,978,266)  | (18,512,719)  |
| Less allowances for uncollectible amounts                   | (6,741,004)   | (6,640,965)   |
|   | (29,719,270)  | (25,153,684)  |
| <br>  |               |               |
| Patient accounts receivable, net                            | \$ 20,133,120 | \$ 20,459,624 |
| <br>  |               |               |
| <u>Accounts payable and accrued expenses</u>                |               |               |
| Payable to suppliers  | \$ 4,621,425  | \$ 3,796,695  |
| Payable to employees (including payroll taxes and benefits) | 5,718,804     | 5,574,838     |
| Total accounts payable and accrued expenses                 | \$ 10,340,229 | \$ 9,371,533  |

# RIVERVIEW HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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### 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, 2010 and 2009 were \$37,852,038 and \$34,603,488 respectively.

#### Trustee Held Assets

The Hospital deposited funds for certain debt requirements which are held by the trustee in accordance with the trust indenture. Bond funds held as trustee held assets for debt service as of December 31, 2010 and 2009 were \$2,663,436 and \$5,778,875, respectively. The Hospital also deposits certain funds related to professional liability insurance funds. Professional liability insurance funds as of December 31, 2010 and 2009 were \$932,005 and \$874,475, respectively.

#### Donor-Restricted - Expendable for Various Purposes

The Hospital has funds which have been donated for specific purposes. The funds must be used for the donor specified purpose. Donor-restricted assets that are expendable for various purposes were \$1,484,624 and \$2,829,872 as of December 31, 2010 and 2009.

#### Donor-Restricted Nonexpendable Endowments

The Hospital maintains several permanent funds with donor-restricted endowments that totaled \$2,717,839 and \$2,617,911 at December 31, 2010 and 2009, 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.

# RIVERVIEW HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

### 5. DEPOSITS AND INVESTMENTS

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

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

As of December 31, 2010 and 2009, 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, 2010           |                    |                                  |            |           |                 |
|-----------------------------|--------------------|----------------------------------|------------|-----------|-----------------|
|                             | Carrying<br>amount | Investment Maturities (in Years) |            |           |                 |
|                             |                    | Less<br>than 1                   | 1 - 5      | 6 - 10    | More<br>than 10 |
| <b>Hospital</b>             |                    |                                  |            |           |                 |
| Equities                    | \$ 13,425,603      | \$ 13,425,603                    | \$ -0-     | \$ -0-    | \$ -0-          |
| Mutual funds - equities     | 4,403,534          | 4,403,534                        | -0-        | -0-       | -0-             |
| Mutual funds - fixed income | 20,885,384         | 20,885,384                       | -0-        | -0-       | -0-             |
|                             | \$ 38,714,521      | \$ 38,714,521                    | \$ -0-     | \$ -0-    | \$ -0-          |
| <b>Foundation</b>           |                    |                                  |            |           |                 |
| U.S. Government Securities  | \$ 543,449         | \$ 60,030                        | \$ 168,878 | \$ 84,016 | \$ 230,525      |
| Corporate equities          | 2,327,160          | 2,327,160                        | -0-        | -0-       | -0-             |
| Certificates of deposit     | 125,161            | 125,161                          | -0-        | -0-       | -0-             |
|                             | \$ 2,995,770       | \$ 2,512,351                     | \$ 168,878 | \$ 84,016 | \$ 230,525      |

| December 31, 2009           |                    |                                  |              |           |                 |
|-----------------------------|--------------------|----------------------------------|--------------|-----------|-----------------|
|                             | Carrying<br>amount | Investment Maturities (in Years) |              |           |                 |
|                             |                    | Less<br>than 1                   | 1 - 5        | 6 - 10    | More<br>than 10 |
| <b>Hospital</b>             |                    |                                  |              |           |                 |
| U.S. Government Securities  | \$ 2,147,047       | \$ 287,634                       | \$ 1,795,200 | \$ 64,213 | \$ -0-          |
| Certificates of deposit     | 750,000            | 750,000                          | -0-          | -0-       | -0-             |
| Mutual funds - equities     | 15,349,321         | 15,349,321                       | -0-          | -0-       | -0-             |
| Mutual funds - fixed income | 15,586,459         | 15,586,459                       | -0-          | -0-       | -0-             |
|                             | \$ 33,832,827      | \$ 31,973,414                    | \$ 1,795,200 | \$ 64,213 | \$ -0-          |
| <b>Foundation</b>           |                    |                                  |              |           |                 |
| U.S. Government Securities  | \$ 502,442         | \$ 28,754                        | \$ 129,976   | \$ -0-    | \$ 343,712      |
| Corporate equities          | 2,062,936          | 2,062,936                        | -0-          | -0-       | -0-             |
| Certificates of deposit     | 125,023            | 100,023                          | 25,000       | -0-       | -0-             |
|                             | \$ 2,690,401       | \$ 2,191,713                     | \$ 154,976   | \$ -0-    | \$ 343,712      |

# RIVERVIEW HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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, 2010 and 2009:

| Hospital   | <u>2010</u>          | <u>2009</u>          |
|--|----------------------|----------------------|
| Carrying amount                                  |                      |                      |
| Deposits   | \$ 19,689,040        | \$ 19,674,645        |
| Investments                                      | <u>38,714,521</u>    | <u>33,832,827</u>    |
|  | <u>\$ 58,403,561</u> | <u>\$ 53,507,472</u> |
| Included in the following balance sheet captions |                      |                      |
| Cash and cash equivalents                        | \$ 16,585,859        | \$ 10,496,245        |
| Board designated funds                           | 37,852,038           | 34,603,488           |
| Trustee held assets                              | 3,595,441            | 6,653,350            |
| Restricted by donor                              | <u>370,223</u>       | <u>1,754,389</u>     |
|  | <u>\$ 58,403,561</u> | <u>\$ 53,507,472</u> |
| Foundation                                       |                      |                      |
| Carrying amount                                  |                      |                      |
| Deposits   | \$ 443,823           | \$ 358,590           |
| Investments                                      | <u>2,995,770</u>     | <u>2,690,401</u>     |
|  | <u>\$ 3,439,593</u>  | <u>\$ 3,048,991</u>  |
| Included in the following balance sheet captions |                      |                      |
| Cash and cash equivalents                        | \$ 368,598           | \$ 320,484           |
| Restricted by donor                              | <u>3,070,995</u>     | <u>2,728,507</u>     |
|  | <u>\$ 3,439,593</u>  | <u>\$ 3,048,991</u>  |

# RIVERVIEW HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

### 6. FAIR VALUE MEASUREMENTS

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

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

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

| Hospital                    | Total                | Level 1              | Level 2           | Level 3       |
|-----------------------------|----------------------|----------------------|-------------------|---------------|
| <b>Assets:</b>              |                      |                      |                   |               |
| Equities                    | \$ 13,425,603        | \$ 13,425,603        | \$ -0-            | \$ -0-        |
| Mutual funds - equities     | 4,403,534            | 4,403,534            | -0-               | -0-           |
| Mutual funds - fixed income | 20,885,384           | 20,885,384           | -0-               | -0-           |
|                             | <u>\$ 38,714,521</u> | <u>\$ 38,714,521</u> | <u>\$ -0-</u>     | <u>\$ -0-</u> |
| <br>                        |                      |                      |                   |               |
| <b>Foundation</b>           |                      |                      |                   |               |
|                             | Total                | Level 1              | Level 2           | Level 3       |
| <b>Assets:</b>              |                      |                      |                   |               |
| U.S. Government Securities  | \$ 543,449           | \$ -0-               | \$ 543,449        | \$ -0-        |
| Equities                    | 2,327,160            | 2,327,160            | -0-               | -0-           |
|                             | <u>2,870,609</u>     | <u>\$ 2,327,160</u>  | <u>\$ 543,449</u> | <u>\$ -0-</u> |
| Certificates of deposit *   | 125,161              |                      |                   |               |
|                             | <u>\$ 2,995,770</u>  |                      |                   |               |
| <br>                        |                      |                      |                   |               |
| <b>Liabilities:</b>         |                      |                      |                   |               |
| Annuities payable           | \$ 26,421            | \$ -0-               | \$ -0-            | \$ 26,421     |

\* Certificates of deposit are reported at contract value

# RIVERVIEW HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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

| Hospital                   | <u>Total</u>         | <u>Level 1</u>       | <u>Level 2</u>      | <u>Level 3</u>   |
|----------------------------|----------------------|----------------------|---------------------|------------------|
| <b>Assets:</b>             |                      |                      |                     |                  |
| U.S. Government Securities | \$ 2,147,047         | \$ -0-               | \$ 2,147,047        | \$ -0-           |
| Mutual funds               | 30,935,780           | 30,935,780           | -0-                 | -0-              |
|                            | <u>\$ 33,082,827</u> | <u>\$ 30,935,780</u> | <u>\$ 2,147,047</u> | <u>\$ -0-</u>    |
| <br>                       |                      |                      |                     |                  |
| <b>Foundation</b>          |                      |                      |                     |                  |
|                            | <u>Total</u>         | <u>Level 1</u>       | <u>Level 2</u>      | <u>Level 3</u>   |
| <b>Assets:</b>             |                      |                      |                     |                  |
| U.S. Government Securities | 502,442              | \$ -0-               | \$ 502,442          | \$ -0-           |
| Equities                   | 2,062,936            | 2,062,936            | -0-                 | -0-              |
|                            | <u>2,565,378</u>     | <u>\$ 2,062,936</u>  | <u>\$ 502,442</u>   | <u>\$ -0-</u>    |
| <br>                       |                      |                      |                     |                  |
| Certificates of deposit *  | <u>125,023</u>       |                      |                     |                  |
|                            | <u>\$ 2,690,401</u>  |                      |                     |                  |
| <br>                       |                      |                      |                     |                  |
| <b>Liabilities:</b>        |                      |                      |                     |                  |
| Annuities payable          | <u>\$ 28,814</u>     | <u>\$ -0-</u>        | <u>\$ -0-</u>       | <u>\$ 28,814</u> |

\* Certificates of deposit are reported at contract value

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

A reconciliation of activity for 2010 and 2009 for assets measured at fair value based upon significant unobservable (non-market) information is as follows:

|                            | <u>2010</u>      | <u>2009</u>      |
|----------------------------|------------------|------------------|
| Balance, beginning of year | \$ 28,814        | \$ 25,717        |
| New annuities              | -0-              | 4,849            |
| Amortization               | <u>(2,393)</u>   | <u>(1,752)</u>   |
| Balance, end of year       | <u>\$ 26,421</u> | <u>\$ 28,814</u> |

# RIVERVIEW HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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

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, 2010, the carrying value of the fixed rate long-term debt was \$33,030,000 with a fair value of approximately \$28,642,032. 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 3.9%. The fair value of variable rate debt, encompassing the Series 2004 tax-exempt revenue bonds and capital leases, approximates its carrying value.

### 7. CAPITAL ASSETS

Capital asset progressions for 2010 and 2009 follow:

|                                | December 31,<br>2009 | Additions             | Retirements           | Transfers     | December 31,<br>2010 |
|--------------------------------|----------------------|-----------------------|-----------------------|---------------|----------------------|
| Hospital                       |                      |                       |                       |               |                      |
| Land                           | \$ 10,915,010        | \$ -0-                | \$ -0-                | \$ -0-        | \$ 10,915,010        |
| Land improvements              | 2,058,284            | 52,087                | -0-                   | 79,321        | 2,189,692            |
| Buildings and improvements     | 84,941,571           | 176,960               | -0-                   | 1,480,507     | 86,599,038           |
| Equipment                      | 102,346,176          | 3,502,239             | (6,772,041)           | 523,352       | 99,599,726           |
| Construction in progress       | 1,482,115            | 2,386,458             | -0-                   | (2,083,180)   | 1,785,393            |
| Total capital assets           | <u>201,743,156</u>   | <u>6,117,744</u>      | <u>(6,772,041)</u>    | <u>-0-</u>    | <u>201,088,859</u>   |
| Less accumulated depreciation  |                      |                       |                       |               |                      |
| Land improvements              | 1,333,430            | 114,944               | -0-                   | -0-           | 1,448,374            |
| Buildings and improvements     | 31,942,506           | 3,478,085             | -0-                   | -0-           | 35,420,591           |
| Equipment                      | 76,279,901           | 6,103,804             | (6,772,041)           | -0-           | 75,611,664           |
| Total accumulated depreciation | <u>109,555,837</u>   | <u>9,696,833</u>      | <u>-0-</u>            | <u>-0-</u>    | <u>112,480,629</u>   |
| Capital assets, net            | <u>\$ 92,187,319</u> | <u>\$ (3,579,089)</u> | <u>\$ (6,772,041)</u> | <u>\$ -0-</u> | <u>\$ 88,608,230</u> |
|                                | December 31,<br>2008 | Additions             | Retirements           | Transfers     | December 31,<br>2009 |
| Hospital                       |                      |                       |                       |               |                      |
| Land                           | \$ 10,915,010        | \$ -0-                | \$ -0-                | \$ -0-        | \$ 10,915,010        |
| Land improvements              | 1,920,190            | 40,367                | -0-                   | 97,727        | 2,058,284            |
| Buildings and improvements     | 79,703,735           | 123,520               | -0-                   | 5,114,316     | 84,941,571           |
| Equipment                      | 99,870,537           | 1,656,062             | (582,242)             | 1,401,819     | 102,346,176          |
| Construction in progress       | 3,989,024            | 4,106,953             | -0-                   | (6,613,862)   | 1,482,115            |
| Total capital assets           | <u>196,398,496</u>   | <u>5,926,902</u>      | <u>(582,242)</u>      | <u>-0-</u>    | <u>201,743,156</u>   |
| Less accumulated depreciation  |                      |                       |                       |               |                      |
| Land improvements              | 1,233,476            | 99,954                | -0-                   | -0-           | 1,333,430            |
| Buildings and improvements     | 28,604,265           | 3,338,241             | -0-                   | -0-           | 31,942,506           |
| Equipment                      | 70,348,582           | 6,477,716             | (546,397)             | -0-           | 76,279,901           |
| Total accumulated depreciation | <u>100,186,323</u>   | <u>9,915,911</u>      | <u>(546,397)</u>      | <u>-0-</u>    | <u>109,555,837</u>   |
| Hospital capital assets, net   | <u>\$ 96,212,173</u> | <u>\$ (3,989,009)</u> | <u>\$ (35,845)</u>    | <u>\$ -0-</u> | <u>\$ 92,187,319</u> |

# RIVERVIEW HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

### 8. LONG-TERM DEBT

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

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

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

\* Funds available to accomplish the refunding were:

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

\*\*Net carrying amount consist of:

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

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

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

# RIVERVIEW HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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

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

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

The terms and due dates of the Hospital's long-term debt, including capital lease obligations as of December 31, 2010 and 2009 follow:

- 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%.
- 2004 tax-exempt revenue bonds, principal maturing in varying amounts due August 1, 2032, collateralized by bond funds held by trustee and net revenues of the Hospital. Interest rate variable (averaging .25% for 2010) based on the evaluation of overall market conditions utilizing various indices from the Bond Market Association and Standard and Poor's.
- 2005 tax-exempt revenue bonds, principal maturing in varying amounts due August 1, 2017, collateralized by bond funds held by trustee and net revenues of the Hospital. Interest rates for serial bonds range from 2.50% to 4.50%.
- 2010 tax-exempt revenue bonds, principal maturing in varying amounts due December 29, 2025, collateralized by net revenues of the Hospital. Interest rate is fixed at 3.9%.
- Capital lease obligations, at varying interest rates of imputed interest of 6.00% to 6.75%, collateralized by leased equipment with cost of \$3,457,618 and \$3,436,905 as of December 31, 2010 and 2009, respectively. Accumulated depreciation on capital leases was \$1,510,118 and \$820,350 as of December 31, 2010 and 2009, respectively.

# RIVERVIEW HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

The Hospital has an available letter of credit for \$18,120,685 with a bank for the Series 2004 tax-exempt revenue bonds. The letter of credit is intended to provide credit enhancement and liquidity support for the Hospital's tax-exempt bonds. Advances bear interest at the bank's prime rate. The letter is collateralized by the Hospital's gross revenues as well as designated assets. The letter of credit expires in 2012. There was no balance outstanding as of December 31, 2010 and 2009. In the event of liquidity drawing (bonds not being remarketed), the drawing is due within 367 days unless the bonds are remarketed or purchased at which time the liquidity advance is due. Reimbursements of other than liquidity drawings are due on the date such drawing is honored.

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

The Hospital is also required to meet certain financial covenants. The Hospital believes it is in compliance with all covenants as of December 31, 2010 and 2009.

A summary of long-term debt as of December 31, 2010 and 2009 includes the following:

|                           | December 31,<br>2009 | Additional<br>Borrowings | Payments   | December 31,<br>2010 | Current<br>Portion |
|---------------------------|----------------------|--------------------------|--|----------------------|--------------------|
| Revenue bonds payable     |                      |                          |  |                      |                    |
| 1996 Bonds                | \$ 285,000           | \$ -0-                   | \$ 285,000                                       | \$ -0-               | \$ -0-             |
| 1999 Bonds                | 8,420,000            | -0-                      | 380,000  | 8,040,000            | 400,000            |
| 2002 Bonds                | 20,000,000           | -0-                      | 20,000,000                                       | -0-                  | -0-                |
| 2004 Bonds                | 18,400,000           | -0-                      | 500,000  | 17,900,000           | 500,000            |
| 2005 Bonds                | 6,490,000            | -0-                      | 700,000  | 5,790,000            | 725,000            |
| 2010 Bonds                | -0-                  | 19,200,000               | -0-  | 19,200,000           | 960,849            |
| Total revenue bonds       | 53,595,000           | 19,200,000               | 21,865,000                                       | 50,930,000           | 2,585,849          |
| Capital lease obligations | 2,610,614            | 20,713                   | 660,825  | 1,970,502            | 670,800            |
|                           | \$ 56,205,614        | \$ 19,220,713            | \$ 22,525,825                                    | \$ 52,900,502        | \$ 3,256,649       |
|                           |                      |                          | Less deferred loss on refunding<br>of 2002 bonds | (1,982,589)          |                    |
|                           |                      |                          |  | \$ 50,917,913        | \$ 3,256,649       |

# RIVERVIEW HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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

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

| Year Ending<br>December 31, | Long-term Debt       |                      | Capital Lease Obligations |                   |
|-----------------------------|----------------------|----------------------|---------------------------|-------------------|
|                             | Principal            | Interest             | Principal                 | Interest          |
| 2011                        | \$ 2,585,849         | \$ 2,240,370         | \$ 670,800                | \$ 106,542        |
| 2012                        | 2,674,016            | 2,151,163            | 594,485                   | 67,502            |
| 2013                        | 2,873,699            | 2,057,019            | 569,655                   | 30,208            |
| 2014                        | 2,964,959            | 1,957,503            | 135,562                   | 6,778             |
| 2015                        | 3,072,858            | 1,853,044            | -0-                       | -0-               |
| 2016-2020                   | 14,344,833           | 7,669,011            | -0-                       | -0-               |
| 2021-2025                   | 14,813,786           | 5,124,208            | -0-                       | -0-               |
| 2026-2030                   | 5,200,000            | 3,036,000            | -0-                       | -0-               |
| 2031-2033                   | 2,400,000            | 912,000              | -0-                       | -0-               |
|                             | <u>\$ 50,930,000</u> | <u>\$ 27,000,317</u> | <u>\$ 1,970,502</u>       | <u>\$ 211,030</u> |

## 9. PENSION PLAN

### Plan Description

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

# RIVERVIEW HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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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.

The Riverview Hospital 403(b) Retirement Plan was required to match 50% of an employee's contribution up to a maximum of 6% of the employee's compensation with a maximum employee contribution of \$16,500. As of January 1, 2011, the plan was amended so that the match rate on employee contributions became discretionary.

Employer contributions to both plans were \$1,667,980 and \$1,683,848 for 2010 and 2009, 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 2010 and 2009 was \$2,746,251 and \$2,844,344, respectively.

The following is a schedule of future minimum lease payments under operating leases as of December 31, 2010, that have initial or remaining lease terms in excess of one year.

| Year ending<br>December 31, |                      |
|-----------------------------|----------------------|
| 2011                        | \$ 1,199,241         |
| 2012                        | 1,143,325            |
| 2013                        | 1,143,325            |
| 2014                        | 1,117,725            |
| 2015                        | 1,066,525            |
| 2016-2020                   | 4,955,588            |
| 2021-2025                   | <u>3,900,624</u>     |
|                             | <u>\$ 14,526,353</u> |

# RIVERVIEW HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

*Operating leases – lessor:* The Hospital leases space to tenants under operating leases with terms of one to ten years. Leased space consists of buildings with a total cost of \$9,476,144 and \$10,638,795 as of December 31, 2010 and 2009, respectively, and accumulated depreciation of \$4,749,839 and \$4,176,796 as of December 31, 2010 and 2009, respectively. Total rental income for all operating leases was \$620,180 and \$503,523 for 2010 and 2009, respectively.

Future minimum rentals under the leases are as follows:

| Year ending<br>December 31, |                     |
|-----------------------------|---------------------|
| 2011                        | \$ 704,217          |
| 2012                        | 534,033             |
| 2013                        | 450,738             |
| 2014                        | 356,116             |
| 2015                        | 193,263             |
| 2015-2016                   | 132,409             |
|                             | <u>\$ 2,370,776</u> |

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

### 11. CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables and gross patient service revenues from patients and third-party payors for 2010 and 2009 was as follows:

|                   | Receivables |      | Revenues |      |
|-------------------|-------------|------|----------|------|
|                   | 2010        | 2009 | 2010     | 2009 |
| Self pay          | 23%         | 26%  | 10%      | 9%   |
| Medicare          | 28%         | 27%  | 44%      | 45%  |
| Medicaid          | 11%         | 10%  | 8%       | 8%   |
| Anthem/Blue Cross | 11%         | 10%  | 19%      | 18%  |
| Other Commercial  | 27%         | 27%  | 19%      | 20%  |
|                   | 100%        | 100% | 100%     | 100% |

# RIVERVIEW HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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### 12. JOINT VENTURES

*VHA Tri-State Health Plans, Inc.:* The Hospital has ownership in a joint venture with numerous other hospitals located throughout the State of Indiana. The purpose of the venture is to provide a preferred provider network available to employers in the service area of the investor hospital, which the hospitals would not be able to economically provide on an independent basis. The Hospital contributed capital of \$1,000 for approximately 5% ownership. The investment is recorded using the cost method and is included in other assets on the 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, 2010 and 2009. 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 47.4% 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 \$897,080 and \$733,080 as of December 31, 2010 and 2009. The investment is recorded using the equity method and is included in other assets on the combined balance sheets.

Amounts paid to RSMA in 2010 and 2009 were \$4,282,728 and \$4,589,672, respectively, comprising of management fees, lease payments and other expenses. Amounts receivable from RSMA as of December 31, 2010 and 2009 were \$273,248 and \$238,928, respectively. Amounts payable to RSMA as of December 31, 2010 and 2009 were \$598,053 and \$716,284, respectively. These amounts comprise the related party receivables and related party payables on the combined balance sheets.

# RIVERVIEW HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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### 13. SELF INSURANCE

The Hospital's employee health care insurance is provided through a combination of self-insurance and purchased insurance coverage from a commercial carrier. The Hospital maintains an estimated liability for the amount of claims incurred but not reported. Substantially all employees are covered for major medical benefits. Total self health insurance expense for 2010 and 2009 was \$6,666,586 and \$4,343,816, 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 2010 and 2009 are as follows:

|  | <u>2010</u>        | <u>2009</u>        |
|--|--------------------|--------------------|
| Unpaid claims, beginning of year         | \$ 603,891         | \$ 1,062,524       |
| Incurred claims and changes in estimates | 6,666,586          | 4,343,816          |
| Claim payments                           | <u>(6,469,361)</u> | <u>(4,802,449)</u> |
| Unpaid claims, end of year               | <u>\$ 801,116</u>  | <u>\$ 603,891</u>  |

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

### 14. ESTIMATED MALPRACTICE COSTS

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

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.

# RIVERVIEW HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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### 15. SUBSEQUENT EVENTS

#### Management Agreement

During 2011, the Hospital entered into agreements with Carmel Health & Living Community, LLC and Countryside Cherish Property, LLC, collectively referred to as the Lessors, to lease the facilities managed by the CarDon Management Company, LLC (the Manager). Concurrently, the Hospital entered into an agreement with the Manager to manage the above leased facilities. As part of the agreements, the Hospital will pay the Manager a management fee to continue managing the facilities on behalf of the Hospital in accordance with the terms of the agreements. This management fee will consist of a 2% base management fee of Net Patient Revenues, a subordinated management fee equal to the lesser of 4.5% of net patient revenues or total net income less interest expense, rent, royalty, base management fees, and any required reserve deposits, and a quarterly incentive payment. While the leases are in effect, the performance of all activities of the Manager shall be on behalf of the Hospital and the Hospital retains ultimate authority and legal responsibility for the operation and control of the facilities. Under this arrangement, all gross revenues from the operation of the facilities will be the property of the Hospital and the Hospital shall be responsible for all operating expenses and working capital requirements.

The Hospital will pay \$207,933 per month to lease the premises from the Lessors. In addition, the Hospital is required to pay \$45,658 a month to Moore Operating Group, Inc., for the rights to use the intangible property currently in use. The agreements expire on December 31, 2016. All parties involved can terminate the agreement without cause with 90 days written notice.

#### Joint Venture

During 2011, the Hospital entered into an operating agreement with Riverview Medical Imaging, LLC (RMI) as a 51% owner through the purchase of units in the amount of \$970,000. RMI has been initiated primarily to own and lease certain imaging and radiological equipment and is in the formation process involving capitalizing the entity and setting up operations.