



CONSOLIDATED FINANCIAL STATEMENTS

AND

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2017 AND 2016

RIVERVIEW HEALTH

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Riverview Health
Noblesville, Indiana

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Riverview Hospital d/b/a Riverview Health (the Hospital), a component unit of Hamilton County, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

Board of Trustees
Riverview Health
Noblesville, Indiana

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2017 and 2016, and the results of its revenues, expenses, and changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the consolidated financial statements. Such information, although not a part of the consolidated financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the consolidated 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 consolidated financial statements, and other knowledge we obtained during our audits of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Blue & Co., LLC

Indianapolis, IN
March 26, 2018

REQUIRED SUPPLEMENTARY INFORMATION

RIVERVIEW HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) DECEMBER 31, 2017 (WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2016 AND 2015)

Management's discussion and analysis of Riverview Health's (the Hospital) financial performance provides an overview of the Hospital's financial activities for the year ended December 31, 2017 with comparable information for 2016 and 2015. Please read it in conjunction with the Hospital's consolidated financial statements and accompanying notes to the consolidated financial statements included in this report.

Using This Annual Report

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

- In the "*management's discussion and analysis*" section of this report, management discusses various components of the annual report and provide an analysis of the current financial statement information.
- The "*consolidated financial statements*" section of this report includes a series of consolidated financial statements, which provide information about the activities of the Hospital as a whole. The Consolidated Balance Sheets reveal the assets, deferred outflows, liabilities, and net position of the Hospital on December 31, 2017 and 2016 while the Consolidated Statements of Revenues, Expenses and Changes in Net Position summarize the revenues and expenses, including nonoperating items for the years then ended. The Consolidated Statements of Cash Flows summarize the change in cash and cash equivalents as a result of operating, investing and financing activities during the year. The Notes to the Consolidated Financial Statements disclose additional information addressed within the body of the consolidated financial statements.

Financial Highlights

- Capital assets increased approximately \$31,900,000 compared to prior year primarily due to the expansion of the Hospital's campus in Noblesville and Westfield, Indiana. This compares to an increase in 2016 of approximately \$17,600,000.
- The Hospital reported an increase in net position of approximately \$20,400,000 during 2017. This compares to a change in net position of approximately \$17,000,000 for 2016 and approximately \$19,900,000 for 2015.

RIVERVIEW HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) DECEMBER 31, 2017 (WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2016 AND 2015)

Summarized Financial Statement Information

The Hospital's net position is the difference between its assets and deferred outflows and liabilities. The following information documents in summary the net position and the changes in net position related to activities of the Hospital as of December 31, 2017 and 2016 and for the years then ended.

Table 1 – Balance Sheets

	2017	2016	2017 - 2016 Change	2015
Assets				
Current assets	\$ 165,716,112	\$ 148,380,406	\$ 17,335,706	\$ 113,123,473
Capital assets, net	160,536,103	128,649,325	31,886,778	111,029,990
Noncurrent assets whose use is limited	62,196,486	60,018,297	2,178,189	88,759,052
Other assets	7,853,675	7,955,641	(101,966)	2,720,834
Total assets	396,302,376	345,003,669	51,298,707	315,633,349
Deferred outflows - deferred loss on bond refunding	1,492,801	1,680,116	(187,315)	1,867,431
Total assets and deferred outflows	\$ 397,795,177	\$ 346,683,785	\$ 51,111,392	\$ 317,500,780
Liabilities				
Current liabilities	\$ 102,167,106	\$ 83,185,152	\$ 18,981,954	\$ 73,163,089
Long-term debt and other liabilities	47,178,731	35,405,851	11,772,880	33,244,951
Total liabilities	149,345,837	118,591,003	30,754,834	106,408,040
Net position				
Net investment in capital assets	111,225,343	91,369,092	19,856,251	76,698,703
Restricted	4,526,812	6,221,058	(1,694,246)	6,584,481
Unrestricted	132,697,185	130,502,632	2,194,553	127,809,556
Total net position	248,449,340	228,092,782	20,356,558	211,092,740
Total liabilities and net assets	\$ 397,795,177	\$ 346,683,785	\$ 51,111,392	\$ 317,500,780

The significant changes in the Hospital's assets included current assets, which increased by approximately \$17,300,000 from 2016 to 2017, assets whose use is limited, which increased by approximately \$2,200,000 from 2016 to 2017, and capital assets, net, which increased by approximately \$31,900,000 from 2016 to 2017. Capital assets primarily increased due to the expansion of the Hospital's campus in Noblesville and Westfield, Indiana. The significant changes in the Hospital's liabilities included current liabilities, which increased approximately \$19,000,000 from 2016 to 2017. Long-term debt and other liabilities increased by approximately \$11,800,000 due to the issuance of the 2017 Series Bonds, which was partially offset by current year principal payments. The net position increased approximately \$20,400,000 due to gains from operating revenue, which was partially offset by an increase in operating expenses.

RIVERVIEW HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)
DECEMBER 31, 2017
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2016 AND 2015)

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

	2017	2016	2017 - 2016 Change	2015
Operating revenue				
Net patient service revenue	\$ 472,192,090	\$ 431,591,258	\$ 40,600,832	\$ 430,095,438
Other operating revenue	13,799,320	12,536,106	1,263,214	12,439,885
Total operating revenue	<u>485,991,410</u>	<u>444,127,364</u>	<u>41,864,046</u>	<u>442,535,323</u>
Operating expenses				
Salaries and benefits	86,130,793	85,399,312	731,481	80,032,579
Medical supplies and drugs	63,005,458	59,172,495	3,832,963	54,960,334
Depreciation and amortization	14,924,837	14,151,775	773,062	12,385,840
Other operating expenses	308,603,870	269,980,130	38,623,740	271,631,253
Total operating expenses	<u>472,664,958</u>	<u>428,703,712</u>	<u>43,961,246</u>	<u>419,010,006</u>
Operating income	13,326,452	15,423,652	(2,097,200)	23,525,317
Nonoperating revenue (expense), net	<u>7,127,707</u>	<u>1,683,447</u>	<u>5,444,260</u>	<u>(3,601,094)</u>
Change in net position	20,454,159	17,107,099	3,347,060	19,924,223
Distributions to shareholders	(97,601)	(107,057)	9,456	(43,232)
Net position, beginning of year	228,092,782	211,092,740	17,000,042	191,211,749
Net position, end of year	<u>\$ 248,449,340</u>	<u>\$ 228,092,782</u>	<u>\$ 20,356,558</u>	<u>\$ 211,092,740</u>

Sources of Revenue

During 2017, 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 65% and 66% of the Hospital's gross revenues in 2017 and 2016, respectively.

Following is a table of major sources of gross patient revenues for 2017, 2016, and 2015:

Payor	2017	2016	2015
Self Pay	7%	7%	8%
Medicare	42%	43%	44%
Medicaid	23%	23%	22%
Other Commercial	28%	27%	26%
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

RIVERVIEW HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)
DECEMBER 31, 2017
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2016 AND 2015)

The Hospital's outpatient services represented approximately 36% and 37% of the Hospital's gross patient revenue in 2017 and 2016, respectively.

Operating and Financial Performance

The Hospital's 2017 return on equity was 8.2%, compared to 7.5% for 2016 and 9.4% for 2015. The Hospital's debt service coverage ratio was approximately 5.6 for 2017 and 5.8 for 2016.

The following section highlights the major financial factors for 2017:

- Net patient service revenue was approximately \$472,200,000 in 2017, which increased approximately \$40,600,000 from 2016. Operating expenses increased approximately \$44,000,000 or 10.3%, primarily due to six long-term care facilities acquired in 2017 which increased volume.
- Other operating expense was the expense classification with the largest increase from 2016, increasing approximately \$38,600,000 or 14.3%, primarily due to the six long-term care facilities acquired during 2017.
- Non-operating revenue (expenses) increased approximately \$5,400,000 from 2016 to 2017, primarily due to higher market returns on investments.

Table 3 – Statements of Cash Flows

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

	2017	2016	2017 - 2016 Change	2015
Cash flows from activities				
Operating	\$ 28,021,667	\$ 28,805,829	\$ (784,162)	\$ 38,501,892
Non-capital financing	871,918	826,252	45,666	(895,803)
Capital and related financing	(36,091,981)	(30,374,704)	(5,717,277)	(20,932,564)
Investing	5,152,013	32,323,077	(27,171,064)	(4,506,791)
Total	(2,046,383)	31,580,454	(33,626,837)	12,166,734
Cash and cash equivalents				
Beginning of year	79,334,216	47,753,762		35,587,028
End of year	\$ 77,287,833	\$ 79,334,216		\$ 47,753,762

Changes in the Hospital's cash flows are primarily related to a net decrease in cash from the Hospital's capital purchases and proceeds from the issuance of long-term debt.

RIVERVIEW HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)
DECEMBER 31, 2017
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2016 AND 2015)

Capital Assets

During 2017, the Hospital's net capital assets have increased by approximately \$31,900,000. This compares to an increase of approximately \$17,600,000 for 2016. The change in capital assets is outlined in the following table:

	2017	2016	2017-2016 Change	2015
Land and improvements	\$ 18,853,496	\$ 18,790,080	\$ 63,416	\$ 18,715,863
Buildings and improvements	108,214,270	107,213,475	1,000,795	104,807,984
Equipment	157,071,719	125,636,771	31,434,948	114,044,388
Construction in progress	35,529,863	21,320,889	14,208,974	6,511,148
Total capital assets	319,669,348	272,961,215	46,708,133	244,079,383
Less accumulated depreciation	159,133,245	144,311,890	14,821,355	133,049,393
Capital assets, net	\$ 160,536,103	\$ 128,649,325	\$ 31,886,778	\$ 111,029,990

Net capital assets have increased as the Hospital is currently expanding its campus in Noblesville and Westfield, Indiana. The Hospital continually evaluates facilities and equipment to ensure that everything is upgraded as necessary.

More detailed information about the Hospital's capital assets is presented in the Notes to the Consolidated Financial Statements.

Debt Administration

The Hospital has the following debt outstanding, which approximates \$50,800,000 as of December 31, 2017:

- 2011 tax-exempt revenue bonds
- 2012 tax-exempt revenue bonds
- 2013 tax-exempt revenue bonds
- 2016 tax-exempt revenue bonds
- 2017 tax-exempt revenue bonds
- Capital lease obligations

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

RIVERVIEW HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)
DECEMBER 31, 2017
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2016 AND 2015)

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 uncertainty of 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 HEALTH

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2017

(WITH COMPARATIVE CONSOLIDATED TOTALS AT DECEMBER 31, 2016)

	ASSETS AND DEFERRED OUTFLOWS				
	2017			2016	
	Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
Current assets					
Cash and cash equivalents	\$ 73,133,005	\$ 430,181	\$ -0-	\$ 73,563,186	\$ 74,278,895
Current portion of assets whose use is limited	-0-	-0-	-0-	-0-	1,343,486
Patient accounts receivable, less allowances for uncollectible accounts of approximately \$5,360,000 and \$6,540,000, respectively	67,170,339	-0-	-0-	67,170,339	49,173,760
Related party receivables	574,442	-0-	-0-	574,442	246,342
Inventories	4,357,355	-0-	-0-	4,357,355	4,144,543
Other current assets	19,976,063	74,727	-0-	20,050,790	19,193,380
Total current assets	<u>165,211,204</u>	<u>504,908</u>	<u>-0-</u>	<u>165,716,112</u>	<u>148,380,406</u>
Assets whose use is limited					
Board designated funds					
Long-term investments	57,527,479	1,097,614	-0-	58,625,093	56,145,300
Total board designated funds	<u>57,527,479</u>	<u>1,097,614</u>	<u>-0-</u>	<u>58,625,093</u>	<u>56,145,300</u>
Trustee held assets					
Professional liability insurance funds	447,108	-0-	-0-	447,108	722,348
Debt service	-0-	-0-	-0-	-0-	1,343,486
Total trustee held assets	<u>447,108</u>	<u>-0-</u>	<u>-0-</u>	<u>447,108</u>	<u>2,065,834</u>
Restricted by donor					
Expendable for various purposes upon donors' specific restriction	25,173	290,547	-0-	315,720	340,003
Nonexpendable permanent endowments	-0-	2,808,565	-0-	2,808,565	2,810,646
Total donor-restricted assets	<u>25,173</u>	<u>3,099,112</u>	<u>-0-</u>	<u>3,124,285</u>	<u>3,150,649</u>
Total assets whose use is limited	57,999,760	4,196,726	-0-	62,196,486	61,361,783
Less current portion	-0-	-0-	-0-	-0-	1,343,486
Noncurrent assets whose use is limited	<u>57,999,760</u>	<u>4,196,726</u>	<u>-0-</u>	<u>62,196,486</u>	<u>60,018,297</u>
Capital assets					
Land	15,961,384	-0-	-0-	15,961,384	15,917,384
Depreciable capital assets	268,162,721	15,380	-0-	268,178,101	235,722,942
Construction in progress	35,529,863	-0-	-0-	35,529,863	21,320,889
Total capital assets	<u>319,653,968</u>	<u>15,380</u>	<u>-0-</u>	<u>319,669,348</u>	<u>272,961,215</u>
Less accumulated depreciation	159,117,865	15,380	-0-	159,133,245	144,311,890
Capital assets, net	<u>160,536,103</u>	<u>-0-</u>	<u>-0-</u>	<u>160,536,103</u>	<u>128,649,325</u>
Other assets	<u>7,838,174</u>	<u>15,501</u>	<u>-0-</u>	<u>7,853,675</u>	<u>7,955,641</u>
Total assets	391,585,241	4,717,135	-0-	396,302,376	345,003,669
Deferred outflows - deferred loss on bond refunding	<u>1,492,801</u>	<u>-0-</u>	<u>-0-</u>	<u>1,492,801</u>	<u>1,680,116</u>
Total assets and deferred outflows	<u>\$393,078,042</u>	<u>\$ 4,717,135</u>	<u>\$ -0-</u>	<u>\$ 397,795,177</u>	<u>\$ 346,683,785</u>

See accompanying notes to consolidated financial statements.

RIVERVIEW HEALTH

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2017

(WITH COMPARATIVE CONSOLIDATED TOTALS AT DECEMBER 31, 2016)

LIABILITIES AND NET POSITION

	2017			2016	
	Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
Current liabilities					
Current portion of bonds payable	\$ 3,722,944	\$ -0-	\$ -0-	\$ 3,722,944	\$ 3,697,233
Current portion of capital lease obligations	339,455	-0-	-0-	339,455	458,296
Accounts payable and other accruals	21,684,946	19,305	-0-	21,704,251	17,216,985
Salaries, wages and related payables	10,157,618	-0-	-0-	10,157,618	9,442,833
Estimated third-party payor settlements	1,010,994	-0-	-0-	1,010,994	1,577,275
Other current liabilities	65,231,844	-0-	-0-	65,231,844	50,792,530
Total current liabilities	<u>102,147,801</u>	<u>19,305</u>	<u>-0-</u>	<u>102,167,106</u>	<u>83,185,152</u>
Noncurrent liabilities					
Long-term bonds and notes payable	46,331,134	-0-	-0-	46,331,134	34,054,078
Long-term capital lease obligations	410,028	-0-	-0-	410,028	750,742
Other long-term liabilities	422,279	15,290	-0-	437,569	601,031
Total noncurrent liabilities	<u>47,163,441</u>	<u>15,290</u>	<u>-0-</u>	<u>47,178,731</u>	<u>35,405,851</u>
Total liabilities	149,311,242	34,595	-0-	149,345,837	118,591,003
Net position					
Net investment in capital assets	111,225,343	-0-	-0-	111,225,343	91,369,092
Restricted					
For debt service and professional liability insurance	447,108	-0-	-0-	447,108	2,065,834
Expendable for various purposes upon donors' specific restriction	25,173	290,547	-0-	315,720	340,003
Nonexpendable	955,419	2,808,565	-0-	3,763,984	3,815,221
Total restricted	<u>1,427,700</u>	<u>3,099,112</u>	<u>-0-</u>	<u>4,526,812</u>	<u>6,221,058</u>
Unrestricted					
Total net position	<u>131,113,757</u>	<u>1,583,428</u>	<u>-0-</u>	<u>132,697,185</u>	<u>130,502,632</u>
Total net position	<u>243,766,800</u>	<u>4,682,540</u>	<u>-0-</u>	<u>248,449,340</u>	<u>228,092,782</u>
Total liabilities and net position	<u>\$ 393,078,042</u>	<u>\$ 4,717,135</u>	<u>\$ -0-</u>	<u>\$ 397,795,177</u>	<u>\$ 346,683,785</u>

See accompanying notes to consolidated financial statements.

RIVERVIEW HEALTH

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2016

ASSETS AND DEFERRED OUTFLOWS

	2016			Total reporting entity
	Hospital	Foundation	Eliminations	
Current assets				
Cash and cash equivalents	\$ 73,856,322	\$ 422,573	\$ -0-	\$ 74,278,895
Current portion of assets whose use is limited	1,343,486	-0-	-0-	1,343,486
Patient accounts receivable, less allowance for uncollectible accounts of approximately \$6,541,000	49,173,760	-0-	-0-	49,173,760
Related party receivables	246,342	-0-	-0-	246,342
Inventories	4,144,543	-0-	-0-	4,144,543
Other current assets	19,158,532	34,848	-0-	19,193,380
Total current assets	147,922,985	457,421	-0-	148,380,406
Assets whose use is limited				
Board designated funds				
Long-term investments	55,558,566	586,734	-0-	56,145,300
Total board designated funds	55,558,566	586,734	-0-	56,145,300
Trustee held assets				
Professional liability insurance funds	722,348	-0-	-0-	722,348
Debt service	1,343,486	-0-	-0-	1,343,486
Total trustee held assets	2,065,834	-0-	-0-	2,065,834
Restricted by donor				
Expendable for various purposes upon donors' specific restriction	25,853	314,150	-0-	340,003
Nonexpendable permanent endowments	-0-	2,810,646	-0-	2,810,646
Total donor-restricted assets	25,853	3,124,796	-0-	3,150,649
Total assets whose use is limited	57,650,253	3,711,530	-0-	61,361,783
Less current portion	1,343,486	-0-	-0-	1,343,486
Noncurrent assets whose use is limited	56,306,767	3,711,530	-0-	60,018,297
Capital assets				
Land	15,917,384	-0-	-0-	15,917,384
Depreciable capital assets	235,707,562	15,380	-0-	235,722,942
Construction in progress	21,320,889	-0-	-0-	21,320,889
	272,945,835	15,380	-0-	272,961,215
Less accumulated depreciation	144,296,510	15,380	-0-	144,311,890
Capital assets, net	128,649,325	-0-	-0-	128,649,325
Other assets	7,920,401	35,240	-0-	7,955,641
Total assets	340,799,478	4,204,191	-0-	345,003,669
Deferred outflows - deferred loss on bond refunding	1,680,116	-0-	-0-	1,680,116
Total assets and deferred outflows	\$ 342,479,594	\$ 4,204,191	\$ -0-	\$ 346,683,785

See accompanying notes to consolidated financial statements.

RIVERVIEW HEALTH

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2016

LIABILITIES AND NET POSITION

	2016			Total reporting entity
	Hospital	Foundation	Eliminations	
Current liabilities				
Current portion of bonds payable	\$ 3,697,233	\$ -0-	\$ -0-	\$ 3,697,233
Current portion of capital lease obligations	458,296	-0-	-0-	458,296
Accounts payable and other accruals	17,206,868	10,117	-0-	17,216,985
Salaries, wages and related payables	9,442,833	-0-	-0-	9,442,833
Estimated third-party payor settlements	1,577,275	-0-	-0-	1,577,275
Other current liabilities	50,792,530	-0-	-0-	50,792,530
Total current liabilities	83,175,035	10,117	-0-	83,185,152
Noncurrent liabilities				
Long-term bonds payable	34,054,078	-0-	-0-	34,054,078
Long-term capital lease obligations	750,742	-0-	-0-	750,742
Other long-term liabilities	586,370	14,661	-0-	601,031
Total noncurrent liabilities	35,391,190	14,661	-0-	35,405,851
Total liabilities	118,566,225	24,778	-0-	118,591,003
Net position				
Net investment in capital assets	91,369,092	-0-	-0-	91,369,092
Restricted				
For debt service and professional liability insurance	2,065,834	-0-	-0-	2,065,834
Expendable for various purposes upon donors' specific restriction	25,853	314,150	-0-	340,003
Nonexpendable	1,004,575	2,810,646	-0-	3,815,221
Total restricted	3,096,262	3,124,796	-0-	6,221,058
Unrestricted	129,448,015	1,054,617	-0-	130,502,632
Total net position	223,913,369	4,179,413	-0-	228,092,782
Total liabilities and net position	\$ 342,479,594	\$ 4,204,191	\$ -0-	\$ 346,683,785

See accompanying notes to consolidated financial statements.

RIVERVIEW HEALTH

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2017 (WITH COMPARATIVE CONSOLIDATED TOTALS FOR DECEMBER 31, 2016)

	2017			2016	
	Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
Revenue					
Net patient service revenue	\$ 472,192,090	\$ -0-	\$ -0-	\$ 472,192,090	\$ 431,591,258
Other	13,799,320	-0-	-0-	13,799,320	12,536,106
Total operating revenue	485,991,410	-0-	-0-	485,991,410	444,127,364
Operating expenses					
Salaries and wages	70,487,914	-0-	-0-	70,487,914	69,883,474
Employee benefits	15,642,879	-0-	-0-	15,642,879	15,515,838
Medical supplies	33,679,096	-0-	-0-	33,679,096	32,813,163
Drugs	29,326,362	-0-	-0-	29,326,362	26,359,332
Food	1,086,191	-0-	-0-	1,086,191	1,102,257
Utilities	8,766,776	-0-	-0-	8,766,776	7,815,744
Purchased services	236,847,932	-0-	-0-	236,847,932	206,315,518
Repairs and maintenance	6,717,886	-0-	-0-	6,717,886	5,953,558
Rental expense	35,220,934	-0-	-0-	35,220,934	30,295,754
Hospital assessment fee	7,046,429	-0-	-0-	7,046,429	5,375,413
Other supplies and expenses	12,917,722	-0-	-0-	12,917,722	13,121,886
Depreciation and amortization	14,924,837	-0-	-0-	14,924,837	14,151,775
Total operating expenses	472,664,958	-0-	-0-	472,664,958	428,703,712
Operating income	13,326,452	-0-	-0-	13,326,452	15,423,652
Nonoperating revenue (expenses)					
Investment income	6,879,605	515,647	-0-	7,395,252	2,255,885
Contributions and other revenue (expenses)	884,438	271,710	(284,230)	871,918	826,252
Grants	-0-	(284,230)	284,230	-0-	-0-
Interest expense	(1,139,463)	-0-	-0-	(1,139,463)	(1,398,690)
Total nonoperating, net	6,624,580	503,127	-0-	7,127,707	1,683,447
Change in net position	19,951,032	503,127	-0-	20,454,159	17,107,099
Distributions to shareholders	(97,601)	-0-	-0-	(97,601)	(107,057)
Net position					
Beginning of year	223,913,369	4,179,413	-0-	228,092,782	211,092,740
End of year	\$ 243,766,800	\$ 4,682,540	\$ -0-	\$ 248,449,340	\$ 228,092,782

See accompanying notes to consolidated financial statements.

RIVERVIEW HEALTH

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2016

	2016			Total reporting entity
	Hospital	Foundation	Eliminations	
Revenue				
Net patient service revenue	\$ 431,591,258	\$ -0-	\$ -0-	\$ 431,591,258
Other	12,536,106	-0-	-0-	12,536,106
Total operating revenue	444,127,364	-0-	-0-	444,127,364
Operating expenses				
Salaries and wages	69,883,474	-0-	-0-	69,883,474
Employee benefits	15,515,838	-0-	-0-	15,515,838
Medical supplies	32,813,163	-0-	-0-	32,813,163
Drugs	26,359,332	-0-	-0-	26,359,332
Food	1,102,257	-0-	-0-	1,102,257
Utilities	7,815,744	-0-	-0-	7,815,744
Purchased services	206,315,518	-0-	-0-	206,315,518
Repairs and maintenance	5,953,558	-0-	-0-	5,953,558
Rental expense	30,295,754	-0-	-0-	30,295,754
Hospital assessment fee	5,375,413			5,375,413
Other supplies and expenses	13,121,886	-0-	-0-	13,121,886
Depreciation and amortization	14,151,775	-0-	-0-	14,151,775
Total operating expenses	428,703,712	-0-	-0-	428,703,712
Operating income	15,423,652	-0-	-0-	15,423,652
Nonoperating revenue (expenses)				
Investment loss	2,039,175	216,710	-0-	2,255,885
Contributions and other revenue (expenses)	952,724	376,528	(503,000)	826,252
Grants	-0-	(503,000)	503,000	-0-
Interest expense	(1,398,690)	-0-	-0-	(1,398,690)
Total nonoperating, net	1,593,209	90,238	-0-	1,683,447
Change in net position	17,016,861	90,238	-0-	17,107,099
Distributions to shareholders	(107,057)	-0-	-0-	(107,057)
Net position				
Beginning of year	207,003,565	4,089,175	-0-	211,092,740
End of year	\$ 223,913,369	\$ 4,179,413	\$ -0-	\$ 228,092,782

See accompanying notes to consolidated financial statements.

RIVERVIEW HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2017 (WITH COMPARATIVE CONSOLIDATED TOTALS FOR 2016)

	2017			2016	
	Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
Operating activities					
Cash received from patient services	\$ 464,843,265	\$ -0-	\$ -0-	\$ 464,843,265	\$ 416,339,625
Cash paid for salaries, wages and benefits	(85,416,008)	-0-	-0-	(85,416,008)	(84,492,621)
Cash paid to vendors and suppliers	(365,193,916)	-0-	-0-	(365,193,916)	(315,612,170)
Other receipts and payments, net	13,798,649	(10,323)	-0-	13,788,326	12,570,995
Net cash flows from operating activities	28,031,990	(10,323)	-0-	28,021,667	28,805,829
Non-capital financing activities					
Contributions and other nonoperating	884,438	271,710	(284,230)	871,918	826,252
Grants	-0-	(284,230)	284,230	-0-	-0-
Net cash flows from non-capital financing activities	884,438	(12,520)	-0-	871,918	826,252
Capital and related financing activities					
Payments on long-term debt	(3,697,233)	-0-	-0-	(3,697,233)	(3,562,784)
Payments on capital leases	(459,555)	-0-	-0-	(459,555)	(608,637)
Proceeds from issuance of long-term debt	16,000,000	-0-	-0-	16,000,000	6,000,000
Amortization of deferred loss on bond refundings	187,315	-0-	-0-	187,315	187,315
Cash paid for interest	(1,198,270)	-0-	-0-	(1,198,270)	(1,402,162)
Distributions to shareholders	(113,294)	-0-	-0-	(113,294)	(150,697)
Proceeds on sale of assets	671	-0-	-0-	671	40,246
Purchase of capital assets	(46,811,615)	-0-	-0-	(46,811,615)	(30,877,985)
Net cash flows from capital and related financing activities	(36,091,981)	-0-	-0-	(36,091,981)	(30,374,704)
Investing activities					
Gain on interest rate swaps	(135,161)	-0-	-0-	(135,161)	(1,000,867)
Investment income	6,936,904	515,647	-0-	7,452,551	2,312,577
Purchases of investments	(77,613,738)	(1,419,201)	-0-	(79,032,939)	(88,444,271)
Proceeds from sale of investments	75,933,557	934,005	-0-	76,867,562	119,455,638
Net cash flows from investing activities	5,121,562	30,451	-0-	5,152,013	32,323,077
Net change in cash and cash equivalents	(2,053,991)	7,608	-0-	(2,046,383)	31,580,454
Cash and cash equivalents					
Beginning of year	78,911,643	422,573	-0-	79,334,216	47,753,762
End of year	\$ 76,857,652	\$ 430,181	\$ -0-	\$ 77,287,833	\$ 79,334,216
Reconciliation of cash and cash equivalents to the balance sheets					
Cash and cash equivalents					
In current assets	\$ 73,133,005	\$ 430,181	\$ -0-	\$ 73,563,186	\$ 74,278,895
In assets whose use is limited	3,724,647	-0-	-0-	3,724,647	5,055,321
Total cash and cash equivalents	\$ 76,857,652	\$ 430,181	\$ -0-	\$ 77,287,833	\$ 79,334,216

See accompanying notes to consolidated financial statements.

RIVERVIEW HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2017 (WITH COMPARATIVE CONSOLIDATED TOTALS FOR 2016)

	2017			2016	
	Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
Reconciliation of operating income					
to net cash flows from operating activities					
Operating income	\$ 13,326,452	\$ -0-	\$ -0-	\$ 13,326,452	\$ 15,423,652
Adjustments to reconcile operating income to net cash flows from operating activities					
Depreciation and amortization	14,924,837	(629)	-0-	14,924,208	14,151,400
Gain on disposal of assets	(671)	-0-	-0-	(671)	(319)
Provision for bad debts	15,233,953	-0-	-0-	15,233,953	13,678,737
Changes in operating assets and liabilities					
Patient accounts receivable	(33,230,532)	-0-	-0-	(33,230,532)	(17,231,795)
Inventories	(212,812)	-0-	-0-	(212,812)	(67,733)
Other current assets	(176,763)	(39,879)	-0-	(216,642)	(2,183,863)
Other assets	130,831	19,739	-0-	150,570	(5,166,871)
Accounts payable	4,138,489	9,188	-0-	4,147,677	1,347,153
Related party receivables/payables	11,489	-0-	-0-	11,489	(56,852)
Salaries, wages and fees payable	714,785	-0-	-0-	714,785	906,691
Estimated third-party payor settlements	(566,281)	-0-	-0-	(566,281)	896,808
Other current liabilities	11,700,957	-0-	-0-	11,700,957	6,882,121
Other long-term liabilities	2,037,256	1,258	-0-	2,038,514	226,700
Net cash flows from operating activities	\$ 28,031,990	\$ (10,323)	\$ -0-	\$ 28,021,667	\$ 28,805,829
Supplemental cash flows information					
Property acquired through capital lease obligation	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 933,052

See accompanying notes to consolidated financial statements.

RIVERVIEW HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2016

	2016			Total reporting entity
	Hospital	Foundation	Eliminations	
Operating activities				
Cash received from patient services	\$ 416,339,625	\$ -0-	\$ -0-	\$ 416,339,625
Cash paid for salaries, wages and benefits	(84,492,621)	-0-	-0-	(84,492,621)
Cash paid to vendors and suppliers	(315,612,170)	-0-	-0-	(315,612,170)
Other receipts and payments, net	12,535,787	35,208	-0-	12,570,995
Net cash flows from operating activities	28,770,621	35,208	-0-	28,805,829
Non-capital financing activities				
Contributions and other nonoperating	952,724	376,528	(503,000)	826,252
Grants	-0-	(503,000)	503,000	-0-
Net cash flows from non-capital financing activities	952,724	(126,472)	-0-	826,252
Capital and related financing activities				
Payments on long-term debt	(3,562,784)	-0-	-0-	(3,562,784)
Payments on capital leases	(608,637)	-0-	-0-	(608,637)
Proceeds from issuance of long-term debt	6,000,000	-0-	-0-	6,000,000
Amortization of deferred loss on refunding of bonds	187,315	-0-	-0-	187,315
Cash paid for interest	(1,402,162)	-0-	-0-	(1,402,162)
Distributions to shareholders	(150,697)	-0-	-0-	(150,697)
Proceeds on sale of assets	40,246	-0-	-0-	40,246
Purchase of capital assets	(30,877,985)	-0-	-0-	(30,877,985)
Net cash flows from capital and related financing activities	(30,374,704)	-0-	-0-	(30,374,704)
Investing activities				
Gain on interest rate swaps	(1,000,867)	-0-	-0-	(1,000,867)
Investment income	2,095,867	216,710	-0-	2,312,577
Purchase of investments	(86,749,666)	(1,694,605)	-0-	(88,444,271)
Proceeds from sale of investments	117,925,188	1,530,450	-0-	119,455,638
Net cash flows from investing activities	32,270,522	52,555	-0-	32,323,077
Net change in cash and cash equivalents	31,619,163	(38,709)	-0-	31,580,454
Cash and cash equivalents				
Beginning of year	47,292,480	461,282	-0-	47,753,762
End of year	<u>\$ 78,911,643</u>	<u>\$ 422,573</u>	<u>\$ -0-</u>	<u>\$ 79,334,216</u>
Reconciliation of cash and cash equivalents to the balance sheets				
Cash and cash equivalents				
In current assets	\$ 73,856,322	\$ 422,573	\$ -0-	\$ 74,278,895
In assets whose use is limited	5,055,321	-0-	-0-	5,055,321
Total cash and cash equivalents	<u>\$ 78,911,643</u>	<u>\$ 422,573</u>	<u>\$ -0-</u>	<u>\$ 79,334,216</u>

See accompanying notes to consolidated financial statements.

RIVERVIEW HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2016

	2016			Total reporting entity
	Hospital	Foundation	Eliminations	
Reconciliation of operating income				
to net cash flows from operating activities				
Operating income	\$ 15,423,652	\$ -0-	\$ -0-	\$ 15,423,652
Adjustments to reconcile operating income to net cash flows from operating activities				
Depreciation and amortization	14,151,775	(375)	-0-	14,151,400
Gain on disposal of assets	(319)			(319)
Provision for bad debts	13,678,737	-0-	-0-	13,678,737
Changes in operating assets and liabilities				
Patient accounts receivable	(17,231,795)	-0-	-0-	(17,231,795)
Inventories	(67,733)	-0-	-0-	(67,733)
Other current assets	(2,196,945)	13,082	-0-	(2,183,863)
Other assets	(5,189,302)	22,431	-0-	(5,166,871)
Accounts payable	1,347,439	(286)	-0-	1,347,153
Related party receivables/payables	(56,852)	-0-	-0-	(56,852)
Salaries, wages and fees payable	906,691	-0-	-0-	906,691
Estimated third-party payor settlements	896,808	-0-	-0-	896,808
Other current liabilities	6,882,121	-0-	-0-	6,882,121
Other long-term liabilities	226,344	356	-0-	226,700
Net cash flows from operating activities	<u>\$ 28,770,621</u>	<u>\$ 35,208</u>	<u>\$ -0-</u>	<u>\$ 28,805,829</u>
Supplemental cash flows information				
Property acquired through capital lease obligation	\$ 933,052	\$ -0-	\$ -0-	\$ 933,052

See accompanying notes to consolidated financial statements.

RIVERVIEW HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

1. SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

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

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

The Hospital has entered into lease agreements with the long-term care facilities, collectively referred to as the Lessors, to lease the facilities managed by the Managers. Concurrently, the Hospital entered into agreements with the Managers to manage the above leased facilities. As part of the agreements, the Hospital will pay the Managers a management fee to continue managing the facilities on behalf of the Hospital in accordance with the terms of the agreements. These management fees consist of base management fees, subordinated management fees, and quarterly incentive payments. The agreements expire at various times through December 31, 2021. The terms of these agreements may be renewed at the end of each term for an additional period of two years. All parties involved can terminate the agreement without cause with 90 days written notice.

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

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

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

RIVERVIEW HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

The consolidated financial statements of the Hospital are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of Hamilton County, attributable to the transactions of the Hospital, its Subsidiary, and its Foundation. They do not purport to, and do not, present fairly the financial position of Hamilton County as of December 31, 2017 and 2016, 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). Separate financial statements related to the individual component units may be obtained by contacting Hospital management.

Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Basis of Consolidation, Blended Component Unit and Non-Controlling Interest

Riverview Medical Imaging, LLC. (RMI) is a consolidated subsidiary, as the Hospital owned approximately 57% and 55% as of December 31, 2017 and 2016, which in effect renders RMI a blended component unit of the Hospital. RMI primarily owns and leases medical imaging equipment. The non-controlling interest represents the portion of the equity (net position) that is attributable to investors that are external to and not included in the Hospital's consolidated financial statements. Condensed financial information related to RMI is as follows:

	2017	2016
Assets	\$ 2,823,279	\$ 2,551,434
Liabilities	588,904	317,059
Net position	<u>\$ 2,234,375</u>	<u>\$ 2,234,375</u>
Revenue	\$ 442,036	\$ 372,666
Less expenses	328,742	281,969
Less distributions to shareholders	113,294	150,697
Change in net position	<u>\$ -0-</u>	<u>\$ (60,000)</u>

RIVERVIEW HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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

	Controlling Interest	Non-controlling Interest	Total
Net position balances			
December 31, 2015	\$ 210,021,885	\$ 1,070,855	\$ 211,092,740
Change in net position	17,066,322	40,777	17,107,099
Distributions to shareholders	-0-	(107,057)	(107,057)
December 31, 2016	227,088,207	1,004,575	228,092,782
Change in net position	20,405,714	48,445	20,454,159
Distributions to shareholders	-0-	(97,601)	(97,601)
December 31, 2017	\$ 247,493,921	\$ 955,419	\$ 248,449,340

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

Discrete Component Unit

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

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

Use of Estimates

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

RIVERVIEW HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Federal or State Income Taxes

The Hospital is a county hospital organized under Title 16, Article 22, of the Indiana statutes. The Hospital is exempt from federal income tax under the Internal Revenue Code of 1986 as a charitable, educational, and scientific organization as described under Section 501(c)(3). Riverview Health Foundation is a 501(c) (3) not-for-profit organization.

The blended component unit of RMI is organized as a limited liability company, whereby net taxable income is taxed directly to the members and not this entity. Thus, the financial statements do not include any provision for Federal or State income taxes. RMI has filed its federal and state income returns for periods through December 31, 2017.

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

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

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Foundation and RMI, and recognize a tax liability if they have taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken and has concluded that as of December 2017 and 2016, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements. The Foundation and RMI are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Cash and Cash Equivalents

Cash and cash equivalents include all cash held in checking, savings and money market savings 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. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating revenue when earned.

RIVERVIEW HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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, 2014 with immaterial differences reflected as deductions from revenue in 2017. Amounts from unresolved cost reports for 2015 through 2017 are reflected in estimated third-party payor settlements on the consolidated balance sheets.

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

Advertising

The Hospital expenses advertising costs as they are incurred. Advertising expenses for the years ended December 31, 2017 and 2016 were approximately \$1,217,000 and \$1,178,000, respectively, and are included in other supplies and expenses within the consolidated statements of revenues, expenses, and changes in net position within the financial statements.

Inventories

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

RIVERVIEW HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Assets Whose Use is Limited

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

Capital Assets and Depreciation

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

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

Investment in Affiliates

The Hospital has equity interests in several joint ventures. These investments are recorded on the cost and equity methods of accounting in the Hospital's consolidated financial statements. These investments are included in other assets on the consolidated balance sheets.

Net Position

Net position of the Hospital is classified in four components. (1) Net invested in capital assets consist of capital assets net of accumulated depreciation plus deferred outflows related to losses on bond refundings which are reduced by the balance of any outstanding borrowings used to finance the purchase or construction of those assets. (2) Restricted expendable net position includes assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue note indentures. (3) Restricted nonexpendable net position includes the principal portion of permanent endowments and non-controlling interests owned by external investors. (4) Unrestricted net position is remaining net position that does not meet the definition of invested in capital assets net of related debt or restricted.

RIVERVIEW HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

The amounts classified as restricted nonexpendable net position for December 31, 2017 and 2016 are as follows:

	2017	2016
Non-controlling interests	\$ 955,419	\$ 1,004,575
Endowments	2,808,565	2,810,646
Total	<u>\$ 3,763,984</u>	<u>\$ 3,815,221</u>

Hospital Assessment Fee Program

The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share (DSH) payments for Indiana hospitals as reflected in the Hospital assessment fee expense reported in the consolidated statements of revenues, expenses and changes in net position.

Previously, the State share was funded by governmental entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates. During 2017 and 2016, the Hospital recognized Hospital assessment fee expense of approximately \$7,046,000 and \$5,375,000, respectively, which resulted in increased Medicaid reimbursement.

Electronic Health Records (EHR) Incentive Payments

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

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

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

RIVERVIEW HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

The Hospital recognizes EHR incentive payments as grant income when there is reasonable assurance that the Hospital will comply with the conditions of the meaningful use objectives and any other specific agreement requirements. In addition, the financial statement effects of the income must be both recognizable and measurable. During 2017 and 2016, the Hospital recognized approximately \$428,000 and \$136,000, respectively, in EHR incentive payments as income. Under the ratable recognition method, the Hospital recognizes income ratably over the entire EHR reporting period when it is reasonably assured at the outset of the EHR reporting period that it will comply with the minimum requirements of the program.

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

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

Cost of Borrowing

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

Grants and Contributions

From time to time, the reporting entity receives contributions from individuals and private organizations. Revenues from contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Contributions may be restricted either for 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.

RIVERVIEW HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Operating Revenues and Expenses

The reporting entity's consolidated statements of revenues, expenses and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the principal activity. Nonexchange revenues, 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 without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Because the Hospital does not collect amounts deemed to be charity care, they are not reported as revenue.

Of the Hospital's total expenses reported, excluding the long-term care expenses, an estimated \$3,056,000 and \$2,928,000 arose from providing services to charity patients during the years ended December 31, 2017 and December 31, 2016, respectively.

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

Compensated Absences

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

Risk Management

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

RIVERVIEW HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Reclassifications

Certain amounts from 2016 have been reclassified in order to conform to the 2017 presentation. There were no changes to net position as a result of these reclassifications, as previously reported.

Subsequent Events

The Hospital evaluates events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the financial statements are issued which is March 26, 2018.

Recently Issued Accounting Standards

In June 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 87, *Leases*, which will be effective for periods beginning after June 15, 2019. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The Hospital is presently evaluating the impact of this standard.

2. NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The following is a summary of net patient service revenue for 2017 and 2016:

	2017	2016
Patient service revenue		
Inpatient	\$ 148,543,452	\$ 138,883,643
Outpatient	301,548,517	283,122,525
Long-term care	391,139,892	349,470,768
Gross service patient revenue	<u>841,231,861</u>	<u>771,476,936</u>
Deductions from revenue		
Contractual allowances	346,613,924	319,486,671
Charity care	7,191,894	6,720,270
Provision for bad debts	15,233,953	13,678,737
Total deductions from revenue	<u>369,039,771</u>	<u>339,885,678</u>
Net patient service revenue	<u>\$ 472,192,090</u>	<u>\$ 431,591,258</u>

RIVERVIEW HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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, 2017 and 2016:

	2017	2016
<u>Patient accounts receivable</u>		
Receivable from patients and their insurance carriers	\$ 66,886,900	\$ 46,306,772
Receivable from Medicare	32,933,726	26,062,766
Receivable from Medicaid	14,531,898	14,745,638
Total patient accounts receivable	<u>114,352,524</u>	<u>87,115,176</u>
Less allowances for contractual agreements	(41,821,725)	(31,400,667)
Less allowances for uncollectible amounts	(5,360,460)	(6,540,749)
Total allowances	<u>(47,182,185)</u>	<u>(37,941,416)</u>
Patient accounts receivable, net	<u>\$ 67,170,339</u>	<u>\$ 49,173,760</u>
<u>Accounts payable and accrued expenses</u>		
Payable to suppliers	\$ 21,704,251	\$ 17,216,985
Payable to employees (including payroll taxes and benefits)	10,157,618	9,442,833
Total accounts payable and accrued expenses	<u>\$ 31,861,869</u>	<u>\$ 26,659,818</u>

4. ASSETS WHOSE USE IS LIMITED

Board Designated Funds

The Hospital funds depreciation expense to meet the capital equipment needs of the facility. Depreciation is funded totally, with expenditures for capital equipment and debt principal payments reducing the long-term investments balance. The Hospital designates other investments to fund specific projects. Interest earned by the long-term investments and other board designated investments accounts are left to accumulate as an addition to the funds. Board designated funds as of December 31, 2017 and 2016 were approximately \$58,600,000 and \$56,100,000, respectively.

RIVERVIEW HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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, 2017 and 2016 were approximately \$-0- and \$1,343,000, respectively. The Hospital also deposits certain funds related to professional liability insurance funds. Professional liability insurance funds as of December 31, 2017 and 2016 were approximately \$447,000 and \$722,000, 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 approximately \$316,000 and \$340,000 as of December 31, 2017 and 2016.

Donor-Restricted Nonexpendable Endowments

The Hospital maintains several permanent funds with donor-restricted endowments that totaled approximately \$2,800,000 at December 31, 2017 and 2016. It is the Hospital's policy that all earnings on investments are authorized for spending. Only new gifts are added to the original endowment and are not authorized for spending.

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

5. DEPOSITS AND INVESTMENTS

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

As of December 31, 2017 and 2016, 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, 2017					
	Carrying amount	Investment Maturities (in Years)			
		Less than 1	1 - 5	6 - 10	More than 10
Hospital					
Mutual funds - equities	\$ 43,319,062	\$ 43,319,062	\$ -0-	\$ -0-	\$ -0-
Mutual funds - fixed income	10,956,051	10,956,051	-0-	-0-	-0-
	\$ 54,275,113	\$ 54,275,113	\$ -0-	\$ -0-	\$ -0-
Foundation					
Mutual funds - equities	\$ 2,473,489	\$ 2,473,489	\$ -0-	\$ -0-	\$ -0-
Mutual funds - fixed income	1,688,010	1,688,010	-0-	-0-	-0-
Common stock	10,038	10,038	-0-	-0-	-0-
Certificates of deposit	25,189	25,189	-0-	-0-	-0-
	\$ 4,196,726	\$ 4,196,726	\$ -0-	\$ -0-	\$ -0-
December 31, 2016					
	Carrying amount	Investment Maturities (in Years)			
		Less than 1	1 - 5	6 - 10	More than 10
Hospital					
Mutual funds - equities	\$ 22,044,697	\$ 22,044,697	\$ -0-	\$ -0-	\$ -0-
Mutual funds - fixed income	30,550,235	30,550,235	-0-	-0-	-0-
	\$ 52,594,932	\$ 52,594,932	\$ -0-	\$ -0-	\$ -0-
Foundation					
Mutual funds - equities	\$ 2,121,390	\$ 2,121,390	\$ -0-	\$ -0-	\$ -0-
Mutual funds - fixed income	1,540,140	1,540,140	-0-	-0-	-0-
Certificates of deposit	50,000	50,000	-0-	-0-	-0-
	\$ 3,711,530	\$ 3,711,530	\$ -0-	\$ -0-	\$ -0-

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

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

RIVERVIEW HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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

Deposits, investments, and other consist of the following as of December 31, 2017 and 2016:

Hospital	2017	2016
Carrying amount		
Deposits	\$ 76,857,652	\$ 78,911,643
Investments	54,275,113	52,594,932
	\$ 131,132,765	\$ 131,506,575
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 73,133,005	\$ 73,856,322
Board designated funds	57,527,479	55,558,566
Trustee held assets	447,108	2,065,834
Restricted by donor	25,173	25,853
	\$ 131,132,765	\$ 131,506,575
Foundation		
Carrying amount		
Deposits	\$ 430,181	\$ 422,573
Investments	4,196,726	3,711,530
	\$ 4,626,907	\$ 4,134,103
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 430,181	\$ 422,573
Board designated funds	1,097,614	586,734
Restricted by donor	3,099,112	3,124,796
	\$ 4,626,907	\$ 4,134,103

RIVERVIEW HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

6. FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation 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). The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Hospital has the ability to access.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of December 31, 2017 and 2016.

- *Mutual funds*: Valued at the daily closing price as reported by the fund. Mutual funds held by the Hospital are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Hospital are deemed to be actively traded.
- *Interest rate swap agreements*: Valued using pricing models that are derived principally from observable market data based on discounted cash flows and interest rate yield curves at quoted intervals for the full term of the swap.
- *Common stocks*: Valued at the closing price reported on the active market on which the individual securities are traded.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2017 are as follows:

	2017			
Hospital	Total	Level 1	Level 2	Level 3
Assets:				
Assets whose use is limited				
Mutual funds				
Small growth	\$ 4,751,408	\$ 4,751,408	\$ -0-	\$ -0-
Small blend	1,006,248	1,006,248	-0-	-0-
Mid-cap growth	13,122,207	13,122,207	-0-	-0-
Mid-cap value	1,345,590	1,345,590	-0-	-0-
Large growth	10,454,983	10,454,983	-0-	-0-
Large blend	12,638,626	12,638,626	-0-	-0-
Bond	10,956,051	10,956,051	-0-	-0-
Total mutual funds	54,275,113	\$ 54,275,113	\$ -0-	\$ -0-
Cash and cash equivalents				
Money market deposit accounts	3,724,647			
Total assets whose use is limited	\$ 57,999,760			
Other assets:				
Interest rate swap agreements	\$ 660,268	\$ -0-	\$ 660,268	\$ -0-
Other long-term liabilities:				
Interest rate swap agreements	\$ 422,279	\$ -0-	\$ 422,279	\$ -0-
Foundation				
Assets:	Total	Level 1	Level 2	Level 3
Assets whose use is limited				
Mutual funds				
Small growth	\$ 281,348	\$ 281,348	\$ -0-	\$ -0-
Small blend	92,851	92,851	-0-	-0-
Mid-cap growth	108,901	108,901	-0-	-0-
Large value	422,796	422,796	-0-	-0-
Large growth	946,056	946,056	-0-	-0-
Large blend	621,537	621,537	-0-	-0-
Fixed income	1,619,800	1,619,800	-0-	-0-
Real estate	68,210	68,210	-0-	-0-
Total mutual funds	4,161,499	4,161,499	-0-	-0-
Common stocks				
Utilities	10,038	10,038	-0-	-0-
Total common stocks	10,038	\$ 10,038	\$ -0-	\$ -0-
Certificates of deposit *	25,189			
Total assets whose use is limited	\$ 4,196,726			

* Certificates of deposit are reported at contract value

RIVERVIEW HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2016 are as follows:

	2016			
Hospital	Total	Level 1	Level 2	Level 3
Assets				
Assets whose use is limited				
Mutual funds				
Small growth	\$ 946,183	\$ 946,183	\$ -0-	\$ -0-
Mid-cap growth	6,999,559	6,999,559	-0-	-0-
Mid-cap value	2,544,315	2,544,315	-0-	-0-
Large value	1,408,670	1,408,670	-0-	-0-
Large growth	1,390,795	1,390,795	-0-	-0-
Large blend	8,755,175	8,755,175	-0-	-0-
Bond	30,550,235	30,550,235	-0-	-0-
Total mutual funds	52,594,932	\$ 52,594,932	\$ -0-	\$ -0-
Cash and cash equivalents				
Money market deposit accounts	5,055,321			
Total assets whose use is limited	\$ 57,650,253			
Other assets:				
Interest rate swap agreements	\$ 689,199	\$ -0-	\$ 689,199	\$ -0-
Other long-term liabilities:				
Interest rate swap agreements	\$ 586,370	\$ -0-	\$ 586,370	\$ -0-
Foundation				
	Total	Level 1	Level 2	Level 3
Assets:				
Assets whose use is limited				
Mutual funds				
Small growth	\$ 253,615	\$ 253,615	\$ -0-	\$ -0-
Small blend	49,456	49,456	-0-	-0-
Large value	526,353	526,353	-0-	-0-
Large growth	761,122	761,122	-0-	-0-
Large blend	530,844	530,844	-0-	-0-
Fixed income	1,472,300	1,472,300	-0-	-0-
Real estate	67,840	67,840	-0-	-0-
Total mutual funds	3,661,530	\$ 3,661,530	\$ -0-	\$ -0-
Certificates of deposit *	50,000			
Total assets whose use is limited	\$ 3,711,530			

* Certificates of deposit are reported at contract value

RIVERVIEW HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

The Hospital's policy is to recognize transfers between levels as of the end of the reporting period. There were no transfers during 2017 and 2016.

Realized gains and losses and interest income are reported in the consolidated statements of revenues, expenses, and changes in net position as a component of investment income (loss). Net realized gains (losses) and interest income approximated \$5,000,000 and (\$400,000) during 2017 and 2016, respectively.

The market value of investments exceeded the cost by approximately \$3,100,000 and \$100,000 as of December 31, 2017 and December 31, 2016, respectively. The unrealized gains and losses are included in earnings for the period attributable to the change in unrealized gains or losses relating to assets held as of December 31, 2017 and 2016. During 2017 and 2016, the Hospital recognized an unrealized gain of approximately \$2,400,000 and \$2,700,000, respectively, which is included in the consolidated statements of revenues, expenses and changes in net position as a component of investment income.

The Hospital holds investments which are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with these securities and the level of uncertainty related to changes in the value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the amounts reported in the accompanying consolidated financial statements.

The following methods and assumptions were used by the Hospital in estimating the fair value of its financial instruments:

Long-term debt: Fair value of the Hospital's long-term debt, estimated using discounted cash flow analysis, for the Series 2005, 2011, 2012, 2013, 2016, and 2017 bonds approximated \$44,400,000 and \$37,700,000 as of December 31, 2017 and 2016, respectively.

RIVERVIEW HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

7. CAPITAL ASSETS

Capital asset progressions for 2017 and 2016 follow:

	December 31, 2016	Additions	Retirements	Transfers	December 31, 2017
Hospital					
Land	\$ 15,917,384	\$ 44,000	\$ -0-	\$ -0-	\$ 15,961,384
Land improvements	2,872,696	19,416	-0-	-0-	2,892,112
Buildings and improvements	107,213,475	161,572	-0-	839,223	108,214,270
Equipment	125,621,391	12,283,255	(103,482)	19,255,175	157,056,339
Construction in progress	21,320,889	34,303,372	-0-	(20,094,398)	35,529,863
Total capital assets	<u>272,945,835</u>	<u>46,811,615</u>	<u>(103,482)</u>	<u>-0-</u>	<u>319,653,968</u>
Less accumulated depreciation					
Land improvements	2,258,580	127,317	-0-	-0-	2,385,897
Buildings and improvements	60,613,831	6,888,159	-0-	-0-	67,501,990
Equipment	81,424,099	7,909,361	(103,482)	-0-	89,229,978
Total accumulated depreciation	<u>144,296,510</u>	<u>14,924,837</u>	<u>(103,482)</u>	<u>-0-</u>	<u>159,117,865</u>
Capital assets, net	<u>\$ 128,649,325</u>	<u>\$ 31,886,778</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 160,536,103</u>
Foundation					
Equipment	\$ 15,380	\$ -0-	\$ -0-	\$ -0-	\$ 15,380
Less accumulated depreciation	15,380	-0-	-0-	-0-	15,380
Capital assets, net	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

	December 31, 2015	Additions	Retirements	Transfers	December 31, 2016
Hospital					
Land	\$ 15,917,384	\$ -0-	\$ -0-	\$ -0-	\$ 15,917,384
Land improvements	2,798,479	58,185	-0-	16,032	2,872,696
Buildings and improvements	104,807,984	283,007	(948)	2,123,432	107,213,475
Equipment	114,029,008	8,917,373	(2,928,257)	5,603,267	125,621,391
Construction in progress	6,511,148	22,552,472	-0-	(7,742,731)	21,320,889
Total capital assets	<u>244,064,003</u>	<u>31,811,037</u>	<u>(2,929,205)</u>	<u>-0-</u>	<u>272,945,835</u>
Less accumulated depreciation					
Land improvements	2,095,962	162,618	-0-	-0-	2,258,580
Buildings and improvements	55,079,245	5,535,155	(569)	-0-	60,613,831
Equipment	75,858,806	8,454,002	(2,888,709)	-0-	81,424,099
Total accumulated depreciation	<u>133,034,013</u>	<u>14,151,775</u>	<u>(2,889,278)</u>	<u>-0-</u>	<u>144,296,510</u>
Hospital capital assets, net	<u>\$ 111,029,990</u>	<u>\$ 17,659,262</u>	<u>\$ (39,927)</u>	<u>\$ -0-</u>	<u>\$ 128,649,325</u>
Foundation					
Equipment	\$ 15,380	\$ -0-	\$ -0-	\$ -0-	\$ 15,380
Less accumulated depreciation	15,380	-0-	-0-	-0-	15,380
Foundation capital assets, net	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

As of December 31, 2017, the estimated cost to complete outstanding projects included within in construction in progress was approximately \$70,600,000, which is nearly all related to the Hospital's expansion of the Hospital's campus in Noblesville and Westfield, Indiana. The Hospital intends to cover the costs of construction with a combination of cash and investments on hand as well as additional financing through the 2016 Series Bonds and 2017 Series Bonds, and intends to complete these projects during 2018.

8. LONG-TERM DEBT

The terms and due dates of the Hospital's long-term debt, including capital lease obligations as of December 31, 2017 and 2016 follow:

- 2005 tax-exempt revenue bonds, principal maturing in varying amounts due in August 2017. Interest rates for serial bonds range from 2.50% to 4.50%. This note was paid in full during 2017.
- 2011 tax-exempt revenue bonds, principal maturing in varying amounts due September 1, 2021, collateralized by net revenues of the Hospital. Interest rate is fixed at 4.2%.
- 2012 tax-exempt revenue bonds, principal maturing in varying amounts due December 1, 2027, collateralized by net revenues of the Hospital. Interest rate is variable at 2.30% and 1.75% as of December 31, 2017 and 2016, respectively. An associated interest rate swap has fixed rate of 2.67%, and with a receivable (liability) fair value of approximately \$81,000 and (\$29,000) as of December 31, 2017 and 2016. The interest rate swap is included in other assets and other long-term liabilities on the consolidated balance sheets as of December 31, 2017 and 2016, respectively.
- 2013 tax-exempt revenue bonds, principal maturing in varying amounts due October 1, 2028, collateralized by net revenues of the Hospital. Interest rate is variable at 1.93% and 1.38% as of December 31, 2017 and 2016, respectively. An associated interest rate swap has fixed rate of 3.10%, with a liability fair value of approximately \$345,000 and \$557,000 as of December 31, 2017 and 2016, respectively, which is in other long-term liabilities on the consolidated balance sheets.
- 2016 tax-exempt revenue bonds, principal maturing in varying amounts due May 1, 2042, collateralized by net revenues of the Hospital. Interest rate is variable at 1.90% and 1.38% as of December 31, 2017 and 2016, respectively. An associated interest rate swap with an effective date of May 1, 2018 has fixed rate of 1.32%, with a receivable fair value of approximately \$579,000 and \$689,000 as of December 31, 2017 and 2016, respectively, which is in other assets on the consolidated balance sheets.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

- 2017 tax-exempt revenue bonds, principal maturing in varying amounts due May 1, 2042, collateralized by net revenues of the Hospital. Interest rate is variable at 0.96% as of December 31, 2017. An associated interest rate swap with an effective date of May 1, 2018 has fixed rate of 1.71%, with a liability fair value of approximately \$78,000 as of December 31, 2017, which is in other long-term liabilities on the consolidated balance sheets.
- Capital lease obligations, at varying interest rates of imputed interest of 5.00% to 7.3%, maturing from 2018 through 2021, collateralized by leased equipment with cost of approximately \$2,800,000 as of December 31, 2017 and 2016, respectively. Accumulated depreciation on capital leases was approximately \$2,600,000 and \$2,300,000 as of December 31, 2017 and 2016, respectively.

Under the terms of the revenue bond indenture, the Hospital is required to maintain certain deposits with a trustee. Such deposits are included with restricted cash and investments in the consolidated balance sheet. The revenue bond indenture also places limits on the incurrence of additional borrowings and requires that the Hospital satisfy certain measures of financial performances as long as the notes are outstanding. The Hospital is also required to meet certain financial covenants. The Hospital believes it is in compliance with all covenants as of December 31, 2017 and 2016.

A summary of long-term debt as of December 31, 2017 and 2016 includes the following:

	December 31, 2016	Additional Borrowings	Payments	December 31, 2017	Current Portion
Revenue bonds payable					
2005 Bonds	\$ 940,000	\$ -0-	\$ 940,000	\$ -0-	\$ -0-
2011 Bonds	3,692,311	-0-	717,233	2,975,078	747,944
2012 Bonds	13,010,000	-0-	1,035,000	11,975,000	1,065,000
2013 Bonds	14,109,000	-0-	1,005,000	13,104,000	1,030,000
2016 Bonds	6,000,000	6,000,000	-0-	12,000,000	480,000
2017 Bonds	-0-	10,000,000	-0-	10,000,000	400,000
Total revenue bonds	<u>37,751,311</u>	<u>16,000,000</u>	<u>3,697,233</u>	<u>50,054,078</u>	<u>3,722,944</u>
Capital lease obligations	1,209,038	-0-	459,555	749,483	339,455
	<u>\$ 38,960,349</u>	<u>\$ 16,000,000</u>	<u>\$ 4,156,788</u>	<u>\$ 50,803,561</u>	<u>\$ 4,062,399</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

	December 31, 2015	Additional Borrowings	Payments	December 31, 2016	Current Portion
Revenue bonds payable					
2005 Bonds	\$ 1,840,000	\$ -0-	\$ 900,000	\$ 940,000	\$ 940,000
2011 Bonds	4,380,095	-0-	687,784	3,692,311	717,233
2012 Bonds	14,020,000	-0-	1,010,000	13,010,000	1,035,000
2013 Bonds	15,074,000	-0-	965,000	14,109,000	1,005,000
2016 Bonds	-0-	6,000,000	-0-	6,000,000	-0-
Total revenue bonds	<u>35,314,095</u>	<u>6,000,000</u>	<u>3,562,784</u>	<u>37,751,311</u>	<u>3,697,233</u>
Capital lease obligations	884,623	933,052	608,637	1,209,038	458,296
	<u>\$ 36,198,718</u>	<u>\$ 6,933,052</u>	<u>\$ 4,171,421</u>	<u>\$ 38,960,349</u>	<u>\$ 4,155,529</u>

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

Year Ending December 31,	Long-term Debt		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2018	\$ 3,722,944	\$ 886,111	\$ 339,455	\$ 53,598
2019	3,819,969	771,531	203,515	29,902
2020	3,903,366	673,842	171,940	12,894
2021	3,802,799	573,527	34,573	528
2022	3,235,000	494,328	-0-	-0-
2023-2027	17,195,000	1,379,808	-0-	-0-
Thereafter	14,375,000	232,662	-0-	-0-
	<u>\$ 50,054,078</u>	<u>\$ 5,011,809</u>	<u>\$ 749,483</u>	<u>\$ 96,922</u>

A total \$36,000,000 of 2016 Series A bonds has been authorized for issuance. Of this total, \$12,000,000 of "draw" revenue bonds have been loaned to the Hospital for expansion of their campus in Noblesville and Westfield, Indiana. The Hospital anticipates drawing down all of the bonds during 2018. In the event that the final amount of the bonds is less than \$36,000,000, the scheduled amount of principal and interest due under the Bond Purchase and Loan Agreement will be revised accordingly to reflect a pro-rata reduction of each principal and interest installment due.

The Hospital has recorded deferred outflows on the consolidated balance sheets related to the loss on a prior bond refunding. The loss is being amortized over the remaining life of the former bond maturity.

The Hospital has interest rate swap agreements related to the Series 2012, 2013, 2016, and 2017 Bonds. The interest rate swap agreements do not affect the obligation of the Hospital under the indenture to repay principal and interest on the Series 2012, 2013, 2016, or 2017 Bonds. However, during the term of the swap agreements, the Hospital effectively pays a fixed rate on a portion of the debt. A portion of the debt service requirements to maturity for the Series 2012, 2013, 2016 and 2017 Bonds are based on that fixed rate. The Hospital will be exposed to variable rates if the counterparty to the swaps defaults or the swap agreements are terminated.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

A termination of the swap agreements may also result in the Hospital making or receiving a termination payment. As of December 31, 2017 and 2016, the variable rates on the Series 2012, 2013, 2016 and 2017 Bonds were lower than the swap agreements fixed rates. The table related to future maturities above utilizes the swap fixed interest rates for the Series 2012 and 2013 Bonds but excludes the swap fixed interest rate for the Series 2016 and 2017 Bonds, due to the fact that the 2016 and 2017 Bond swaps are not effective until May 1, 2018.

See the footnote on Derivative Instruments – Interest Rate Swaps for additional information.

9. DERIVATIVE INSTRUMENTS – INTEREST RATE SWAPS

The Hospital adheres to GASB No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The guidance requires governmental entities to evaluate each derivative instrument to determine whether the instrument is an effective hedge.

For those instruments deemed an effective hedge, governmental entities are required to practice hedge accounting and the instrument continues to be reevaluated at the end of each future reporting period. Under hedge accounting, the fair value of the instrument is recorded on the consolidated balance sheet with the offsetting entry to deferred outflows or deferred inflows, which also reported on the consolidated balance sheet.

For those instruments deemed an ineffective hedge, governmental entities are required to practice investment accounting and the instruments are not evaluated in future reporting periods. Once deemed ineffective, the instrument is considered ineffective for the remainder of its term. Under investment accounting, the fair value of the instrument is recorded on the consolidated balance sheet with the offsetting entry posted to investment income.

Contracts

The Hospital has four and three interest rate swap agreements in effect as of December 31, 2017 and 2016, respectively, for the 2012, 2013, 2016 and 2017 revenue bonds.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Objectives and Strategies for Using Derivatives

As a means to manage the risk associated with interest rate risk on its variable rate debt, the Hospital entered into interest rate swaps agreements in connection with its 2012, 2013, 2016 and 2017 revenue bonds. The intention of the swap agreements was to effectively change the Hospital's variable interest rate on the Series 2012 Bonds to a fixed rate of 2.67%, change the Hospital's variable interest rate on the Series 2013 Bonds to a fixed rate of 3.10%, change the Hospital's variable interest rate on the Series 2016 Bonds to a fixed rate of 1.32%, and change the Hospital's variable interest rate on the Series 2017 Bonds to a fixed rate of 1.71%.

Terms, Fair Values and Credit Risk

The swap agreements relate to the Series 2012, 2013, 2016 and 2017 Bonds with original notional amounts of \$16,900,000, \$17,000,000, \$34,560,000 and \$9,600,000 respectively. The counter party is the same for each swap agreement. The terms and fair values of the outstanding swaps as of December 31, 2017 are as follows:

Associated Bond Issue	Original Notational Amount	Current Notional Amount	Effective date	Fixed rate	Variable rate	Fair value	Termination date	Counterparty credit rating
2012 Series Bonds	\$ 16,900,000	\$ 11,975,000	February 1, 2013	2.67%	.74 times (1M Libor plus 1.75%)	\$ 80,839	December 1, 2022	A3/A+/AA-
2013 Series Bonds	17,000,000	13,105,000	October 1, 2013	3.10%	.74 times (1M Libor plus 1.25%)	(344,702)	October 2, 2023	A3/A+/AA-
2016 Series Bonds	34,560,000	34,560,000	May 1, 2018	1.32%	.70 times (1M Libor plus .952%)	579,429	October 30, 2026	A3/A+/AA-
2017 Series Bonds	9,600,000	9,600,000	May 1, 2018	1.71%	.70 times (1M Libor plus .952%)	(77,577)	October 30, 2026	A3/A+/AA-
	<u>\$ 78,060,000</u>	<u>\$ 69,240,000</u>				<u>\$ 237,989</u>		

As of December 31, 2017, negative fair values of the agreements may be countered by reductions in total interest payments under the swap agreements should the variable rates on the 2012, 2013, 2016 and 2017 Series Bonds increase.

Basis Risk

The swaps variable rates are pegged to USD-LIBOR-BBA index. The Series 2012, 2013, 2016 and 2017 Bonds variable rates are determined through remarketing. Therefore, basis risk relating to the swaps could be significant.

Termination Risk

The Hospital or the counter party may terminate the swaps if the other party fails to perform under the terms of the contracts. If at the time of termination, the swaps have a negative fair value, the Hospital could be liable to the counter party for a payment equal to the swaps' fair values. As of December 31, 2017 and 2016, the Hospital complied with the terms of the swap contracts.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Swap Payments and Associated Debt

Using rates as of December 31, 2017, debt service requirements of the variable rate debt and net swap payments of the Series 2012, 2013, 2016 and 2017 Bonds, assuming current interest rates remain the same for the term of the bonds, are disclosed in the Long Term Debt note. As rates vary, variable-rate bond interest payments and net swap payments will vary.

The Hospital has determined the swaps to be ineffective hedges. Accordingly, the fair value of the swaps have been recorded and subsequent changes in fair value will be recorded in the consolidated balance sheets with the offsetting entry recorded under nonoperating revenue (expenses) in the consolidated statements of revenues, expenses and changes in net position.

Following is an analysis of the recording of the interest rate swap agreements:

	Asset	
	2017	2016
2012 Series bonds interest rate swap	\$ 80,839	\$ -0-
2016 Series bonds interest rate swap	579,429	689,199
	\$ 660,268	\$ 689,199

	Liability	
	2017	2016
2012 Series bonds interest rate swap	\$ -0-	\$ 29,341
2013 Series bonds interest rate swap	344,702	557,029
2017 Series bonds interest rate swap	77,577	-0-
	\$ 422,279	\$ 586,370

<u>Financial instrument</u>	<u>2017</u>	<u>2016</u>	<u>Location</u>
2012 Series bonds interest rate swap	\$ 110,180	\$ 96,250	Contributions and other revenue (expense)
2013 Series bonds interest rate swap	212,327	215,418	Contributions and other revenue (expense)
2016 Series bonds interest rate swap	(109,769)	689,199	Contributions and other revenue (expense)
2017 Series bonds interest rate swap	(77,577)	-0-	Contributions and other revenue (expense)
Total gain	\$ 135,161	\$ 1,000,867	

See the Fair Value of Financial Instruments and Long Term Debt footnotes for additional information.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

10. PENSION PLAN

Plan Description

The Hospital has two defined contribution pension plans: the Riverview Health Employees' Pension Plan and the Riverview Health 403(b) Retirement Plan (the Plan), as authorized by IC 16-22-3-11. Both are administered by the Hospital and 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' provisions and contribution requirements were established by written agreement between the Hospital Board of Trustees and AXIA Advisory and McCready & Keene, Inc. (Plan Administrators). The Plan Administrators issue a publicly available financial report that includes financial statements and required supplementary information of the Plan. The report is available by contacting the Hospital's accounting department.

The Riverview Health Employees' Pension Plan covers all eligible employees who have been employed by the Hospital prior to July 1, 2008, and the Hospital is required to contribute 3% of an employee's compensation up to \$270,000. Certain employees hired subsequently to June 30, 2008 are eligible for the plan if conditions in the plan document are met.

Up until December 31, 2010, the Hospital was required to match 25% of an employee's contribution up to a maximum of 6% of the employee's compensation to the Riverview Health 403(b) Retirement Plan. The maximum employee contribution is subject to regulatory caps. As of January 1, 2011, the Plan was amended so that the match rate on employee contributions became discretionary. During 2017 and 2016, the Hospital matched 50% of employee elective deferrals into the 403(b) plan, up to 3% of a participant's eligible compensation.

Employer contributions including both plans were approximately \$1,110,000 and 1,040,000 for 2017 and 2016, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

11. 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 2025 with options to renew.

The following is a schedule of future minimum lease payments under noncancelable operating leases as of December 31, 2017, that have initial or remaining lease terms in excess of one year.

Year ending December 31,	
2018	\$ 1,066,935
2019	1,072,075
2020	1,074,939
2021	1,077,878
2022	995,423
Thereafter	<u>2,128,141</u>
	<u>\$ 7,415,391</u>

Total rental expense was approximately \$35,200,000 and \$30,300,000 for 2017 and 2016, primarily related to rental expenses within long-term care.

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 approximately \$9,400,000 and \$9,300,000 as of December 31, 2017 and 2016 and accumulated depreciation of approximately \$6,000,000 and \$5,700,000 as of December 31, 2017 and 2016, respectively. Total rental income for all operating leases was approximately \$900,000 and \$1,000,000 for 2017 and 2016 and is included within other operating revenue in the consolidated statements of revenue, expenses, and changes in net position.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Future minimum rentals under the leases are as follows:

Year ending December 31,		
2018	\$	429,800
2019		442,023
2020		429,698
2021		347,444
2022		276,971
Thereafter		1,384,855
	\$	<u>3,310,791</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, results of operations or cash flows.

12. 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 2017 and 2016 was as follows:

	Receivables		Revenues	
	2017	2016	2017	2016
Self pay	8%	11%	7%	7%
Medicare	30%	37%	42%	43%
Medicaid	13%	18%	23%	23%
Other Commercial	49%	34%	28%	27%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

13. JOINT VENTURES

VHA Tri-State Health Plans, Inc.: The Hospital has ownership in a joint venture with numerous other hospitals located throughout the State of Indiana. The purpose of the venture is to provide a preferred provider network available to employers in the service area of the investor hospital, which the hospitals would not be able to economically provide on an independent basis.

The Hospital contributed capital of \$1,000 for approximately 5% ownership. The investment is recorded using the cost method and is included in other assets on the consolidated balance sheets. VHA Tri-State Health Plans, Inc. has a 3.11% ownership in HealthCare Group, Inc., which has the same purpose as VHA Tri-State Health Plans, Inc.

Riverview Surgical Management Associates, LLC: The Hospital has a 52% and 54% ownership in Riverview Surgical Management Associates, LLC. (RSMA) at December 31, 2017 and 2016, respectively. 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 related to this investment of approximately \$838,000 and \$870,000 as of December 31, 2017 and 2016, respectively. The Hospital recorded this investment under the equity method of accounting, as it did not control key operating and governance factors in RSMA. The investment is included in other assets on the consolidated balance sheets. Amounts paid to RSMA in 2017 and 2016 were approximately \$4,100,000 and \$4,200,000, respectively, comprising of management fees, lease payments and other expenses.

Suburban Home Health, LLC: During 2015, the Hospital purchased a 50% ownership in Suburban Home Health, LLC (SHH) for \$750,000 and has a 43% ownership in SHH at December 31, 2017 and 2016. The Hospital recorded an asset related to this investment of approximately \$874,000 and \$874,000 as of December 31, 2017 and 2016, respectively. The Hospital recorded this investment under the equity method of accounting, as it did not control key operating and governance factors in SHH. The investment is included in other assets on the consolidated balance sheets. Transactions between SHH and the Hospital during 2017 and 2016, outside of the initial investment, were immaterial to the financial statements as a whole.

St. Vincent Heart Center of Indiana, LLC: The Hospital purchased a 2% ownership in St. Vincent Heart Center of Indiana, LLC (Heart Center) during 2016 for approximately \$4,600,000 and has a 2% ownership in the Heart Center at December 31, 2017 and 2016. The Hospital has accounted for this investment under the cost method of accounting and assesses the investment for impairment on an annual basis. As of December 31, 2017 and 2016, the investment was not deemed to be impaired. The investment is included in other assets on the consolidated balance sheets. The Hospital received dividend distributions of approximately \$900,000 and \$579,000 during 2017 and 2016, respectively. The dividends are included within other operating revenue in the consolidated statements of revenue, expenses, and changes in net position.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Amounts receivable and payable from these related parties as of December 31, 2017 and 2016 are included in related party receivables and related party payables in the accompanying consolidated balance sheets, and are immaterial to the financial statements as a whole. Separate financial statements related to these joint ventures may be obtained by contacting Hospital management.

14. 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 2017 and 2016 was approximately \$6,500,000 and \$5,800,000, 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 2017 and 2016 are as follows:

	2017	2016
Unpaid claims, beginning of year	\$ 654,253	\$ 478,193
Incurred claims and changes in estimates	6,463,700	5,809,548
Claim payments	(5,981,486)	(5,633,488)
Unpaid claims, end of year	<u>\$ 1,136,467</u>	<u>\$ 654,253</u>

The estimated health claims liability is included in salaries, wages, and related payables on the consolidated balance sheets. The plan has annual reinsurance coverage at a specific level of \$195,000 and \$190,000 during 2017 and 2016, respectively, per claim with a no maximum reimbursement cap per covered person.

15. 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.

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The Indiana Medical Malpractice Act, IC 34-18 (Act) provides a maximum recovery of \$1,650,000 for an occurrence of malpractice until June 30, 2019, and \$1,800,000 thereafter. The Act requires the Hospital to maintain medical malpractice liability insurance in the amount of at least \$400,000 per occurrence (\$8,000,000 or \$12,000,000 in the annual aggregate based on hospital bed size) until June 30, 2019. Starting July 1, 2019, the Act will require the Hospital to maintain medical malpractice liability insurance in the amount of at least \$500,000 per occurrence (\$10,000,000 or \$15,000,000 in the annual aggregate based on hospital bed size). 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.

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claim experience, an accrual for estimated malpractice claims costs was approximately \$1,500,000 and \$850,000 as of December 31, 2017 and 2016, respectively. It is reasonably possible that this estimate could change materially in the near term.

16. SUBSEQUENT EVENT

During January 2018, the Hospital has entered into an agreement to acquire the operations of a long-term care facility by way of an arrangement with the managers of the facilities. The Hospital will lease the facilities, the total of which is immaterial to the financial statements as a whole.