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April 14, 2020

Board of Directors
Riverview Hospital
395 Westfield Road
Noblesville, IN 46060

We have reviewed the report of Riverview Hospital d/b/a Riverview Health, which was opined upon by Blue & Company, LLC, Independent Public Accountants, for the period January 1, 2019 to December 31, 2019. Per the Report of *Independent Auditors*, the financial statements included in the report present fairly the financial condition of Riverview Hospital as of December 31, 2019, and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Blue & Company, LLC, prepared the audit report in accordance with the guidelines established by the State Board of Accounts.

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

Paul D. Joyce

Paul D. Joyce, CPA
State Examiner



CONSOLIDATED FINANCIAL STATEMENTS

AND

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2019 AND 2018

CPAs / ADVISORS



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, 2019 and 2018, 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. We have also audited the Hospital's consolidated statement of fiduciary net position as of December 31, 2019 and the related consolidated statement of changes in fiduciary net position for the year 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, 2019 and 2018, and the results of its revenues, expenses, and changes in its net position and its cash flows for the years then ended and the Hospital's consolidated statement of fiduciary net position as of December 31, 2019 and the results of its consolidated changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 2 to the consolidated financial statements, the Hospital adopted Governmental Accounting Standards Board Statement No. 84 – *Fiduciary Activities*. Our opinion is not modified with respect to this matter.

Disclaimer of Opinion on the 2018 Fiduciary Financial Statements

Because we were not engaged to audit the 2018 fiduciary financial statements, which comprise of the consolidated statement of fiduciary net position as of December 31, 2018, and the related consolidated statement of changes in fiduciary net position for the year then ended, we did not extend our auditing procedures to enable us to express an opinion on the consolidated statement of fiduciary net position as of December 31, 2018 and the consolidated statement of changes in fiduciary net position for the year ended December 31, 2018. Accordingly, we express no opinion on the 2018 consolidated fiduciary financial statements.

Board of Trustees
Riverview Health
Noblesville, Indiana

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 30, 2020

REQUIRED SUPPLEMENTARY INFORMATION

RIVERVIEW HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2018 AND 2017)

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, 2019 with comparable information for 2018 and 2017. 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 consolidated 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, 2019 and 2018 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 Statements of Fiduciary Net Position reveal the assets and net position of the Hospital's fiduciary activities on December 31, 2019 and 2018 and the Statements of Changes in Fiduciary Net Position summarize the additions and deductions in fiduciary activities for the years then ended. 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 \$1,800,000 compared to prior year. This compares to an increase in 2018 and 2017 of approximately \$30,800,000 and \$31,900,000, respectively, which was primarily due to the expansion of the Hospital's campuses in Noblesville and Westfield, Indiana.
- The Hospital reported an increase in net position of approximately \$9,900,000 during 2019. This compares to a change in net position including distributions to shareholders of approximately \$1,000,000 for 2018 and approximately \$20,400,000 for 2017.

RIVERVIEW HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2018 AND 2017)

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, 2019 and 2018 and for the years then ended.

Table 1 – Consolidated Balance Sheets

	2019	2018	2019 - 2018 Change	2017
Assets				
Current assets	\$ 181,149,591	\$ 178,298,485	\$ 2,851,106	\$ 165,716,112
Capital assets, net	193,114,219	191,359,674	1,754,545	160,536,103
Assets whose use is limited	53,093,176	47,100,218	5,992,958	62,196,486
Other assets	7,673,791	7,594,911	78,880	7,853,675
Total assets	435,030,777	424,353,288	10,677,489	396,302,376
Deferred outflows - deferred loss on bond refunding	1,118,172	1,305,487	(187,315)	1,492,801
Total assets and deferred outflows	<u>\$ 436,148,949</u>	<u>\$ 425,658,775</u>	<u>\$ 10,490,174</u>	<u>\$ 397,795,177</u>
Liabilities				
Current liabilities	\$ 115,279,729	\$ 111,359,838	\$ 3,919,891	\$ 102,167,106
Long-term debt and other liabilities	61,514,585	64,814,656	(3,300,071)	47,178,731
Total liabilities	176,794,314	176,174,494	619,820	149,345,837
Net position				
Net investment in capital assets	129,353,894	123,207,088	6,146,806	111,225,343
Restricted	4,254,051	3,846,235	407,816	4,526,812
Unrestricted	125,746,690	122,430,958	3,315,732	132,697,185
Total net position	259,354,635	249,484,281	9,870,354	248,449,340
Total liabilities and net assets	<u>\$ 436,148,949</u>	<u>\$ 425,658,775</u>	<u>\$ 10,490,174</u>	<u>\$ 397,795,177</u>

The following discussion includes changes from 2018 to 2019. The significant changes in the Hospital's assets included current assets, which increased by approximately \$2,900,000, capital assets, net, which increased by approximately \$1,800,000, and assets whose use is limited, which increased by approximately \$6,000,000. Assets whose use is limited primarily increased due to purchases of investments and positive market conditions in 2019. The significant changes in the Hospital's liabilities included current liabilities, which increased approximately \$3,900,000. Long-term debt and other liabilities decreased by approximately \$3,300,000 due to current year principal payments. The net position increased approximately \$9,900,000 due to gains from operating revenue and nonoperating revenue, which was partially offset by an increase in operating expenses.

The significant changes from 2017 to 2018 in the Hospital's assets included current assets, which increased by approximately \$12,600,000, capital assets, net, which increased by approximately \$30,800,000, and assets whose use is limited which decreased by approximately \$15,100,000. The significant changes from 2017 to 2018 in the Hospital's liabilities included current liabilities, which increased by approximately \$9,200,000, and long-term debt which increased by approximately \$17,600,000 due to additional borrowings on the 2016 Series Bonds. The net position increased from 2017 to 2018 by approximately \$1,000,000 due to gains from operating revenue.

RIVERVIEW HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)
 DECEMBER 31, 2019
 (WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2018 AND 2017)

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

	2019	2018	2019 - 2018 Change	2017
Operating revenue				
Net patient service revenue	\$ 581,980,816	\$ 561,965,554	\$ 20,015,262	\$ 472,192,090
Other operating revenue	12,647,311	12,660,914	(13,603)	13,799,320
Total operating revenue	<u>594,628,127</u>	<u>574,626,468</u>	<u>20,001,659</u>	<u>485,991,410</u>
Operating expenses				
Salaries and benefits	98,968,794	92,427,282	6,541,512	86,130,793
Medical supplies and drugs	77,997,807	72,603,100	5,394,707	63,005,458
Depreciation and amortization	20,711,928	18,604,631	2,107,297	14,924,837
Purchased services	303,501,177	296,489,057	7,012,120	236,847,933
Other operating expenses	91,290,065	88,377,537	2,912,528	71,755,937
Total operating expenses	<u>592,469,771</u>	<u>568,501,607</u>	<u>23,968,164</u>	<u>472,664,958</u>
Operating income	2,158,356	6,124,861	(3,966,505)	13,326,452
Nonoperating revenue (expenses), net	<u>7,711,998</u>	<u>(4,111,241)</u>	<u>11,823,239</u>	<u>7,127,707</u>
Change in net position	9,870,354	2,013,620	7,856,734	20,454,159
Distributions to shareholders	-0-	(978,679)	978,679	(97,601)
Net position, beginning of year	249,484,281	248,449,340	1,034,941	228,092,782
Net position, end of year	<u>\$ 259,354,635</u>	<u>\$ 249,484,281</u>	<u>\$ 9,870,354</u>	<u>\$ 248,449,340</u>

Sources of Revenue

During 2019 and 2018, 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 64% and 66% of the Hospital's gross revenues in 2019 and 2018, respectively.

RIVERVIEW HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)
DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2018 AND 2017)

Following is a table of major sources of gross patient revenues for 2019, 2018, and 2017:

Payor	2019	2018	2017
Self Pay	8%	8%	7%
Medicare	42%	43%	42%
Medicaid	22%	23%	23%
Other Commercial	28%	26%	28%
Total	100%	100%	100%

The Hospital's outpatient services represented approximately 59% and 55% of the Hospital's gross patient revenue in 2019 and 2018, respectively.

Operating and Financial Performance

The Hospital's 2019 return on equity was 3.8%, compared to 0.4% for 2018 and 8.2% for 2017. The Hospital's debt service coverage ratio was approximately 3.5 for 2019 and 4.7 for 2018.

The following section highlights the major financial factors for 2019 and 2018:

- Net patient service revenue was approximately \$582,000,000 in 2019, which increased approximately \$20,000,000 from 2018. Operating expenses increased approximately \$24,000,000 or 4.2%, primarily due to increased activity in the Hospital's campus in Westfield, Indiana, which opened in 2018 and had its first full year of activity for the Hospital in 2019. Net patient service revenue was approximately \$562,000,000 in 2018, which increased approximately \$89,800,000 from 2017. Operating expenses increased approximately \$95,800,000 or 20.3%, primarily due to first full year of activity for six long-term care facilities within the Hospital, which increased volume.
- Purchased services was the expense classification with the largest increase from 2018, increasing approximately \$7,012,000 or 2.4%, primarily due to increased activity in the Hospital's campus in Westfield, Indiana, which opened in 2018 and had its first full year of activity for the Hospital in 2019. Purchased services increased from 2017 to 2018, approximately \$59,640,000 or 25.2%, primarily due to the six long-term care facilities acquired during 2017, which had their first full year of activity for the Hospital in 2018 and one long-term care facility acquired in 2018.
- Non-operating revenue (expenses) increased approximately \$11,800,000 from 2018 to 2019, primarily due to an increase in market returns on investments. Non-operating revenue (expenses) decreased approximately \$11,200,000 from 2017 to 2018, primarily due to a decrease in market returns on investments.

RIVERVIEW HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)
 DECEMBER 31, 2019
 (WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2018 AND 2017)

Table 3 – Consolidated Statements 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?"

	2019	2018	2019 - 2018 Change	2017
Cash flows from activities				
Operating	\$ 20,042,197	\$ 36,994,508	\$ (16,952,311)	\$ 28,021,667
Non-capital financing	(769,234)	497,386	(1,266,620)	871,918
Capital and related financing	(29,144,269)	(34,498,889)	5,354,620	(36,091,981)
Investing	8,154,910	7,814,220	340,690	5,152,013
Total	(1,716,396)	10,807,225	(12,523,621)	(2,046,383)
Cash and cash equivalents				
Beginning of year	88,095,058	77,287,833		79,334,216
End of year	\$ 86,378,662	\$ 88,095,058		\$ 77,287,833

Changes in the Hospital's cash flows are primarily related to a net decrease in cash flows from capital and related financing activities due to purchases of capital assets and payments on long-term debt during 2019. Changes in the Hospital's cash flows during 2018 are primarily related to a net increase in cash received from patients and proceeds from the sale of investments.

Fiduciary Funds

As described in Note 2 to the consolidated financial statements, the Hospital adopted Governmental Accounting Standards Board Statement No. 84 – *Fiduciary Activities* in 2019. Fiduciary funds are used to account for resources held for the benefit of individuals or units outside of the Hospital. The Hospital is the trustee or fiduciary responsible for assets, which can be used only for the trust beneficiaries per trust arrangements. The Hospital is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the Hospital's fiduciary activities are reported in separate statements of fiduciary net position and statements of changes in fiduciary net position. The accounting for fiduciary funds is much like that used for proprietary funds. The Hospital's Employees' Pension Plan and 403(b) Retirement Plan are reported under the fiduciary funds. Since the resources of these funds are not available to support the Hospital's own programs, they are not reflected in the government-wide financial statements. The statements of fiduciary net position and the statements of changes in fiduciary net position can be found on pages 14 and 15, respectively, of this report.

RIVERVIEW HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)
DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2018 AND 2017)

Capital Assets

During 2019, the Hospital's net capital assets have increased by approximately \$1,800,000. This compares to an increase of approximately \$30,800,000 for 2018. The change in capital assets is outlined in the following table:

	2019	2018	2019-2018 Change	2017
Land and improvements	\$ 19,094,534	\$ 18,940,547	\$ 153,987	\$ 18,853,496
Buildings and improvements	166,003,248	140,558,801	25,444,447	108,214,270
Equipment	194,863,563	171,147,333	23,716,230	157,071,719
Construction in progress	4,805,804	35,936,809	(31,131,005)	35,529,863
Total capital assets	384,767,149	366,583,490	18,183,659	319,669,348
Less accumulated depreciation	191,652,930	175,223,816	16,429,114	159,133,245
Capital assets, net	<u>\$ 193,114,219</u>	<u>\$ 191,359,674</u>	<u>\$ 1,754,545</u>	<u>\$ 160,536,103</u>

Net capital assets have increased during 2019 and 2018 as the Hospital expanded its campuses 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 \$64,900,000 as of December 31, 2019:

- 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, 2019
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2018 AND 2017)

Economic Outlook

Subsequent to year end, the World Health Organization declared Coronavirus (COVID-19) a pandemic. The continued spread of COVID-19, or any similar outbreaks in the future, may adversely impact the local, regional, national and global economies. The extent to which COVID-19 impacts the Hospital's operating results is dependent on the breadth and duration of the pandemic and could be affected by other factors management is not currently able to predict. Potential impacts include, but are not limited to, additional costs for responding to COVID-19, shortages of healthcare personnel, shortages of clinical supplies, increased demand for services, delays, loss of, or reduction to, revenue and investment portfolio declines.

Management believes that the healthcare industry's and the Hospital's operating margins will continue to be under pressure as a result of COVID-19, 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 the 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, 2019

(WITH COMPARATIVE CONSOLIDATED TOTALS AT DECEMBER 31, 2018)

	ASSETS AND DEFERRED OUTFLOWS				
	2019			2018	
	Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
Current assets					
Cash and cash equivalents	\$ 84,917,683	\$ 332,181	\$ -0-	\$ 85,249,864	\$ 87,981,452
Patient accounts receivable, less allowances for uncollectible accounts of approximately \$6,018,000 and \$5,066,000, respectively	67,519,312	-0-	-0-	67,519,312	63,261,319
Related party receivables	373,565	-0-	-0-	373,565	282,634
Inventories	5,364,044	-0-	-0-	5,364,044	5,374,704
Other current assets	22,541,818	100,988	-0-	22,642,806	21,398,376
Total current assets	180,716,422	433,169	-0-	181,149,591	178,298,485
Assets whose use is limited					
Board designated funds					
Long-term investments	47,465,788	1,373,337	-0-	48,839,125	43,253,983
Total board designated funds	47,465,788	1,373,337	-0-	48,839,125	43,253,983
Trustee held assets					
Professional liability insurance funds	634,062	-0-	-0-	634,062	761,894
Total trustee held assets	634,062	-0-	-0-	634,062	761,894
Restricted by donor					
Expendable for various purposes upon donors' specific restriction	52,110	754,244	-0-	806,354	272,117
Nonexpendable permanent endowments	-0-	2,813,635	-0-	2,813,635	2,812,224
Total donor-restricted assets	52,110	3,567,879	-0-	3,619,989	3,084,341
Total assets whose use is limited	48,151,960	4,941,216	-0-	53,093,176	47,100,218
Capital assets					
Land	15,961,384	-0-	-0-	15,961,384	15,961,384
Depreciable capital assets	363,999,961	-0-	-0-	363,999,961	314,685,297
Construction in progress	4,805,804	-0-	-0-	4,805,804	35,936,809
	384,767,149	-0-	-0-	384,767,149	366,583,490
Less accumulated depreciation	191,652,930	-0-	-0-	191,652,930	175,223,816
Capital assets, net	193,114,219	-0-	-0-	193,114,219	191,359,674
Other assets	7,402,918	270,873	-0-	7,673,791	7,594,911
Total assets	429,385,519	5,645,258	-0-	435,030,777	424,353,288
Deferred outflows - deferred loss on bond refunding	1,118,172	-0-	-0-	1,118,172	1,305,487
Total assets and deferred outflows	\$430,503,691	\$ 5,645,258	\$ -0-	\$ 436,148,949	\$ 425,658,775

See accompanying notes to consolidated financial statements.

RIVERVIEW HEALTH

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2019

(WITH COMPARATIVE CONSOLIDATED TOTALS AT DECEMBER 31, 2018)

LIABILITIES AND NET POSITION

	2019			2018	
	Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
Current liabilities					
Current portion of bonds payable	\$ 4,863,366	\$ -0-	\$ -0-	\$ 4,863,366	\$ 4,779,969
Current portion of capital lease obligations	73,776	-0-	-0-	73,776	60,320
Accounts payable and other accruals	18,794,830	18,970	-0-	18,813,800	21,729,403
Salaries, wages and related payables	10,629,313	-0-	-0-	10,629,313	10,950,680
Estimated third-party payor settlements	239,323	-0-	-0-	239,323	283,681
Other current liabilities	80,660,151	-0-	-0-	80,660,151	73,555,785
Total current liabilities	<u>115,260,759</u>	<u>18,970</u>	<u>-0-</u>	<u>115,279,729</u>	<u>111,359,838</u>
Noncurrent liabilities					
Long-term bonds and notes payable	59,727,799	-0-	-0-	59,727,799	64,591,165
Long-term capital lease obligations	213,556	-0-	-0-	213,556	26,619
Other long-term liabilities	1,556,340	16,890	-0-	1,573,230	196,872
Total noncurrent liabilities	<u>61,497,695</u>	<u>16,890</u>	<u>-0-</u>	<u>61,514,585</u>	<u>64,814,656</u>
Total liabilities	176,758,454	35,860	-0-	176,794,314	176,174,494
Net position					
Net investment in capital assets	129,353,894	-0-	-0-	129,353,894	123,207,088
Restricted					
For debt service and professional liability insurance	634,062	-0-	-0-	634,062	761,894
Expendable for various purposes upon donors' specific restriction	52,110	754,244	-0-	806,354	272,117
Nonexpendable	-0-	2,813,635	-0-	2,813,635	2,812,224
Total restricted	<u>686,172</u>	<u>3,567,879</u>	<u>-0-</u>	<u>4,254,051</u>	<u>3,846,235</u>
Unrestricted	123,705,171	2,041,519	-0-	125,746,690	122,430,958
Total net position	<u>253,745,237</u>	<u>5,609,398</u>	<u>-0-</u>	<u>259,354,635</u>	<u>249,484,281</u>
Total liabilities and net position	<u>\$ 430,503,691</u>	<u>\$ 5,645,258</u>	<u>\$ -0-</u>	<u>\$ 436,148,949</u>	<u>\$ 425,658,775</u>

See accompanying notes to consolidated financial statements.

RIVERVIEW HEALTH

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2018

ASSETS AND DEFERRED OUTFLOWS

	2018			Total reporting entity
	Hospital	Foundation	Eliminations	
Current assets				
Cash and cash equivalents	\$ 87,560,313	\$ 421,139	\$ -0-	\$ 87,981,452
Patient accounts receivable, less allowance for uncollectible accounts of approximately \$5,066,000	63,261,319	-0-	-0-	63,261,319
Related party receivables	282,634	-0-	-0-	282,634
Inventories	5,374,704	-0-	-0-	5,374,704
Other current assets	21,360,458	37,918	-0-	21,398,376
Total current assets	177,839,428	459,057	-0-	178,298,485
Assets whose use is limited				
Board designated funds				
Long-term investments	42,427,869	826,114	-0-	43,253,983
Total board designated funds	42,427,869	826,114	-0-	43,253,983
Trustee held assets				
Professional liability insurance funds	761,894	-0-	-0-	761,894
Total trustee held assets	761,894	-0-	-0-	761,894
Restricted by donor				
Expendable for various purposes upon donors' specific restriction	52,110	220,007	-0-	272,117
Nonexpendable permanent endowments	-0-	2,812,224	-0-	2,812,224
Total donor-restricted assets	52,110	3,032,231	-0-	3,084,341
Total assets whose use is limited	43,241,873	3,858,345	-0-	47,100,218
Capital assets				
Land	15,961,384	-0-	-0-	15,961,384
Depreciable capital assets	314,669,917	15,380	-0-	314,685,297
Construction in progress	35,936,809	-0-	-0-	35,936,809
	366,568,110	15,380	-0-	366,583,490
Less accumulated depreciation	175,208,436	15,380	-0-	175,223,816
Capital assets, net	191,359,674	-0-	-0-	191,359,674
Other assets	7,584,850	10,061	-0-	7,594,911
Total assets	420,025,825	4,327,463	-0-	424,353,288
Deferred outflows - deferred loss on bond refunding	1,305,487	-0-	-0-	1,305,487
Total assets and deferred outflows	\$ 421,331,312	\$ 4,327,463	\$ -0-	\$ 425,658,775

See accompanying notes to consolidated financial statements.

RIVERVIEW HEALTH

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2018

LIABILITIES AND NET POSITION

	2018			Total reporting entity
	Hospital	Foundation	Eliminations	
Current liabilities				
Current portion of bonds payable	\$ 4,779,969	\$ -0-	\$ -0-	\$ 4,779,969
Current portion of capital lease obligations	60,320	-0-	-0-	60,320
Accounts payable and other accruals	21,719,298	10,105	-0-	21,729,403
Salaries, wages and related payables	10,950,680	-0-	-0-	10,950,680
Estimated third-party payor settlements	283,681	-0-	-0-	283,681
Other current liabilities	73,555,785	-0-	-0-	73,555,785
Total current liabilities	<u>111,349,733</u>	<u>10,105</u>	<u>-0-</u>	<u>111,359,838</u>
Noncurrent liabilities				
Long-term bonds payable	64,591,165	-0-	-0-	64,591,165
Long-term capital lease obligations	26,619	-0-	-0-	26,619
Other long-term liabilities	180,846	16,026	-0-	196,872
Total noncurrent liabilities	<u>64,798,630</u>	<u>16,026</u>	<u>-0-</u>	<u>64,814,656</u>
Total liabilities	176,148,363	26,131	-0-	176,174,494
Net position				
Net investment in capital assets	123,207,088	-0-	-0-	123,207,088
Restricted				
For debt service and professional liability insurance	761,894	-0-	-0-	761,894
Expendable for various purposes upon donors' specific restriction	52,110	220,007	-0-	272,117
Nonexpendable	-0-	2,812,224	-0-	2,812,224
Total restricted	<u>814,004</u>	<u>3,032,231</u>	<u>-0-</u>	<u>3,846,235</u>
Unrestricted	<u>121,161,857</u>	<u>1,269,101</u>	<u>-0-</u>	<u>122,430,958</u>
Total net position	<u>245,182,949</u>	<u>4,301,332</u>	<u>-0-</u>	<u>249,484,281</u>
Total liabilities and net position	<u>\$ 421,331,312</u>	<u>\$ 4,327,463</u>	<u>\$ -0-</u>	<u>\$ 425,658,775</u>

See accompanying notes to consolidated financial statements.

RIVERVIEW HEALTH

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2019 (WITH COMPARATIVE CONSOLIDATED TOTALS FOR DECEMBER 31, 2018)

	2019			2018	
	Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
Revenue					
Net patient service revenue	\$ 581,980,816	\$ -0-	\$ -0-	\$ 581,980,816	\$ 561,965,554
Other	12,647,311	-0-	-0-	12,647,311	12,660,914
Total operating revenue	594,628,127	-0-	-0-	594,628,127	574,626,468
Operating expenses					
Salaries and wages	81,629,610	-0-	-0-	81,629,610	78,326,575
Employee benefits	17,339,184	-0-	-0-	17,339,184	14,100,707
Medical supplies	43,503,143	-0-	-0-	43,503,143	40,285,771
Drugs	34,494,664	-0-	-0-	34,494,664	32,317,329
Food	1,296,897	-0-	-0-	1,296,897	1,248,773
Utilities	12,094,309	-0-	-0-	12,094,309	11,575,066
Purchased services	303,501,177	-0-	-0-	303,501,177	296,489,057
Repairs and maintenance	8,920,298	-0-	-0-	8,920,298	8,564,581
Rental expense	42,894,721	-0-	-0-	42,894,721	43,172,683
Hospital assessment fee	9,030,600	-0-	-0-	9,030,600	7,326,990
Other supplies and expenses	17,053,240	-0-	-0-	17,053,240	16,489,444
Depreciation and amortization	20,711,928	-0-	-0-	20,711,928	18,604,631
Total operating expenses	592,469,771	-0-	-0-	592,469,771	568,501,607
Operating income	2,158,356	-0-	-0-	2,158,356	6,124,861
Nonoperating revenue (expenses)					
Investment income (loss)	10,039,983	793,711	-0-	10,833,694	(3,201,180)
Contributions and other revenue (expenses)	(1,283,589)	990,270	(475,915)	(769,234)	497,386
Grants	-0-	(475,915)	475,915	-0-	-0-
Interest expense	(2,352,462)	-0-	-0-	(2,352,462)	(1,407,447)
Total nonoperating, net	6,403,932	1,308,066	-0-	7,711,998	(4,111,241)
Change in net position	8,562,288	1,308,066	-0-	9,870,354	2,013,620
Distributions to shareholders	-0-	-0-	-0-	-0-	(978,679)
Net position					
Beginning of year	245,182,949	4,301,332	-0-	249,484,281	248,449,340
End of year	\$ 253,745,237	\$ 5,609,398	\$ -0-	\$ 259,354,635	\$ 249,484,281

See accompanying notes to consolidated financial statements.

RIVERVIEW HEALTH

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2018

	2018			
	Hospital	Foundation	Eliminations	Total reporting entity
Revenue				
Net patient service revenue	\$ 561,965,554	\$ -0-	\$ -0-	\$ 561,965,554
Other	12,660,914	-0-	-0-	12,660,914
Total operating revenue	574,626,468	-0-	-0-	574,626,468
Operating expenses				
Salaries and wages	78,326,575	-0-	-0-	78,326,575
Employee benefits	14,100,707	-0-	-0-	14,100,707
Medical supplies	40,285,771	-0-	-0-	40,285,771
Drugs	32,317,329	-0-	-0-	32,317,329
Food	1,248,773	-0-	-0-	1,248,773
Utilities	11,575,066	-0-	-0-	11,575,066
Purchased services	296,489,057	-0-	-0-	296,489,057
Repairs and maintenance	8,564,581	-0-	-0-	8,564,581
Rental expense	43,172,683	-0-	-0-	43,172,683
Hospital assessment fee	7,326,990			7,326,990
Other supplies and expenses	16,489,444	-0-	-0-	16,489,444
Depreciation and amortization	18,604,631	-0-	-0-	18,604,631
Total operating expenses	568,501,607	-0-	-0-	568,501,607
Operating income	6,124,861	-0-	-0-	6,124,861
Nonoperating revenue (expenses)				
Investment loss	(2,951,936)	(249,244)	-0-	(3,201,180)
Contributions and other revenue (expenses)	629,350	353,389	(485,353)	497,386
Grants	-0-	(485,353)	485,353	-0-
Interest expense	(1,407,447)	-0-	-0-	(1,407,447)
Total nonoperating, net	(3,730,033)	(381,208)	-0-	(4,111,241)
Change in net position	2,394,828	(381,208)	-0-	2,013,620
Distributions to shareholders	(978,679)	-0-	-0-	(978,679)
Net position				
Beginning of year	243,766,800	4,682,540	-0-	248,449,340
End of year	\$ 245,182,949	\$ 4,301,332	\$ -0-	\$ 249,484,281

See accompanying notes to consolidated financial statements.

RIVERVIEW HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2019 (WITH COMPARATIVE CONSOLIDATED TOTALS FOR 2018)

	2019			2018	
	Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
Operating activities					
Cash received from patient services	\$ 581,216,124	\$ -0-	\$ -0-	\$ 581,216,124	\$ 563,302,184
Cash paid for salaries, wages and benefits	(99,290,161)	-0-	-0-	(99,290,161)	(91,634,220)
Cash paid to vendors and suppliers	(474,224,330)	-0-	-0-	(474,224,330)	(447,757,379)
Other receipts and payments, net	12,654,717	(314,153)	-0-	12,340,564	13,083,923
Net cash flows from operating activities	20,356,350	(314,153)	-0-	20,042,197	36,994,508
Non-capital financing activities					
Contributions and other nonoperating	(1,283,589)	990,270	(475,915)	(769,234)	497,386
Grants	-0-	(475,915)	475,915	-0-	-0-
Net cash flows from non-capital financing activities	(1,283,589)	514,355	-0-	(769,234)	497,386
Capital and related financing activities					
Payments on long-term debt	(4,779,969)	-0-	-0-	(4,779,969)	(4,682,944)
Payments on capital leases	(101,360)	-0-	-0-	(101,360)	(705,125)
Proceeds from issuance of long-term debt	-0-	-0-	-0-	-0-	24,000,000
Amortization of deferred loss on bond refundings	187,315	-0-	-0-	187,315	187,314
Cash paid for interest	(2,352,462)	-0-	-0-	(2,352,462)	(1,402,669)
Distributions to shareholders	-0-	-0-	-0-	-0-	(2,297,239)
Proceeds on sale of assets	23,660	-0-	-0-	23,660	58,128
Purchase of capital assets	(22,121,453)	-0-	-0-	(22,121,453)	(49,656,354)
Net cash flows from capital and related financing activities	(29,144,269)	-0-	-0-	(29,144,269)	(34,498,889)
Investing activities					
(Gain) loss on interest rate swaps	2,298,982	-0-	-0-	2,298,982	(504,653)
Investment income (loss)	10,039,983	793,711	-0-	10,833,694	(3,166,354)
Purchases of investments	(61,358,145)	(2,355,407)	-0-	(63,713,552)	(45,482,502)
Proceeds from sale of investments	57,463,250	1,272,536	-0-	58,735,786	56,967,729
Net cash flows from investing activities	8,444,070	(289,160)	-0-	8,154,910	7,814,220
Net change in cash and cash equivalents	(1,627,438)	(88,958)	-0-	(1,716,396)	10,807,225
Cash and cash equivalents					
Beginning of year	87,673,919	421,139	-0-	88,095,058	77,287,833
End of year	\$ 86,046,481	\$ 332,181	\$ -0-	\$ 86,378,662	\$ 88,095,058
Reconciliation of cash and cash equivalents to the balance sheets					
Cash and cash equivalents					
In current assets	\$ 84,917,683	\$ 332,181	\$ -0-	\$ 85,249,864	\$ 87,981,452
In assets whose use is limited	1,128,798	-0-	-0-	1,128,798	113,606
Total cash and cash equivalents	\$ 86,046,481	\$ 332,181	\$ -0-	\$ 86,378,662	\$ 88,095,058

See accompanying notes to consolidated financial statements.

RIVERVIEW HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2019 (WITH COMPARATIVE CONSOLIDATED TOTALS FOR 2018)

	2019			2018	
	Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
Reconciliation of operating income					
to net cash flows from operating activities					
Operating income	\$ 2,158,356	\$ -0-	\$ -0-	\$ 2,158,356	\$ 6,124,861
Adjustments to reconcile operating income to net cash flows from operating activities					
Depreciation and amortization	20,711,928	-0-	-0-	20,711,928	18,604,631
Loss on disposal of assets	7,406	-0-	-0-	7,406	389,224
Provision for bad debts	17,623,398	-0-	-0-	17,623,398	19,144,864
Changes in operating assets and liabilities					
Patient accounts receivable	(21,881,391)	-0-	-0-	(21,881,391)	(15,254,723)
Inventories	10,660	-0-	-0-	10,660	(1,017,349)
Other current assets	(1,073,189)	(63,070)	-0-	(1,136,259)	689,228
Other assets	(2,117,050)	(260,812)	-0-	(2,377,862)	2,575,903
Accounts payable	(2,998,801)	8,865	-0-	(2,989,936)	278,837
Related party receivables/payables	(90,931)	-0-	-0-	(90,931)	(138,496)
Salaries, wages and fees payable	(321,367)	-0-	-0-	(321,367)	793,062
Estimated third-party payor settlements	(44,358)	-0-	-0-	(44,358)	(727,313)
Other current liabilities	6,636,195	-0-	-0-	6,636,195	7,271,076
Other long-term liabilities	1,735,494	864	-0-	1,736,358	(1,739,297)
Net cash flows from operating activities	<u>\$ 20,356,350</u>	<u>\$ (314,153)</u>	<u>\$ -0-</u>	<u>\$ 20,042,197</u>	<u>\$ 36,994,508</u>
Supplemental cash flows information					
Property acquired through capital lease obligation	\$ 301,753	\$ -0-	\$ -0-	\$ 301,753	\$ 42,581
Property included in accounts payable	\$ 74,333	\$ -0-	\$ -0-	\$ 74,333	\$ 176,619

See accompanying notes to consolidated financial statements.

RIVERVIEW HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2018

	2018			
	Hospital	Foundation	Eliminations	Total reporting entity
Operating activities				
Cash received from patient services	\$ 563,302,184	\$ -0-	\$ -0-	\$ 563,302,184
Cash paid for salaries, wages and benefits	(91,634,220)	-0-	-0-	(91,634,220)
Cash paid to vendors and suppliers	(447,757,379)	-0-	-0-	(447,757,379)
Other receipts and payments, net	13,050,138	33,785	-0-	13,083,923
Net cash flows from operating activities	36,960,723	33,785	-0-	36,994,508
Non-capital financing activities				
Contributions and other nonoperating	629,350	353,389	(485,353)	497,386
Grants	-0-	(485,353)	485,353	-0-
Net cash flows from non-capital financing activities	629,350	(131,964)	-0-	497,386
Capital and related financing activities				
Payments on long-term debt	(4,682,944)	-0-	-0-	(4,682,944)
Payments on capital leases	(705,125)	-0-	-0-	(705,125)
Proceeds from issuance of long-term debt	24,000,000	-0-	-0-	24,000,000
Amortization of deferred loss on refunding of bonds	187,314	-0-	-0-	187,314
Cash paid for interest	(1,402,669)	-0-	-0-	(1,402,669)
Distributions to shareholders	(2,297,239)	-0-	-0-	(2,297,239)
Proceeds on sale of assets	58,128	-0-	-0-	58,128
Purchase of capital assets	(49,656,354)	-0-	-0-	(49,656,354)
Net cash flows from capital and related financing activities	(34,498,889)	-0-	-0-	(34,498,889)
Investing activities				
Gain on interest rate swaps	(504,653)	-0-	-0-	(504,653)
Investment loss	(2,917,110)	(249,244)	-0-	(3,166,354)
Purchase of investments	(44,383,010)	(1,099,492)	-0-	(45,482,502)
Proceeds from sale of investments	55,529,856	1,437,873	-0-	56,967,729
Net cash flows from investing activities	7,725,083	89,137	-0-	7,814,220
Net change in cash and cash equivalents	10,816,267	(9,042)	-0-	10,807,225
Cash and cash equivalents				
Beginning of year	76,857,652	430,181	-0-	77,287,833
End of year	\$ 87,673,919	\$ 421,139	\$ -0-	\$ 88,095,058
Reconciliation of cash and cash equivalents to the balance sheets				
Cash and cash equivalents				
In current assets	\$ 87,560,313	\$ 421,139	\$ -0-	\$ 87,981,452
In assets whose use is limited	113,606	-0-	-0-	113,606
Total cash and cash equivalents	\$ 87,673,919	\$ 421,139	\$ -0-	\$ 88,095,058

See accompanying notes to consolidated financial statements.

RIVERVIEW HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2018

	2018			Total reporting entity
	Hospital	Foundation	Eliminations	
Reconciliation of operating income to net cash flows from operating activities				
Operating income	\$ 6,124,861	\$ -0-	\$ -0-	\$ 6,124,861
Adjustments to reconcile operating income to net cash flows from operating activities				
Depreciation and amortization	18,604,631	-0-	-0-	18,604,631
Loss on disposal of assets	389,224			389,224
Provision for bad debts	19,144,864	-0-	-0-	19,144,864
Changes in operating assets and liabilities				
Patient accounts receivable	(15,254,723)	-0-	-0-	(15,254,723)
Inventories	(1,017,349)	-0-	-0-	(1,017,349)
Other current assets	652,419	36,809	-0-	689,228
Other assets	2,570,463	5,440	-0-	2,575,903
Accounts payable	288,037	(9,200)	-0-	278,837
Related party receivables/payables	(138,496)	-0-	-0-	(138,496)
Salaries, wages and fees payable	793,062	-0-	-0-	793,062
Estimated third-party payor settlements	(727,313)	-0-	-0-	(727,313)
Other current liabilities	7,271,076	-0-	-0-	7,271,076
Other long-term liabilities	(1,740,033)	736	-0-	(1,739,297)
Net cash flows from operating activities	<u>\$ 36,960,723</u>	<u>\$ 33,785</u>	<u>\$ -0-</u>	<u>\$ 36,994,508</u>

See accompanying notes to consolidated financial statements.

RIVERVIEW HEALTH

STATEMENTS OF FIDUCIARY NET POSITION DECEMBER 31, 2019 AND 2018 (UNAUDITED)

	<u>2019</u>	<u>2018 - Unaudited</u>
	Pension trust funds	Pension trust funds
Assets		
Cash and cash equivalents	\$ 291,085	\$ 18,407
Investments at fair value		
Mutual funds	69,192,826	60,682,020
Employer contribution receivable	1,146,811	1,164,758
Notes receivable from participants	279,022	321,754
Total assets	<u>70,909,744</u>	<u>62,186,939</u>
Net position		
Restricted for		
Pensions	70,909,744	62,186,939
Total net position	<u>\$ 70,909,744</u>	<u>\$ 62,186,939</u>

See accompanying notes to consolidated financial statements.

RIVERVIEW HEALTH

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION YEARS ENDED DECEMBER 31, 2019 AND 2018 (UNAUDITED)

	2019 Pension trust funds	2018 - Unaudited Pension trust funds
Additions		
Contributions		
Employee	\$ 3,488,340	\$ 3,172,547
Employer	1,146,811	1,164,758
Rollover	945,484	1,172,969
Total contributions	5,580,635	5,510,274
Investment Income		
Net change in fair value of investments	10,592,514	(7,355,007)
Interest and dividends	2,603,004	3,032,024
Total investment income	13,195,518	(4,322,983)
Total additions	18,776,153	1,187,291
Deductions		
Benefits paid to participants	9,954,227	5,117,918
Administrative expenses	99,121	93,074
Total deductions	10,053,348	5,210,992
Net change	8,722,805	(4,023,701)
Net position		
Beginning of year	62,186,939	66,210,640
End of year	\$ 70,909,744	\$ 62,186,939

See accompanying notes to consolidated financial statements.

RIVERVIEW HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

1. SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

Riverview Hospital d/b/a 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, 2019 AND 2018

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, 2019 and 2018, 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 consolidated 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) was a consolidated subsidiary and a blended component unit of the Hospital. During 2018, the dissolution of RMI was approved, which included the liquidation of all assets and liabilities of RMI prior to December 31, 2018. RMI primarily owned and leases medical imaging equipment. The non-controlling interest represents the portion of the equity (net position) that was 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:

	2018
Revenue	\$ 246,413
Less expenses	183,549
Less distributions to shareholders	2,297,239
Change in net position	<u>\$ (2,234,375)</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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, 2017	\$ 247,493,921	\$ 955,419	\$ 248,449,340
Change in net position	1,990,360	23,260	2,013,620
Distributions to shareholders	-0-	(978,679)	(978,679)
December 31, 2018	249,484,281	-0-	249,484,281
Change in net position	9,870,354	-0-	9,870,354
December 31, 2019	<u>\$ 259,354,635</u>	<u>\$ -0-</u>	<u>\$ 259,354,635</u>

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.

Fiduciary Funds

Following the Hospital's consolidated financial statements are separate financial statements for fiduciary funds. Fiduciary funds are excluded from the Hospital's consolidated financial statements as these assets are held in a trust capacity for the various associates and cannot be used to support the Hospital's programs. These funds include the Hospital's Employees' Pension Plan (Pension Plan) and 403(b) Retirement Plan (403(b) Plan).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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.

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 which dissolved in 2018 was organized as a limited liability company, whereby net taxable income was 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 filed its federal and state income returns for periods through December 31, 2018.

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 31, 2019 and 2018, 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.

RIVERVIEW HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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, 2016 with immaterial differences reflected as deductions from revenue in 2019. Amounts from unresolved cost reports for 2017 through 2019 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, 2019 and 2018 were approximately \$1,705,000 and \$1,528,000, 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.

Assets Whose Use is Limited and Investments

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, common stock, 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.

RIVERVIEW HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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.

The amounts classified as restricted nonexpendable net position for December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Endowments	<u>\$ 2,813,635</u>	<u>\$ 2,812,224</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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 2019 and 2018, the Hospital recognized Hospital assessment fee expense of approximately \$9,031,000 and \$7,327,000, respectively, which resulted in increased Medicaid reimbursement.

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.

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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 \$4,746,000 and \$3,316,000 arose from providing services to charity patients during the years ended December 31, 2019 and December 31, 2018, 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.

Reclassifications

Certain amounts from 2018 have been reclassified in order to conform to the 2019 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 30, 2020.

RIVERVIEW HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 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 December 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. CHANGE IN ACCOUNTING PRINCIPLE

In 2019, the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 84 – *Fiduciary Activities*. Generally, this Statement requires governmental entities, who control assets of a fiduciary activity in which a fiduciary relationship exists with beneficiaries, to include those activities in two separate, interrelated financial statements, the statement of fiduciary net position and the statement of changes in fiduciary net position. Prior to the adoption of this Statement, the assets, net position and activity related the Hospital's Employees' Pension Plan and 403(b) Plan were not included in the Hospital's consolidated financial statements.

The Hospital's fiduciary activities related to its Employees' Pension Plan and 403(b) Plan have been presented in the pension trust funds column of the newly added statements of fiduciary net position and accompanying statements of changes in fiduciary net position. The changes adopted to conform to the provisions of this Statement were applied retroactively by restating the consolidated financial statements for 2018.

RIVERVIEW HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

3. 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 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Patient service revenue		
Inpatient	\$ 185,012,842	\$ 172,677,018
Outpatient	383,820,322	337,924,700
Long-term care	496,182,353	498,209,357
Gross service patient revenue	<u>1,065,015,517</u>	<u>1,008,811,075</u>
Deductions from revenue		
Contractual allowances	453,633,600	419,570,458
Charity care	11,777,703	8,130,199
Provision for bad debts	17,623,398	19,144,864
Total deductions from revenue	<u>483,034,701</u>	<u>446,845,521</u>
Net patient service revenue	<u>\$ 581,980,816</u>	<u>\$ 561,965,554</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

4. 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, 2019 and 2018:

	2019	2018
<u>Patient accounts receivable</u>		
Receivable from patients and their insurance carriers	\$ 65,477,771	\$ 46,895,447
Receivable from Medicare	24,392,949	39,332,438
Receivable from Medicaid	15,323,469	18,160,115
Total patient accounts receivable	<u>105,194,189</u>	<u>104,388,000</u>
Less allowances for contractual agreements	(31,656,985)	(36,060,199)
Less allowances for uncollectible amounts	(6,017,892)	(5,066,482)
Total allowances	<u>(37,674,877)</u>	<u>(41,126,681)</u>
Patient accounts receivable, net	<u>\$ 67,519,312</u>	<u>\$ 63,261,319</u>
<u>Accounts payable and accrued expenses</u>		
Payable to suppliers	\$ 18,813,800	\$ 21,729,403
Payable to employees (including payroll taxes and benefits)	10,629,313	10,950,680
Total accounts payable and accrued expenses	<u>\$ 29,443,113</u>	<u>\$ 32,680,083</u>

5. 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, 2019 and 2018 were approximately \$48,800,000 and \$43,300,000, respectively.

Trustee Held Assets

The Hospital deposits certain funds related to professional liability insurance funds. Professional liability insurance funds as of December 31, 2019 and 2018 were approximately \$634,000 and \$762,000, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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 \$806,000 and \$272,000 as of December 31, 2019 and 2018.

Donor-Restricted Nonexpendable Endowments

The Hospital maintains several permanent funds with donor-restricted endowments that totaled approximately \$2,800,000 at December 31, 2019 and 2018, respectively. 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.

6. DEPOSITS AND INVESTMENTS

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

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

RIVERVIEW HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

As of December 31, 2019 and 2018, 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, 2019					
Hospital	Carrying amount	Investment Maturities (in Years)			
		Less than 1	1 - 5	6 - 10	More than 10
Mutual funds - equities	\$ 41,879,896	\$ 41,879,896	\$ -0-	\$ -0-	\$ -0-
Mutual funds - fixed income	5,143,266	5,143,266	-0-	-0-	-0-
	\$ 47,023,162	\$ 47,023,162	\$ -0-	\$ -0-	\$ -0-
Foundation					
Mutual funds - equities	\$ 2,965,035	\$ 2,965,035	\$ -0-	\$ -0-	\$ -0-
Mutual funds - fixed income	1,976,181	1,976,181	-0-	-0-	-0-
	\$ 4,941,216	\$ 4,941,216	\$ -0-	\$ -0-	\$ -0-
December 31, 2018					
Hospital	Carrying amount	Investment Maturities (in Years)			
		Less than 1	1 - 5	6 - 10	More than 10
Mutual funds - equities	\$ 27,631,547	\$ 27,631,547	\$ -0-	\$ -0-	\$ -0-
Mutual funds - fixed income	15,496,720	15,496,720	-0-	-0-	-0-
	\$ 43,128,267	\$ 43,128,267	\$ -0-	\$ -0-	\$ -0-
Foundation					
Mutual funds - equities	\$ 2,249,296	\$ 2,249,296	\$ -0-	\$ -0-	\$ -0-
Mutual funds - fixed income	1,599,629	1,599,629	-0-	-0-	-0-
Common stock	9,420	9,420	-0-	-0-	-0-
	\$ 3,858,345	\$ 3,858,345	\$ -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.

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

As of December 31, 2019 and 2018, the Hospital had the following investments and maturities for fiduciary activities, all of which were held in a trust capacity for the various associates.

December 31, 2019					
	Carrying amount	Investment Maturities (in Years)			
		Less than 1	1 - 5	6 - 10	More than 10
Hospital					
Mutual funds - equities	\$ 60,044,904	\$ 60,044,904	\$ -0-	\$ -0-	\$ -0-
Mutual funds - fixed income	9,147,922	9,147,922	-0-	-0-	-0-
	\$ 69,192,826	\$ 69,192,826	\$ -0-	\$ -0-	\$ -0-

December 31, 2018 - Unaudited					
	Carrying amount	Investment Maturities (in Years)			
		Less than 1	1 - 5	6 - 10	More than 10
Hospital					
Mutual funds - equities	\$ 51,611,550	\$ 51,611,550	\$ -0-	\$ -0-	\$ -0-
Mutual funds - fixed income	9,070,470	9,070,470	-0-	-0-	-0-
	\$ 60,682,020	\$ 60,682,020	\$ -0-	\$ -0-	\$ -0-

Deposits, investments, and other consist of the following as of December 31, 2019 and 2018:

	2019	2018
Hospital		
Carrying amount		
Deposits	\$ 86,046,481	\$ 87,673,919
Investments	47,023,162	43,128,267
	\$ 133,069,643	\$ 130,802,186
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 84,917,683	\$ 87,560,313
Board designated funds	47,465,788	42,427,869
Trustee held assets	634,062	761,894
Restricted by donor	52,110	52,110
	\$ 133,069,643	\$ 130,802,186
Foundation		
Carrying amount		
Deposits	\$ 332,181	\$ 421,139
Investments	4,941,216	3,858,345
	\$ 5,273,397	\$ 4,279,484
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 332,181	\$ 421,139
Board designated funds	1,373,337	826,114
Restricted by donor	3,567,879	3,032,231
	\$ 5,273,397	\$ 4,279,484

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

7. 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, 2019 and 2018.

- *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, 2019 AND 2018

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2019 for the Hospital are as follows:

Hospital	2019			
	Total	Level 1	Level 2	Level 3
Assets:				
Assets whose use is limited				
Mutual funds				
Small value	\$ 1,455,985	\$ 1,455,985	\$ -0-	\$ -0-
Mid-cap growth	17,089,093	17,089,093	-0-	-0-
Mid-cap blend	693,169	693,169	-0-	-0-
Mid-cap value	784,533	784,533	-0-	-0-
Large growth	3,190,564	3,190,564	-0-	-0-
Large blend	12,293,743	12,293,743	-0-	-0-
Large value	6,372,809	6,372,809	-0-	-0-
Fixed income	5,143,266	5,143,266	-0-	-0-
Total mutual funds	47,023,162	\$ 47,023,162	\$ -0-	\$ -0-
Cash and cash equivalents				
Money market deposit accounts	1,128,798			
Total assets whose use is limited	\$ 48,151,960			
Other long-term liabilities:				
Interest rate swap agreements	\$ 1,556,340	\$ -0-	\$ 1,556,340	\$ -0-
Foundation				
	Total	Level 1	Level 2	Level 3
Assets:				
Assets whose use is limited				
Mutual funds				
Small growth	\$ 356,903	\$ 356,903	\$ -0-	\$ -0-
Mid growth	119,968	119,968	-0-	-0-
Mid-cap blend	71,233	71,233	-0-	-0-
Large growth	1,188,378	1,188,378	-0-	-0-
Large blend	865,756	865,756	-0-	-0-
Large value	362,797	362,797	-0-	-0-
Fixed income	1,976,181	1,976,181	-0-	-0-
Total mutual funds	4,941,216	\$ 4,941,216	\$ -0-	\$ -0-
Total assets whose use is limited	\$ 4,941,216			

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2018 for the Hospital are as follows:

Hospital	2018			
	Total	Level 1	Level 2	Level 3
Assets				
Assets whose use is limited				
Mutual funds				
Small growth	\$ 3,985,484	\$ 3,985,484	\$ -0-	\$ -0-
Mid-cap growth	2,411,856	2,411,856	-0-	-0-
Mid-cap blend	2,237,882	2,237,882	-0-	-0-
Mid-cap value	3,039,281	3,039,281	-0-	-0-
Large growth	10,882,127	10,882,127	-0-	-0-
Large blend	2,593,280	2,593,280	-0-	-0-
Large value	2,481,637	2,481,637	-0-	-0-
Fixed income	15,496,720	15,496,720	-0-	-0-
Total mutual funds	43,128,267	\$ 43,128,267	\$ -0-	\$ -0-
Cash and cash equivalents				
Money market deposit accounts	113,606			
Total assets whose use is limited	\$ 43,241,873			
Other assets:				
Interest rate swap agreements	\$ 923,490	\$ -0-	\$ 923,490	\$ -0-
Other long-term liabilities:				
Interest rate swap agreements	\$ 180,846	\$ -0-	\$ 180,846	\$ -0-
Foundation				
Assets:				
Assets whose use is limited				
Mutual funds				
Small growth	\$ 247,358	\$ 247,358	\$ -0-	\$ -0-
Small blend	72,927	72,927	-0-	-0-
Small value	59,147	59,147	-0-	-0-
Mid-cap growth	98,612	98,612	-0-	-0-
Large growth	966,972	966,972	-0-	-0-
Large blend	567,836	567,836	-0-	-0-
Large value	236,444	236,444	-0-	-0-
Fixed income	1,599,629	1,599,629	-0-	-0-
Total mutual funds	3,848,925	3,848,925	-0-	-0-
Common stocks				
Utilities	9,420	9,420	-0-	-0-
Total common stocks	9,420	\$ 9,420	\$ -0-	\$ -0-
Total assets whose use is limited	\$ 3,858,345			

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Assets measured at fair value on a recurring basis as of December 31, 2019 and 2018 for the Hospital's fiduciary activities are as follows:

		2019			
Pension Trust Funds	Total	Level 1	Level 2	Level 3	
Assets:					
Assets whose use is limited					
Mutual funds					
Small value	\$ 2,048,278	\$ 2,048,278	\$ -0-	\$	-0-
Mid-cap growth	1,034,113	1,034,113	-0-		-0-
Mid-cap blend	622,144	622,144	-0-		-0-
Mid-cap value	5,468,710	5,468,710	-0-		-0-
Large growth	9,146,100	9,146,100	-0-		-0-
Large blend	40,643,640	40,643,640	-0-		-0-
Large value	1,081,919	1,081,919	-0-		-0-
Fixed income	9,147,922	9,147,922	-0-		-0-
Total mutual funds	69,192,826	\$ 69,192,826	\$ -0-	\$	-0-
Cash and cash equivalents					
Money market deposit accounts	291,085				
Total assets whose use is limited	\$ 69,483,911				

		2018			
Pension Trust Funds	Total	Level 1	Level 2	Level 3	
Assets					
Assets whose use is limited					
Mutual funds					
Small value	\$ 1,535,796	\$ 1,535,796	\$ -0-	\$	-0-
Mid-cap growth	977,840	977,840	-0-		-0-
Mid-cap blend	325,470	325,470	-0-		-0-
Mid-cap value	4,992,189	4,992,189	-0-		-0-
Large growth	7,934,939	7,934,939	-0-		-0-
Large value	677,506	677,506	-0-		-0-
Large blend	35,167,810	35,167,810	-0-		-0-
Fixed income	9,070,470	9,070,470	-0-		-0-
Total mutual funds	60,682,020	\$ 60,682,020	\$ -0-	\$	-0-
Cash and cash equivalents					
Money market deposit accounts	18,407				
Total assets whose use is limited	\$ 60,700,427				

The Hospital's policy is to recognize transfers between levels as of the end of the reporting period. There were no transfers during 2019 and 2018.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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 \$3,800,000 and \$6,200,000 during 2019 and 2018, respectively.

The market value of investments exceeded the cost by approximately \$2,000,000 as of December 31, 2019. The cost of investments exceeded the market value by approximately \$5,400,000 as of December 31, 2018. 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, 2019 and 2018. During 2019 and 2018, the Hospital recognized an unrealized gain (loss) of approximately \$7,400,000 and (\$8,500,000), respectively, which is included in the consolidated statements of revenues, expenses and changes in net position as a component of investment income (loss).

The market value of investments for the Hospital's fiduciary activities exceeded the cost by approximately \$3,200,000 as of December 31, 2019. The cost of investments for the Hospital's fiduciary activities exceeded the market value by approximately \$7,400,000 as of December 31, 2018. 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, 2019 and 2018. During 2019 and 2018, the Hospital recognized an unrealized gain (loss) for fiduciary activities of approximately \$10,600,000 and (\$7,400,000), respectively, which is included in the consolidated statements of changes in fiduciary net position as a component of the net change in fair value of investments.

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 2011, 2012, 2013, 2016, and 2017 bonds approximated \$58,000,000 and \$56,000,000 as of December 31, 2019 and 2018, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

8. CAPITAL ASSETS

Capital asset progressions for 2019 and 2018 follow:

	December 31, 2018	Additions	Retirements	Transfers	December 31, 2019
Hospital					
Land	\$ 15,961,384	\$ -0-	\$ -0-	\$ -0-	\$ 15,961,384
Land improvements	2,979,163	39,384	-0-	114,603	3,133,150
Buildings and improvements	140,558,801	159,508	(396,114)	25,681,053	166,003,248
Equipment	171,131,953	6,946,424	(3,902,386)	20,687,572	194,863,563
Construction in progress	35,936,809	15,352,223	-0-	(46,483,228)	4,805,804
Total capital assets	<u>366,568,110</u>	<u>22,497,539</u>	<u>(4,298,500)</u>	<u>-0-</u>	<u>384,767,149</u>
Less accumulated depreciation					
Land improvements	2,494,816	95,575	-0-	-0-	2,590,391
Buildings and improvements	74,936,157	8,279,882	(396,114)	-0-	82,819,925
Equipment	97,777,463	12,336,471	(3,871,320)	-0-	106,242,614
Total accumulated depreciation	<u>175,208,436</u>	<u>20,711,928</u>	<u>(4,267,434)</u>	<u>-0-</u>	<u>191,652,930</u>
Capital assets, net	<u>\$ 191,359,674</u>	<u>\$ 1,785,611</u>	<u>\$ (31,066)</u>	<u>\$ -0-</u>	<u>\$ 193,114,219</u>
Foundation					
Equipment	\$ 15,380	\$ -0-	\$ (15,380)	\$ -0-	\$ -0-
Less accumulated depreciation	15,380	-0-	(15,380)	-0-	-0-
Capital assets, net	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Hospital					
	December 31, 2017	Additions	Retirements	Transfers	December 31, 2018
Land	\$ 15,961,384	\$ -0-	\$ -0-	\$ -0-	\$ 15,961,384
Land improvements	2,892,112	68,045	(8,982)	27,988	2,979,163
Buildings and improvements	108,214,270	89,070	(379,854)	32,635,315	140,558,801
Equipment	157,056,339	11,330,249	(2,572,576)	5,317,941	171,131,953
Construction in progress	35,529,863	38,388,190	-0-	(37,981,244)	35,936,809
Total capital assets	<u>319,653,968</u>	<u>49,875,554</u>	<u>(2,961,412)</u>	<u>-0-</u>	<u>366,568,110</u>
Less accumulated depreciation					
Land improvements	2,385,897	117,902	(8,983)	-0-	2,494,816
Buildings and improvements	67,501,990	7,757,430	(323,263)	-0-	74,936,157
Equipment	89,229,978	10,729,299	(2,181,814)	-0-	97,777,463
Total accumulated depreciation	<u>159,117,865</u>	<u>18,604,631</u>	<u>(2,514,060)</u>	<u>-0-</u>	<u>175,208,436</u>
Hospital capital assets, net	<u>\$ 160,536,103</u>	<u>\$ 31,270,923</u>	<u>\$ (447,352)</u>	<u>\$ -0-</u>	<u>\$ 191,359,674</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, 2019 AND 2018

As of December 31, 2019, the estimated cost to complete outstanding projects included within construction in progress was approximately \$9,700,000, which is nearly all related to the Hospital's expansion of the Hospital's campuses in Noblesville and Westfield, Indiana. The Hospital intends to cover the costs of construction with a combination of cash and investments on hand and intends to complete these projects during 2020.

9. LONG-TERM DEBT

The terms and due dates of the Hospital's long-term debt, including capital lease obligations as of December 31, 2019 and 2018 follow:

- 2011 tax-exempt revenue bonds, principal maturing in varying amounts due September 1, 2021, collateralized by net revenues of the Hospital. Interest rate is fixed at 4.2%.
- 2012 tax-exempt revenue bonds, principal maturing in varying amounts due December 1, 2027, collateralized by net revenues of the Hospital. Interest rate is variable at 1.52% and 3.69% as of December 31, 2019 and 2018, respectively. An associated interest rate swap has fixed rate of 2.67%, with a liability fair value of approximately \$104,000 as of December 31, 2019 and a receivable fair value of approximately \$144,000 as of December 31, 2018. The interest rate swap is included in other long-term liabilities and other assets on the consolidated balance sheets as of December 31, 2019 and 2018, 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 1.52% and 3.24% as of December 31, 2019 and 2018, respectively. An associated interest rate swap has fixed rate of 3.10%, with a liability fair value of approximately \$402,000 and \$178,000 as of December 31, 2019 and 2018, 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 1.44% and 3.16% as of December 31, 2019 and 2018, respectively. An associated interest rate swap has a fixed rate of 1.32%, with a liability fair value of approximately \$670,000 as of December 31, 2019 and a receivable fair value of approximately \$780,000 as of December 31, 2018. The interest rate swap is included in other long-term liabilities and other assets on the consolidated balance sheets as of December 31, 2019 and 2018, respectively.
- 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 1.44% and 3.16% as of December 31, 2019 and 2018, respectively. An associated interest rate swap has a fixed rate of 1.71%, with a liability fair value of approximately \$380,000 and \$3,000 as of December 31, 2019 and 2018, respectively, which is in other long-term liabilities on the consolidated balance sheets.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

- Capital lease obligations, at varying interest rates of imputed interest of 5.00% to 7.3%, maturing from 2020 through 2024, collateralized by leased equipment with cost of approximately \$340,000 and \$2,900,000 as of December 31, 2019 and 2018, respectively. Accumulated depreciation on capital leases was approximately \$23,000 and \$2,800,000 as of December 31, 2019 and 2018, respectively.

Under the terms of the revenue bond indenture, there is a limit on the incurrence of additional borrowings and the Hospital is required to 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, 2019 and 2018.

A summary of long-term debt as of December 31, 2019 and 2018 includes the following:

	December 31, 2018	Additional Borrowings	Payments	December 31, 2019	Current Portion
Revenue bonds payable					
2011 Bonds	\$ 2,227,134	\$ -0-	\$ 780,969	\$ 1,446,165	\$ 813,366
2012 Bonds	10,910,000	-0-	1,090,000	9,820,000	1,120,000
2013 Bonds	12,074,000	-0-	1,069,000	11,005,000	1,090,000
2016 Bonds	34,560,000	-0-	1,440,000	33,120,000	1,440,000
2017 Bonds	9,600,000	-0-	400,000	9,200,000	400,000
Total revenue bonds	<u>69,371,134</u>	<u>-0-</u>	<u>4,779,969</u>	<u>64,591,165</u>	<u>4,863,366</u>
Capital lease obligations	86,939	301,753	101,360	287,332	73,776
	<u>\$ 69,458,073</u>	<u>\$ 301,753</u>	<u>\$ 4,881,329</u>	<u>\$ 64,878,497</u>	<u>\$ 4,937,142</u>
	December 31, 2017	Additional Borrowings	Payments	December 31, 2018	Current Portion
Revenue bonds payable					
2011 Bonds	\$ 2,975,078	\$ -0-	\$ 747,944	\$ 2,227,134	\$ 779,969
2012 Bonds	11,975,000	-0-	1,065,000	10,910,000	1,090,000
2013 Bonds	13,104,000	-0-	1,030,000	12,074,000	1,070,000
2016 Bonds	12,000,000	24,000,000	1,440,000	34,560,000	1,440,000
2017 Bonds	10,000,000	-0-	400,000	9,600,000	400,000
Total revenue bonds	<u>50,054,078</u>	<u>24,000,000</u>	<u>4,682,944</u>	<u>69,371,134</u>	<u>4,779,969</u>
Capital lease obligations	749,483	42,581	705,125	86,939	60,320
	<u>\$ 50,803,561</u>	<u>\$ 24,042,581</u>	<u>\$ 5,388,069</u>	<u>\$ 69,458,073</u>	<u>\$ 4,840,289</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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
2020	\$ 4,863,366	\$ 715,831	\$ 73,776	\$ 12,750
2021	4,762,799	613,690	73,771	9,001
2022	4,195,000	532,666	60,764	5,576
2023	4,255,000	460,651	56,597	2,713
2024	4,335,000	386,890	22,424	296
2025-2029	18,260,000	289,925	-0-	-0-
Thereafter	23,920,000	329,790	-0-	-0-
	<u>\$ 64,591,165</u>	<u>\$ 3,329,443</u>	<u>\$ 287,332</u>	<u>\$ 30,336</u>

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.

A termination of the swap agreements may also result in the Hospital making or receiving a termination payment. As of December 31, 2019, the variable rates on the Series 2012, 2013, 2016 and 2017 Bonds were lower than the swap agreement fixed rate. As of December 31, 2018, the variable rate on the Series 2013 Bond was lower than the swap agreement fixed rate and the variable rates on the Series 2012, 2016 and 2017 Bonds were higher than the swap agreements fixed rates. The table related to future maturities above utilizes the swap fixed interest rates for the Series 2012, 2013, 2016 and 2017 Bonds.

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

10. 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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 interest rate swap agreements in effect as of December 31, 2019 and 2018, respectively, for the 2012, 2013, 2016 and 2017 revenue bonds.

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, 2019 are as follows:

Associated Bond Issue	Original Notational Amount	Current Notational Amount	Effective date	Fixed rate	Variable rate	Fair value	Termination date	Counterparty credit rating
2012 Series Bonds	\$ 16,900,000	\$ 9,820,000	February 1, 2013	2.67%	.74 times (1M Libor plus 1.75%)	\$ (104,302)	December 1, 2022	A2/A-/AA-
2013 Series Bonds	17,000,000	11,005,000	October 1, 2013	3.10%	.74 times (1M Libor plus 1.25%)	(402,222)	October 2, 2023	A2/A-/AA-
2016 Series Bonds	34,560,000	33,120,000	May 1, 2018	1.32%	.70 times (1M Libor plus .952%)	(669,513)	October 30, 2026	A2/A-/AA-
2017 Series Bonds	9,600,000	9,200,000	May 1, 2018	1.71%	.70 times (1M Libor plus .952%)	(380,303)	October 30, 2026	A2/A-/AA-
	<u>\$ 78,060,000</u>	<u>\$ 63,145,000</u>				<u>\$ (1,556,340)</u>		

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

As of December 31, 2019, 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, 2019 and 2018, the Hospital complied with the terms of the swap contracts.

Swap Payments and Associated Debt

Using rates as of December 31, 2019, 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	
	2019	2018
2012 Series bonds interest rate swap	\$ -0-	\$ 143,763
2016 Series bonds interest rate swap	-0-	779,727
	<u>\$ -0-</u>	<u>\$ 923,490</u>

	Liability	
	2019	2018
2012 Series bonds interest rate swap	\$ 104,302	\$ -0-
2013 Series bonds interest rate swap	402,222	178,090
2016 Series bonds interest rate swap	669,513	-0-
2017 Series bonds interest rate swap	380,303	2,756
	<u>\$ 1,556,340</u>	<u>\$ 180,846</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

<u>Financial instrument</u>	<u>2019</u>	<u>2018</u>	<u>Location</u>
2012 Series bonds interest rate swap	\$ (248,064)	\$ 62,924	Contributions and other revenue (expense)
2013 Series bonds interest rate swap	(224,131)	166,611	Contributions and other revenue (expense)
2016 Series bonds interest rate swap	(1,449,240)	200,297	Contributions and other revenue (expense)
2017 Series bonds interest rate swap	(377,547)	74,821	Contributions and other revenue (expense)
Total gain (loss)	<u>\$ (2,298,982)</u>	<u>\$ 504,653</u>	

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

11. 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, 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 Transamerica Retirement Solutions, LLC (Plan Administrator). The Employees' Pension Plan and 403(b) Plan are included in separate financial statements for fiduciary funds following the Hospital's consolidated financial statements.

The 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.

The 403(b) Plan match rate on employee contributions is discretionary. During 2019 and 2018, the Hospital matched 50% of employee elective deferrals into the 403(b) Plan, up to 3% of a participant's eligible compensation.

The maximum employee contributions are subject to regulatory caps for both of the plans. Employer contributions including both plans were approximately \$1,180,000 and \$1,190,000 for 2019 and 2018, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

12. 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 2026 with options to renew.

The following is a schedule of future minimum lease payments under noncancelable operating leases as of December 31, 2019, that have initial or remaining lease terms in excess of one year.

Year ending December 31,	
2020	\$ 1,670,534
2021	1,237,206
2022	1,237,867
2023	953,312
2024	235,528
Thereafter	171,182
	<u>\$ 5,505,629</u>

Total rental expense was approximately \$42,900,000 and \$43,200,000 for 2019 and 2018, 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 \$13,800,000 and \$10,200,000 as of December 31, 2019 and 2018 and accumulated depreciation of approximately \$8,600,000 and \$7,000,000 as of December 31, 2019 and 2018, respectively. Total rental income for all operating leases was approximately \$1,200,000 and \$1,000,000 for 2019 and 2018 and is included within other operating revenue in the consolidated statements of revenue, expenses, and changes in net position.

Future minimum rentals under the leases are as follows:

Year ending December 31,	
2020	\$ 618,999
2021	347,444
2022	276,971
2023	276,971
2024	276,971
Thereafter	553,942
	<u>\$ 2,351,298</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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.

13. 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 2019 and 2018 was as follows:

	Receivables		Revenues	
	2019	2018	2019	2018
Self pay	14%	11%	8%	8%
Medicare	23%	40%	42%	43%
Medicaid	15%	18%	22%	23%
Other Commercial	48%	31%	28%	26%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

14. JOINT VENTURES

VHA Tri-State Health Plans, Inc. (VHA): 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 has a 3.11% ownership in HealthCare Group, Inc., which has the same purpose as VHA.

Riverview Surgical Management Associates, LLC: The Hospital has a 57% and 53% ownership in Riverview Surgical Management Associates, LLC. (RSMA) at December 31, 2019 and 2018, 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 \$925,000 and \$922,000 as of December 31, 2019 and 2018, 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 2019 and 2018 were approximately \$1,100,000 and \$2,400,000, respectively, comprising of management fees, lease payments and other expenses.

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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, 2019 and 2018. The Hospital recorded an asset related to this investment of approximately \$632,000 and \$801,000 as of December 31, 2019 and 2018, 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 2019 and 2018, 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, 2019 and 2018. 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, 2019 and 2018, 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 \$1,000,000 and \$1,040,000 during 2019 and 2018, respectively. The dividends are included within other operating revenue in the consolidated statements of revenue, expenses, and changes in net position.

Intuitive Health of Hamilton County, LLC: During 2018, the Hospital formed Intuitive Health of Hamilton County, LLC (IHHC) and has a 51% ownership in IHHC at December 31, 2019 and 2018. The Hospital recorded an asset related to this investment of approximately \$937,000 as of December 31, 2019. The Hospital did not record an asset related to the investment at December 31, 2018, as no capital contributions were made and any activity within IHHC was immaterial to the financial statements during 2018. The Hospital recorded this investment under the equity method of accounting, as it does not control key operating and governance factors in IHHC. The investment is included in other assets on the consolidated balance sheets. Transactions between IHCC and the Hospital during 2019 and 2018 were immaterial to the financial statements as a whole.

Amounts receivable and payable from these related parties as of December 31, 2019 and 2018 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.

15. 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 claims incurred but not reported. Substantially all employees are covered for major medical benefits. Total self-health insurance expense for 2019 and 2018 was approximately \$7,300,000 and \$4,600,000, 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.

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Changes in balance of health claim liabilities during 2019 and 2018 are as follows:

	2019	2018
Unpaid claims, beginning of year	\$ 955,877	\$ 1,136,467
Incurred claims and changes in estimates	7,286,358	4,634,492
Claim payments	(7,333,742)	(4,815,082)
Unpaid claims, end of year	<u>\$ 908,493</u>	<u>\$ 955,877</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 \$200,000 during 2019 and 2018, respectively, per claim with a no maximum reimbursement cap per covered person.

16. ESTIMATED MALPRACTICE COSTS

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

The Indiana Medical Malpractice Act, IC 34-18 (Act) provides a maximum recovery of \$1,800,000 for an occurrence of malpractice and provided a maximum recovery of \$1,650,000 prior to July 1, 2019. The Act requires 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). Prior to July 1, 2019, the Act required the Hospital to maintain medical malpractice liability insurance for at least \$400,000 per occurrence (\$8,000,000 or \$12,000,000 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 \$1,560,000 and \$1,302,000 as of December 31, 2019 and 2018, respectively. It is reasonably possible that this estimate could change materially in the near term.

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17. SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared COVID-19 a pandemic. The continued spread of COVID-19, or any similar outbreaks in the future, may adversely impact the local, regional, national and global economies. The extent to which COVID-19 impacts the Hospital's operating results is dependent on the breadth and duration of the pandemic and could be affected by other factors management is not currently able to predict. Potential impacts include, but are not limited to, additional costs for responding to COVID-19, shortages of healthcare personnel, shortages of clinical supplies, increased demand for services, delays, loss of, or reduction to, revenue and investment portfolio declines. Management believes the Hospital is taking appropriate actions to respond to the pandemic, however, the full impact is unknown and cannot be reasonably estimated at the date the consolidated financial statements were available to be issued