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May 26, 2015

Brenda Baker, Chief Financial Officer  
Riverview Health (Hospital)  
395 Westfield Road  
Noblesville, IN 46060

We have reviewed the audit report prepared by Blue & Company, LLC, Independent Public Accountants, for the period January 1, 2014 to December 31, 2014. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Riverview Hospital, as of December 31, 2014 and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

*Paul D. Joyce*  
Paul D. Joyce, CPA  
State Examiner



**CONSOLIDATED FINANCIAL STATEMENTS  
AND  
REQUIRED SUPPLEMENTARY INFORMATION  
DECEMBER 31, 2014 AND 2013**

*CPAs / ADVISORS*



# RIVERVIEW HEALTH

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## REPORT OF INDEPENDENT AUDITORS

Board of Trustees  
Riverview Health  
Noblesville, Indiana

### **REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS**

We have audited the accompanying consolidated financial statements of Riverview Health (Hospital), a component unit of Hamilton County, which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

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

### **AUDITOR'S RESPONSIBILITY**

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

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, 2014 and 2013, and the results of its revenues, expenses, and changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **REPORT ON REQUIRED SUPPLEMENTARY INFORMATION**

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

**Blue & Co., LLC**  
March 23, 2015  
Indianapolis, Indiana

**REQUIRED SUPPLEMENTARY INFORMATION**

# RIVERVIEW HEALTH

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2013 AND 2012)

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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, 2014 with comparable information for 2013 and 2012. Please read it in conjunction with the Hospital's consolidated financial statements and accompanying notes to the consolidated financial statements included in this report.

### Using This Annual Report

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

- In the "*management's discussion and analysis*" section of this report, management discusses various components of the annual report and provide an analysis of the current financial statement information.
- The "*consolidated financial statements*" section of this report includes a series of consolidated financial statements, which provide information about the activities of the Hospital as a whole. The Consolidated Balance Sheets reveal the assets, deferred outflows, liabilities and net position of the Hospital on December 31, 2014 and 2013 while the Consolidated Statements of Revenues, Expenses and Changes in Net Position summarize the revenues and expenses, including nonoperating items for the years then ended. The Consolidated Statements of Cash Flows summarize the change in cash and cash equivalents as a result of operating, investing and financing activities during the year. The Notes to the Consolidated Financial Statements disclose additional information addressed within the body of the consolidated financial statements.

### FINANCIAL HIGHLIGHTS

- Assets whose use is limited increased approximately \$20,000,000 compared to prior year primarily due to additional investment purchases funded by current year net income and investment returns. This compares to an increase in 2013 of approximately \$22,400,000.
- The Hospital reported an increase in net position of approximately \$24,400,000 for the year ended 2014. This compares to a change in net position of approximately \$29,800,000 for the year ended 2013 and approximately \$17,200,000 for 2012.

# RIVERVIEW HEALTH

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2013 AND 2012)

### Summarized Financial Statement Information

The Hospital's net position is the difference between its assets and deferred outflows and liabilities and deferred inflows. 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, 2014 and 2013 and for the years then ended.

**Table 1 – Balance Sheets**

	2014	2013	2014 - 2013 Change	2012
<b>Assets</b>				
Current assets	\$ 99,049,710	\$ 103,037,129	\$ (3,987,419)	\$ 90,329,010
Capital assets, net	107,501,814	96,688,864	10,812,950	92,343,410
Noncurrent assets whose use is limited	85,934,569	65,976,734	19,957,835	43,530,390
Other assets	3,557,963	1,935,160	1,622,803	2,511,000
Total assets	296,044,056	267,637,887	28,406,169	228,713,810
<b>Deferred outflows - deferred loss on bond refundings and interest rate swaps</b>	2,054,745	2,708,777	(654,032)	1,754,070
Total assets and deferred outflows	<u>\$ 298,098,801</u>	<u>\$ 270,346,664</u>	<u>\$ 27,752,137</u>	<u>\$ 230,467,880</u>
<b>Liabilities</b>				
Current liabilities	\$ 69,882,972	\$ 63,915,585	\$ 5,967,387	\$ 51,615,475
Long-term debt and other liabilities	36,201,008	39,128,282	(2,927,274)	41,750,340
Total liabilities	106,083,980	103,043,867	3,040,113	93,365,815
<b>Deferred inflows - interest rate swaps</b>	803,072	372,486	430,586	-0-
<b>Net position</b>				
Net investment in capital assets	69,620,403	56,578,270	13,042,133	48,231,519
Restricted	7,164,381	7,254,137	(89,756)	6,316,422
Unrestricted	114,426,965	103,097,904	11,329,061	82,554,124
Total net position	<u>191,211,749</u>	<u>166,930,311</u>	<u>24,281,438</u>	<u>137,102,065</u>
Total liabilities, deferred inflows, and net assets	<u>\$ 298,098,801</u>	<u>\$ 270,346,664</u>	<u>\$ 27,752,137</u>	<u>\$ 230,467,880</u>

The significant changes in the Hospital's assets included capital assets, which increased by approximately \$10,800,000 from 2013 to 2014, and assets whose use is limited, which increased by approximately \$20,000,000 from 2013 to 2014. The significant changes in the Hospital's liabilities included current liabilities, which increased approximately \$6,000,000 from 2013 to 2014. Long-term debt and other liabilities decreased by approximately \$2,900,000 after current year principal payments. The net position increased approximately \$24,300,000 due to gains from operations and other non-operating activity.

# RIVERVIEW HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)  
DECEMBER 31, 2014  
(WITH COMPARATIVE TOTALS FOR 2013 AND 2012)

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

	2014	2013	2014 - 2013 Change	2012
<b>Operating revenue</b>				
Net patient service revenue	\$ 410,539,194	\$ 422,842,985	\$ (12,303,791)	\$ 346,595,983
Other operating revenue	11,664,814	11,441,534	223,280	5,890,364
Total operating revenue	<u>422,204,008</u>	<u>434,284,519</u>	<u>(12,080,511)</u>	<u>352,486,347</u>
<b>Operating expenses</b>				
Salaries and benefits	78,137,853	76,597,877	1,539,976	77,327,182
Medical supplies and drugs	49,663,222	52,674,251	(3,011,029)	39,995,026
Depreciation and amortization	11,861,452	11,105,028	756,424	10,088,843
Other operating expenses	257,544,768	269,113,918	(11,569,150)	210,909,295
Total operating expenses	<u>397,207,295</u>	<u>409,491,074</u>	<u>(12,283,779)</u>	<u>338,320,346</u>
Operating income	24,996,713	24,793,445	203,268	14,166,001
<b>Nonoperating income, net</b>	<u>(594,468)</u>	<u>5,034,801</u>	<u>(5,629,269)</u>	<u>3,054,378</u>
Change in net position	24,402,245	29,828,246	(5,426,001)	17,220,379
Distributions to shareholders	(120,807)	-0-	(120,807)	-0-
<b>Net position, beginning of year</b>	<u>166,930,311</u>	<u>137,102,065</u>	<u>29,828,246</u>	<u>119,881,686</u>
<b>Net position, end of year</b>	<u>\$ 191,211,749</u>	<u>\$ 166,930,311</u>	<u>\$ 24,281,438</u>	<u>\$ 137,102,065</u>

## SOURCES OF REVENUE

During 2014, the Hospital derived substantially all of its revenue from patient service and other related activities. A significant portion of the patient service revenue is from patients that are insured by government health programs, principally Medicare and Medicaid, which are highly regulated and subject to frequent and substantial changes. Revenues from the Medicare and Medicaid programs represented 65% and 67% of the Hospital's gross revenues in 2014 and 2013, respectively.

# RIVERVIEW HEALTH

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2013 AND 2012)

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Following is a table of major sources of gross patient revenues for 2014, 2013, and 2012:

<u>Payor</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Self Pay	9%	13%	12%
Medicare	42%	44%	45%
Medicaid	23%	23%	22%
Anthem/Blue Cross	10%	9%	10%
Other Commercial	16%	11%	11%
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

The Hospital's outpatient services represented approximately 33% and 31% of the Hospital's gross patient revenue in 2014 and 2013, respectively. This change reflects the continued shift from inpatient to outpatient services.

### OPERATING AND FINANCIAL PERFORMANCE

The Hospital's 2014 return on equity was 12.7%, compared to 17.9% for 2013 and 12.6% for 2012. The Hospital's debt service coverage ratio was approximately 6.5 for 2014 and 7.8 for 2013.

The following section highlights the major financial factors for 2014:

- Net patient service revenue decreased approximately \$12,300,000 during 2014, a 2.9% decrease from 2013. However, operating expenses decreased approximately \$12,300,000, or 3%, primarily due to lower volumes within long-term care.
- Other operating expenses consisting primarily of purchased services was the expense classification with the largest decrease from 2013. Other operating expenses decreased approximately \$11,600,000 from 2013 to 2014. Medical supplies and drugs decreased approximately \$3,000,000 from 2013 to 2014.

# RIVERVIEW HEALTH

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2013 AND 2012)

### Table 3 – Statements of Cash Flows

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

	2014	2013	2014 - 2013 Change	2012
<b>Cash flows from activities</b>				
Operating	\$ 40,088,030	\$ 46,974,782	\$ (6,886,752)	\$ 25,566,514
Non-capital financing	(786,008)	172,555	(958,563)	(469)
Capital and related financing	(27,491,793)	(20,650,490)	(6,841,303)	(18,133,345)
Investing	(17,135,214)	(14,958,303)	(2,176,911)	3,151,179
Total	(5,324,985)	11,538,544	(16,863,529)	10,583,879
<b>Cash and cash equivalents</b>				
Beginning of year	40,912,013	29,373,469		18,789,590
End of year	<u>\$ 35,587,028</u>	<u>\$ 40,912,013</u>		<u>\$ 29,373,469</u>

Changes in the Hospital's cash flows are primarily related to the decrease in cash used to purchase capital assets and investments during 2014.

### CAPITAL ASSETS

During 2014, the Hospital's net capital assets have increased by approximately \$10,800,000. This compares to an increase of approximately \$4,300,000 for 2013. The change in capital assets is outlined in the following table:

	2014	2013	Change	2012
Land and improvements	\$ 18,542,783	\$ 12,310,490	\$ 6,232,293	\$ 12,233,004
Buildings and improvements	101,033,258	96,031,217	5,002,041	92,788,115
Equipment	104,086,926	110,568,751	(6,481,825)	103,113,146
Construction in progress	7,181,772	7,571,720	(389,948)	3,839,661
Total capital assets	230,844,739	226,482,178	4,362,561	211,973,926
Less accumulated depreciation	123,342,925	129,793,314	(6,450,389)	119,630,516
Capital assets, net	<u>\$ 107,501,814</u>	<u>\$ 96,688,864</u>	<u>\$ 10,812,950</u>	<u>\$ 92,343,410</u>

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

# RIVERVIEW HEALTH

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2013 AND 2012)

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

### DEBT

The Hospital has the following debt outstanding which approximates \$39,900,000 as of December 31, 2014:

- 2005 tax-exempt revenue bonds
- 2011 tax-exempt revenue bonds
- 2012 tax-exempt revenue bonds
- 2013 tax-exempt revenue bonds
- Tipton Family Practice note payable
- Capital lease obligations

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

### ECONOMIC OUTLOOK

Management believes that the healthcare industry's and the Hospital's operating margins will continue to be under pressure as a result of the changes in payor mix and growth in operating expenses, that exceed any increases in contractually arranged and legally established payments received for services provided. Another factor that poses a challenge to management is the increasing competitive market for the delivery of health care services. This competitive market challenge will potentially be offset by the expected growth in our service area. The Hospital will still be faced with the challenge of providing quality services in an increasingly competitive environment, while at the same time managing costs. The Hospital will be affected by the increases in labor costs due to the competition for health care workers. The Hospital is also affected by 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, 2014

(WITH COMPARATIVE CONSOLIDATED TOTALS AT 2013)

	2014			2013	
	Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
	\$	\$	\$	\$	\$
<b>ASSETS AND DEFERRED OUTFLOWS</b>					
<b>Current assets</b>					
Cash and cash equivalents	30,097,193	337,335	-	30,434,528	35,592,365
Current portion of assets whose use is limited	3,256,834	-	-	3,256,834	3,492,308
Patient accounts receivable, less allowances for uncollectible accounts of \$7,674,979 and \$8,026,051, respectively	42,787,062	-	-	42,787,062	43,926,311
Related party receivables	192,000	-	-	192,000	558,062
Inventories	3,447,197	-	-	3,447,197	3,328,480
Other current assets	18,735,369	196,720	-	18,932,089	16,139,603
<b>Total current assets</b>	<b>98,515,655</b>	<b>534,055</b>	<b>-</b>	<b>99,049,710</b>	<b>103,037,129</b>
<b>Assets whose use is limited</b>					
Board designated funds					
Long-term investments	82,995,018	98,988	-	83,094,006	63,291,845
<b>Total board designated funds</b>	<b>82,995,018</b>	<b>98,988</b>	<b>-</b>	<b>83,094,006</b>	<b>63,291,845</b>
Trustee held assets					
Professional liability insurance funds	1,034,648	-	-	1,034,648	981,192
Debt service	1,346,560	-	-	1,346,560	1,344,996
<b>Total trustee held assets</b>	<b>2,381,208</b>	<b>-</b>	<b>-</b>	<b>2,381,208</b>	<b>2,326,188</b>
Restricted by donor					
Expendable for various purposes upon donors' specific restriction	26,498	976,996	-	1,003,494	1,059,375
Nonexpendable permanent endowments	-	2,712,695	-	2,712,695	2,791,634
<b>Total donor-restricted assets</b>	<b>26,498</b>	<b>3,689,691</b>	<b>-</b>	<b>3,716,189</b>	<b>3,851,009</b>
<b>Total assets whose use is limited</b>	<b>85,402,724</b>	<b>3,788,679</b>	<b>-</b>	<b>89,191,403</b>	<b>69,469,042</b>
Less current portion	3,256,834	-	-	3,256,834	3,492,308
<b>Noncurrent assets whose use is limited</b>	<b>82,145,890</b>	<b>3,788,679</b>	<b>-</b>	<b>85,934,569</b>	<b>65,976,734</b>
<b>Capital assets</b>					
Land	15,917,384	-	-	15,917,384	9,814,610
Depreciable capital assets	207,730,203	15,380	-	207,745,583	209,095,848
Construction in progress	7,181,772	-	-	7,181,772	7,571,720
	230,829,359	15,380	-	230,844,739	226,482,178
Less accumulated depreciation	123,327,545	15,380	-	123,342,925	129,793,314
<b>Capital assets, net</b>	<b>107,501,814</b>	<b>-</b>	<b>-</b>	<b>107,501,814</b>	<b>96,688,864</b>
<b>Other assets</b>	<b>3,406,254</b>	<b>151,709</b>	<b>-</b>	<b>3,557,963</b>	<b>1,935,160</b>
<b>Total assets</b>	<b>291,569,613</b>	<b>4,474,443</b>	<b>-</b>	<b>296,044,056</b>	<b>267,637,887</b>
<b>Deferred outflows - deferred loss on bond refundings and interest rate swaps</b>	<b>2,054,745</b>	<b>-</b>	<b>-</b>	<b>2,054,745</b>	<b>2,708,777</b>
<b>Total assets and deferred outflows</b>	<b>\$ 293,624,358</b>	<b>\$ 4,474,443</b>	<b>\$ -</b>	<b>\$ 298,098,801</b>	<b>\$ 270,346,664</b>

See accompanying notes to consolidated financial statements.

# RIVERVIEW HEALTH

## CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2014

(WITH COMPARATIVE CONSOLIDATED TOTALS AT 2013)

	2014			2013	
	Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
<b>Current liabilities</b>					
Current portion of bonds payable	\$ 3,451,834	\$ -0-	\$ -0-	\$ 3,451,834	\$ 3,492,308
Current portion of capital lease obligations	298,369	-0-	-0-	298,369	255,808
Accounts payable and other accruals	12,856,772	6,549	-0-	12,863,321	16,100,866
Salaries, wages and related payables	9,229,319	-0-	-0-	9,229,319	6,888,972
Estimated third-party payor settlements	3,540,426	-0-	-0-	3,540,426	1,511,177
Other current liabilities	40,499,703	-0-	-0-	40,499,703	35,666,454
Total current liabilities	69,876,423	6,549	-0-	69,882,972	63,915,585
<b>Noncurrent liabilities</b>					
Long-term bonds and notes payable	35,314,095	-0-	-0-	35,314,095	38,763,639
Long-term capital lease obligations	871,858	-0-	-0-	871,858	307,616
Other long-term liabilities	-0-	15,055	-0-	15,055	57,027
Total noncurrent liabilities	36,185,953	15,055	-0-	36,201,008	39,128,282
Total liabilities	106,062,376	21,604	-0-	106,083,980	103,043,867
<b>Deferred inflows - interest rate swaps</b>	803,072	-0-	-0-	803,072	372,486
<b>Net position</b>					
Net investment in capital assets	69,620,403	-0-	-0-	69,620,403	56,578,270
Restricted					
For debt service and professional liability insurance	2,381,208	-0-	-0-	2,381,208	2,326,188
Expendable for various purposes upon donors' specific restriction	26,598	976,996	-0-	1,003,594	1,059,375
Nonexpendable	1,066,884	2,712,695	-0-	3,779,579	3,868,574
Total restricted	3,474,690	3,689,691	-0-	7,164,381	7,254,137
Unrestricted	113,663,817	763,148	-0-	114,426,965	103,097,904
Total net position	186,758,910	4,452,839	-0-	191,211,749	166,930,311
Total liabilities, deferred inflows, and net position	\$ 293,624,358	\$ 4,474,443	\$ -0-	\$ 298,098,801	\$ 270,346,664

See accompanying notes to consolidated financial statements.

# RIVERVIEW HEALTH

## CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2013

### ASSETS AND DEFERRED OUTFLOWS

	2013			Total reporting entity
	Hospital	Foundation	Eliminations	
<b>Current assets</b>				
Cash and cash equivalents	\$ 35,336,135	\$ 256,230	\$ -0-	\$ 35,592,365
Current portion of assets whose use is limited	3,492,308	-0-	-0-	3,492,308
Patient accounts receivable, less allowance for uncollectible accounts of \$8,026,051	43,926,311	-0-	-0-	43,926,311
Related party receivables	558,062	-0-	-0-	558,062
Inventories	3,328,480	-0-	-0-	3,328,480
Other current assets	15,990,699	148,904	-0-	16,139,603
Total current assets	102,631,995	405,134	-0-	103,037,129
<b>Assets whose use is limited</b>				
Board designated funds				
Long-term investments	63,238,894	52,951	-0-	63,291,845
Total board designated funds	63,238,894	52,951	-0-	63,291,845
Trustee held assets				
Professional liability insurance funds	981,192	-0-	-0-	981,192
Debt service	1,344,996	-0-	-0-	1,344,996
Total trustee held assets	2,326,188	-0-	-0-	2,326,188
Restricted by donor				
Expendable for various purposes upon donors' specific restriction	88,850	970,525	-0-	1,059,375
Nonexpendable permanent endowments	-0-	2,791,634	-0-	2,791,634
Total donor-restricted assets	88,850	3,762,159	-0-	3,851,009
Total assets whose use is limited	65,653,932	3,815,110	-0-	69,469,042
Less current portion	3,492,308	-0-	-0-	3,492,308
Noncurrent assets whose use is limited	62,161,624	3,815,110	-0-	65,976,734
<b>Capital assets</b>				
Land	9,814,610	-0-	-0-	9,814,610
Depreciable capital assets	209,080,468	15,380	-0-	209,095,848
Construction in progress	7,571,720	-0-	-0-	7,571,720
	226,466,798	15,380	-0-	226,482,178
Less accumulated depreciation	129,777,934	15,380	-0-	129,793,314
Capital assets, net	96,688,864	-0-	-0-	96,688,864
<b>Other assets</b>	1,776,454	158,706	-0-	1,935,160
Total assets	263,258,937	4,378,950	-0-	267,637,887
<b>Deferred outflows - deferred loss on bond refundings and interest rate swaps</b>	2,708,777	-0-	-0-	2,708,777
Total assets and deferred outflows	\$ 265,967,714	\$ 4,378,950	\$ -0-	\$ 270,346,664

See accompanying notes to consolidated financial statements.

# RIVERVIEW HEALTH

## CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2013

### LIABILITIES, DEFERRED INFLOWS, AND NET POSITION

	2013			
	Hospital	Foundation	Eliminations	Total reporting entity
<b>Current liabilities</b>				
Current portion of bonds payable	\$ 3,492,308	\$ -0-	\$ -0-	\$ 3,492,308
Current portion of capital lease obligations	255,808	-0-	-0-	255,808
Accounts payable and other accruals	16,091,745	9,121	-0-	16,100,866
Salaries, wages and related payables	6,888,972	-0-	-0-	6,888,972
Estimated third-party payor settlements	1,511,177	-0-	-0-	1,511,177
Other current liabilities	35,666,454	-0-	-0-	35,666,454
Total current liabilities	63,906,464	9,121	-0-	63,915,585
<b>Noncurrent liabilities</b>				
Long-term bonds payable	38,763,639	-0-	-0-	38,763,639
Long-term capital lease obligations	307,616	-0-	-0-	307,616
Other long-term liabilities	41,582	15,445	-0-	57,027
Total noncurrent liabilities	39,112,837	15,445	-0-	39,128,282
Total liabilities	103,019,301	24,566	-0-	103,043,867
<b>Deferred inflows - interest rate swaps</b>	372,486	-0-	-0-	372,486
<b>Net position</b>				
Net investment in capital assets	56,578,270	-0-	-0-	56,578,270
Restricted				
For debt service and professional liability insurance	2,326,188	-0-	-0-	2,326,188
Expendable for various purposes upon donors' specific restriction	88,850	970,525	-0-	1,059,375
Nonexpendable	1,076,940	2,791,634	-0-	3,868,574
Total restricted	3,491,978	3,762,159	-0-	7,254,137
Unrestricted	102,505,679	592,225	-0-	103,097,904
Total net position	162,575,927	4,354,384	-0-	166,930,311
 Total liabilities, deferred inflows and net position	 \$ 265,967,714	\$ 4,378,950	\$ -0-	\$ 270,346,664

See accompanying notes to consolidated financial statements.

# RIVERVIEW HEALTH

## CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2014 (WITH COMPARATIVE CONSOLIDATED TOTALS AT 2013)

	2014			2013	
	Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
<b>Revenue</b>					
Net patient service revenue	\$ 410,539,194	\$ -0-	\$ -0-	\$ 410,539,194	\$ 422,842,985
Other	11,664,814	-0-	-0-	11,664,814	11,441,534
Total operating revenue	422,204,008	-0-	-0-	422,204,008	434,284,519
<b>Operating expenses</b>					
Salaries and wages	64,884,145	-0-	-0-	64,884,145	64,505,753
Employee benefits	13,253,708	-0-	-0-	13,253,708	12,092,124
Medical supplies	32,281,374	-0-	-0-	32,281,374	35,755,179
Drugs	17,381,848	-0-	-0-	17,381,848	16,919,072
Food	995,557	-0-	-0-	995,557	951,747
Utilities	7,630,788	-0-	-0-	7,630,788	7,622,569
Purchased services	198,097,044	-0-	-0-	198,097,044	209,876,557
Repairs and maintenance	5,474,320	-0-	-0-	5,474,320	4,882,235
Rental expense	27,002,042	-0-	-0-	27,002,042	26,872,386
Hospital assessment fee	6,396,508	-0-	-0-	6,396,508	6,570,600
Other supplies and expenses	11,948,509	-0-	-0-	11,948,509	12,337,824
Depreciation and amortization	11,861,452	-0-	-0-	11,861,452	11,105,028
Total operating expenses	397,207,295	-0-	-0-	397,207,295	409,491,074
Operating income	24,996,713	-0-	-0-	24,996,713	24,793,445
<b>Nonoperating income (expenses)</b>					
Investment income	1,740,965	206,399	-0-	1,947,364	6,234,588
Contributions and other nonoperating	(678,064)	474,343	(582,287)	(786,008)	172,555
Grants	-0-	(582,287)	582,287	-0-	-0-
Interest expense	(1,755,824)	-0-	-0-	(1,755,824)	(1,372,342)
Total nonoperating, net	(692,923)	98,455	-0-	(594,468)	5,034,801
Change in net position	24,303,790	98,455	-0-	24,402,245	29,828,246
Distributions to shareholders	(120,807)	-0-	-0-	(120,807)	-0-
<b>Net position</b>					
Beginning of year	162,575,927	4,354,384	-0-	166,930,311	137,102,065
End of year	\$ 186,758,910	\$ 4,452,839	\$ -0-	\$ 191,211,749	\$ 166,930,311

See accompanying notes to consolidated financial statements.

# RIVERVIEW HEALTH

## CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2013

	2013			Total reporting entity
	Hospital	Foundation	Eliminations	
<b>Revenue</b>				
Net patient service revenue	\$ 422,842,985	\$ -0-	\$ -0-	\$ 422,842,985
Other	11,441,534	-0-	-0-	11,441,534
Total operating revenue	434,284,519	-0-	-0-	434,284,519
<b>Operating expenses</b>				
Salaries and wages	64,505,753	-0-	-0-	64,505,753
Employee benefits	12,092,124	-0-	-0-	12,092,124
Medical supplies	35,755,179	-0-	-0-	35,755,179
Drugs	16,919,072	-0-	-0-	16,919,072
Food	951,747	-0-	-0-	951,747
Utilities	7,622,569	-0-	-0-	7,622,569
Purchased services	209,876,557	-0-	-0-	209,876,557
Repairs and maintenance	4,882,235	-0-	-0-	4,882,235
Rental expense	26,872,386	-0-	-0-	26,872,386
Hospital assessment fee	6,570,600			6,570,600
Other supplies and expenses	12,337,824	-0-	-0-	12,337,824
Depreciation and amortization	11,105,028	-0-	-0-	11,105,028
Total operating expenses	409,491,074	-0-	-0-	409,491,074
Operating income	24,793,445	-0-	-0-	24,793,445
<b>Nonoperating income (expenses)</b>				
Investment income	5,658,560	576,028	-0-	6,234,588
Contributions and other nonoperating	456,396	248,122	(531,963)	172,555
Grants	-0-	(531,963)	531,963	-0-
Interest expense	(1,372,342)	-0-	-0-	(1,372,342)
Total nonoperating, net	4,742,614	292,187	-0-	5,034,801
Change in net position	29,536,059	292,187	-0-	29,828,246
<b>Net position</b>				
Beginning of year	133,039,868	4,062,197	-0-	137,102,065
End of year	\$ 162,575,927	\$ 4,354,384	\$ -0-	\$ 166,930,311

See accompanying notes to consolidated financial statements.

# RIVERVIEW HEALTH

## CONSOLIDATED STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2014 (WITH COMPARATIVE CONSOLIDATED TOTALS FOR 2013)

	2014			2013	
	Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
<b>Operating activities</b>					
Cash received from patient services	\$ 428,069,292	\$ -0-	\$ -0-	\$ 428,069,292	\$ 430,310,453
Cash paid for salaries, wages and benefits	(75,356,162)	-0-	-0-	(75,356,162)	(78,138,524)
Cash paid to vendors and suppliers	(324,237,561)	-0-	-0-	(324,237,561)	(317,449,136)
Other receipts and payments, net	11,656,242	(43,781)	-0-	11,612,461	12,251,989
Net cash flows from operating activities	40,131,811	(43,781)	-0-	40,088,030	46,974,782
<b>Non-capital financing activities</b>					
Contributions and other nonoperating	(678,064)	474,343	(582,287)	(786,008)	172,555
Grants	-0-	(582,287)	582,287	-0-	-0-
Net cash flows from non-capital financing activities	(678,064)	(107,944)	-0-	(786,008)	172,555
<b>Capital and related financing activities</b>					
Payments on long-term debt	(3,490,017)	-0-	-0-	(3,490,017)	(19,810,531)
Proceeds from issuance of long-term debt	-0-	-0-	-0-	-0-	17,000,000
Payments on capital leases	(364,863)	-0-	-0-	(364,863)	(664,902)
Amortization of deferred loss on bond refundings	242,815	-0-	-0-	242,815	(170,849)
Deferred loss on refunding of bonds	-0-	-0-	-0-	-0-	(2,182,314)
Existing deferred losses on bond refundings utilized in current year bond refunding calculation	-0-	-0-	-0-	-0-	1,730,537
Cash paid for interest	(1,624,073)	-0-	-0-	(1,624,073)	(1,550,707)
Distributions to shareholders	(596,361)	-0-	-0-	(596,361)	-0-
Gain on disposal of capital assets	-0-	-0-	-0-	-0-	66,491
Proceeds on sale of assets	12,500	-0-	-0-	12,500	1,731
Purchase of capital assets	(21,671,794)	-0-	-0-	(21,671,794)	(15,069,946)
Net cash flows from capital and related financing activities	(27,491,793)	-0-	-0-	(27,491,793)	(20,650,490)
<b>Investing activities</b>					
Loss on interest rate swaps	841,803	-0-	-0-	841,803	38,731
Investment income	1,706,093	206,399	-0-	1,912,492	6,017,806
Purchases of investments	(55,739,607)	(2,497,808)	-0-	(58,237,415)	(64,759,410)
Proceeds from sale of investments	35,823,667	2,524,239	-0-	38,347,906	43,744,570
Net cash flows from investing activities	(17,368,044)	232,830	-0-	(17,135,214)	(14,958,303)
Net change in cash and cash equivalents	(5,406,090)	81,105	-0-	(5,324,985)	11,538,544
<b>Cash and cash equivalents</b>					
Beginning of year	40,655,783	256,230	-0-	40,912,013	29,373,469
End of year	\$ 35,249,693	\$ 337,335	\$ -0-	\$ 35,587,028	\$ 40,912,013
<b>Reconciliation of cash and cash equivalents to the balance sheets</b>					
Cash and cash equivalents					
In current assets	\$ 30,097,193	\$ 337,335	\$ -0-	\$ 30,434,528	\$ 35,592,365
In assets whose use is limited	5,152,500	-0-	-0-	5,152,500	5,319,648
Total cash and cash equivalents	\$ 35,249,693	\$ 337,335	\$ -0-	\$ 35,587,028	\$ 40,912,013

See accompanying notes to consolidated financial statements.

# RIVERVIEW HEALTH

## CONSOLIDATED STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2014 (WITH COMPARATIVE CONSOLIDATED TOTALS FOR 2013)

	2014			2013	
	Total Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
<b>Reconciliation of operating income to net cash flows from operating activities</b>					
Operating income	\$ 24,996,713	\$ -0-	\$ -0-	\$ 24,996,713	\$ 24,793,445
Adjustments to reconcile operating income to net cash flows from operating activities					
Depreciation and amortization	11,861,452	-0-	-0-	11,861,452	11,105,028
Gain on disposal of assets	(43,444)			(43,444)	-0-
Amortization of annuities	-0-	(390)	-0-	(390)	(3,280)
Provision for bad debts	15,615,118	-0-	-0-	15,615,118	15,799,501
Changes in operating assets and liabilities					
Patient accounts receivable	(14,475,869)	-0-	-0-	(14,475,869)	(21,345,231)
Inventories	(118,717)	-0-	-0-	(118,717)	(333,937)
Other current assets	(2,651,701)	(47,816)	-0-	(2,699,517)	3,352,700
Other assets	(824,228)	6,997	-0-	(817,231)	164,623
Accounts payable	(3,473,147)	(2,572)	-0-	(3,475,719)	3,209,387
Related party receivables/payables	615,671	-0-	-0-	615,671	(467,165)
Salaries, wages and fees payable	2,340,347	-0-	-0-	2,340,347	(1,327,828)
Estimated third-party payor settlements	2,029,249	-0-	-0-	2,029,249	973,450
Other current liabilities	4,301,949	-0-	-0-	4,301,949	10,647,121
Other long-term liabilities	(41,582)	-0-	-0-	(41,582)	406,968
Net cash flows from operating activities	\$ 40,131,811	\$ (43,781)	\$ -0-	\$ 40,088,030	\$ 46,974,782
<b>Supplemental cash flows information</b>					
Property acquired through capital lease obligation	\$ 971,665	\$ -0-	\$ -0-	\$ 971,665	\$ 428,843

See accompanying notes to consolidated financial statements.

# RIVERVIEW HEALTH

## CONSOLIDATED STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2013

	2013			
	Hospital	Foundation	Eliminations	Total reporting entity
<b>Operating activities</b>				
Cash received from patient services	\$ 430,310,453	\$ -0-	\$ -0-	\$ 430,310,453
Cash paid for salaries, wages and benefits	(78,138,524)	-0-	-0-	(78,138,524)
Cash paid to vendors and suppliers	(317,449,136)	-0-	-0-	(317,449,136)
Other receipts and payments, net	12,554,294	(302,305)	-0-	12,251,989
Net cash flows from operating activities	47,277,087	(302,305)	-0-	46,974,782
<b>Non-capital financing activities</b>				
Contributions and other nonoperating	456,396	248,122	(531,963)	172,555
Grants	-0-	(531,963)	531,963	-0-
Net cash flows from non-capital financing activities	456,396	(283,841)	-0-	172,555
<b>Capital and related financing activities</b>				
Payments on long-term debt	(19,810,531)	-0-	-0-	(19,810,531)
Proceeds from issuance of long-term debt	17,000,000	-0-	-0-	17,000,000
Payments on capital leases	(664,902)	-0-	-0-	(664,902)
Payments for bond issuance costs	(170,849)	-0-	-0-	(170,849)
Deferred loss on refunding of bonds	(2,182,314)	-0-	-0-	(2,182,314)
Existing deferred losses on bond refundings utilized in current year bond refunding calculation	1,730,537			1,730,537
Cash paid for interest	(1,550,707)	-0-	-0-	(1,550,707)
Gain on disposal of capital assets	66,491	-0-	-0-	66,491
Proceeds on sale of assets	1,731	-0-	-0-	1,731
Purchase of capital assets	(15,069,946)	-0-	-0-	(15,069,946)
Net cash flows from capital and related financing activities	(20,650,490)	-0-	-0-	(20,650,490)
<b>Investing activities</b>				
Loss on interest rate swaps	38,731	-0-	-0-	38,731
Investment income	5,441,778	576,028	-0-	6,017,806
Purchase of investments	(60,767,889)	(3,991,521)	-0-	(64,759,410)
Proceeds from sale of investments	39,952,681	3,791,889	-0-	43,744,570
Net cash flows from investing activities	(15,334,699)	376,396	-0-	(14,958,303)
Net change in cash and cash equivalents	11,748,294	(209,750)	-0-	11,538,544
<b>Cash and cash equivalents</b>				
Beginning of year	28,907,489	465,980	-0-	29,373,469
End of year	\$ 40,655,783	\$ 256,230	\$ -0-	\$ 40,912,013
<b>Reconciliation of cash and cash equivalents to the balance sheets</b>				
Cash and cash equivalents				
In current assets	\$ 35,336,135	\$ 256,230	\$ -0-	\$ 35,592,365
In assets whose use is limited	5,319,648	-0-	-0-	5,319,648
Total cash and cash equivalents	\$ 40,655,783	\$ 256,230	\$ -0-	\$ 40,912,013

See accompanying notes to consolidated financial statements.

# RIVERVIEW HEALTH

## CONSOLIDATED STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2013

	2013			Total reporting entity
	Hospital	Foundation	Eliminations	
<b>Reconciliation of operating income to net cash flows from operating activities</b>				
Operating income	\$ 24,793,445	\$ -0-	\$ -0-	\$ 24,793,445
Adjustments to reconcile operating income to net cash flows from operating activities				
Depreciation and amortization	11,105,028	-0-	-0-	11,105,028
Amortization of annuities	-0-	(3,280)	-0-	(3,280)
Provision for bad debts	15,799,501	-0-	-0-	15,799,501
Changes in operating assets and liabilities				
Patient accounts receivable	(21,345,231)	-0-	-0-	(21,345,231)
Inventories	(333,937)	-0-	-0-	(333,937)
Other current assets	3,497,136	(144,436)	-0-	3,352,700
Other assets	323,329	(158,706)	-0-	164,623
Accounts payable	3,205,270	4,117	-0-	3,209,387
Related party receivables/payables	(467,165)	-0-	-0-	(467,165)
Salaries, wages and fees payable	(1,327,828)	-0-	-0-	(1,327,828)
Estimated third-party payor settlements	973,450	-0-	-0-	973,450
Other current liabilities	10,647,121	-0-	-0-	10,647,121
Other long-term liabilities	406,968	-0-	-0-	406,968
Net cash flows from operating activities	\$ 47,277,087	\$ (302,305)	\$ -0-	\$ 46,974,782
<b>Supplemental cash flows information</b>				
Property acquired through capital lease obligation	\$ 428,843	\$ -0-	\$ -0-	\$ 428,843

See accompanying notes to consolidated financial statements.

# RIVERVIEW HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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### 1. SIGNIFICANT ACCOUNTING POLICIES

#### Organization and Reporting Entity

During 2014, Riverview Hospital changed its name to Riverview Health. Riverview Health (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 twenty seven 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, 2016. The terms of these agreements may be renewed at the end of each term for an additional period of two years. All parties involved can terminate the agreement without cause with 90 days written notice.

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

# RIVERVIEW HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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

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

The consolidated financial statements of the Hospital are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of Hamilton County, attributable to the transactions of the Hospital, its Subsidiary, and its Foundation. They do not purport to, and do not, present fairly the financial position of Hamilton County as of December 31, 2014 and 2013, the changes in its financial position or its cash flows for the years then ended.

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

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

Riverview Medical Imaging, LLC. (RMI) is a consolidated subsidiary as the Hospital owned approximately 54% and 59% as of December 31, 2014 and 2013, respectively, which in effect renders RMI a blended component unit of the Hospital. RMI primarily owns and leases medical imaging equipment. The non-controlling interest represents the portion of the equity (net position) that is attributable to investors that are external to and not included in the Hospital's consolidated financial statements. Condensed financial information related to RMI is as follows:

	2014	2013
Assets	\$ 2,532,549	\$ 3,093,906
Liabilities	238,174	441,344
Net position	<u>\$ 2,294,375</u>	<u>\$ 2,652,562</u>
Revenue	\$ 466,699	\$ 540,872
Less expenses	228,525	232,025
Less distributions to shareholders	596,361	-0-
Change in net position	<u>\$ (358,187)</u>	<u>\$ 308,847</u>

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# RIVERVIEW HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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

	<u>Controlling Interest</u>	<u>Non-controlling Interest</u>	<u>Total</u>
Net position balances			
December 31, 2012	\$ 136,490,355	\$ 611,710	\$ 137,102,065
Change in net position	<u>29,363,016</u>	<u>465,230</u>	<u>29,828,246</u>
December 31, 2013	165,853,371	1,076,940	166,930,311
Change in net position	24,291,494	110,751	24,402,245
Distributions to shareholders	<u>-0-</u>	<u>(120,807)</u>	<u>(120,807)</u>
December 31, 2014	<u>\$ 190,144,865</u>	<u>\$ 1,066,884</u>	<u>\$ 191,211,749</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 Health Foundation, Inc. (Foundation):* A separate not-for-profit entity organized to support the operations of the Hospital. All significant transactions between the Hospital and the Foundation have been eliminated.

### Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of

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# RIVERVIEW HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Federal or State Income Taxes

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

The blended component unit of RMI is organized as a limited liability company, whereby net taxable income is taxed directly to the members and not this entity. Thus, the financial statements do not include any provision for Federal or State income taxes. RMI has filed its federal and state income returns for periods through December 31, 2014.

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

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Foundation and RMI, and recognize a tax liability if they have taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken and has concluded that as of December 2014 and 2013, 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.

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# RIVERVIEW HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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### Investments in Debt and Equity Securities

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

### Patient Accounts Receivable and Net Patient Service Revenue

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

At the Hospital's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program. The Medicare program cost reports have been audited through December 31, 2011 with immaterial differences reflected as deductions from revenue in 2014. Amounts from unresolved cost reports for 2012 through 2014 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, 2014 and 2013 were approximately \$1,190,000 and \$772,000, respectively.

# RIVERVIEW HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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### Inventories

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

### Assets Whose Use is Limited

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

### Capital Assets and Depreciation

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

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

### Investment in Affiliates

The Hospital has equity interests in several joint ventures. These investments are recorded on the 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.

# RIVERVIEW HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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### 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, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Non-controlling interests	\$ 1,066,884	\$ 1,076,940
Endowments	2,712,695	2,791,634
Total	<u>\$ 3,779,579</u>	<u>\$ 3,868,574</u>

### Hospital Assessment Fee Program

The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share (DSH) payments for Indiana hospitals as reflected in the Hospital assessment fee expense reported in the statement 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 2014 and 2013, the Hospital recognized Hospital assessment fee expense of approximately \$6,397,000 and \$6,571,000, respectively, which resulted in increased Medicaid reimbursement.

# RIVERVIEW HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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### Recent GASB Pronouncements

Management has not currently determined what effects, if any, the implementation of the following recently enacted statements may have on its future financial statements:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*, issued June 2012, will be effective for periods beginning after June 15, 2014. This Statement establishes the accounting and financial reporting standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to certain pensions. It will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an Amendment of GASB Statement No. 68*, issued November 2013, will be required to be applied simultaneously with provisions of GASB Statement No. 68 making it effective for periods beginning after June 15, 2014. This Statement amends previous guidance to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability.

### Electronic Health Records (EHR) Incentive Payments

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

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

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

# RIVERVIEW HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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The Hospital recognizes EHR incentive payments as grant income when there is reasonable assurance that the Hospital will comply with the conditions of the meaningful use objectives and any other specific agreement requirements. In addition, the financial statement effects of the income must be both recognizable and measurable. During 2014 and 2013, the Hospital recognized approximately \$1,117,000 and \$2,371,000, respectively, in EHR incentive payments as income. Under the ratable recognition method, the Hospital recognizes income ratably over the entire EHR reporting period when it is reasonably assured at the outset of the EHR reporting period that it will comply with the minimum requirements of the program.

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

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

### Cost of Borrowing

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

### Grants and Contributions

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

Amounts restricted for capital acquisitions are reported after non-operating revenues and expenses.

### Restricted Resources

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

# RIVERVIEW HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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### Operating Revenues and Expenses

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

### Charity Care

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

Of the Hospital's total expenses reported, excluding the long-term care expenses, (approximately \$163,000,000 and \$158,000,000 during the years ended December 31, 2014 and 2013, respectively), an estimated \$2,964,000 and \$3,449,000 arose from providing services to charity patients during the years ended December 31, 2014 and December 31, 2013, respectively.

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

### Compensated Absences

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

### Risk Management

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

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# RIVERVIEW HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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### Reclassifications

Certain amounts from 2013 have been reclassified in order to conform to the 2014 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 financial statements through the date the financial statements are issued which is March 23, 2015.

## 2. NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The following is a summary of net patient service revenue for 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Patient service revenue		
Inpatient	\$ 135,034,815	\$ 137,699,213
Outpatient	227,815,807	224,186,703
Long term care	<u>323,875,225</u>	<u>349,862,518</u>
Gross service patient revenue	<u>686,725,847</u>	<u>711,748,434</u>
Deductions from revenue		
Contractual allowances	253,963,877	265,204,171
Charity care	6,607,658	7,901,777
Provision for bad debts	<u>15,615,118</u>	<u>15,799,501</u>
Total deductions from revenue	<u>276,186,653</u>	<u>288,905,449</u>
Net patient service revenue	<u>\$ 410,539,194</u>	<u>\$ 422,842,985</u>

# RIVERVIEW HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

### 3. ACCOUNTS RECEIVABLE AND PAYABLE

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital at year-end consisted of these amounts as of December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
<u>Patient accounts receivable</u>		
Receivable from patients and their insurance carriers	\$ 33,969,372	\$ 28,600,224
Receivable from Medicare	25,371,386	31,457,100
Receivable from Medicaid	12,049,108	16,496,202
Total patient accounts receivable	<u>71,389,866</u>	<u>76,553,526</u>
Less allowances for contractual agreements	(21,627,825)	(24,601,164)
Less allowances for uncollectible amounts	(6,974,979)	(8,026,051)
Total allowances	<u>(28,602,804)</u>	<u>(32,627,215)</u>
Patient accounts receivable, net	<u>\$ 42,787,062</u>	<u>\$ 43,926,311</u>
<u>Accounts payable and accrued expenses</u>		
Payable to suppliers	\$ 12,863,321	\$ 16,100,866
Payable to employees (including payroll taxes and benefits)	9,229,319	6,888,972
Total accounts payable and accrued expenses	<u>\$ 22,092,640</u>	<u>\$ 22,989,838</u>

### 4. ASSETS WHOSE USE IS LIMITED

#### Board Designated Funds

The Hospital funds depreciation expense to meet the capital equipment needs of the facility. Depreciation is funded totally, with expenditures for capital equipment and debt principal payments reducing the long-term investments balance. The Hospital designates other investments to fund specific projects. Interest earned by the long-term investments and other board designated investments accounts are left to accumulate as an addition to the funds. Board designated funds as of December 31, 2014 and 2013 were approximately \$83,100,000 and \$63,300,000, respectively.

#### Trustee Held Assets

The Hospital deposited funds for certain debt requirements which are held by the trustee in accordance with the trust indenture. Bond funds held as trustee held assets for debt service as of December 31, 2014 and 2013 were approximately \$1,347,000 and \$1,345,000, respectively.

# RIVERVIEW HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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The Hospital also deposits certain funds related to professional liability insurance funds. Professional liability insurance funds as of December 31, 2014 and 2013 were approximately \$1,035,000 and \$981,000, respectively.

### Donor-Restricted - Expendable for Various Purposes

The Hospital has funds which have been donated for specific purposes. The funds must be used for the donor specified purpose. Donor-restricted assets that are expendable for various purposes were approximately \$1,000,000 and \$1,060,000 as of December 31, 2014 and 2013.

### Donor-Restricted Nonexpendable Endowments

The Hospital maintains several permanent funds with donor-restricted endowments that totaled approximately \$2,700,000 and \$2,800,000 at December 31, 2014 and 2013, respectively. It is the Hospital's policy that only interest and dividends on investments are authorized for spending. Any appreciation on investments is added to the original endowment and is not authorized for spending.

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

## 5. DEPOSITS AND INVESTMENTS

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

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

# RIVERVIEW HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

As of December 31, 2014 and 2013, 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, 2014					
Hospital	Carrying amount	Investment Maturities (in Years)			
		Less than 1	1 - 5	6 - 10	More than 10
Mutual funds - equities	\$ 51,369,813	\$ 51,369,813	\$ -0-	\$ -0-	\$ -0-
Mutual funds - fixed income	28,880,411	28,880,411	-0-	-0-	-0-
	\$ 80,250,224	\$ 80,250,224	\$ -0-	\$ -0-	\$ -0-
Foundation					
Mutual funds - equities	\$ 2,514,919	\$ 2,514,919	\$ -0-	\$ -0-	\$ -0-
Mutual funds - fixed income	1,223,760	1,223,760	-0-	-0-	-0-
Certificates of deposit	50,000	50,000	-0-	-0-	-0-
	\$ 3,788,679	\$ 3,788,679	\$ -0-	\$ -0-	\$ -0-
December 31, 2013					
Hospital	Carrying amount	Investment Maturities (in Years)			
		Less than 1	1 - 5	6 - 10	More than 10
Mutual funds - equities	\$ 35,147,156	\$ 35,147,156	\$ -0-	\$ -0-	\$ -0-
Mutual funds - fixed income	25,187,128	25,187,128	-0-	-0-	-0-
	\$ 60,334,284	\$ 60,334,284	\$ -0-	\$ -0-	\$ -0-
Foundation					
Mutual funds - equities	\$ 2,600,795	\$ 2,600,795	\$ -0-	\$ -0-	\$ -0-
Mutual funds - fixed income	1,139,315	1,139,315	-0-	-0-	-0-
Certificates of deposit	75,000	75,000	-0-	-0-	-0-
	\$ 3,815,110	\$ 3,815,110	\$ -0-	\$ -0-	\$ -0-

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

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

# RIVERVIEW HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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

Deposits, investments, and other consist of the following as of December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Hospital		
Carrying amount		
Deposits	\$ 35,249,693	\$ 40,655,783
Investments	80,250,224	60,334,284
	<u>\$ 115,499,917</u>	<u>\$ 100,990,067</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 30,097,193	\$ 35,336,135
Board designated funds	82,995,018	63,238,894
Trustee held assets	2,381,208	2,326,188
Restricted by donor	26,498	88,850
	<u>\$ 115,499,917</u>	<u>\$ 100,990,067</u>
Foundation		
Carrying amount		
Deposits	\$ 337,335	\$ 256,230
Investments	3,788,679	3,815,110
	<u>\$ 4,126,014</u>	<u>\$ 4,071,340</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 337,335	\$ 256,230
Board designated funds	98,988	52,951
Restricted by donor	3,689,691	3,762,159
	<u>\$ 4,126,014</u>	<u>\$ 4,071,340</u>

# RIVERVIEW HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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### 6. FAIR VALUE OF FINANCIAL INSTRUMENTS

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, 2014 and 2013.

- *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.

# RIVERVIEW HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2014 are as follows:

	2014			
Hospital	Total	Level 1	Level 2	Level 3
<b>Assets:</b>				
Assets whose use is limited				
Mutual funds				
Small value	\$ 3,409,990	\$ 3,409,990	\$ -0-	\$ -0-
Mid-cap growth	16,412,778	16,412,778	-0-	-0-
Mid-cap blend	2,605,671	2,605,671	-0-	-0-
Large value	5,083,385	5,083,385	-0-	-0-
Large growth	16,756,608	16,756,608	-0-	-0-
Large blend	7,099,163	7,099,163	-0-	-0-
Bond	28,880,411	28,880,411	-0-	-0-
Other	2,218	2,218	-0-	-0-
	<u>80,250,224</u>	<u>\$ 80,250,224</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Money market deposit accounts	5,152,500			
Total assets whose use is limited	<u>\$ 85,402,724</u>			
<b>Liabilities:</b>				
Interest rate swap agreements	<u>\$ 803,072</u>	<u>\$ -0-</u>	<u>\$ 803,072</u>	<u>\$ -0-</u>
<b>Foundation</b>				
	Total	Level 1	Level 2	Level 3
<b>Assets:</b>				
Mutual funds				
Small growth	\$ 99,493	\$ 99,493	\$ -0-	\$ -0-
Small value	92,112	92,112	-0-	-0-
Mid value	99,371	99,371	-0-	-0-
Large value	759,524	759,524	-0-	-0-
Large growth	848,408	848,408	-0-	-0-
Large blend	616,011	616,011	-0-	-0-
Fixed income	193,068	193,068	-0-	-0-
Bond	1,030,692	1,030,692	-0-	-0-
	<u>\$ 3,738,679</u>	<u>\$ 3,738,679</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Certificates of deposit *	50,000			
	<u>\$ 3,788,679</u>			

\* Certificates of deposit are reported at contract value

# RIVERVIEW HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2013 are as follows:

	2013			
Hospital	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Assets whose use is limited				
Mutual funds				
Small value	\$ 2,488,547	\$ 2,488,547	\$ -0-	\$ -0-
Mid-cap growth	2,643,516	2,643,516	-0-	-0-
Mid-cap blend	5,312,928	5,312,928	-0-	-0-
Large value	3,345,777	3,345,777	-0-	-0-
Large growth	3,249,263	3,249,263	-0-	-0-
Large blend	13,449,653	13,449,653	-0-	-0-
Foreign	4,657,470	4,657,470	-0-	-0-
Bond	25,185,670	25,185,670	-0-	-0-
Other	1,460	1,460	-0-	-0-
	<u>60,334,284</u>	<u>\$ 60,334,284</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Money market deposit accounts	5,319,648			
Total assets whose use is limited	<u>\$ 65,653,932</u>			
Interest rate swap agreement	<u>\$ 411,217</u>	<u>\$ -0-</u>	<u>\$ 411,217</u>	<u>\$ -0-</u>
<b>Liabilities:</b>				
Interest rate swap agreement	<u>\$ 372,486</u>	<u>\$ -0-</u>	<u>\$ 372,486</u>	<u>\$ -0-</u>
 <b>Foundation</b>				
Assets:	Total	Level 1	Level 2	Level 3
Assets whose use is limited				
Mutual funds				
Small growth	\$ 268,629	\$ 268,629	\$ -0-	\$ -0-
Small value	160,837	160,837	-0-	-0-
Mid value	157,632	157,632	-0-	-0-
Large value	607,302	607,302	-0-	-0-
Large growth	373,830	373,830	-0-	-0-
Mid blend	83,832	83,832	-0-	-0-
Large blend	948,191	948,191	-0-	-0-
Fixed income	1,139,857	1,139,857	-0-	-0-
	<u>3,740,110</u>	<u>\$ 3,740,110</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Certificates of deposit *	75,000			
	<u>\$ 3,815,110</u>			

\* Certificates of deposit are reported at contract value

The Hospital's policy is to recognize transfers between levels as of the end of the reporting period. There were no transfers during 2014 and 2013.

# RIVERVIEW HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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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. Net realized gains and losses and interest income approximated \$5,000,000 and \$1,530,000 during 2014 and 2013 respectively.

The market value of investments exceeded the cost by approximately \$700,000 and \$3,800,000 as of December 31, 2014 and 2013, respectively. The unrealized gains are included in earnings for the period attributable to the change in unrealized gains relating to assets held as of December 31, 2014 and 2013. During 2014 and 2013, the Hospital recognized an unrealized loss of approximately \$3,100,000 in 2014 and recognized an unrealized gain of \$4,700,000 in 2013, respectively, which is included in the consolidated statement of revenues, expenses, and changes in net position as a component of investment income.

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

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

Long-term debt: Fair value of the Hospital's long-term debt, estimated using discounted cash flow analysis, for the Series 2005, 2011, 2012, and 2013 bonds approximated \$38,000,000 and \$39,000,000 as of December 31, 2014 and 2013, respectively.

# RIVERVIEW HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

### 7. CAPITAL ASSETS

Capital asset progressions for 2014 and 2013 follow:

	December 31, 2013	Additions	Retirements	Transfers	December 31, 2014
<b>Hospital</b>					
Land	\$ 9,814,610	\$ 6,102,774	\$ -0-	\$ -0-	\$ 15,917,384
Land improvements	2,495,880	56,204	(4,356)	77,671	2,625,399
Buildings and improvements	96,031,217	1,366,335	(324,069)	3,959,775	101,033,258
Equipment	110,553,371	5,785,595	(17,934,724)	5,667,304	104,071,546
Construction in progress	7,571,720	9,332,551	(17,749)	(9,704,750)	7,181,772
Total capital assets	<u>226,466,798</u>	<u>22,643,459</u>	<u>(18,280,898)</u>	<u>-0-</u>	<u>230,829,359</u>
<b>Less accumulated depreciation</b>					
Land improvements	1,804,322	130,040	-0-	-0-	1,934,362
Buildings and improvements	46,498,218	4,043,962	-0-	-0-	50,542,180
Equipment	81,475,394	7,640,292	(18,264,683)	-0-	70,851,003
Total accumulated depreciation	<u>129,777,934</u>	<u>11,814,294</u>	<u>(18,264,683)</u>	<u>-0-</u>	<u>123,327,545</u>
Capital assets, net	<u>\$ 96,688,864</u>	<u>\$ 10,829,165</u>	<u>\$ (16,215)</u>	<u>\$ -0-</u>	<u>\$ 107,501,814</u>
<b>Foundation</b>					
Equipment	\$ 15,380	\$ -0-	\$ -0-	\$ -0-	\$ 15,380
Less accumulated depreciation	15,380	-0-	-0-	-0-	15,380
Capital assets, net	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
	December 31, 2012	Additions	Retirements	Transfers	December 31, 2013
<b>Hospital</b>					
Land	\$ 9,814,610	\$ -0-	\$ -0-	\$ -0-	\$ 9,814,610
Land improvements	2,418,394	36,305	-0-	41,181	2,495,880
Buildings and improvements	92,788,115	1,692,045	(52,804)	1,603,861	96,031,217
Equipment	103,097,766	4,834,736	(937,733)	3,558,602	110,553,371
Construction in progress	3,839,661	8,935,703	-0-	(5,203,644)	7,571,720
Total capital assets	<u>211,958,546</u>	<u>15,498,789</u>	<u>(990,537)</u>	<u>-0-</u>	<u>226,466,798</u>
<b>Less accumulated depreciation</b>					
Land improvements	1,680,496	123,826	-0-	-0-	1,804,322
Buildings and improvements	42,616,479	3,881,739	-0-	-0-	46,498,218
Equipment	75,318,161	7,079,548	(922,315)	-0-	81,475,394
Total accumulated depreciation	<u>119,615,136</u>	<u>11,085,113</u>	<u>(922,315)</u>	<u>-0-</u>	<u>129,777,934</u>
Hospital capital assets, net	<u>\$ 92,343,410</u>	<u>\$ 4,413,676</u>	<u>\$ (68,222)</u>	<u>\$ -0-</u>	<u>\$ 96,688,864</u>
<b>Foundation</b>					
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>

As of December 31, 2014, the estimated cost to complete outstanding projects included within in construction in progress was approximately \$8,200,000.

# RIVERVIEW HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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### 8. LONG-TERM DEBT

In October 2013, the Hospital issued \$17 million in Revenue bonds with a variable interest rate of the one-month LIBOR rate plus .925% to refund approximately \$16.4 million of outstanding 2010 series bonds with a fixed interest rate. The net proceeds of \$16.8 million (after bond issuance costs of approximately \$170,000) were used to purchase U.S. government securities. Those securities were deposited in an independent irrevocable trust with an escrow agent to provide for extinguishment of all outstanding debt service on the 2010 Series bonds. As a result, the 2010 Series bonds were in-substan defeased in 2013 by the Hospital. The 2010 bonds were fully refunded with the independent irrevocable trust on January 2, 2014.

These transactions in essence created a deferred loss on the refunding of the 2010 bonds of \$2,182,314 calculated as follows:

Reacquisition price (funds required to be deposited in escrow fund to refund old bonds)	\$ 16,829,151 *
Net carrying amount of old bonds	<u>(14,646,837) **</u>
Deferred loss on refunding	<u>\$ 2,182,314</u>

\* Funds available to accomplish the refunding were:

Funds provided from issuance of new bonds	\$ 17,000,000
Funds used for new 2013 bond issuance costs	<u>(170,849)</u>
	<u>\$ 16,829,151</u>

\*\*Net carrying amount consist of:

Principal outstanding prior to refunding	\$ 16,377,374
Deferred loss on 2010 bond refunding	<u>(1,730,537)</u>
	<u>\$ 14,646,837</u>

The deferred loss on refunding is included within deferred outflows on the consolidated statements of net position. Amortization expense on deferred losses on bond refunding was approximately \$243,000 and \$180,000 during 2014 and 2013, respectively. The terms and due dates of the Hospital's long-term debt, including capital lease obligations as of December 31, 2014 and 2013 follow:

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

# RIVERVIEW HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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- 2010 tax-exempt revenue bonds, principal maturing in varying amounts due December 29, 2025, collateralized by net revenues of the Hospital. Interest rate is fixed at 3.9%. These bonds were paid in full during 2013.
- 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 1.42% as of December 31, 2014 and 2013, respectively. An associated interest rate swap has fixed rate of 2.67%, and with a liability fair value of approximately \$30,000 as of December 31, 2014 and an asset value of approximately \$400,000 as of December 31, 2013. The interest rate swap is included in deferred inflows and outflows on the consolidated balance sheets.
- 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 1.05% and 1.04% as of December 31, 2014 and 2013, respectively. An associated interest rate swap has fixed rate of 3.10%, with a liability fair value of approximately \$770,000 and \$373,000 as of December 31, 2014 and 2013, respectively, which is in deferred inflows on the consolidated balance sheets.
- Tipton Family Practice note payable, principal maturing in varying amounts due in January 2015. Interest rate is fixed at 5%. This note was paid in full during 2015.
- Capital lease obligations, at varying interest rates of imputed interest of 5.00% to 7.3%, maturing from 2015 through 2021, collateralized by leased equipment with cost of approximately \$2,800,000 and \$4,800,000 as of December 31, 2014 and 2013, respectively. Accumulated depreciation on capital leases was approximately \$1,400,000 and \$3,700,000 as of December 31, 2014 and 2013, respectively.

Under the terms of the revenue bond indenture, the Hospital is required to maintain certain deposits with a trustee. Such deposits are included with restricted cash and investments in the consolidated balance sheet. The revenue bond indenture also places limits on the incurrence of additional borrowings and requires that the Hospital satisfy certain measures of financial performances as long as the notes are outstanding. The Hospital is also required to meet certain financial covenants. The Hospital believes it is in compliance with all covenants as of December 31, 2014 and 2013.

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# RIVERVIEW HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

A summary of long-term debt as of December 31, 2014 and 2013 includes the following:

	December 31, 2013	Additional Borrowings	Payments	December 31, 2014	Current Portion
Revenue bonds payable					
2005 Bonds	\$ 3,520,000	\$ -0-	\$ 820,000	\$ 2,700,000	\$ 860,000
2011 Bonds	5,671,102	-0-	632,463	5,038,639	659,543
2012 Bonds	15,965,000	-0-	960,000	15,005,000	985,000
2013 Bonds	16,925,000	-0-	910,000	16,015,000	940,000
Total revenue bonds	42,081,102	-0-	3,322,463	38,758,639	3,444,543
Tipton Family Practice note payable	174,845	-0-	167,554	7,291	7,291
Capital lease obligations	563,424	971,665	364,863	1,170,226	298,369
	<u>\$ 42,819,371</u>	<u>\$ 971,665</u>	<u>\$ 3,854,880</u>	<u>\$ 39,936,156</u>	<u>\$ 3,750,203</u>

	2012	Borrowings	Payments	2013	Portion
Revenue bonds payable					
2005 Bonds	\$ 4,310,000	\$ -0-	\$ 790,000	\$ 3,520,000	\$ 820,000
2010 Bonds	17,240,135	-0-	17,240,135	-0-	-0-
2011 Bonds	6,277,595	-0-	606,493	5,671,102	632,463
2012 Bonds	16,900,000	-0-	935,000	15,965,000	960,000
2013 Bonds	-0-	17,000,000	75,000	16,925,000	905,000
Total revenue bonds	44,727,730	17,000,000	19,646,628	42,081,102	3,317,463
Tipton Family Practice note payable	338,748	-0-	163,903	174,845	174,845
Capital lease obligations	799,483	428,843	664,902	563,424	255,808
	<u>\$ 45,865,961</u>	<u>\$ 17,428,843</u>	<u>\$ 20,475,433</u>	<u>\$ 42,819,371</u>	<u>\$ 3,748,116</u>

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

Year Ending December 31,	Long-term Debt		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2015	\$ 3,451,834	\$ 1,193,809	\$ 298,369	\$ 56,779
2016	3,562,784	1,070,595	314,792	39,816
2017	3,697,233	942,906	332,628	21,980
2018	2,842,944	821,150	195,627	6,146
2019	2,939,969	728,368	28,811	358
2020-2024	13,211,465	2,329,200	-0-	-0-
2025-2028	9,059,700	528,589	-0-	-0-
	<u>38,765,929</u>	<u>\$ 7,614,617</u>	<u>\$ 1,170,227</u>	<u>\$ 125,079</u>

# RIVERVIEW HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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The Hospital has interest rate swap agreements related to the Series 2012 and 2013 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 and 2013 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 and 2013 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, 2014 and 2013, the variable rates on the Series 2012 and 2013 Bonds were lower than the swap agreements fixed rates. The table related to future maturities above utilizes the swap fixed interest rates.

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

### 9. DERIVATIVE INSTRUMENTS – INTEREST RATE SWAPS

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

For those instruments deemed to be 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 to be 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.

During 2013, the Hospital's interest rate swap agreements were determined to be ineffective hedges. Therefore, the interest rate swap agreements are ineffective through the remainder of the term. As a result, the fair value of the instruments have been recorded as deferred inflows and deferred outflows on the consolidated balance sheets with the offsetting entries recorded under nonoperating income (expenses) in the consolidated statement of revenues, expenses and changes in net position.

# RIVERVIEW HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

### Contracts

The Hospital has two interest rate swap agreements in effect as of December 31, 2014 and 2013 for the 2012 and 2013 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 and 2013 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% and change the Hospital's variable interest rate on the Series 2013 Bonds to a fixed rate of 3.10%.

### Terms, Fair Values and Credit Risk

The swap agreements relate to the Series 2012 and 2013 Bonds with original notional amounts of \$16,900,000 and \$17,000,000, respectively. The counter party is the same for each swap agreement. The terms and fair values of the outstanding swaps as of December 31, 2014 are as follows:

Associated Bond Issue	Original Notational Amount	Current Notional Amount	Effective date	Fixed rate	Variable rate	Fair value	Termination date	Counterparty credit rating
2012 Series Bonds	\$ 16,900,000	\$ 15,005,000	February 1, 2013	2.67%	.74 times (1M Libor plus 1.75%)	\$ (29,807)	December 1, 2022	A2/A+/AA-
2013 Series Bonds	17,000,000	16,015,000	October 1, 2013	3.10%	.74 times (1M Libor plus 1.25%)	(773,265)	October 2, 2023	A2/A+/AA-
	<u>\$ 33,900,000</u>	<u>\$ 31,020,000</u>				<u>\$ (803,072)</u>		

As of December 31, 2014, the 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 and 2013 Series bonds increase.

### Basis Risk

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

# RIVERVIEW HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

### 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, 2014 and 2013, the Hospital was in compliance with the terms of the swap contracts.

### Swap Payments and Associated Debt

Using rates as of December 31, 2014, debt service requirements of the variable rate debt and net swap payments of the Series 2012 and 2013 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 income (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:

	Deferred Outflows	
	2014	2013
2012 series bonds interest rate swap	\$ -0-	\$ 411,217
	Deferred Inflows	
	2014	2013
2012 series bonds interest rate swap	\$ 29,807	\$ -0-
2013 series bonds interest rate swap	773,265	372,486
	\$ 803,072	\$ 372,486

<u>Financial instrument</u>	2014	2013	<u>Location</u>
2012 Series bonds interest rate swap	\$ (441,024)	\$ 411,217	Contributions and other nonoperating
2013 Series bonds interest rate swap	(400,779)	(372,486)	Contributions and other nonoperating
Total gain (loss)	\$ (841,803)	\$ 38,731	

See the Fair Value Measurements and Long Term Debt footnotes for additional information.

# RIVERVIEW HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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### 10. PENSION PLAN

#### Plan Description

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

The Riverview Health Employees Pension Plan covers all eligible employees who have been employed by the Hospital prior to July 1, 2008, and the Hospital is required to contribute 3% of an employee's compensation up to \$200,000. Certain employees hired subsequently to June 30, 2008 are eligible for the plan if conditions in the plan document are met.

Up until December 31, 2010, the Hospital was required to match 25% of an employee's contribution up to a maximum of 6% of the employee's compensation to the Riverview Health 403(b) Retirement Plan. The maximum employee contribution is subject to regulatory caps. As of January 1, 2011, the Plan was amended so that the match rate on employee contributions became discretionary. During 2014, the Hospital matched 50% of employee elective deferrals into the 403(b) plan, up to 3% of a participant's eligible compensation. During 2013, the Hospital did not match contributions on the 403(b) plan.

Employer contributions including both plans were \$1,883,477 and \$453,687 for 2014 and 2013, respectively.

### 11. COMMITMENTS AND CONTINGENCIES

*Operating leases - lessee:* The Hospital is committed under various noncancelable operating leases for equipment and facilities. These expire in various years through 2024 with options to renew.

# RIVERVIEW HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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The following is a schedule of future minimum lease payments under noncancelable operating leases as of December 31, 2014, that have initial or remaining lease terms in excess of one year.

Year ending December 31,	
2015	\$ 2,099,008
2016	2,043,251
2017	1,987,525
2018	894,165
2019	910,693
Thereafter	<u>4,350,583</u>
	<u>\$ 12,285,225</u>

*Operating leases – lessor:* The Hospital leases space to tenants under operating leases with terms of one to ten years. Leased space consists of buildings with a total cost of approximately \$9,200,000 and \$9,900,000 as of December 31, 2014 and 2013, respectively, and accumulated depreciation of approximately \$5,200,000 and \$5,600,000 as of December 31, 2014 and 2013, respectively. Total rental income for all operating leases was approximately \$1,200,000 and \$1,100,000 for 2014 and 2013, respectively.

Future minimum rentals under the leases are as follows:

Year ending December 31,	
2015	\$ 654,670
2016	504,239
2017	480,139
2018	480,139
2019	479,011
Thereafter	<u>1,945,933</u>
	<u>\$ 4,544,131</u>

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

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# RIVERVIEW HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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### 12. CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables and gross patient service revenues from patients and third-party payors for 2014 and 2013 was as follows:

	Receivables		Revenues	
	2014	2013	2014	2013
Self pay	16%	14%	9%	13%
Medicare	36%	41%	42%	44%
Medicaid	17%	22%	23%	23%
Anthem/Blue Cross	9%	8%	10%	9%
Other Commercial	22%	15%	16%	11%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

### 13. JOINT VENTURES

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

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

# RIVERVIEW HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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*Riverview Surgical Management Association:* The Hospital has a 57% ownership in Riverview Surgical Management Association (RSMA). RSMA has been contracted by the Hospital to operate the surgery center and provide management services thereto. RSMA provides complete management and administrative services for and on behalf of the Hospital. This agreement automatically renews for successive one-year terms unless either party provides written notice at least ninety days prior to the end of the term. The Hospital recorded an asset related to this investment of approximately \$1,273,000 and \$835,000 as of December 31, 2014 and 2013. 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 2014 and 2013 were approximately \$4,000,000 and \$3,800,000, respectively, comprising of management fees, lease payments and other expenses.

Amounts receivable and payable from related parties as of December 31, 2014 and 2013 are included related party receivables and related party payables in the accompanying consolidated balance sheets.

### 14. SELF INSURANCE

The Hospital's employee health care insurance is provided through a combination of self-insurance and purchased insurance coverage from a commercial carrier. The Hospital maintains an estimated liability for the amount of claims incurred but not reported. Substantially all employees are covered for major medical benefits. Total self-health insurance expense for 2014 and 2013 was approximately \$4,600,000 and \$4,800,000, respectively. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported.

Changes in balance of health claim liabilities during 2014 and 2013 are as follows:

	2014	2013
Unpaid claims, beginning of year	\$ 858,900	\$ 661,448
Incurred claims and changes in estimates	4,585,628	4,818,797
Claim payments	<u>(4,760,342)</u>	<u>(4,621,345)</u>
Unpaid claims, end of year	<u>\$ 684,186</u>	<u>\$ 858,900</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 \$180,000 per claim with a no maximum reimbursement cap per covered person.

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# RIVERVIEW HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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### 15. ESTIMATED MALPRACTICE COSTS

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

The Indiana Medical Malpractice Act, IC 34-18 (Act) provides a maximum recovery of \$1,250,000 for an occurrence of malpractice. The Act requires the Hospital to maintain medical malpractice liability insurance in the amount of at least \$250,000 per occurrence and \$7,500,000 in the annual aggregate. The act also requires the Hospital to pay a surcharge to the State Patient's Compensation Fund (Fund). The Fund is used to pay medical malpractice claims in excess of per occurrence and the annual aggregate amounts as noted above, under certain terms and conditions. No accrual for possible losses attributable to incidents that may have occurred but that have not been identified has been made because the amount, if any, is not reasonably estimable. The Fund is on a claims-made basis and as long as this coverage is continuous or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be insured.