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302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

July 29, 2021

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

We have reviewed the report of Riverview Hospital d/b/a Riverview Health, which was opined upon by Blue & Company, LLC, Independent Public Accountants, for the period January 1, 2020 to December 31, 2020. Per the Report of *Independent Auditors*, the financial statements included in the report present fairly the financial condition of Riverview Hospital as of December 31, 2020, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

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

A handwritten signature in blue ink that reads "Paul D. Joyce".

Paul D. Joyce, CPA
State Examiner



CONSOLIDATED FINANCIAL STATEMENTS

AND

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2020 AND 2019

CPAs / ADVISORS



RIVERVIEW HEALTH

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Blue & Co., LLC / 500 N. Meridian Street, Suite 200 / Indianapolis, IN 46204
main 317.633.4705 fax 317.633.4889 email blue@blueandco.com

REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Riverview Health
Noblesville, Indiana

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Riverview Hospital d/b/a Riverview Health (the Hospital), a component unit of Hamilton County, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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.

Board of Trustees
Riverview Health
Noblesville, Indiana

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, 2020 and 2019, and its respective changes in net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Notes 2 and 3 to the consolidated financial statements, the Hospital early adopted Governmental Accounting Standards Board Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Our opinion is not modified with respect to this matter.

Report on Required Supplementary Information

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

Blue & Co., LLC

Indianapolis, Indiana
March 29, 2021

REQUIRED SUPPLEMENTARY INFORMATION

RIVERVIEW HEALTH

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

DECEMBER 31, 2020

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

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, 2020 with comparable information for 2019 and 2018. Please read it in conjunction with the Hospital's consolidated financial statements and accompanying notes to the consolidated financial statements included in this report.

Using This Annual Report

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

- In the "*management's discussion and analysis*" section of this report, management discusses various components of the annual report and provide an analysis of the current consolidated financial statement information.
- The "*consolidated financial statements*" section of this report includes a series of consolidated financial statements, which provide information about the activities of the Hospital as a whole. The Consolidated Balance Sheets reveal the assets, deferred outflows, liabilities, and net position of the Hospital on December 31, 2020 and 2019 while the Consolidated Statements of Revenues, Expenses and Changes in Net Position summarize the revenues and expenses, including nonoperating items for the years then ended. The Consolidated Statements of Cash Flows summarize the change in cash and cash equivalents as a result of operating, investing and financing activities during the year. The Notes to the Consolidated Financial Statements disclose additional information addressed within the body of the consolidated financial statements.

Financial Highlights

- Capital assets decreased approximately \$9,100,000 compared to prior year. This compares to an increase in 2019 and 2018 of approximately \$1,800,000 and \$30,800,000, respectively, which was primarily due to the expansion of the Hospital's campuses in Noblesville and Westfield, Indiana.
- The Hospital reported a decrease in net position of approximately \$12,400,000 during 2020. This compares to a change in net position of approximately \$9,900,000 for 2019 and change in net position including distributions to shareholders of approximately \$1,000,000 for 2018.

RIVERVIEW HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) DECEMBER 31, 2020 (WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2019 AND 2018)

Summarized Financial Statement Information

The Hospital's net position is the difference between its assets and deferred outflows and liabilities. The following information documents in summary the net position and the changes in net position related to activities of the Hospital as of December 31, 2020 and 2019 and for the years then ended.

Table 1 – Consolidated Balance Sheets

| | 2020 | 2019 | 2020 - 2019 Change | 2018 |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| Assets | | | | |
| Current assets | \$ 194,213,440 | \$ 181,149,591 | \$ 13,063,849 | \$ 178,298,485 |
| Capital assets, net | 184,038,050 | 193,114,219 | (9,076,169) | 191,359,674 |
| Assets whose use is limited | 71,087,811 | 53,093,176 | 17,994,635 | 47,100,218 |
| Other assets | 9,224,752 | 7,673,791 | 1,550,961 | 7,594,911 |
| Total assets | 458,564,053 | 435,030,777 | 23,533,276 | 424,353,288 |
| Deferred outflows - deferred loss on bond refunding | 930,857 | 1,118,172 | (187,315) | 1,305,487 |
| Total assets and deferred outflows | \$ 459,494,910 | \$ 436,148,949 | \$ 23,345,961 | \$ 425,658,775 |
| Liabilities | | | | |
| Current liabilities | \$ 153,424,037 | \$ 115,279,729 | \$ 38,144,308 | \$ 111,359,838 |
| Long-term debt and other liabilities | 59,090,425 | 61,514,585 | (2,424,160) | 64,814,656 |
| Total liabilities | 212,514,462 | 176,794,314 | 35,720,148 | 176,174,494 |
| Net position | | | | |
| Net investment in capital assets | 125,027,549 | 129,353,894 | (4,326,345) | 123,207,088 |
| Restricted | 3,969,142 | 4,254,051 | (284,909) | 3,846,235 |
| Unrestricted | 117,983,757 | 125,746,690 | (7,762,933) | 122,430,958 |
| Total net position | 246,980,448 | 259,354,635 | (12,374,187) | 249,484,281 |
| Total liabilities and net position | \$ 459,494,910 | \$ 436,148,949 | \$ 23,345,961 | \$ 425,658,775 |

The following discussion includes changes from 2019 to 2020. The significant changes in the Hospital's assets included current assets, which increased by approximately \$13,100,000, capital assets, net, which decreased by approximately \$9,100,000, and assets whose use is limited, which increased by approximately \$18,000,000. Assets whose use is limited primarily increased due to purchases of investments and positive market conditions in 2020. The significant changes in the Hospital's liabilities included current liabilities, which increased approximately \$38,100,000 due to an increase in estimated third-party payor settlements related to accelerated payments received in response to the Coronavirus (COVID-19) pandemic. Long-term debt and other liabilities decreased by approximately \$2,400,000 due to current year principal payments. The net position decreased approximately \$12,400,000 due to a decrease in operating revenues and an increase in operating expenses, which was partially offset by an increase in nonoperating revenue.

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

RIVERVIEW HEALTH

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

DECEMBER 31, 2020

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

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

| | 2020 | 2019 | 2020 - 2019 Change | 2018 |
|---|-----------------------|-----------------------|------------------------|-----------------------|
| Operating revenue | | | | |
| Net patient service revenue | \$ 560,588,009 | \$ 581,980,816 | \$ (21,392,807) | \$ 561,965,554 |
| Other operating revenue | 13,555,003 | 12,647,311 | 907,692 | 12,660,914 |
| Total operating revenue | <u>574,143,012</u> | <u>594,628,127</u> | <u>(20,485,115)</u> | <u>574,626,468</u> |
| Operating expenses | | | | |
| Salaries and benefits | 102,303,808 | 98,968,794 | 3,335,014 | 92,427,282 |
| Medical supplies and drugs | 75,604,806 | 77,997,807 | (2,393,001) | 72,603,100 |
| Depreciation and amortization | 21,655,860 | 20,711,928 | 943,932 | 18,604,631 |
| Purchased services | 326,669,338 | 303,501,177 | 23,168,161 | 296,489,057 |
| Other operating expenses | 90,659,536 | 91,290,065 | (630,529) | 88,377,537 |
| Total operating expenses | <u>616,893,348</u> | <u>592,469,771</u> | <u>24,423,577</u> | <u>568,501,607</u> |
| Operating income (loss) | (42,750,336) | 2,158,356 | (44,908,692) | 6,124,861 |
| Nonoperating revenue (expenses), net | <u>30,376,149</u> | <u>7,711,998</u> | <u>22,664,151</u> | <u>(4,111,241)</u> |
| Change in net position | (12,374,187) | 9,870,354 | (22,244,541) | 2,013,620 |
| Distributions to shareholders | -0- | -0- | -0- | (978,679) |
| Net position, beginning of year | <u>259,354,635</u> | <u>249,484,281</u> | <u>9,870,354</u> | <u>248,449,340</u> |
| Net position, end of year | <u>\$ 246,980,448</u> | <u>\$ 259,354,635</u> | <u>\$ (12,374,187)</u> | <u>\$ 249,484,281</u> |

Sources of Revenue

During 2020 and 2019, 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 63% and 64% of the Hospital's gross revenues in 2020 and 2019, respectively.

RIVERVIEW HEALTH

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

DECEMBER 31, 2020

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

Following is a table of major sources of gross patient revenues for 2020, 2019, and 2018:

| Payor | 2020 | 2019 | 2018 |
|------------------|------|------|------|
| Self Pay | 8% | 8% | 8% |
| Medicare | 39% | 42% | 43% |
| Medicaid | 24% | 22% | 23% |
| Other Commercial | 29% | 28% | 26% |
| Total | 100% | 100% | 100% |

The Hospital's outpatient services represented approximately 39% and 36% of the Hospital's gross patient revenue in 2020 and 2019, respectively.

Operating and Financial Performance

The Hospital's 2020 return on equity was (5.0)%, compared to 3.8% for 2019 and 0.4% for 2018. The Hospital's debt service coverage ratio was approximately (2.6)% for 2020 and 3.5 for 2019.

The following section highlights the major financial factors for 2020 and 2019:

- Net patient service revenue was approximately \$561,000,000 in 2020, which decreased approximately \$21,000,000 from 2019. Operating expenses increased approximately \$24,000,000 or 4.1%, primarily due to increased expenses incurred in response to the COVID-19 pandemic during 2020. Net patient service revenue was approximately \$582,000,000 in 2019, which increased approximately \$20,000,000 from 2018. Operating expenses increased approximately \$24,000,000 or 4.2% from 2018 to 2019, primarily due to increased activity in the Hospital's campus in Westfield, Indiana, which opened in 2018 and had its first full year of activity for the Hospital in 2019.
- Purchased services was the expense classification with the largest increase from 2019, increasing approximately \$23,200,000 or 7.6%, primarily due to increased purchased service expenses incurred in 2020 by the long-term care facilities in response to the COVID-19 pandemic. Purchased services increased from 2018 to 2019, approximately \$7,000,000 or 2.4%, primarily due to increased activity in the Hospital's campus in Westfield, Indiana, which opened in 2018 and had its first full year of activity for the Hospital in 2019.
- Non-operating revenue (expenses) increased approximately \$22,700,000 from 2019 to 2020, primarily due to Provider Relief Funds (PRF) received that were distributed to healthcare providers impacted by the outbreak of the COVID-19 pandemic. Non-operating revenue (expenses) increased approximately \$11,800,000 from 2018 to 2019, primarily due to an increase in market returns on investments.

RIVERVIEW HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)
 DECEMBER 31, 2020
 (WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2019 AND 2018)

Table 3 – Consolidated Statements of Cash Flows

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

| | 2020 | 2019 | 2020 - 2019 Change | 2018 |
|-----------------------------------|----------------|---------------|-----------------------|---------------|
| Cash flows from activities | | | | |
| Operating | \$ 8,873,438 | \$ 20,042,197 | \$ (11,168,759) | \$ 36,994,508 |
| Non-capital financing | 26,632,943 | (769,234) | 27,402,177 | 497,386 |
| Capital and related financing | (12,520,072) | (29,144,269) | 16,624,197 | (34,498,889) |
| Investing | (9,111,665) | 8,154,910 | (17,266,575) | 7,814,220 |
| Total | 13,874,644 | (1,716,396) | 15,591,040 | 10,807,225 |
| Cash and cash equivalents | | | | |
| Beginning of year | 86,378,662 | 88,095,058 | | 77,287,833 |
| End of year | \$ 100,253,306 | \$ 86,378,662 | | \$ 88,095,058 |

Changes in the Hospital's cash flows are primarily related to a net increase in cash flows from non-capital financing activities due to PRF received by the Hospital during 2020 in response to the COVID-19 pandemic. Changes in the Hospital's cash flows during 2019 are primarily related to a net decrease in cash flows from capital and related financing activities due to purchases of capital assets and payments on long-term debt.

Capital Assets

During 2020, the Hospital's net capital assets have decreased by approximately \$9,100,000. This compares to an increase of approximately \$1,800,000 for 2019. The change in capital assets is outlined in the following table:

| | 2020 | 2019 | 2020-2019 Change | 2018 |
|-------------------------------|----------------|----------------|---------------------|----------------|
| Land and improvements | \$ 19,121,618 | \$ 19,094,534 | \$ 27,084 | \$ 18,940,547 |
| Buildings and improvements | 166,929,058 | 166,003,248 | 925,810 | 140,558,801 |
| Equipment | 204,283,999 | 194,863,563 | 9,420,436 | 171,147,333 |
| Construction in progress | 5,813,392 | 4,805,804 | 1,007,588 | 35,936,809 |
| Total capital assets | 396,148,067 | 384,767,149 | 11,380,918 | 366,583,490 |
| Less accumulated depreciation | 212,110,017 | 191,652,930 | 20,457,087 | 175,223,816 |
| Capital assets, net | \$ 184,038,050 | \$ 193,114,219 | \$ (9,076,169) | \$ 191,359,674 |

Net capital assets decreased during 2020 due to depreciation on capital assets exceeding additions to capital assets. Net capital assets increased during 2019 as the Hospital expanded its campuses in Noblesville and Westfield, Indiana. The Hospital continually evaluates facilities and equipment to ensure that everything is upgraded as necessary.

RIVERVIEW HEALTH

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

DECEMBER 31, 2020

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

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

Debt Administration

The Hospital has the following debt outstanding, which approximates \$59,900,000 as of December 31, 2020:

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

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

Economic Outlook

In March 2020, the World Health Organization declared COVID-19 a pandemic. The continued spread of COVID-19, or any similar outbreaks in the future, may adversely impact the local, regional, national and global economies. The extent to which COVID-19 impacts the Hospital's operating results is dependent on the breadth and duration of the pandemic and could be affected by other factors management is not currently able to predict. Potential impacts include, but are not limited to, additional costs for responding to COVID-19, shortages of healthcare personnel, shortages of clinical supplies, increased demand for services, delays, loss of, or reduction to, revenue and investment portfolio declines.

Management believes that the healthcare industry's operating margins will continue to be under pressure as a result of COVID-19, the changes in payor mix and growth in operating expenses, that exceed any increases in contractually arranged and legally established payments received for services provided. Another factor that poses a challenge to management is the increasing competitive market for the delivery of health care services. This competitive market challenge will potentially be offset by the expected growth in the service area. The Hospital will still be faced with the challenge of providing quality services in an increasingly competitive environment, while at the same time managing costs. The Hospital will be affected by the increases in labor costs due to the competition for health care workers. The Hospital is also affected by the uncertainty of federal healthcare reform.

RIVERVIEW HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)
DECEMBER 31, 2020
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2019 AND 2018)

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, 2020

(WITH COMPARATIVE CONSOLIDATED TOTALS AT DECEMBER 31, 2019)

| | ASSETS AND DEFERRED OUTFLOWS | | | |
|--|------------------------------|---------------------|---------------------------|---------------------------|
| | 2020 | | 2019 | |
| | Hospital | Foundation | Total reporting entity | Total reporting entity |
| Current assets | | | | |
| Cash and cash equivalents | \$ 98,311,834 | \$ 423,645 | \$ 98,735,479 | \$ 85,249,864 |
| Patient accounts receivable, less allowances for uncollectible accounts of approximately \$7,079,000 and \$6,018,000, respectively | 65,795,962 | -0- | 65,795,962 | 67,519,312 |
| Related party receivables | 422,856 | -0- | 422,856 | 373,565 |
| Inventories | 6,670,509 | -0- | 6,670,509 | 5,364,044 |
| Other current assets | 22,559,890 | 28,744 | 22,588,634 | 22,642,806 |
| Total current assets | <u>193,761,051</u> | <u>452,389</u> | <u>194,213,440</u> | <u>181,149,591</u> |
| Assets whose use is limited | | | | |
| Board designated funds | | | | |
| Long-term investments | 65,120,958 | 1,997,711 | 67,118,669 | 48,839,125 |
| Total board designated funds | <u>65,120,958</u> | <u>1,997,711</u> | <u>67,118,669</u> | <u>48,839,125</u> |
| Trustee held assets | | | | |
| Professional liability insurance funds | 526,609 | -0- | 526,609 | 634,062 |
| Total trustee held assets | <u>526,609</u> | <u>-0-</u> | <u>526,609</u> | <u>634,062</u> |
| Restricted by donor | | | | |
| Expendable for various purposes upon donors' specific restriction | 50,680 | 577,391 | 628,071 | 806,354 |
| Nonexpendable permanent endowments | -0- | 2,814,462 | 2,814,462 | 2,813,635 |
| Total donor-restricted assets | <u>50,680</u> | <u>3,391,853</u> | <u>3,442,533</u> | <u>3,619,989</u> |
| Total assets whose use is limited | <u>65,698,247</u> | <u>5,389,564</u> | <u>71,087,811</u> | <u>53,093,176</u> |
| Capital assets | | | | |
| Land | 15,961,384 | -0- | 15,961,384 | 15,961,384 |
| Depreciable capital assets | 374,373,291 | -0- | 374,373,291 | 363,999,961 |
| Construction in progress | 5,813,392 | -0- | 5,813,392 | 4,805,804 |
| | <u>396,148,067</u> | <u>-0-</u> | <u>396,148,067</u> | <u>384,767,149</u> |
| Less accumulated depreciation | 212,110,017 | -0- | 212,110,017 | 191,652,930 |
| Capital assets, net | <u>184,038,050</u> | <u>-0-</u> | <u>184,038,050</u> | <u>193,114,219</u> |
| Other assets | <u>8,996,615</u> | <u>228,137</u> | <u>9,224,752</u> | <u>7,673,791</u> |
| Total assets | <u>452,493,963</u> | <u>6,070,090</u> | <u>458,564,053</u> | <u>435,030,777</u> |
| Deferred outflows - deferred loss on bond refunding | <u>930,857</u> | <u>-0-</u> | <u>930,857</u> | <u>1,118,172</u> |
| Total assets and deferred outflows | <u>\$453,424,820</u> | <u>\$ 6,070,090</u> | <u>\$ 459,494,910</u> | <u>\$ 436,148,949</u> |

See accompanying notes to consolidated financial statements.

RIVERVIEW HEALTH

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2020

(WITH COMPARATIVE CONSOLIDATED TOTALS AT DECEMBER 31, 2019)

LIABILITIES AND NET POSITION

| | 2020 | | | 2019 |
|--|-----------------------|---------------------|---------------------------|---------------------------|
| | Hospital | Foundation | Total reporting entity | Total reporting entity |
| Current liabilities | | | | |
| Current portion of bonds payable | \$ 4,762,799 | \$ -0- | \$ 4,762,799 | \$ 4,863,366 |
| Line of credit | 7,000,000 | -0- | 7,000,000 | -0- |
| Current portion of capital lease obligations | 73,833 | -0- | 73,833 | 73,776 |
| Accounts payable and other accruals | 23,732,147 | 11,418 | 23,743,565 | 18,813,800 |
| Salaries, wages and related payables | 12,600,226 | -0- | 12,600,226 | 10,629,313 |
| Estimated third-party payor settlements | 17,060,211 | -0- | 17,060,211 | 239,323 |
| Other current liabilities | 88,183,403 | -0- | 88,183,403 | 80,660,151 |
| Total current liabilities | 153,412,619 | 11,418 | 153,424,037 | 115,279,729 |
| Noncurrent liabilities | | | | |
| Long-term bonds and notes payable | 54,965,000 | -0- | 54,965,000 | 59,727,799 |
| Long-term capital lease obligations | 139,726 | -0- | 139,726 | 213,556 |
| Other long-term liabilities | 3,967,800 | 17,899 | 3,985,699 | 1,573,230 |
| Total noncurrent liabilities | 59,072,526 | 17,899 | 59,090,425 | 61,514,585 |
| Total liabilities | 212,485,145 | 29,317 | 212,514,462 | 176,794,314 |
| Net position | | | | |
| Net investment in capital assets | 125,027,549 | -0- | 125,027,549 | 129,353,894 |
| Restricted | | | | |
| For debt service and professional liability insurance | 526,609 | -0- | 526,609 | 634,062 |
| Expendable for various purposes upon donors' specific restriction | 50,680 | 577,391 | 628,071 | 806,354 |
| Nonexpendable | -0- | 2,814,462 | 2,814,462 | 2,813,635 |
| Total restricted | 577,289 | 3,391,853 | 3,969,142 | 4,254,051 |
| Unrestricted | 115,334,837 | 2,648,920 | 117,983,757 | 125,746,690 |
| Total net position | 240,939,675 | 6,040,773 | 246,980,448 | 259,354,635 |
| Total liabilities and net position | \$ 453,424,820 | \$ 6,070,090 | \$ 459,494,910 | \$ 436,148,949 |

See accompanying notes to consolidated financial statements.

RIVERVIEW HEALTH

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2019

ASSETS AND DEFERRED OUTFLOWS

| | 2019 | | |
|--|----------------|--------------|---------------------------|
| | Hospital | Foundation | Total reporting entity |
| Current assets | | | |
| Cash and cash equivalents | \$ 84,917,683 | \$ 332,181 | \$ 85,249,864 |
| Patient accounts receivable, less allowance for uncollectible accounts of approximately \$6,018,000 | 67,519,312 | -0- | 67,519,312 |
| Related party receivables | 373,565 | -0- | 373,565 |
| Inventories | 5,364,044 | -0- | 5,364,044 |
| Other current assets | 22,541,818 | 100,988 | 22,642,806 |
| Total current assets | 180,716,422 | 433,169 | 181,149,591 |
| Assets whose use is limited | | | |
| Board designated funds | | | |
| Long-term investments | 47,465,788 | 1,373,337 | 48,839,125 |
| Total board designated funds | 47,465,788 | 1,373,337 | 48,839,125 |
| Trustee held assets | | | |
| Professional liability insurance funds | 634,062 | -0- | 634,062 |
| Total trustee held assets | 634,062 | -0- | 634,062 |
| Restricted by donor | | | |
| Expendable for various purposes upon donors' specific restriction | 52,110 | 754,244 | 806,354 |
| Nonexpendable permanent endowments | -0- | 2,813,635 | 2,813,635 |
| Total donor-restricted assets | 52,110 | 3,567,879 | 3,619,989 |
| Total assets whose use is limited | 48,151,960 | 4,941,216 | 53,093,176 |
| Capital assets | | | |
| Land | 15,961,384 | -0- | 15,961,384 |
| Depreciable capital assets | 363,999,961 | -0- | 363,999,961 |
| Construction in progress | 4,805,804 | -0- | 4,805,804 |
| | 384,767,149 | -0- | 384,767,149 |
| Less accumulated depreciation | 191,652,930 | -0- | 191,652,930 |
| Capital assets, net | 193,114,219 | -0- | 193,114,219 |
| Other assets | 7,402,918 | 270,873 | 7,673,791 |
| Total assets | 429,385,519 | 5,645,258 | 435,030,777 |
| Deferred outflows - deferred loss on bond refunding | 1,118,172 | -0- | 1,118,172 |
| Total assets and deferred outflows | \$ 430,503,691 | \$ 5,645,258 | \$ 436,148,949 |

See accompanying notes to consolidated financial statements.

RIVERVIEW HEALTH

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2019

LIABILITIES AND NET POSITION

| | 2019 | | |
|---|----------------|--------------|------------------------|
| | Hospital | Foundation | Total reporting entity |
| Current liabilities | | | |
| Current portion of bonds payable | \$ 4,863,366 | \$ -0- | \$ 4,863,366 |
| Current portion of capital lease obligations | 73,776 | -0- | 73,776 |
| Accounts payable and other accruals | 18,794,830 | 18,970 | 18,813,800 |
| Salaries, wages and related payables | 10,629,313 | -0- | 10,629,313 |
| Estimated third-party payor settlements | 239,323 | -0- | 239,323 |
| Other current liabilities | 80,660,151 | -0- | 80,660,151 |
| Total current liabilities | 115,260,759 | 18,970 | 115,279,729 |
| Noncurrent liabilities | | | |
| Long-term bonds payable | 59,727,799 | -0- | 59,727,799 |
| Long-term capital lease obligations | 213,556 | -0- | 213,556 |
| Other long-term liabilities | 1,556,340 | 16,890 | 1,573,230 |
| Total noncurrent liabilities | 61,497,695 | 16,890 | 61,514,585 |
| Total liabilities | 176,758,454 | 35,860 | 176,794,314 |
| Net position | | | |
| Net investment in capital assets | 129,353,894 | -0- | 129,353,894 |
| Restricted | | | |
| For debt service and professional liability insurance | 634,062 | -0- | 634,062 |
| Expendable for various purposes upon donors' specific restriction | 52,110 | 754,244 | 806,354 |
| Nonexpendable | -0- | 2,813,635 | 2,813,635 |
| Total restricted | 686,172 | 3,567,879 | 4,254,051 |
| Unrestricted | 123,705,171 | 2,041,519 | 125,746,690 |
| Total net position | 253,745,237 | 5,609,398 | 259,354,635 |
| Total liabilities and net position | \$ 430,503,691 | \$ 5,645,258 | \$ 436,148,949 |

See accompanying notes to consolidated financial statements.

RIVERVIEW HEALTH

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2020 (WITH COMPARATIVE CONSOLIDATED TOTALS FOR DECEMBER 31, 2019)

| | 2020 | | 2019 | |
|--|----------------|--------------|---------------------------|---------------------------|
| | Hospital | Foundation | Total reporting entity | Total reporting entity |
| Revenue | | | | |
| Net patient service revenue | \$ 560,588,009 | \$ -0- | \$ 560,588,009 | \$ 581,980,816 |
| Other | 13,555,003 | -0- | 13,555,003 | 12,647,311 |
| Total operating revenue | 574,143,012 | -0- | 574,143,012 | 594,628,127 |
| Operating expenses | | | | |
| Salaries and wages | 84,910,809 | -0- | 84,910,809 | 81,629,610 |
| Employee benefits | 17,392,999 | -0- | 17,392,999 | 17,339,184 |
| Medical supplies | 44,672,816 | -0- | 44,672,816 | 43,503,143 |
| Drugs | 30,931,990 | -0- | 30,931,990 | 34,494,664 |
| Food | 1,066,542 | -0- | 1,066,542 | 1,296,897 |
| Utilities | 11,125,812 | -0- | 11,125,812 | 12,094,309 |
| Purchased services | 326,669,338 | -0- | 326,669,338 | 303,501,177 |
| Repairs and maintenance | 8,755,779 | -0- | 8,755,779 | 8,920,298 |
| Rental expense | 44,125,947 | -0- | 44,125,947 | 42,894,721 |
| Hospital assessment fee | 8,818,222 | -0- | 8,818,222 | 9,030,600 |
| Other supplies and expenses | 16,767,234 | -0- | 16,767,234 | 17,053,240 |
| Depreciation and amortization | 21,655,860 | -0- | 21,655,860 | 20,711,928 |
| Total operating expenses | 616,893,348 | -0- | 616,893,348 | 592,469,771 |
| Operating income (loss) | (42,750,336) | -0- | (42,750,336) | 2,158,356 |
| Nonoperating revenue (expenses) | | | | |
| Investment income | 5,289,274 | 793,207 | 6,082,481 | 8,534,712 |
| Contributions and other revenue | 600,138 | 355,629 | 955,767 | 2,005,663 |
| Grants | -0- | (717,461) | (717,461) | (475,915) |
| COVID-19 grant funds | 26,394,637 | -0- | 26,394,637 | -0- |
| Interest expense | (2,339,275) | -0- | (2,339,275) | (2,352,462) |
| Total nonoperating, net | 29,944,774 | 431,375 | 30,376,149 | 7,711,998 |
| Change in net position | (12,805,562) | 431,375 | (12,374,187) | 9,870,354 |
| Net position | | | | |
| Beginning of year | 253,745,237 | 5,609,398 | 259,354,635 | 249,484,281 |
| End of year | \$ 240,939,675 | \$ 6,040,773 | \$ 246,980,448 | \$ 259,354,635 |

See accompanying notes to consolidated financial statements.

RIVERVIEW HEALTH

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2019

| | 2019 | | |
|--|----------------|--------------|------------------------|
| | Hospital | Foundation | Total reporting entity |
| Revenue | | | |
| Net patient service revenue | \$ 581,980,816 | \$ -0- | \$ 581,980,816 |
| Other | 12,647,311 | -0- | 12,647,311 |
| Total operating revenue | 594,628,127 | -0- | 594,628,127 |
| Operating expenses | | | |
| Salaries and wages | 81,629,610 | -0- | 81,629,610 |
| Employee benefits | 17,339,184 | -0- | 17,339,184 |
| Medical supplies | 43,503,143 | -0- | 43,503,143 |
| Drugs | 34,494,664 | -0- | 34,494,664 |
| Food | 1,296,897 | -0- | 1,296,897 |
| Utilities | 12,094,309 | -0- | 12,094,309 |
| Purchased services | 303,501,177 | -0- | 303,501,177 |
| Repairs and maintenance | 8,920,298 | -0- | 8,920,298 |
| Rental expense | 42,894,721 | -0- | 42,894,721 |
| Hospital assessment fee | 9,030,600 | | 9,030,600 |
| Other supplies and expenses | 17,053,240 | -0- | 17,053,240 |
| Depreciation and amortization | 20,711,928 | -0- | 20,711,928 |
| Total operating expenses | 592,469,771 | -0- | 592,469,771 |
| Operating income | 2,158,356 | -0- | 2,158,356 |
| Nonoperating revenue (expenses) | | | |
| Investment income | 7,741,001 | 793,711 | 8,534,712 |
| Contributions and other revenue | 1,015,393 | 990,270 | 2,005,663 |
| Grants | -0- | (475,915) | (475,915) |
| Interest expense | (2,352,462) | -0- | (2,352,462) |
| Total nonoperating, net | 6,403,932 | 1,308,066 | 7,711,998 |
| Change in net position | 8,562,288 | 1,308,066 | 9,870,354 |
| Net position | | | |
| Beginning of year | 245,182,949 | 4,301,332 | 249,484,281 |
| End of year | \$ 253,745,237 | \$ 5,609,398 | \$ 259,354,635 |

See accompanying notes to consolidated financial statements.

RIVERVIEW HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2020 (WITH COMPARATIVE CONSOLIDATED TOTALS FOR 2019)

| | 2020 | | 2019 | |
|--|----------------|------------|---------------------------|---------------------------|
| | Hospital | Foundation | Total reporting entity | Total reporting entity |
| Operating activities | | | | |
| Cash received from patient services | \$ 587,268,708 | \$ -0- | \$ 587,268,708 | \$ 581,216,124 |
| Cash paid for salaries, wages and benefits | (100,332,895) | -0- | (100,332,895) | (99,290,161) |
| Cash paid to vendors and suppliers | (491,580,099) | -0- | (491,580,099) | (474,224,330) |
| Other receipts and payments, net | 13,409,287 | 108,437 | 13,517,724 | 12,340,564 |
| Net cash flows from operating activities | 8,765,001 | 108,437 | 8,873,438 | 20,042,197 |
| Non-capital financing activities | | | | |
| Contributions and other nonoperating | 600,138 | 355,629 | 955,767 | (293,319) |
| Grants | -0- | (717,461) | (717,461) | (475,915) |
| COVID-19 grant funds | 26,394,637 | -0- | 26,394,637 | -0- |
| Net cash flows from non-capital financing activities | 26,994,775 | (361,832) | 26,632,943 | (769,234) |
| Capital and related financing activities | | | | |
| Payments on long-term debt | (4,863,366) | -0- | (4,863,366) | (4,779,969) |
| Payments on capital leases | (73,773) | -0- | (73,773) | (101,360) |
| Proceeds from line of credit | 7,000,000 | -0- | 7,000,000 | -0- |
| Cash paid for interest | (2,151,960) | -0- | (2,151,960) | (2,165,147) |
| Proceeds on sale of assets | 353,558 | -0- | 353,558 | 23,660 |
| Purchase of capital assets | (12,784,531) | -0- | (12,784,531) | (22,121,453) |
| Net cash flows from capital and related financing activities | (12,520,072) | -0- | (12,520,072) | (29,144,269) |
| Investing activities | | | | |
| Investment income | 7,700,734 | 793,207 | 8,493,941 | 13,132,676 |
| Purchases of investments | (47,531,277) | (998,348) | (48,529,625) | (63,713,552) |
| Proceeds from sale of investments | 30,374,019 | 550,000 | 30,924,019 | 58,735,786 |
| Net cash flows from investing activities | (9,456,524) | 344,859 | (9,111,665) | 8,154,910 |
| Net change in cash and cash equivalents | 13,783,180 | 91,464 | 13,874,644 | (1,716,396) |
| Cash and cash equivalents | | | | |
| Beginning of year | 86,046,481 | 332,181 | 86,378,662 | 88,095,058 |
| End of year | \$ 99,829,661 | \$ 423,645 | \$ 100,253,306 | \$ 86,378,662 |
| Reconciliation of cash and cash equivalents to the balance sheets | | | | |
| Cash and cash equivalents | | | | |
| In current assets | \$ 98,311,834 | \$ 423,645 | \$ 98,735,479 | \$ 85,249,864 |
| In assets whose use is limited | 1,517,827 | -0- | 1,517,827 | 1,128,798 |
| Total cash and cash equivalents | \$ 99,829,661 | \$ 423,645 | \$ 100,253,306 | \$ 86,378,662 |

See accompanying notes to consolidated financial statements.

RIVERVIEW HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2020 (WITH COMPARATIVE CONSOLIDATED TOTALS FOR 2019)

| | 2020 | | | 2019 |
|--|---------------------|-------------------|---------------------------|---------------------------|
| | Hospital | Foundation | Total reporting entity | Total reporting entity |
| Reconciliation of operating income (loss) to net cash flows from operating activities | | | | |
| Operating income (loss) | \$ (42,750,336) | \$ -0- | \$ (42,750,336) | \$ 2,158,356 |
| Adjustments to reconcile operating income (loss) to net cash flows from operating activities | | | | |
| Depreciation and amortization | 21,655,860 | -0- | 21,655,860 | 20,711,928 |
| (Gain) loss on disposal of assets | (145,716) | -0- | (145,716) | 7,406 |
| Provision for bad debts | 18,340,072 | -0- | 18,340,072 | 17,623,398 |
| Changes in operating assets and liabilities | | | | |
| Patient accounts receivable | (16,616,722) | -0- | (16,616,722) | (21,881,391) |
| Inventories | (1,306,465) | -0- | (1,306,465) | 10,660 |
| Other current assets | 1,891,791 | 72,244 | 1,964,035 | (1,136,259) |
| Other assets | (4,005,157) | 42,736 | (3,962,421) | (2,377,862) |
| Accounts payable | 4,934,315 | (7,552) | 4,926,763 | (2,989,936) |
| Related party receivables/payables | (49,291) | -0- | (49,291) | (90,931) |
| Salaries, wages and fees payable | 1,970,913 | -0- | 1,970,913 | (321,367) |
| Estimated third-party payor settlements | 16,820,888 | -0- | 16,820,888 | (44,358) |
| Other current liabilities | 5,863,389 | -0- | 5,863,389 | 6,636,195 |
| Other long-term liabilities | 2,161,460 | 1,009 | 2,162,469 | 1,736,358 |
| Net cash flows from operating activities | \$ 8,765,001 | \$ 108,437 | \$ 8,873,438 | \$ 20,042,197 |
| Supplemental cash flows information | | | | |
| Property acquired through capital lease obligation | \$ -0- | \$ -0- | \$ -0- | \$ 301,753 |
| Property included in accounts payable | \$ 3,002 | \$ -0- | \$ 3,002 | \$ 74,333 |

See accompanying notes to consolidated financial statements.

RIVERVIEW HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2019

| | 2019 | | |
|--|----------------|-------------|---------------------------|
| | Hospital | Foundation | Total reporting entity |
| Operating activities | | | |
| Cash received from patient services | \$ 581,216,124 | \$ -0- | \$ 581,216,124 |
| Cash paid for salaries, wages and benefits | (99,290,161) | -0- | (99,290,161) |
| Cash paid to vendors and suppliers | (474,224,330) | -0- | (474,224,330) |
| Other receipts and payments, net | 12,654,717 | (314,153) | 12,340,564 |
| Net cash flows from operating activities | 20,356,350 | (314,153) | 20,042,197 |
| Non-capital financing activities | | | |
| Contributions and other nonoperating | (1,283,589) | 990,270 | (293,319) |
| Grants | -0- | (475,915) | (475,915) |
| Net cash flows from non-capital financing activities | (1,283,589) | 514,355 | (769,234) |
| Capital and related financing activities | | | |
| Payments on long-term debt | (4,779,969) | -0- | (4,779,969) |
| Payments on capital leases | (101,360) | -0- | (101,360) |
| Cash paid for interest | (2,165,147) | -0- | (2,165,147) |
| Proceeds on sale of assets | 23,660 | -0- | 23,660 |
| Purchase of capital assets | (22,121,453) | -0- | (22,121,453) |
| Net cash flows from capital and related financing activities | (29,144,269) | -0- | (29,144,269) |
| Investing activities | | | |
| Investment income | 12,338,965 | 793,711 | 13,132,676 |
| Purchase of investments | (61,358,145) | (2,355,407) | (63,713,552) |
| Proceeds from sale of investments | 57,463,250 | 1,272,536 | 58,735,786 |
| Net cash flows from investing activities | 8,444,070 | (289,160) | 8,154,910 |
| Net change in cash and cash equivalents | (1,627,438) | (88,958) | (1,716,396) |
| Cash and cash equivalents | | | |
| Beginning of year | 87,673,919 | 421,139 | 88,095,058 |
| End of year | \$ 86,046,481 | \$ 332,181 | \$ 86,378,662 |
| Reconciliation of cash and cash equivalents to the balance sheets | | | |
| Cash and cash equivalents | | | |
| In current assets | \$ 84,917,683 | \$ 332,181 | \$ 85,249,864 |
| In assets whose use is limited | 1,128,798 | -0- | 1,128,798 |
| Total cash and cash equivalents | \$ 86,046,481 | \$ 332,181 | \$ 86,378,662 |

See accompanying notes to consolidated financial statements.

RIVERVIEW HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2019

| | 2019 | | |
|--|----------------------|---------------------|---------------------------|
| | Hospital | Foundation | Total reporting entity |
| Reconciliation of operating income | | | |
| to net cash flows from operating activities | | | |
| Operating income | \$ 2,158,356 | \$ -0- | \$ 2,158,356 |
| Adjustments to reconcile operating income to net cash flows from operating activities | | | |
| Depreciation and amortization | 20,711,928 | -0- | 20,711,928 |
| Loss on disposal of assets | 7,406 | | 7,406 |
| Provision for bad debts | 17,623,398 | -0- | 17,623,398 |
| Changes in operating assets and liabilities | | | |
| Patient accounts receivable | (21,881,391) | -0- | (21,881,391) |
| Inventories | 10,660 | -0- | 10,660 |
| Other current assets | (1,073,189) | (63,070) | (1,136,259) |
| Other assets | (2,117,050) | (260,812) | (2,377,862) |
| Accounts payable | (2,998,801) | 8,865 | (2,989,936) |
| Related party receivables/payables | (90,931) | -0- | (90,931) |
| Salaries, wages and fees payable | (321,367) | -0- | (321,367) |
| Estimated third-party payor settlements | (44,358) | -0- | (44,358) |
| Other current liabilities | 6,636,195 | -0- | 6,636,195 |
| Other long-term liabilities | 1,735,494 | 864 | 1,736,358 |
| Net cash flows from operating activities | <u>\$ 20,356,350</u> | <u>\$ (314,153)</u> | <u>\$ 20,042,197</u> |
| Supplemental cash flows information | | | |
| Property acquired through capital lease obligation | \$ 301,753 | \$ -0- | \$ 301,753 |
| Property included in accounts payable | \$ 74,333 | \$ -0- | \$ 74,333 |

See accompanying notes to consolidated financial statements.

RIVERVIEW HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

1. SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

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

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

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

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

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

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 and its Foundation. They do not purport to, and do not, present fairly the financial position of Hamilton County as of December 31, 2020 and 2019, the changes in its financial position or its cash flows for the years then ended.

RIVERVIEW HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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

Measurement Focus and Basis of Accounting

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

Discrete Component Unit

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

Riverview Hospital Foundation, Inc., dba Riverview Health Foundation (Foundation): A separate not-for-profit entity organized to support the operations of the Hospital.

Use of Estimates

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

Federal or State Income Taxes

The Hospital is a county hospital organized under Title 16, Article 22, of the Indiana statutes. The Hospital is exempt from federal income tax under the Internal Revenue Code of 1986 as a charitable, educational, and scientific organization as described under Section 501(c)(3).

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

RIVERVIEW HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Foundation and recognize a tax liability if they have taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken and has concluded that as of December 31, 2020 and 2019, 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 is 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.

Patient Accounts Receivable and Net Patient Service Revenue

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

At the Hospital's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program. The Medicare program cost reports have been audited through December 31, 2016 with immaterial differences reflected as deductions from revenue in 2020. Amounts from unresolved cost reports for 2017 through 2020 are reflected in estimated third-party payor settlements on the consolidated balance sheets. Also included in estimated third-party payor settlements on the consolidated balance sheets is approximately \$16,600,000 received for Medicare accelerated payments during 2020, which will be repaid during 2021.

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.

RIVERVIEW HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

Advertising

The Hospital expenses advertising costs as they are incurred. Advertising expenses for the years ended December 31, 2020 and 2019 were approximately \$1,820,000 and \$1,705,000, respectively, and are included in other supplies and expenses within the consolidated statements of revenues, expenses, and changes in net position within the financial statements.

Inventories

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

Assets Whose Use is Limited and Investments

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

Capital Assets and Depreciation

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

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

Investment in Affiliates

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

RIVERVIEW HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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. (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, 2020 and 2019 are as follows:

| | 2020 | 2019 |
|------------|--------------|--------------|
| Endowments | \$ 2,814,462 | \$ 2,813,635 |

Hospital Assessment Fee Program

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

Previously, the State share was funded by governmental entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates. During 2020 and 2019, the Hospital recognized Hospital assessment fee expense of approximately \$8,818,000 and \$9,031,000, respectively, which resulted in increased Medicaid reimbursement.

Cost of Borrowing

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

RIVERVIEW HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

Grants and Contributions

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

Amounts restricted for capital acquisitions are reported after non-operating revenues and expenses. Grants are recognized to the extent that the Hospital meets the terms and conditions of the grant.

Restricted Resources

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

Operating Revenues and Expenses

The reporting entity's consolidated statements of revenues, expenses and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the principal activity. Nonexchange revenues, COVID-19 grant funds, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Charity Care

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

Of the Hospital's total expenses reported, excluding the long-term care expenses, an estimated \$4,776,000 and \$4,746,000 arose from providing services to charity patients during the years ended December 31, 2020 and December 31, 2019, 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.

RIVERVIEW HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

Compensated Absences

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

Risk Management

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

Reclassifications

Certain amounts from 2019 have been reclassified in order to conform to the 2020 presentation. There were no changes to net position as a result of these reclassifications, as previously reported.

Subsequent Events

The Hospital evaluates events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the financial statements were issued which is March 29, 2021.

Recently Issued Accounting Standards

In June 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 87, *Leases*, which will be effective for periods beginning after June 15, 2021. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The Hospital is presently evaluating the impact of this standard.

2. CHANGE IN ACCOUNTING PRINCIPLES

During 2020, the Hospital implemented GASB Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addressed accounting and financial reporting issues related to asset retirement obligations. This Statement also provides guidance for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. There was no impact to these financial statements as a result of adoption of this Statement.

RIVERVIEW HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

During 2020, the Hospital implemented GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This Statement addressed accounting and financial reporting issues related to debt, including direct borrowings and direct placements. This Statement also provides guidance for which liabilities should be included when disclosing information related to debt. Disclosures related to the Hospital's line of credit were added in Note 10 as a result of the implementation. There was no other impact to these financial statement disclosures as a result of adoption of this Statement as these disclosures have been provided historically.

During 2020, the Hospital implemented GASB Statement No. 90, *Majority Equity Interests*. This Statement addressed accounting and financial reporting issues related to a majority equity interest in a legally separate organization and certain component units. Generally, this Statement requires governmental entities, who have a majority equity interest that meets the definition of an investment, to measure the investment using the equity method. There was no impact to these financial statements as a result of adoption of this Statement.

During 2020, the Hospital early implemented GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. This Statement addressed the determination of financial accountability for a potential component unit and the financial burden criteria of a potential component unit. Prior to the adoption of this Statement, the assets, net position and activity related the Hospital's Employees' Pension Plan and 403(b) Plan were included in the Hospital's consolidated financial statements. The Hospital's Employees' Pension Plan and 403(b) Plan did not meet the financial accountability and financial burden criteria for fiduciary activities to be included as component units under this Statement. The changes adopted to conform to the provisions of this Statement were applied retroactively by restating the consolidated financial statements for 2019 as described in Note 3.

3. RESTATEMENT RELATED TO GASB STATEMENT 97

The accompanying consolidated financial statements as of and for the year ended December 31, 2019, have been restated to reflect the Hospital's adoption of GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The adoption resulted in the Hospital's Employees' Pension Plan and 403(b) Plan that were presented in the pension trust funds column of the statements of fiduciary net position and accompanying statements of changes in fiduciary net position being removed from the consolidated financial statements. The 2019 statement of fiduciary net position previously included approximately \$70,910,000 in total assets, which consisted primarily of mutual funds. The 2019 statement of changes in fiduciary net position presented a net increase in net position of approximately \$8,723,000. As such, disclosures related to the Hospital's Employees' Pension Plan and 403(b) Plan have also been removed from the consolidated financial statements. There was no impact on the other consolidated financial statements as a result of the restatement.

RIVERVIEW HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

4. 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 2020 and 2019:

| | 2020 | 2019 |
|-------------------------------|----------------|----------------|
| Patient service revenue | | |
| Inpatient | \$ 162,400,606 | \$ 185,012,842 |
| Outpatient | 397,803,016 | 383,820,322 |
| Long-term care | 466,260,693 | 496,182,353 |
| Gross service patient revenue | 1,026,464,315 | 1,065,015,517 |
| Deductions from revenue | | |
| Contractual allowances | 436,308,521 | 453,633,600 |
| Charity care | 11,227,713 | 11,777,703 |
| Provision for bad debts | 18,340,072 | 17,623,398 |
| Total deductions from revenue | 465,876,306 | 483,034,701 |
| Net patient service revenue | \$ 560,588,009 | \$ 581,980,816 |

5. 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, 2020 and 2019:

| | 2020 | 2019 |
|---|---------------|---------------|
| <u>Patient accounts receivable</u> | | |
| Receivable from patients and their insurance carriers | \$ 67,335,592 | \$ 65,477,771 |
| Receivable from Medicare | 26,028,836 | 24,392,949 |
| Receivable from Medicaid | 13,043,279 | 15,323,469 |
| Total patient accounts receivable | 106,407,707 | 105,194,189 |
| Less allowances for contractual agreements | (33,533,004) | (31,656,985) |
| Less allowances for uncollectible amounts | (7,078,741) | (6,017,892) |
| Total allowances | (40,611,745) | (37,674,877) |
| Patient accounts receivable, net | \$ 65,795,962 | \$ 67,519,312 |
| <u>Accounts payable and accrued expenses</u> | | |
| Payable to suppliers | \$ 23,743,565 | \$ 18,813,800 |
| Payable to employees (including payroll taxes and benefits) | 12,600,226 | 10,629,313 |
| Total accounts payable and accrued expenses | \$ 36,343,791 | \$ 29,443,113 |

RIVERVIEW HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

6. 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, 2020 and 2019 were approximately \$67,100,000 and \$48,800,000, respectively.

Trustee Held Assets

The Hospital deposits certain funds related to professional liability insurance funds. Professional liability insurance funds as of December 31, 2020 and 2019 were approximately \$527,000 and \$634,000, 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 \$628,000 and \$806,000 as of December 31, 2020 and 2019.

Donor-Restricted Nonexpendable Endowments

The Hospital maintains several permanent funds with donor-restricted endowments that totaled approximately \$2,800,000 at both December 31, 2020 and 2019. It is the Hospital's policy that all earnings on investments are authorized for spending. Only new gifts are added to the original endowment and are not authorized for spending.

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

7. DEPOSITS AND INVESTMENTS

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

As of December 31, 2020 and 2019, 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, 2020 | | | | | |
|-----------------------------|--------------------|----------------------------------|--------|--------|-----------------|
| | Carrying amount | Investment Maturities (in Years) | | | |
| | | Less than 1 | 1 - 5 | 6 - 10 | More than 10 |
| Hospital | | | | | |
| Mutual funds - equities | \$ 60,268,319 | \$ 60,268,319 | \$ -0- | \$ -0- | \$ -0- |
| Mutual funds - fixed income | 3,912,101 | 3,912,101 | -0- | -0- | -0- |
| | \$ 64,180,420 | \$ 64,180,420 | \$ -0- | \$ -0- | \$ -0- |
| Foundation | | | | | |
| Mutual funds - equities | \$ 3,092,330 | \$ 3,092,330 | \$ -0- | \$ -0- | \$ -0- |
| Mutual funds - fixed income | 2,297,234 | 2,297,234 | -0- | -0- | -0- |
| | \$ 5,389,564 | \$ 5,389,564 | \$ -0- | \$ -0- | \$ -0- |
| December 31, 2019 | | | | | |
| | Carrying amount | Investment Maturities (in Years) | | | |
| | | Less than 1 | 1 - 5 | 6 - 10 | More than 10 |
| Hospital | | | | | |
| Mutual funds - equities | \$ 41,879,896 | \$ 41,879,896 | \$ -0- | \$ -0- | \$ -0- |
| Mutual funds - fixed income | 5,143,266 | 5,143,266 | -0- | -0- | -0- |
| | \$ 47,023,162 | \$ 47,023,162 | \$ -0- | \$ -0- | \$ -0- |
| Foundation | | | | | |
| Mutual funds - equities | \$ 2,965,035 | \$ 2,965,035 | \$ -0- | \$ -0- | \$ -0- |
| Mutual funds - fixed income | 1,976,181 | 1,976,181 | -0- | -0- | -0- |
| | \$ 4,941,216 | \$ 4,941,216 | \$ -0- | \$ -0- | \$ -0- |

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, money market accounts, mutual funds, pooled fund investments, securities backed by the full faith and credit of the United States Treasury and repurchase agreements. The statutes require that repurchase agreements be fully collateralized by U.S. Government or U.S. Government Agency obligations.

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

RIVERVIEW HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

Deposits, investments, and other consist of the following as of December 31, 2020 and 2019:

| | 2020 | 2019 |
|--|----------------|----------------|
| Hospital | | |
| Carrying amount | | |
| Deposits | \$ 99,829,661 | \$ 86,046,481 |
| Investments | 64,180,420 | 47,023,162 |
| | \$ 164,010,081 | \$ 133,069,643 |
| Included in the following balance sheet captions | | |
| Cash and cash equivalents | \$ 98,311,834 | \$ 84,917,683 |
| Board designated funds | 65,120,958 | 47,465,788 |
| Trustee held assets | 526,609 | 634,062 |
| Restricted by donor | 50,680 | 52,110 |
| | \$ 164,010,081 | \$ 133,069,643 |
| Foundation | | |
| Carrying amount | | |
| Deposits | \$ 423,645 | \$ 332,181 |
| Investments | 5,389,564 | 4,941,216 |
| | \$ 5,813,209 | \$ 5,273,397 |
| Included in the following balance sheet captions | | |
| Cash and cash equivalents | \$ 423,645 | \$ 332,181 |
| Board designated funds | 1,997,711 | 1,373,337 |
| Restricted by donor | 3,391,853 | 3,567,879 |
| | \$ 5,813,209 | \$ 5,273,397 |

8. FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described as follows:

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

RIVERVIEW HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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, 2020 and 2019.

- *Mutual funds*: Valued at the daily closing price as reported by the fund. Mutual funds held by the Hospital and the Foundation 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 and the Foundation 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.

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2020 are as follows:

| | | 2020 | | | |
|-----------------------------------|---------------|---------------|--------------|---------|---------|
| | | Total | Level 1 | Level 2 | Level 3 |
| Hospital | | | | | |
| Assets: | | | | | |
| Assets whose use is limited | | | | | |
| Mutual funds | | | | | |
| Small value | \$ 2,194,354 | \$ 2,194,354 | \$ -0- | \$ -0- | |
| Mid-cap growth | 21,868,653 | 21,868,653 | -0- | -0- | |
| Mid-cap blend | 1,272,262 | 1,272,262 | -0- | -0- | |
| Mid-cap value | 1,396,701 | 1,396,701 | -0- | -0- | |
| Large growth | 4,559,810 | 4,559,810 | -0- | -0- | |
| Large blend | 20,687,666 | 20,687,666 | -0- | -0- | |
| Large value | 8,288,873 | 8,288,873 | -0- | -0- | |
| Fixed income | 3,912,101 | 3,912,101 | -0- | -0- | |
| Total mutual funds | 64,180,420 | \$ 64,180,420 | \$ -0- | \$ -0- | |
| Cash and cash equivalents | | | | | |
| Money market deposit accounts | 1,517,827 | | | | |
| Total assets whose use is limited | \$ 65,698,247 | | | | |
| Other long-term liabilities: | | | | | |
| Interest rate swap agreements | \$ 3,967,800 | \$ -0- | \$ 3,967,800 | \$ -0- | |
| Foundation | | | | | |
| Assets: | | | | | |
| Assets whose use is limited | | | | | |
| Mutual funds | | | | | |
| Mid-cap blend | \$ 200,261 | \$ 200,261 | \$ -0- | \$ -0- | |
| Large growth | 1,488,328 | 1,488,328 | -0- | -0- | |
| Large blend | 935,945 | 935,945 | -0- | -0- | |
| Large value | 467,796 | 467,796 | -0- | -0- | |
| Fixed income | 2,297,234 | 2,297,234 | -0- | -0- | |
| Total mutual funds | 5,389,564 | \$ 5,389,564 | \$ -0- | \$ -0- | |
| Total assets whose use is limited | \$ 5,389,564 | | | | |

RIVERVIEW HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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

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

The Hospital's policy is to recognize transfers between levels as of the end of the reporting period. There were no transfers during 2020 and 2019.

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 (losses) and interest income approximated \$487,000 and \$3,800,000 during 2020 and 2019, respectively.

The market value of investments exceeded the cost by approximately \$10,100,000 and \$2,000,000 as of December 31, 2020 and 2019, respectively. The unrealized gains and losses are included in earnings for the period attributable to the change in unrealized gains or losses relating to assets held as of December 31, 2020 and 2019. During 2020 and 2019, the Hospital recognized an unrealized gain of approximately \$8,100,000 and \$7,400,000, respectively, which is included in the consolidated statements of revenues, expenses and changes in net position as a component of investment income.

RIVERVIEW HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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

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

Long-term debt: Fair value of the Hospital's long-term debt, estimated using discounted cash flow analysis, for the Series 2011, 2012, 2013, 2016, and 2017 bonds approximated \$55,100,000 and \$58,000,000 as of December 31, 2020 and 2019, respectively.

9. CAPITAL ASSETS

Capital asset progressions for 2020 and 2019 follow:

| | December 31, 2019 | Additions | Retirements | Transfers | December 31, 2020 |
|--------------------------------------|-----------------------|-----------------------|---------------------|---------------|-----------------------|
| Hospital | | | | | |
| Land | \$ 15,961,384 | \$ -0- | \$ -0- | \$ -0- | \$ 15,961,384 |
| Land improvements | 3,133,150 | 10,746 | -0- | 16,338 | 3,160,234 |
| Buildings and improvements | 166,003,248 | 180,746 | (248,287) | 993,351 | 166,929,058 |
| Equipment | 194,863,563 | 7,959,956 | (1,158,328) | 2,618,808 | 204,283,999 |
| Construction in progress | 4,805,804 | 4,636,085 | -0- | (3,628,497) | 5,813,392 |
| Total capital assets | <u>384,767,149</u> | <u>12,787,533</u> | <u>(1,406,615)</u> | <u>-0-</u> | <u>396,148,067</u> |
| Less accumulated depreciation | | | | | |
| Land improvements | 2,590,391 | 92,841 | -0- | -0- | 2,683,232 |
| Buildings and improvements | 82,819,925 | 6,015,349 | (44,715) | -0- | 88,790,559 |
| Equipment | 106,242,614 | 15,547,670 | (1,154,058) | -0- | 120,636,226 |
| Total accumulated depreciation | <u>191,652,930</u> | <u>21,655,860</u> | <u>(1,198,773)</u> | <u>-0-</u> | <u>212,110,017</u> |
| Capital assets, net | <u>\$ 193,114,219</u> | <u>\$ (8,868,327)</u> | <u>\$ (207,842)</u> | <u>\$ -0-</u> | <u>\$ 184,038,050</u> |
| | | | | | |
| | December 31, 2018 | Additions | Retirements | Transfers | December 31, 2019 |
| Hospital | | | | | |
| Land | \$ 15,961,384 | \$ -0- | \$ -0- | \$ -0- | \$ 15,961,384 |
| Land improvements | 2,979,163 | 39,384 | -0- | 114,603 | 3,133,150 |
| Buildings and improvements | 140,558,801 | 159,508 | (396,114) | 25,681,053 | 166,003,248 |
| Equipment | 171,131,953 | 6,946,424 | (3,902,386) | 20,687,572 | 194,863,563 |
| Construction in progress | 35,936,809 | 15,352,223 | -0- | (46,483,228) | 4,805,804 |
| Total capital assets | <u>366,568,110</u> | <u>22,497,539</u> | <u>(4,298,500)</u> | <u>-0-</u> | <u>384,767,149</u> |
| Less accumulated depreciation | | | | | |
| Land improvements | 2,494,816 | 95,575 | -0- | -0- | 2,590,391 |
| Buildings and improvements | 74,936,157 | 8,279,882 | (396,114) | -0- | 82,819,925 |
| Equipment | 97,777,463 | 12,336,471 | (3,871,320) | -0- | 106,242,614 |
| Total accumulated depreciation | <u>175,208,436</u> | <u>20,711,928</u> | <u>(4,267,434)</u> | <u>-0-</u> | <u>191,652,930</u> |
| Hospital capital assets, net | <u>\$ 191,359,674</u> | <u>\$ 1,785,611</u> | <u>\$ (31,066)</u> | <u>\$ -0-</u> | <u>\$ 193,114,219</u> |
| | | | | | |
| Foundation | | | | | |
| Equipment | \$ 15,380 | \$ -0- | \$ (15,380) | \$ -0- | \$ -0- |
| Less accumulated depreciation | 15,380 | -0- | (15,380) | -0- | -0- |
| Foundation capital assets, net | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ -0-</u> |

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As of December 31, 2020, the estimated cost to complete outstanding projects included within construction in progress was approximately \$6,100,000, which is nearly all related to the Hospital's expansion of the Hospital's campus in Noblesville, Indiana. The Hospital intends to cover the costs of construction with a combination of cash and investments on hand and intends to complete these projects during 2021.

10. LINE OF CREDIT AND LONG-TERM DEBT

Line of Credit

The Hospital has a \$20,000,000 revolving bank line of credit expiring in May 2021. As of December 31, 2020 and 2019, the outstanding balance was approximately \$7,000,000 and \$-0-, respectively. The line of credit is collateralized by net revenues of the Hospital. Interest rate is variable at 2.15% as of December 31, 2020. The variable rate is applied at the one month London Inter-Bank Offered Rate (LIBOR) plus 2.00%. Under the terms of the revolving bank line of credit, the Hospital is required to meet certain financial covenants. The Hospital believes it is in compliance with all covenants as of December 31, 2020 and 2019, respectively.

Long-Term Debt

The terms and due dates of the Hospital's long-term debt, including capital lease obligations as of December 31, 2020 and 2019 follow:

- 2011 tax-exempt revenue bonds, principal maturing in varying amounts due September 1, 2021, collateralized by net revenues of the Hospital. Interest rate is fixed at 4.20%.
- 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 1.71% and 1.52% as of December 31, 2020 and 2019, respectively. The variable rate is applied at 0.74 times the one month LIBOR plus 1.75%. An associated interest rate swap has fixed rate of 2.67%, with a liability fair value of approximately \$276,000 and \$104,000 as of December 31, 2020 and 2019, respectively. The interest rate swap is included in other long-term liabilities on the consolidated balance sheets as of December 31, 2020 and 2019, respectively.
- 2013 tax-exempt revenue bonds, principal maturing in varying amounts due October 1, 2028, collateralized by net revenues of the Hospital. Interest rate is variable at 1.26% and 1.52% as of December 31, 2020 and 2019, respectively. The variable rate is applied at 0.74 times the one month LIBOR plus 1.25%. An associated interest rate swap has fixed rate of 3.10%, with a liability fair value of approximately \$586,000 and \$402,000 as of December 31, 2020 and 2019, respectively, which is in other long-term liabilities on the consolidated balance sheets.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

- 2016 tax-exempt revenue bonds, principal maturing in varying amounts due May 1, 2042, collateralized by net revenues of the Hospital. Interest rate is variable at 1.29% and 1.44% as of December 31, 2020 and 2019, respectively. The variable rate is applied at 0.70 times the one month LIBOR plus 0.952%. An associated interest rate swap has a fixed rate of 1.32%, with a liability fair value of approximately \$2,298,000 and \$670,000 as of December 31, 2020 and 2019, respectively. The interest rate swap is included in other long-term liabilities on the consolidated balance sheets as of December 31, 2020 and 2019, respectively.
- 2017 tax-exempt revenue bonds, principal maturing in varying amounts due May 1, 2042, collateralized by net revenues of the Hospital. Interest rate is variable at 1.29% and 1.44% as of December 31, 2020 and 2019, respectively. The variable rate is applied at 0.70 times the one month LIBOR plus 0.952%. An associated interest rate swap has a fixed rate of 1.71%, with a liability fair value of approximately \$808,000 and \$380,000 as of December 31, 2020 and 2019, respectively, which is in other long-term liabilities on the consolidated balance sheets.
- Capital lease obligations, at varying interest rates of imputed interest of 5.00% to 7.3%, maturing from 2020 through 2024, collateralized by leased equipment with cost of approximately \$340,000 as of December 31, 2020 and 2019, respectively. Accumulated depreciation on capital leases was approximately \$91,000 and \$23,000 as of December 31, 2020 and 2019, respectively.

Under the terms of the revenue bond indenture, there is a limit on the incurrence of additional borrowings and the Hospital is required to satisfy certain measures of financial performances as long as the notes are outstanding. The Hospital is also required to meet certain financial covenants. The Hospital believes it is in compliance with all covenants as of December 31, 2020 and 2019.

A summary of long-term debt as of December 31, 2020 and 2019 includes the following:

| | December 31, 2019 | Additional Borrowings | Payments | December 31, 2020 | Current Portion |
|---------------------------|----------------------|--------------------------|---------------------|----------------------|---------------------|
| Revenue bonds payable | | | | | |
| 2011 Bonds | \$ 1,446,165 | \$ -0- | \$ 813,366 | \$ 632,799 | \$ 632,799 |
| 2012 Bonds | 9,820,000 | -0- | 1,120,000 | 8,700,000 | 1,150,000 |
| 2013 Bonds | 11,005,000 | -0- | 1,090,000 | 9,915,000 | 1,140,000 |
| 2016 Bonds | 33,120,000 | -0- | 1,440,000 | 31,680,000 | 1,440,000 |
| 2017 Bonds | 9,200,000 | -0- | 400,000 | 8,800,000 | 400,000 |
| Total revenue bonds | <u>64,591,165</u> | <u>-0-</u> | <u>4,863,366</u> | <u>59,727,799</u> | <u>4,762,799</u> |
| Capital lease obligations | 287,332 | -0- | 73,773 | 213,559 | 73,833 |
| | <u>\$ 64,878,497</u> | <u>\$ -0-</u> | <u>\$ 4,937,139</u> | <u>\$ 59,941,358</u> | <u>\$ 4,836,632</u> |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

| | December 31, 2018 | Additional Borrowings | Payments | December 31, 2019 | Current Portion |
|---------------------------|----------------------|--------------------------|---------------------|----------------------|---------------------|
| Revenue bonds payable | | | | | |
| 2011 Bonds | \$ 2,227,134 | \$ -0- | \$ 780,969 | \$ 1,446,165 | \$ 813,366 |
| 2012 Bonds | 10,910,000 | -0- | 1,090,000 | 9,820,000 | 1,120,000 |
| 2013 Bonds | 12,074,000 | -0- | 1,069,000 | 11,005,000 | 1,090,000 |
| 2016 Bonds | 34,560,000 | -0- | 1,440,000 | 33,120,000 | 1,440,000 |
| 2017 Bonds | 9,600,000 | -0- | 400,000 | 9,200,000 | 400,000 |
| Total revenue bonds | 69,371,134 | -0- | 4,779,969 | 64,591,165 | 4,863,366 |
| Capital lease obligations | 86,939 | 301,753 | 101,360 | 287,332 | 73,776 |
| | <u>\$ 69,458,073</u> | <u>\$ 301,753</u> | <u>\$ 4,881,329</u> | <u>\$ 64,878,497</u> | <u>\$ 4,937,142</u> |

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 |
| 2021 | \$ 4,762,799 | \$ 599,998 | \$ 73,833 | \$ 9,001 |
| 2022 | 4,195,000 | 518,974 | 60,764 | 5,576 |
| 2023 | 4,255,000 | 446,959 | 56,597 | 2,713 |
| 2024 | 4,335,000 | 373,198 | 22,365 | 296 |
| 2025 | 4,400,000 | 297,321 | -0- | -0- |
| 2026-2030 | 15,700,000 | 554,614 | -0- | -0- |
| Thereafter | 22,080,000 | 282,677 | -0- | -0- |
| | <u>\$ 59,727,799</u> | <u>\$ 3,073,741</u> | <u>\$ 213,559</u> | <u>\$ 17,586</u> |

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

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

A termination of the swap agreements may also result in the Hospital making or receiving a termination payment. As of December 31, 2020 and 2019, the variable rates on the Series 2012, 2013, 2016 and 2017 Bonds were lower than the swap agreement fixed rate. The table related to future maturities above utilizes the swap fixed interest rates for the Series 2012, 2013, 2016 and 2017 Bonds.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

11. DERIVATIVE INSTRUMENTS – INTEREST RATE SWAPS

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

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

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

Contracts

The Hospital has four interest rate swap agreements in effect as of December 31, 2020 and 2019, respectively, for the 2012, 2013, 2016 and 2017 revenue bonds.

Objectives and Strategies for Using Derivatives

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

Terms, Fair Values and Credit Risk

The swap agreements relate to the Series 2012, 2013, 2016 and 2017 Bonds with original notional amounts of \$16,900,000, \$17,000,000, \$34,560,000 and \$9,600,000 respectively. The counter party is the same for each swap agreement. The terms and fair values of the outstanding swaps as of December 31, 2020 are as follows:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

| Associated Bond Issue | Original Notational Amount | Current Notational Amount | Effective date | Fixed rate | Variable rate | Fair value | Termination date | Counterparty credit rating |
|-----------------------|----------------------------|---------------------------|------------------|------------|---------------------------------|-----------------------|------------------|----------------------------|
| 2012 Series Bonds | \$ 16,900,000 | \$ 8,700,000 | February 1, 2013 | 2.67% | .74 times (1M Libor plus 1.75%) | \$ (275,877) | December 1, 2022 | Baa1/A+/AA- |
| 2013 Series Bonds | 17,000,000 | 9,915,000 | October 1, 2013 | 3.10% | .74 times (1M Libor plus 1.25%) | (586,089) | October 2, 2023 | Baa1/A+/AA- |
| 2016 Series Bonds | 34,560,000 | 31,680,000 | May 1, 2018 | 1.32% | .70 times (1M Libor plus .952%) | (2,298,033) | October 30, 2026 | Baa1/A+/AA- |
| 2017 Series Bonds | 9,600,000 | 8,800,000 | May 1, 2018 | 1.71% | .70 times (1M Libor plus .952%) | (807,801) | October 30, 2026 | Baa1/A+/AA- |
| | <u>\$ 78,060,000</u> | <u>\$ 59,095,000</u> | | | | <u>\$ (3,967,800)</u> | | |

As of December 31, 2020, negative fair values of the agreements may be countered by reductions in total interest payments under the swap agreements should the variable rates on the 2012, 2013, 2016 and 2017 Series Bonds increase.

Basis Risk

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

Termination Risk

The Hospital or the counter party may terminate the swaps if the other party fails to perform under the terms of the contracts. If at the time of termination, the swaps have a negative fair value, the Hospital could be liable to the counter party for a payment equal to the swaps' fair values. As of December 31, 2020 and 2019, the Hospital complied with the terms of the swap contracts.

Swap Payments and Associated Debt

Using rates as of December 31, 2020, debt service requirements of the variable rate debt and net swap payments of the Series 2012, 2013, 2016 and 2017 Bonds, assuming current interest rates remain the same for the term of the bonds, are disclosed in the Long Term Debt note. As rates vary, variable-rate bond interest payments and net swap payments will vary.

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

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

| | Liability | |
|--------------------------------------|--------------|--------------|
| | 2020 | 2019 |
| 2012 Series bonds interest rate swap | \$ 275,877 | \$ 104,302 |
| 2013 Series bonds interest rate swap | 586,089 | 402,222 |
| 2016 Series bonds interest rate swap | 2,298,033 | 669,513 |
| 2017 Series bonds interest rate swap | 807,801 | 380,303 |
| | \$ 3,967,800 | \$ 1,556,340 |

| Financial instrument | 2020 | 2019 | Location |
|--------------------------------------|----------------|----------------|-------------------|
| 2012 Series bonds interest rate swap | \$ (171,575) | \$ (248,064) | Investment income |
| 2013 Series bonds interest rate swap | (183,867) | (224,131) | Investment income |
| 2016 Series bonds interest rate swap | (1,628,520) | (1,449,240) | Investment income |
| 2017 Series bonds interest rate swap | (427,498) | (377,547) | Investment income |
| Total loss | \$ (2,411,460) | \$ (2,298,982) | |

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

12. PENSION PLAN

Plan Description

The Hospital has three defined contribution pension plans: the Riverview Health Employees' Pension Plan, the Riverview Health 403(b) Retirement Plan, and the Riverview Health 457(b) Deferred Compensation Plan, as authorized by IC 16-22-3-11. The plans are administered by the Hospital and cover all employees who meet eligibility requirements as to age and length of service. The plans provide retirement, disability and death benefits to plan members and beneficiaries. The plans' provisions and contribution requirements were established by written agreement between the Hospital Board of Trustees and Transamerica Retirement Solutions, LLC (Plan Administrator).

The Employees' Pension Plan 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 \$285,000. Certain employees hired subsequently to June 30, 2008 are eligible for the plan if conditions in the plan document are met.

The 403(b) Plan match rate on employee contributions is discretionary. During 2020 and 2019, the Hospital matched 50% of employee elective deferrals into the 403(b) Plan, up to 3% of a participant's eligible compensation.

The maximum employee contributions are subject to regulatory caps for both of the plans. Employer contributions including both plans were approximately \$1,470,000 and \$1,180,000 for 2020 and 2019, respectively. The Hospital is not permitted to contribute to the 457(b) Plan.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

13. 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.

The following is a schedule of future minimum lease payments under noncancelable operating leases as of December 31, 2020, that have initial or remaining lease terms in excess of one year.

| Year ending December 31, | |
|-----------------------------|---------------------|
| 2021 | \$ 1,293,394 |
| 2022 | 1,227,656 |
| 2023 | 936,278 |
| 2024 | 231,270 |
| | <u>\$ 3,688,598</u> |

Total rental expense was approximately \$44,100,000 and \$42,900,000 for 2020 and 2019, primarily related to rental expenses within long-term care.

Operating leases – lessor: The Hospital leases space to tenants under operating leases with terms of one to ten years. Leased space consists of buildings with a total cost of approximately \$63,800,000 and \$13,800,000 as of December 31, 2020 and 2019 and accumulated depreciation of approximately \$12,300,000 and \$8,600,000 as of December 31, 2020 and 2019, respectively. Total rental income for all operating leases was approximately \$901,000 and \$1,200,000 for 2020 and 2019 and is included within other operating revenue in the consolidated statements of revenue, expenses, and changes in net position.

Future minimum rentals under the leases are as follows:

| Year ending December 31, | |
|-----------------------------|---------------------|
| 2021 | \$ 444,639 |
| 2022 | 425,157 |
| 2023 | 420,957 |
| 2024 | 420,957 |
| 2025 | 399,337 |
| Thereafter | 294,269 |
| | <u>\$ 2,405,316</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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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

14. 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 2020 and 2019 was as follows:

| | Receivables | | Revenues | |
|------------------|-------------|-------------|-------------|-------------|
| | 2020 | 2019 | 2020 | 2019 |
| Self pay | 10% | 14% | 8% | 8% |
| Medicare | 24% | 23% | 39% | 42% |
| Medicaid | 12% | 15% | 24% | 22% |
| Other Commercial | 54% | 48% | 29% | 28% |
| | <u>100%</u> | <u>100%</u> | <u>100%</u> | <u>100%</u> |

15. JOINT VENTURES

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

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

Riverview Surgical Management Associates, LLC: The Hospital has a 53% and 57% ownership in Riverview Surgical Management Associates, LLC. (RSMA) at December 31, 2020 and 2019, respectively. RSMA has been contracted by the Hospital to operate the surgery center and provide management services thereto. RSMA provides complete management and administrative services for and on behalf of the Hospital. This agreement automatically renews for successive one-year terms unless either party provides written notice at least ninety days prior to the end of the term. The Hospital recorded an asset related to this investment of approximately \$851,000 and \$925,000 as of December 31, 2020 and 2019, respectively. The Hospital recorded this investment under the equity method of accounting, as it did not control key operating and governance factors in RSMA. The investment is included in other assets on the consolidated balance sheets. Amounts paid to RSMA in both 2020 and 2019 were approximately \$1,100,000 comprising of management fees, lease payments and other expenses.

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Suburban Home Health, LLC: During 2015, the Hospital purchased a 50% ownership in Suburban Home Health, LLC (SHH) for \$750,000 and has a 43% ownership in SHH at December 31, 2020 and 2019. The Hospital recorded an asset related to this investment of approximately \$617,000 and \$632,000 as of December 31, 2020 and 2019, respectively. The Hospital recorded this investment under the equity method of accounting, as it did not control key operating and governance factors in SHH. The investment is included in other assets on the consolidated balance sheets. Transactions between SHH and the Hospital during 2020 and 2019, outside of the initial investment, were immaterial to the financial statements as a whole.

St. Vincent Heart Center of Indiana, LLC: The Hospital purchased a 2% ownership in St. Vincent Heart Center of Indiana, LLC (Heart Center) during 2016 for approximately \$4,600,000 and has a 2% ownership in the Heart Center at December 31, 2020 and 2019. The Hospital has accounted for this investment under the cost method of accounting and assesses the investment for impairment on an annual basis. As of December 31, 2020 and 2019, the investment was not deemed to be impaired. The investment is included in other assets on the consolidated balance sheets. The Hospital received dividend distributions of approximately \$1,426,000 and \$1,000,000 during 2020 and 2019, respectively. The dividends are included within other operating revenue in the consolidated statements of revenue, expenses, and changes in net position.

Intuitive Health of Hamilton County, LLC: During 2018, the Hospital formed Intuitive Health of Hamilton County, LLC (IHHC) and has a 51% ownership in IHHC at December 31, 2020 and 2019. The Hospital recorded an asset related to this investment of approximately \$2,620,000 and \$937,000 as of December 31, 2020. The Hospital recorded this investment under the equity method of accounting, as it does not control key operating and governance factors in IHHC. The investment is included in other assets on the consolidated balance sheets. Transactions between IHCC and the Hospital during 2020 and 2019 were immaterial to the financial statements as a whole.

Amounts receivable and payable from these related parties as of December 31, 2020 and 2019 are included in related party receivables and related party payables in the accompanying consolidated balance sheets, and are immaterial to the financial statements as a whole. Separate financial statements related to these joint ventures may be obtained by contacting Hospital management.

16. SELF INSURANCE

The Hospital's employee health care insurance is provided through a combination of self-insurance and purchased insurance coverage from a commercial carrier. The Hospital maintains an estimated liability for claims incurred but not reported. Substantially all employees are covered for major medical benefits. Total self-health insurance expense for 2020 and 2019 was approximately \$6,600,000 and \$7,300,000, respectively. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

Changes in balance of health claim liabilities during 2020 and 2019 are as follows:

| | 2020 | 2019 |
|--|-------------------|-------------------|
| Unpaid claims, beginning of year | \$ 908,493 | \$ 955,877 |
| Incurred claims and changes in estimates | 6,630,453 | 7,286,358 |
| Claim payments | (6,596,130) | (7,333,742) |
| Unpaid claims, end of year | <u>\$ 942,816</u> | <u>\$ 908,493</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 \$225,000 and \$200,000 during 2020 and 2019, respectively, per claim with a no maximum reimbursement cap per covered person.

17. 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 (the Act) provides a maximum recovery of \$1,800,000 for an occurrence of malpractice and provided a maximum recovery of \$1,650,000 prior to July 1, 2019. The Act requires the Hospital to maintain medical malpractice liability insurance in the amount of at least \$500,000 per occurrence (\$15,000,000 in the annual aggregate based on hospital bed size). Prior to July 1, 2019, the Act required the Hospital to maintain medical malpractice liability insurance for at least \$400,000 per occurrence (\$12,000,000 in the annual aggregate based on hospital bed size). The Act also requires the Hospital to pay a surcharge to the State Patient's Compensation Fund (the Fund). The Fund is used to pay medical malpractice claims in excess of per occurrence and the annual aggregate amounts as noted above, under certain terms and conditions. No accrual for possible losses attributable to incidents that may have occurred but that have not been identified has been made because the amount, if any, is not reasonably estimable.

The Fund is on a claims-made basis and as long as this coverage is continuous or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be insured.

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claim experience, an accrual for estimated malpractice claims costs was approximately \$2,175,000 and \$1,560,000 as of December 31, 2020 and 2019, respectively. It is reasonably possible that this estimate could change materially in the near term.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

18. COVID-19

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

During 2020, Provider Relief Funds (PRF) authorized under the Coronavirus Aids, Relief, and Economic Security (CARES) Act were distributed to healthcare providers impacted by the outbreak of the COVID-19 pandemic. The Hospital received approximately \$29,000,000 of these funds from the CARES Act. PRF amounts are recognized to the extent the Hospital meets the terms and conditions. The Hospital recognized PRF of approximately \$26,400,000 as COVID-19 grant funds in nonoperating revenue (expenses) in the consolidated statements of revenues, expenses and changes in net position for the year ended December 31, 2020. The Hospital deferred PRF of approximately \$2,600,000, which is included in other current liabilities in the consolidated balance sheets. Compliance with the terms and conditions may also be subject to future government review and interpretation as they are emerging and uncertain at the time the consolidated financial statements were available to be issued. There can be no assurance that regulatory authorities will not challenge the Hospital's compliance with the terms and conditions, and it is not possible to determine the impact (if any) such claims would have upon the Hospital.