



**RIVERSIDE HEALTH SYSTEM
AND OBLIGATED AFFILIATES**

Special-Purpose Combined Financial
Statements and Combining Schedules

December 31, 2017 and 2016

(With Independent Auditors' Report Thereon)

**RIVERSIDE HEALTH SYSTEM
AND OBLIGATED AFFILIATES**

Table of Contents

	Page(s)
Independent Auditors' Report	1-2
Special-Purpose Combined Financial Statements:	
Special-Purpose Combined Balance Sheets	3-4
Special-Purpose Combined Statements of Operations	5
Special-Purpose Combined Statements of Changes in Net Assets	6
Special-Purpose Combined Statements of Cash Flows	7
Notes to Special-Purpose Combined Financial Statements	8-33
Schedules	
1 Combining Schedule – Balance Sheet Information	34-35
2 Combining Schedule – Statement of Operations Information	36
3 Combining Schedule – Statement of Changes in Net Assets Information	37



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Independent Auditors' Report

The Boards of Directors
Riverside Health System
and Obligated Affiliates:

Report on the Special-Purpose Combined Financial Statements

We have audited the accompanying special-purpose combined financial statements of Riverside Health System and obligated affiliates (the System) (as defined in the Amended Master Trust Indenture dated as of November 1, 1996 between Riverside Health System, Riverside Medical Center, Oakside Corporation, Riverside Senior Living Center, and Bank of New York Trust Company, N.A., as successor Master Trustee), which comprise the special-purpose combined balance sheets as of December 31, 2017 and 2016, and the related special-purpose combined statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the special-purpose combined financial statements.

Management's Responsibility for the Special-Purpose Combined Financial Statements

Management is responsible for the preparation and fair presentation of these special-purpose combined financial statements in accordance with the accounting requirements set forth in the Amended Master Trust Indenture. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the special-purpose combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these special-purpose combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special-purpose combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the special-purpose combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the special-purpose combined 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 special-purpose combined 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 special-purpose combined financial statements.

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



Opinion

In our opinion, the special-purpose combined financial statements referred to above present fairly, in all material respects, the financial position of Riverside Health System and Obligated Affiliates as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended, in accordance with the basis of accounting described in note 2 to the special-purpose combined financial statements.

Basis of Accounting

We draw attention to note 2, which describes the basis of accounting. The special-purpose combined financial statements are prepared by Riverside Health System and Obligated Affiliates on the basis of the financial reporting provisions of the Amended Master Trust Indenture, which is a basis of accounting other than U.S. generally accepted accounting principles, to comply with the financial reporting provisions of the Amended Master Trust Indenture referred to above. Our opinion is not modified with respect to this matter.

Restriction on Use

Our report is intended solely for the information and use of the boards of directors and management of Riverside Health System and Obligated Affiliates, the successor Master Trustee under the Amended Master Trust Indenture, and bondholders, and is not intended to be and should not be used by anyone other than these specified parties.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the special-purpose combined financial statements taken as a whole. The supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the special-purpose combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the special-purpose combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the special-purpose combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the special-purpose combined financial statements or to the special-purpose combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the special-purpose combined financial statements taken as a whole.

KPMG LLP

May 17, 2018

**RIVERSIDE HEALTH SYSTEM
AND OBLIGATED AFFILIATES**

Special-Purpose Combined Balance Sheets

December 31, 2017 and 2016

Assets	2017	2016
Current assets:		
Cash and cash equivalents	\$ 76,732,922	41,530,688
Short-term investments	41,098,193	43,270,294
Receivables:		
Patient and resident accounts, less allowance for doubtful accounts of approximately \$16,600,000 in 2017 and \$22,350,000 in 2016	44,910,739	45,959,037
Other	1,659,237	3,852,926
	46,569,976	49,811,963
Inventory of supplies	8,167,762	8,055,543
Prepaid expenses	4,888,098	3,882,239
Current portion of estimated insurance recoveries	855,616	894,612
Total current assets	178,312,567	147,445,339
Assets whose use is limited or restricted:		
By board of directors for capital improvements and other	263,045,660	236,545,240
Under bond indenture agreements held by trustee	8,353,789	19,855,646
Deposits under residency agreements	5,276,660	6,499,000
Donor-restricted investments	4,423,940	2,757,322
	281,100,049	265,657,208
Land, buildings, and equipment, net of accumulated depreciation	273,143,322	268,858,848
Other assets:		
Due from Riverside HealthCare Foundation, Inc.	6,986,149	6,361,896
Estimated insurance recoveries	2,903,016	3,130,573
Other assets	1,304,390	1,310,488
	11,193,555	10,802,957
Total assets	\$ 743,749,493	692,764,352

See accompanying notes to special-purpose combined financial statements.

**RIVERSIDE HEALTH SYSTEM
AND OBLIGATED AFFILIATES**

Special-Purpose Combined Statements of Operations

Years ended December 31, 2017 and 2016

	2017	2016
Revenue:		
Net patient service revenue	\$ 356,726,531	336,427,230
Provision for uncollectible accounts	(6,316,590)	(12,549,303)
Net patient service revenue less provision for uncollectible accounts	350,409,941	323,877,927
Resident and health center services revenue	11,669,367	10,571,357
Other revenue	6,635,985	5,845,002
Total revenue and other support	368,715,293	340,294,286
Expenses:		
Salaries and employee benefits	188,577,838	173,295,883
Purchased services and supplies	119,201,122	110,765,465
Depreciation and amortization	27,007,040	23,063,250
Utilities	5,856,725	5,432,177
Professional fees	1,261,945	1,006,523
Insurance	7,132,685	6,316,043
Interest	6,526,842	6,845,159
Total expenses	355,564,197	326,724,500
Income from operations	13,151,096	13,569,786
Nonoperating gains (losses):		
Investment income, net	32,163,164	21,831,799
Loss on early extinguishment of debt	—	(5,970,767)
Change in fair value of derivative instruments	928,580	114,097
Other, net	698,939	618,165
Total nonoperating gains, net	33,790,683	16,593,294
Revenue and gains in excess of expenses and losses	46,941,779	30,163,080
Other changes in unrestricted net assets:		
Net assets released from restriction for purchases of land, buildings, and equipment	629,319	1,193,267
Increase in unrestricted net assets	\$ 47,571,098	31,356,347

See accompanying notes to special-purpose combined financial statements.

**RIVERSIDE HEALTH SYSTEM
AND OBLIGATED AFFILIATES**

Special-Purpose Combined Statements of Changes in Net Assets

Years ended December 31, 2017 and 2016

	2017	2016
Unrestricted net assets:		
Revenue and gains in excess of expenses and losses	\$ 46,941,779	30,163,080
Other changes in unrestricted net assets:		
Net assets released from restrictions used for the purchase of land, buildings, and equipment	629,319	1,193,267
Increase in unrestricted net assets	47,571,098	31,356,347
Temporarily restricted net assets:		
Contributions for specific purposes	2,166,833	1,097,677
Investment return earned on temporarily and permanently restricted investments	36,429	33,443
Net assets released from restriction for purchases of land, buildings, and equipment	(629,319)	(1,193,267)
Increase (decrease) in temporarily restricted net assets	1,573,943	(62,147)
Change in permanently restricted net assets:		
Change in net unrealized gains and losses on permanently restricted investments	21,572	625
Change in net assets	49,166,613	31,294,825
Net assets at beginning of year	427,153,017	395,858,192
Net assets at end of year	\$ 476,319,630	427,153,017

See accompanying notes to special-purpose combined financial statements.

**RIVERSIDE HEALTH SYSTEM
AND OBLIGATED AFFILIATES**

Special-Purpose Combined Statements of Cash Flows

Years ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 49,166,613	31,294,825
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	27,007,040	23,063,250
Provision for doubtful accounts	6,316,590	12,549,303
Earnings from equity interest in unconsolidated subsidiary and joint venture	(622,877)	(519,964)
Cash distributions received from unconsolidated subsidiary and joint venture	630,000	423,000
Restricted contributions and investment return	(2,224,834)	(1,131,745)
Net realized and change in net unrealized gains and losses on investments	(23,345,711)	(14,072,284)
Loss on early extinguishment of debt	—	5,970,767
Change in fair value of derivative instruments	(928,580)	(114,097)
Changes in assets and liabilities:		
Patient and resident accounts receivable	(5,268,292)	(19,566,750)
Other receivables	2,193,689	(2,460,801)
Inventory of supplies, prepaid expenses, and other assets	(1,119,103)	(5,867,991)
Accounts payable and accrued expenses	6,813,638	(148,895)
Estimated payables under third-party reimbursement programs	2,400,782	(2,917,240)
Estimated insurance receivables and liabilities	2,738,373	(255,210)
Refundable security deposits	(58,767)	(88,840)
Refundable advance residency fees	(1,222,340)	(781,030)
Other long-term liabilities	(86,036)	(188,397)
Net cash provided by operating activities	62,390,185	25,187,901
Cash flows from investing activities:		
Sales of short-term investments	22,430,045	12,538,356
Purchases of short-term investments	(20,315,945)	(16,760,295)
Sales of assets whose use is limited or restricted	123,091,508	82,852,070
Purchases of assets whose use is limited or restricted	(115,130,637)	(94,688,877)
Net change in long-term investments	—	3,527,091
Acquisition of land, buildings, and equipment, net	(30,968,109)	(23,541,243)
Change in construction payables	(385,394)	(1,484,139)
Net cash used in investing activities	(21,278,532)	(37,557,037)
Cash flows from financing activities:		
Repayment of long-term debt	(7,510,000)	(77,425,000)
Proceeds from issuance of debt, including bond premium	—	87,177,173
Payment of bond issuance costs	—	(1,155,791)
Restricted contributions and investment return	2,224,834	1,131,745
Net change in due from Riverside HealthCare Foundation, Inc.	(624,253)	(386,777)
Net cash (used in) provided by financing activities	(5,909,419)	9,341,350
Net change in cash and cash equivalents	35,202,234	(3,027,786)
Cash and cash equivalents at beginning of year	41,530,688	44,558,474
Cash and cash equivalents at end of year	\$ 76,732,922	41,530,688
Supplemental disclosure of cash flow information:		
Cash paid for interest, net of amounts capitalized	\$ 7,153,133	7,535,859

See accompanying notes to special-purpose combined financial statements.

**RIVERSIDE HEALTH SYSTEM
AND OBLIGATED AFFILIATES**

Notes to Special-Purpose Combined Financial Statements

December 31, 2017 and 2016

(1) Riverside Health System and Obligated Affiliates

The accompanying special-purpose combined financial statements include the accounts of Riverside Health System (RHS) and its obligated affiliates (obligated affiliates), Riverside Medical Center (Medical Center), Oakside Corporation (Oakside), and Riverside Senior Living Center (RSLC).

RHS, the not-for-profit parent corporation of the Riverside healthcare delivery system, was incorporated during 1982 to support and encourage health and human services by providing management assistance and in all other relevant ways. RHS serves as the parent for Riverside HealthCare Foundation, Inc. (Foundation), which promotes charitable activities through donation, educational programs, and other human services programs. RHS also has a wholly owned subsidiary, Butterfield Service Corporation (Butterfield) (note 12).

The Medical Center operates a short-term general acute care hospital, an off-site substance abuse treatment center, and various community primary and specialty care clinics. The Medical Center is incorporated under the Illinois General Not-for-Profit Corporation Act. Included in the special-purpose combined financial accounts of the Medical Center are the accounts of Riverside Ambulatory Surgery Center (RASC), located in Bourbonnais, Illinois. RHS is the sole corporate member of the Medical Center.

Oakside was incorporated as a not-for-profit corporation in 1982. Oakside provides counseling services and promotes community participation in charitable, educational, and public service programs. Oakside also operates a health and fitness facility. RHS is the sole corporate member of Oakside.

RSLC was incorporated as a not-for-profit corporation during 1990. RSLC operates a retirement housing community with both independent and assisted living services for senior persons. RSLC also operates a skilled nursing facility. RHS is the sole corporate member of RSLC.

RHS and its obligated affiliates principally provide health and residential care services through their inpatient and outpatient care facilities located in the Kankakee area, and grant credit to patients and residents, substantially all of whom are residents of the service area. Expenses incurred by RHS and its obligated affiliates relate to the provision of healthcare and residential services and related general and administrative activities.

All significant intercompany balances and transactions have been eliminated in combination.

(2) Summary of Significant Accounting Policies

The following accounting policies are utilized in presenting the accompanying special-purpose combined financial statements of RHS and its obligated affiliates.

(a) Presentation

These special-purpose combined financial statements were prepared in accordance with the accounting requirements set forth in the Amended Master Trust Indenture dated as of November 1, 1996 between RHS, the Medical Center, Oakside, RSLC, and Bank of New York Trust Company, N.A., as successor Master Trustee. Pursuant to these requirements, certain affiliated entities of RHS required to be consolidated with RHS in accordance with U.S. generally accepted accounting principles have been excluded from the accompanying special-purpose combined financial statements or are

**RIVERSIDE HEALTH SYSTEM
AND OBLIGATED AFFILIATES**

Notes to Special-Purpose Combined Financial Statements

December 31, 2017 and 2016

presented on the equity basis of accounting. Accordingly, the accompanying special-purpose combined financial statements are not intended to be a presentation in conformity with U.S. generally accepted accounting principles.

(b) Use of Estimates

The preparation of the accompanying special-purpose combined financial statements 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 financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(c) Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and are adjusted in future periods as final settlements are determined.

(d) Resident and Health Center Services Revenue

Resident and health center services revenue represents monthly occupancy and service fees from RSLC residents.

(e) Revenue and Gains in Excess of Expenses and Losses

The special-purpose combined statements of operations include revenue and gains in excess of expenses and losses. Transactions deemed by management to be ongoing, major, or central to the provision of health and residential care services are reported as revenue and expenses. Transactions incidental to the provision of health and residential care services are reported as nonoperating gains and losses. Changes in unrestricted net assets that are excluded from revenue and gains in excess of expenses and losses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions, which by donor restriction were to be used for the purposes of acquiring such assets).

(f) Cash and Cash Equivalents

Cash and cash equivalents consist primarily of demand deposits with banks, cash on hand, overnight secured repurchase agreements, and securities with an original term of three months or less when purchased, excluding amounts limited or restricted as to use. Short-term investments consist of securities with an original term of one year or less, excluding cash and cash equivalents and amounts limited or restricted as to use.

(g) Assets Whose Use is Limited or Restricted

Assets whose use is limited or restricted include assets set aside by the Medical Center's board of directors (Board) for future capital improvements and other, over which the Board retains control and may, at its discretion, subsequently use for other purposes; assets held by a trustee and limited as to

**RIVERSIDE HEALTH SYSTEM
AND OBLIGATED AFFILIATES**

Notes to Special-Purpose Combined Financial Statements

December 31, 2017 and 2016

use in accordance with the requirements of bond indenture agreements; donor-restricted investments; and deposits under occupancy agreements with RSLC residents.

Investment income or loss (including realized gains and losses on investments, changes in unrealized gains and losses on trading securities, interest, and dividends) is included in revenue and gains in excess of expenses and losses unless the income or loss is restricted by donors, in which case, the investment return is recorded directly to temporarily or permanently restricted net assets in accordance with donor intent. The change in net unrealized gains and losses of permanently restricted investments is recorded directly to permanently restricted net assets.

(h) Fair Value

RHS and its obligated affiliates apply the provisions of Accounting Standards Codification (ASC) Subtopic 820-10, *Fair Value Measurement – Overall*, for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the special-purpose combined financial statements on a recurring basis. ASC Subtopic 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Subtopic 820-10 also establishes a framework for measuring fair value and expands disclosures about fair value measurements (note 6).

RHS and its obligated affiliates apply the provisions of ASC Subtopic 825-10, *Financial Instruments – Overall*. ASC Subtopic 825-10 gives RHS the irrevocable option to report most financial assets and financial liabilities at fair value on an instrument-by-instrument basis, with changes in fair value reported in earnings. RHS and its obligated affiliates' management did not elect to measure any additional eligible financial assets or financial liabilities at fair value subsequent to the adoption of ASC Subtopic 825-10.

RHS has disclosed investments for which fair value is measured using net asset value per share as a practical expedient outside the fair value hierarchy in accordance with ASC Subtopic 820-10.

In March 2016, the Financial Accounting Standards Board issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities* (ASU 2016-01). ASU 2016-01 eliminates the requirement for not-for-profit organizations to disclose fair value information for financial instruments measured at amortized cost (e.g., debt). RHS and its obligated affiliates elected to early adopt this part of ASU 2016-01 in 2016. The remaining parts of the ASU are effective for the year ending December 31, 2019. There was no effect on the special-purpose combined financial statements.

(i) Derivative Instruments

RHS and its obligated affiliates account for derivatives and hedging activities in accordance with ASC Topic 815, *Derivatives and Hedging*, as amended, which requires that all derivative instruments be recorded on the special-purpose combined balance sheets at their respective fair values.

(j) Land, Buildings, and Equipment

Land, buildings, and equipment are stated at cost if purchased or at fair value at the date of donation. Depreciation is provided for over the estimated useful life of each class of depreciable asset and is

**RIVERSIDE HEALTH SYSTEM
AND OBLIGATED AFFILIATES**

Notes to Special-Purpose Combined Financial Statements

December 31, 2017 and 2016

computed using the straight-line method. Interest cost incurred on borrowed funds during the period of construction is capitalized as a component cost of acquiring those assets (note 7).

(k) Inventories

Supplies inventories are stated at the lower of cost or market. Cost is determined on the basis of the most recent purchase price, which approximates the first-in, first-out method.

(l) Gifts, Bequests, and Grants

Unconditional promises to give cash or other assets are reported at fair value at the date the promise is received. All contributions are considered to be available for unrestricted use unless specifically restricted by donors. Contributions are reported as direct additions to temporarily restricted net assets if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the special-purpose combined statements of operations as net assets released from restriction. Gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service. Donor-restricted contributions whose restrictions are met within the same year as received are reported directly within the special-purpose combined statements of operations.

(m) Donor-Restricted Net Assets

Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. RHS and its obligated affiliates' temporarily restricted net assets are primarily restricted for land, building, and equipment acquisitions at both December 31, 2017 and 2016.

Permanently restricted net assets represent donor-restricted contributions, the principal amount of which may not be expended. Investment income earned on permanently restricted net assets, other than changes in the fair value of permanently restricted net assets, which are recorded directly to permanently restricted net assets, is recorded directly to temporarily restricted net assets and is restricted for land, building, and equipment acquisitions.

ASC Topic 958, *Not-for-Profit Entities*, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of UPMIFA. ASC Topic 958 also enhances disclosures related to both donor-restricted and board-designated endowment funds.

The Foundation holds certain assets contributed for the benefit of the Medical Center and RSLC. Amounts due from the Foundation of \$3,864,259 and \$2,269,544 at December 31, 2017 and 2016, respectively, are restricted by donors for specified programs and the acquisition of property and equipment. Remaining amounts due from the Foundation at December 31, 2017 and 2016 are unrestricted as to use by the Medical Center and RSLC.

**RIVERSIDE HEALTH SYSTEM
AND OBLIGATED AFFILIATES**

Notes to Special-Purpose Combined Financial Statements

December 31, 2017 and 2016

(n) Charity Care

The Medical Center, RSLC, and Oakside provide care to patients and residents who meet certain criteria under their charity care policies without charge or at amounts less than their established rates. Because the Medical Center, RSLC, and Oakside do not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

RHS follows the provisions in ASC Subtopic 954-605, *Health Care Entities – Revenue Recognition*. ASC Subtopic 954-605 requires that cost be used as the measurement basis for charity care disclosure purposes and that cost can be identified as direct and indirect costs of providing charity care.

(o) Deferred Financing Costs

Deferred financing costs are amortized using the bonds outstanding method. Bond discount and premium are amortized using the straight-line method over the periods in which the related bonds are outstanding.

In April 2015, the FASB issued ASU No. 2015-03, *Interest – Imputation of Interest* (ASU 2015-03). ASU 2015-03 amends ASC Topic 835, *Interest*, by requiring debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability, consistent with the debt discounts and premiums. RHS and its obligated affiliates adopted this standard retrospectively in 2016.

(p) Refundable Security Deposits and Refundable Advance Residency Fees

Refundable security deposits and advance residency fees represent fully refundable fees and deposits received from residents of RSLC who have signed occupancy agreements.

(q) Long-Lived Assets

RHS and its obligated affiliates evaluate long-lived assets for impairment on an annual basis. Long-lived assets are considered to be impaired whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable from future cash flows. Recoverability of long-lived assets to be held and used is measured by a comparison of the carrying amount of an asset to future cash flows expected to be generated by the asset. When such assets are considered to be impaired, the impairment loss recognized is measured by the amount by which the carrying value of the asset exceeds the fair value of the asset. RHS and its obligated affiliates do not believe that there are any factors or circumstances indicating impairment of its long-lived assets as of December 31, 2017 and 2016.

(r) Income Taxes

RHS and its obligated affiliates account for uncertain tax positions in accordance with ASC Subtopic 740-10, *Income Taxes – Overall*. ASC Subtopic 740-10 addresses the determination of how tax benefits claimed or expected to be claimed on a tax return should be recorded in the special-purpose combined financial statements. Under ASC Subtopic 740-10, RHS and its obligated affiliates must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the special-purpose combined financial

**RIVERSIDE HEALTH SYSTEM
AND OBLIGATED AFFILIATES**

Notes to Special-Purpose Combined Financial Statements

December 31, 2017 and 2016

statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. ASC Subtopic 740-10 also provides guidance on derecognition, classification, interest and penalties on income taxes, and accounting in interim periods, and requires increased disclosures. RHS and its obligated affiliates do not have a liability for unrecognized tax benefits.

RHS and its obligated affiliates are separate not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

(s) *Electronic Health Record Incentive Program*

The Electronic Health Record (EHR) Incentive Program (the Program) provides incentive payments to eligible hospitals and professionals as they adopt, implement, upgrade, or demonstrate meaningful use of certified EHR technology in their first year of participation and demonstrate meaningful use for up to five remaining participation years. RHS accounts for the Program using the grant model. RHS applies the “ratable recognition” approach, which states that the grant income can be recognized ratably over the entire EHR reporting period based on when the applicable project expenses are incurred and project milestones are achieved. For the years ended December 31, 2017 and 2016, RHS recognized \$1,122,930 and \$665,548 as other revenue, respectively, related to EHR incentives, which have been received or are expected to be received based on certifications prepared by management under the appropriate guidelines for attestation.

(t) *New Accounting Pronouncements*

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU establishes principles for reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity’s contracts with customers. Particularly, an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The requirements of this statement are effective for RHS and its obligated affiliates for the year ending December 31, 2018. RHS and its obligated affiliates expect to record a decrease in net patient service revenue and a corresponding decrease in the provision for uncollectible accounts upon adoption of the standard.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (ASU 2016-14)*. ASU 2016-14 represents phase 1 of FASB’s not-for-profit financial reporting project and reduces the number of net asset classes, requires expense presentation by functional and natural classification, requires quantitative and qualitative information in liquidity, retains the option to present the cash flow statement on a direct or indirect method, as well as includes various other additional disclosure requirements. ASU 2016-14 will be effective for RHS and its obligated affiliates for the year ending December 31, 2018 with retrospective application. Early adoption of ASU 2016-14 is permitted. RHS and its obligated affiliates are in the process of evaluating the impact of this statement.

In November 2016, the FASB issued ASU No. 2016-18, *Restricted Cash (ASU 2016-18)*, a consensus of the FASB Emerging Issues Task Force. ASU 2016-18 requires an entity to include amounts

**RIVERSIDE HEALTH SYSTEM
AND OBLIGATED AFFILIATES**

Notes to Special-Purpose Combined Financial Statements

December 31, 2017 and 2016

generally described as restricted cash and restricted cash equivalents, along with cash and cash equivalents when reconciling beginning and ending balances on the statement of cash flows. ASU 2016-18 will be effective for RHS and its obligated affiliates for the year ending December 31, 2019. Early adoption of ASU 2016-18 is permitted. RHS and its obligated affiliates have not evaluated the impact of this statement.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. ASU No. 2016-02 requires entities to recognize all leased assets as assets on the balance sheet with a corresponding liability resulting in a gross-up of the balance sheet. Entities will also be required to present additional disclosures as the nature and extent of leasing activities. ASU No. 2016-02 is effective for not-for-profit entities that are conduit bond obligors for the annual reporting period beginning after December 15, 2018. The requirements of this statement are effective for RHS and its obligated affiliates for the year ending December 31, 2019. RHS and its obligated affiliates have not evaluated the impact of this statement.

(3) Net Patient and Resident Service Revenue

The Medical Center, RSLC, and Oakside have agreements with third-party payors, which provide for reimbursement at amounts different from their established rates. Contractual adjustments under third-party reimbursement programs represent the difference between billings at list price and the amounts reimbursed by Medicare, Blue Cross, and certain other third-party payors; the difference between billings at list price and the allocated cost of services provided to Medicaid patients; and any differences between estimated retroactive third-party reimbursement settlements for prior years and subsequent final settlements. A summary of the basis of reimbursement with major third-party payors is as follows:

(a) Medicare

The Medical Center is paid for inpatient acute care and outpatient services rendered to Medicare program beneficiaries under prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. The prospectively determined rates are not subject to retroactive adjustment. The Medical Center's payment classification of patients under the prospective payment system and the appropriateness of the patients' admissions are subject to validation reviews.

Certain services rendered to Medicare beneficiaries are reimbursed based upon cost-reimbursement methodologies. The Medical Center is reimbursed at tentative rates with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicare fiscal intermediary. As of December 31, 2017, Medicare reimbursement reports have been audited through December 31, 2011.

RSLC is reimbursed by Medicare under a prospective payment system based primarily upon a clinical classification system for Medicare residents.

(b) Medicaid

The Medical Center is paid for inpatient acute care service rendered to Medicaid program beneficiaries under prospectively determined rates-per-discharge and on a per diem basis for psychiatric and rehabilitation services. RSLC is reimbursed on a per diem basis for nursing home services. For inpatient acute care services, payment rates vary according to a patient classification system that is

**RIVERSIDE HEALTH SYSTEM
AND OBLIGATED AFFILIATES**

Notes to Special-Purpose Combined Financial Statements

December 31, 2017 and 2016

based on clinical, diagnostic, and other factors. Outpatient services are reimbursed based upon fee schedules. Medicaid reimbursement may be subject to periodic adjustment, as well as to changes in existing payment methodologies and rates, based on the amount of funding available to the State of Illinois Medicaid program.

The Medical Center participates in all State of Illinois Hospital Assessment programs. Assessment programs provide hospitals within the State additional Medicaid reimbursement based on funding formulas approved by the Centers for Medicare and Medicaid Services (CMS). The Medical Center has included its reimbursement for the years ended December 31, 2017 and 2016 of \$22,128,202 and \$21,315,345, respectively, within net patient service revenue in the accompanying special-purpose combined statements of operations. Included in these amounts is \$6,930,706 and \$6,119,985, respectively, of additional reimbursement under the Affordable Care Act (ACA) expansion. A receivable of \$953,941 and \$909,840 is included in other receivables in the accompanying special-purpose combined balance sheets for amounts yet to be collected under this program as of December 31, 2017 and 2016, respectively.

The Medical Center included its related assessment tax payments of \$10,715,401 and \$9,726,829 for the years ended December 31, 2017 and 2016, respectively, within purchased services and supplies expense in the accompanying special-purpose combined statements of operations. Included in these amounts is \$1,617,012 and \$628,440, respectively, of incremental Medicaid provider tax expense under the ACA expansion for the years ended December 31, 2017 and 2016.

(c) Other

The Medical Center has also entered into reimbursement agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements is negotiated by the Medical Center and includes discounts from established charges and prospectively determined per diem rates.

A summary of gross and net patient service revenue for the years ended December 31, 2017 and 2016 is as follows:

	2017	2016
Gross patient service revenue	\$ 1,179,821,529	1,067,620,828
Less adjustments for:		
Contractual adjustments under third-party reimbursement programs	(822,970,657)	(735,087,503)
Current year impact of prior period third-party reimbursement settlements and changes in estimates	(124,341)	3,893,905
Net patient service revenue	\$ 356,726,531	336,427,230

**RIVERSIDE HEALTH SYSTEM
AND OBLIGATED AFFILIATES**

Notes to Special-Purpose Combined Financial Statements

December 31, 2017 and 2016

The Medical Center and RSLC grant credit without collateral to their patients and residents, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors as of December 31, 2017 and 2016 is as follows:

	2017	2016
Medicare	39 %	32 %
Medicaid	14	15
Blue Cross	17	19
Managed care/commercial	17	18
Self-pay and other	13	16
	100 %	100 %

A summary of Medical Center and RSLC utilization based upon gross patient and resident service revenue for the years ended December 31, 2017 and 2016 is as follows:

	2017	2016
Medicare	51 %	51 %
Medicaid	18	17
Blue Cross	16	16
Managed care/commercial	10	11
Self-pay and other	5	5
	100 %	100 %

Patients' accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of patients' accounts receivable, RHS analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, RHS analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and co-payments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and co-payment balances due for which third-party coverage exists for part of the bill), RHS records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

**RIVERSIDE HEALTH SYSTEM
AND OBLIGATED AFFILIATES**

Notes to Special-Purpose Combined Financial Statements

December 31, 2017 and 2016

The Medical Center's allowance for uncollectible accounts for self-pay patients and at-risk patients, which includes indigent, contract, worker's compensation, and other decreased from 62% of self-pay and at-risk accounts receivable at December 31, 2016, to 58% of self-pay and at-risk accounts receivable at December 31, 2017. The Medical Center's self-pay write-offs increased \$1,700,000 from approximately \$4,500,000 for fiscal year 2016 to \$6,200,000 for fiscal year 2017. The Medical Center has not changed its charity care or uninsured discount policies during fiscal years 2016 and 2017.

RHS recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, RHS recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of RHS's uninsured patients will be unable or unwilling to pay for the services provided. Thus, RHS records a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances and discounts (before the provision for bad debts), is recognized in the period from these major payor sources, as follows:

	2017	2016
Medicare	\$ 172,488,465	161,376,656
Medicaid	74,088,694	68,646,609
Blue Cross	50,981,543	49,911,398
Managed care/commercial	33,779,182	32,295,610
Self-pay and other	25,388,647	24,196,957
Net patient service revenue	\$ 356,726,531	336,427,230

(4) Charity Care

The Medical Center, RSLC, and Oakside maintain policies whereby patients and residents in need of medical services are treated without regard to their ability to pay for such services. The Medical Center, RSLC, and Oakside maintain records to identify and monitor the level of charity care they provide. These records include the amount of charges foregone for services and supplies furnished under their charity care policies. The following information measures the approximate level of charity care provided at cost in accordance with ASC Subtopic 954-605 and Medical Center's, RSLC's, and Oakside's policies during the years ended December 31, 2017 and 2016:

	2017	2016
Costs of charity care provided	\$ 3,535,311	2,734,253

The Medical Center provides discounts from charges of 45% to all patients without any form of insurance. In addition, patients may also be eligible for additional discounts from charges based upon certain income criteria.

**RIVERSIDE HEALTH SYSTEM
AND OBLIGATED AFFILIATES**

Notes to Special-Purpose Combined Financial Statements

December 31, 2017 and 2016

(5) Investments

A summary of the composition of the RHS and obligated affiliates' investment portfolios at December 31, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Accrued interest	\$ 1,479,221	1,308,660
Short-term investments, consisting primarily of money market funds	5,570,733	24,742,452
Common stock	55,322,559	51,889,551
Mutual equity funds	134,258,295	119,666,767
U.S. Treasury and U.S. government agency securities	37,000,650	34,075,178
Corporate bonds and notes	59,267,847	49,687,543
Limited partnerships	29,298,937	27,557,351
	<u>\$ 322,198,242</u>	<u>308,927,502</u>

Investments are reported in the accompanying special-purpose combined balance sheets as follows at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Short-term investments	\$ 41,098,193	43,270,294
Assets whose use is limited or restricted:		
By board of directors for capital improvements and other	263,045,660	236,545,240
Under bond indenture agreements held by trustee	8,353,789	19,855,646
Deposits under residency agreements	5,276,660	6,499,000
Donor-restricted investments	4,423,940	2,757,322
Long-term investments	—	—
	<u>\$ 322,198,242</u>	<u>308,927,502</u>

The composition of investment return on RHS and its obligated affiliates' investment portfolios and Riverside Foundation Trust assets for the years ended December 31, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Interest and dividend income, net of fees and expenses	\$ 8,993,799	7,953,616
Net realized gains on sale of investments	12,822,870	2,728,526
Change in net unrealized gains and losses during the holding period	10,580,842	11,377,826
Investment return	<u>\$ 32,397,511</u>	<u>22,059,968</u>

**RIVERSIDE HEALTH SYSTEM
AND OBLIGATED AFFILIATES**

Notes to Special-Purpose Combined Financial Statements

December 31, 2017 and 2016

Investment returns are included in the accompanying special-purpose combined statements of operations and changes in net assets for the years ended December 31, 2017 and 2016 as follows:

	2017	2016
Nonoperating gains:		
Investment income, net	\$ 32,163,164	21,831,799
Other changes in net assets:		
Investment income capitalized on borrowed funds held by trustee	176,346	194,101
Investment return earned on temporarily and permanently restricted investments	36,429	33,443
Change in net unrealized gains and losses on permanently restricted investments	21,572	625
Investment return	\$ 32,397,511	22,059,968

(6) Fair Value Measurements

(a) Fair Value of Financial Instruments

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

- The carrying amount reported in the special-purpose combined balance sheets for the following approximates fair value because of the short maturities of these instruments: cash and cash equivalents, accounts payable and accrued expenses, patient accounts receivable, and estimated third-party payor settlements.
- Assets limited as to use and long-term investments: Fair values are estimated based on prices provided by its investment managers, custodian banks, and valuations provided by an independent investment reporting service. Common stocks, quoted mutual funds, and U.S. Treasury obligations are measured using quoted market prices at the reporting date multiplied by the quantity held. Corporate bonds, notes, certain American Depository Receipts, and U.S. agency securities are measured using other observable inputs. The carrying value equals fair value.
- RHS has two limited partnership investments for which quoted market prices are not available. The two limited partnership investments are the Barings Core Property Fund, L.P. (formerly known as Cornerstone Patriot Fund, L.P.) and Grosvenor Institutional Partners, L.P. RHS elected to apply the concepts of ASC Subtopic 820-10 to its alternative investments using net asset value as a practical expedient in estimating fair value; however, it is possible that the redemption rights of certain investments may be restricted by the funds in the future in accordance with the underlying fund agreements. Changes in market conditions and the economic environment may impact the net asset value of the funds and, consequently, the fair value of RHS's interests in the funds. The carrying value equals fair value. The estimated fair value of these investments includes estimates, appraisals, assumptions, and methods provided by external financial advisers and reviewed by RHS.

**RIVERSIDE HEALTH SYSTEM
AND OBLIGATED AFFILIATES**

Notes to Special-Purpose Combined Financial Statements

December 31, 2017 and 2016

The investment objective of the Barings Core Property Fund, L.P. is to achieve total returns with reduced risk. This is achieved through a diversified investment fund that primarily comprises stabilized, income-producing equity real estate. There is no additional contractual commitment to fund the Barings Core Property Fund, L.P.

The investment objective of the Grosvenor Institutional Partners, L.P. is to achieve positive returns with low volatility and risk. This is achieved through a multimanager, multistrategy, and diversified investment approach. There is no additional contractual commitment to fund the Grosvenor Institutional Partners, L.P.

- Interest rate swaps: The fair value of interest rate swaps is determined using pricing models developed based on the LIBOR swap rate and other observable market data. The value was determined after considering the potential impact of collateralization and netting agreements, adjusted to reflect nonperformance risk of both the counterparty and RHS and its obligated affiliates. The carrying value equals fair value.

(b) Fair Value Hierarchy

RHS and its obligated affiliates apply ASC Subtopic 820-10 for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the special-purpose combined financial statements on a recurring basis. ASC Subtopic 820-10 establishes 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 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that RHS has the ability to access at the measurement date. Level 1 investments include cash and cash equivalents, common stock, and quoted mutual funds.
- Level 2 inputs are observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 investments include certain money market funds, corporate obligations, and U.S. Treasury and U.S. government agency securities.
- Level 3 inputs to the valuation methodology are unobservable and significant inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest-level input that is significant to the fair value measurement in its entirety.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. There were no transfers between levels for the fiscal years ended December 31, 2017 and 2016.

**RIVERSIDE HEALTH SYSTEM
AND OBLIGATED AFFILIATES**

Notes to Special-Purpose Combined Financial Statements

December 31, 2017 and 2016

The following table presents assets and liabilities, including accrued interest, that are measured at fair value on a recurring basis at December 31, 2017:

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Redemption or liquidation	Days notice
Assets:						
Cash and cash equivalents:						
Cash	\$ 76,732,922	76,732,922	—	—	Daily	One
Total cash and cash equivalents	<u>76,732,922</u>	<u>76,732,922</u>	<u>—</u>	<u>—</u>		
Short-term investments excluding accrued interest of \$125,386:						
Quoted mutual equity funds	18,259,630	18,259,630	—	—	Daily	One
Common stocks	3,053,025	3,053,025	—	—	Daily	One
Money market funds	375,372	—	375,372	—	Daily	One
U.S. Treasury and U.S. government agency securities	5,018,448	—	5,018,448	—	Daily	One
Corporate bonds and notes	10,207,377	—	10,207,377	—	Daily	One
Limited partnerships:						
Barings Core Property Fund, L.P. (1)	2,000,399				Quarterly	Thirty
Grosvenor Institutional Partners, L.P. (1)	<u>2,058,556</u>				Quarterly	Seventy
Total short-term investments	<u>40,972,807</u>	<u>21,312,655</u>	<u>15,601,197</u>	<u>—</u>		
Assets limited as to use excluding accrued interest of \$1,353,835:						
Quoted mutual equity funds	115,998,665	115,998,665	—	—	Daily	One
Common stocks	52,269,534	52,269,534	—	—	Daily	One
Money market funds	5,195,361	—	5,195,361	—	Daily	One
U.S. Treasury and U.S. government agency securities	31,982,202	—	31,982,202	—	Daily	One
Corporate bonds and notes	49,060,470	—	49,060,470	—	Daily	One
Limited partnerships:						
Barings Core Property Fund, L.P. (1)	12,439,170				Quarterly	Thirty
Grosvenor Institutional Partners, L.P. (1)	<u>12,800,812</u>				Quarterly	Seventy
Total assets limited as to use	<u>279,746,214</u>	<u>168,268,199</u>	<u>86,238,033</u>	<u>—</u>		
Total assets	<u>\$ 397,451,943</u>	<u>266,313,776</u>	<u>101,839,230</u>	<u>—</u>		
Liabilities:						
Interest rate derivatives	\$ 2,677,724	—	2,677,724	—		

(1) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the special-purpose combined balance sheets.

**RIVERSIDE HEALTH SYSTEM
AND OBLIGATED AFFILIATES**

Notes to Special-Purpose Combined Financial Statements

December 31, 2017 and 2016

The following table presents assets and liabilities, including accrued interest, that are measured at fair value on a recurring basis at December 31, 2016:

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Redemption or liquidation	Days notice
Assets:						
Cash and cash equivalents:						
Cash	\$ 41,530,688	41,530,688	—	—	Daily	One
Total cash and cash equivalents	41,530,688	41,530,688	—	—		
Short-term investments excluding accrued interest of \$176,720:						
Quoted mutual equity funds	15,843,004	15,843,004	—	—	Daily	One
Common stocks	2,469,000	2,469,000	—	—	Daily	One
Money market funds	7,765,957	—	7,765,957	—	Daily	One
U.S. Treasury and U.S. government agency securities	5,274,635	—	5,274,635	—	Daily	One
Corporate bonds and notes	8,042,360	—	8,042,360	—	Daily	One
Limited partnerships:						
Barings Core Property Fund, L.P. (1)	1,818,946				Quarterly	Thirty
Grosvenor Institutional Partners, L.P. (1)	1,879,672				Quarterly	Seventy
Total short-term investments	43,093,574	18,312,004	21,082,952	—		
Assets limited as to use excluding accrued interest of \$1,131,940:						
Quoted mutual equity funds	103,823,763	103,823,763	—	—	Daily	One
Common stocks	49,420,551	49,420,551	—	—	Daily	One
Money market funds	16,976,495	—	16,976,495	—	Daily	One
U.S. Treasury and U.S. government agency securities	28,800,543	—	28,800,543	—	Daily	One
Corporate bonds and notes	41,645,183	—	41,645,183	—	Daily	One
Limited partnerships:						
Barings Core Property Fund, L.P. (1)	11,733,506				Quarterly	Thirty
Grosvenor Institutional Partners, L.P. (1)	12,125,227				Quarterly	Seventy
Total assets limited as to use	264,525,268	153,244,314	87,422,221	—		
Total assets	\$ 349,149,530	213,087,006	108,505,173	—		
Liabilities:						
Interest rate derivatives	\$ 3,606,304	—	3,606,304	—		

(1) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the special-purpose combined balance sheets.

**RIVERSIDE HEALTH SYSTEM
AND OBLIGATED AFFILIATES**

Notes to Special-Purpose Combined Financial Statements

December 31, 2017 and 2016

(7) Land, Buildings, and Equipment

A summary of land, buildings, and equipment at December 31, 2017 and 2016 is as follows:

	<u>2017</u>		<u>2016</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Land	\$ 14,042,122	—	14,000,122	—
Land improvements	9,882,217	4,691,756	8,737,972	4,142,122
Buildings	294,346,817	135,377,657	286,925,768	126,076,206
Equipment	205,081,587	122,022,426	201,032,185	112,061,197
Construction in progress	11,882,418	—	442,326	—
	<u>\$ 535,235,161</u>	<u>262,091,839</u>	<u>511,138,373</u>	<u>242,279,525</u>

The Medical Center and RSLC are currently engaged in various construction, renovation, and software implementation projects. Outstanding commitments related to these projects approximate \$5,800,000 at December 31, 2017.

Interest cost is capitalized as a component cost of significant capital projects. Interest income earned on any project-specific borrowed funds is offset against interest cost capitalized. A summary of interest cost capitalized for the years ended December 31, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Gross interest cost capitalized	\$ 234,539	707,417
Investment income on borrowed funds held by trustee	<u>(176,346)</u>	<u>(194,101)</u>
Net interest cost capitalized	<u>\$ 58,193</u>	<u>513,316</u>

**RIVERSIDE HEALTH SYSTEM
AND OBLIGATED AFFILIATES**

Notes to Special-Purpose Combined Financial Statements

December 31, 2017 and 2016

(8) Long-Term Debt

A summary of long-term debt as of December 31, 2017 and 2016 is as follows:

	2017	2016
Variable Rate Demand Revenue Bonds, Series 1994, at variable tax-exempt interest rates (0.75% and 0.56% at December 31, 2017 and 2016, respectively), not to exceed the lesser of 20.00% per annum or the maximum rate permitted by law, maturing serially through November 2019	\$ —	3,700,000
Variable Rate Demand Revenue Bonds, Series 2002B, at variable tax-exempt interest rates (0.76% and 1.45% at December 31, 2017 and 2016, respectively), not to exceed the lesser of 20.00% per annum or the maximum rate permitted by law, maturing serially November 2005 through November 2017	—	430,000
Revenue bonds, Series 2009, at varying fixed effective-interest rates (6.30% at December 31, 2017 and 2016), depending on date of maturity and subject to mandatory redemption through 2035, partially advance-refunded in 2016	20,010,000	20,010,000
Revenue bonds, Series 2013, at varying fixed effective-interest rates (4.36% at December 31, 2017 and 2016), depending on date of maturity, and subject to annual mandatory redemption through 2042	32,000,000	32,000,000
Revenue refunding bonds, Series 2015, at variable interest rates determined monthly (3.44% and 3.24% at December 31, 2017 and 2016, respectively) subject to mandatory annual redemption through 2029	32,790,000	35,095,000
Revenue bonds, Series 2016, at varying fixed effective-interest rates (from 3.00% to 5.00% at December 31, 2017 and 2016), depending on date of maturity, and subject to annual mandatory redemption through 2045	78,470,000	79,545,000
Total long-term debt	163,270,000	170,780,000
Less:		
Current installments of long-term debt	3,985,000	5,010,000
Long-term debt subject to short-term remarketing arrangements	—	2,500,000
Unamortized bond discount	184,415	194,660
Deferred financing costs	2,208,231	3,080,026

**RIVERSIDE HEALTH SYSTEM
AND OBLIGATED AFFILIATES**

Notes to Special-Purpose Combined Financial Statements

December 31, 2017 and 2016

	2017	2016
Plus:		
Unamortized bond premium	\$ 8,884,320	9,442,955
Long-term debt, excluding current installments unamortized bond discount and premium, and deferred financing costs	\$ 165,776,674	169,438,269

RHS, the Medical Center, Oakside, and RSLC (collectively referred to as the Obligated Group) entered into an Amended Master Trust Indenture (Master Trust Indenture) dated as of November 1, 1996. The purpose of the Master Trust Indenture is to provide a mechanism for the efficient and economical issuance of notes by individual members of the Obligated Group using the collective borrowing capacity and credit rating of the Obligated Group. The Medical Center, Oakside, and RSLC became members of the Obligated Group by executing contribution agreements with RHS pursuant to the Master Trust Indenture. The Master Trust Indenture requires members of the Obligated Group to make principal and interest payments on notes issued for their benefit and to pay such amounts as are otherwise necessary to enable RHS to satisfy other obligations issued under the Master Trust Indenture. The obligations of each member of the Obligated Group under its contribution agreement are secured by the unrestricted receivables of the Obligated Group.

On September 13, 2016, the Illinois Finance Authority issued revenue bonds, Series 2016, in the principal amount of \$79,545,000: \$67,460,524 on behalf of the Medical Center, \$10,856,302 on behalf of RSLC, and \$1,228,174 on behalf of Oakside. The loan proceeds of the Series 2016 bonds are secured by direct note obligations issued under the Master Trust Indenture. In addition to the principal amounts issued, RHS received a bond premium of \$7,632,173 as part of the proceeds: \$6,500,794 on behalf of the Medical Center, \$1,010,858 on behalf of RSLC, and \$120,521 on behalf of Oakside. The proceeds from the sale of the Series 2016 bonds were used to pay and reimburse the Obligated Group for a portion of the costs of acquiring, constructing, renovating, remodeling, and equipping certain healthcare facilities, to pay for certain expenses incurred in connection with the issuance of the Series 2016 bonds, and to refund all of the Series 2006C bonds and a portion of the Series 2009 bonds. As part of the redemption, the unamortized deferred financing costs related to the Series 2006C and Series 2009 bonds were written off at the time of retirement and are reported as a loss on early extinguishment of debt in the amount of \$5,970,767 in the accompanying 2016 special-purpose combined statement of operations.

On October 14, 2015, the Illinois Finance Authority issued revenue refunding bonds, Series 2015, in the principal amount of \$37,165,000: \$27,665,510 on behalf of the Medical Center, \$5,811,090 on behalf of Oakside, and \$3,688,400 on behalf of RSLC. The loan proceeds of the Series 2015 bonds are secured by direct note obligations issued under the Master Trust Indenture. Interest on the Series 2015 bonds is variable and determined monthly based on 67% of one-month LIBOR plus 0.60%. The proceeds from the sale of the Series 2015 bonds were used by the Obligated Group to advance-refund the Obligated Group's outstanding principal amounts of the Illinois Finance Authority Revenue Bonds, Series 2006A and Illinois Finance Authority Variable Rate Demand Revenue Bonds, Series 2004.

**RIVERSIDE HEALTH SYSTEM
AND OBLIGATED AFFILIATES**

Notes to Special-Purpose Combined Financial Statements

December 31, 2017 and 2016

On May 16, 2013, the Illinois Finance Authority issued revenue bonds, Series 2013, in the principal amount of \$32,000,000: \$24,905,600 on behalf of the Medical Center and \$7,094,400 on behalf of RSLC. The loan proceeds of the Series 2013 bonds are secured by direct note obligations issued under the Master Trust Indenture. In addition to the principal amounts issued, RHS received a bond premium of \$1,887,767 as part of the proceeds: \$1,686,723 on behalf of the Medical Center and \$201,044 on behalf of RSLC. The proceeds from the sale of the Series 2013 bonds were used to pay and reimburse the Obligated Group for a portion of the costs of acquiring, constructing, renovating, remodeling, and equipping certain healthcare facilities and to pay for certain expenses incurred in connection with the issuance of the Series 2013 bonds.

On August 6, 2009, the Illinois Finance Authority issued revenue bonds, Series 2009, in the principal amount of \$66,500,000: \$43,636,238 on behalf of the Medical Center and \$22,863,762 on behalf of RSLC. The loan proceeds of the Series 2009 bonds are secured by direct note obligations issued under the Master Trust Indenture. The proceeds from the sale of the Series 2009 bonds were used to pay and reimburse the Obligated Group for a portion of the costs of acquiring, constructing, renovating, remodeling, and equipping certain healthcare facilities; to establish a debt service reserve fund for the Series 2009 bonds; to advance-refund the Obligated Group's total outstanding principal amount of the Illinois Finance Authority revenue bonds, Series 2006B; to advance-refund a portion of the Obligated Group's outstanding principal amount of the Illinois Finance Authority revenue bonds, Series 2004; and to pay termination costs for a derivative agreement in connection with the Series 2004 bonds. The Obligated Group partially advance-refunded these bonds in September 2016 as part of the 2016 Series financing.

On December 6, 2006, the Illinois Finance Authority issued revenue refunding bonds, Series 2006C, in the principal amount of \$43,625,000: \$41,989,063 on behalf of the Medical Center and \$1,635,937 on behalf of RSLC. The loan of the proceeds of the Series 2006C bonds is secured by direct note obligations issued under the Master Trust Indenture. The proceeds from the sale of the Series 2006C bonds were used by the Obligated Group, together with certain other available funds, to advance-refund the Obligated Group's outstanding principal amount of the Illinois Finance Authority Revenue Bonds, Series 2002; and to pay certain expenses incurred in connection with the issuance of the Series 2006C bonds. The Obligated Group advance-refunded these bonds in September 2016 as part of the 2016 Series financing.

On November 26, 2002, the Illinois Finance Authority also issued Variable Rate Demand Revenue Bonds, Series 2002B, in the principal amount of \$15,000,000 on behalf of the Medical Center. The loan of the proceeds of the Series 2002B bonds is secured by a direct note obligation issued under the Master Trust Indenture. The payment of the debt service on the Series 2002B bonds was also secured by an irrevocable letter-of-credit agreement with a commercial bank through August 2014. This letter of credit was replaced on July 1, 2012 by a new irrevocable letter-of-credit agreement with a commercial bank through November 2017, the final maturity date. Such bonds had a put option that allowed the holders to redeem the bonds prior to maturity. The Obligated Group had an agreement with a remarketing agent to remarket any bonds redeemed as a result of the exercise of the put options. If the bonds were not remarketed, the commercial bank, under the irrevocable letter-of-credit agreement, would have purchased the bonds. The interest rate under the former irrevocable letter of credit was the prime rate plus 1%. The interest rate under the new irrevocable letter of credit is the greater of the prime rate or adjusted one-month LIBOR. The Series 2002B bonds were paid off in 2017.

**RIVERSIDE HEALTH SYSTEM
AND OBLIGATED AFFILIATES**

Notes to Special-Purpose Combined Financial Statements

December 31, 2017 and 2016

On December 21, 1994, the Illinois Finance Authority issued Variable Rate Demand Revenue Bonds, Series 1994, in the aggregate principal amount of \$20,000,000 (Series 1994 bonds): \$14,848,000 on behalf of the Medical Center and \$5,152,000 on behalf of RSLC. The loan of the proceeds of the Series 1994 bonds is secured by notes issued under the Master Trust Indenture. The payment of debt service on the Series 1994 bonds was also secured by an irrevocable letter-of-credit agreement with a commercial bank through August 2014. This letter of credit was replaced on July 1, 2012 by a new irrevocable letter-of-credit agreement with a commercial bank through July 2017. The Series 1994 bonds were due in annual serial installments through 2019 with interest payable in accordance with the terms specified for the interest rate mode in which the bonds are operating. Such bonds had a put option that allowed the holders to redeem the bonds prior to maturity. The Obligated Group had an agreement with a remarketing agent to remarket any bonds redeemed as a result of the exercise of the put options. If the bonds were not remarketed, the commercial bank, under the irrevocable letter-of-credit agreement, would have purchased the bonds. The interest rate under the former irrevocable letter of credit was the prime rate plus 1%. The interest rate under the new irrevocable letter of credit is the greater of the prime rate or adjusted one-month LIBOR. The outstanding Series 1994 principal payments of \$3,700,000 have been shown as a current obligation in the accompanying special-purpose combined balance sheet at December 31, 2016, which comprises a current installment of long-term debt of \$1,200,000 and \$2,500,000 of long-term debt subject to short-term remarketing arrangements based on expiration of the letter of credit in July 2017. The remaining outstanding amount of \$3,700,000 for the Series 1994 bonds was paid in full in June 2017.

Under the terms of the related Series Bond Indentures, the Medical Center and RSLC are required to maintain certain reserve, construction, and sinking funds with their Bond Trustee. Such funds are restricted to pay for capital project costs as well as to provide funds for the repayment of principal and interest on outstanding bonds when due.

Scheduled principal repayments on the long-term debt based on the scheduled redemptions according to the Master Trust Indenture are as follows:

Year ending December 31:	
2018	\$ 3,985,000
2019	4,080,000
2020	5,595,000
2021	5,825,000
2022	6,060,000
Thereafter	<u>137,725,000</u>
	<u>\$ 163,270,000</u>

(9) Derivative Instruments and Hedging Activities

The Obligated Group has interest-rate-related derivative instruments to manage its exposure on its variable rate debt instruments and does not enter into derivative instruments for any purpose other than risk management purposes. That is, the Obligated Group does not speculate using derivative instruments.

**RIVERSIDE HEALTH SYSTEM
AND OBLIGATED AFFILIATES**

Notes to Special-Purpose Combined Financial Statements

December 31, 2017 and 2016

By using derivative financial instruments to hedge exposures to changes in interest rates, the Obligated Group exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contracts. When the fair value of a derivative contract is positive, the counterparty owes the Obligated Group, which creates credit risk for the Obligated Group. When the fair value of a derivative contract is negative, the Obligated Group owes the counterparty. The Obligated Group minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate changes is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. The Obligated Group's management also mitigates risk through periodic reviews of their derivative positions in the context of their total blended cost of capital.

On May 28, 2004, the Illinois Finance Authority issued Variable Rate Demand Revenue Bonds, Series 2004. Effective February 13, 2008, the Series 2004 bonds were converted to a weekly mode, which bore interest at a weekly rate (note 8). This debt exposed the Obligated Group to variability in interest payments due to changes in interest rates. Management believed it was prudent to limit the variability of a portion of its interest payments and manage fluctuations in cash flows resulting from interest rate risk. To meet this objective, management entered into an interest rate swap agreement in 2004, whereby the Obligated Group received, on a monthly basis, 57% of one-month LIBOR plus 54 basis points. In exchange, the Obligated Group paid an annualized fixed rate of 3.794%.

The 2004 interest rate swap agreement does not meet the criteria to qualify for hedge accounting treatment; accordingly, changes in fair value of the swap are recognized as a component of nonoperating gains (losses) in the accompanying special-purpose combined statements of operations. The change in fair value of the swap for the years ended December 31, 2017 and 2016 of \$549,162 and \$545,254, respectively, was recognized as a component of nonoperating gains. The fair value of the 2004 interest rate swap agreement of \$2,850,903 and \$3,400,065 at December 31, 2017 and 2016, respectively, has been included in other long-term liabilities in the accompanying special-purpose combined balance sheets.

During 2009, the Medical Center entered into an interest rate swap agreement (Basis Swap) with a commercial bank. The Basis Swap has a notional amount of \$25,000,000, which is subject to adjustment according to the terms of the agreement, whereby the Medical Center will receive, on a quarterly basis, 83% of three-month LIBOR and will make quarterly payments equal to the USD-SIMFA Municipal Swap Index rate. The fair value (receivable) payable of the Basis Swap of \$(173,179) and \$206,239 at December 31, 2017 and 2016, respectively, is included as a component of other long-term liabilities. The change in fair value of \$379,418 and \$(431,157) for the years ended December 31, 2017 and 2016, respectively, was recorded as a component of nonoperating gains (losses).

**RIVERSIDE HEALTH SYSTEM
AND OBLIGATED AFFILIATES**

Notes to Special-Purpose Combined Financial Statements
December 31, 2017 and 2016

A summary of outstanding Obligated Group positions under interest rate swap agreements at December 31, 2017 is as follows:

	<u>Notional amount</u>	<u>Maturity date</u>	<u>Rate received</u>	<u>Rate paid</u>
\$	24,070,000	November 15, 2029	57% of one-month LIBOR plus 54 basis points	3.794 %
	25,000,000	November 15, 2035	83% of three-month LIBOR	USD-SIFMA Municipal Swap Index

Payments by the Obligated Group equal to the differential to be paid or received under the interest rate swap agreements are recognized monthly and amounted to \$678,691 and \$792,231 paid and included as a component of interest expense in the accompanying 2017 and 2016 special-purpose combined statements of operations, respectively.

(10) Self-Insurance

(a) Professional and General Liability Insurance

The Medical Center participates in the Illinois Provider Trust (Provider Trust), which was established on a pooled-risk basis to provide primary professional and general liability coverage to member hospitals. The Provider Trust provided primary insurance coverage on an occurrence basis through December 31, 2004. Effective January 1, 2005, the Provider Trust began providing primary insurance coverage on a claims-made basis. Excess liability coverage is currently provided through the Trust on a claims-made basis.

Funding of the Provider Trust is determined by annual actuarial valuations based on member hospitals' loss experience. If the actual loss experience of the Provider Trust exceeds the actuarially projected loss experience, additional contributions to the Provider Trust may be required from the Medical Center. No retroactive assessments were assessed in 2017 or 2016. For the 2017 fiscal year, the Provider Trust committed to refund excess contributions to its members, of which the Medical Center will receive \$1,646,473. The 2016 fiscal year excess contribution refund was \$1,183,943 and was received in 2017. Total contributions to the Provider Trust amounted to \$2,299,314 and \$1,785,840 for the years ended December 31, 2017 and 2016, respectively, and have been charged to operating expenses as the Medical Center's best estimate of professional and general liability cost. The Medical Center also recognizes provisions for the estimated incurred-but-not-reported loss exposures under claims-made basis policies as of each balance sheet date. The Medical Center's gross undiscounted incurred-but-not-reported claim liabilities of \$15,435,799 and \$14,185,699 at December 31, 2017 and 2016, respectively, have been included as components of estimated insurance liabilities in the accompanying special-purpose combined balance sheets. Such estimates were actuarially determined based primarily on the Medical Center's historical claims incurred and reporting experience.

The Provider Trust provided full coverage for primary professional and general liability exposure through December 31, 2006. Beginning January 1, 2007, the Medical Center began retaining the first \$250,000 per claim with a \$1,500,000 annual aggregate. Beginning January 1, 2013, the annual aggregate increased to \$2,000,000. Beginning January 1, 2015, the retention per claim increased to

**RIVERSIDE HEALTH SYSTEM
AND OBLIGATED AFFILIATES**

Notes to Special-Purpose Combined Financial Statements

December 31, 2017 and 2016

\$1,000,000 and the annual aggregate increased to \$3,000,000. Beginning January 1, 2017, the annual aggregate increased to \$4,000,000. In connection with their self-insured retention, the Medical Center has engaged the services of a professional consultant for actuarial valuations of self-insured funding requirements and claim liability estimates. The amount included in expenses for professional and general liability insurance for 2017 and 2016 was \$3,567,989 and \$2,408,118, respectively, and is included in insurance expense in the special-purpose combined statements of operations.

(b) Workers' Compensation

The Medical Center, RSLC, and Oakside maintain a self-insurance program for workers' compensation coverage. Coverage from commercial insurance carriers is maintained for claims in excess of self-insured retentions. The Medical Center and RSLC's provision for workers' compensation insurance expense includes undiscounted estimates of the ultimate cost of asserted and unasserted claims, as well as claims incurred but not reported as of fiscal year-end. At December 31, 2017 and 2016, the related estimated insurance liabilities are \$2,523,482 and \$2,399,629, respectively. The amount included in employee benefits for 2017 and 2016 was \$940,520 and \$947,318, respectively, and is included in insurance expense in the special-purpose combined statements of operations.

(c) Employee Health Insurance

The Medical Center, RSLC, and Oakside maintain a self-insurance program for employee healthcare coverage, combining various levels of self-insured retentions and excess coverage. The Medical Center and RSLC's provision for employee health insurance expenses includes estimates of known claims as well as claims incurred but not reported as of fiscal year-end. At December 31, 2017 and 2016, related estimated self-insurance liabilities are \$3,529,202 and \$2,485,240, respectively, and are included as components of estimated insurance liabilities in the accompanying special-purpose combined balance sheets.

(d) Receivable for Insurance Recoveries and Management Estimates

Related to ASU 2010-24, the Medical Center and RSLC record separate receivables of \$3,758,632 and \$4,025,185 from gross estimated insurance liabilities as their estimate of insurance recoveries in the 2017 and 2016 special-purpose combined balance sheets, respectively.

Management believes the estimated self-insurance claims liabilities at December 31, 2017 are adequate to cover the ultimate liabilities; however, such estimates may be more or less than the amounts ultimately paid when claims are resolved.

(11) Pension Plan

RHS and its obligated affiliates sponsor tax-deferred annuity plans under Section 403(b) of the Code and defined-contribution plans under Section 401(a) of the Code. Significant provisions of the plans are as follows:

- Contributions – Employees contribute to the 403(b) plans through salary reductions specified in the participant's salary reduction agreement. RHS and its obligated affiliates, at their sole discretion, may make matching contributions to the 401(a) plans equal to a defined percentage of the participant's contributions.

**RIVERSIDE HEALTH SYSTEM
AND OBLIGATED AFFILIATES**

Notes to Special-Purpose Combined Financial Statements

December 31, 2017 and 2016

- Qualifications – Employees are eligible to participate in the 403(b) plans on the first day of any full pay period following their date of hire.
- Vesting – Medical Center employees are fully and immediately vested in the 403(b) plans and the 401(a) plans. RSLC and Oakside employees are fully and immediately vested in the 403(b) Plan and are 100% vested in the 401(a) Plan after three years of service.

Pension expense that is funded on a current basis was approximately \$4,734,600 and \$4,192,000 in 2017 and 2016, respectively, and is included in salaries and employee benefits expense.

(12) Investment in Unconsolidated Subsidiary

RHS holds a 100% equity interest in Butterfield, which is recorded by Oakside on behalf of RHS. The investment in Butterfield is accounted for on the equity method; Oakside recognized its proportional share of Butterfield's net loss of \$1,025 in 2017 and \$906 in 2016 as other nonoperating losses with corresponding adjustments in the carrying value of its investment in Butterfield. Oakside has recorded an accumulated stockholder's deficit of \$245,233 at December 31, 2017 and \$244,208 at December 31, 2016 as due to unconsolidated subsidiary in the accompanying special-purpose combined balance sheets.

(13) Affiliation

RHS and its obligated affiliates were affiliated with Rush University Medical Center (Rush). RHS entered into an affiliation agreement with Rush during July 1996 and finalized the affiliation on November 17, 1998. The boards of directors of RHS and its obligated affiliates maintained control over the assets and operations of their corporations. Riverside/Rush Corporation, a separately incorporated entity, became the sole member of RHS and was created to enhance and improve the delivery of cost-effective, quality healthcare services. On June 29, 2017, the Riverside/Rush Corporation was dissolved by the board of directors.

(14) Investment in Joint Venture

Oakside has a 45% ownership interest in Oakside Surgical Institute, LLC (Institute), which operates an orthopedic surgery center. The carrying value of Oakside's investment in the Institute of \$626,381 and \$632,479 at December 31, 2017 and 2016, respectively, is included in other long-term assets in the accompanying special-purpose combined balance sheets. Oakside accounts for this investment under the equity method and recognized its portion of the Institute's 2017 and 2016 income of \$623,902 and \$520,870, respectively, which is included as a component of other net nonoperating gains (losses) in the accompanying special-purpose combined statements of operations. In addition, Oakside received cash distributions of \$630,000 and \$423,000 from the Institute in 2017 and 2016, respectively. Summarized financial information of the Institute as of and for the years ended December 31, 2017 and 2016, respectively, is as follows: total assets – \$1,576,130 and \$1,622,655; total equity – \$1,391,957 and \$1,405,508; total revenue – \$4,642,225 and \$4,272,451; and net income – \$1,386,449 and \$1,157,488.

**RIVERSIDE HEALTH SYSTEM
AND OBLIGATED AFFILIATES**

Notes to Special-Purpose Combined Financial Statements

December 31, 2017 and 2016

(15) Commitments and Contingencies

(a) Medicare and Medicaid Reimbursement

For the years ended December 31, 2017 and 2016, RHS and its obligated affiliates recognized approximately \$172,488,000 and \$161,380,000, respectively, of net patient and resident service revenue from services provided to Medicare beneficiaries. Recently enacted healthcare reform and other Medicare legislation may have an adverse effect on RHS and its obligated affiliates' net patient and resident service revenue. Medicaid-payment methodologies and rates may be subject to modification based on the amount of funding available to the State of Illinois Medicaid Program.

The Medical Center has received notices from the Medicare program requiring that they provide Medicare with documentation for claims to carry out the Recovery Audit Contractors (RAC) Program. The Medical Center is responding to these requests. Review of claims through the RAC Program may result in a liability to the Medicare program and could have an adverse effect on the Medical Center's net patient service revenue.

(b) Litigation

RHS and its obligated affiliates are subject to complaints, claims, and litigation, which have risen in the normal course of business. In addition, RHS and its obligated affiliates are subject to reviews by various federal and state government agencies to assure compliance with applicable laws, some of which are subject to different interpretations. While the outcome of these suits cannot be determined at this time, management, based on advice from legal counsel, believes that any loss, which may arise from these actions, will not have a material adverse effect on the financial position or results of operations of RHS or its obligated affiliates.

(c) Regulatory Investigations

The U.S. Department of Justice and other federal agencies routinely conduct regulatory investigations and compliance audits of healthcare providers. RHS is subject to these regulatory efforts. Additionally, the laws and regulations governing the Medicare, Medicaid, and other government healthcare programs are extremely complex and subject to interpretation, making compliance an ongoing challenge for the Medical Center and other healthcare organizations. RHS maintains a systemwide compliance program and conducts audits and other activities to identify potential compliance issues, including overpayments to governmental payors. Management is currently unaware of any regulatory matters, which may have a material effect on the RHS and its obligated affiliates' financial position or results of operations.

**RIVERSIDE HEALTH SYSTEM
AND OBLIGATED AFFILIATES**

Notes to Special-Purpose Combined Financial Statements

December 31, 2017 and 2016

(d) Property and Sales Tax Exemption Legislation

On June 14, 2012, the governor of Illinois signed into law *Public Act 97-0688* (2012 Hospital Exemption Law), which creates new standards for property and sales tax exemptions for hospitals and hospital affiliates in Illinois. The law establishes new eligibility standards for the issuance of such exemptions, including requirements for a nonprofit hospital to certify annually that in the prior year, it provided an amount of qualified services and activities to low-income and underserved individuals having a value at least equal to the hospital's estimated property tax liability. In early 2016, the Illinois 4th District Appellate Court ruled that the 2012 Hospital Exemption Law is unconstitutional, but that decision was vacated by the Illinois Supreme Court because the appellate court lacked jurisdiction. In September 2017, the Illinois Supreme Court agreed to hear a separate case challenging the 2012 Hospital Exemption Law with a ruling expected before the end of 2018. It is anticipated that the Medical Center and related properties will retain exemptions until then, but if the Supreme Court rules that the 2012 Hospital Exemption Law is unconstitutional, such ruling could threaten the exempt status of the Medical Center and other related properties. The Medical Center and certain affiliated corporations have not recorded a liability for related property taxes based upon management's current determination that such hospital entities will remain eligible for property and sales tax exemption based on the amount of qualified services provided.

The Medical Center and certain affiliated corporations are exempt from sales tax and property tax based upon their not-for-profit charitable status. Under the 2012 Hospital Exemption Law, the test for both sales tax exemption for hospital corporations and certain affiliated corporations will be the same, as described above. Management believes that the Medical Center and affiliated corporations qualify for both property and sales tax exemption under the new law.

(e) Investment Risks and Uncertainties

RHS invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities and current market conditions, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the accompanying special-purpose combined balance sheets.

(16) Subsequent Events

In connection with the preparation of the special-purpose combined financial statements and in accordance with the recently issued ASC Topic 855, *Subsequent Events*, RHS evaluated subsequent events after the special-purpose combined balance sheet date of December 31, 2017 through May 17, 2018, which was the date the special-purpose combined financial statements were issued, and determined no subsequent events requiring recording or disclosure.

**RIVERSIDE HEALTH SYSTEM
AND OBLIGATED AFFILIATES**

Combining Schedule – Balance Sheet Information

December 31, 2017

Assets	Riverside Medical Center	Oakside Corporation	Riverside Senior Living Center	Eliminations	Combined
Current assets:					
Cash and cash equivalents	\$ 69,760,415	2,716,816	4,255,691	—	76,732,922
Short-term investments	—	15,904,445	25,193,748	—	41,098,193
Receivables:					
Patient and resident accounts, less allowance for doubtful accounts of approximately \$16,600,000	42,165,183	843,055	1,902,501	—	44,910,739
Other	15,635,917	1,166,285	—	(15,142,965)	1,659,237
	57,801,100	2,009,340	1,902,501	(15,142,965)	46,569,976
Inventory of supplies	7,070,530	1,058,882	38,350	—	8,167,762
Prepaid expenses	4,781,251	36,501	70,346	—	4,888,098
Current portion of estimated insurance recoveries	855,616	—	—	—	855,616
Total current assets	140,268,912	21,725,984	31,460,636	(15,142,965)	178,312,567
Assets whose use is limited or restricted:					
By board of directors for capital improvements and other	263,045,660	—	—	—	263,045,660
Under bond indenture agreements held by trustee	6,671,959	200,071	1,481,759	—	8,353,789
Deposits under residency agreements	—	—	5,276,660	—	5,276,660
Donor-restricted investments	4,373,597	—	50,343	—	4,423,940
	274,091,216	200,071	6,808,762	—	281,100,049
Land, buildings, and equipment, net of accumulated depreciation	224,996,410	11,033,386	37,113,526	—	273,143,322
Other assets:					
Due from Riverside HealthCare Foundation, Inc.	6,512,741	—	473,408	—	6,986,149
Estimated insurance recoveries	2,903,016	—	—	—	2,903,016
Other assets	36,027	1,268,363	—	—	1,304,390
	9,451,784	1,268,363	473,408	—	11,193,555
Total assets	\$ 648,808,322	34,227,804	75,856,332	(15,142,965)	743,749,493

See accompanying independent auditors' report.

Liabilities and Net Assets	Riverside Medical Center	Oakside Corporation	Riverside Senior Living Center	Eliminations	Combined
Current liabilities:					
Current installments of long-term debt	\$ 3,131,267	401,751	451,982	—	3,985,000
Accounts payable	8,478,722	1,581,167	13,237,871	(13,507,350)	9,790,410
Accrued expenses	26,500,380	524,717	2,842,302	(1,635,615)	28,231,784
Estimated payables under third-party reimbursement programs	28,849,343	—	—	—	28,849,343
Due to unconsolidated subsidiary	—	245,233	—	—	245,233
Total current liabilities	66,959,712	2,752,868	16,532,155	(15,142,965)	71,101,770
Refundable security deposits	—	—	135,817	—	135,817
Refundable advance residency fees	—	—	5,276,660	—	5,276,660
Long-term debt, excluding current installments, unamortized bond discount and premium, and deferred financing costs	131,450,878	6,771,773	27,554,023	—	165,776,674
Construction payables	105,691	—	—	—	105,691
Estimated insurance liabilities	21,721,329	—	—	—	21,721,329
Other long-term liabilities	2,166,540	700,472	444,910	—	3,311,922
Total liabilities	222,404,150	10,225,113	49,943,565	(15,142,965)	267,429,863
Net assets:					
Unrestricted	422,030,575	24,002,691	25,862,424	—	471,895,690
Temporarily restricted	3,877,549	—	50,343	—	3,927,892
Permanently restricted	496,048	—	—	—	496,048
Total net assets	426,404,172	24,002,691	25,912,767	—	476,319,630
Total liabilities and net assets	\$ 648,808,322	34,227,804	75,856,332	(15,142,965)	743,749,493

**RIVERSIDE HEALTH SYSTEM
AND OBLIGATED AFFILIATES**

Combining Schedule – Statement of Operations Information

Year ended December 31, 2017

	Riverside Medical Center	Oakside Corporation	Riverside Senior Living Center	Eliminations	Combined
Revenue:					
Net patient service revenue	\$ 334,898,408	6,322,790	15,505,333	—	356,726,531
Provision for uncollectible accounts	(5,930,223)	(386,367)	—	—	(6,316,590)
Net patient service revenue less provision for uncollectible accounts	328,968,185	5,936,423	15,505,333	—	350,409,941
Resident and health center services revenue	—	—	11,669,367	—	11,669,367
Other revenue	6,395,297	112,255	607,045	(478,612)	6,635,985
Total revenue	<u>335,363,482</u>	<u>6,048,678</u>	<u>27,781,745</u>	<u>(478,612)</u>	<u>368,715,293</u>
Expenses:					
Salaries and employee benefits	170,022,147	3,028,345	15,527,346	—	188,577,838
Purchased services and supplies	111,094,840	1,384,300	7,200,594	(478,612)	119,201,122
Depreciation and amortization	23,935,810	726,610	2,344,620	—	27,007,040
Utilities	4,820,078	193,350	843,297	—	5,856,725
Professional fees	1,133,423	115,244	13,278	—	1,261,945
Insurance	6,757,845	75,617	299,223	—	7,132,685
Interest	5,038,575	287,441	1,200,826	—	6,526,842
Total expenses	<u>322,802,718</u>	<u>5,810,907</u>	<u>27,429,184</u>	<u>(478,612)</u>	<u>355,564,197</u>
Income from operations	<u>12,560,764</u>	<u>237,771</u>	<u>352,561</u>	<u>—</u>	<u>13,151,096</u>
Nonoperating gains:					
Investment income, net	28,227,437	1,588,798	2,346,929	—	32,163,164
Change in fair value of derivative instruments	710,112	133,832	84,636	—	928,580
Other, net	75,037	623,902	—	—	698,939
Net nonoperating gains, net	<u>29,012,586</u>	<u>2,346,532</u>	<u>2,431,565</u>	<u>—</u>	<u>33,790,683</u>
Revenue and gains in excess of expenses and losses	41,573,350	2,584,303	2,784,126	—	46,941,779
Other changes in unrestricted net assets:					
Net assets released from restriction for purchases of land, buildings, and equipment	571,787	—	57,532	—	629,319
Increase in unrestricted net assets	<u>\$ 42,145,137</u>	<u>2,584,303</u>	<u>2,841,658</u>	<u>—</u>	<u>47,571,098</u>

See accompanying independent auditors' report.

**RIVERSIDE HEALTH SYSTEM
AND OBLIGATED AFFILIATES**

Combining Schedule – Statement of Changes in Net Assets Information

Year ended December 31, 2017

	<u>Riverside Medical Center</u>	<u>Oakside Corporation</u>	<u>Riverside Senior Living Center</u>	<u>Eliminations</u>	<u>Combined</u>
Unrestricted net assets:					
Revenue and gains in excess of expenses and losses	\$ 41,573,350	2,584,303	2,784,126	—	46,941,779
Other changes in unrestricted net assets:					
Net assets released from restrictions used for the purchase of land, buildings, and equipment	571,787	—	57,532	—	629,319
Increase in unrestricted net assets	<u>42,145,137</u>	<u>2,584,303</u>	<u>2,841,658</u>	<u>—</u>	<u>47,571,098</u>
Temporarily restricted net assets:					
Contributions for specific purposes	2,130,061	—	36,772	—	2,166,833
Investment return earned on temporarily and permanently restricted investments	36,429	—	—	—	36,429
Net assets released from restriction for purchases of land, buildings, and equipment	<u>(571,787)</u>	<u>—</u>	<u>(57,532)</u>	<u>—</u>	<u>(629,319)</u>
Increase (decrease) in temporarily restricted net assets	1,594,703	—	(20,760)	—	1,573,943
Change in permanently restricted net assets:					
Change in net unrealized gains and losses on permanently restricted investments	<u>21,572</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>21,572</u>
Change in net assets	43,761,412	2,584,303	2,820,898	—	49,166,613
Net assets at beginning of year	<u>382,642,760</u>	<u>21,418,388</u>	<u>23,091,869</u>	<u>—</u>	<u>427,153,017</u>
Net assets at end of year	<u>\$ 426,404,172</u>	<u>24,002,691</u>	<u>25,912,767</u>	<u>—</u>	<u>476,319,630</u>

See accompanying independent auditors' report.