



**RIVERSIDE HEALTH SYSTEM
AND OBLIGATED AFFILIATES**

Special-Purpose Combined Financial
Statements and Combining Schedules

December 31, 2018 and 2017

(With Independent Auditors' Report Thereon)

**RIVERSIDE HEALTH SYSTEM
AND OBLIGATED AFFILIATES**

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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, 2018 and 2017, 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, 2018 and 2017, 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.

Emphasis of Matter

As discussed in note 2 to the special-purpose combined financial statements, Riverside Health System and Obligated Affiliates changed its method of revenue recognition as a result of the adoption of the amendments to the FASB Accounting Standards Codification resulting from Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers*, effective January 1, 2018 and adopted the amendments to the FASB Accounting Standards Codification resulting from Accounting Standards Update No. 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities*, effective December 31, 2018. Our opinion is not modified with respect to these matters.

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 9, 2019

**RIVERSIDE HEALTH SYSTEM
AND OBLIGATED AFFILIATES**

Special-Purpose Combined Balance Sheets

December 31, 2018 and 2017

Assets	2018	2017
Current assets:		
Cash and cash equivalents	\$ 81,929,662	76,732,922
Short-term investments	38,311,620	41,098,193
Receivables:		
Patient and resident accounts receivable, less allowance for doubtful accounts of approximately \$16,600,000 in 2017	41,021,615	44,910,739
Other	451,848	1,659,237
	41,473,463	46,569,976
Inventory of supplies	8,873,945	8,167,762
Prepaid expenses	5,548,530	4,888,098
Current portion of estimated insurance recoveries	1,057,886	855,616
Total current assets	177,195,106	178,312,567
Assets whose use is limited or restricted:		
By board of directors for capital improvements and other	246,453,480	263,045,660
Under bond indenture agreements held by trustee	5,186,621	8,353,789
Deposits under residency agreements	5,552,660	5,276,660
Investments related to net assets with donor restrictions	5,285,075	4,423,940
	262,477,836	281,100,049
Land, buildings, and equipment, net of accumulated depreciation	278,463,630	273,143,322
Other assets:		
Due from Riverside HealthCare Foundation, Inc.	6,818,157	6,986,149
Estimated insurance recoveries	3,587,382	2,903,016
Other assets	1,280,548	1,304,390
	11,686,087	11,193,555
Total assets	\$ 729,822,659	743,749,493

See accompanying notes to special-purpose combined financial statements.

Liabilities and Net Assets	2018	2017
Current liabilities:		
Current installments of long-term debt	\$ 4,080,000	3,985,000
Accounts payable	7,148,437	9,790,410
Accrued expenses	32,455,449	28,231,784
Estimated payables under third-party reimbursement programs	31,684,580	28,849,343
Due to unconsolidated subsidiary	245,233	245,233
Total current liabilities	<u>75,613,699</u>	<u>71,101,770</u>
Refundable security deposits	111,152	135,817
Refundable advance residency fees	5,552,660	5,276,660
Long-term debt, unamortized bond discount and premium, and deferred financing costs, excluding current installments	145,654,710	165,776,674
Construction payables	2,478,511	105,691
Estimated insurance liabilities	24,914,197	21,721,329
Other long-term liabilities	1,410,261	3,311,922
Total liabilities	<u>255,735,190</u>	<u>267,429,863</u>
Net assets:		
Net assets without donor restrictions	468,802,394	471,895,690
Net assets with donor restrictions	5,285,075	4,423,940
Total net assets	<u>474,087,469</u>	<u>476,319,630</u>
Total liabilities and net assets	<u>\$ 729,822,659</u>	<u>743,749,493</u>

**RIVERSIDE HEALTH SYSTEM
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Special-Purpose Combined Statements of Operations

Years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Revenue:		
Net patient service revenue	\$ 371,792,363	356,726,531
Provision for uncollectible accounts	—	(6,316,590)
Net patient service revenue less provision for uncollectible accounts	<u>371,792,363</u>	<u>350,409,941</u>
Resident and health center services revenue	12,296,973	11,669,367
Other revenue	<u>4,861,267</u>	<u>6,635,985</u>
Total revenue and other support	<u>388,950,603</u>	<u>368,715,293</u>
Expenses:		
Salaries and employee benefits	210,843,125	188,577,838
Purchased services and supplies	114,937,326	119,201,122
Depreciation and amortization	28,723,269	27,007,040
Utilities	6,167,931	5,856,725
Professional fees	1,169,751	1,261,945
Insurance	7,981,781	7,132,685
Interest	<u>6,062,784</u>	<u>6,526,842</u>
Total expenses	<u>375,885,967</u>	<u>355,564,197</u>
Income from operations	<u>13,064,636</u>	<u>13,151,096</u>
Nonoperating gains (losses):		
Investment (loss) income, net	(19,304,694)	32,163,164
Change in fair value of derivative instruments	1,723,328	928,580
Other, net	<u>902,314</u>	<u>698,939</u>
Total nonoperating (losses) gains, net	<u>(16,679,052)</u>	<u>33,790,683</u>
Revenue and gains in excess (deficient) of expenses and losses	(3,614,416)	46,941,779
Other changes in net assets without donor restrictions:		
Net assets released from restriction for purchases of land, buildings, and equipment	<u>521,120</u>	<u>629,319</u>
(Decrease) increase in net assets without donor restrictions	<u>\$ (3,093,296)</u>	<u>47,571,098</u>

See accompanying notes to special-purpose combined financial statements.

**RIVERSIDE HEALTH SYSTEM
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Special-Purpose Combined Statements of Changes in Net Assets

Years ended December 31, 2018 and 2017

	2018	2017
Net assets without donor restrictions:		
Revenue and gains in excess (deficient) of expenses and losses	\$ (3,614,416)	46,941,779
Other changes in net assets without donor restrictions:		
Net assets released from restrictions used for the purchase of land, buildings, and equipment	521,120	629,319
(Decrease) increase in net assets without donor restrictions	(3,093,296)	47,571,098
Net assets with donor restrictions:		
Contributions for specific purposes	1,364,449	2,166,833
Investment return earned on net assets with donor restrictions	17,806	58,001
Net assets released from restriction for purchases of land, buildings, and equipment	(521,120)	(629,319)
Increase in net assets with donor restrictions	861,135	1,595,515
Change in net assets	(2,232,161)	49,166,613
Net assets at beginning of year	476,319,630	427,153,017
Net assets at end of year	\$ 474,087,469	476,319,630

See accompanying notes to special-purpose combined financial statements.

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Special-Purpose Combined Statements of Cash Flows

Years ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ (2,232,161)	49,166,613
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	28,723,269	27,007,040
Provision for doubtful accounts	—	6,316,590
Earnings from equity interest in unconsolidated subsidiary and joint venture	(729,908)	(622,877)
Cash distributions received from unconsolidated subsidiary and joint venture	753,750	630,000
Contributions and investment returns related to net assets with donor restrictions	(1,382,255)	(2,224,834)
Net realized and change in net unrealized gains and losses on investments	29,594,173	(23,345,711)
Change in fair value of derivative instruments	(1,723,328)	(928,580)
Changes in assets and liabilities:		
Patient and resident accounts receivable	3,889,124	(5,268,292)
Other receivables	1,207,389	2,193,689
Inventory of supplies, prepaid expenses, and other assets	(1,366,615)	(1,119,103)
Accounts payable and accrued expenses	1,581,692	6,813,638
Estimated payables under third-party reimbursement programs	2,835,237	2,400,782
Estimated insurance receivables and liabilities	2,306,232	2,738,373
Refundable security deposits	(24,665)	(58,767)
Refundable advance residency fees	276,000	(1,222,340)
Other long-term liabilities	(178,333)	(86,036)
Net cash provided by operating activities	63,529,601	62,390,185
Cash flows from investing activities:		
Sales of short-term investments	22,427,925	22,430,045
Purchases of short-term investments	(19,641,352)	(20,315,945)
Sales of assets whose use is limited or restricted	100,329,034	123,091,508
Purchases of assets whose use is limited or restricted	(111,300,994)	(115,130,637)
Acquisition of land, buildings, and equipment, net	(34,248,460)	(30,968,109)
Change in construction payables	2,372,820	(385,394)
Net cash used in investing activities	(40,061,027)	(21,278,532)
Cash flows from financing activities:		
Repayment of long-term debt	(19,822,081)	(7,510,000)
Contributions and investment returns related to net assets with donor restrictions	1,382,255	2,224,834
Net change in due from Riverside HealthCare Foundation, Inc.	167,992	(624,253)
Net cash used in financing activities	(18,271,834)	(5,909,419)
Net change in cash and cash equivalents	5,196,740	35,202,234
Cash and cash equivalents at beginning of year	76,732,922	41,530,688
Cash and cash equivalents at end of year	\$ 81,929,662	76,732,922
Supplemental disclosure of cash flow information:		
Cash paid for interest, net of amounts capitalized	\$ 6,992,884	7,153,133

See accompanying notes to special-purpose combined financial statements.

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Notes to Special-Purpose Combined Financial Statements

December 31, 2018 and 2017

(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 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 retail services, including family pharmacy, gift shop, and fitness center 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

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have been excluded from the accompanying special-purpose combined financial statements or are 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 Revenue, Resident, and Health Center Service Revenue

Net patient, resident, and health center service revenue are reported at the amounts that reflect the consideration to which RHS expects to be entitled in exchange for providing patient, resident, and health center service care. These amounts are due from patients, residents, third-party payors, and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. 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.

Performance obligations are determined based on the nature of the services provided by RHS. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. RHS believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in the Medical Center receiving inpatient acute care services or patients and residents receiving outpatient services in the Medical Center, Oakside, and SLC. RHS determines the performance obligation as admission into the hospital, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. RHS measures the performance obligation for resident revenue at the commencement of the services provided to the resident to the point through which care is no longer provided. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to our patients and customers in a retail setting (for example, pharmaceuticals and medical equipment) and RHS does not believe it is required to provide additional goods or services related to that sale.

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RHS determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients and residents in accordance with RHS' policy, and implicit price concessions provided to uninsured patients and residents. RHS determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. RHS determines its estimate of implicit price concessions based on its historical collection experience with this class of patients and residents.

Settlements with third-party payers for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient and resident care. These settlements are estimated based on the terms of the payment agreement with the payer, correspondence from the payer, and historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. During 2018 and 2017, changes to prior year variable consideration resulted in a decrease of net patient service revenue of \$45,254 and \$124,341, respectively due to changes in cost report settlements and other adjustments to prior years.

Generally, patients and residents who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. RHS also provides services to uninsured patients and residents, and offers those uninsured patients and residents a discount, either by policy or law, from standard charges. RHS estimates the transaction price for patients and residents with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. In evaluating the collectibility of patients and residents' accounts receivable, RHS analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the variable consideration. Management regularly reviews data about these major payor sources of revenue in evaluating the variable consideration. RHS uses a portfolio approach to account for categories of patient contracts as a collective group rather than recognizing revenue on an individual contract basis. The portfolios consist of major payor classes for inpatient revenue and major payor classes and types of services provided for outpatient revenue. Based on the historical collection trends, RHS believes that revenue recognized using this approach approximates the revenue that would be recognized if an individual contract approach were used. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient and resident services revenue in the period of the change.

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(d) Revenue and Gains in Excess (Deficient) of Expenses and Losses

The special-purpose combined statements of operations include revenue and gains in excess (deficient) 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 net assets without donor restrictions that are excluded from revenue and gains in excess (deficient) 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).

(e) Cash and Cash Equivalents and Short Term Investments

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.

(f) 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 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 (deficient) of expenses and losses unless the income or loss is restricted by donors, in which case, the investment return is recorded directly to net assets with donor restrictions in accordance with donor intent.

(g) 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).

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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. In accordance with ASC Subtopic 825-10, RHS and its Obligated Affiliates do not disclose the fair value information for financial information measured at amortized cost. 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.

(h) 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.

(i) 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 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).

(j) 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.

(k) 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 net assets without donor restrictions unless specifically restricted by donors. Contributions are reported as direct additions to net assets with donor restrictions 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, net assets with donor restrictions are reclassified as net assets without donor restrictions 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

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met within the same year as received are reported directly within the special-purpose combined statements of operations.

(l) Net Assets with Donor Restrictions

Net assets with donor restrictions are those whose use has been limited by donors to a specific time period or purpose. RHS and its obligated affiliates' net assets with donor restrictions are primarily restricted for land, building, and equipment acquisitions and for permanently donor-restricted contributions, the principal amount of which may not be expended, at both December 31, 2018 and 2017.

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 \$4,702,189 and \$3,864,259 at December 31, 2018 and 2017, respectively, are restricted by donors for specified programs and the acquisition of property and equipment. Remaining amounts due from the Foundation at December 31, 2018 and 2017 are unrestricted as to use by the Medical Center and RSLC.

(m) 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.

(n) 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. Debt issuance costs, discounts, and premiums are presented in the balance sheet as a direct deduction from the carrying amount of the debt liability.

(o) 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.

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(p) 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, 2018 and 2017.

(q) 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 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.

(r) 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, 2018 and 2017, RHS recognized \$450,500 and \$1,122,930 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.

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(s) Liquidity and Availability of Resources

Cash and cash equivalents, short-term investments, and patient and resident accounts receivable, net, as reported on the special purpose combined balance sheets at December 31, 2018 and 2017, are the primary liquid resources used by RHS to meet general expenditure needs within the next year. As part of liquidity management, RHS' policy is to structure and manage its financial assets to be available to meet its general expenditure needs. RHS invests cash in excess of daily requirements in short-term investments. To help manage unanticipated liquidity needs, although intended to satisfy long-term obligations, 94% of noncurrent investments at December 31, 2018, could be utilized within the next year if necessary.

(t) Recently Issued Accounting Standards

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The ASU replaces most existing revenue recognition guidance in GAAP. Topic 606 was adopted January 1, 2018. The standard permits the use of either the retrospective or cumulative effect transition method. RHS selected the cumulative effect transition method. RHS has applied the standard to contracts that are not completed at the date of adoption. The adoption of Topic 606 did not have a significant impact on the results of operations. The adoption of ASC Topic 606 resulted in changes to the presentation and disclosure of revenue related to uninsured or underinsured patients and residents. Prior to the adoption of ASC Topic 606, RHS presented a separate provision for bad debts related to self-pay patients and residents, as well as co pays and deductibles owed by patients and residents with insurance. Under ASC Topic 606, the estimated uncollectible amounts due from these patients and residents are generally considered a direct reduction to net patient service revenues and, correspondingly, result in a material reduction in the amounts presented separately as provision for bad debts. Under ASC Topic 606, \$12,190,982 of implicit price concessions are presented within net patient service revenue for the year ended December 31, 2018. There would not have been a material impact to any financial statement line item in the current period as compared with the guidance that was in effect prior to the change. Disclosures in the *Summary of Significant Accounting Policies - Net Patient, Resident, and Health Center Service Revenue* and *Note 3 - Net Patient, Resident, and Health Center Service Revenue* notes have been updated as required by the standard.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. Topic 842 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. Topic 842 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 on January 1, 2019. In July 2018, the FASB issued an update to its guidance providing companies with the option to adopt the provisions of the standard prospectively without adjusting comparative periods; RHS is electing this option.

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RHS is electing certain relief options offered in Topic 842 including the package of transition practical expedients, the option not to separate lease and nonlease components for certain classes of assets, and the option not to recognize right-of-use assets and lease liabilities that arise from short-term leases (i.e. leases with terms of twelve months or less). RHS is not electing the hindsight practical expedient, which allows entities to use hindsight when determining lease term and impairment of right-of-use assets.

The adoption of Topic 842 is not expected to have a significant impact on the special purpose combined balance sheet, results of operations, or cash flows. RHS does not have significant lessor or lessee activity. Management will include new disclosures in 2019 in accordance with Topic 842.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958). The amendments in this update make certain improvements that address many of the identified issues about financial reporting for not-for-profits. The new standard was adopted by RHS for the annual period beginning January 1, 2018. The standard requires the use of the retrospective transition method. As such, \$496,048 of permanently restricted net assets and \$3,927,892 of temporarily restricted net assets were reclassified into net assets with donor restrictions for 2017. Disclosures in the *Functional Expenses* note (*Note 16*) and the *Summary of Significant Accounting Policies – Liquidity and Availability of Resources* note have been added as required by the standard for the classification of expenses and management of liquid resources, respectively.

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 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 June 2018, the FASB issued ASU No. 2018-08 *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this update clarify and improve current guidance about whether a transfer of assets is a contribution or an exchange transaction. Additional guidance about when a contribution should be recognized is also included in the amendments. These amendments apply to both resources received by a recipient and given by a resource provider. The new standard is effective for RHS on January 1, 2019. The adoption of ASU 2018-08 is not expected to have a significant impact on the special purpose combined financial statements and related disclosures.

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(3) Net Patient, Resident, and Health Center Service Revenue

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, 2018, 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 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, 2018 and 2017 of \$21,654,714 and \$22,128,202, respectively, within net patient service revenue in the accompanying special-purpose combined statements of operations. Included in these amounts is \$3,116,536 and \$6,930,706, respectively, of additional reimbursement under the Affordable Care Act (ACA) expansion. A receivable of \$953,941 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. There is no receivable in 2018 as the programs' final payment was received in October 2018.

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The Medical Center included its related assessment tax payments of \$12,357,942 and \$10,715,401 for the years ended December 31, 2018 and 2017, respectively, within purchased services and supplies expense in the accompanying special-purpose combined statements of operations. Included in these amounts is \$966,964 and \$1,617,012, respectively, of incremental Medicaid provider tax expense under the ACA expansion for the years ended December 31, 2018 and 2017.

(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.

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, 2018 and 2017 is as follows:

	2018	2017
Medicare	30 %	39 %
Medicaid	15	14
Blue Cross	22	17
Managed care/commercial	18	17
Self-pay and other	15	13
	100 %	100 %

A summary of Medical Center and RSLC utilization based upon gross patient and resident service revenue for the years ended December 31, 2018 and 2017 is as follows:

	2018	2017
Medicare	53 %	51 %
Medicaid	17	18
Blue Cross	16	16
Managed care/commercial	10	10
Self-pay and other	4	5
	100 %	100 %

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For receivables associated with self-pay patients and residents (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 has determined it has provided implicit price concessions to uninsured patients and residents and patients and residents with other uninsured balances (for example, co-pays and deductibles). RHS records this in the period of service on the basis of its past experience, which indicates that many patients and residents are unable or unwilling to pay the portion of their bill for which they are financially responsible. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and residents and the amounts RHS expects to collect based on its collection history with those patients and residents.

Net patient service revenue less the provision for bad debts is recognized in the period from these major payor sources, as follows:

	<u>2018</u>	<u>2017</u>
Medicare	\$ 183,311,024	172,488,465
Medicaid	75,558,309	74,088,694
Blue Cross	54,827,313	50,981,543
Managed care/commercial	35,010,212	33,779,182
Self-pay and other	<u>23,085,505</u>	<u>19,072,057</u>
Net patient service revenue	<u>\$ 371,792,363</u>	<u>350,409,941</u>
Resident and health center services revenue	12,296,973	11,669,367
Other Revenue	<u>4,861,267</u>	<u>6,635,985</u>
Total revenue	<u><u>388,950,603</u></u>	<u><u>368,715,293</u></u>

Total revenue recognized in the period by type of service is as follows:

	<u>2018</u>	<u>2017</u>
Inpatient	\$ 136,795,124	130,680,841
Outpatient/ambulatory	234,997,239	219,729,100
Senior living center	12,296,973	11,669,367
Other	<u>4,861,267</u>	<u>6,635,985</u>
	<u>\$ 388,950,603</u>	<u>368,715,293</u>

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(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, 2018 and 2017:

	2018	2017
Costs of charity care provided	\$ 3,961,009	3,535,311

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.

(5) Investments

A summary of the composition of the RHS and obligated affiliates' investment portfolios at December 31, 2018 and 2017 is as follows:

	2018	2017
Accrued interest	\$ 1,547,233	1,479,221
Short-term investments, consisting primarily of money market funds	3,309,411	5,570,733
Common stock	48,515,948	55,322,559
Mutual equity funds	121,315,016	134,258,295
U.S. Treasury and U.S. government agency securities	38,751,807	37,000,650
Corporate bonds and notes	57,576,798	59,267,847
Limited partnerships	29,773,243	29,298,937
	\$ 300,789,456	322,198,242

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Investments are reported in the accompanying special-purpose combined balance sheets as follows at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Short-term investments	\$ 38,311,620	41,098,193
Assets whose use is limited or restricted:		
By board of directors for capital improvements and other	246,453,480	263,045,660
Under bond indenture agreements held by trustee	5,186,621	8,353,789
Deposits under residency agreements	5,552,660	5,276,660
Donor-restricted investments	<u>5,285,075</u>	<u>4,423,940</u>
	<u>\$ 300,789,456</u>	<u>322,198,242</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, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Interest and dividend income, net of fees and expenses	\$ 10,391,771	8,993,799
Net realized gains on sale of investments	3,634,218	12,822,870
Change in net unrealized gains and losses during the holding period	<u>(33,228,391)</u>	<u>10,580,842</u>
Investment return	<u>\$ (19,202,402)</u>	<u>32,397,511</u>

Investment returns are included in the accompanying special-purpose combined statements of operations and changes in net assets for the years ended December 31, 2018 and 2017 as follows:

	<u>2018</u>	<u>2017</u>
Nonoperating gains:		
Investment income, net	\$ (19,304,694)	32,163,164
Other changes in net assets:		
Investment income capitalized on borrowed funds held by trustee	84,486	176,346
Investment return earned on net assets with donor restrictions	<u>17,806</u>	<u>58,001</u>
Investment return	<u>\$ (19,202,402)</u>	<u>32,397,511</u>

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(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 and resident accounts receivable, and estimated third-party payor settlements.
- Assets limited as to use: 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, 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. 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.

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.

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(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, 2018 or 2017.

The following table presents assets and liabilities, including accrued interest, that are measured at fair value on a recurring basis at December 31, 2018:

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	<u>Total</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>	<u>Redemption or liquidation</u>	<u>Days notice</u>
Assets:						
Cash and cash equivalents:						
Cash	\$ 81,929,662	81,929,662	—	—	Daily	One
Total cash and cash equivalents	<u>81,929,662</u>	<u>81,929,662</u>	<u>—</u>	<u>—</u>		
Short-term investments excluding accrued interest of \$138,932:						
Quoted mutual equity funds	16,222,368	16,222,368	—	—	Daily	One
Common stocks	2,540,334	2,540,334	—	—	Daily	One
Money market funds	547,955	—	547,955	—	Daily	One
U.S. Treasury and U.S. government agency securities	5,369,971	—	5,369,971	—	Daily	One
Corporate bonds and notes	9,417,605	—	9,417,605	—	Daily	One
Limited partnerships:						
Barings Core Property Fund, L.P. (1)	2,071,893				Quarterly	Thirty
Grosvenor Institutional Partners, L.P. (1)	<u>2,002,562</u>				Quarterly	Seventy
Total short-term investments	<u>38,172,688</u>	<u>18,762,702</u>	<u>15,335,531</u>	<u>—</u>		
Assets limited as to use excluding accrued interest of \$1,408,301:						
Quoted mutual equity funds	105,092,648	105,092,648	—	—	Daily	One
Common stocks	45,975,614	45,975,614	—	—	Daily	One
Money market funds	2,761,456	—	2,761,456	—	Daily	One
U.S. Treasury and U.S. government agency securities	33,381,836	—	33,381,836	—	Daily	One
Corporate bonds and notes	48,159,193	—	48,159,193	—	Daily	One
Limited partnerships:						
Barings Core Property Fund, L.P. (1)	13,068,037				Quarterly	Thirty
Grosvenor Institutional Partners, L.P. (1)	<u>12,630,751</u>				Quarterly	Seventy
Total assets limited as to use	<u>261,069,535</u>	<u>151,068,262</u>	<u>84,302,485</u>	<u>—</u>		
Total assets	<u>\$ 381,171,885</u>	<u>251,760,626</u>	<u>99,638,016</u>	<u>—</u>		
Liabilities:						
Interest rate derivatives	\$ 954,396	—	954,396	—		

(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.

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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.

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(7) Land, Buildings, and Equipment

A summary of land, buildings, and equipment at December 31, 2018 and 2017 is as follows:

	<u>2018</u>		<u>2017</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Land	\$ 14,042,122	—	14,042,122	—
Land improvements	10,065,888	5,279,821	9,882,217	4,691,756
Buildings	313,438,165	145,423,079	294,346,817	135,377,657
Equipment	190,287,577	106,754,371	205,081,587	122,022,426
Construction in progress	8,087,149	—	11,882,418	—
	<u>\$ 535,920,901</u>	<u>257,457,271</u>	<u>535,235,161</u>	<u>262,091,839</u>

The Medical Center and RSLC are currently engaged in various construction, renovation, and software implementation projects. Outstanding commitments related to these projects approximate \$20,864,702 at December 31, 2018.

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, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Gross interest cost capitalized	\$ 392,100	234,539
Investment income on borrowed funds held by trustee	(84,486)	(176,346)
Net interest cost capitalized	<u>\$ 307,614</u>	<u>58,193</u>

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(8) Long-Term Debt

A summary of long-term debt as of December 31, 2018 and 2017 is as follows:

	2018	2017
Revenue bonds, Series 2009, at varying fixed effective-interest rates (6.30% at December 31, 2018 and 2017), 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, 2018 and 2017), 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 (4.12% and 3.44% at December 31, 2018 and 2017, respectively) subject to mandatory annual redemption through 2029	14,655,000	32,790,000
Revenue bonds, Series 2016, at varying fixed effective-interest rates (3.61% and 3.57% at December 31, 2018 and 2017, respectively), depending on date of maturity, and subject to annual mandatory redemption through 2045	76,915,000	78,470,000
Total long-term debt	143,580,000	163,270,000
Less:		
Current installments of long-term debt	4,080,000	3,985,000
Unamortized bond discount	174,170	184,415
Deferred financing costs	2,003,349	2,208,231
Plus:		
Unamortized bond premium	8,332,229	8,884,320
Long-term debt, unamortized bond discount and premium, and deferred financing costs, excluding current installments	\$ 145,654,710	165,776,674

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.

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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.

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 79% of one-month LIBOR plus 0.53%. 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. In June 2018, RHS retired \$15,705,000 of the Series 2015 bonds relating to the principal years 2023 through 2029.

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.

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.

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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:	
2019	4,080,000
2020	5,595,000
2021	5,825,000
2022	6,060,000
2023	4,430,000
Thereafter	<u>117,590,000</u>
	<u>\$ 143,580,000</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.

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, 2018 and 2017 of \$1,555,672 and \$549,162, respectively, was recognized as a component of nonoperating gains (losses). The fair value of the 2004

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interest rate swap agreement of \$1,295,231 and \$2,850,903 at December 31, 2018 and 2017, 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 \$(340,835) and \$(173,179) at December 31, 2018 and 2017, respectively, is included as a component of other long-term liabilities. The change in fair value of \$167,656 and \$379,418 for the years ended December 31, 2018 and 2017, respectively, was recorded as a component of nonoperating gains (losses).

A summary of outstanding Obligated Group positions under interest rate swap agreements at December 31, 2018 is as follows:

Notional amount	Maturity date	Rate received	Rate paid
\$ 22,520,000	November 15, 2022	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 \$517,976 and \$678,691 paid and included as a component of interest expense in the accompanying 2018 and 2017 special-purpose combined statements of operations, respectively. On May 4, 2018, RHS terminated \$15,705,000 of the fixed payor swap, in conjunction with the partial termination of the Series 2015 Bonds. This advanced the maturity date from November 15, 2029 to November 15, 2022.

(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 2018 or 2017. For the 2018 fiscal year, the Provider Trust committed to refund excess contributions to its members, of which the Medical Center

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will receive \$1,113,930. The 2017 fiscal year excess contribution refund was \$1,646,473 and was received in 2018. Total contributions to the Provider Trust amounted to \$1,385,382 and \$2,299,314 for the years ended December 31, 2018 and 2017, 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 \$17,646,223 and \$15,435,799 at December 31, 2018 and 2017, 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 \$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 2018 and 2017 was \$3,039,958 and \$3,567,989, respectively, and is included in insurance expense in the special-purpose combined statements of operations.

(b) Workers' Compensation

The Medical Center, RSLC, and Oaksides 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, 2018 and 2017, the related estimated insurance liabilities are \$3,221,814 and \$2,523,482, respectively. The amount included in employee benefits for 2018 and 2017 was \$1,534,237 and \$940,520, respectively, and is included in insurance expense in the special-purpose combined statements of operations.

(c) Employee Health Insurance

The Medical Center, RSLC, and Oaksides 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, 2018 and 2017, related estimated self-insurance liabilities are \$3,800,813 and \$3,529,202, respectively, and are included as components of estimated insurance liabilities in the accompanying special-purpose combined balance sheets.

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(d) Receivable for Insurance Recoveries and Management Estimates

Related to ASU No. 2010-24, the Medical Center and RSLC record separate receivables of \$4,645,268 and \$3,758,632 from gross estimated insurance liabilities as their estimate of insurance recoveries in the 2018 and 2017 special-purpose combined balance sheets, respectively.

Management believes the estimated self-insurance claims liabilities at December 31, 2018 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.
- 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 Oakeside 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 \$5,357,800 and \$4,734,600 in 2018 and 2017, 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 Oakeside on behalf of RHS. The investment in Butterfield is accounted for on the equity method; Oakeside recognized its proportional share of Butterfield's net loss of \$ 0 in 2018 and \$1,025 in 2017 as other nonoperating losses with corresponding adjustments in the carrying value of its investment in Butterfield. Oakeside has recorded an accumulated stockholder's deficit of \$245,233 at December 31, 2018 and 2017 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.

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(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 \$602,539 and \$626,381 at December 31, 2018 and 2017, 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 2018 and 2017 income of \$729,908 and \$623,902, 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 \$753,750 and \$630,000 from the Institute in 2018 and 2017, respectively. Summarized financial information of the Institute as of and for the years ended December 31, 2018 and 2017, respectively, is as follows: total assets – \$1,523,835 and \$1,576,130; total equity – \$1,338,975 and \$1,391,957; total revenue – \$5,320,076 and \$4,642,225; and net income – \$1,622,018 and \$1,386,449.

(15) Commitments and Contingencies

(a) Medicare and Medicaid Reimbursement

For the years ended December 31, 2018 and 2017, RHS and its obligated affiliates recognized approximately \$183,311,000 and \$172,488,000, 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,

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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.

(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 2018, 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) Functional Expenses

RHS provides health care services to residents within its geographic location. Expenses related to providing these services included in the consolidated statements of operations as of December 31, 2018 with 2017 corresponding totals are as follows

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	<u>Healthcare services</u>	<u>General and administration</u>	<u>Total</u>
2018			
Salaries and employee benefits	\$ 197,020,963	13,822,162	210,843,125
Purchased services and supplies	107,767,387	7,169,939	114,937,326
Depreciation and amortization	28,723,269	—	28,723,269
Utilities	6,096,766	71,165	6,167,931
Professional fees	1,158,552	11,199	1,169,751
Insurance	7,721,613	260,168	7,981,781
Interest	6,062,784	—	6,062,784
	<u>\$ 354,551,334</u>	<u>21,334,633</u>	<u>375,885,967</u>
2017	\$ 333,872,990	21,691,207	355,564,197

Some categories of natural class expenses are attributable to more than one activity and require allocation, applied on a consistent basis. Property costs including depreciation are allocated on the basis of square footage. Indirect salaries and benefits are allocated on the basis of budgeted full time equivalent employees. Purchased services and supplies are assigned directly to specific activities as expenditures are made.

(17) 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, 2018 through May 9, 2019, which was the date the special-purpose combined financial statements were issued, and determined no subsequent events requiring recording or disclosure.

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Combining Schedule – Balance Sheet Information

December 31, 2018

Assets	Riverside Medical Center	Oakside Corporation	Riverside Senior Living Center	Eliminations	Combined
Current assets:					
Cash and cash equivalents	\$ 72,464,726	4,635,424	4,829,512	—	81,929,662
Short-term investments	—	14,899,907	23,411,713	—	38,311,620
Receivables:					
Patient and resident accounts receivable	38,827,029	373,268	1,821,318	—	41,021,615
Other	23,163,403	1,420,824	—	(24,132,379)	451,848
	61,990,432	1,794,092	1,821,318	(24,132,379)	41,473,463
Inventory of supplies	7,697,525	1,151,349	25,071	—	8,873,945
Prepaid expenses	5,361,345	124,819	62,366	—	5,548,530
Current portion of estimated insurance recoveries	1,057,886	—	—	—	1,057,886
Total current assets	<u>148,571,914</u>	<u>22,605,591</u>	<u>30,149,980</u>	<u>(24,132,379)</u>	<u>177,195,106</u>
Assets whose use is limited or restricted:					
By board of directors for capital improvements and other	246,453,480	—	—	—	246,453,480
Under bond indenture agreements held by trustee	3,484,037	202,540	1,500,044	—	5,186,621
Deposits under residency agreements	—	—	5,552,660	—	5,552,660
Investments related to net assets with donor restrictions	5,211,551	—	73,524	—	5,285,075
	<u>255,149,068</u>	<u>202,540</u>	<u>7,126,228</u>	<u>—</u>	<u>262,477,836</u>
Land, buildings, and equipment, net of accumulated depreciation	230,808,023	10,915,062	36,740,545	—	278,463,630
Other assets:					
Due from Riverside HealthCare Foundation, Inc.	6,334,471	—	483,686	—	6,818,157
Estimated insurance recoveries	3,587,382	—	—	—	3,587,382
Other assets	36,027	1,244,521	—	—	1,280,548
	<u>9,957,880</u>	<u>1,244,521</u>	<u>483,686</u>	<u>—</u>	<u>11,686,087</u>
Total assets	<u>\$ 644,486,885</u>	<u>34,967,714</u>	<u>74,500,439</u>	<u>(24,132,379)</u>	<u>729,822,659</u>

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	\$ 3,306,030	347,917	426,053	—	4,080,000
Accounts payable	5,614,871	7,197,680	16,728,407	(22,392,521)	7,148,437
Accrued expenses	30,913,499	644,162	2,637,646	(1,739,858)	32,455,449
Estimated payables under third-party reimbursement programs	31,684,580	—	—	—	31,684,580
Due to unconsolidated subsidiary	—	245,233	—	—	245,233
Total current liabilities	<u>71,518,980</u>	<u>8,434,992</u>	<u>19,792,106</u>	<u>(24,132,379)</u>	<u>75,613,699</u>
Refundable security deposits	—	—	111,152	—	111,152
Refundable advance residency fees	—	—	5,552,660	—	5,552,660
Long-term debt, unamortized bond discount and premium, and deferred financing costs, excluding current installments	118,405,575	2,599,907	24,649,228	—	145,654,710
Construction payables	2,478,511	—	—	—	2,478,511
Estimated insurance liabilities	24,914,197	—	—	—	24,914,197
Other long-term liabilities	884,634	321,350	204,277	—	1,410,261
Total liabilities	<u>218,201,897</u>	<u>11,356,249</u>	<u>50,309,423</u>	<u>(24,132,379)</u>	<u>255,735,190</u>
Net assets:					
Net assets without donor restrictions	421,073,437	23,611,465	24,117,492	—	468,802,394
Net assets with donor restrictions	5,211,551	—	73,524	—	5,285,075
Total net assets	<u>426,284,988</u>	<u>23,611,465</u>	<u>24,191,016</u>	<u>—</u>	<u>474,087,469</u>
Total liabilities and net assets	<u>\$ 644,486,885</u>	<u>34,967,714</u>	<u>74,500,439</u>	<u>(24,132,379)</u>	<u>729,822,659</u>

**RIVERSIDE HEALTH SYSTEM
AND OBLIGATED AFFILIATES**

Combining Schedule – Statement of Operations Information

Year ended December 31, 2018

	Riverside Medical Center	Oakside Corporation	Riverside Senior Living Center	Eliminations	Combined
Revenue:					
Net patient service revenue	\$ 351,939,734	5,222,034	14,630,595	—	371,792,363
Resident and health center services revenue	—	—	12,296,973	—	12,296,973
Other revenue	5,032,349	107,211	504,667	(782,960)	4,861,267
Total revenue	356,972,083	5,329,245	27,432,235	(782,960)	388,950,603
Expenses:					
Salaries and employee benefits	192,133,569	2,923,416	15,786,140	—	210,843,125
Purchased services and supplies	107,203,309	1,463,931	7,053,046	(782,960)	114,937,326
Depreciation and amortization	25,519,323	733,828	2,470,118	—	28,723,269
Utilities	5,064,649	213,312	889,970	—	6,167,931
Professional fees	1,153,517	3,880	12,354	—	1,169,751
Insurance	7,591,482	77,508	312,791	—	7,981,781
Interest	4,667,061	235,997	1,159,726	—	6,062,784
Total expenses	343,332,910	5,651,872	27,684,145	(782,960)	375,885,967
Income (losses) from operations	13,639,173	(322,627)	(251,910)	—	13,064,636
Nonoperating gains (losses):					
Investment losses, net	(16,383,130)	(1,177,629)	(1,743,935)	—	(19,304,694)
Change in fair value of derivative instruments	1,103,571	379,122	240,635	—	1,723,328
Other, net	172,406	729,908	—	—	902,314
Net nonoperating losses, net	(15,107,153)	(68,599)	(1,503,300)	—	(16,679,052)
Revenue and gains deficient of expenses and losses	(1,467,980)	(391,226)	(1,755,210)	—	(3,614,416)
Other changes in net assets without donor restrictions:					
Net assets released from restriction for purchases of land, buildings, and equipment	510,843	—	10,277	—	521,120
Decrease in net assets without donor restrictions	\$ (957,137)	(391,226)	(1,744,933)	—	(3,093,296)

See accompanying independent auditors' report.

**RIVERSIDE HEALTH SYSTEM
AND OBLIGATED AFFILIATES**

Combining Schedule – Statement of Changes in Net Assets Information
Year ended December 31, 2018

	Riverside Medical Center	Oakside Corporation	Riverside Senior Living Center	Eliminations	Combined
Net assets without donor restrictions:					
Revenue and gains deficient of expenses and losses	\$ (1,467,980)	(391,226)	(1,755,210)	—	(3,614,416)
Other changes in net assets without donor restrictions:					
Net assets released from restrictions used for the purchase of land, buildings, and equipment	510,843	—	10,277	—	521,120
Decrease in net assets without donor restrictions	(957,137)	(391,226)	(1,744,933)	—	(3,093,296)
Net assets with donor restrictions:					
Contributions for specific purposes	1,330,990	—	33,459	—	1,364,449
Investment return earned on net assets with donor restrictions	17,806	—	—	—	17,806
Net assets released from restriction for purchases of land, buildings, and equipment	(510,843)	—	(10,277)	—	(521,120)
Increase in net assets with donor restrictions	837,953	—	23,182	—	861,135
Change in net assets	(119,184)	(391,226)	(1,721,751)	—	(2,232,161)
Net assets at beginning of year	426,404,172	24,002,691	25,912,767	—	476,319,630
Net assets at end of year	\$ 426,284,988	23,611,465	24,191,016	—	474,087,469

See accompanying independent auditors' report.