

**The accompanying financial statements and report are intended for the original recipient. They must be presented in their entirety and may not be modified in any manner.**



**YELLOWSTONE CITY-COUNTY  
HEALTH DEPARTMENT dba**



**FINANCIAL REPORT**

**June 30, 2019**



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## INDEPENDENT AUDITOR'S REPORT

To the Board of Health  
Yellowstone City-County Health Department  
dba RiverStone Health  
Billings, Montana

We have audited the accompanying financial statements of Yellowstone City-County Health Department dba RiverStone Health (RiverStone Health) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the respective financial position of RiverStone Health as of June 30, 2019, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise RiverStone Health's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is not a required part of the basic 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 financial statements as a whole.

*Prior-Year Comparative Information*

We have previously audited RiverStone Health's June 30, 2018 financial statements, and we expressed an unmodified opinion in our report dated December 4, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2019 on our consideration of RiverStone Health's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering RiverStone Health's internal control over financial reporting and compliance.

*Anderson Zurmuehlen + Co, P.C.*

Billings, Montana  
December 4, 2019

YELLOWSTONE CITY-COUNTY HEALTH DEPARTMENT  
dba RIVERSTONE HEALTH  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Year Ended June 30, 2019

This section of RiverStone Health's annual financial report presents management's discussion and analysis of the organization's performance during the fiscal year ended June 30, 2019. Information presented in this section should be read in conjunction with the financial statements, notes, and accompanying schedules included with this report.

RiverStone Health is a multi-jurisdictional service district whose predecessor organizations were created originally in 1974 under an inter-local agreement between the City of Billings, Montana; the City of Laurel, Montana; and Yellowstone County, Montana. RiverStone Health currently operates under a 2004 inter-local agreement between the City of Billings, Montana; the City of Laurel, Montana; and Yellowstone County, Montana. Both the City of Billings and the City of Laurel are located within the boundaries of Yellowstone County. "RiverStone Health" is an assumed business name for Yellowstone City – County Health Department, the legal name of the entity, under which the entity has done business since June 30, 2008.

RiverStone Health provides a variety of public health, health services, social services, and education programs and services, primarily serving communities in Yellowstone County by providing HELP – Health, Education, Leadership, and Protection.

Through its approximately 400 employees, RiverStone Health's services and facilities include a federally-qualified health center / community clinic providing comprehensive primary care and preventive medical, behavioral health, enabling, and dental services; a healthcare for the homeless program; a retail pharmacy; a hospice and home care program including operation of a 12-bed inpatient level care hospice facility; a family medicine residency program (the physician residents and faculty provide the medical staffing for the community health center); operation of a Health Improvement Program (HIP) for Medicaid that provides care coordination services to high-risk Medicaid beneficiaries (ceased operating this program on March 31, 2018 when funding from the State of Montana was eliminated); administration of the Women, Infants and Children (WIC) supplemental nutrition program and Maternal Child Health (MCH) programs; Yellowstone County's rural school nursing program; well child/early and periodic screening, diagnosis, and treatment of children within Yellowstone County placed in foster care; oversight of an electronic health record network that provides network management services to other Montana community health center sites; and, as the local public health agency for Yellowstone County, numerous environmental health and public health services.

**Financial Statements**

The financial statements are designed to be "corporate-like" in that all business activities are consolidated such that when combined they comprise the total operations of RiverStone Health. The statements include a Statement of Net Position, which summarizes an organization's financial condition at a specific point in time. The focus of the Statement of Net Position is to present all available resources or assets and deferred inflows net of all obligations or liabilities and deferred outflows, and the resulting "Net Position" (often referred to as "Equity" in a for-profit, corporate entity) is then reported in three broad categories defined as follows:

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Net investment in capital assets: This component of net position consists of all capital assets plus capital-related deferred outflows, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings and capital related deferred inflows that are attributable to the acquisition, construction, or improvement of those assets.

Restricted: This component of net position is restricted by constraints placed on the assets by creditors (such as debt covenants), grantors, contributors, laws, regulations, etc. Restrictions are further classified as either expendable or nonexpendable, which are subject to stipulations that they be maintained permanently by the organization.

Unrestricted: This component of net position consists of any remaining net position that does not meet the definition of "Net investment in capital assets" or "Restricted."

The financial statements also include a Statement of Revenues, Expenses, and Changes in Net Position (similar to an "Income Statement"). This statement includes operating revenues, operating expenses, and any non-operating revenue and expenses. The focus of the Statement of Revenues, Expenses, and Changes in Net Position is to report the "Increase or Decrease in Net Position," which is similar to net income or loss reported in a corporate Income Statement.

The financial statements also include a third statement, the Statement of Cash Flows, the purpose of which is to illustrate what activities generated sources of cash during the year and on what activities and/or acquisitions cash was used during the year.

### **Summary of Financial Changes**

The following summarizes significant changes from the prior year's financial data:

- Cash and cash equivalents decreased only about \$260,000 from FY18 to FY19, and this was despite finishing up the final two phases of a clinic expansion project that began several years ago. Approximately \$3.1 million of cash was generated from RiverStone Health's operating activities during the year, while approximately \$1.8 million was utilized to finish the clinic expansion project and approximately \$1.7 million went towards payment of long-term bonds and interest.
- In January 2018 RiverStone Health completed construction of a new medical clinic on its main campus at a total cost of approximately \$9.2 million. Following completion of the new clinic, a second phase of the project was completed in the fall of 2018 at a cost of approximately \$900,000 that entailed connecting the new clinic to the old clinic and renovating a portion of the old clinic facility to create program space for enhanced wellness / prevention activities and services. A third and final phase of the project was completed by the end of FY19 at a cost of approximately \$1.3 million that involved renovations made to the old clinic facility to create "C-Suite" space / offices for the teaching health center administrative staff, improvements to office space used by residents and faculty of the Montana Family Medicine Residency, additional conference / meeting room space, and an enlarged / enhanced staff lounge area.



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Year Ended June 30, 2019

- During FY15 GASB Statement 68, pertaining to the reporting of pension liabilities, and GASB Statement 71, pertaining to the reporting of pension contributions subsequent to the measurement date of June 30, 2015, were implemented. This implementation resulted in RiverStone Health's net position at the beginning of FY15 being restated to reflect a previously unrecognized pension liability associated with participation in the State of Montana's Public Employees Retirement System (PERS) plan and also to recognize a deferred outflow of resources for pension contributions and adjustments and a deferred inflow of resources for pension adjustments. Adjustments made at the end of FY19 to reflect RiverStone Health's updated actuarially-determined portion of pension liability associated with the PERS plan as well as adjust its deferred outflow and deferred inflow of resources resulted in increasing pension benefits expense by approximately \$546,000 and also recognizing grant revenue totaling approximately \$372,000, for a net negative impact on FY19 operations of about \$174,000. As a result of the FY19 pension adjustments, the pension related deferred outflow of resources and net pension liability decreased by approximately \$1.0 million and \$3.3 million, respectively, while the pension related deferred inflow of resources increased by approximately \$2.5 million (see additional information included in Note 8 of the accompanying financial statements).
- Net position increased approximately \$1.5 million in FY19. While this change was quite similar to the increase in net position in the prior year, the way in which the results were generated differed fairly significantly between the two years. FY18 included \$1 million revenue from HRSA capital grant funding for completion of the new clinic, but it also included a negative impact of \$1.3 million from the FY18 pension related adjustments.
- Operating revenue increased in FY19 by more than \$1.7 million over the prior year while operating expenses increased close to \$1.5 million, resulting in an increase in net operating income over the prior year totaling about \$260,000.
- Revenue from contributions and grants decreased roughly \$1.2 million over the previous year and as previously noted this was mainly due to the \$1 million HRSA capital grant funding in FY18. Additionally, contributions received from RiverStone Health Foundation in the prior year for the clinic expansion project were more than \$400,000 greater than in FY19.
- Other income increased approximately \$1.4 million from FY18 to FY19 and this was largely due to increased 340B pharmaceutical revenue. Beginning in July 2018, the Clinic began treating patients having Hepatitis C; prior to this date patients were referred to the two local hospital systems for their Hepatitis C treatment. The drugs associated with treatment of Hepatitis C are quite costly, and as such, revenue generated from the Clinic's 340B drug program increased fairly notably in FY19. Similarly, pharmaceutical supplies costs also increased rather significantly in FY19.

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Year Ended June 30, 2019

- Operating expenses increased by roughly \$1.5 million from FY18 to FY19 and much of this increase resulted from the increased supplies costs associated with the increased 340B pharmaceutical activity. While salaries & benefits expense reflects a slight decrease between the two years, this is because the FY18 PERS related adjustments amounted to approximately \$1.3 million (non-cash) additional salaries & benefits expense while the FY19 PERS related adjustments amounted to only approximately \$546,000 (non-cash) additional expense; excluding the PERS related adjustments, salaries & benefits expense would have reflected an increase from FY18 to FY19 due to additional FTEs, a 2.5% wage increase provided for essentially all staff, and various market adjustments made to certain wage levels throughout the year.
- Occupancy costs including rent, janitorial, repairs & maintenance, and depreciation all increased over the prior year due to the new and expanded clinic, which opened late in January 2018, being operational for a full year in FY19.
- Net non-operating expense totaled approximately \$240,000 in FY19 as compared to approximately \$29,000 in FY18. This additional expense pertained partially to roughly \$33,000 higher interest expense but mostly to the write off in FY19 of a \$175,000 receivable from RiverStone Health Foundation (Foundation). This amount pertained to campaign counsel / fundraising fees that had been paid by RiverStone Health on behalf of the Foundation when the Foundation undertook a capital campaign to raise funds for construction of the new clinic. The intent was for the Foundation to repay this amount if it was successful in meeting its fundraising goal. While the capital campaign was certainly successful, the Foundation ultimately fell a bit short of its fundraising goal so in FY19 RiverStone Health opted to contribute this amount to the Foundation.

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**Financial Position Summary**

The following summarizes RiverStone Health's financial position at the end of FY19 as compared to FY18:

	<u>FY19</u>	<u>FY18</u>
<b>Assets and Deferred Outflows</b>		
Current assets	\$ 15,181,074	\$ 15,241,910
Property and equipment, net	24,833,780	24,276,034
Other assets	5,057,029	4,895,918
Deferred outflow of resources	<u>3,842,358</u>	<u>4,837,981</u>
<b>Total Assets and Deferred Outflows</b>	<b><u>\$ 48,914,241</u></b>	<b><u>\$49,251,843</u></b>
<b>Liabilities, Deferred Inflows, and Net Position</b>		
Current liabilities	\$ 5,414,549	\$ 5,064,228
Long-term liabilities	30,075,698	34,793,864
Deferred inflow of resources	2,685,584	161,533
Net Position:		
Net investment in capital assets	11,646,942	9,739,443
Restricted	5,057,029	4,895,918
Unrestricted	<u>(5,965,561)</u>	<u>(5,403,143)</u>
<b>Total Liabilities, Deferred Inflows, and Net Position</b>	<b><u>\$ 48,914,241</u></b>	<b><u>\$ 49,251,843</u></b>

RiverStone Health continues to maintain a strong liquidity level. One standard used to measure an organization's liquidity level as well as its general financial health is the current ratio, which is a measure that tells how readily an organization can meet its short-term financial obligations. RiverStone Health's current ratio at the end of FY19 remained strong at 2.8. Stated another way, RiverStone Health had slightly less than three (3) dollars in current assets for every one dollar of current liabilities. As evidenced by its continued healthy liquidity, RiverStone Health remains well positioned to adequately meet its financial obligations, has the financial strength to remain flexible and responsive as necessary, continues to have adequate cash flow while also maintaining cash reserves, and has the ability to continue investment in its strategic growth and the activities considered vital in helping to further its mission. A slightly higher liquidity level has been maintained to enable completion of all phases of the clinic expansion project that began in September 2016 and was completed by the end of FY19. Additionally, in FY20 RiverStone Health plans to construct a new storage building on its main campus that will replace storage space currently being leased and also to make some campus circulation improvements. Refer to additional information in the section entitled "Other Information" following later in this report.

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**Results of Operations Summary**

RiverStone Health recognized net operating income of approximately \$1.74 million in FY19 and also recognized net non-operating expense of approximately \$240,000. This resulted in an overall increase in net position for the year totaling approximately \$1.5 million, notably similar to the increase in net position in FY18.

The following summarizes RiverStone Health's revenues and expenses from its operating activities during FY19 as compared to FY18:

	<u>FY19</u>		<u>FY18</u>	
<b>Revenue Sources</b>				
Community Health Center	\$ 16,697,626	34%	\$ 16,196,583	34%
Hospice/Home Care	7,117,668	14%	6,500,862	14%
Medical Education	6,274,094	13%	6,414,828	13%
Public/Family Health	9,923,812	20%	8,630,128	18%
Pharmacy	7,059,241	14%	6,431,032	13%
Other	<u>2,764,104</u>	<u>5%</u>	<u>3,920,539</u>	<u>8%</u>
<b>Total Operating Revenue</b>	<b><u>\$ 49,836,545</u></b>	<b><u>100%</u></b>	<b><u>\$ 48,093,972</u></b>	<b><u>100%</u></b>

	<u>FY19</u>		<u>FY18</u>	
<b>Expense Sources</b>				
Community Health Center	\$ 15,819,478	33%	\$ 14,723,405	32%
Hospice/Home Care	7,477,245	15%	6,756,195	15%
Medical Education	6,242,627	13%	6,392,563	14%
Public/Family Health	9,073,258	19%	8,187,418	18%
Pharmacy	6,555,173	14%	6,225,171	13%
Other	<u>2,922,776</u>	<u>6%</u>	<u>4,227,860</u>	<u>9%</u>
<b>Total Operating Expenses</b>	<b><u>\$ 48,090,557</u></b>	<b><u>100%</u></b>	<b><u>\$ 46,512,612</u></b>	<b><u>100%</u></b>

Community Health Center (CHC) operations generated a 5.3% margin in FY19 compared to a 9.1% margin in the previous year. However, the higher FY18 margin largely resulted from recognition of the \$1.0 million capital grant from HRSA for building the new clinic; excluding the one-time capital grant the CHC margin would have been 3.1% in FY18. An increase in grant funding as well as increased 340B activity associated with the Hepatitis C treatment that initiated in July 2018 contributed to the higher margin in FY19.

While the Federal government's Affordable Care Act and Montana's passage of Medicaid expansion has resulted in a notably greater proportion of insured CHC patients over the last four years, the opening of a school-based health center site (Orchard Elementary School) in the 2015/2016 school year and a second school-based health center site (Medicine Crow Middle School) during the 2017/2018 school year continues to provide operational challenges as utilization of these clinics remains less than optimal. Increased hours of operation at these clinics in the 2018/2019 school year were implemented in the hope that greater access would result in improved financial viability of these clinics. While some improvement has been evident, ongoing growth of these school-based clinics remains somewhat challenging.

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Year Ended June 30, 2019

The CHC has historically struggled with keeping provider positions fully staffed, so while expanded capacity exists – notwithstanding the positive financial impact from seeing a greater proportion of Medicaid and other third-party insured patients over the last several years – capacity has remained somewhat limited. Workflow enhancements and process improvements put into place over the last several years have improved operational efficiencies, but provider access issues have continued to create ongoing challenges. An increased focus on provider recruitment and retention that began three years ago continues, with enhanced efforts to reduce provider burnout and increase work-life balance. Expanding capacity by continuing to focus efforts on provider recruitment and retention remains a key initiative and is essential to adequately support the operations of the new, larger clinic that opened in January 2018.

Hospice and home care operations generated approximately a 5% and 4% operating *loss* in FY19 and FY18, respectively. Hospice operations generated roughly a 2% margin in FY19 as compared to about a break-even margin in FY18 while home care operations generated losses of 24% and 15%, respectively. The hospice increase was partially census driven, as the average daily census (ADC) of the hospice program in FY19 was 63.6 compared to 61.5 in FY18; additionally, an increase of 1.8% in the Medicare hospice reimbursement rate was effective in October 2018. There remains some level of uncertainty surrounding Medicare reimbursement levels for hospice services in future years, as effective in October 2019, rates for routine level hospice care decreased about 2.8% while rates for respite and inpatient level care increased somewhat; however, routine level care comprises more than 90% of hospice services.

Home care operations have been financially challenging during the last two years, as an operating loss totaling \$441,000, or (24%), was generated in FY19 compared to an operating loss totaling \$253,000, or (15%), in FY18. Home care Medicare reimbursement rates decreased about 1% in FY18 and then another 2% in FY19. Additionally, a shift to seeing less Medicare-insured home care patients and more patients insured with VA or other private insurance where reimbursement isn't as favorable also contributed to these unfavorable financial results. A likely continuing trend in declining home care Medicare rates combined with an ongoing somewhat challenging patient case mix will likely continue to present ongoing profitability challenges for this program. However, several Organizational Innovation (Lean Six Sigma) projects began in FY19 aimed at exploring reasons for declining Medicare revenue and looking at ways to more efficiently serve patients requiring non-skilled nursing care. And, financial improvement is already evident as home care operations have generated an operating loss of just \$38,000, or when annualized only about one-fourth of the FY19 loss, through the first four months of FY20.

Maintaining existing hospice and home care census levels by continuing to explore the potential for additional community partnerships and focusing on continued refinement of workflows and processes remains a key initiative, especially as reimbursement levels in home health continue to be closely scrutinized at the federal level and future possible reductions in Medicare reimbursement remain likely.

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Year Ended June 30, 2019

The medical education division consists mostly of the Montana Family Medicine Residency (MFMR) program (see additional information in the "Other Information" section of this report), and also the Eastern Montana Area Health Education Center (AHEC) program as well as a relatively small five-year geriatric workforce enhancement program grant that began in 2015 and was just recently renewed for another five years. The MFMR program, which accounts for approximately 90% of the medical education division's operating activities, is generally not expected to reflect any positive margin. However, funding received for operation of the program at RiverStone Health that coordinates clinical rotations in the Billings area for medical students participating in the University of Washington's WWAMI (Washington, Wyoming, Alaska, Montana, and Idaho) program and Pacific Northwest University, increased slightly in both FY19 and FY18 so a slight positive margin is reflected for both years.

Programs included in the public / family health services division consist largely of: the provision of various local health department functions for Yellowstone County (e.g., environmental health, disease and cancer control, immunizations, tobacco cessation, emergency preparedness, and general health promotion); operation of Yellowstone County's supplemental nutrition for Women, Infants, and Children (WIC) program; the Maternal Child Health (MCH) program (provides comprehensive education on pregnancy and parenting aspects including intensive social work, nutrition, and nursing services for families with high-risk pregnancies and infants and children at risk of developmental delays); Yellowstone County's rural school nursing program; case management support services for HIV infected individuals and their families; HIV/AIDS training for medical and dental providers, pharmacists, nurses, and dental hygienists throughout all of Montana; oversight responsibilities for Yellowstone County's Child Advocacy Center; and, the provision of case management services and nurse home visits to certain children in Yellowstone County living in foster care placement.

Revenue and expenses of the public / family health services division increased from FY18 to FY19. Program service revenue increased about 15% while associated expenses increased approximately 11%. The main reason for the revenue increase outpacing the expense increase is because early in FY19 we received approximately \$500,000 in additional tax revenue from Yellowstone County for provision of local health department functions. This additional funding resulted from the resolution of several prior years' disputed property taxes for one of Yellowstone County's large refineries. Also contributing to the increased revenue and expenses in FY19 over FY18 was the assumption during FY19 of responsibility for the oversight of Yellowstone County's Child Advocacy Center program. This program accounted for increased revenue and expense in FY19 totaling about \$145,000.

Similar to the changes that have occurred in home health as a result of health care reform, the future stability of federal and state funding levels available for the provision of public / family health services continues to have some degree of uncertainty resulting from ongoing changes in federal government leadership, the reality that Congress continues working towards reducing the federal budget deficit, and the funding reductions considered by the State of Montana. However, the tax revenue provided by Yellowstone County for the provision of local health department functions by RiverStone Health is anticipated to remain relatively stable if not increase slightly in future years.

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In the two years prior to FY18 pharmacy operations reflected rather dramatic growth as a result of increases in the number of RiverStone Health's previously uninsured CHC patients gaining Medicaid coverage as well as the state's ADAP (AIDS Drug Assistance Program) patients who were able to obtain insurance covering their prescriptions. Because drugs for these patients can be purchased by the CHC through the federal government's 340(B) drug discount pricing program, notably positive operating margins have historically been reflected by RiverStone Health's pharmacy program. The 340(B) program is set up in this manner to allow eligible healthcare organizations / covered entities like RiverStone Health's CHC to benefit from the discounted medications by using the proceeds to further the purposes of the CHC. In an effort to fully comply with 340(B) program requirements related to HIV patients seen in our CHC but also receiving services as part of our Ryan White public health program, early in FY18 RiverStone Health stopped purchasing 340(B) drugs for Ryan White patients and instead began purchasing retail-cost HIV drugs until such time as a separate Ryan White 340(B) pharmacy account was established. This process was completed by mid-November 2017, but during the interim a notably lower margin resulted from the pharmacy using retail drug stock to fill HIV medications rather than filling them using the CHC's 340(B) account. Accordingly, while pharmacy operations generated a notably strong margin (> 10%) prior to FY18, the pharmacy margin dropped to about 2% in FY18 but then increased again in FY19 to about 7%. Pharmacy volume continues to remain strong, with an increasing trend over the last four years.

The programs and services comprising the majority of RiverStone Health's remaining revenue and expenses consist of the Medicaid Health Improvement Program for a portion of FY18 (HIP operations ended effective March 31, 2018); IT support services of an electronic health record system used by several health centers in the state; rental income and expense associated with RiverStone Health's leased facilities and equipment from Yellowstone Health Partnership; contributions received from RiverStone Health Foundation to support RiverStone Health's programs and services and/or its capital improvements; plus, certain administrative / overhead revenue and expenses as well as contracted management / administrative support services provided to RiverStone Health Foundation.

**Capital Assets**

At the end of FY19 RiverStone Health had approximately \$24.8 million (*net* of accumulated depreciation) reflected in capital assets. This amount was approximately \$560,000 more than at the end of FY18, as purchases of property and equipment during FY19 that totaled more than \$1.8 million were offset by depreciation expense totaling close to \$1.3 million and retirements / disposals of essentially fully depreciated property and equipment totaling approximately \$500,000. The bulk of capital acquisitions in FY19 pertained to completion of the second and third phases of the clinic expansion project, which involved space for connecting the new clinic to the old clinic facility, creating space for "Live Well Center" activities, and various renovations to the old clinic facility (refer to additional information in the "Other Information" section of this report).

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The following table summarizes capital assets at the end of FY19 and FY18:

	<u>FY19</u>	<u>FY18</u>
Land	\$ 2,375,831	\$ 2,375,831
Building and improvements	26,845,866	25,321,613
Construction in progress	19,524	220,513
Other property and equipment	5,383,424	5,379,945
Accumulated depreciation	<u>(9,790,865)</u>	<u>(9,021,868)</u>
	<u>\$ 24,833,780</u>	<u>\$ 24,276,034</u>

The table below summarizes the changes in capital assets during the year. These changes are also presented in greater detail in Note 5 of the accompanying financial statements.

	<u>FY19</u>	<u>FY18</u>
Balance at beginning of year	\$ 24,276,034	\$ 20,837,532
Additions	1,816,762	4,622,289
Disposals, net of accumulated depreciation	13,927	(82,533)
Depreciation expense	<u>(1,272,943)</u>	<u>(1,101,254)</u>
	<u>\$ 24,833,780</u>	<u>\$ 24,276,034</u>

**Debt**

Industrial revenue bonds were issued in 2003 to provide for the purchase of RiverStone Health's main CHC clinic site and office building along with various land parcels for a new parking lot as well as current and future site development. (Refer to additional information pertaining to YHP in the "Other Information" section of this report). In June 2013 the 2003 bonds were refinanced. Terms of the loan agreement issued in conjunction with the bond refinancing require annual principal payments to be paid each October and semi-annual interest payments to occur each April and October. Refinancing the bonds reduced the interest rate from 5.5% to 2.88%. The 2013 bonds are collateralized similarly to bonds issued in 2009, which were then advance refunded in December 2014 and are described further in the immediately following paragraphs as well as in Note 6 of the accompanying financial statements. At June 30, 2019, a total of \$1,945,000 in 2013 bonds remained outstanding, with principal totaling \$180,000 due in the next year. Additionally, approximately \$222,000 remained on deposit with the bond trustee for future debt service, and unamortized premium on the 2013 bonds (being amortized over the life of the bonds) totaled approximately \$6,000 at the end of FY19.



YELLOWSTONE CITY-COUNTY HEALTH DEPARTMENT  
dba RIVERSTONE HEALTH  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)  
Year Ended June 30, 2019

In September 2009, Yellowstone Health Partnership issued \$11,805,000 in healthcare lease revenue bonds to finance construction of an office building located on RiverStone Health's existing main campus and also to renovate the second floor of the clinic building. The 2009 bonds were advance refunded in December 2014. Terms of the loan agreement issued in conjunction with the bond refunding require principal payments to be paid each October and semi-annual interest payments to occur each April and October. The advance refunding of the 2009 bonds using proceeds of the 2014 bonds reduced the interest rate from 4.87% to 3.41%; eliminated the need for an ongoing debt reserve fund; and also provided more than \$1.7 million cash to finance future capital improvements, of which all were used by the end of FY17 for the clinic expansion project. The bonds are collateralized similarly to the 2009 bonds that were advance refunded by the 2014 bonds and also similarly to bonds issued in 2013. At June 30, 2019, a total of \$10,505,000 in 2014 bonds was outstanding, with principal totaling \$495,000 due in the next year. Additionally, approximately \$770,000 remained on deposit with the bond trustee for future debt service, and unamortized premium on the 2014 bonds (being amortized over the life of the bonds) totaled approximately \$452,000 at the end of FY19.

In December 2016, Yellowstone Health Partnership issued an additional \$3,060,000 in healthcare lease revenue bonds to assist in financing construction of the clinic expansion project while RiverStone Health Foundation conducted a capital campaign to garner philanthropic support for the project. (Refer to additional information regarding this capital campaign in the "Other Information" section of this report). Terms of the loan agreement issued in conjunction with the 2016 bonds, which were issued in parity with the 2014 and 2013 bonds, require principal payments to be paid each October and semi-annual interest payments to occur each April and October. The bonds have an interest rate of 2.48% and mature on October 1, 2021. At June 30, 2019, a total of \$1,955,000 remained outstanding on the bonds, with principal totaling \$635,000 due in the next year. Additionally, approximately \$728,000 remained on deposit with the bond trustee for future debt service, and unamortized premium on the 2016 bonds (being amortized over the life of the bonds) totaled approximately \$46,000 at the end of FY19.

The 2013, 2014 and 2016 bonds are collateralized by a senior pledge of the tax revenues levied by Yellowstone County and appropriated to RiverStone Health and a subordinate pledge of health care and health department services revenue. The bonds are also secured by a subordinate mortgage lien on, security interest in, and an assignment of rents and leases of the project, subject to permitted encumbrances.

Other long-term liabilities of the organization consist of amounts owed to employees for compensated absences (i.e., vacation pay and sick leave) and an amount reflecting RiverStone Health's allocated portion of net pension liability associated with the State of Montana's Public Employees Retirement System (PERS) plan. Additional information is presented in the notes to the accompanying financial statements.

YELLOWSTONE CITY-COUNTY HEALTH DEPARTMENT  
dba RIVERSTONE HEALTH  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)  
Year Ended June 30, 2019

**Other Information**

In September 2005, RiverStone Health employed the physicians and staff of Montana Family Medicine Residency (MFMR), a separate 501(c)(3) tax-exempt entity, and subsequently transitioned the operations of MFMR's family medicine residency educational program into RiverStone Health's operations. However, the MFMR corporation still exists as an independent, 501(c)(3) tax-exempt entity and, as such, has its own Board of Directors. Board members of MFMR include representatives from its three member organizations (St. Vincent Healthcare, Billings Clinic, and RiverStone Health); there is also representation on MFMR's Board from the Montana Hospital Association, the Montana WWAMI undergraduate medical education program, and the Montana Academy of Family Physicians. The MFMR program trains 24 family medicine residents at any given time graduating eight residents each year. The MFMR program also maintains a sports medicine fellowship program training one physician each year.

RiverStone Health maintains a professional services agreement with MFMR to provide medical education program services as well as administrative and reporting functions, invoicing MFMR for these services on a monthly basis. MFMR in turn invoices St. Vincent Healthcare and Billings Clinic, as these hospital systems receive Medicare reimbursement for direct graduate medical education and indirect graduate medical education services provided on their campuses. Additionally, RiverStone Health is continuing to receive (via pass-through from MFMR) federal grant funding related to the THCGME (Teaching Health Center Graduate Medical Education) program. This funding was made available by the Affordable Care Act and runs through June 30, 2020; an application for another five-year extension of this funding was recently made by MFMR.

The resident and faculty physicians of the MFMR program, along with non-physician providers, provide medical staffing for RiverStone Health's community health center, including its outlying clinic sites, and also provide inpatient medical services at the two local hospitals to patients enrolled in RiverStone Health's community health center.

Unlike YHP, which is further explained in the paragraph that follows, MFMR is *not* considered a blended component unit of RiverStone Health and is, therefore, *not* included in RiverStone Health's financial reporting entity.

YHP, also a 501(c)(3) tax-exempt entity, is a supporting organization for the programs and services provided by RiverStone Health. It is considered a blended component unit of RiverStone Health, and as such, all of YHP's assets, deferred outflow of resources, liabilities, deferred inflow of resources, and net position, in addition to its revenues and expenses from operations, are combined with those of RiverStone Health for external financial reporting purposes. Detailed information pertaining to YHP's assets and deferred outflows, liabilities, and deferred inflows, and its statements of revenues, expenses and change in net position and cash flows is presented in the notes to the accompanying financial statements included with this report.

YELLOWSTONE CITY-COUNTY HEALTH DEPARTMENT  
dba RIVERSTONE HEALTH  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)  
Year Ended June 30, 2019

YHP's sole member is the RiverStone Board of Health, the governing body of Yellowstone City-County Health Department dba RiverStone Health (the "Board of Health"). YHP has no employees of its own. Four individuals currently serve on YHP's Board of Directors, of which two of the members are also members of the Board of Health and two of the members are also employed as part of RiverStone Health's executive management team.

YHP holds title to the land and buildings upon which RiverStone Health's main campus is located, and it is also the entity obligated by the bonds that were issued for purchase, construction, and/or improvement of the property on RiverStone Health's main campus. RiverStone Health has a long-term lease arrangement with YHP whereby RiverStone Health ensures payment of funds to YHP necessary to cover the principal and interest payments associated with outstanding bonds.

YHP also holds two endowment funds that support RiverStone Health programs. One endowment fund was established in 2001 to benefit the ongoing operations of RiverStone Health's hospice program. This fund had a balance of approximately \$2.2 million as of June 30, 2019. Additionally, as a result of the transition of the MFMR program into RiverStone Health's operations, YHP also holds an endowment fund established to benefit the ongoing operations of MFMR. This fund had a balance of approximately \$1.1 million as of June 30, 2019.

RiverStone Health also employs three fundraising staff whereby, pursuant to a professional services agreement with RiverStone Health Foundation, the staff promote local fundraising through activities and special events benefiting not just RiverStone Health's hospice and residency programs, but all of RiverStone Health's programs and services.

RiverStone Health Foundation (Foundation), a Montana non-profit corporation, was created in 2008 for the purpose of engaging in philanthropic and fundraising related activities for RiverStone Health and its programs. In 2009 the Foundation received recognition from the Internal Revenue Service as an organization described in Section 501(c)(3) of the Code, and it is exempt from federal taxation as a result of the application of Section 501(a) of the Code. Undertaking its first major activity late in 2008, the Foundation, under the auspices of YHP and with the active support of other local healthcare providers, launched a capital campaign for purposes of raising funds to build RiverStone Health's hospice facility located on the west end of Billings. The hospice facility was constructed on a site owned by St. John's United, which was initially leased to the Foundation and subsequently assigned to YHP (see paragraphs immediately following) under a 75-year lease for a payment of \$1 annually.

Effective July 1, 2009, the fundraising related assets and liabilities previously maintained on YHP's books, excluding endowed funds that remain on the YHP books, were transferred from YHP to the Foundation. Because the Foundation exists outside the control and management of RiverStone Health, the Foundation is *not* included as a component unit of RiverStone Health's reporting entity.

YELLOWSTONE CITY-COUNTY HEALTH DEPARTMENT  
dba RIVERSTONE HEALTH  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)  
Year Ended June 30, 2019

During FY15, the Foundation recognized a donation (and YHP recognized similar contribution revenue) totaling close to \$1.7 million when it contributed the hospice facility to YHP. The Foundation initiated its second major fundraising activity late in 2015 by embarking upon another capital campaign to raise funds for construction of a new \$9.2 million medical clinic facility located directly south of the existing clinic on RiverStone Health's main campus. The new clinic, which was completed and became operational in January 2018, allows for expanded patient access and outcomes, enhanced healthcare education training partnerships, improved efficiency of RiverStone Health's services and staff coordination, and provides the ability to serve additional patients and families in need of care. In addition to funds raised for the new clinic from the Foundation's capital campaign, RiverStone Health received a \$1 million federal grant from the Department of Health and Human Services under the Health Infrastructure Investment Program. This grant together with funds contributed from the Foundation's capital campaign, RiverStone Health's existing cash reserves, \$1.7 million project funds from the 2014 bond issue, and \$3 million project funds from the 2016 bond issue, were used to complete the new clinic.

Following completion of the new clinic, a second phase of the expansion project was completed in early FY19 at a total cost of about \$900,000 to provide for space connecting the new clinic to the old clinic facility and also provide some renovations to a portion of the old clinic facility.

In January 2019, a third and final phase of the clinic expansion project was initiated. This phase included additional renovations to portions of the old clinic facility and allowed for integration of clinic and residency administrative leadership staff, increased office space for physician and non-physician providers, improvements to the dental clinic's office space, and an enlarged staff break area / lounge. This final phase was completed by the end of FY19 at a total cost of approximately \$1.3 million.

In November 2019, construction began on RiverStone Health's main campus of an approximately 6,000 s.f. storage facility that will replace space currently being leased. The cost is anticipated to total around \$550,000 and completion is expected within four months. Approximately \$20,000 related to the planning and design of this facility was reflected in construction in progress at June 30, 2019. Once the storage facility is completed, a project anticipated to cost about \$300,000 will be initiated to make various campus circulation improvements including improvements to traffic flow and establishment of a community garden area. The storage facility and campus improvements will be funded using existing cash reserves.

FINANCIAL STATEMENTS

YELLOWSTONE CITY-COUNTY HEALTH DEPARTMENT  
dba RIVERSTONE HEALTH  
STATEMENT OF NET POSITION  
June 30, 2019  
(With Comparative Totals as of June 30, 2018)

	<u>2019</u>	<u>2018</u>
<b>ASSETS AND DEFERRED OUTFLOWS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 8,835,437	\$ 9,099,914
Accounts receivable, net of allowance for doubtful accounts of \$1,233,899 and \$2,323,590, respectively	2,947,174	2,886,216
Contracts receivable	2,127,169	2,008,440
Grants receivable	280,084	251,555
Taxes receivable	-	34,417
Other receivables	49,660	183,062
Inventory	573,608	466,277
Prepaid expense	<u>367,942</u>	<u>312,029</u>
Total current assets	<u>15,181,074</u>	<u>15,241,910</u>
<b>PROPERTY AND EQUIPMENT</b>		
Land and parking lots	2,375,831	2,375,831
Construction in progress	19,524	220,513
Computers, equipment, and other assets	3,239,336	3,417,686
Buildings and improvements	26,845,866	25,321,613
Furniture and fixtures	2,144,088	1,962,259
Accumulated depreciation	<u>(9,790,865)</u>	<u>(9,021,868)</u>
Total property and equipment	<u>24,833,780</u>	<u>24,276,034</u>
<b>OTHER ASSETS</b>		
Endowment funds - restricted cash and cash equivalents	69,291	53,438
Endowment funds - restricted investments	3,265,011	3,166,112
Bond reserve funds - restricted cash and cash equivalents	<u>1,722,727</u>	<u>1,676,368</u>
Total other assets	<u>5,057,029</u>	<u>4,895,918</u>
<b>DEFERRED OUTFLOW OF RESOURCES</b>		
Pension contributions and adjustments	<u>3,842,358</u>	<u>4,837,981</u>
Total deferred outflow of resources	<u>3,842,358</u>	<u>4,837,981</u>
Total assets and deferred outflows	<u>\$ 48,914,241</u>	<u>\$ 49,251,843</u>

The Notes to Financial Statements are an integral part of this statement.

YELLOWSTONE CITY-COUNTY HEALTH DEPARTMENT  
 dba RIVERSTONE HEALTH  
 STATEMENT OF NET POSITION (CONTINUED)  
 June 30, 2019  
 (With Comparative Totals as of June 30, 2018)

	<u>2019</u>	<u>2018</u>
<b>LIABILITIES, DEFERRED INFLOWS, AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 1,068,899	\$ 974,562
Accrued and withheld payroll liabilities	687,945	617,049
Accrued interest payable	122,572	130,006
Bonds payable - current portion	1,310,000	1,255,000
Compensated absences payable - current portion	1,845,993	1,752,224
Split interest agreements	21,685	21,685
Unearned revenue	<u>357,455</u>	<u>313,702</u>
Total current liabilities	<u>5,414,549</u>	<u>5,064,228</u>
<b>LONG-TERM LIABILITIES</b>		
Bonds payable, net of current portion, plus bond premium of \$504,566 and \$552,960, respectively	13,599,566	14,957,960
Net pension liability	16,441,499	19,787,191
Compensated absences payable, net of current portion	<u>34,633</u>	<u>48,713</u>
Total long-term liabilities	<u>30,075,698</u>	<u>34,793,864</u>
<b>DEFERRED INFLOW OF RESOURCES</b>		
Pension adjustments	<u>2,685,584</u>	<u>161,533</u>
Total deferred inflow of resources	<u>2,685,584</u>	<u>161,533</u>
<b>NET POSITION</b>		
Net investment in capital assets	<u>11,646,942</u>	<u>9,739,443</u>
<b>Restricted</b>		
Endowment funds - nonexpendable	3,334,302	3,219,550
Bond reserve funds - expendable	<u>1,722,727</u>	<u>1,676,368</u>
Total restricted	<u>5,057,029</u>	<u>4,895,918</u>
Unrestricted	<u>(5,965,561)</u>	<u>(5,403,143)</u>
Total net position	<u>10,738,410</u>	<u>9,232,218</u>
Total liabilities, deferred inflows, and net position	<u>\$ 48,914,241</u>	<u>\$ 49,251,843</u>

The Notes to Financial Statements are an integral part of this statement.

YELLOWSTONE CITY-COUNTY HEALTH DEPARTMENT  
 dba RIVERSTONE HEALTH  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
 Year Ended June 30, 2019  
 (With Comparative Totals for the Year Ended June 30, 2018)

	<u>2019</u>	<u>2018</u>
OPERATING REVENUE		
Medicare	\$ 6,346,855	\$ 6,085,442
Medicaid	9,960,391	9,245,544
Private insurance	2,570,452	2,708,952
Fee income (self-pay)	4,472,541	4,245,894
Contracts	9,051,440	9,295,343
Tax revenue	4,636,718	4,107,594
Contributions and grants	6,934,683	8,125,821
Immunizations	663,621	564,126
Schools	304,783	435,005
Rent income	1,564,748	1,350,274
Other income	<u>3,330,313</u>	<u>1,929,977</u>
Total operating revenue	<u>49,836,545</u>	<u>48,093,972</u>
OPERATING EXPENSES		
Salaries and benefits	29,034,341	29,156,794
Supplies	9,669,374	8,420,893
Contracted services	2,415,137	2,608,623
Miscellaneous	1,674,139	1,628,653
Postage	62,910	73,882
Telephone	266,593	263,356
Repairs and maintenance	236,222	169,515
Travel and education	632,725	591,417
Insurance	307,729	291,337
Rent	1,628,329	1,421,179
Janitorial	223,470	178,390
Property taxes	26,480	25,005
Bad debt	640,165	678,328
Depreciation	<u>1,272,943</u>	<u>1,101,252</u>
Total operating expenses	<u>48,090,557</u>	<u>46,608,624</u>
Operating income	<u>1,745,988</u>	<u>1,485,348</u>

The Notes to Financial Statements are an integral part of this statement.



YELLOWSTONE CITY-COUNTY HEALTH DEPARTMENT  
 dba RIVERSTONE HEALTH  
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
 (CONTINUED)  
 Year Ended June 30, 2019  
 (With Comparative Totals for the Year Ended June 30, 2018)

	<u>2019</u>	<u>2018</u>
NON-OPERATING REVENUE (EXPENSE)		
Interest expense	(449,328)	(416,547)
Investment gain (including unrealized portion), net	392,361	417,857
Net loss on disposal of assets	<u>(182,829)</u>	<u>(30,519)</u>
Total non-operating revenue (expense)	<u>(239,796)</u>	<u>(29,209)</u>
Change in net position	1,506,192	1,456,139
Net position, beginning of year	<u>9,232,218</u>	<u>7,776,079</u>
Net position, end of year	<u>\$ 10,738,410</u>	<u>\$ 9,232,218</u>

The Notes to Financial Statements are an integral part of this statement.

YELLOWSTONE CITY-COUNTY HEALTH DEPARTMENT  
 dba RIVERSTONE HEALTH  
 STATEMENT OF CASH FLOWS  
 Year Ended June 30, 2019  
 (With Comparative Totals for the Year Ended June 30, 2018)

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from:		
Patient receipts	\$ 18,001,825	\$ 18,196,163
Fees	4,472,541	4,245,894
Contracts	8,932,711	8,832,450
Tax revenue	4,671,135	4,107,594
Immunizations	663,621	564,126
Contributions and grants	6,949,907	7,964,696
Schools	304,783	435,005
Rent	1,564,748	1,350,274
Other	<u>3,463,715</u>	<u>1,951,978</u>
Cash received from operating activities	<u>49,024,986</u>	<u>47,648,180</u>
Cash paid for:		
Salaries and benefits	28,717,208	28,108,702
Supplies	9,682,368	9,053,104
Contracted services	2,415,137	2,608,623
Postage and telephone	329,503	337,238
Occupancy	2,241,921	1,952,132
Travel and education	632,725	591,417
Other	<u>1,910,361</u>	<u>1,798,168</u>
Cash paid for operating activities	<u>45,929,223</u>	<u>44,449,384</u>
Net cash flows from operating activities	<u>3,095,763</u>	<u>3,198,796</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of property and equipment	(1,838,768)	(4,584,828)
Proceeds on disposal of property and equipment	-	14,555
Payments on long-term debt	(1,255,000)	(1,165,000)
Interest	<u>(497,722)</u>	<u>(436,498)</u>
Net cash flows from capital and related financing activities	<u>(3,591,490)</u>	<u>(6,171,771)</u>

The Notes to Financial Statements are an integral part of this statement.

YELLOWSTONE CITY-COUNTY HEALTH DEPARTMENT  
 dba RIVERSTONE HEALTH  
 STATEMENT OF CASH FLOWS (CONTINUED)  
 Year Ended June 30, 2019  
 (With Comparative Totals for the Year Ended June 30, 2018)

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(1,093,093)	(253,900)
Proceeds from maturities or sales of investments	1,088,253	270,329
Investment income	<u>298,302</u>	<u>217,366</u>
Net cash flows from investing activities	<u>293,462</u>	<u>233,795</u>
Net change in cash and cash equivalents	(202,265)	(2,739,180)
Cash and cash equivalents, beginning of year	<u>10,829,720</u>	<u>13,568,900</u>
Cash and cash equivalents, end of year	<u>\$ 10,627,455</u>	<u>\$ 10,829,720</u>
 <b>AS PRESENTED IN THE ACCOMPANYING STATEMENT OF NET POSITION</b>		
Cash and cash equivalents	\$ 8,835,437	\$ 9,099,914
Endowment funds - restricted cash and cash equivalents	69,291	53,438
Bond reserve funds - restricted cash and cash equivalents	<u>1,722,727</u>	<u>1,676,368</u>
	<u>\$ 10,627,455</u>	<u>\$ 10,829,720</u>

The Notes to Financial Statements are an integral part of this statement.

YELLOWSTONE CITY-COUNTY HEALTH DEPARTMENT  
 dba RIVERSTONE HEALTH  
 STATEMENT OF CASH FLOWS (CONTINUED)  
 Year Ended June 30, 2019  
 (With Comparative Totals for the Year Ended June 30, 2018)

	<u>2019</u>	<u>2018</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET</b>		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating income	\$ 1,745,988	\$ 1,485,348
Adjustments to reconcile operating income to net cash flows from operating activities:		
Depreciation and amortization	1,272,943	1,101,252
Bad debt expense	640,165	678,328
Pension adjustments	173,982	1,302,078
Changes in operating assets and liabilities:		
Accounts receivable	(875,873)	156,225
Contracts/grants/other receivables	20,561	(625,233)
Inventory	(107,331)	18,135
Prepaid expenses	(55,913)	(36,221)
Accounts payable	94,337	(650,346)
Accrued and withheld payroll liabilities	63,462	(244,036)
Compensated absences	79,689	(9,950)
Unearned revenue	<u>43,753</u>	<u>23,216</u>
Net cash flows from operating activities	<u>\$ 3,095,763</u>	<u>\$ 3,198,796</u>
<b>NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Deferred outflows-pension contributions and adjustments	\$ (995,623)	\$ 2,072,927
Net pension liability	(3,345,692)	3,268,151
Deferred inflows-pension adjustments	2,524,051	106,854

The Notes to Financial Statements are an integral part of this statement.

YELLOWSTONE CITY-COUNTY HEALTH DEPARTMENT  
dba RIVERSTONE HEALTH  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2019

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The financial statements include the accounts of Yellowstone City-County Health Department, dba RiverStone Health, and Yellowstone Health Partnership (YHP), a component unit of Yellowstone City-County Health Department presented on a blended basis (collectively referred to as RiverStone Health). The criteria for including organizations within RiverStone Health's reporting entity are set forth in generally accepted accounting principles (GAAP), which defines the financial reporting entity as the primary government, as well as its component units, which are legally separated organizations for which the elected officials of the primary government are financially accountable.

GAAP has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of RiverStone Health to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, RiverStone Health. Management of RiverStone Health has determined that YHP meets the above criteria and, as such, it has been included as a component unit in the accompanying financial statements. In addition, RiverStone Health is not aware of any other entity that would exercise such financial accountability resulting in RiverStone Health being considered a component unit of that entity.

All significant intercompany transactions and accounts have been eliminated except for rent income and expense between YHP and RiverStone Health, as these amounts are significant and exclusion of the amounts could potentially result in skewed interpretations or analyses of the financial statements for the reporting entity.

**Organization**

Yellowstone City-County Health Department, dba RiverStone Health, is a Montana multi-jurisdictional health district established by the RiverStone Board of Health under MCA 7-11-110(2)(i) to promote individual, community, and environmental health by understanding, anticipating, and responding to the health-related needs of Montanans. RiverStone Health is managed by the RiverStone Board of Health and by a central administration appointed by and responsible to the Board.

YHP is a non-profit corporation established under the laws of the State of Montana, whose sole member is the RiverStone Board of Health. YHP is a supporting organization for the programs through which RiverStone Health provides public health and clinical health related services.

YELLOWSTONE CITY-COUNTY HEALTH DEPARTMENT  
dba RIVERSTONE HEALTH  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2019

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Measurement Focus, Basis of Accounting, and Basis of Presentation**

RiverStone Health follows proprietary fund reporting. Accordingly, the accompanying financial statements are presented using the economic resources measurement focus and the accrual method of accounting. Under the accrual method of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. RiverStone Health applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net funds are available.

Net position is classified into three components – net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

- Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation plus capital related deferred outflows, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings and capital related deferred inflows that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of “net investment in capital assets.” Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- Restricted – This component of net position is restricted by external constraints imposed by creditors (such as debt covenants), contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. Two classifications of restrictions are as follows:
  - *Expendable* – Net position subject to constraints externally imposed by creditors, grantors, contributors, or laws or regulations of other governments.
  - *Nonexpendable* – Net position subject to stipulations that they be maintained permanently by the organization. The restrictions on these assets may permit the organization to use the income earned and capital gains, if any, from the investment assets as support for general or specific purposes, unless otherwise specified by the donor.
- Unrestricted – This component of net position consists of any remaining net position that does not meet the definition of “Restricted” or “Net investment in capital assets.”

YELLOWSTONE CITY-COUNTY HEALTH DEPARTMENT  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2019

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Financial Statement Presentation**

The basic financial statements include certain prior-year summarized information in total but not at the level of detail required for a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with RiverStone Health's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, RiverStone Health considers cash on hand, cash in banks, and cash on deposit with the county treasurer with maturities of 90 days or less to be cash equivalents. Cash and cash equivalents held by bond trustees and brokerage houses are also classified as cash and cash equivalents. FDIC coverage is limited to \$250,000 per account holder. From time to time certain bank accounts that are subject to limited FDIC coverage exceed their insured limits.

**Inventory**

Inventory consists mainly of medical, dental, and pharmaceutical supplies and is valued at the lower of cost (on a first-in, first-out basis) or net realizable value.

**Allowance for Doubtful Accounts**

RiverStone Health utilizes the allowance method to account for uncollectible accounts receivable and routine medical/dental billing adjustments. At June 30, 2019, the allowance account had a balance of \$1,233,899 based on management's estimates of collectability. Management estimated an allowance based on 100% of private pay accounts receivable that had been outstanding more than 120 days. RiverStone Health has not recognized an allowance for grants and taxes receivable as management considers all amounts collectible.

**Investments and Investment Income**

RiverStone Health reports all investments at fair value based on quoted market prices. Net investment income or loss (including realized and unrealized gains and losses on investments plus interest and dividends) is included in the statement of revenues, expenses and changes in net position as an increase or decrease to unrestricted net position unless its use is restricted by explicit donor stipulation or law.

RiverStone Health categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets (these investments are valued using prices quoted in active markets); Level 2 inputs are significant other observable inputs (these investments are valued using matrix pricing); Level 3 inputs are significant unobservable inputs (these investments are valued using consensus pricing).

YELLOWSTONE CITY-COUNTY HEALTH DEPARTMENT  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2019

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Property and Equipment**

Property and equipment is recorded at historical cost. Donated property and equipment is reported at estimated fair value at the date received. Depreciation is calculated on the straight line basis over estimated useful lives of 3 – 40 years in accordance with applicable industry standards. RiverStone Health capitalizes all expenditures for property and equipment over \$5,000.

**Compensated Absences**

Accrued compensated absences are an obligation relating to employees' rights to receive compensation for future absences and are attributable to employees' services already rendered. RiverStone Health recognizes a liability for the full cost of unused vacation benefits and 25% of the cost of unused sick leave benefits earned by its personnel. Based on historical payout rates, RiverStone Health expects \$1,845,993 of the balance as of June 30, 2019, to be paid out within the next year and the remaining balance of \$34,633 to be paid out after June 30, 2019.

**Third-Party Contractual Adjustments**

RiverStone Health has agreements with certain third-party payors that provide for payments at amounts different from its established rates. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Provisions for estimated third-party payor settlements are provided in the period related services are rendered. Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the year of settlement.

**Advertising Costs**

RiverStone Health expenses any costs related to advertising as incurred.

**Operating Revenues and Expenses**

Operating revenues are those revenues that are either generated directly from the primary activities of RiverStone Health or are a principal source of financing for on-going operations. RiverStone Health's policy is to treat all exchange grants and tax revenues as operating revenues. Operating expenses are necessary costs incurred to provide the services that are the primary activities of RiverStone Health.

**Taxes**

Yellowstone County is responsible for assessing, collecting, and distributing property taxes. Property taxes become a lien on the first day of the levy year and may be paid in two equal installments. The first installment is due on or before November 30<sup>th</sup> of each year, and the second installment is due on or before May 31<sup>st</sup> of the following year. All property taxes are recognized on a full accrual basis in the accompanying financial statements.

**Other Post-Employment Benefits**

RiverStone Health participates in Yellowstone County's health insurance plan and at this time the County has not allocated a portion of the OPEB liability to RiverStone Health.



YELLOWSTONE CITY-COUNTY HEALTH DEPARTMENT  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2019

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Subsequent Events**

Management has evaluated subsequent events through December 4, 2019, the date which the financial statements were available for issue.

**NOTE 2. CASH AND INVESTMENTS**

All cash and investments meet collateral requirements specified by State law. There are no legal provisions that limit RiverStone Health as to the type of cash and investments that it can maintain other than those funds on deposit with Yellowstone County.

Cash and cash equivalents are stated at cost and consist of balances in federally insured checking, savings, money market, and certificates of deposit accounts. Restricted cash and cash equivalents are stated at cost and consist of a government insured money market account held by US Bank & Trust and funds held at The Bank of New York Mellon.

The following reflects the custodial credit risk for bank deposits held as of June 30, 2019:

	<u>Bank Balance</u>
Insured, including funds backed by the U.S. Government	\$ 2,150,031
Collateralized:	
Collateral held by pledging bank's trust department in RiverStone Health's or YHP's name	\$ 8,737,440

In addition to funds held in financial institutions, RiverStone Health has funds in a cash and investment pool managed by Yellowstone County (the Pool); these funds are under the control of the Yellowstone County Treasurer. RiverStone Health had cash and cash equivalents totaling \$169,712 maintained by Yellowstone County at June 30, 2019.

Because of the pooled funds concept, it is not possible to allocate RiverStone Health's portion of the Pool into risk categories. However, all participants in the Pool share the risks proportionately; that is, each dollar invested shares proportionately in the risk of the pooled investments. Cash and cash equivalents may include cash and cash items, demand, money market, time savings, fiscal agent deposits, investments in the Montana Short-Term Investment Pool (S.T.I.P.), repurchase agreements, and direct obligations of the United States Government.

All cash, certificates of deposit, and investments with a maturity date of 90 days or less when purchased are treated as cash equivalents for purposes of cash flow reporting. Investments are stated at fair value.

YELLOWSTONE CITY-COUNTY HEALTH DEPARTMENT  
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 June 30, 2019

**NOTE 2. CASH AND INVESTMENTS (CONTINUED)**

The composition of the entire Yellowstone County Pool (at fair value) on June 30, 2019, follows:

Cash on hand	\$ 27,106,140
U.S. Government Securities	80,283,178
State Treasurer's Investment Pool (STIP)	<u>77,390,786</u>
	<u>\$ 184,780,104</u>

RiverStone Health's investments maintained as part of its endowment funds are stated at fair value and consisted of the following at June 30, 2019:

	<u>Fair Value</u>	<u>Valuation Inputs</u>
U.S. equity securities	\$ 1,412,600	Level 1
Developed foreign equities	495,303	Level 1
Emerging foreign equities	192,860	Level 1
Mutual funds:		
Taxable U.S.	441,197	Level 1
Taxable high yield	117,521	Level 1
Taxable inflation protected	75,240	Level 1
Taxable foreign emerging	88,463	Level 1
Taxable other income	306,468	Level 1
U.S. listed real estate funds	<u>135,359</u>	Level 1
Total endowment fund investments	<u>\$ 3,265,011</u>	

The following summarizes the investment return for the year ended June 30, 2019:

Interest and dividends	\$ 298,302
Net unrealized gain	48,922
Realized gain on sale of investments, net	<u>45,137</u>
Investment return, net	<u>\$ 392,361</u>

**NOTE 3. ENDOWMENT FUNDS**

Endowment funds are reflected in the balance sheet as follows:

Endowment funds - restricted cash and cash equivalents	\$ 69,291
Endowment funds - restricted investments	<u>3,265,011</u>
	<u>\$ 3,334,302</u>

YELLOWSTONE CITY-COUNTY HEALTH DEPARTMENT  
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 June 30, 2019

**NOTE 3. ENDOWMENT FUNDS (CONTINUED)**

In May 2007, the Montana Family Medicine Residency (MFMR) made a restricted gift to YHP in the amount of \$715,007. Under the terms of this gift, until sufficient principal has been added to the endowment so the value of the endowment is \$1,000,000, only 75% of the income of the endowment shall be available to fund the uses permitted under the gift agreement.

At the time the endowment reaches \$1,000,000, all interest income of the endowment may be available. Permitted uses consist of: scholarships to MFMR residents; innovative educational activities and research in the field of family medicine; and such other uses and in such amounts as are approved by the Project Committee, as defined by the gift agreement.

During the year ended June 30, 2019, interest and dividends earned by the MFMR endowment fund totaled \$22,960.

For amounts maintained in YHP's remaining endowment fund, all interest income is expendable by RiverStone Health for its hospice operations. During the year ended June 30, 2019, interest and dividends earned by the hospice endowment totaled \$46,755.

**NOTE 4. ACCOUNTS RECEIVABLE**

The following summarizes amounts included in accounts receivable at June 30, 2019:

Medicare (includes Medicare Advantage)	\$ 971,011
Medicaid	735,407
Insurance	461,167
Private pay	2,013,488
Less - allowance for doubtful accounts	<u>(1,233,899)</u>
	<u>\$ 2,947,174</u>

YELLOWSTONE CITY-COUNTY HEALTH DEPARTMENT  
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 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2019

**NOTE 5. PROPERTY AND EQUIPMENT**

The following represents the changes in property and equipment during fiscal year 2019:

	July 1, 2018	Additions	Deletions/ Transfers	June 30, 2019
Land and parking lots	\$ 2,375,831	\$ -	\$ -	\$ 2,375,831
Construction in progress	220,513	19,525	(220,514)	19,524
Computers and equipment	3,417,686	238,875	(417,225)	3,239,336
Buildings and improvements	25,321,613	1,396,062	128,191	26,845,866
Furniture and fixtures	<u>1,962,259</u>	<u>162,300</u>	<u>19,529</u>	<u>2,144,088</u>
Total	33,297,902	1,816,762	(490,019)	34,624,645
Accumulated depreciation	<u>(9,021,868)</u>	<u>(1,272,943)</u>	<u>503,946</u>	<u>(9,790,865)</u>
Net book value	<u>\$ 24,276,034</u>	<u>\$ 543,819</u>	<u>\$ 13,927</u>	<u>\$ 24,833,780</u>

Construction in progress as of June 30, 2019, consists of planning and design fees associated with construction of a storage facility on RiverStone Health's main campus to replace space currently being leased. See additional information in Note 15.

**NOTE 6. LONG-TERM LIABILITIES**

In September 2003, YHP issued \$3,830,000 in industrial revenue bond debt to purchase a building and land used by RiverStone Health located at 123 South 27<sup>th</sup> Street in Billings, Montana. Bond proceeds were also used to purchase other property adjacent to the east and south of this property and to allow for demolition of the structures and construction of a new parking lot.

The bonds are collateralized by a first mortgage lien on, and security interest in, the project facilities and all equipment and fixtures included therein, as well as the gross receivables from the project facilities.

In June 2013, the 2003 bonds were refinanced. Terms of the loan agreement issued in conjunction with the bond refinancing require annual principal payments to be paid on October 1 of each year and semi-annual interest payments to be paid on April 1 and October 1 of each year. Refinancing these bonds reduced the interest rate from 5.5% to 2.88%. The 2013 bonds are collateralized similarly to bonds issued in 2009, which were then advance refunded in December 2014, and are described in the immediately following two paragraphs.

In September 2009, YHP issued \$11,805,000 in subordinate health care lease revenue bond debt to finance construction of a new office building located on RiverStone Health's existing campus and also to renovate the second floor of the clinic building used by RiverStone Health.

YELLOWSTONE CITY-COUNTY HEALTH DEPARTMENT  
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 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2019

**NOTE 6. LONG-TERM LIABILITIES (CONTINUED)**

The 2009 bonds were advance refunded in December 2014. Terms of the loan agreement issued in conjunction with the bond refunding require annual principal payments to be paid on October 1 of each year and semi-annual interest payments to be paid on April 1 and October 1 of each year. The advance refunding of the 2009 bonds using proceeds of the 2014 bonds reduced the interest rate from 4.87% to 3.41%.

In December 2016, YHP issued an additional \$3,060,000 in subordinate health care lease revenue bonds to assist in financing construction of a clinic expansion project while RiverStone Health Foundation conducted a capital campaign to garner philanthropic support for the project. Terms of the loan agreement issued in conjunction with the bonds, which were issued in parity with the 2014 and 2013 bonds, require principal payments to be paid each October and semi-annual interest payments to occur each April and October. The bonds have an interest rate of 2.48% and mature on October 1, 2021.

The 2013, 2014 and 2016 bonds are collateralized by a senior pledge of the tax revenues levied by Yellowstone County for RiverStone Health and a subordinate pledge of health care and health department services revenue. The bonds are also secured by a subordinate mortgage lien on, security interest in, and an assignment of rents and leases of the project, subject to permitted encumbrances. In addition, the bonds require compliance with specific loan covenants, of which RiverStone Health was in substantial compliance at June 30, 2019.

The following represents activity on this debt during fiscal year 2019:

	Balance, July 1, 2018	Additions	Payment of Principal	Balance, June 30, 2019	Current Portion
Bonds payable to Yellowstone County, Montana, fixed interest rate of 2.88%, payable semi-annually every April and October through 2028, plus bond premium of \$6,120 and \$6,807 at June 30, 2019 and 2018, respectively	\$ 2,126,807	\$ -	\$ (175,000)	\$ 1,951,120	\$ 180,000
Bonds payable to Yellowstone County, Montana, fixed interest rate of 3.41% payable semi-annually every April and October through 2034, plus bond premium of \$452,567 and \$481,922 at June 30, 2019 and 2018, respectively	11,471,922	-	(485,000)	10,957,567	495,000
Bonds payable to Yellowstone County, Montana, fixed interest rate of 2.48% payable semi-annually every April and October through 2021, plus bond premium of \$45,879 and \$64,231 at June 30, 2019 and 2018, respectively	<u>2,614,231</u>	<u>-</u>	<u>(595,000)</u>	<u>2,000,879</u>	<u>635,000</u>
Total	<u>\$ 16,212,960</u>	<u>\$ -</u>	<u>\$ (1,255,000)</u>	<u>\$ 14,909,566</u>	<u>\$ 1,310,000</u>

YELLOWSTONE CITY-COUNTY HEALTH DEPARTMENT  
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 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2019

**NOTE 6. LONG-TERM LIABILITIES (CONTINUED)**

Bond reserve funds totaling \$1,722,727, consisting of cash and cash equivalents restricted for future debt, are reflected in the statement of net position as of June 30, 2019.

The following represents a schedule of future interest and principal due on the bonds:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 1,310,000	\$ 490,288	\$ 1,800,288
2021	1,330,000	465,528	1,795,528
2022	1,380,000	425,846	1,805,846
2023	725,000	379,155	1,104,155
2024	760,000	348,825	1,108,825
2025 - 2029	4,205,000	1,320,325	5,525,325
2030 - 2034	3,840,000	579,450	4,419,450
2035	<u>855,000</u>	<u>30,450</u>	<u>885,450</u>
Total minimum debt service payments	<u>\$ 14,405,000</u>	<u>\$ 4,039,867</u>	<u>\$ 18,444,867</u>

The following represents activity during the year on amounts owed to employees for compensated absences:

	<u>Balance, July 1, 2018</u>	<u>Net Additions/ (Deductions)</u>	<u>Balance, June 30, 2019</u>
Current portion	\$ 1,752,224	\$ 93,769	\$ 1,845,993
Long-term portion	<u>48,713</u>	<u>(14,080)</u>	<u>34,633</u>
Total	<u>\$ 1,800,937</u>	<u>\$ 79,689</u>	<u>\$ 1,880,626</u>

**NOTE 7. LEASES**

RiverStone Health has entered into various lease agreements for office, clinic and storage space. The leases having varying terms and expire between May 2020 and August 2034. The lease that expires in August 2034 is with YHP (included as a component unit in the accompanying financial statements) for property on which RiverStone Health's main clinic, as well as other program and administrative offices, is located. Monthly expense under this lease totaled \$125,661 and \$108,653 during the years ended June 30, 2019 and 2018, respectively.

Total lease expense under these agreements during the year ended June 30, 2019, was \$1,612,584, with \$1,507,932 of this expense pertaining to the lease with YHP. Also included in this total lease expense amount is \$13,320 pertaining to space for the operation of outlying medical clinic sites in Bridger and Joliet plus \$20,620 in-kind rent expense pertaining to space provided free of charge (by an unrelated party) for operation of a third outlying medical clinic in Worden.

YELLOWSTONE CITY-COUNTY HEALTH DEPARTMENT  
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 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2019

**NOTE 7. LEASES (CONTINUED)**

RiverStone Health also has various operating leases in place for certain equipment and vehicles, with the leases having varying terms. Monthly lease expense totaled \$1,312 as of June 30, 2019. Lease expense under these agreements during the year ended June 30, 2019, totaled \$15,745.

The following is a schedule of future minimum rental payments due under all operating leases:

<u>Year Ending June 30,</u>	
2020	\$ 1,567,416
2021	1,548,871
2022	1,525,335
2023	1,510,935
2024	1,507,935
Thereafter	<u>14,215,438</u>
	<u>\$ 21,875,930</u>

Total rent expense during the year ended June 30, 2019, was \$1,628,329.

**NOTE 8. RETIREMENT PLANS**

RiverStone Health participates in the State of Montana’s Public Employees Retirement System (PERS) plan.

**Net Pension Liability**

In accordance with GASB Statement 68, *Accounting and Financial Reporting for Pensions*, employers and the non-employer contributing entity are required to recognize and report certain amounts associated with their participation in the PERS. Employers are required to record and report their proportionate share of the collective net pension liability, pension expense, and deferred inflows and deferred outflows of resources associated with pensions.

PERS has a special funding situation in which the State of Montana is legally responsible for making contributions directly to PERS on behalf of the employers. Due to the existence of this special funding situation, the State is required to report a proportionate share of a local government’s collective net pension liability that is associated with the non-State employer.

YELLOWSTONE CITY-COUNTY HEALTH DEPARTMENT  
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 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2019

**NOTE 8. RETIREMENT PLANS (CONTINUED)**

**Net Pension Liability (Continued)**

The Total Pension Liability (TPL) minus the Fiduciary Net Position equals the Net Pension Liability (NPL). As GASB Statement 68 allows, a measurement date of up to 12 months before the employer's fiscal year-end can be utilized to determine the Plan's TPL. The basis for the TPL as of June 30, 2018, was determined by taking the results of the June 30, 2017, actuarial valuation and applying standard roll forward procedures. The roll forward procedure uses a calculation that adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year, and then applies the expected investment rate of return for the year. The update procedures are in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

Special Funding

The State of Montana, as the non-employer contributing entity, paid to the Plan additional contributions that qualify as *special funding*. Those employers who received *special funding* are counties; cities & towns; school districts & high schools; and other governmental agencies.

Not Special Funding

Per Montana law, state agencies and universities paid their own additional contributions. These employer-paid contributions are *not* accounted for as special funding for state agencies and universities but are reported as employer contributions. The State of Montana, as the non-employer contributing entity, also paid to the Plan coal tax contributions that are *not* accounted for as special funding for all participating employers.

The proportionate shares of RiverStone Health's and the State of Montana's net pension liability as of June 30, 2019, and 2018, are displayed below. RiverStone Health's proportionate share equals the ratio of their contributions to the sum of all employer and non-employer contributions during the measurement period. The state's proportionate share for a particular employer equals the ratio of the contributions for a particular employer to the total state contributions paid. As of June 30, 2019, RiverStone Health recorded a liability of \$16,441,499 and its proportionate share was 0.7878%.

<u>As of Reporting Date</u>	<u>Net Pension Liability as of June 30, 2019</u>	<u>Net Pension Liability as of June 30, 2018</u>	<u>Percent of Collective NPL as of June 30, 2019</u>	<u>Percent of Collective NPL as of June 30, 2018</u>	<u>Change in Percent of Collective NPL</u>
RiverStone Health proportionate share	\$ 16,441,499	\$ 19,787,191	0.7878%	1.0160%	-0.2282%
State of Montana proportionate share associated with RiverStone Health	<u>5,573,453</u>	<u>344,166</u>	<u>1.0717%</u>	<u>1.7540%</u>	<u>-0.6823%</u>
Total	<u>\$ 22,014,952</u>	<u>\$ 20,131,357</u>	<u>1.8595%</u>	<u>2.7700%</u>	<u>-0.9105%</u>



YELLOWSTONE CITY-COUNTY HEALTH DEPARTMENT  
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 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2019

**NOTE 8. RETIREMENT PLANS (CONTINUED)**

**Net Pension Liability (Continued)**

*Changes in actuarial assumptions and methods:*

There were no changes in assumptions or other inputs that affected the measurement of the TPL.

*Changes in benefit terms:*

There have been no changes in benefit terms since the previous measurement date.

*Changes in proportionate share:*

There were no changes between the measurement date of the collective NPL and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective NPL.

**Pension Expense**

	Pension Expense for the year ended <u>June 30, 2019</u>	Pension Expense for the year ended <u>June 30, 2018</u>
RiverStone Health's proportionate share	\$ 1,386,005	\$ 2,371,545
State of Montana's proportionate share associated with employer	371,967	18,348
State of Montana's coal tax for employer	<u>-</u>	<u>283,059</u>
Total	<u>\$ 1,757,972</u>	<u>\$ 2,672,952</u>

During the year ended June 30, 2019, RiverStone Health recognized \$1,386,005 for its proportionate share of the Plan's pension expense and recognized grant revenue of \$371,967 for the support provided by the State of Montana for its proportionate share of the pension expense that is associated with RiverStone Health.

YELLOWSTONE CITY-COUNTY HEALTH DEPARTMENT  
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 June 30, 2019

**NOTE 8. RETIREMENT PLANS (CONTINUED)**

**Deferred Inflows and Outflows**

At June 30, 2019, RiverStone Health reported its proportionate share of PERS' deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual vs. expected experience	\$ 1,250,266	\$ -
Changes in assumptions	1,398,104	-
Actual vs. expected investment earnings	-	255,336
Changes in proportionate share and differences between RiverStone Health contributions and proportionate share of contributions	-	2,430,248
Contributions paid to PERS subsequent to the measurement date - FY2019 contributions	1,193,988	-
Total	\$ 3,842,358	\$ 2,685,584

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	Amount of deferred outflows and deferred inflows recognized in future years as an increase or (decrease) to Pension Expense
2020	\$ 704,325
2021	400,370
2022	(1,036,994)
2023	(104,915)
2024	-
Thereafter	-

YELLOWSTONE CITY-COUNTY HEALTH DEPARTMENT  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
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**NOTE 8. RETIREMENT PLANS (CONTINUED)**

**Plan Description**

The PERS-Defined Benefit Retirement Plan (PERS-DBRP), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, chapters 2 & 3, Montana Code Annotated (MCA). This plan provides retirement benefits to covered employees of the State, local governments, certain employees of the Montana University System, and school districts.

All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-Defined Contribution Retirement Plan (PERS-DCRP) by filing an irrevocable election. Members may not be members of both the defined contribution and defined benefit retirement plans.

The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are established by state law and can only be amended by the Legislature.

Benefits are based on eligibility, years of service, and highest average compensation. Member rights are vested after five years of service.

**Summary of Benefits**

**Member's highest average compensation (HAC)**

Hired prior to July 1, 2011 – highest average compensation during any consecutive 36 months;

Hired on or after July 1, 2011 – highest average compensation during any consecutive 60 months;

**Compensation Cap**

Hired on or after July 1, 2013 – 110% annual cap on compensation considered as part of a member's highest average compensation.

**Eligibility for benefit**

Service retirement:

Hired prior to July 1, 2011: Age 60, 5 years of membership service; Age 65, regardless of membership service; or Any age, 30 years of membership service.

Hired on or after July 1, 2011: Age 65, 5 years of membership services; or Age 70, regardless of membership service.

Early retirement, actuarially reduced:

Hired prior to July 1, 2011: Age 50, 5 years of membership service; or Any age, 25 years of membership service.

Hired on or after July 1, 2011: Age 55, 5 years of membership service.

YELLOWSTONE CITY-COUNTY HEALTH DEPARTMENT  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2019

**NOTE 8. RETIREMENT PLANS (CONTINUED)**

**Summary of Benefits (Continued)**

**Vesting**

5 years of membership service.

**Monthly benefit formula**

Members hired prior to July 1, 2011:

- Less than 25 years of membership service: 1.785% of HAC per year of service credit;
- 25 years of membership service or more: 2% of HAC per year of service credit.

Members hired on or after July 1, 2011:

- Less than 10 years of membership service: 1.5% of HAC per year of service credit;
- 10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit;
- 30 years or more of membership service: 2% of HAC per year of service credit.

**Guaranteed Annual Benefit Adjustment (GABA)**

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of other adjustments to the member's benefit.

- 3% for members hired prior to July 1, 2007.
- 1.5% for members hired between July 1, 2007 and June 30, 2013.
- Members hired on or after July 1, 2013:
  - a) 1.5% for each year PERS is funded at or above 90%;
  - b) 1.5% reduced by 0.1% for each 2.0% PERS is funded below 90%; and
  - c) 0% whenever the amortization period for PERS is 40 years or more.

**Overview of Contributions**

Rates are specified by state law for periodic member and employee contributions and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. The Montana Legislature has the authority to establish and amend contribution rates. Member and employer contribution rates are shown in the table on the following page.

YELLOWSTONE CITY-COUNTY HEALTH DEPARTMENT  
 dba RIVERSTONE HEALTH  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2019

**NOTE 8. RETIREMENT PLANS (CONTINUED)**

**Overview of Contributions (Continued)**

Fiscal Year	Member		Local Government	
	Hired < 7/1/11	Hired >7/1/11	Employer	State
2019	7.90%	7.90%	8.57%	0.10%
2018	7.90%	7.90%	8.47%	0.10%
2017	7.90%	7.90%	8.37%	0.10%
2016	7.90%	7.90%	8.27%	0.10%
2015	7.90%	7.90%	8.17%	0.10%
2014	7.90%	7.90%	8.07%	0.10%
2012-2013	6.90%	7.90%	7.07%	0.10%
2010-2011	6.90%		7.07%	0.10%
2008-2009	6.90%		6.94%	0.10%
2000-2007	6.90%		6.80%	0.10%

1. Member contributions to the system of 7.9% are temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.
2. Employer contributions to the system:
  - a) Effective July 1, 2014, following the 2013 Legislative Session, PERS-employer contributions increased an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions including 0.27% added in 2007 and 2009, will terminate on January 1 following an actuary valuation that shows the amortization period of the PERS-DBRP has dropped below 25 years and remains below the 25 years following the reduction of both the additional employer and member contributions rates.
  - b) Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.
  - c) The portion of employer contributions allocated to the PCR are included in the employers reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.

YELLOWSTONE CITY-COUNTY HEALTH DEPARTMENT  
dba RIVERSTONE HEALTH  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2019

**NOTE 8. RETIREMENT PLANS (CONTINUED)**

**Overview of Contributions (Continued)**

3. Non-Employer Contributions:

a) Special Funding

- i. The State contributes 0.1% of members' compensation on behalf of local government entities.
- ii. The State contributes 0.37% of members' compensation on behalf of school district entities.

b) Not Special Funding

- i. The State contributes from the Coal Tax Severance income and earnings from the Coal Trust Permanent fund.

**Stand-Alone Statements**

The PERS financial information is reported in the Public Employees' Retirement Board's Comprehensive Annual Financial Report. It is available from the PERB at 100 North Park, PO Box 200131, Helena, Montana 59620-0131, 406-444-3154 or the MPERA website at <http://mpera.mt.gov/index.shtml>.

**Actuarial Assumptions**

The TPL used to calculate the NPL was determined by taking the results of the June 30, 2017 actuarial valuation and applying standard roll forward procedures to update the TPL to June 30, 2018. There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the June 30, 2018 valuation were based on the results of the last actuarial experience study, dated June 2010 to June 30, 2016. Among those assumptions were the following:

- |  |            |
|--|------------|
| • Investment Return (net of admin expense) | 7.65%      |
| • Admin Expense as a % of Payroll          | 0.26%      |
| • General Wage Growth*                     | 3.50%      |
| *includes Inflation at                     | 2.75%      |
| • Merit Increases                          | 0% to 6.3% |

YELLOWSTONE CITY-COUNTY HEALTH DEPARTMENT  
dba RIVERSTONE HEALTH  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2019

**NOTE 8. RETIREMENT PLANS (CONTINUED)**

**Guaranteed Annual Benefit Adjustment (GABA)**

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit.

- 3.0% for members hired prior to July 1, 2007.
- 1.5% for members hired between July 1, 2007 and June 30, 2013.
- Members hired on or after July 1, 2013:
  - a) 1.5% for each year PERS is funded at or above 90%;
  - b) 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
  - c) 0% whenever the amortization period for PERS is 40 years or more.

Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2020 with scale BB, males set back 1 year.

Mortality assumptions among disabled members are based on RP 2000 Combined Mortality Tables with no projections.

**Discount Rate**

The discount rate used to measure the total pension liability was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. The State contributes 0.1% of salaries for local governments and 0.37% for school districts. In addition, the State contributes coal severance tax and interest money from the general fund. The interest is contributed monthly and the severance tax is contributed quarterly. Based on those assumptions, the PERS' fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2121. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

YELLOWSTONE CITY-COUNTY HEALTH DEPARTMENT  
 dba RIVERSTONE HEALTH  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2019

**NOTE 8. RETIREMENT PLANS (CONTINUED)**

**Target Allocations**

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the Plan. The most recent analysis, performed for the period of fiscal years 2003 through 2009, is outlined in a report dated June 2010, and is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public sector systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2018, are summarized below.

Asset Class	Target Asset Allocation (a)	Real Rate of Return Arithmetic Basis (b)	Long Term Expected Portfolio Real Rate of Return (a) x (b)
Cash equivalents	2.6%	4.00%	0.10%
Domestic equity	36.0%	4.55%	1.64%
Foreign equity	18.0%	6.35%	1.14%
Fixed income	23.4%	1.00%	0.24%
Private equity	12.0%	7.75%	0.93%
Real estate	8.0%	4.00%	0.32%
Total	<u>100.00%</u>		4.37%
Inflation			<u>2.75%</u>
Portfolio return Expectation			<u>7.12%</u>

The long-term expected nominal rate of return above of 7.12% is an expected portfolio rate of return provided by Board of Investments (BOI) which differs from the total long-term assumed rate of return of 7.65% in the experience study. The assumed investment rate is comprised of a 2.75% inflation rate and a real rate of return of 4.90%.



YELLOWSTONE CITY-COUNTY HEALTH DEPARTMENT  
 dba RIVERSTONE HEALTH  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2019

**NOTE 8. RETIREMENT PLANS (CONTINUED)**

**Sensitivity Analysis**

The sensitivity of the NPL to the discount rate is shown in the table below. A small change in the discount rate can create a significant change in the liability. The NPL was calculated using the discount rate of 7.65%, as well as what the NPL would be if it were calculated using a discount rate 1.00% lower or 1.00% higher than the current rate.

	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
RiverStone Health's proportion of Net Pension Liability	\$ 23,778,228	\$ 16,441,499	\$ 10,416,891

**PERS Disclosure for the Defined Contribution Plan**

RiverStone Health contributed to the State of Montana Public Employee Retirement System Defined Contribution Retirement Plan (PERS-DCRP) for employees that have elected the DCRP. The PERS-DCRP is administered by the PERB and is reported as a multiple-employer plan established July 1, 2002, and governed by Title 19, chapters 2 & 3, MCA.

All new PERS members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be participants of both the *defined benefit* and *defined contribution* retirement plans.

Member and employer contribution rates are specified by state law and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. The Montana Legislature has the authority to establish and amend contribution rates.

Benefits are dependent upon eligibility and individual account balances. Participants are vested immediately in their own contributions and attributable income. Participants are vested after 5 years of membership service for the employer's contributions to individual accounts and the attributable income. Non-vested contributions are forfeited upon termination of employment per 19-3-2117(5), MCA. Such forfeitures are used to cover the administrative expenses of the PERS-DCRP.

At the Plan level for the measurement period ended June 30, 2018, PERS-DCRP employers did not recognize any net pension liability or pension expense for the *defined contribution* plan. Plan level non-vested forfeitures for the 316 employers that have participants in the PERS-DCRP totaled \$746,144.

YELLOWSTONE CITY-COUNTY HEALTH DEPARTMENT  
 dba RIVERSTONE HEALTH  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2019

**NOTE 9. RISK MANAGEMENT**

As a normal part of its operations, RiverStone Health faces numerous issues involving the potential for risks of loss, including, but not limited to: a) damage to and loss of property and contents; b) employee torts; c) professional liability (i.e., errors and omissions); d) environmental damage; e) workers' compensation (i.e., employee injuries); and f) medical insurance costs of employees. Commercial insurance policies transferring substantially all or portions of certain risks of loss are purchased to mitigate these risks. Settled claims did not exceed the commercial coverage for the fiscal year ended June 30, 2019.

**NOTE 10. YELLOWSTONE HEALTH PARTNERSHIP**

Yellowstone Health Partnership, included as a component unit in the accompanying financial statements, is a not-for-profit entity and is exempt from paying income taxes under IRS Code Sec. 501 (c)(3). The following represents the assets, liabilities, and net position of YHP in the accompanying financial statements (prior to elimination of intercompany activity) as of June 30, 2019:

<u>CURRENT ASSETS</u>	
Cash and cash equivalents	\$ 52,399
Total current assets	<u>52,399</u>
<u>PROPERTY AND EQUIPMENT</u>	
Land (including parking lot)	2,375,831
Buildings and improvements	24,319,664
Furnishings and equipment	1,921,615
Construction in progress	19,524
Accumulated depreciation	<u>(5,868,620)</u>
Total property and equipment	<u>22,768,014</u>
<u>OTHER ASSETS</u>	
Endowment funds - cash and cash equivalents	69,291
Endowment funds - investments	3,265,011
Bond reserve funds - cash and cash equivalents	<u>1,722,727</u>
Total other assets	<u>5,057,029</u>
Total assets and deferred outflow	<u>\$ 27,877,442</u>
<u>CURRENT LIABILITIES</u>	
Accounts payable	\$ 139,542
Accrued interest payable	122,572
Split interest agreements	21,685
Bonds payable - current portion	<u>1,310,000</u>
Total current liabilities	1,593,799
<u>LONG-TERM LIABILITIES</u> , net of current portion	19,547,809
<u>NET POSITION</u>	<u>6,735,834</u>
Total liabilities, deferred inflow, and net position	<u>\$ 27,877,442</u>

YELLOWSTONE CITY-COUNTY HEALTH DEPARTMENT  
 dba RIVERSTONE HEALTH  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2019

**NOTE 10. YELLOWSTONE HEALTH PARTNERSHIP (CONTINUED)**

The activity of YHP for the year ended June 30, 2019, is included on a blended basis in the accompanying financial statements as a component unit of RiverStone Health. A summary of this activity (prior to elimination of intercompany activity) is provided below:

**INCOME**

Rent income	\$ 1,507,935
Contributions	687,127
Interest and dividend income	100,910
Realized gain on investments, net	45,137
Unrealized gain on investments, net	<u>48,922</u>
Total income	<u>2,390,031</u>

**EXPENSE**

Miscellaneous	216,469
Depreciation	982,700
Interest	<u>449,328</u>
Total expense	<u>1,648,497</u>

Change in net position	741,534
Beginning net position	<u>5,994,300</u>
Ending net position	<u>\$ 6,735,834</u>

YELLOWSTONE CITY-COUNTY HEALTH DEPARTMENT  
 dba RIVERSTONE HEALTH  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2019

**NOTE 10. YELLOWSTONE HEALTH PARTNERSHIP (CONTINUED)**

The cash flow activity of YHP for the year ended June 30, 2019, is included on a blended basis in the accompanying financial statements as a component unit of RiverStone Health. A summary of this activity (prior to elimination of intercompany activity) is provided below:

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash received from:

Rent	\$ 1,507,934
Contributions	687,127

Cash paid for operating activities:

Miscellaneous	<u>(306,088)</u>
Net cash flows from operating activities	<u>1,888,973</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Purchase of property and equipment	(1,549,017)
Proceeds from long-term payable	1,424,873
Payments on long-term debt	(1,255,000)
Interest expense	<u>(497,722)</u>
Net cash flows from capital and related financing activities	<u>(1,876,866)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchases of investments	(1,093,093)
Proceeds from maturities or sales of investments	1,088,253
Investment income	<u>100,910</u>
Net cash flows from investing activities	<u>96,070</u>

Net change in cash and cash equivalents 108,177

Cash and cash equivalents, beginning of year 1,736,240

Cash and cash equivalents, end of year \$ 1,844,417

**AS PRESENTED IN THE ACCOMPANYING STATEMENT OF NET POSITION**

Cash and cash equivalents	\$ 52,399
Endowment funds - cash and cash equivalents	69,291
Bond reserve funds - cash and cash equivalents	<u>1,722,727</u>
	<u>\$ 1,844,417</u>

YELLOWSTONE CITY-COUNTY HEALTH DEPARTMENT  
dba RIVERSTONE HEALTH  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2019

**NOTE 11. RELATED PARTY TRANSACTIONS**

Montana Family Medicine Residency (MFMR) contracts with RiverStone Health for the provision of education and training services to family practice residents. The training is provided in part by board certified family medicine physicians employed by RiverStone Health. MFMR passed through \$450,000 of Teaching Health Center grant funds to RiverStone Health during the year ended June 30, 2019.

In addition, RiverStone Health provides administrative oversight, accounting services, and reports to and receives guidance from MFMR's board. Fees recognized by RiverStone Health related to services provided to MFMR during the year ended June 30, 2019, totaled \$4,729,147. Payments from MFMR to RiverStone Health during the year ended June 30, 2019, totaled \$4,767,847.

As of June 30, 2019, one member of RiverStone Health's executive management staff was also a member of MFMR's board of directors as well as MFMR's appointed President and CEO.

RiverStone Health Foundation (the Foundation), a 501(c)(3) tax exempt entity that is not considered a component unit of RiverStone Health for financial reporting purposes, began operations in July 2009 for the primary purpose of aiding and assisting RiverStone Health in providing various services. RiverStone Health has entered into a Management Services Agreement with the Foundation for purposes of establishing the relationships between the entities and to facilitate the accomplishment of their mutual goals. Pursuant to the agreement terms, the Foundation agrees to: 1) conduct and manage fund raising related activities for RiverStone Health; 2) disburse funds raised to benefit RiverStone Health's programs in accordance with donors' wishes; and 3) participate in RiverStone Health's functions as requested. In consideration for the assumption of enumerated responsibilities, RiverStone Health has agreed to provide the Foundation with various management and support services, including consultation and assistance in the development and implementation of charitable programs; the maintenance of financial records, reports, and controls; cash and investment management of assets; and other services as reasonably required. During the year ended June 30, 2019, RiverStone Health recognized \$357,993 total expense under the terms of this agreement, with these expenses largely pertaining to Foundation related salaries and benefits and various administrative and overhead costs.

As of June 30, 2019, one member of RiverStone Health's executive management staff and two members of RiverStone Health's board of directors were also members of the Foundation's board of directors.

YELLOWSTONE CITY-COUNTY HEALTH DEPARTMENT  
dba RIVERSTONE HEALTH  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2019

**NOTE 12. CLINIC EXPANSION / RENOVATION PROJECT**

RiverStone Health Foundation initiated its second major fundraising activity late in 2015 by embarking upon a capital campaign to raise funds for construction of a new \$9 million medical clinic facility located directly south of the existing clinic on RiverStone Health's main campus. The new clinic, which was completed and became operational in January 2018, allows for expanded patient access and outcomes, enhanced healthcare education training partnerships, improved efficiency of RiverStone Health's services and staff coordination, and provides the ability to service additional patients and families in need of care. In addition to funds raised for the new clinic from the Foundation's capital campaign, RiverStone Health received a \$1 million federal grant from the Department of Health and Human Services under the Health Infrastructure Investment Program. This grant together with funds contributed from the Foundation's capital campaign, RiverStone Health's existing cash reserves, \$1.7 million project funds from the 2014 bond issue, and \$3 million project funds from the 2016 bond issue, were used to complete the new clinic.

Following completion of the new clinic, second and third phases of the clinic expansion project were initiated to provide for space connecting the new clinic to the old clinic facility and also provide some renovations to a portion of the old clinic facility. At June 30, 2019, these phases had been completed and placed into service.

**NOTE 13. CONCENTRATIONS**

RiverStone Health derived approximately 63% of its revenues during fiscal year 2019 from grants and contracts with various federal and state governmental agencies, including the U.S. Department of Health and Human Services, Medicare, and Medicaid. A significant variation in the level of this support, if this were to occur, could have a significant impact on RiverStone Health's programs and activities.

**NOTE 14. COMMITMENTS AND CONTINGENCIES**

RiverStone Health is periodically involved in legal actions and claims that arise as a result of events that occur in the normal course of operations. The ultimate resolution of these actions is not expected to have a material adverse effect on RiverStone Health's liquidity or financial position.

YELLOWSTONE CITY-COUNTY HEALTH DEPARTMENT  
dba RIVERSTONE HEALTH  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2019

**NOTE 15. SUBSEQUENT EVENTS**

In November 2019, construction began on RiverStone Health's main campus of an approximately 6,000 s.f. storage facility that will replace space currently being leased. The cost is anticipated to total around \$550,000 and completion is expected within four months. Approximately \$20,000 related to the planning and design of this facility was reflected in construction in progress at June 30, 2019.

REQUIRED SUPPLEMENTARY INFORMATION



**YELLOWSTONE CITY-COUNTY HEALTH DEPARTMENT**  
**dba RIVERSTONE HEALTH**  
**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**For the Last Ten Fiscal Years\***

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
RiverStone Health's proportion of the net pension liability	\$ 16,441,499	\$ 19,787,191	\$ 16,519,040	\$ 13,504,357	\$ 12,267,789
RiverStone Health's proportionate share of the net pension liability	0.787800%	1.016000%	0.969800%	0.966065%	0.984600%
State of Montana's proportionate share of the net pension liability associated with RiverStone Health	<u>5,573,453</u>	<u>344,166</u>	<u>201,844</u>	<u>165,878</u>	<u>149,808</u>
Total	<u>\$ 22,014,952</u>	<u>\$ 20,131,357</u>	<u>\$ 16,720,884</u>	<u>\$ 13,670,235</u>	<u>\$ 12,417,597</u>
RiverStone Health's covered payroll	\$ 12,985,377	\$ 12,639,006	\$ 11,616,499	\$ 11,274,177	\$ 11,451,041
RiverStone Health's proportionate share of the net pension liability to its covered payroll	126.62%	156.56%	142.20%	119.78%	111.22%
Plan fiduciary net position to the total pension liability	73.47%	73.75%	74.71%	78.40%	79.87%

\*The amounts presented for each fiscal year were determined as of June 30. This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

YELLOWSTONE CITY-COUNTY HEALTH DEPARTMENT  
 dba RIVERSTONE HEALTH  
 SCHEDULE OF CONTRIBUTIONS  
 For the Last Ten Fiscal Years\*

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required defined benefit contributions	\$ 1,193,989	\$ 1,097,290	\$ 1,054,898	\$ 970,971	\$ 929,038
Plan choice rate required contributions	-	-	-	123,183	173,424
Contributions in relation to the contractually required contributions	1,193,989	1,097,290	1,054,898	1,094,154	1,102,462
Contribution deficiency (excess)	-	-	-	-	-
RiverStone Health's covered payroll	\$ 13,772,470	\$ 12,985,377	\$ 12,639,006	\$ 11,616,499	\$ 11,274,177
Contributions as a percentage of covered payroll	8.67%	8.45%	8.35%	9.42%	9.78%

\*The amounts presented for each fiscal year were determined as of June 30. This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

YELLOWSTONE CITY-COUNTY HEALTH DEPARTMENT  
dba RIVERSTONE HEALTH  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
Years Ended June 30, 2019 and 2018

**Changes of Benefit Terms**

The following changes to the plan provision were made as identified:

**2017:**

**Working Retiree Limitations -for PERS**

Effective July 1, 2017, if a PERS retiree returns as an independent contractor to what would otherwise be PERS-covered employment, general contractor overhead costs are excluded from PERS working retiree limitations.

**Refunds**

- 1) Terminating members eligible to retire may, in lieu of receiving a monthly retirement benefit, refund their accumulated contributions in a lump sum.
- 2) Terminating members with accumulated contributions between \$200 and \$1,000 who wish to rollover their refund must do so within 90 days of termination of service.
- 3) Trusts, estates, and charitable organizations listed as beneficiaries are entitled to receive only a lump-sum payment.

**Interest credited to member accounts**

Effective July 1, 2017, the interest rate credited to member accounts increased from 0.25% to 0.77%.

**Lump-sum payouts**

Effective July 1, 2017, lump-sum payouts in all systems are limited to the member's accumulated contributions rate than the present value of the member's benefit.

**Disabled PERS Defined Contribution (DC) Members**

PERS members hired after July 1, 2011 have a normal retirement age of 65. PERS-DC members hired after July 1, 2011 who became disabled were previously only eligible for a disability benefit until age 65. Effective July 1, 2017, these individuals will be eligible for a disability benefit until they reach 70, thus ensuring the same 5-year time period available to PERS-DC disabled members hired prior to July 1, 2011 who have a normal retirement age of 60 and are eligible for a disability benefit until age 65.

YELLOWSTONE CITY-COUNTY HEALTH DEPARTMENT  
 dba RIVERSTONE HEALTH  
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)  
 Years Ended June 30, 2019 and 2018

**Changes in Actuarial Assumptions and Methods**

**Method and assumptions used in calculations of actuarially determined contributions**

The following Actuarial Assumptions were adopted from the June 30, 2018 actuarial valuation:

General Wage Growth*	3.50%
Investment Rate of Return*	7.65%
*Includes inflation at	2.75%
Merit salary increase	0% to 6.30%
Asset valuation method	Four-year smoothed market
Actuarial cost method	Entry age Normal
Amortization method	Level percentage of payroll, open
Remaining amortization period	30 years
Mortality (Healthy members)	For Males and Females: RP 2000 Combined Employee and Annuitant Mortality Table projected to 2020 using Scale BB, males set back 1 year
Mortality (Disabled members)	For Males and Females: RP 2000 Combined Mortality Table, with no projections
Admin Expense as % of Payroll	0.26%

Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the System. The amount varies from year to year based on the prior year's actual administrative expenses.

SINGLE AUDIT SECTION

**YELLOWSTONE CITY-COUNTY HEALTH DEPARTMENT**  
**dba RIVERSTONE HEALTH**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year Ended June 30, 2019**

	CFDA Number	Contract Number	Federal Expenditures	Grants to Subrecipients
<b>U.S. Department of Health and Human Services</b>				
<i>Direct Programs</i>				
Ryan White Part C Outpatient EIS Program	93.918	5H76HA00145-25-00	\$ 38,044	\$ 4,668
Ryan White Part C Outpatient EIS Program	93.918	6H76HA00145-24-01	<u>277,244</u>	<u>28,396</u>
Total CFDA 93.918			<u>315,288</u>	<u>33,064</u>
Health Center Cluster	93.224	H80CS00418-17-02	3,253,255	-
Health Center Cluster	93.224	H80CS00418-18-00	<u>1,035,537</u>	<u>-</u>
Total CFDA 93.224			<u>4,288,792</u>	<u>-</u>
Advancing Conformance with the FDA Retail Program	93.103	5U18FD006272-02	<u>52,155</u>	<u>-</u>
<i>Passed through Montana Department of Health and Human Services</i>				
Immunization Action Plan	93.268	19-07-4-31-151-0	<u>61,145</u>	<u>-</u>
HIV Prevention Services	93.940	18-07-4-51-009-0	<u>104,489</u>	<u>-</u>
HIV Treatment Program, Early Intervention Services	93.917	17-07-4-51-113-0	<u>109,704</u>	<u>-</u>
HIV Treatment Program, Early Intervention Services	93.917	17-07-4-51-213-0	<u>31,949</u>	<u>-</u>
HIV Treatment Program, Housing Services	93.917	17-07-4-51-313-0	<u>28,772</u>	<u>-</u>
AIDS Consortium	93.917	18-07-4-51-105-0	<u>106,861</u>	<u>-</u>
AIDS Consortium	93.917	19-07-4-51-105-0	<u>57,768</u>	<u>-</u>
Total CFDA 93.917			<u>335,054</u>	<u>-</u>
Maternal and Child Health	93.994	19-07-5-01-060-0	<u>136,880</u>	<u>-</u>
Public Health Emergency Preparedness	93.074	19-07-6-11-057-0	<u>287,795</u>	<u>-</u>
Montana Cancer Control Programs, Montana Tobacco Use Prevention Program	93.898 and 93.800	19-07-3-01-013-0	<u>81,270</u>	<u>-</u>
Maternal Infant and Early Childhood Home Visiting Program (MIECHV)	93.870	19-07-5-41-180-0	<u>629,359</u>	<u>-</u>
<i>Passed through Montana Family Medicine Residency</i>				
Teaching Health Center Graduate Medical Education Payment Program	93.530	6T91HP21541-07-01	<u>450,000</u>	<u>-</u>
<i>Passed through University of Washington</i>				
AIDS Education and Training Center	93.145	5U10HA29296-04-00	<u>88,429</u>	<u>-</u>
<i>Passed through Montana State University</i>				
Eastern Montana Area Health Education Center	93.107	G139-16-W5696	<u>95,625</u>	<u>-</u>
Nurse Education Practice, Quality and Retention	93.359	G209-17-W6140	<u>13,425</u>	<u>-</u>
<i>Passed through University of Montana</i>				
Geriatric Workforce Enhancement	93.969	1U1QHP28733-03-03	<u>130,783</u>	<u>-</u>
Total U.S. Department of Health and Human Services			<u>7,070,489</u>	<u>33,064</u>

See Notes to Schedule of Expenditures of Federal Awards.

YELLOWSTONE CITY-COUNTY HEALTH DEPARTMENT  
 dba RIVERSTONE HEALTH  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)  
 Year Ended June 30, 2019

	CFDA Number	Contract Number	Federal Expenditures	Grants to Subrecipients
<b>U.S. Department of Agriculture</b>				
<i>Direct Programs - Farmers' Market Promotion Program</i>				
Promotion & Expansion of a Gardeners' Market	10.168	AM180100XXXXG063	2,819	-
<i>Passed Through Montana Department of Health and Human Services</i>				
Special Supplemental Nutrition for Women, Infants and Children	10.557	18-07-5-21-022-0	252,559	-
Special Supplemental Nutrition for Women, Infants and Children	10.557	19-07-5-21-022-0	503,616	-
Total CFDA 10.557			756,175	-
Total U.S. Department of Agriculture			758,994	-
<b>U.S. Department of Housing and Urban Development</b>				
<i>Passed Through Montana Department of Health and Human Services</i>				
Housing Opportunities for Persons with AIDS	14.241	18028530060	206,893	-
Total U.S. Department of Housing and Urban Development			206,893	-
<b>U.S. Environmental Protection Agency</b>				
<i>Passed Through Montana Department of Environmental Quality</i>				
Air Quality	66.605	519011	32,492	-
Total U.S. Environmental Protection Agency			32,492	-
Total Federal Awards			\$ 8,068,868	\$ 33,064

See Notes to Schedule of Expenditures of Federal Awards.

YELLOWSTONE CITY-COUNTY HEALTH DEPARTMENT  
dba RIVERSTONE HEALTH  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2019

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of RiverStone Health and is presented on the cash receipts and disbursements method of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the financial statements.

**NOTE 2. INDIRECT COST RATE**

RiverStone Health has elected not to use the 10-percent De Minimis indirect cost rate allowed under Uniform Guidance.



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Health  
Yellowstone City-County Health Department  
dba RiverStone Health  
Billings, Montana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Yellowstone City-County Health Department, dba RiverStone Health (RiverStone Health), as of and for the year ended June 30, 2019, and the related notes to the financial statements, and have issued our report thereon dated December 4, 2019.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered RiverStone Health's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of RiverStone Health's internal control. Accordingly, we do not express an opinion on the effectiveness of RiverStone Health's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses, or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether RiverStone Health's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit; accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Anderson Zurmuehlen + Co, P.C.*

Billings, Montana  
December 4, 2019

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Health  
Yellowstone City-County Health Department  
dba RiverStone Health  
Billings, Montana

**Report on Compliance for Each Major Federal Program**

We have audited Yellowstone City-County Health Department, dba RiverStone Health's (RiverStone Health) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of RiverStone Health's major federal programs for the year ended June 30, 2019. RiverStone Health's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal awards.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of RiverStone Health's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about RiverStone Health's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of RiverStone Health's compliance.

***Opinion on Each Major Federal Program***

In our opinion, RiverStone Health complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

**Report on Internal Control Over Compliance**

Management of RiverStone Health is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered RiverStone Health's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of RiverStone Health's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Anderson Zurmuehlen + Co, P.C.*

Billings, Montana  
December 4, 2019

YELLOWSTONE CITY-COUNTY HEALTH DEPARTMENT  
 dba RIVERSTONE HEALTH  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 Year Ended June 30, 2019

**SUMMARY OF AUDIT RESULTS**

*Financial Statements:*

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency not considered material weakness identified?	None reported
Noncompliance material to financial statements noted?	No

*Federal Awards:*

Internal Control over major programs:	
Material weakness identified?	No
Significant deficiency not considered material weakness identified?	None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance? No

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Health Center Cluster	93.224 and 93.527
Maternal, Infant, and Early Childhood Home Visiting (MIECHV)	93.870

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee? Yes

**Section II – Financial Statement Findings:**

None reported.

**Section III – Federal Award Findings and Questioned Costs:**

None reported.

YELLOWSTONE CITY-COUNTY HEALTH DEPARTMENT  
dba RIVERSTONE HEALTH  
CURRENT STATUS OF PRIOR YEAR RECOMMENDATIONS  
Year Ended June 30, 2019

There were no findings, questioned costs, significant deficiencies, or material weaknesses reported for the year ended June 30, 2018.



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