Goshen Health System, Inc. and Subsidiaries d/b/a Goshen Health

Consolidated Financial Report
December 31, 2019

Contents

Independent Auditor's Report

The Board of Directors
Goshen Health System, Inc.
d/b/a Goshen Health

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Goshen Health System, Inc. and Subsidiaries d/b/a Goshen Health (Goshen Health), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 financial position of Goshen Health System, Inc. and Subsidiaries d/b/a Goshen Health as of December 31, 2019 and 2018, and the results of their operations, changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As discussed in Note 3 to the financial statements, in 2019, Goshen Health adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and FASB ASU 2016-02 *Leases (Topic 842)*. Our opinion is not modified with respect to this matter.

RSM US LLP

Elkhart, Indiana
March 19, 2020

Goshen Health System, Inc. and Subsidiaries
d/b/a Goshen Health
Consolidated Balance Sheets
December 31, 2019 and 2018
(In Thousands)

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	**$ 6,199**	$ 2,766
Assets limited as to use	**4,047**	2,000
Patient accounts receivable	**43,806**	47,952
Inventories	**9,216**	8,629
Prepaid expenses and other	**8,861**	8,074
Total current assets	**72,129**	69,421
Assets limited as to use, less current portion	**269,391**	202,682
Property and equipment:		
Cost of property and equipment in service	**275,091**	247,250
Less accumulated depreciation	**144,110**	134,536
	130,981	112,714
Construction-in-progress	**12,101**	15,499
Property held for future development	**2,658**	3,181
	145,740	131,394
Other assets:		
Operating lease right-of-use assets, net	**7,415**	-
Other assets	**5,710**	3,261
	13,125	3,261
Total assets	**$ 500,385**	$ 406,758

(Continued)

Goshen Health System, Inc. and Subsidiaries
d/b/a Goshen Health
Consolidated Balance Sheets (Continued)
December 31, 2019 and 2018
(In Thousands)

		2019		2018
Liabilities and Net Assets				
Current liabilities:				
Accounts payable and accrued expenses	**$**	**20,333**	$	20,517
Accrued salaries, wages and related liabilities		**18,549**		17,555
Estimated amounts due to third-party payors		**300**		329
Current portion of long-term debt		**1,891**		2,762
Current portion of operating lease liabilities		**3,344**		-
Total current liabilities		**44,417**		41,163
Noncurrent liabilities:				
Long-term debt, less current portion		**86,709**		30,465
Operating lease liabilities, less current portion		**4,072**		-
Other		**1,266**		668
		92,047		31,133
Total liabilities		**136,464**		72,296
Net assets:				
Net assets without donor restrictions		**361,174**		333,204
Net assets with donor restrictions		**2,747**		1,258
		363,921		334,462
Total liabilities and net assets	**$**	**500,385**	$	406,758

See notes to consolidated financial statements.

Goshen Health System, Inc. and Subsidiaries
d/b/a Goshen Health
Consolidated Statements of Operations and Changes in Net Assets
Years Ended December 31, 2019 and 2018
(In Thousands)

	2019	2018
Revenues:		
Patient service revenue		$ 325,451
Provision for uncollectible accounts		(30,360)
Net patient service revenue	**$ 290,588**	295,091
Other revenue	**12,611**	10,667
	303,199	305,758
Expenses:		
Salaries, wages and benefits	**160,975**	156,209
Supplies, drugs, purchased services and other	**128,857**	118,077
Hospital assessment fee	**10,540**	8,378
Depreciation and amortization	**15,286**	12,920
Interest	**793**	968
	316,451	296,552
Operating (loss) income	**(13,252)**	9,206
Nonoperating income (loss):		
Investment income (loss), net	**37,419**	(12,387)
Gain on interest rate swaps, net	**1**	2
Other, net	**76**	119
	37,496	(12,266)
Excess (deficit) of revenues over expenses	**24,244**	(3,060)
Other changes in net assets without donor restrictions:		
Net assets released from restrictions for capital improvements	**3,726**	3,978
Increase in net assets without donor restrictions	**27,970**	918
Changes in net assets with donor restrictions:		
Contributions	**5,259**	3,035
Net assets released from restrictions	**(3,770)**	(4,276)
Increase (decrease) in net assets with donor restrictions	**1,489**	(1,241)
Increase (decrease) in net assets	**29,459**	(323)
Net assets at beginning of year	**334,462**	334,785
Net assets at end of year	**$ 363,921**	$ 334,462

See notes to consolidated financial statements.

Goshen Health System, Inc. and Subsidiaries
d/b/a Goshen Health
Consolidated Statements of Cash Flows
Years Ended December 31, 2019 and 2018
(In Thousands)

	2019	2018
Cash flows from operating activities:		
Increase (decrease) in net assets	**$ 29,459**	$ (323)
Adjustments to reconcile increase (decrease) in net assets to		
net cash provided by operating activities:		
Change in fair value of interest rate swaps	**(1)**	(2)
Amortization of deferred financing costs and net premium	**(158)**	-
Provision for uncollectible accounts	**-**	30,360
Depreciation and amortization	**15,286**	12,920
Amortization of operating lease right-of-use assets	**3,526**	-
Cash paid under operating leases	**(3,546)**	-
Contributions for acquisition of property and equipment	**(2,327)**	(235)
Change in value of trading securities	**(12,617)**	11,916
Changes in operating assets and liabilities:		
Patient accounts receivable	**4,146**	(38,888)
Prepaid expenses, inventories, and other assets	**(3,823)**	(2,774)
Accounts payable, accrued expenses and other liabilities	**(2,305)**	6,272
Accrued salaries, wages and related liabilities	**994**	2,385
Estimated amounts due to third-party payors	**(29)**	(5)
Net cash provided by operating activities	**28,605**	21,626
Cash flows from investing activities:		
Purchase of property and equipment, net of disposals	**(26,893)**	(25,604)
Increase in trustee-held bond proceeds	**(58,355)**	-
Decrease in investments held in escrow	**2,218**	2,943
Net cash used in investing activities	**(83,030)**	(22,661)
Cash flows from financing activities:		
Contributions for acquisition of property and equipment	**2,327**	235
Proceeds from long-term debt	**75,991**	-
Payment of bond issuance costs	**(886)**	-
Repayments on long-term debt	**(19,574)**	(12,126)
Net cash provided by (used in) financing activities	**57,858**	(11,891)
Increase (decrease) in cash and cash equivalents	**3,433**	(12,926)
Cash and cash equivalents:		
Beginning of year	**2,766**	15,692
End of year	**$ 6,199**	$ 2,766
Supplemental disclosures of noncash operating and investing activities:		
Equipment purchases in accounts payable and accrued expenses	**$ 3,078**	$ 1,753
Operating lease assets obtained from incurring lease liabilities	**$ 2,668**	$ -

See notes to consolidated financial statements.

Mission Statement

The mission of Goshen Health is to improve the health of our communities by providing innovative, outstanding care and services, through exceptional people doing exceptional work.

***C**ompassion – and commitment to service with empathy.*

***A**ccountability – with integrity and action.*

***R**espect – through treating others as you wish to be treated.*

***E**xcellence – in all we do.*

Building upon our mission and values, Goshen Health will deliver exceptional healthcare to the communities we serve using an integrated model of care and achieving excellence through a commitment to quality, leadership and innovation. By 2020, we will achieve this vision by focusing on the following strategic priorities:

1. *Lead the region in clinical integration and the management of population health.*
2. *Deliver high value to our patients, providers, payers and Colleagues.*
3. *Goshen's Oncology and Heart & Vascular service lines become the destination of choice in our broader region.*
4. *Cultivate a culture for Colleagues where personal and professional missions are aligned.*
5. *Inspire a spirit of partnership and generosity by engaging our community with opportunities that meet regional health needs.*

Note 1. Organization and Nature of Operations

The accompanying consolidated financial statements represent the accounts of Goshen Health System, Inc. d/b/a Goshen Health and its various affiliated corporations under the control of Goshen Health. Goshen Health is an Indiana not-for-profit corporation exempt from federal income tax under Internal Revenue Code (IRC) Section 501(a) as an organization described in Section 501(c)(3) and a public charity as described in Section 509(a)(3).

Goshen Health is the sole corporate member of the following entities:

- Goshen Hospital Association, Inc. d/b/a Goshen Hospital is a not-for-profit, acute-care hospital servicing Goshen, Indiana, and surrounding communities in northern Indiana.

- Parkmor Drug, Inc. and Subsidiaries d/b/a Goshen Home Medical, a for-profit corporation, operates a home medical equipment business in Goshen, Indiana.

- Indiana Lakes Managed Care Organization, LLC, a for-profit organization, provides management services for managed care arrangements entered into by Goshen Health and third parties.

- Goshen Health Surgery Center, LLC, a for-profit organization, is an outpatient surgery center in Goshen, Indiana.

- Goshen Health Foundation, Inc. (Foundation), a not-for-profit organization, is a philanthropic organization committed to partnering with individuals and organizations to address the community health needs of Goshen, Indiana, and its surrounding communities.

Note 2. Community Benefit and Charity Care

Goshen Health provides health care services and other financial support through various programs that are designed, among other matters, to enhance the health of the community. In addition, Goshen Health provides services intended to benefit the poor and underserved, including those persons who cannot afford health insurance because of inadequate resources or those who are uninsured or underinsured. Health care services to patients under government programs, such as Medicare and Medicaid, are also considered part of Goshen Health's benefit provided to the community since a substantial portion of such services are reimbursed at amounts less than cost.

Goshen Health's financial assistance policies are designed to provide care to patients regardless of their ability to pay, and all uninsured patients are eligible for discounts from established charges. Patients who meet certain criteria (generally based on up to 400% of federal poverty income guidelines and other patients who are victims of certain catastrophic events) are provided care without charge or at amounts less than established rates.

The amount of charity care provided is determined based on the qualifying criteria, as defined in the financial assistance policies, through approved applications completed by patients and their families or beneficiaries. Eligibility may also be determined based on analysis of patients without third-party insurance coverage who did not apply for charity and whose income was equal to or less than 200% of federal poverty income guidelines. No payment for services is anticipated for those patients whose charity care applications have been approved, as well as for those other patients whose income is equal to, or less than 200% of federal poverty income guidelines and who meet certain other criteria. The cost to provide charity care, estimated by applying the consolidated cost to charge ratio to charges foregone for charity care, was $3,333 and $4,006 for the years ended December 31, 2019 and 2018, respectively.

For uninsured patients who do not qualify for charity care, revenue is recognized on the basis of charges reduced by implicit price concessions in accordance with an uninsured discount policy. Patients who meet Goshen Health's criteria for charity care are provided care without charges and such amounts are not reported as revenue.

In addition, Goshen Health provides a significant amount of uncompensated care to other uninsured and underinsured patients, which is included in the provision for uncollectible patient accounts (in 2018) or as a direct reduction of patient service revenue (in 2019).

Enacted March 23, 2010, the Patient Protection and Affordable Care Act (ACA) required, among other things, that hospital organizations establish a financial assistance policy and a policy relating to emergency medical care. Goshen Health has adopted a financial assistance policy that conforms with the ACA and includes financial assistance eligibility criteria, the basis for calculating amounts charged to patients, the method of applying for financial assistance, billing and collections policies with regard to actions that may be taken in the case of non-payment, as well as measures to widely publicize the policies within the communities served. Additionally, hospital organizations must adopt policies that require them to provide, without discrimination, care for emergency medical conditions to individuals regardless of their eligibility under the organizations' financial assistance policies. Goshen Health has also adopted policies to limit the amount charged for emergency or other medically necessary care that is provided to individuals eligible for assistance under its financial assistance policy to no more than the amounts generally billed to individuals who have insurance covering such care.

Note 2. Community Benefit and Charity Care (Continued)

Reimbursements are received by Goshen Health for Medicare and Medicaid beneficiaries in accordance with reimbursement agreements and related rules and regulations. Also, Goshen Health receives certain payments under the Medicaid Assessment Fee program from the state of Indiana (see Note 4). These reimbursements and payments are less than the cost of providing the related services.

Through the community health needs assessment that Goshen Health conducted in 2018, the following community health needs were identified and selected as priority areas in which Goshen Health will focus on community benefit efforts: access to health care providers, mental health access and coordination, obesity prevention, smoking cessation, and management of chronic conditions. The costs of providing these programs and services are included in expenses in the accompanying consolidated statements of operations and changes in net assets.

Note 3. Significant Accounting Policies

Principles of consolidation: The consolidated financial statements include the accounts of Goshen Health and all majority-owned or controlled subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of estimates: The preparation of financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP) requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and cash equivalents: Investments in highly liquid debt instruments with a maturity of three months or less when purchased, excluding assets limited as to use, are considered by management to be cash equivalents. Goshen Health places its cash and cash equivalents with institutions of high credit quality and/or positions them such that they are insured by the Federal Deposit Insurance Corporation in order to mitigate potential concentrations of credit risk.

Patient accounts receivable, estimated amounts due to third-party payors, and patient service revenue: Patient service revenue and accounts receivable are reported at the amount that reflects the consideration to which Goshen Health expects to be entitled in exchange for providing patient care. These amounts, representing the transaction price, are due from patients, third-party payers (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. There were no significant changes in estimated amounts due to third-party payors that affected patient service revenue during the years ended December 31, 2019 and 2018.

Note 3. Significant Accounting Policies (Continued)

In 2018 and prior years, the provision for uncollectible patient accounts was recognized when services were provided based upon management's assessment of historical and expected net collections, taking into consideration business and economic conditions, changes and trends in health care coverage, and other collection indicators. Periodically, management assessed the adequacy of the allowance for uncollectible accounts based upon accounts receivable payor composition and aging, the significance of individual payors to outstanding accounts receivable balances, and historical write-off experience by payor category, as adjusted for collection indicators. The results of the review were then used to make any modifications to the provision for uncollectible accounts and the allowance for uncollectible accounts. In addition, Goshen Health follows established guidelines for placing certain past due patient balances with collection agencies. Patient accounts that were uncollected, including those placed with collection agencies, were initially charged against the allowance for uncollectible accounts in accordance with collection policies of Goshen Health and, in certain cases, were reclassified to charity care if deemed to otherwise meet financial assistance policies of Goshen Health.

Inventories: Inventories consist primarily of drugs and supplies, are stated at the lower of cost (average cost method) or net realizable value.

Assets limited as to use: Assets limited as to use include the following: (i) cash and cash equivalents and designated investment assets, set aside by the Board of Directors for future capital improvements and for other purposes, over which the Board retains control and may, in certain circumstances, use for other purposes; (ii) investments required to be held in escrow under the separation agreement with IUH (see Note 9); (iii) investments required to be held in escrow under a Medicare Accountable Care Organization (ACO) agreement; and (iv) trustee-held bond proceeds to be used for capital projects. Substantially all assets limited as to use are invested and managed by professional investment managers and are held in custody by financial institutions.

Board-designated investments in equity securities with readily determinable fair values and all investments in debt securities are classified as trading securities and are reported at fair value. Investments held in escrow and trustee-held investments are classified as other held-for-trading securities and are reported at fair value. Investments in hedge funds are recorded under the equity method of accounting, based on the fund's financial information. Generally, the net asset value (NAV) of these funds reflects the contributed capital, as well as an allocated share of the underlying limited partnership's realized and unrealized gains and losses.

Investment income or loss (including realized gains and losses on the sale of investments, unrealized gains and losses on trading securities, and changes in the carrying value of hedge funds), is reported as nonoperating income (loss) unless the income is restricted by donor or law. The cost of securities sold is based on the specific-identification method.

Investment securities purchased and sold are reported based on the trade date. Due to the period lag between the trade and settlement date, Goshen Health reports receivables for securities sold but not settled and reports liabilities for securities purchased but not settled. These receivables and payables are settled from within the investment portfolio and are presented on a net basis within assets whose use is limited in the consolidated balance sheets.

Note 3. Significant Accounting Policies (Continued)

Property and equipment: Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets. Interest cost incurred on borrowed funds during the period of construction and other interest costs related to tax-exempt bonds are capitalized as a component of the cost of constructing the assets. In addition, interest earnings on unexpended borrowed funds related to tax-exempt financings offset capitalized tax-exempt interest. Repairs and maintenance costs are expensed when incurred.

Goshen Health evaluates when events or changes in circumstances have occurred that would indicate that the remaining estimated useful lives of long-lived assets warrant revision or that the remaining balance of such assets may not be recoverable. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset or asset group. If undiscounted cash flows are insufficient to recover the carrying value of the long-lived asset, such asset is written down to its fair value if its carrying value exceeds fair value.

Leases: Goshen Health determines whether an arrangement is a lease at the inception of the arrangement based on the terms and conditions in the contract. A contract contains a lease if there is an identified asset and Goshen Health has the right to control the asset.

Operating lease right-of-use (ROU) assets represent Goshen Health’s right to use an underlying asset for the lease term and a lease liability represents Goshen Health’s obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease terms. Goshen Health has elected to use a risk-free rate for the same period of time as the lease term in determining the present value of lease payments. Goshen Health defines the risk-free rate as the U.S. Treasury yield curve rate. Lease terms include options to extend the lease when it is reasonably certain those options will be exercised.

Goshen Health has elected to not recognize assets and liabilities for leases with a lease term of 12 months or less (short-term leases). Lease payments for short-term leases are recognized as expense on a straight-line basis and any variable lease payments are recognized as expense in the period for which the obligation is incurred.

Goshen Health has lease agreements with lease and non-lease components, which Goshen Health has elected to account for as a single lease component for all asset classes. In the consolidated statements of operations and changes in net assets, lease expense for operating lease payments is recognized on a straight-line basis over the lease term.

Deferred bond issuance costs and bond premium: Bond issuance costs are deferred and amortized over the period of time that the bonds are expected to be outstanding. Original issue premium on the bonds is amortized over the time that the bonds are expected to be outstanding. Unamortized bond issuance costs and bond premium is reported as a reduction of long-term debt.

Note 3. Significant Accounting Policies (Continued)

Equity interest in unconsolidated subsidiaries: Goshen Health has also entered into certain limited liability company agreements with third parties that provide health care-related services. Where applicable, these arrangements are accounted for using the equity method of accounting. The equity interest in unconsolidated subsidiaries recorded within other assets in the consolidated balance sheets was $680 and $705 as of December 31, 2019 and 2018, respectively. Goshen Health reports its interest in the income of its unconsolidated subsidiaries within other nonoperating income, totaling $59 and $83 during the years ended December 31, 2019 and 2018, respectively.

Derivative financial instruments: As part of its debt management program, Goshen Health has entered into certain interest rate swap transactions (fixed-pay swaps). Derivative financial instruments are recognized as either assets or liabilities in the consolidated balance sheets at fair value. Goshen Health does not apply hedge accounting, and accordingly, the changes in fair value of those interest rate swap agreements are reported with nonoperating income in the consolidated statements of operations and changes in net assets. Net settlement payments on interest rate swaps are reported in nonoperating income (loss) in the consolidated statements of operations and changes in net assets.

Contributions: Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give, including indications of an intention to give, are reported at fair value at the date the gift is received. If the gifts are received with donor stipulations that limit the use of the donated assets, the gifts are reported as net assets with donor restrictions. Donor-restricted contributions for which restrictions are met in the same year as received are reported as net assets without donor restrictions in the consolidated statements of operations and changes in net assets.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed stipulations and may be expended for any purpose in performing the activities of Goshen Health. These net assets may be used at the discretion of Goshen Health's management and board of directors.

Net assets with donor restrictions: Net assets with donor restrictions are those net assets whose use has been limited by donors to a specific time period or purpose. These net assets are generally restricted for medical supplies and equipment and patient care services.

Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reported as other revenue (if released to offset operating expenses) or net assets released from restrictions for capital improvements in the consolidated statements of operations and changes in net assets.

Income taxes: The Internal Revenue Service has determined that Goshen Health and certain affiliated entities are tax-exempt organizations as defined in Section 501(c)(3) of the Internal Revenue Code.

Certain subsidiaries of Goshen Health are taxable entities, the tax expense and liabilities of which are not material to the consolidated financial statements.

Note 3. Significant Accounting Policies (Continued)

Goshen Health and its tax-exempt affiliated entities each file a Form 990 (Return of Organization Exempt from Income Tax) annually. When these returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would ultimately be sustained. Examples of tax positions common to health systems include such matters as the tax-exempt status of each entity, the continued tax-exempt status of bonds, the nature, characterization and taxability of joint venture income, and various positions relating to potential sources of unrelated business taxable income (reported on Form 990T). As of December 31, 2019 and 2018, there are no unrecognized tax benefits resulting from uncertain tax positions.

Forms 990 and 990T filed by Goshen Health and its tax-exempt affiliated entities are subject to examination by the Internal Revenue Service up to three years from the extended due date of each return. Forms 990 and 990T filed by Goshen Health and its tax-exempt affiliated entities are no longer subject to examination for tax year 2016 and prior.

Operating and performance indicators: The activities of Goshen Health are primarily related to providing health care services and, accordingly, expense information by functional classification is not used as a basis for measuring performance. Furthermore, since substantially all resources are derived from providing health care services, similar to that if provided by a business enterprise, the following indicators are considered important in evaluating how well management has discharged its stewardship responsibilities:

Operating indicator (operating income/loss): Includes all revenue, gains, donor contributions released from restrictions used to offset operating expenses, other support, and expenses directly related to the recurring and ongoing health care operations during the reporting period. The operating indicator excludes investment income or losses on assets limited as to use (including changes in unrealized gains and losses on trading securities), changes in the fair value of interest rate swaps, gains and losses related to equity interests in unconsolidated subsidiaries, and other gains and losses deemed by management not to be directly related to providing health care services.

Performance indicator (excess/deficit of revenues over expenses): Includes operating income and nonoperating income. The performance indicator excludes certain changes in contributions for capital expenditures and net assets released from restrictions for capital improvements.

New accounting pronouncements adopted: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. Goshen Health adopted ASU 2014-09 on January 1, 2019, using the modified retrospective transition method. The effect on Goshen Health's financial statements of adopting ASU 2014-09 is considered immaterial as revenue recognition under the new standard is not materially different compared to Goshen Health's current practice. The primary effect is certain amounts previously reported as provision for uncollectible accounts are now considered implicit price concessions reported as a reduction of patient service revenue. The remaining provision for uncollectible accounts is reported as an operating expense under the new revenue recognition standard rather than as a reduction of patient service revenue. See Note 4.

Note 3. Significant Accounting Policies (Continued)

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments–Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.* This guidance changes how entities account for equity investments that do not result in consolidation and are not accounted for under the equity method of accounting. Under ASU 2016-01, entities will be required to measure these investments at fair value at the end of each reporting period and recognize changes in fair value in net income (excess of revenue over expenses). This guidance also changes certain disclosure requirements and other aspects of current U.S. GAAP. During the year ended December 31, 2016, Goshen Health elected to early adopt the amendment that no longer requires disclosure of the fair value of financial instruments that are not measured at fair value and, as such, these disclosures are not included herein. Goshen Health adopted the remaining provisions of ASU 2016-01 on January 1, 2019. The effect on Goshen Health's financial statements of adopting ASU 2016-01 is limited to certain investment-related disclosures. See Note 5.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which requires that a lessee recognize assets and liabilities for leases, and recognition, presentation and measurement in the financial statements will depend on its classification as a finance or operating lease. In addition, the new guidance requires disclosures to help financial statement users better understand the amount, timing and uncertainty of cash flows arising from leases. Lessor accounting remains largely unchanged from legacy U.S. GAAP but does contain some targeted improvements to align with the new revenue recognition guidance in ASU 2014-09.

Goshen Health adopted ASU 2016-02 on January 1, 2019, using the modified retrospective transition method, applying the new standard to all leases existing at the date of initial adoption. In addition, Goshen Health has elected the package of practical expedients permitted under the transition guidance within ASU 2016-02 which does not require reassessment of prior conclusions related to contracts containing a lease, lease classification and initial direct costs. As an accounting policy election, Goshen Health chose to exclude short-term leases (term of 12 months or less) from the balance sheet and accounts for nonlease and lease components in a contract as a single component for all asset classes.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments.* ASU 2016-15 provides guidance on how certain cash receipts and cash payments should be presented and classified in the statement of cash flows with the objective of reducing existing diversity in practice with respect to these items. Goshen Health adopted ASU 2016-15 on January 1, 2019, without a significant effect on the financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. ASU 2016-18 applies to all entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows. Its provisions require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Goshen Health adopted ASU 2016-08 on January 1, 2019, without a significant effect on the financial statements.

Note 3. Significant Accounting Policies (Continued)

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* ASU 2018-08 clarifies and improves current guidance about whether a transfer of assets, or the reduction, settlement, or cancellation of liabilities, is a contribution or an exchange transaction. It provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards. It also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. Goshen Health adopted ASU 2018-08 on January 1, 2019, without a significant effect on the financial statements.

New accounting pronouncements not yet adopted: In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework–Changes to the Disclosure Requirements for Fair Value Measurement*. ASU 2018-13 removes, modifies and adds certain disclosure requirements on fair value required by Topic 820. ASU 2018-13 is effective for Goshen Health's December 31, 2020 financial statements. Early adoption is permitted. Goshen Health is currently evaluating the effect of the new standard on the financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. ASU 2018-15 aligns the requirements for capitalizing implementation costs in a cloud computing arrangement that is a service contract with the requirements for capitalizing implementation costs incurred for internal-use software. ASU 2018-15 is effective for Goshen Health's December 31, 2021 financial statements. Early adoption is permitted. Goshen Health is currently evaluating the effect of the new standard on the financial statements.

In November 2018, the FASB issued ASU 2018-18, *Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606*, which clarifies that certain transactions between participants in a collaborative arrangement should be accounted for under ASC 606 when the counterparty is a customer. In addition, ASU 2018-18 precludes an entity from presenting consideration from a transaction in a collaborative arrangement as revenue from contracts with customers if the counterparty is not a customer for that transaction. ASU 2018-18 is effective for Goshen Health's December 31, 2020 financial statements. Early adoption is permitted.Goshen Health is currently evaluating the effect of the new standard on the financial statements.

Subsequent events: Management has evaluated subsequent events and transactions through March 19, 2020, the date that these consolidated financial statements were issued. During this period, there were no subsequent events requiring recognition or disclosure in the consolidated financial statements.

Reclassifications: Certain prior-year amounts have been reclassified to conform to the current-year presentation, with no effect on operating income, (deficit) excess of revenues over expenses or net assets.

Note 4. Patient Service Revenue and Accounts Receivable

Generally, Goshen Health bills the patients and third-party payers several days after the services are performed and/or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by Goshen Health. Substantially all of Goshen Health's patient care service revenue relates to performance obligations satisfied over time, and is recognized based on actual charges incurred in relation to total expected (or actual) charges. Goshen Health believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. For patients receiving inpatient acute care services, Goshen Health measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. For most outpatient and physician services, the patient simultaneously receives and consumes the benefits of the services as the services are provided.

Because all of its performance obligations relate to contracts with a duration of less than one year, Goshen Health has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

Goshen Health determines the transaction price based on standard charges for goods and services provided to patients, reduced by contractual adjustments provided to third-party payers, discounts provided to uninsured patients in accordance with Goshen Health's policy, and/or implicit price concessions based on historical collection experience.

Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as provision for uncollectible accounts. The provision for uncollectible accounts for the year ended December 31, 2019 was not significant.

Certain revenue is subject to estimated retroactive revenue adjustments under reimbursement agreements with third-party payors due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period that the related services are rendered, and such amounts are adjusted in future periods as adjustments become known, or as reimbursement periods are settled and are no longer subject to such audits, reviews, and investigations. There were no significant changes in estimated amounts due to third-party payors that affected patient service revenue during the years ended December 31, 2019 and 2018.

For the delivery of health care services, Goshen Health does not require collateral or other security from its patients, substantially all of whom are residents of the state of Indiana. However, assignment of benefit payments payable under patients' health insurance programs and plans (e.g., Medicare, Medicaid, health maintenance organizations, and commercial insurance policies) is routinely obtained, consistent with industry practice.

(Dollars in Thousands)

Note 4. Patient Service Revenue and Accounts Receivable (Continued)

Goshen Health has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payers for the effects of a significant financing component due to Goshen Health's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payer pays for that service will be one year or less. However, Goshen Health does, in certain instances, enter into payment arrangements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

A summary of the payment arrangements with major third-party payers follows:

> **Medicare:** Certain inpatient acute care services are paid at prospectively determined rates per discharge based on clinical, diagnostic and other factors. Certain services are paid based on cost reimbursement methodologies subject to certain limits. Physician services are paid based upon established fee schedules. Outpatient services are paid using prospectively determined rates.

> **Medicaid:** Medicaid services are generally paid at prospectively determined rates per discharge, per occasion of service, or per covered member.

> **Other:** Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Patient service revenue was received from the following major payor sources during the years ended December 31, 2019 and 2018:

	2019	2018
Managed care programs	56%	60%
Medicare and Medicare Advantage	24	24
Medicaid	8	5
Self-pay patients	7	7
Other third-party payors	5	4
	100%	100%

The 2018 rates shown above are before the provision for uncollectible accounts.

A single managed care provider represented approximately 30% and 28% of patient service revenue for the years ended December 31, 2019 and 2018, respectively.

(Dollars in Thousands)

Note 4. Patient Service Revenue and Accounts Receivable (Continued)

During 2012, the Indiana General Assembly approved a hospital assessment fee program (Hospital Assessment Fee (HAF)). Under this program, the Office of Medicaid Policy and Planning collects a fee from eligible hospitals. The fee is used in part to increase reimbursement to eligible hospitals for services provided in both fee-for-service and managed care programs, as the state's share of Medicaid Disproportionate Share (DSH) payments. The HAF has been extended through June 30, 2021.

For the years ended December 31, 2019 and 2018, increased reimbursement related to the HAF program was recorded within patient service revenue in the consolidated statements of operations and changes in net assets. During the years ended December 31, 2019 and 2018, an assessment fee was recognized of $10,540 and $8,378, respectively, which is reported as hospital assessment fee expense on the consolidated statements of operations and changes in net assets.

Laws and regulations governing Medicare, Medicaid, and other governmental programs are extremely complex, subject to interpretations, and sometimes provide for retroactive adjustments. As a result, there is a reasonable possibility that recorded estimated settlements could change by a material amount in the near term. Goshen Health believes it is in compliance with applicable laws and regulations governing Medicare, Medicaid, and other governmental programs and that adequate provisions have been recorded for any adjustments that may result from final settlements. However, any adjustments to the currently estimated settlements will be recorded in future periods.

The composition of patient accounts receivable as of December 31, 2019 and 2018, is as follows:

	2019	2018
Managed care programs	53%	58%
Medicare and Medicare Advantage	21	21
Medicaid	8	5
Self-pay patients	7	5
Other third-party payors	11	11
	100%	100%

A single managed care payor represented approximately 28% and 26% of patient accounts receivable at December 31, 2019 and 2018, respectively.

The allowance for uncollectible accounts for self-pay patients, including self-pay discounts, and charity care, was 70% of self-pay patient accounts receivable as of December 31, 2018.

(Dollars in Thousands)

Note 5. Assets Limited as to Use

As of December 31, 2019 and 2018, assets limited as to use consisted of the following:

	2019	2018
Board-designated investments	$ 200,071	$ 187,452
Trustee-held bond proceeds to be used for capital projects	58,355	-
Investments held in escrow under Separation Agreement with IUH (See Note 9)	14,316	16,559
Investments held in escrow under Medicare ACO agreement	696	671
	273,438	204,682
Less current portion	4,047	2,000
Noncurrent portion	$ 269,391	$ 202,682

Assets limited as to use are invested in accordance with Board approved policies. The estimated fair value of the assets limited as to use is determined using market information and other appropriate valuation methodologies. The methods and assumptions used to estimate the fair value of assets limited as to use are as follows: (i) cash and cash equivalents: the carrying amounts reported in the consolidated balance sheets approximate fair value; (ii) marketable securities: the fair values are based on quoted market prices or, if quoted market prices are not available, quoted market prices of comparable instruments and other observable inputs; and (iii) other investments, including alternative investments (such as hedge funds): accounted for using the equity method of accounting based upon the net asset values as determined by third-party administrators of each fund in consultation with and approval of the fund investment managers.

Goshen Health is a limited partner in funds that employ hedged investment strategies and funds that employ investment strategies that require long holding periods to create value, both of which are designed to reduce overall portfolio volatility. In the case of hedged strategies, redemptions generally may be made quarterly with written notice required 15 days prior to the end of the applicable quarter; however, some funds employ aggregate redemption caps that restrict redemptions. These investments are accounted for using the equity method of accounting, based on the fund’s financial information.

Alternative investments include certain other risks that may not exist with other investments that are more widely traded. These include reliance on the skill of the fund managers, who often employ complex strategies utilizing various financial instruments, including futures contracts, foreign currency contracts, structured notes, and interest rate, total return, and credit default swaps. Additionally, alternative investments may provide limited information on a fund’s underlying assets and have restrictive liquidity provisions. Management believes that Goshen Health, in consultation with its investment consultant, has the capacity to analyze and interpret the risks associated with alternative investments and, with this understanding, has determined that these investments represent a prudent approach for use in its portfolio management.

(Dollars in Thousands)

Note 5. Assets Limited as to Use (Continued)

As of December 31, 2019 and 2018, assets limited as to use consisted of the following:

	2019	2018
Cash and cash equivalents	$ 33,308	$ 15,261
Marketable securities:		
Fixed income securities	81,339	38,003
Structured notes	3,820	7,267
Global equities	31,702	19,975
Mutual funds	123,103	124,002
	273,272	204,508
Alternative investments	166	174
	$ 273,438	$ 204,682

The composition of investment income (loss) reported in the consolidated statements of operations and changes in net assets, for the years ended December 31, 2019 and 2018, is as follows:

	2019	2018
Interest and dividend income	$ 5,406	$ 6,464
Investment management and administration fees	(603)	(556)
Realized gains on sales of investments, net	2,655	6,910
Unrealized gains (losses) on investments, net	29,961	(25,205)
	$ 37,419	$ (12,387)

Note 6. Liquidity and Availability

As of December 31, 2019, Goshen Health has a working capital surplus of $27,712 and average days cash on hand of 250.

Financial assets available for general expenditure within one year of the consolidated balance sheet date as of December 31, 2019 and 2018, consist of the following:

	2019	2018
Cash and cash equivalents	$ 6,199	$ 2,766
Patient accounts receivable	43,806	47,952
Assets limited to use:		
Board-designated investments	200,071	187,452
	$ 250,076	$ 238,170

(Dollars in Thousands)

Note 6. Liquidity and Availability (Continued)

Goshen Health has certain board-designated investments which are available for general expenditure within one year in the normal scope of operations. Accordingly, these assets have been included in the amounts above. Goshen Health has other assets limited to use for debt service and accountable care agreements, and for capital expenditures. These assets limited as to use, which are more fully described in Note 5, are not available for general expenditure within the next year and are not reflected in the amounts above.

Goshen Health maintains a $20,000 line of credit, as discussed in more detail in Note 9. As of December 31, 2019, $20,000 remained available on the line of credit.

Note 7. Property and Equipment

The cost of property and equipment in service as of December 31, 2019 and 2018, is summarized as follows:

	2019	2018
Land and improvements	$ 9,303	$ 6,764
Buildings and improvements	122,856	110,374
Equipment, including software developed for internal use	142,932	130,112
	$ 275,091	$ 247,250

Property and equipment is depreciated on a straight-line basis beginning in the month when placed in service. Useful lives of each category of assets are based on the estimated useful time frame that the particular assets are expected to be in service, generally in accordance with guidelines established by the American Hospital Association. Asset lives range as follows:

	Years
Land improvements	20-30
Buildings and improvements	15-40
Equipment, including software developed for internal use	3-10

Construction-in-progress for assets currently under development is anticipated to extend through 2020 and includes commitments for the construction, refurbishment, and replacement of facilities and equipment. A summary of the construction-in-progress as of December 31, 2019 and 2018, is as follows:

	2019	2018
IT projects	$ 1,069	$ 8,249
Building improvements	1,161	359
Medical office buildings	533	1,546
Private room initiative	9,329	4,527
Miscellaneous projects	9	818
	$ 12,101	$ 15,499

Firm commitments for construction projects currently in-progress totaled $71,663 at December 31, 2019.

(Dollars in Thousands)

Note 7. Property and Equipment (Continued)

Property purchased and held for future development totaled $2,658 and $3,181 at December 31, 2019 and 2018, respectively.

Note 8. Leases

Goshen Health has operating leases that consist of medical equipment and medical office space agreements. Goshen Health is also the lessor in several lease agreements for campus housing for Colleagues and contracted employees and medical office space for medical practices.

Goshen Health's leases have remaining lease terms of one to five years. For purposes of calculating operating lease liabilities, lease terms include options to extend the lease when it is reasonably certain those options will be exercised. Some leasing arrangements require variable payments that are dependent on usage or other measures. The variable lease payments are not presented as part of the initial ROU asset or lease liability. Goshen Health's lease agreements do not contain any material restrictive covenants.

The components of lease expense for operating leases for the year ended December 31, 2019, are as follows:

Operating lease expense	$	3,091
Variable lease expense		455
	$	3,546

Lease expense for operating leases is reported in supplies, drugs, purchased services and other expense in the accompanying statement of operations and changes in net assets.

Goshen Health utilizes a risk-free rate in determining the present value of lease payments.

Weighted-average remaining lease term (years)	
Operating leases	2.86
Weighted-average discount rate	
Operating leases	2.25%

(Dollars in Thousands)

Note 8. Leases (Continued)

The following table provides the maturities of lease liabilities at December 31, 2019:

Year ending December 31:	Operating Leases
2020	$ 3,344
2021	2,237
2022	922
2023	676
2024	272
Total future undiscounted lease payments	7,451
Less present value discount	35
Lease liabilities	7,416
Less current portion	3,344
Long-term portion	$ 4,072

(Dollars in Thousands)

Note 9. Long-Term Debt

Long-term debt at December 31, 2019 and 2018, consists of the following:

	2019	2018
Indiana Finance Authority Hospital Revenue Bonds, Series 2019 (Goshen Health):		
Series 2019A (interest rates ranging from 4% to 5%) with maturities through November 2043	$ 44,330	$ -
Series 2019B (interest rate of 2.1%) maturing November 1, 2049	25,360	-
	69,690	-
Loan from Indiana University Health (IUH):		
Note payable to IUH Under Separation Agreement payable in annual installments through 2026	14,000	16,000
Loans from Key Bank:		
Mortgage obligations (interest rates ranging from 2.86% to 3.85%)	930	1,114
Term note, with interest at LIBOR plus 1.5% (3.9375% at December 31, 2018)	-	15,000
Line of credit, including interest at LIBOR plus 1.50% (3.9375% at December 31, 2018)	-	2,742
	930	18,856
	84,620	34,856
Add unamortized original issue premium on revenue bonds	6,108	-
Less present value discount on note payable to IUH	1,277	1,629
Less unamortized bond issuance costs	851	-
	88,600	33,227
Less current portion	1,891	2,762
Long-term debt	$ 86,709	$ 30,465

In July 2019, Goshen Health issued $69,690 of fixed rate tax-exempt revenue bonds (Series 2019 Bonds) through the Indiana Finance Authority. The proceeds of the Series 2019 Bonds will be used to finance a facility and campus improvement project. The Series 2019 Bonds are secured by a pledge of Goshen Health's gross receivables.

The Series 2019A Bonds were issued in various maturities from November 2027 through November 2039. The Series 2019A Bonds maturing on or after November 1, 2029 are subject to redemption prior to their stated maturities on or after May 1, 2029, at the option of Goshen Health, at 100% of outstanding principal plus accrued interest. Series 2019A Bonds in the amount of $10,215 are also subject to redemption prior to their stated maturities from sinking fund installments in varying amounts beginning November 1, 2040 through November 1, 2042. The Series 2019A Bonds were issued in a fixed rate mode (with rates ranging from 4% to 5%) that may be converted, at the option of Goshen Health, to other modes on or after May 1, 2029.

Note 9. Long-Term Debt (Continued)

The Series 2019B Bonds mature through November 1, 2049, with an initial long-term interest rate of 2.1%. The initial long-term interest rate period ends October 31, 2026. After this date, the Series 2019B Bonds will bear interest at successive long-term interest rates until conversion, at the option of Goshen Health, of all or a portion of the Series 2019B Bonds to a new interest rate mode. The Series 2019B Bonds are subject to mandatory tender on the first day following the long-term interest rate period or on a conversion date to a new interest rate mode. The Series 2019B Bonds are subject to redemption prior to their stated maturities on or after May 1, 2026, at the option of Goshen Health, at 100% of outstanding principal plus accrued interest. Series 2019B Bonds in the amount of $21,140 are also subject to redemption prior to their stated maturities from sinking fund installments in varying amounts beginning November 1, 2043 through November 1, 2048.

The Series 2019 Bonds were issued under a Master Indenture. The Master Indenture and related agreements subject Goshen Health System, Inc. and Goshen Hospital Association, Inc., as the Obligated Group members, to reporting, financial and other covenants, including the maintenance of a minimum debt service coverage ratio.

As a condition of the Separation Agreement executed in December 2016 with IUH, Goshen Health agreed to pay IUH a separation payment of $20,000. Of this amount, $2,000 was paid in December 2016, with required annual payments of $2,000 (principal and imputed interest) beginning in January 2018. Goshen Health has recognized a liability for the present value of these future annual payments, discounted at 2.45%. The Separation Agreement includes certain restrictions on IUH's activities within Goshen Health's service area through December 31, 2026. Violations of these restrictions that remain uncured for more than ninety days will result in termination of Goshen Health's obligation to repay any remaining amounts due to IUH under the Separation Agreement.

Included in assets limited as to use (Note 5), as required by the Separation Agreement, are amounts placed in escrow sufficient to fund the payments on the note payable to IUH.

Goshen Health maintains an unsecured line of credit with Key Bank, which requires monthly interest payments until it expires, at which time any outstanding draws on the line of credit must be repaid in full. The line of credit agreement contains various covenants, including financial covenants that require Goshen Health to maintain a minimum debt service coverage ratio and minimum days cash on hand.

On August 29, 2018, Goshen Health converted $15,000 of outstanding borrowings under the line of credit to a term note, reduced the maximum borrowing under the line of credit from $35,000 to $20,000, and extended the maturity date of the line of credit to July 30, 2021. The outstanding borrowings on the line of credit and the term note were repaid in September 2019 using proceeds of the Series 2019 Bonds.

(Dollars in Thousands)

Note 9. Long-Term Debt (Continued)

The scheduled maturities of long-term debt as of December 31, 2019, are as follows:

Year ending December 31:		
2020	$	2,203
2021		2,209
2022		2,216
2023		2,222
2024		2,080
Thereafter		73,690
	$	84,620

Total interest paid on long-term debt for the years ended December 31, 2019 and 2018, was $878 and $1,238, respectively. Interest capitalized amounted to $738 and $269 in 2019 and 2018, respectively.

Note 10. Fair Value Measurement

The accounting guidance for the application of fair value provides, among other matters, for the following: defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value; establishes a three-level hierarchy for fair value measurements based upon the observability of inputs to the valuation of an asset or liability as of the measurement date; requires consideration of non-performance risk when valuing liabilities; and expands disclosures about instruments measured at fair value. The three level hierarchy is based upon the nature of valuation techniques and whether such techniques are based upon observable or unobservable inputs, as defined.

Observable inputs are intended to reflect market data obtained from independent sources, while unobservable inputs may reflect market assumptions made by management or measurements made by financial specialists generally associated with the financial asset or liability. These two types of inputs create the following fair value hierarchy:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities as of the reporting date.

Level 2 Pricing inputs other than quoted prices included in Level 1 that are either directly observable or that can be derived or supported from observable data as of the reporting date.

Level 3 Pricing inputs include those that are significant to the fair value of the financial asset or financial liability and are not observable from objective sources. In evaluating the significance of inputs, management generally classifies assets or liabilities as Level 3 when their fair value is determined using unobservable inputs that individually, or in the aggregate, represent more than 10% of the fair value of the assets or liabilities. These inputs may be used with internally developed methodologies that result in management’s best estimate of fair value.

(Dollars in Thousands)

Note 10. Fair Value Measurement (Continued)

The fair value of financial assets and liabilities measured at fair value on a recurring basis was determined using the following inputs at December 31, 2019 and 2018:

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
Assets				
Marketable securities:				
Fixed income securities	$ -	$ 81,339	$ -	$ 81,339
Mutual funds	123,103	-	-	123,103
Global equities	31,702	-	-	31,702
Structured notes	-	3,820	-	3,820
				239,964
Cash and cash equivalents				33,308
	$ 154,805	$ 85,159	$ -	$ 273,272
Liabilities				
Interest rate swaps	$ -	$ 1	$ -	$ 1

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Assets				
Marketable securities:				
Fixed income securities	$ -	$ 38,003	$ -	$ 38,003
Mutual funds	124,002	-	-	124,002
Global equities	19,975	-	-	19,975
Structured notes	-	7,267	-	7,267
				189,247
Cash and cash equivalents				15,261
	$ 143,977	$ 45,270	$ -	$ 204,508
Liabilities				
Interest rate swaps	$ -	$ 1	$ -	$ 1

The fair value of Level 1 trading securities is based on quoted market prices from an active exchange. The fair value of Level 2 trading securities is based on third-party market quotes in an inactive market or similar securities in an active market and other observable inputs. The fair value of interest rate swaps is based upon forward interest rate curves, as adjusted for credit valuation.

Cash and cash equivalents reported outside of assets limited as to use aggregated $6,199 and $2,766 as of December 31, 2019 and 2018, respectively, and are not included in the above tables. Goshen Health's $166 and $174 of alternative investments as of December 31, 2019 and 2018, respectively, are not included in the above tables because they are accounted for using the equity method of accounting (see Note 5).

Transfers are generally recorded at the end of the reporting period. There were no material transfers between Level 1 and Level 2 during the years ended December 31, 2019 and 2018.

Note 11. Commitments and Contingencies

Goshen Health is from time to time subject to various legal proceedings and claims arising in the ordinary course of business. Goshen Health's management does not expect that the outcome in any of its currently ongoing legal proceedings or the outcome of any other claims, individually or collectively, will have a material adverse effect on Goshen Health's financial condition, results of operations, or cash flow.

The spread of COVID-19, a novel strain of coronavirus, appears to be altering the behavior of business and people in a manner that is having negative effects on local, regional and global economies. Further, stock markets in the United States and globally have recently experienced significant declines attributed to coronavirus concerns. Goshen Health has holdings in a broad range of investments. Market fluctuations may affect the value of those investments and those fluctuations at times may be material. The continued spread of COVID-19 or any similar outbreaks in the future may adversely impact the local, regional and national economies and, accordingly, may have a material adverse effect on the financial condition of Goshen Health.

Note 12. Malpractice Insurance

Goshen Health's medical malpractice coverage is provided through a pooled risk sharing arrangement with the Suburban Health Organization Risk Retention Group, LLC. The program of medical malpractice coverage considers limitations in claims and damages prescribed by the Indiana Medical Malpractice Act (Act), which limits the amount of individual claims to $1,250 (effective July 1, 1999 through June 30, 2017), of which up to $1,000 would be paid by the State of Indiana Patient Compensation Fund (Fund) and $250 by Goshen Health for each occurrence of malpractice. Effective July 1, 2017, this limit increased to $1,650, of which $1,250 would be paid by the Fund and $400 by Goshen Health. Effective July 1, 2019, this limit increased to $1,800, of which $1,300 would be paid by the Fund and $500 by Goshen Health. The Act limits annual aggregate claims to $7,500 (effective July 1, 1999 through June 30, 2017), $12,000 (effective July 1, 2017 through June 30, 2019) and $15,000 (effective July 1, 2019). The Act also requires that health care providers meet certain requirements, including making funding payments to the Fund and maintaining certain insurance levels. Goshen Health has met these requirements and is a qualified provider under the Act, retaining risk of $500 per occurrence and $15,000 in the annual aggregate.

(Dollars in Thousands)

Note 13. Functional Expenses

Functional expenses for Goshen Heath are as follows for the years ended December 31, 2019 and 2018:

	2019				
	Health Care Services		Support Services		
	Goshen Hospital	Goshen Physicians and Other Services	MG&A	Fundraising	Total
Salaries, wages and benefits	$ 93,911	$ 54,114	$ 12,845	$ 105	$ 160,975
Supplies, drugs, purchased services and other	93,514	22,510	12,399	434	128,857
Hospital assessment fee	10,540	-	-	-	10,540
Depreciation and amortization	13,252	1,267	763	4	15,286
Interest	750	-	43	-	793
Total Expenses	$ 211,967	$ 77,891	$ 26,050	$ 543	$ 316,451

	2018				
	Health Care Services		Support Services		
	Goshen Hospital	Goshen Physicians and Other Services	MG&A	Fundraising	Total
Salaries, wages and benefits	$ 91,263	$ 52,982	$ 11,767	$ 196	$ 156,209
Supplies, drugs, purchased services and other	85,970	19,327	12,354	426	118,077
Hospital assessment fee	8,378	-	-	-	8,378
Depreciation and amortization	11,146	1,130	641	3	12,920
Interest	916	-	53	-	968
Total Expenses	$ 197,673	$ 73,439	$ 24,815	$ 625	$ 296,552

The consolidated financial statements report certain expense categories that are attributable to more than one health care service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation, amortization, and interest are allocated to a function based on square footage.

Note 14. Retirement Plans

Retirement benefits are provided to substantially all Colleagues of Goshen Health through defined-contribution plans. Contributions, which are included in salaries, wages and benefits expense, to the defined-contribution plans are based on compensation of qualified Colleagues and amounted to $7,690 and $7,427 for the years ended December 31, 2019 and 2018, respectively (net of forfeitures of $160 and $153 in 2019 and 2018, respectively).

Note 15. Health Care Legislation and Regulation

Under Indiana law (IC 12-15-16 (1-3)), health care providers qualifying as State of Indiana Medicaid Acute Disproportionate Share and Medicaid Safety Net Hospitals (DSH providers) are eligible to receive Indiana Medicaid Disproportionate Share (state DSH) payments. The amount of these additional state DSH funds is dependent on regulatory approval by agencies of the federal and state governments and is determined by the level, extent, and cost of uncompensated care (as defined) and various other factors. State DSH payments are paid according to the fiscal year of the state, which ends on June 30 of each year, and are based on the cost of uncompensated care provided by the DSH providers during their respective fiscal year ended during the state fiscal year.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, participation requirements, reimbursement for patient services, Medicare and Medicaid fraud and abuse, and security, privacy, and standards of health information. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statues and non-compliance with regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, significant repayments for patient services previously billed, and disruptions or delays in processing administrative transactions, including the adjudication of claims and payment. In the opinion of management, there are no known regulatory inquiries that are expected to have a material adverse effect on the consolidated financial statements of Goshen Health; however, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

The ACA and its associated legislation are designed, in part, to expand access to coverage to substantively all U.S. citizens through a combination of states' expansion of their Medicaid programs and the health insurance marketplace. For Indiana, the Centers for Medicare and Medicaid Services (CMS) has approved the Health Indiana Plan (HIP) 2.0, which was Indiana's response to expanding its Medicaid program. Changes to existing Medicare and Medicaid coverage and payments have also occurred as a result of this legislation. A body of regulations is generally required for implementation of legislative acts such as the ACA, and it often takes a period of years for the regulations to be written, approved and adopted.