

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

Consolidated Financial Report and Reports on
Federal Awards in Accordance With
Uniform Guidance
December 31, 2020

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RSM US LLP

Independent Auditor's Report

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 sheet as of December 31, 2020, the related consolidated statements of operations and changes in net assets and cash flows for the year 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 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 financial position of Goshen Health System, Inc. and Subsidiaries d/b/a Goshen Health as of December 31, 2020, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2021, on our consideration of Goshen 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 solely 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 the effectiveness of Goshen Health's 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 Goshen Health's internal control over financial reporting and compliance.

RSM US LLP

Elkhart, Indiana
March 18, 2021

Goshen Health System, Inc. and Subsidiaries
d/b/a Goshen Health
Consolidated Balance Sheet
December 31, 2020
(In Thousands)

Assets

Current assets:

Cash and cash equivalents	\$ 38,920
Assets limited as to use	4,990
Patient accounts receivable	37,001
Inventories	10,909
Prepaid expenses and other	9,685
Total current assets	<u>101,505</u>

Assets limited as to use, less current portion	<u>284,321</u>
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Property and equipment:

Cost of property and equipment in service	283,687
Less accumulated depreciation	<u>152,228</u>
	131,459
Construction-in-progress	23,500
Property held for future development	<u>3,424</u>
	<u>158,383</u>

Other assets:

Finance lease right-of-use assets, net	648
Operating lease right-of-use assets, net	7,380
Other assets	<u>4,527</u>
	<u>12,555</u>

Total assets	<u><u>\$ 556,764</u></u>
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(Continued)

Goshen Health System, Inc. and Subsidiaries
d/b/a Goshen Health
Consolidated Balance Sheet (Continued)
December 31, 2020
(In Thousands)

Liabilities and Net Assets

Current liabilities:

Accounts payable and accrued expenses	\$ 14,604
Accrued salaries, wages and related liabilities	20,606
Medicare accelerated payments (Note 16)	17,925
Estimated amounts due to third-party payors	300
Current portion of long-term debt	1,934
Current portion of finance lease liabilities	143
Current portion of operating lease liabilities	3,426
Total current liabilities	<u>58,938</u>

Noncurrent liabilities:

Long-term debt, less current portion	84,395
Finance lease liabilities, less current portion	505
Operating lease liabilities, less current portion	3,954
Other	4,019
	<u>92,873</u>

Total liabilities

151,811

Net assets:

Net assets without donor restrictions	399,963
Net assets with donor restrictions	4,990
	<u>404,953</u>

Total liabilities and net assets

\$ 556,764

See notes to consolidated financial statements.

Goshen Health System, Inc. and Subsidiaries
d/b/a Goshen Health
Consolidated Statement of Operations and Changes in Net Assets
Year Ended December 31, 2020
(In Thousands)

Revenues:	
Net patient service revenue	\$ 279,976
Other revenue	30,428
	<u>310,404</u>
Expenses:	
Salaries, wages and benefits	159,106
Supplies, drugs, purchased services and other	121,466
Hospital assessment fee	9,549
Depreciation and amortization	14,416
Interest	807
	<u>305,344</u>
Operating income	<u>5,060</u>
Nonoperating income (loss):	
Investment income, net	34,459
Other, net	(1,108)
	<u>33,351</u>
Excess of revenues over expenses	38,411
Other changes in net assets without donor restrictions:	
Net assets released from restrictions for capital improvements	378
Increase in net assets without donor restrictions	<u>38,789</u>
Changes in net assets with donor restrictions:	
Contributions	3,106
Net assets released from restrictions	(863)
Increase in net assets with donor restrictions	<u>2,243</u>
Increase in net assets	41,032
Net assets at beginning of year	<u>363,921</u>
Net assets at end of year	<u>\$ 404,953</u>

See notes to consolidated financial statements.

Goshen Health System, Inc. and Subsidiaries
d/b/a Goshen Health
Consolidated Statement of Cash Flows
Year Ended December 31, 2020
(In Thousands)

Cash flows from operating activities:	
Increase in net assets	\$ 41,032
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Amortization of deferred bond issuance costs and net premium	(380)
Depreciation and amortization	14,416
Amortization of finance lease right-of-use assets	72
Amortization of operating lease right-of-use assets	3,564
Cash paid under operating leases	(3,565)
Contributions for acquisition of property and equipment	(652)
Change in value of trading securities	(31,929)
Changes in operating assets and liabilities:	
Patient accounts receivable	6,805
Prepaid expenses, inventories and other assets	(1,334)
Accounts payable, accrued expenses and other liabilities	(4,747)
Accrued salaries, wages and related liabilities	2,057
Medicare accelerated payments	17,925
Net cash provided by operating activities	<u>43,264</u>
Cash flows from investing activities:	
Purchase of property and equipment, net of disposals	(25,288)
Decrease in trustee-held bond proceeds	14,161
Decrease in investments held in escrow	2,245
Net cash used in investing activities	<u>(8,882)</u>
Cash flows from financing activities:	
Contributions for acquisition of property and equipment	652
Repayments on long-term debt	(1,891)
Payments of finance lease obligations	(72)
Net cash used in financing activities	<u>(1,311)</u>
Increase in cash, cash equivalents and restricted cash	33,071
Cash, cash equivalents and restricted cash:	
Beginning of year	<u>6,199</u>
End of year	<u>\$ 39,270</u>
Supplemental disclosures of noncash operating and investing activities:	
Equipment purchases in accounts payable and accrued expenses	<u>\$ 3,818</u>
Operating lease assets obtained from incurring lease liabilities	<u>\$ 3,529</u>
Finance lease assets obtained from incurring lease liabilities	<u>\$ 720</u>

See notes to consolidated financial statements.

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

**Notes to Consolidated Financial Statements
(Dollars in Thousands)**

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.

Compassion – and commitment to service with empathy.

Accountability – with integrity and action.

Respect – through treating others as you wish to be treated.

Excellence – in all we do.

Building upon our mission and values, Goshen Health will be the trusted partner for care, inspiring health and wellness for all. We will accomplish this through the following strategic priorities adopted in 2020:

- 1. Provide more access to convenient health services than any competitor in order to grow and secure our market position.*
- 2. Attract and retain the highest-quality providers through a variety of alignment mechanisms.*
- 3. Selectively grow and deepen our service offerings to meet the evolving needs of our community.*
- 4. Build new and leverage our existing population health management capabilities as we prepare for value-based care to become increasingly prevalent.*

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.

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

**Notes to Consolidated Financial Statements
(Dollars in Thousands)**

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 \$1,892 for the year ended December 31, 2020.

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 as a direct reduction of patient service revenue.

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.

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

**Notes to Consolidated Financial Statements
(Dollars in Thousands)**

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 statement 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 accounting principles generally accepted in the United States of America (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.

Cash, cash equivalents and restricted cash consists of the following as of December 31, 2020:

Cash and cash equivalents	\$ 38,920
Restricted cash included in current portion of assets limited as to use	350
	<u>\$ 39,270</u>

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.

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

**Notes to Consolidated Financial Statements
(Dollars in Thousands)**

Note 3. Significant Accounting Policies (Continued)

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) trustee-held bond proceeds to be used for capital projects; (iii) investments required to be held in escrow under the separation agreement with IUH (see Note 9); (iv) investments required to be held in escrow under a Medicare Accountable Care Organization (ACO) agreement; and (v) restricted cash held under bank agreement for payment of certain recourse liabilities. See Note 5. 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 sheet.

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.

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

**Notes to Consolidated Financial Statements
(Dollars in Thousands)**

Note 3. Significant Accounting Policies (Continued)

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.

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. Leases are classified as either operating or financing. 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 statement 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 are reported as a reduction of long-term debt.

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 sheet was \$701 as of December 31, 2020. Goshen Health reports its interest in the income of its unconsolidated subsidiaries within other nonoperating income, totaling \$111 during the year ended December 31, 2020.

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 statement of operations and changes in net assets.

Grant revenue: CARES Act and other grant revenue, included in other revenue in the accompanying consolidated statement of operations and changes in net assets, is recognized when there is reasonable assurance that Goshen Health has complied with the conditions associated with the grant. See Note 16 for funding received under the CARES Act, which is included in other revenue in the accompanying consolidated statement of operations and changes in net assets.

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

**Notes to Consolidated Financial Statements
(Dollars in Thousands)**

Note 3. Significant Accounting Policies (Continued)

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 statement 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.

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, 2020, 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 2017 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), 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.

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

**Notes to Consolidated Financial Statements
(Dollars in Thousands)**

Note 3. Significant Accounting Policies (Continued)

Performance indicator (excess 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 pronouncement adopted: In August 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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. Goshen Health adopted ASU 2018-13 in the accompanying consolidated financial statements, without a significant effect.

New accounting pronouncements not yet adopted: 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 consolidated financial statements. Goshen Health is currently evaluating the effect of the new standard on the consolidated financial statements.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires a not-for-profit entity to present contributed nonfinancial assets in the statement of activities as a line item that is separate from contributions of cash or other financial assets. ASU 2020-07 also requires additional qualitative and quantitative disclosures about contributed nonfinancial assets received, disaggregated by category. ASU 2020-07 is effective for Goshen Health’s December 31, 2022 consolidated financial statements. Early adoption is permitted. Goshen Health is currently evaluating the effect of the new standard on the consolidated financial statements.

Subsequent events: Management has evaluated subsequent events and transactions through March 18, 2021, 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.

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.

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

**Notes to Consolidated Financial Statements
(Dollars in Thousands)**

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

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 Accounting Standards Codification (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 and 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, 2020 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 year ended December 31, 2020.

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.

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.

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

**Notes to Consolidated Financial Statements
(Dollars in Thousands)**

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

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 year ended December 31, 2020:

Managed care programs	56%
Medicare and Medicare Advantage	25
Medicaid	9
Self-pay patients	6
Other third-party payors	4
	<hr/>
	100%
	<hr/>

A single managed care provider represented approximately 25% of patient service revenue for the year ended December 31, 2020. Another single managed care payor represented approximately 11% of patient service revenue for the year ended December 31, 2020.

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 year ended December 31, 2020, increased reimbursement related to the HAF program was recorded within patient service revenue in the consolidated statement of operations and changes in net assets. During the year ended December 31, 2020, an assessment fee was recognized of \$9,549, which is reported as hospital assessment fee expense on the consolidated statement 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.

**Goshen Health System, Inc. and Subsidiaries
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**Notes to Consolidated Financial Statements
(Dollars in Thousands)**

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

The composition of patient accounts receivable as of December 31, 2020, is as follows:

Managed care programs	63%
Medicare and Medicare Advantage	24
Medicaid	7
Self-pay patients	1
Other third-party payors	5
	<u>100%</u>

A single managed care payor represented approximately 19% of patient accounts receivable at December 31, 2020. Another single managed care payor represented approximately 19% of patient accounts receivable at December 31, 2020.

Note 5. Assets Limited as to Use

As of December 31, 2020, assets limited as to use consisted of the following:

Board-designated investments	\$ 232,000
Trustee-held bond proceeds to be used for capital projects	44,194
Investments held in escrow under Separation Agreement with IUH (See Note 9)	12,069
Investments held in escrow under Medicare ACO agreement	698
Restricted cash held under bank agreement for payment of certain recourse liabilities	350
	<u>289,311</u>
Less current portion	4,990
Noncurrent portion	<u>\$ 284,321</u>

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 sheet 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 System, Inc. and Subsidiaries
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**Notes to Consolidated Financial Statements
(Dollars in Thousands)**

Note 5. Assets Limited as to Use (Continued)

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. See Note 10 for information regarding notification requirements for redemptions of these investments. 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.

As of December 31, 2020, assets limited as to use consisted of the following:

Cash, cash equivalents and restricted cash	\$ 28,356
Marketable securities:	
Fixed income securities	45,021
Structured notes	4,134
Global equities	44,574
Mutual funds	139,157
	<u>261,242</u>
Alternative investments:	
Hedge funds	21,561
Other private investment funds	6,508
	<u>\$ 289,311</u>

The composition of investment income reported in the consolidated statement of operations and changes in net assets, for the year ended December 31, 2020, is as follows:

Interest and dividend income	\$ 5,519
Investment management and administration fees	(711)
Realized gains on sales of investments, net	6,699
Unrealized gains on investments, net	22,952
	<u>\$ 34,459</u>

**Goshen Health System, Inc. and Subsidiaries
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**Notes to Consolidated Financial Statements
(Dollars in Thousands)**

Note 6. Liquidity and Availability

As of December 31, 2020, Goshen Health has a working capital surplus of \$42,605 and average days cash on hand of 340.

Financial assets available for general expenditure within one year of the consolidated balance sheet date as of December 31, 2020, consist of the following:

Cash and cash equivalents	\$ 38,920
Patient accounts receivable	37,001
Assets limited to use:	
Board-designated investments	<u>232,000</u>
	<u>\$ 307,921</u>

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 and other 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 \$30,000 line of credit, as discussed in more detail in Note 9. As of December 31, 2020, \$30,000 remained available on the line of credit.

Note 7. Property and Equipment

The cost of property and equipment in service as of December 31, 2020, is summarized as follows:

Land and improvements	\$ 9,697
Buildings and improvements	124,344
Equipment, including software developed for internal use	<u>149,646</u>
	<u>\$ 283,687</u>

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:

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

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

**Notes to Consolidated Financial Statements
(Dollars in Thousands)**

Note 7. Property and Equipment (Continued)

Construction-in-progress for assets currently under development is anticipated to extend through 2022 and includes commitments for the construction, refurbishment, and replacement of facilities and equipment. A summary of the construction-in-progress as of December 31, 2020, is as follows:

IT projects	\$ 3,568
Building improvements	1,624
Private room initiative	16,644
Miscellaneous projects	1,664
	<u>\$ 23,500</u>

Firm commitments for construction projects currently in-progress totaled \$67,290 at December 31, 2020.

Property purchased and held for future development is reported at cost and totaled \$3,424 at December 31, 2020.

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 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 the year ended December 31, 2020, are as follows:

Finance lease cost:	
Amortization of right-of-use assets	\$ 72
Interest on lease liabilities	1
Operating lease cost	2,908
Variable lease cost	791
Total lease cost	<u>\$ 3,772</u>

Amortization of finance lease right-of-use assets is reported in depreciation and amortization expense, and interest on finance lease liabilities is reported in interest expense, in the accompanying consolidated statement of operations and changes in net assets. Lease cost for operating leases and variable lease cost are reported in supplies, drugs, purchased services and other expense in the accompanying consolidated statement of operations and changes in net assets.

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

**Notes to Consolidated Financial Statements
(Dollars in Thousands)**

Note 8. Leases (Continued)

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

Weighted-average remaining lease term (years)	
Finance leases	4.50
Operating leases	4.27
Weighted-average discount rate	
Finance leases	0.28%
Operating leases	1.72%

The following table provides the maturities of lease liabilities at December 31, 2020:

	Finance Leases	Operating Leases
Year ending December 31:		
2021	\$ 143	\$ 3,426
2022	143	2,081
2023	144	1,526
2024	145	739
2025	85	193
Total future undiscounted lease payments	660	7,965
Less present value discount	12	585
Lease liabilities	648	7,380
Less current portion	143	3,426
Long-term portion	\$ 505	\$ 3,954

**Goshen Health System, Inc. and Subsidiaries
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**Notes to Consolidated Financial Statements
(Dollars in Thousands)**

Note 9. Long-Term Debt

Long-term debt at December 31, 2020, consists of the following:

**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
	<u>69,690</u>

Loan from Indiana University Health (IUH):

Note payable to IUH Under Separation Agreement payable in annual installments through 2026	<u>12,000</u>
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Loans from Key Bank:

Mortgage obligations (interest rates ranging from 1.40% to 3.03%)	<u>728</u>
	82,418

Add unamortized original issue premium on revenue bonds	5,645
Less present value discount on note payable to IUH	966
Less unamortized bond issuance costs	<u>768</u>
	86,329
Less current portion	<u>1,934</u>
Long-term debt	<u>\$ 84,395</u>

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 are being 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.

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.

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

**Notes to Consolidated Financial Statements
(Dollars in Thousands)**

Note 9. Long-Term Debt (Continued)

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 a 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. Borrowings under the line of credit are secured under the Master Indenture. On October 29, 2020, Goshen Health amended the line of credit agreement to increase the maximum borrowing under the line of credit from \$20,000 to \$30,000, and extended the maturity date of the line of credit to October 29, 2022.

The scheduled maturities of long-term debt as of December 31, 2020, are as follows:

Year ending December 31:	
2021	\$ 2,205
2022	2,208
2023	2,211
2024	2,103
2025	2,000
Thereafter	71,691
	<u>\$ 82,418</u>

Total interest paid on long-term debt for the year ended December 31, 2020, was \$2,740. Interest capitalized amounted to \$1,244 in 2020.

Goshen Health System, Inc. and Subsidiaries
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Notes to Consolidated Financial Statements
(Dollars in Thousands)

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.

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, 2020:

	Level 1	Level 2	Level 3	Total
Assets				
Marketable securities:				
Fixed income securities	\$ -	\$ 45,021	\$ -	\$ 45,021
Mutual funds	139,157	-	-	139,157
Global equities	44,574	-	-	44,574
Structured notes	-	4,134	-	4,134
				232,886
Cash, cash equivalents and restricted cash				28,356
Alternative investments				28,069
	<u>\$ 183,731</u>	<u>\$ 49,155</u>	<u>\$ -</u>	<u>\$ 289,311</u>

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.

Transfers are generally recorded at the end of the reporting period. There were no material transfers between Level 1 and Level 2 during the year ended December 31, 2020.

**Goshen Health System, Inc. and Subsidiaries
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**Notes to Consolidated Financial Statements
(Dollars in Thousands)**

Note 10. Fair Value Measurement (Continued)

Cash and cash equivalents reported outside of assets limited as to use aggregated \$38,920 as of December 31, 2020, and are not included in the above table.

The following table presents information related to Goshen Health's alternative investments as of December 31, 2020:

		Unfunded Commitments	Redemption	
			Frequency	Notice Period
Hedge funds (a)	\$ 21,561	\$ -	(d)	(d)
Other private investments (b)	6,508	-	(d)	(d)
Private real estate investments (c)	-	10,000	(e)	(e)
Total	<u>\$ 28,069</u>	<u>\$ 10,000</u>		

- (a) Hedge funds consist of investments in international equities and large cap equities. Investments seek to provide investors with long term capital appreciation primarily through investing in North American companies and securities from emerging market countries. The fair value of investments in this category are at the hedge fund NAV. Valuations are obtained using the investment's financial statements and the Fund's percentage ownership issued by the manager or administrator of the hedge fund.
- (b) Other private investments consist of investments in large cap equities that achieve net returns in excess of the U.S. equity markets by owning high quality companies through a long term strategy focused on certain established criteria. These investments are valued using the investment's financial statements and the Fund's percentage ownership issued by the manager or administrator of the investment.
- (c) Private real estate investments consist of investments that will be made in 2021 in CBRE U.S. Core Property Fund, LP. Investments aim to provide investors with a core, stable, income-driven rate of return and the potential for income growth and asset appreciation. Valuations will be obtained using the investment's financial statements and the Fund's percentage ownership issued by the manager or administrator of the investment.
- (d) Withdrawals and liquidity of these investments are available monthly with a 30-day notice period.
- (e) Withdrawals and liquidity of these investments will be available quarterly with a 60-day notice period.

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.

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

**Notes to Consolidated Financial Statements
(Dollars in Thousands)**

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.

Note 13. Functional Expenses

Functional expenses for Goshen Health are as follows for the year ended December 31, 2020:

	Health Care Services		Support Services		Total
	Goshen Hospital	Goshen Physicians and Other Services	MG&A	Fundraising	
Salaries, wages and benefits	\$ 94,591	\$ 52,590	\$ 11,863	\$ 62	\$ 159,106
Supplies, drugs, purchased services and other	89,475	21,845	9,900	246	121,466
Hospital assessment fee	9,549	-	-	-	9,549
Depreciation and amortization	12,494	1,188	719	15	14,416
Interest	763	-	44	-	807
Total Expenses	\$ 206,872	\$ 75,623	\$ 22,526	\$ 323	\$ 305,344

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. Included in salaries, wages and benefits expense are contributions to the defined-contribution plans, based on compensation of qualified Colleagues, of \$7,733 for the year ended December 31, 2020 (net of forfeitures of \$391).

**Goshen Health System, Inc. and Subsidiaries
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**Notes to Consolidated Financial Statements
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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 statutes 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.

Note 16. Novel Coronavirus Disease 2019 (COVID-19) Pandemic and Relief Funding

On January 30, 2020, the World Health Organization declared the COVID-19 coronavirus outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. The spread of COVID-19, a novel strain of coronavirus, is altering the behavior of business and people in a manner that is having negative effects on local, regional and global economies, including disrupting the healthcare industry.

The pandemic adversely impacted Goshen Health's operations, including a decline in patient volumes and patient service revenue as local authorities shut down elective surgeries and other procedures from mid-March through mid-May 2020. Additionally, certain physician offices and ambulatory facilities were temporarily closed, and patients' desire to seek care was initially diminished. Goshen Health has also incurred, and will continue to incur, significant costs to address COVID-19, which include increased supply costs, including for personal protective equipment, and additional labor costs. Although patient volumes have largely recovered since the onset of the pandemic, the potential future impact of the pandemic on Goshen Health's market and facilities is difficult to predict.

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**Notes to Consolidated Financial Statements
(Dollars in Thousands)**

Note 16. Novel Coronavirus Disease 2019 (COVID-19) Pandemic and Relief Funding (Continued)

In response to the COVID-19 pandemic, Congress passed the CARES Act, which was signed into law on March 27, 2020. The CARES Act provides funding to fight the COVID-19 pandemic, stimulate the U.S. economy, and provide assistance to affected industries. The CARES Act clarifies that all COVID-19 testing, preventive services, and vaccines are to be provided by private insurance plans without cost sharing. The CARES Act also delays certain Medicare and Medicaid cuts (e.g., Medicare sequestration, disproportionate share hospital reductions) and extends certain other government programs. In addition, the U.S. Department of Health and Human Services, the Centers for Medicare and Medicaid Services, and the Health Resources and Services Administration all issued various waivers of regulations governing coverage of specific services and conditions of program participation.

The CARES Act expanded CMS' existing advance payment program to a broader group of providers. As a result, Goshen Health received \$17,925 of advance payments from the Medicare program during the year ended December 31, 2020. These advances will be recouped from Medicare claims submitted beginning twelve months after the receipt of the funds (April 2021 for Goshen Health). Final payment of any still outstanding balance will be due by August 2022. The related liability is reported as Medicare accelerated payments in the accompanying consolidated balance sheet.

The CARES Act included emergency funding for health care expenses or lost revenues not otherwise reimbursed, for treating COVID-19 patients. Goshen Health received \$17,518 of Provider Relief Fund program distributions, all of which have been recorded as other revenue in the accompanying December 31, 2020 consolidated statement of operations and changes in net assets. Provider Relief Fund distributions are not loans and, therefore, they are not subject to repayment unless funds received exceed qualifying health care related expenses and lost revenues. However, as a condition to receiving distributions, Goshen Health agreed to certain terms and conditions, including, among other things, that the funds are being used for lost revenues and COVID-related costs. Amounts recognized as revenue could change in the future based upon the evolving grant compliance guidance provided by the government. Additionally, Goshen Health received \$1,110 claims reimbursement through the HRSA program for testing, treatment, and vaccine administration for the Uninsured, which is reported within net patient service revenue in the accompanying consolidated statement of operations and changes in net assets.

The CARES Act also created a payroll tax credit designed to encourage companies to retain employees during the pandemic. Goshen Health recorded \$231 of an employee retention credit, which has been recorded as other revenue in the accompanying consolidated statement of operations and changes in net assets.

Pursuant to the CARES Act, the employer share of the social security portion of FICA taxes due for the period beginning on March 27, 2020, and ending December 31, 2020, can be deferred, with payment of 50% of the deferred amount to be paid on December 31, 2021, and the remaining 50% of the deferred amount to be paid on December 31, 2022. As of December 31, 2020, Goshen Health has deferred \$3,982 of FICA taxes, which is included in accrued salaries, wages and related liabilities in the accompanying consolidated balance sheet.

Supplementary Information

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

**Schedule of Expenditures of Federal Awards
Year Ended December 31, 2020**

Federal Agency/Pass-Through Agency/Program Title	Assistance Listing Number	Pass-Through Entity Identifying Number	Total Amount Provided to Subrecipients	Federal Expenditures
U.S. Department of Health and Human Services:				
Direct award:				
COVID-19, HRSA COVID-19 Claims Reimbursement for the Uninsured Program and the COVID-19 Coverage Assistance Fund	93.461	N/A	\$ -	\$ 1,221,936
Passed through Indiana Department of Health: National Bioterrorism Hospital Preparedness Program	93.889	U3REP190595	-	49,258
Total U.S. Department of Health and Human Services			-	1,271,194
U.S. Department of the Treasury:				
Passed through Indiana Department of Health and Elkhart County Health Department: COVID-19, Coronavirus Relief Fund	21.019		-	21,675
Total U.S. Department of the Treasury			-	21,675
Total Expenditures of Federal Awards			\$ -	\$ 1,292,869

See notes to schedule of expenditures of federal awards.

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

Notes to Schedule of Expenditures of Federal Awards

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Goshen Health System, Inc. and Subsidiaries d/b/a Goshen Health (Goshen Health) under programs of the federal government for the year ended December 31, 2020. The information in the 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* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Goshen Health, it is not intended to, and does not, present the financial position, changes in net assets, functional expenses or cash flows of Goshen Health.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Indirect Cost Rate

Goshen Health has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 4. Subrecipients

Of the federal expenditures presented in the Schedule, Goshen Health did not provide any amounts to subrecipients.

Note 5. Non-Cash Assistance, Insurance, Loans and Loan Guarantees Outstanding

Goshen Health did not receive any non-cash assistance during the year ended December 31, 2020. There were no federal awards expended for insurance or any loans or loan guarantees outstanding as of December 31, 2020.

Note 6. Provider Relief Fund

Under the terms and conditions of the Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution program (PRF) (Assistance Listing Number 93.498), Goshen Health is required to report COVID-19 related expenses and lost revenue to the U.S. Department of Health and Human Services (HHS). Guidance from HHS has required the reporting of the COVID-19 related expenses and lost revenue in certain reporting periods based on when the funds were received.

During the year ended December 31, 2020, Goshen Health received PRF distributions of approximately \$17,518,000, all of which was recognized as revenue in Goshen Health's December 31, 2020, consolidated financial statements as the terms of and conditions of the PRF grant were satisfied. HHS requires these amounts to be reported on a subsequent Schedule rather than on the December 31, 2020, Schedule.

**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***

Independent Auditor's Report

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

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 consolidated financial statements of Goshen Health System, Inc. and Subsidiaries d/b/a Goshen Health (Goshen Health), which comprise the consolidated balance sheet as of December 31, 2020, the related consolidated statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 18, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Goshen Health's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Goshen Health's internal control. Accordingly, we do not express an opinion on the effectiveness of Goshen 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 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 Goshen Health's consolidated financial statements are free from 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 consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, 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 Goshen Health's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Goshen Health's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Elkhart, Indiana
March 18, 2021



RSM US LLP

Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited Goshen Health System, Inc. and Subsidiaries d/b/a Goshen Health's (Goshen 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 Goshen Health's major federal programs for the year ended December 31, 2020. Goshen 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 programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Goshen 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 Goshen 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 Goshen Health's compliance.

Opinion on Each Major Federal Program

In our opinion, Goshen 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 December 31, 2020.

Report on Internal Control Over Compliance

Management of Goshen 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 Goshen 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 Goshen 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 significant deficiencies or material weaknesses. 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.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the consolidated financial statements of Goshen Health as of and for the year ended December 31, 2020, and have issued our report thereon dated March 18, 2021, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

RSM US LLP

Elkhart, Indiana
March 29, 2022

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

**Schedule of Findings and Questioned Costs
Year Ended December 31, 2020**

Section I - Summary of Auditor's Results

Financial statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting?
 Material weaknesses(es) identified? No
 Significant deficiency(ies) identified? None reported

Noncompliance material to financial statements noted? No

Federal awards

Internal control over major programs:
 Material weaknesses(es) identified? No
 Significant deficiency(ies) 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 Section 2 CFR 200.516(a)? No

Identification of major programs:

Assistance Listing Number	Name of Federal Program or Cluster
93.461	HRSA COVID-19 Claims Reimbursement for the Uninsured Program and the COVID-19 Coverage Assistance Fund

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

Auditee qualified as low-risk auditee? No

(Continued)

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

**Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2020**

Section II—Financial Statement Findings

There were no financial statement findings for the year ended December 31, 2020.

Section III—Federal Award Findings and Questioned Costs

There were no federal award findings or questioned costs for the year ended December 31, 2020.

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

**Summary Schedule of Prior Year Findings
Year Ended December 31, 2020**

There was no audit performed under Uniform Guidance for the year ended December 31, 2019.