

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

Beacon Health System, Inc. and Affiliated Corporations
Years Ended December 31, 2019 and 2018
With Reports of Independent Auditors

Ernst & Young LLP



Beacon Health System, Inc. and Affiliated Corporations

Consolidated Financial Statements
and Supplementary Information

Years Ended December 31, 2019 and 2018

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Report of Independent Auditors

The Board of Directors
Beacon Health System, Inc. and Affiliated Corporations

We have audited the accompanying consolidated financial statements of Beacon Health System, Inc. and Affiliated Corporations, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free of 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of 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 consolidated financial position of Beacon Health System, Inc. and Affiliated Corporations at December 31, 2019 and 2018, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

March 5, 2020

Beacon Health System, Inc. and Affiliated Corporations

Consolidated Balance Sheets

(In Thousands)

	December 31	
	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 67,962	\$ 56,926
Short-term investments	13,201	38,637
Patient accounts receivable	180,883	162,335
Due from third-party payors	22,879	46,739
Other receivables	7,490	8,256
Other current assets	1,146	—
Inventories	24,908	25,192
Prepaid expenses	19,365	14,357
Total current assets	<u>337,834</u>	<u>352,442</u>
Assets limited as to use:		
Internally designated investments	755,371	674,952
Restricted cash	5,034	3,886
Externally designated investments – insurance trust	2,854	2,747
Board-designated endowment	27,947	25,002
Endowment and temporarily restricted investments	8,712	7,322
	<u>799,918</u>	<u>713,909</u>
Property and equipment:		
Land	51,925	53,342
Buildings and improvements	856,141	824,120
Furniture and equipment	529,342	500,329
Construction-in-progress	48,801	21,295
	<u>1,486,209</u>	<u>1,399,086</u>
Less allowances for depreciation and amortization	<u>794,488</u>	<u>737,060</u>
	<u>691,721</u>	<u>662,026</u>
Deferred charges and other assets	71,600	57,411
Interest rate swap	323	—
Total assets	<u><u>\$ 1,901,396</u></u>	<u><u>\$ 1,785,788</u></u>

Beacon Health System, Inc. and Affiliated Corporations

Consolidated Balance Sheets
(In Thousands)

	December 31	
	2019	2018
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 55,291	\$ 45,980
Accrued salaries and benefits	39,169	46,223
Accrued expenses	4,294	5,557
Other current liabilities	1,125	–
Due to third-party payors	4,751	5,942
Current maturities of long-term debt	9,889	10,724
Total current liabilities	<u>114,519</u>	114,426
Noncurrent liabilities:		
Long-term debt, less current maturities	296,338	307,012
Other liabilities	17,885	12,635
Interest rate and basis swaps	14,884	14,051
	<u>329,107</u>	<u>333,698</u>
Total liabilities	443,626	448,124
Net assets:		
Without donor restrictions	1,443,448	1,325,251
With donor restrictions	14,322	12,413
Total net assets	<u>1,457,770</u>	<u>1,337,664</u>
Total liabilities and net assets	<u><u>\$ 1,901,396</u></u> <u>\$ 1,785,788</u>	

See accompanying notes.

Beacon Health System, Inc. and Affiliated Corporations

Consolidated Statements of Operations
and Changes in Net Assets
(In Thousands)

	Year Ended December 31	
	2019	2018
Unrestricted revenue, gains, and other support		
Patient service revenue	\$ 985,708	\$ 975,114
Other revenue	50,207	46,776
Net assets released from restrictions used for operations	926	1,054
	1,036,841	1,022,944
Expenses		
Salaries and wages	449,983	418,097
Employee benefits	108,337	111,591
Supplies and other	268,582	250,122
Professional fees and purchased services	115,961	117,650
Depreciation and amortization	60,012	58,951
Interest	7,816	7,905
	1,010,691	964,316
Income from operations	26,150	58,628
Nonoperating income (expenses)		
Investment income, net	90,848	(21,923)
Unrealized gains on swap transactions, net	353	1,628
Realized gain on swap termination	723	-
Pension settlement	-	(118,087)
Loss on lease termination	(692)	-
Revenue and gains in excess of expenses	117,382	(79,754)

Beacon Health System, Inc. and Affiliated Corporations

Consolidated Statements of Operations
and Changes in Net Assets (continued)
(In Thousands)

	Year Ended December 31	
	2019	2018
Net assets without donor restrictions		
Revenue and gains in excess of expenses	\$ 117,382	\$ (79,754)
Net assets released from restrictions used for capital purposes	815	1,187
Other	–	6
Postretirement benefit adjustments other than periodic costs	–	98,035
Increase in net assets without donor restrictions	<u>118,197</u>	<u>19,474</u>
Net assets with donor restrictions		
Purpose-restricted contributions	2,588	1,347
Investment income (loss)	1,062	(744)
Net assets released from restrictions used for operating and capital purposes	<u>(1,741)</u>	<u>(2,247)</u>
Increase (decrease) in net assets with donor restrictions	<u>1,909</u>	<u>(1,644)</u>
Change in net assets	120,106	17,830
Net assets at beginning of year	<u>1,337,664</u>	<u>1,319,834</u>
Net assets at end of year	<u>\$ 1,457,770</u>	<u>\$ 1,337,664</u>

See accompanying notes.

Beacon Health System, Inc. and Affiliated Corporations

Consolidated Statements of Cash Flows

(In Thousands)

	Year Ended December 31	
	2019	2018
Operating activities		
Change in net assets	\$ 120,106	\$ 17,830
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	60,012	58,951
Unrealized gains on swap transactions, net	(353)	(1,628)
Gain on swap termination	(723)	–
Loss on lease termination	692	–
Postretirement benefit adjustments other than periodic costs	–	(98,038)
Unrealized (gains) losses on investments	(49,467)	59,512
Restricted contributions and investment income	(3,650)	(603)
Changes in operating assets and liabilities:		
Patient accounts receivable	(18,548)	(7,501)
Other receivables, inventories, and prepaid expenses	(5,104)	(2,695)
Other assets	(15,723)	(19,336)
Investments – trading	(35,394)	(26,068)
Accounts payable, accrued salaries and benefits, and accrued expenses	2,119	6,574
Due to/from third-party payors, net	22,669	(19,762)
Other long-term liabilities	6,680	83,411
Net cash provided by operating activities	83,316	50,647
Investing activities		
Asset acquisition	–	(309)
Net additions to property and equipment	(89,303)	(47,938)
Net cash used in investing activities	(89,303)	(48,247)
Financing activities		
Principal payments on long-term debt and other debt obligations	(10,915)	(9,669)
Net proceeds from issuance of long-term debt and other debt obligations	–	35,000
Payment of bond issue costs	–	(158)
Restricted contributions and investment income	3,650	603
Net cash (used in) provided by financing activities	(7,265)	25,776
(Decrease) increase in cash and cash equivalents and restricted cash	(13,252)	28,176
Cash and cash equivalents and restricted cash at beginning of year	99,449	71,273
Cash and cash equivalents and restricted cash at end of year	\$ 86,197	\$ 99,449
Reconciliation of cash and cash equivalents and restricted cash to the consolidated balance sheets:		
Cash and cash equivalents	\$ 67,962	\$ 56,926
Short-term investments	13,201	38,637
Restricted cash	5,034	3,886
	\$ 86,197	\$ 99,449
Supplemental disclosure of cash flow information		
Interest paid	\$ 12,963	\$ 7,809

See accompanying notes.

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (Dollars in Thousands)

December 31, 2019

1. Organization and Basis of Consolidation

The accompanying consolidated financial statements represent the accounts of Beacon Health System, Inc. (the Corporation) and its various affiliated corporations under the control of the Corporation (collectively, BHS). The Corporation is an Indiana not-for-profit corporation exempt from federal income tax under Internal Revenue Code (the Code) Section 501(a) as an organization described in Section 501(c)(3) and a public charity as described in Section 509(a)(3). The Corporation is the sole corporate member of the following entities:

- Elkhart General Hospital, Inc. (EGH)
- Memorial Hospital of South Bend, Inc. (MHSB)
- Beacon Health Foundation, Inc. (BHF), formerly Memorial Health Foundation, Inc.
- Beacon Medical Group, Inc. (BMG), formerly Memorial Health System, Inc.
- Beacon Health Ventures, Inc. (BHV)
- Community Occupational Medicine, Inc. (COM)
- CHA ACO, LLC (CHA ACO)
- Beacon Health, LLC (BH)
- Community Hospital of Bremen, Inc. (CHB)
- BPL Acquisitions, LLC
- Beacon Specialty Surgery, LLC (BSS)

In June 2018, The Corporation became the sole corporate member of Community Hospital of Bremen, Inc (CHB).

Beacon Health System, Inc. and Affiliated Corporations

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

1. Organization and Basis of Consolidation (continued)

EGH, MHSB, CHB, BMG, and BHF are also exempt from federal income tax under Section 501(a) of the Code as organizations described in Section 501(c)(3) and as public charities described in Sections 509(a)(1) and 509(a)(2). BHV and COM are Indiana for-profit corporations. EGH is a 365-licensed-bed (254 available) acute care community hospital located in Elkhart, Indiana. MHSB is a 657-licensed-bed (409 available) acute care trauma center located in South Bend, Indiana. CHB is a 24-bed critical access hospital located in Bremen, Indiana. EGH, MHSB, and CHB (collectively, the Hospitals) provide inpatient, outpatient, and 24-hour emergency care services for residents of Elkhart; South Bend; and Bremen, Indiana, and the surrounding communities.

BHF is organized primarily to promote and encourage philanthropic activities for the support of the Corporation and its affiliates.

BHV manages the taxable operations of the Corporation, including home care and other non-acute health care services.

COM primarily promotes population health management.

CHA ACO coordinates high-quality care for Medicare beneficiaries participating in the Medicare Shared Savings Programs.

BMG operates the physician enterprise of the Corporation.

BH improves and expands delivery and quality of health care services for the Corporation.

BPL Acquisitions, LLC is a real estate holding company established to purchase land.

BSS, formerly Memorial Spine and Neuroscience Center, LLC, previously a joint venture that is now fully owned by BMG, is an outpatient surgery center specializing in neurologic, spine, and pain control procedures.

All significant intercompany accounts and transactions have been eliminated in consolidation.

Beacon Health System, Inc. and Affiliated Corporations

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

1. Organization and Basis of Consolidation (continued)

The Corporation owns a less-than-majority ownership or controlling interest in the following:

- 50% interest in Community Health Alliance LLC, an Indiana physician hospital organization
- 42% interest in LaPorte Medical Group Surgery Center, LLP, an outpatient surgery center
- 50% interest in Valparaiso Medical Development, LLC, a professional medical building venture
- 25% interest in Magnetic Resonance Imaging, LLC, an imaging and radiology center
- 33% interest in Michiana Information Health Network, Inc., a health information exchange
- 40% interest in Elkhart Health, Fitness & Aquatics, Inc., a health fitness and aquatics center
- 10% interest in Alick's Home Medical Equipment, Inc., a home medical equipment provider
- 59% interest in South Bend Specialty Surgery Center, LLC, an outpatient surgery center. Although the Corporation owns a majority financial interest in this entity, it does not possess a controlling interest in the entity, and therefore does not consolidate the LLC.
- 50% interest in Franciscan Beacon Health, an acute care hospital located in LaPorte, Indiana

Aggregate financial information relating to these investments is as follows:

	<u>2019</u>	<u>2018</u>
Assets	\$ 104,900	\$ 83,627
Liabilities	19,427	22,542
Net income	11,880	11,650

Beacon Health System, Inc. and Affiliated Corporations

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

2. Summary of Significant Accounting Policies

At December 31, 2019 and 2018, the Corporation has \$43,406 and \$31,553, respectively, related to these equity method investments recorded in deferred charges and other assets on the consolidated balance sheets.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Although estimates are considered to be fairly stated at the time the estimates are made, actual results could differ from those estimates.

Cash Equivalents

All investments that are not limited as to use with a maturity of three months or less at the time of acquisition are reflected as cash equivalents. Cash equivalents include checking accounts, money market accounts, corporate credit card accounts, and petty cash. The carrying value of cash equivalents approximates fair value. Highly liquid debt instruments with original, short-term maturities of less than 90 days that are included as part of assets limited as to use are excluded from cash equivalents as they are commingled with longer-term investments. Amounts included in restricted cash include cash held within investments and may represent funds set aside within the investment portfolio based on management's policy or contractual arrangements.

Short-Term Investments

Short-term investments include cash reinvested on a daily basis, accrued interest on investments, and money expected to be used in less than a year. Also included in short-term investments are restricted and unrestricted investment donations that are in the process of being liquidated.

Beacon Health System, Inc. and Affiliated Corporations

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

2. Summary of Significant Accounting Policies (continued)

Assets Limited as to Use

Assets limited as to use include assets set aside by the Board of Directors (the Board) for future capital improvements and community health enhancement initiatives that the Board, at its discretion, may subsequently use for other purposes. In addition, assets limited as to use also include assets held by trustees under self-funded insurance agreements, investments externally designated under indenture or donor restrictions and money expected to be used as part of BHS's community benefit.

Investments

The Corporation classifies its investments as trading. Under a trading classification, all unrestricted realized and unrealized gains and losses are included in revenue and gains in excess of expenses.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value based on quoted market prices for those or similar investments. Dividend and interest income, realized gains and losses, and changes to fair values of investments are reported as nonoperating investment income on the consolidated statements of operations and changes in net assets.

Investments in alternative investments, primarily hedge fund of funds, that invest in marketable securities and derivative products are reported using the equity method. The estimated fair values are provided by the respective fund managers and are based on historical costs, appraisals, and other estimates that require varying degrees of judgment. Management has utilized the best available information for reported values, which in some instances are valuations as of an interim date not more than 90 days before year-end. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and may differ from the value that would have been used had a ready market for such investments existed. Resulting differences could be material. The financial statements of the hedge funds are audited annually. Equity earnings related to these alternative investments are included in nonoperating investment income. The Corporation's holding reflects net contributions to the hedge fund and an allocated share of realized and unrealized investment income and expense.

Inventories

Inventories are stated at the lower of cost (average cost method) or market.

Beacon Health System, Inc. and Affiliated Corporations

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

2. Summary of Significant Accounting Policies (continued)

Unamortized Bond Issuance Costs

Costs incurred in connection with the issuance of long-term debt are deferred and amortized over the term of the related financing, which approximates the effective interest method.

Fair Value of Financial Instruments

The Corporation's carrying amount for its financial instruments, which include cash and cash equivalents, investments and assets limited as to use, accounts receivable, debt, and interest rate and basis swaps, at December 31, 2019 and 2018, approximates fair value. The estimated fair value amounts have been determined by the Corporation using available market information and appropriate valuation methodologies.

Property and Equipment

Property and equipment are carried at cost, except for donated assets, which are recorded at fair value at the date of donation. Allowances for depreciation and amortization are computed primarily utilizing the straight-line method over the estimated useful lives of the assets, which range from 3 to 40 years.

Lease Right of Use Assets and Liabilities

The Corporation records a lease right of use asset (that is an asset that represents the Corporation's right to use the leased asset for the lease term) for leases with a term greater than 12 months and that do not meet the criteria as a sales-type lease or a direct financing lease.

The Corporation records operating lease right of use assets at the present value of future lease payments, adding initial direct costs and prepaid lease payments, reduced by any lease incentives. Operating right of use assets are amortized using the straight-line method over the related lease term. Amortization of operating lease right of use assets is included on the accompanying consolidated statement of operations and changes in net assets in other expenses.

Beacon Health System, Inc. and Affiliated Corporations

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

2. Summary of Significant Accounting Policies (continued)

The Corporation records financing lease right of use assets at the value of principal payments, adding initial direct costs and prepaid lease payments, reduced by any lease incentives. Financing right of use assets are amortized using the straight-line method over the related lease term. Amortization of financing lease right of use assets is included on the accompanying consolidated statement of operations and changes in net assets in depreciation and amortization expenses.

Asset Impairment

The Corporation considers whether indicators of impairment are present and performs the necessary tests to determine whether the carrying value of an asset is appropriate. Impairment write-downs are recognized in operating expenses at the time the impairment is identified. There was no impairment of long-lived assets in 2019 and \$537 of impairment of long-lived assets in 2018.

Deferred Charges and Other Assets

Included in deferred charges and other assets are intangible assets, goodwill, and investments in unconsolidated affiliates.

The acquisition of a business entity can result in the recording of intangible assets. Acquired definite-lived intangible assets (excluding goodwill) are amortized over the useful life of the assets. Goodwill is carried at acquisition value, less any impairment reductions.

The carrying value of goodwill amounted to approximately \$12,038 at December 31, 2019 and 2018, and is included in deferred charges and other assets on the consolidated balance sheets. Goodwill is assessed for impairment on an annual basis at the reporting unit level. If the fair value of the reporting unit is less than the carrying value, an impairment loss equal to the difference between the implied fair value of the reporting unit goodwill and the carrying value of the reporting unit goodwill is recognized. There was no impairment of goodwill in 2019 or 2018.

The Corporation accounts for its investments in less than majority owned and controlled affiliates using the equity method of accounting. Income from these investments is reflected in other revenue on the consolidated statements of operations and changes in net assets.

Beacon Health System, Inc. and Affiliated Corporations

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

2. Summary of Significant Accounting Policies (continued)

Endowment Investments

Income is received directly by BHF from BHF board-designated quasi-endowment investments and quasi-endowments with restriction and is included in investment income within both net assets with and without donor restrictions. EGH receives a portion of the income from investments in endowments directly as they are released from restriction. These endowment investments have perpetual existence.

Contributions

Unconditional pledges to give cash and other assets are reported at fair value at the date the pledge is received to the extent estimated to be collectible by the Corporation.

Net Assets Without Donor Restrictions

Net assets without donor restrictions are available for use at the discretion of the Board and/or management for general operating purposes.

Net Assets With Donor Restrictions

Net assets with donor restrictions consist of assets whose use is limited by donor-imposed, time, and/or purpose restrictions.

The Corporation reports pledges, gifts of cash, and other assets as revenue with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the net assets are reclassified as net assets without donor restriction and reported on the consolidated statements of operations and changes in net assets as net assets released from restrictions. Assets released from restrictions that are used for the purchase of property and equipment or capital purposes are reported on the consolidated statements of operations and changes in net assets as additions to net assets without restriction. Resources restricted by donors for specific operating purposes are reported in revenue without restriction, gains, and other support to the extent expended within the period.

Beacon Health System, Inc. and Affiliated Corporations

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

2. Summary of Significant Accounting Policies (continued)

Some net assets have been restricted by donors to be maintained by the Corporation in perpetuity. In accordance with the restriction, a majority of the investment income and investment gains or losses from these net assets are restricted by the donor for a specific purpose. A specified portion of income earned by the net assets is released from restriction and used for operations each year and, therefore, is included on the consolidated statements of operations and changes in net assets as other revenue.

Patient Service Revenue and Patient Accounts Receivable

Patient service revenue and patient accounts receivable are reported at the amount that reflects the consideration to which BHS expects to be entitled in exchange for providing patient care. BHS has agreements with various third-party payors that provide for payments to BHS at amounts different from its established rates. Third parties include Medicare, Medicaid, managed health care plans, and other commercial plans. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. These amounts include estimated adjustments under certain reimbursement agreements with third-party payors, which are subject to audit by the applicable administering agency. These adjustments are accrued on an estimated basis and are adjusted in future periods as final settlements are determined (see Note 4). The Hospitals provide care to all patients regardless of their ability to pay. Charity care provided is excluded from patient service revenue (see Note 5).

Performance Indicator

The consolidated statements of operations and changes in net assets include a performance indicator, revenue and gains in excess of expenses. Changes in net assets without restrictions, which are excluded from revenue and gains in excess of expenses, consistent with industry practice, include contributions of long-lived assets, including assets acquired using contributions, which, by donor restrictions, were to be used for the purpose of acquiring such assets, and postretirement benefit adjustment changes other than net periodic costs.

Beacon Health System, Inc. and Affiliated Corporations

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

2. Summary of Significant Accounting Policies (continued)

Allocation of Costs

The Corporation's ability to exercise control over consolidated entities could result in the entities having a financial position or operating results that are significantly different from those that would have been obtained if the entities were autonomous. The manner of allocating certain shared and centralized costs, such as accounts payable processing, information technology support, and other Corporation-managed administration costs, is determined by the Corporation utilizing Internal Revenue Service (IRS) transfer pricing guidance and is not audited. Alternate methods of accounting for these cost allocations may produce significantly different operating results for each of the consolidated entities.

Interest Rate and Basis Swaps

All interest rate and basis swaps are measured at fair value based on techniques consistent with the market approach. None of the swaps are designated as hedging instruments; therefore, the unrealized gains or losses on the fair value of the swaps are included in revenue and gains in excess of expenses on the consolidated statements of operations and changes in net assets.

Asset Retirement Obligations

The Corporation accounts for the fair value of legal obligations associated with long-lived asset retirements by recognizing an expense and accreting a liability over the life of the asset to cover potential legal obligations at the end of the asset's useful life. The asset retirement obligation primarily relates to future asbestos remediation related to buildings on MHSB's campus, as well as ground/soil remediation associated with the removal of underground fuel tanks. The carrying value of the obligation amounted to approximately \$4,897 and \$4,741 at December 31, 2019 and 2018, respectively, and is reflected in pension and other liabilities on the consolidated balance sheets.

Beacon Health System, Inc. and Affiliated Corporations

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

2. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. Topic 842 requires lessees to recognize assets and liabilities for most leases. Topic 842 was subsequently amended by ASU 2018-01, *Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842*, ASU 2018-10: *Codification Improvements to Topic 842, Leases*; and ASU 2018-11, *Leases (Topic 842): Targeted Improvements*. The new standard establishes a right of use (ROU) asset model that requires a lessee to recognize an ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. The new standard is effective for the Corporation on January 1, 2019, and was adopted using the modified retrospective approach.

The new standard provides a number of optional practical expedients in the transition. The Corporation has elected the “package of practical expedients,” which allows it not to reassess under the new standard its prior conclusions about lease identification, lease classification, and initial direct costs. The Corporation has not elected the use of hindsight or the practical expedient pertaining to land easements as the land easement expedient is not applicable to the Corporation. The Corporation separates lease and non-lease components for real property. For all other classes of assets, the Corporation has elected not to separate lease and non-lease components.

The new standard also provides practical expedients for ongoing accounting. The Corporation has elected the short-term lease recognition exemption for all leases that are less than 12 months. This means, for those leases that qualify, the Corporation will not recognize ROU assets or lease liabilities, and this includes not recognizing ROU assets or lease liabilities for existing short-term leases of those assets in transition (see Note 7).

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. The amendments in this update clarify the classification of eight types of transactions, including proceeds from the settlement of insurance claims and distributions received from equity method investees, on the statement of cash flows to reduce diversity in practices. BHS was required to adopt the new ASU for the year ended December 31, 2019 (and interim periods within the annual period beginning January 1, 2020), and the guidance did not have a material impact to the consolidated financial statements.

Beacon Health System, Inc. and Affiliated Corporations

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

2. Summary of Significant Accounting Policies (continued)

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This ASU requires the entity to show the changes in total cash, cash equivalents, restricted cash, and restricted cash equivalents on the statement of cash flows. The Corporation adopted this ASU by applying a retrospective transition method, which requires a restatement of its consolidated statements of cash flows for all periods presented.

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*. This ASU provides a more robust framework to determine when a transaction should be accounted for as a contribution or as an exchange transaction and provides additional guidance about how to determine whether a contribution is conditional. BHS adopted the new ASU for the fiscal year beginning on January 1, 2019, including interim periods, and this ASU did not have a material impact on its consolidated 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*. This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. BHS is required to adopt the new ASU for the fiscal year beginning January 1, 2021, and is currently evaluating the impact this guidance will have on its consolidated financial statements.

3. Acquisition

BHS accounts for business combinations in accordance with Accounting Standards Codification (ASC) 958-805, *Not-for-Profit Entities – Business Combinations*, under which the purchase of an acquired business is allocated to its identifiable assets and liabilities based on estimated fair values. The excess of the consideration paid over the amount allocated to the assets and liabilities, if any, is recorded to goodwill. For acquisitions in which no consideration is paid, the fair value of the net assets acquired is recorded as an inherent contribution to nonoperating income. BHS typically engages third-party valuation specialists to assist in the fair value determination of certain assets and liabilities.

Beacon Health System, Inc. and Affiliated Corporations

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

3. Acquisition (continued)

Effective June 1, 2018, BHS entered into a combination agreement (Agreement) with CHB to become the sole corporate member of CHB. The purpose of the Agreement was to provide BHS with greater presence in the surrounding market while promoting greater access to patients in the market. Additionally, the Agreement provided CHB with the financial stability to maintain its presence in the local community as a critical access hospital and provide additional services through access to capital and BHS's expansive specialty medical services.

For accounting purposes, this transaction is considered an acquisition. No cash or other consideration was transferred, however, BHS became the co-borrower for CHB's outstanding debt obligations. Goodwill of \$1,759 was recorded as a result of this transaction.

The acquisition-date fair value of identifiable assets and liabilities of CHB as of June 1, 2018, consisted of the following:

Cash and cash equivalents	\$ (67)
Accounts receivable	3,042
Other current assets	316
Property and equipment	11,200
Current liabilities	(2,379)
Long-term debt	(13,871)
Goodwill	<u>\$ 1,759</u>

The valuation of assets and liabilities was completed in 2018. The fair value of accounts receivable, other current assets, and current liabilities is generally equal to the carrying value because of their short-term nature. The fair value of long-term debt approximates the carrying value based on the terms of the obligations. The fair value of property and equipment was determined by an independent third-party valuation utilizing market-based valuations methods, which are generally Level 3 fair value measurements.

Beacon Health System, Inc. and Affiliated Corporations

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

3. Acquisition (continued)

The following are the operating results and changes in net assets attributable to CHB since the date of acquisition included on the accompanying consolidated statement of operations and changes in net assets for the years ended December 31:

	<u>2019</u>	<u>2018</u>
Unrestricted revenue, gains, and other support	\$ 19,212	\$ 12,617
Loss from operations	(834)	(1,278)
Expenses in excess of revenue and gains	(790)	(1,251)
Change in net assets without donor restrictions	3,001	3,803

Operating expenses for the year ended December 31, 2018, included costs related to the integration of CHB into BHS, transition costs related to benefit plans, information technology costs, and other shared service costs.

4. Revenue and Accounts Receivable

Patient Service Revenue

Patient service revenue is reported at the amount that reflects the consideration to which the Corporation expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Corporation bills the patients and third-party payors 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 the Corporation. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Corporation believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in the Corporation's hospitals receiving inpatient acute care services. The Corporation measures the performance obligation from

Beacon Health System, Inc. and Affiliated Corporations

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

4. Revenue and Accounts Receivable (continued)

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. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Corporation has elected to apply the optional exemption and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially 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.

BHS uses a portfolio approach to account for categories of patient contracts as a collective group rather than recognizing revenue on an individual contract basis. The portfolios consist of major payor classes for inpatient revenue and outpatient revenue. Based on the historical collection trends and other analysis, BHS believes that revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach were used.

The Corporation determines the transaction price, which involves significant estimates and judgment, based on standard charges for goods and services provided, reduced by explicit and implicit price concessions, including contractual adjustments provided to third-party payors, discounts provided to uninsured and underinsured patients in accordance with the Corporation's policy and/or implicit price concessions based on the historical collection experience of patient accounts.

Beacon Health System, Inc. and Affiliated Corporations

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

4. Revenue and Accounts Receivable (continued)

The Corporation determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. A summary of the payment arrangements with major third-party payors 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:** Reimbursements for 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.

Disproportionate Share Hospital (DSH) payments by the state of Indiana (the State), if eligible, 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. In 2016, MHSB qualified for the State DSH program for State fiscal years (SFYs) 2016 and 2017. In 2018, MHSB qualified for the State DSH program for SFYs 2018 and 2019. MHSB recorded patient service revenue of \$7,212 and \$20,143 for the 12 months ended December 31, 2019 and 2018, respectively. The following is a summary by SFY:

	<u>2019</u>	<u>2018</u>
SFY 2020	\$ 3,393	\$ —
SFY 2019	6,380	5,680
SFY 2018	1,454	13,050
SFY 2017	(4,015)	—
SFY 2016	—	1,413
	<u>\$ 7,212</u>	<u>\$ 20,143</u>

Beacon Health System, Inc. and Affiliated Corporations

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

4. Revenue and Accounts Receivable (continued)

In April 2014, the Indiana Hospital Assessment Fee program (HAF) was approved by the Centers for Medicare & Medicaid Services (CMS) retroactively for the period July 1, 2013 to June 30, 2017. The current state budget extended HAF through June 30, 2020. Under HAF, Indiana hospitals receive additional federal Medicaid funds for the state's health care system, administered by the Indiana Family and Social Services Administration. HAF includes both a payment to the Hospitals from the state (included in patient service revenue) and an assessment (included in supplies and other expenses) against the Hospitals, which is paid to the state the same year. BHS recognized HAF revenues and assessments as follows:

	Year Recognized		Total
	2019	2018	
Year ended December 31, 2019, HAF: Revenue	\$ 68,233	\$ —	\$ 68,233
Year ended December 31, 2019, HAF: Assessments	(37,874)	—	(37,874)
Year ended December 31, 2018, HAF: Revenue	—	58,073	58,073
Year ended December 31, 2018, HAF: Assessments	(1,859)	(34,406)	(36,265)
Year ended December 31, 2017, HAF: Assessments	—	(368)	(368)
	\$ 28,500	\$ 23,299	\$ 51,799

HAF revenue is included in patient service revenue and HAF assessments are included in supplies and other expenses on the consolidated statements of operations and changes in net assets.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well

Beacon Health System, Inc. and Affiliated Corporations

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

4. Revenue and Accounts Receivable (continued)

as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Corporation's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Corporation. In addition, the contracts the Corporation has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the Corporation's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Corporation also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The Corporation estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change.

Estimates for DSH, settlements with third-party payors, and other contractual adjustments can differ from actual reimbursement based on the results of subsequent reviews, government regulatory changes, and cost report audits. For the years ended December 31, 2019 and 2018, patient service revenue has been decreased and increased by approximately \$2,620 and \$1,304, respectively, for changes in estimates of third-party payor settlements related to prior years. There were no other significant changes to the judgments used to determine the transaction price in prior periods.

Beacon Health System, Inc. and Affiliated Corporations

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

4. Revenue and Accounts Receivable (continued)

Management has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the payors and service lines that render services to patients. Patient service revenue recognized for the years ended December 31, 2019 and 2018, from major payor sources is as follows:

Payor	2019	2018
Anthem	\$ 229,753	\$ 216,471
Commercial	294,091	307,489
Medicare	293,397	280,833
Medicaid	127,632	135,491
Self-pay	40,835	34,830
Patient service revenue	\$ 985,708	\$ 975,114

The composition of patient care service revenue based on service lines the Corporation operates for the years ended December 31, 2019 and 2018, is as follows:

Service lines	2019	2018
Hospitals	\$ 849,178	\$ 835,250
Medical Group	123,095	117,335
Health Ventures	4,511	13,390
Other	8,924	9,139
Patient service revenue	\$ 985,708	\$ 975,114

Patient service revenues related to the Medicare program are approximately 30% and 29% of patient service revenue for the years ended December 31, 2019 and 2018, respectively. Patient service revenues related to the Medicaid program are approximately 13% and 14% of patient service revenue for the years ended December 31, 2019 and 2018, respectively. Amounts reported under the Anthem payor contract account for approximately 23% and 22% of patient service revenue for the years ended December 31, 2019 and 2018, respectively.

Beacon Health System, Inc. and Affiliated Corporations

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

4. Revenue and Accounts Receivable (continued)

Credit is granted without collateral to patients, most of whom are local residents and are insured under third-party arrangements. Major components of patient accounts receivable include approximately 22% from Medicare, 7% from Medicaid, and approximately 21% from Anthem at December 31, 2019, and approximately 26% from Medicare, 11% from Medicaid, and approximately 25% from Anthem at December 31, 2018.

The Corporation has elected the practical expedient and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Corporation'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 payor pays for that services will be one year or less. However, the Corporation does, in certain instances, enter into payment agreements 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.

The Corporation has applied the practical expedient and all incremental customer contract acquisition costs are expensed as they are incurred as the amortization period of the asset that the Corporation, otherwise, would have recognized is one year or less in duration.

Other Revenue

Other revenues consist of revenues associated with retail services, such as pharmacy and cafeteria, ancillary services and strategic initiatives with entities with less than majority ownership or noncontrolling interests (Joint Ventures) by the Corporation, health and fitness membership, and leased space rental agreements with third parties. Revenues associated with pharmacy services are estimated as prescriptions are filled and collected by patients. Retail sales are recorded at the time of service. Revenues associated with Joint Ventures are recognized on the equity method. Health and fitness revenue is recognized over the membership period and leased space rental revenue is recognized over the term of the lease.

Beacon Health System, Inc. and Affiliated Corporations

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

4. Revenue and Accounts Receivable (continued)

The composition of other revenue for the years ended December 31 is as follows:

<u>Service lines</u>	<u>2019</u>	<u>2018</u>
Retail service revenue	\$ 13,294	\$ 12,194
Joint Venture revenue	4,056	4,417
Grant revenue	4,400	4,852
Health and fitness revenue	5,936	4,446
Rental revenue	3,240	3,111
Other revenue	19,281	17,756
	<u>\$ 50,207</u>	<u>\$ 46,776</u>

5. Charity Care

Patients who meet the Corporation's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

Charity care represents unreimbursed costs for services rendered at a reduced fee, or no fee, due to the inability of the patient to pay for services. The amount of the charity care provided was approximately \$5,714 and \$6,652 for the years ended December 31, 2019 and 2018, respectively, at estimated cost. The Corporation utilized a cost to charge ratio methodology for the cost analysis. The only reimbursement for financial assistance care received by the Corporation is determined through a settlement process in the Hospitals' annual Medicare cost report filing. Financial assistance care reimbursement was approximately \$1,022 and \$1,017 for the years ended December 31, 2019 and 2018, respectively.

Beacon Health System, Inc. and Affiliated Corporations

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

6. Retirement Plans

The Corporation maintains a defined-contribution employee retirement and savings plan for all employees who have attained 21 years of age and have completed 12 months of continuous service. The Corporation's contributions are based on 100% of the employee's contributions, up to 4% of the employee's salary. Both employee and corporation contributions are subject to certain limitations. Included in employee benefits on the consolidated statements of operations and changes in net assets are contributions of approximately \$11,993 for the year ended December 31, 2018. Effective December 31, 2018, the CHB defined-contribution employee retirement and savings plan was merged into the Corporation's plan.

The Corporation historically maintained a noncontributory, defined-benefit pension plan (the MEM Plan), which included MHSB, BMG, BHF, and BHV with a final average pay plan and a cash balance plan. The cash balance plan was frozen for new participants and accrual of benefits as of December 31, 2007, and the much smaller grandfathered final average pay plan, with fewer participants, is also frozen. The assets in the cash balance plan continued to earn interest, but service credits were frozen.

The Corporation historically maintained a noncontributory, defined-benefit pension plan (the EGH Plan) for EGH. As of December 31, 2007, the EGH Plan was frozen for all participants who had not attained the age of 50 and accumulated 15 years of vesting service as of December 31, 2007. No new participants were allowed into the plan as of December 31, 2007. Participants who were at least 50 years old and had accumulated 15 years of service at December 31, 2007, continued to accrue benefits under the terms of the EGH Plan until it was frozen effective January 1, 2013. Additionally, a lump-sum payout option was effective for all participants on July 1, 2012.

In October 2017, the Board of Directors of the Corporation approved the termination of the MEM Plan and the EGH Plan (the Plans) effective December 31, 2017. An Application for Determination was filed with the Internal Revenue Service (IRS) in February 2018 with respect to the Plans' termination. A Form 500 Standard Termination Notice was filed with the Pension Benefit Guaranty Corporation (PBGC) in February 2018. The 60-day PBGC waiting period lapsed without objection by the PBGC. The Corporation has received a favorable determination from the IRS regarding the termination of the Plans. In October 2018, all pension assets were converted to cash. All participants who selected a lump-sum cash payout were paid in full and annuity contracts were purchased from American General Life Insurance, Inc. for all remaining participants. The Corporation recorded a receivable from the Plans of approximately \$3,632 and \$3,667 at December 31, 2019 and 2018, respectively, for assets that were not convertible to cash at the time

Beacon Health System, Inc. and Affiliated Corporations

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

6. Retirement Plans (continued)

of the lump-sum payout and annuity purchase. The plan benefits and benefit administration became the responsibility of the annuity provider. The Corporation no longer has a pension liability.

The measurement date of December 31 is utilized for both plans. The summary of the changes in the benefit obligation and plan assets and the resulting funded status of the plans are as follows:

	December 31, 2018		
	EGH	MEM	Total
Accumulated benefit obligation	\$ —	\$ —	\$ —
Change in projected benefit obligation:			
Projected benefit obligation at beginning of year	\$ 156,308	\$ 139,120	\$ 295,428
Service cost	375	375	750
Interest cost	4,058	3,603	7,661
Actuarial loss	(804)	5,021	4,217
Benefits and administrative expenses paid	(83,599)	(70,126)	(153,725)
Lump-sum benefits paid	(76,338)	(77,993)	(154,331)
Projected benefit obligation at end of year	\$ —	\$ —	\$ —
Change in plan assets:			
Fair value of plan assets at beginning of year	\$ 145,334	\$ 135,765	\$ 281,099
Actual return on plan assets	(5,870)	(4,125)	(9,995)
Employer contributions	21,677	18,942	40,619
Benefits and administrative fees paid	(83,599)	(70,126)	(153,725)
Lump-sum benefits paid	(76,338)	(77,993)	(154,331)
Due to BHS	(1,204)	(2,463)	(3,667)
Fair value of plan assets at end of year	\$ —	\$ —	\$ —

Beacon Health System, Inc. and Affiliated Corporations

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

6. Retirement Plans (continued)

Included in unrestricted net assets are the following amounts that have been recognized in net periodic pension cost:

	At December 31, 2018		
	EGH	MEM	Total
Funded status at December 31, 2017	\$ (10,974)	\$ (3,355)	\$ (14,329)
Actuarial net loss not recognized in periodic pension cost at December 31, 2018	57,896	40,139	98,035
Employer contributions	21,677	18,942	40,619
Net periodic benefit costs	(2,162)	(409)	(2,571)
Effect of settlement	(65,233)	(52,854)	(118,087)
Due to BHS	(1,204)	(2,463)	(3,667)
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

The components of net periodic benefit cost for the defined-benefit pension plans were as follows:

	Year Ended December 31, 2018		
	EGH	MEM	Total
Service cost	\$ 375	\$ 375	\$ 750
Interest cost	4,058	3,603	7,661
Expected return on plan assets	(6,057)	(5,689)	(11,746)
Amortization of recognized losses	3,786	2,120	5,906
Benefit cost	<u>\$ 2,162</u>	<u>\$ 409</u>	<u>\$ 2,571</u>

Beacon Health System, Inc. and Affiliated Corporations

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

7. Lease Obligations

The Corporation has leases for certain office space and equipment. The lease term begins at the lease commencement date and is determined on that date based on the noncancelable term of the lease. The Corporation's operating lease terms range from seven to ten years, with the obligations ending in February 2029. The lease agreements contain variable lease payments and the Corporation does not intend to extend the lease agreements. The Corporation's financing lease terms are 5 years, ending in May 2023 and October 2023. The lease agreement has a standard lease payment, with a purchase option at the end of the agreement.

The Corporation is using a discount rate of 3.2% for operating leases, which represents the Corporation's incremental borrowing rate. The total operating lease payments that will be incurred over the life of the operating leases are \$6,036. The Corporation recorded an operating ROU asset and operating lease liability of \$10,069 at January 1, 2019. In July 2019, one of the operating leases was terminated. The results of the lease termination were that \$4,728 was written off for the operating ROU asset, \$4,742 was written off for the operating lease liability, and \$646 was taken as loss on the lease termination.

The Corporation is using a discount rate of 2.572% for financing leases, which is the rate that embedded in the lease agreements. The total financing lease payments that will be incurred over the life of the leases are \$2,537, of which \$2,383 is amortization and \$154 is interest. The Corporation recorded a financing ROU asset and financing lease liability of \$445 in June 2019 and an additional ROU asset and financing lease liability of \$1,938 in November 2019.

Beacon Health System, Inc. and Affiliated Corporations

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

7. Lease Obligations (continued)

The current portion of the operating and financing ROU asset is included in other current assets and the long-term portion of the operating and financing ROU asset is included in deferred charges and other assets. The current portion of the operating and financing lease liability is included in other current liabilities and the long-term portion of the operating and financing ROU is included in other long-term liabilities. The table below sets forth a summary of the Corporation's ROU assets and lease liabilities at December 31:

	<u>2019</u>
Current portion of operating ROU	\$ 647
Long-term portion of operating ROU	<u>3,844</u>
Total operating ROU assets	<u>\$ 4,491</u>
Current portion of operating lease liability	\$ 647
Long-term portion of operating lease liability	<u>3,857</u>
Total operating lease liability	<u>\$ 4,504</u>
Current portion of financing ROU	\$ 498
Long-term portion of financing ROU	<u>1,755</u>
Total financing ROU assets	<u>\$ 2,253</u>
Current portion of financing lease liability	\$ 478
Long-term portion of financing lease liability	<u>1,782</u>
Total financing lease liability	<u>\$ 2,260</u>

Beacon Health System, Inc. and Affiliated Corporations

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

7. Lease Obligations (continued)

At December 31, 2019, the minimum future lease payments under these leases are as follows:

	<u>Operating</u>	<u>Financing</u>	<u>Total</u>
2020	\$ 782	\$ 531	\$ 1,313
2021	782	531	1,313
2022	782	531	1,313
2023	794	462	1,256
2024	809	345	1,154
Thereafter	1,033	—	1,033
	<u>\$ 4,982</u>	<u>\$ 2,400</u>	<u>\$ 7,382</u>

Operating lease expense for the year ended December 31, 2019, was approximately \$1,081, which is included in supplies and other expenses.

Amortization expense for financing leases at December 31, 2019, was \$130, which is included in depreciation and amortization expense. Interest expense for financing leases at December 31, 2019, was \$15, which is included in interest expense.

The Corporation leases certain office space and equipment under noncancelable operating leases. At December 31, 2018, the minimum future rental payments under these leases are as follows:

2019	\$ 2,056
2020	1,647
2021	1,422
2022	1,331
2023	1,326
Thereafter	6,217
	<u>\$ 13,999</u>

Rental expense for the year ended December 31, 2018, was approximately \$7,409, which is included in supplies and other expenses.

Beacon Health System, Inc. and Affiliated Corporations

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

8. Long-Term Debt

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

	<u>2019</u>	<u>2018</u>
Tax-exempt bonds issued on behalf of BHS by the Indiana Finance Authority:		
BHS Revenue Bonds, Series 2018, bearing interest at a variable rate of 1.98% at December 31, 2019, due in varying annual installments on December 15 of each year through 2043, with a mandatory tender date of December 15, 2028	\$ 33,750	\$ 35,000
BHS Revenue Refunding Bonds, Series 2017A, bearing interest at variable rates with a floating fixed interest rate swap of 1.69% at December 31, 2019, due in varying annual installments on August 15 of each year through 2033, with a mandatory tender date of September 8, 2022	36,780	37,015
BHS Revenue Refunding Bonds, Series 2017B, bearing interest at a variable rate of 1.69% at December 31, 2019, due annually on May 1 of each year through 2033	38,120	39,190
BHS Revenue Bonds, Series 2013A, bearing interest at fixed rates between 3.50% and 5.00% due in varying annual installments on August 15 of each year through 2034	79,750	84,935
BHS Revenue Note, Series 2013B, bearing interest at a fixed rate of 1.17%, at December 31, 2019, due in monthly installments through 2020	371	1,475
Tax-exempt bonds issued on behalf of BHS by the Hospital Authority of St. Joseph County:		
BHS Revenue Bonds, Series 2016, bearing interest at fixed rate of 1.39% due in varying annual installments through 2046	48,800	49,640
BHS Revenue Bonds, Series 2013C, bearing interest at fixed rates between 3.75% and 5.00% due in varying annual installments on August 15 of each year through 2044	46,130	46,130
Loans and Line of Credit issued on behalf of Community Hospital of Bremen by Lake City Bank:		
Loan payable to Lake City Bank dated August 4, 2004, semi-annual payments of principal and interest at variable rate (4.25% as of December 31, 2019), due January 1, 2025, secured by real property.	2,267	2,616

Beacon Health System, Inc. and Affiliated Corporations

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

8. Long-Term Debt (continued)

	<u>2019</u>	<u>2018</u>
Loan on behalf of Community Hospital of Bremen by United States Department of Agriculture:		
Loan payable to United States Department of Agriculture dated April 25, 2005, semi-annual payments of principal and interest, interest at fixed rate of 4.25% due April 15, 2045, secured by real property.	\$ 9,897	\$ 10,108
Mortgage – bearing interest at variable rates of 3.25% and 3.96% at December 31, 2019 and 2018, respectively, London Interbank Offered Rate (LIBOR) plus 1.50% due to varying annual installments on the last day of every month through 2020	108	296
Other obligations	181	541
	<u>296,154</u>	306,946
Bond issuance costs	(1,770)	(1,888)
Unamortized premium	11,843	12,678
	<u>306,227</u>	317,736
Less current portion	9,889	10,724
	<u>\$ 296,338</u>	<u>\$ 307,012</u>

In December 2018, The Indiana Finance Authority, on behalf of BHS, issued revenue bonds Series 2018 (2018 Bonds) in the principal amount of \$35,000,000. The 2018 Bonds are private placement bonds, bearing interest at a variable monthly interest rate. Proceeds from the bonds were utilized to fund existing and future capital projects.

In September 2017, the Indiana Finance Authority, on behalf of BHS, issued revenue refunding bonds Series 2017A (2017A) in the principal amount of \$37,240. The 2017A Bonds are private placement bonds, bearing interest at a variable monthly interest rate. The proceeds from 2017A were utilized to refund the MHSB Revenue Bonds, Series 2008A.

In September 2017, the Indiana Finance Authority, on behalf of BHS, issued revenue refunding bonds Series 2017B (2017B) in the principal amount of \$40,210. The 2017B Bonds are private placement bonds, bearing interest at a variable monthly interest rate. The proceeds from 2017B were utilized to refund the EGH Revenue Bonds, Series 2008.

Beacon Health System, Inc. and Affiliated Corporations

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

8. Long-Term Debt (continued)

In August 2016, the Hospital Authority of St. Joseph County issued Hospital Revenue Bonds, Series 2016 (Series 2016 Bonds), on behalf of the Obligated Group. The Series 2016 Bonds are \$50,000 private placement bonds bearing interest at a fixed rate of 1.39%, due in varying annual installments through 2046. Proceeds from the bonds were utilized to fund existing and future capital projects.

In May 2013, the Indiana Finance Authority, on behalf of BHS, issued revenue refunding bonds Series 2013A (2013A) in the principal amount of \$116,705. The interest rate for 2013A is a fixed rate varying between 2.00% and 5.00%. The proceeds from 2013A were utilized to refund the MHSB Revenue Bonds, Series 2008B; MHSB Revenue Bonds, Series 1998A; and EGH Revenue Bonds, Series 1998.

In May 2013, the Indiana Finance Authority, on behalf of BHS, issued a revenue note Series 2013B (2013B) in the principal amount of \$7,492. The interest rate for 2013B is a fixed rate of 1.17%. Proceeds from the bond were utilized for the purchase of a helicopter.

In May 2013, the Hospital Authority of St. Joseph County, on behalf of BHS, issued revenue bonds Series 2013C (2013C) in the principal amount of \$46,130. The interest rate for 2013C is a fixed rate varying between 3.75% and 5.00%. The proceeds from 2013C were utilized to refund the MHSB Revenue Bonds, Series 2007. The remaining proceeds are set aside in externally designated investments for future projects.

The Corporation is the Obligated Group Agent for the Obligated Group under the Master Trust Indentures. The Obligated Group includes the Corporation, MHSB, EGH, and BMG. MHF and BHV constitute designated affiliates under the terms of the Master Trust Indentures. The bonds are secured by pledged revenues of the Obligated Group and contain various covenants, including achievement of specified financial ratios and limitations on additional debt.

The loan agreements require maintenance of certain debt service coverage ratios, limit additional borrowings, and require compliance with various other restrictive covenants. The Corporation was in compliance with all covenants during 2019 and 2018.

In June 2018, BHS became the sole corporate member of CHB. CHB's long-term debt instruments at December 31, 2019, included a loan from Lake City Bank and a loan from the United States Department of Agriculture (USDA).

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

8. Long-Term Debt (continued)

CHB's loan with Lake City Bank, dated August 4, 2004, bears interest at a variable rate equal to the prime rate, minus 0.50%, adjusted annually with a floor of 3.50% and a ceiling of 8.50%. CHB's outstanding loan with Lake City Bank is secured by virtually all assets of CHB.

CHB obtained a direct construction loan, dated April 25, 2005, from the USDA in the amount of \$12,000. The loan bears interest at a fixed of 4.25% to be repaid over 40 years. The loan is secured by the real property.

Interest capitalized for the years ended December 31, 2019 and 2018, was approximately \$1,197 and \$512, respectively.

Maturities of long-term debt and other obligations for each of the next five years are as follows:

2020	\$	9,889
2021		10,759
2022		11,154
2023		11,320
2024		11,740

9. Line of Credit

The Corporation has a \$2,000 revolving line of credit with 1st Source Bank. The line of credit was renewed and extended through May 31, 2020. Of the \$2,000 revolving line of credit, \$50 for the years ended December 31, 2019, was segregated for the beneficiary of a self-insurance trust. Conversely, \$1,950 was available to be drawn upon at December 31, 2019 and 2018. No draws were taken by MHSB in either 2019 or 2018. The interest rate on the line of credit is the prime rate minus 0.5%. No amounts were outstanding on the line of credit as of December 31, 2019 or 2018.

Beacon Health System, Inc. and Affiliated Corporations

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

10. Interest Rate and Basis Swaps

MHSB has various derivative instruments related to long-term debt obligations to manage the exposure on interest rates and MHSB's interest expense. Through the use of derivative financial instruments, MHSB is exposed to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contracts. When the fair value of the derivative contract is positive, the counterparty owes MHSB, which creates credit risk to MHSB. When the fair value of the derivative contract is negative, MHSB owes the counterparty, and there is no credit risk to MHSB at that point in time. MHSB minimizes the credit risk in derivative instruments by entering into transactions that require the counterparty to post collateral for the benefit of the fair value of the derivative contract. Market risk is the adverse effect on the value of the financial instrument that results from a change in interest rates. The management of market risk associated with interest rate changes is defined in MHSB's Swap Management Policy (the Policy). The Policy includes continuous monitoring of market conditions, emergent opportunities, and risks. Swap management is meant to be long term in nature, and any modifications to the program are reviewed for the long-term costs and benefits.

Management also mitigates risk through periodic reviews of its derivative position in the context of its total blended cost of capital.

In May 2019, MHSB terminated one Morgan Stanley swap with a notional amount of \$81,000. MHSB realized a net gain of \$723, which is included in the nonoperating income on the consolidated statement of operations and changes in net assets.

The derivative instruments require adherence to collateral posting thresholds. For the years ended December 31, 2019 and 2018, the mark-to-market valuation on the swap portfolio was below the required collateral posting threshold of \$30,000 with PNC Bank, \$25,000 with Morgan Stanley, \$25,000 with Wells Fargo, and \$25,000 with Deutsche Bank.

Beacon Health System, Inc. and Affiliated Corporations

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

10. Interest Rate and Basis Swaps (continued)

The following is a summary of the outstanding fixed payor rate swaps as of December 31, 2019:

Origination Date	Notional Amounts	MHSB Receives	MHSB Pays	Maturity Date
March 2006	\$ 36,780	61.90% of 30-day LIBOR plus 0.31%	3.5150%	August 2033
March 2003	7,050	65.00% of 30-day LIBOR plus 0.45%	3.8100	August 2034

The following is a summary of the outstanding fixed payor rate swaps as of December 31, 2018:

Origination Date	Notional Amounts	MHSB Receives	MHSB Pays	Maturity Date
March 2006	\$ 37,015	61.90% of 30-day LIBOR plus 0.31%	3.5150%	August 2033
March 2003	7,350	65.00% of 30-day LIBOR plus 0.45%	3.8100	August 2034

The following is a summary of the outstanding basis rate swaps as of December 31, 2019:

Origination Date	Notional Amounts	MHSB Receives	MHSB Pays	Maturity Date
January 2007	\$ 42,000	74.600% of 1M LIBOR	SIFMA tax-exempt index + 0.0715%	January 2041
March 2001	140,000	75.125% of 3M LIBOR	SIFMA tax-exempt index	March 2031
July 2009	63,000	74.600% of 1M LIBOR	SIFMA tax-exempt index + 0.1700%	January 2041

Beacon Health System, Inc. and Affiliated Corporations

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

10. Interest Rate and Basis Swaps (continued)

The following swap agreement was terminated in May 2019 and is not included in the table above:

Origination Date	Notional Amounts	MHSB Receives	MHSB Pays	Maturity Date
August 2009	\$ 81,000	61.70% of 1M LIBOR + 0.76%	SIFMA tax-exempt index + 0.17%	August 2041

Net interest paid or received under the above swap agreements is included in interest expense. The net differential for MHSB as a result of the swap agreements amounted to payments of approximately \$(7) and \$208 for the 12 months ended December 31, 2019 and 2018, respectively, and is reflected as an increase to interest expense. The swap agreements do not qualify for hedge accounting; therefore, the change in the fair value of the swap agreements is recorded as an unrealized nonoperating (loss) gain of approximately \$(353) and \$1,628 for the 12 months ended December 31, 2019 and 2018, respectively.

The fair value of derivative instruments at December 31 is as follows:

	Balance Sheet Location	2019	2018
Derivatives not designated as hedging instruments:			
Interest rate contracts	Interest rate and basis swap receivable	\$ 323	\$ —
	Interest rate and basis swaps payable	(14,884)	(14,051)
		<u>\$ (14,561)</u>	<u>\$ (14,051)</u>

Beacon Health System, Inc. and Affiliated Corporations

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

11. Liquidity and Availability of Resources

As of December 31 financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, scheduled principal payments on debt, and capital expenditures not financed with debt, were as follows:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 67,962	\$ 56,926
Short-term investments	13,201	38,637
Internally designated investments	755,371	674,952
Restricted cash	5,034	3,886
Externally designated investments – insurance trust	2,854	2,747
Board-designated endowment	27,947	25,002
Endowment investments	8,712	7,322
Total financial assets	<u>881,081</u>	<u>809,472</u>
Less amounts unavailable for general expenditure due to:		
Restricted bond funds	(7,029)	(38,845)
Restricted by donors with purpose restrictions	(13,847)	(11,938)
Restricted by donors in perpetuity	(475)	(475)
Restricted for insurance trust	(2,854)	(2,747)
Board designated	(27,947)	(25,002)
Add liquidity resources:		
Unused line of credit	<u>1,950</u>	<u>1,950</u>
Total financial assets available for general expenditure within one year	<u>\$ 830,879</u>	<u>\$ 732,415</u>

BHS has various investments to maintain and strengthen its financial well-being and liquidity. The management of investments is defined by the Corporation's investment policy and is under the direction of an investment committee consisting of external advisors and BHS employees with the knowledge and understanding to undertake the monitoring of market conditions, emergent opportunities, and risks to help maximize the financial strength of the investments while considering the liquidity needs of BHS.

Beacon Health System, Inc. and Affiliated Corporations

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

12. Investments

Total investment return for the years ended December 31 is summarized as follows:

	2019	2018
Investment return:		
Net unrealized gains (losses) on investments	\$ 32,707	\$ (54,687)
Net realized gains on investments	42,443	36,846
Net equity earnings (losses) on alternative investments	16,760	(4,826)
	<u>\$ 91,910</u>	<u>\$ (22,667)</u>
Reported as:		
Investment income, net (nonoperating)	\$ 90,848	\$ (21,923)
Investment income (loss) (net assets with donor restrictions)	1,062	(744)
	<u>\$ 91,910</u>	<u>\$ (22,667)</u>

The Corporation's investments are exposed to various kinds and levels of risk. Equity mutual funds expose the Corporation to market risk, performance risk, and liquidity risk. Market risk is the risk associated with major movements of the equity markets. Performance risk is the risk associated with a corporation's operating performance. Fixed-income securities expose the Corporation to interest rate risk, credit risk, and liquidity risk. As interest rates change, the value of many fixed-income securities is affected, including those with fixed interest rates. Credit risk is the risk that the obligor of the security will not fulfill its obligations. Liquidity risk is affected by the willingness of market participants to buy and sell given securities. Liquidity risk tends to be higher for equities related to small capitalization companies. Due to the volatility of the capital markets, there is a reasonable possibility of changes in fair value, resulting in additional gains and losses in the near term.

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

13. Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, accounts receivable, and accounts payable and accrued expenses are reasonable estimates of their fair values due to the short-term nature of these financial instruments.

ASC 820-10-50-2, *Fair Value Measurement*, establishes a three-level valuation hierarchy. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in an active market and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instruments.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Beacon Health System, Inc. and Affiliated Corporations

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

13. Fair Value of Financial Instruments (continued)

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The following tables present the financial instruments carried as of December 31, by caption, on the consolidated balance sheets by the valuation hierarchy defined above for those instruments carried at fair value, as well as the alternative investments that are reported on the equity method of accounting. Deferred compensation investments are included in other assets on the consolidated balance sheets.

	2019					
	Level 1	Level 2	Level 3	Fair Value	Equity Method	Carrying Value
Assets						
Short-term investments ^(a)	\$ 13,201	\$ —	\$ —	\$ 13,201	\$ —	\$ 13,201
Internally designated investments:						
Blended fund	294,196	—	—	294,196	—	294,196
Total mutual funds	294,196	—	—	294,196	—	294,196
Common stock ^(a)	71,493	—	—	71,493	—	71,493
Alternatives:						
International equity	—	—	—	—	30	30
Master limited partnership	—	—	—	—	36,562	36,562
Private equity	—	—	—	—	66,406	66,406
Real estate investment trust	—	—	—	—	35,652	35,652
International	—	—	—	—	14,036	14,036
Commingled funds	—	—	—	—	162,867	162,867
Other	—	—	—	—	36,042	36,042
Long/short hedge	—	—	—	—	12,177	12,177
Global	—	—	—	—	5,490	5,490
Multi-strategy	—	—	—	—	20,420	20,420
Total alternatives	—	—	—	—	389,682	389,682
Total internally designated investments	365,689	—	—	365,689	389,682	755,371

Beacon Health System, Inc. and Affiliated Corporations

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

13. Fair Value of Financial Instruments (continued)

	2019					
	Level 1	Level 2	Level 3	Fair Value	Equity Method	Carrying Value
Assets (continued)						
Restricted cash ^(a)	\$ 5,034	\$ –	\$ –	\$ 5,034	\$ –	\$ 5,034
Externally designated investment – insurance trust:						
Fixed income ^(a)	2,854	–	–	2,854	–	2,854
Board-designated endowment:						
Mutual funds: ^(a)						
Equities	1,356	–	–	1,356	–	1,356
Blended fund	15,462	–	–	15,462	–	15,462
Fixed income ^{(a), (b)}	453	–	–	453	–	453
Equities ^(a)	1,628	–	–	1,628	–	1,628
Alternatives	–	–	–	–	9,048	9,048
Total board-designated endowment	18,899	–	–	18,899	9,048	27,947
Endowment:						
Mutual funds: ^(a)						
Blended fund	5,154	–	–	5,154	–	5,154
Equities ^(a)	542	–	–	542	–	542
Alternatives	–	–	–	–	3,016	3,016
Total endowment	5,696	–	–	5,696	3,016	8,712
Swap ^(c)	–	–	323	323	–	323
Total	\$ 411,373	\$ –	\$ 323	\$ 411,696	\$ 401,746	\$ 813,422
Liabilities						
Swaps ^(c)	\$ –	\$ –	\$ (14,884)	\$ (14,884)	\$ –	\$ (14,884)
Total	\$ –	\$ –	\$ (14,884)	\$ (14,884)	\$ –	\$ (14,884)

Beacon Health System, Inc. and Affiliated Corporations

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

13. Fair Value of Financial Instruments (continued)

	2018					
	Level 1	Level 2	Level 3	Fair Value	Equity Method	Carrying Value
Assets						
Short-term investments ^(a)	\$ 38,637	\$ —	\$ —	\$ 38,637	\$ —	\$ 38,637
Internally designated investments:						
Blended fund	322,130	—	—	322,130	—	322,130
Total mutual funds	322,130	—	—	322,130	—	322,130
Common stock ^(a)	5,151	—	—	5,151	—	5,151
Alternatives:						
International equity	—	—	—	—	1,018	1,018
Master limited partnership	—	—	—	—	39,096	39,096
Private equity	—	—	—	—	49,261	49,261
Real estate investment trust	—	—	—	—	33,716	33,716
International	—	—	—	—	14,494	14,494
Commingled funds	—	—	—	—	148,370	148,370
Other	—	—	—	—	19,714	19,714
Long/short hedge	—	—	—	—	14,787	14,787
Global	—	—	—	—	4,480	4,480
Multi-strategy	—	—	—	—	22,735	22,735
Total alternatives	—	—	—	—	347,671	347,671
Total internally designated investments	327,281	—	—	327,281	347,671	674,952

Beacon Health System, Inc. and Affiliated Corporations

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

13. Fair Value of Financial Instruments (continued)

	2018					
	Level 1	Level 2	Level 3	Fair Value	Equity Method	Carrying Value
Assets (continued)						
Restricted cash ^(a)	\$ 3,866	\$ —	\$ —	\$ 3,866	\$ —	\$ 3,866
Externally designated investment – insurance trust:						
Fixed income ^(a)	2,747	—	—	2,747	—	2,747
Board-designated endowment:						
Mutual funds: ^(a)						
Equities	1,151	—	—	1,151	—	1,151
Blended fund	13,528	—	—	13,528	—	13,528
Fixed income ^{(a), (b)}	396	—	—	396	—	396
Equities ^(a)	1,525	—	—	1,525	—	1,525
Alternatives	—	—	—	—	8,402	8,402
Total board-designated endowment	16,600	—	—	16,600	8,402	25,002
Endowment:						
Mutual funds: ^(a)						
Blended fund	4,210	—	—	4,210	—	4,210
Money market ^(a)	1	—	—	1	—	1
Equities ^(a)	474	—	—	474	—	474
Alternatives	—	—	—	—	2,637	2,637
Total endowment	4,685	—	—	4,685	2,637	7,322
Total	\$ 393,816	\$ —	\$ —	\$ 393,816	\$ 358,710	\$ 752,526
Liabilities						
Swaps ^(c)	\$ —	\$ —	\$ (14,051)	\$ (14,051)	\$ —	\$ (14,051)
Total	\$ —	\$ —	\$ (14,051)	\$ (14,051)	\$ —	\$ (14,051)

^(a) Pricing for mutual funds, short-term investments, equities, and government obligations is based on the open market and is valued on a daily basis.

Beacon Health System, Inc. and Affiliated Corporations

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

13. Fair Value of Financial Instruments (continued)

- (b) Pricing is based on the fair value of the securities and is valued on a monthly basis. Information used to value this account is provided by International Data Corp. (IDC). In the event that a security is not actively traded in the open market, the characteristics are matched to a comparable issue from the IDC data to appropriately value the holding.
- (c) Pricing is based on discounted cash flows to reflect a credit spread adjustment to the LIBOR discount curve in order to reflect “nonperformance” risk. The credit spread adjustment is derived from how other comparable entities’ bonds price and trade in the market. As the credit spread adjustment is a significant component of the swap valuation and is an unobservable input, the swaps have been classified as Level 3.

The following table sets forth a summary of changes in the fair value of the Corporation’s Level 3 swaps for the years ended December 31:

	<u>2019</u>	<u>2018</u>
Balance, beginning of year	\$ (14,051)	\$ (15,679)
Unrealized gains, net	353	1,628
Realized gains, net	723	–
Sales of swaps	<u>(1,586)</u>	–
Balance, end of year	<u>\$ (14,561)</u>	<u>\$ (14,051)</u>

For the year ended December 31, 2019, the Corporation recorded approximately \$353 in nonoperating gains, which relates to losses of \$483 due to the change in the swaps’ value and gains of \$28 to reflect the fair value of the uncollateralized portion of the swap balance. For the year ended December 31, 2018, the Corporation recorded approximately \$1,628 in nonoperating gains, which relates to gains of \$1,958 due to the change in the swaps’ value and loss of \$330 to reflect the fair value of the uncollateralized portion of the swap balance.

Beacon Health System, Inc. and Affiliated Corporations

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

14. Functional Expenses

The Corporation provides general health care services to residents within its geographic location. Expenses related to this and general and administrative functions for the years ended December 31 are as follows:

	2019			2018		
	Health Care Services	Administrative Functions	Total	Health Care Services	Administrative Functions	Total
Salaries and wages	\$ 413,288	\$ 36,695	\$ 449,983	\$ 385,266	\$ 32,831	\$ 418,097
Employee benefits	95,182	13,155	108,337	98,545	13,046	111,591
Supplies and other	261,996	6,586	268,582	246,337	3,785	250,122
Professional fees and purchased services	84,958	31,003	115,961	89,486	28,164	117,650
Depreciation and amortization	54,969	5,043	60,012	54,487	4,464	58,951
Interest	7,502	314	7,816	7,843	62	7,905
Total	\$ 917,895	\$ 92,796	\$1,010,691	\$ 881,964	\$ 82,352	\$ 964,316

15. Commitments

BMG is a guarantor for a portion of a loan of an unconsolidated joint venture, Valparaiso Medical Development, LLC, in which BMG records an equity interest. The portion of debt guaranteed by BMG is a maximum of \$4,316 and \$4,555 at December 31, 2019 and 2018, respectively. No amounts have been paid or accrued pursuant to this guarantee as of December 31, 2019 or 2018. The loan is collateralized by the assets, including the facility and land, held by Valparaiso Medical Development, LLC.

The Corporation has total commitments to invest \$159,300 in certain hedge funds and alternative investments. During the years ended December 31, 2019 and 2018, the Corporation invested approximately \$32,266 and \$20,811, respectively. The Corporation had a remaining unfunded commitment of approximately \$40,058 at December 31, 2019.

Beacon Health System, Inc. and Affiliated Corporations

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

16. Professional Liability Insurance

The Corporation is involved in lawsuits and various governmental investigations, audits, reviews, and administrative proceedings arising in the ordinary course of business. Additionally, the Corporation may be subject to additional claims alleging professional liability for medical malpractice. The Corporation has a claims made policy that covers all entities and has a \$25,000 deductible per claim. Historically, MHSB and EGH have obtained separate professional liability insurance coverage under claims-made policies. The claims made policy covers all years other than years that were self-funded. MHSB was self-funded for its professional and general liability coverage for the period of December 1, 2003 to November 30, 2009. EGH was self-funded for its professional and general liability coverage for the period of March 1, 2010 to April 1, 2012. The Indiana Medical Malpractice Act has provided recovery up to \$1,250, per occurrence, with the first \$250 covered by the respective entity, for claims prior to July 1, 2017. For the period of July 1, 2017 to June 30, 2019, the coverage limit was \$1,650, per occurrence, with the first \$400 covered by the respective entity. Effective July 1, 2019, the coverage limit was increased to \$1,800, per occurrence, with the first \$500 covered by the respective entity. MHSB maintains a trust fund for its self-insurance program, which it will continue to maintain until all claims have been settled. The fair value of the trust fund at December 31, 2019 and 2018, was approximately \$2,854 and \$2,747, respectively. The amount of malpractice and general liability claims, including a component for incurred but not reported claims, was approximately \$5,000 and \$5,097, gross of an insurance recoverable at December 31, 2019 and 2018, respectively, which is included in pension and other liabilities. The interest rate used to discount these claims was 3% at December 31, 2019 and 2018. In addition, at December 31, 2019 and 2018, the Corporation recognized a recoverable insurance asset of approximately \$4,287, which is included in deferred charges and other assets.

17. Income Taxes

The Corporation and its related affiliates, except for BHV, have been determined to qualify as exempt from federal income tax under Section 501(a) as organizations described in Section 501(c)(3) of the Code.

Most of the income received by the Corporation and its related affiliates, except for BHV, is exempt from taxation, as the income is related to the mission of the organization. Accordingly, there is no material provision for income tax for these entities. However, some of the income received by exempt entities is subject to taxation as unrelated business income. The Corporation and its subsidiaries file federal and various state income tax returns in the United States.

Beacon Health System, Inc. and Affiliated Corporations

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

17. Income Taxes (continued)

ASC 740, *Income Taxes*, requires that realization of an uncertain income tax position is more likely than not (i.e., greater than 50% likelihood of receiving a benefit) before it is recognized in the financial statements as the amount most likely to be realized assuming a review by tax authorities having all relevant information and applying current conventions. This interpretation also clarifies the financial statement classification of tax-related penalties and interest and sets forth new disclosures regarding unrecognized tax benefits. No amount was recorded for the years ended December 31, 2019 or 2018.

18. Net Assets Without Donor Restrictions

Net assets without donor restrictions are comprised of the following at December 31:

	<u>2019</u>	<u>2018</u>
Undesignated	\$ 1,415,501	\$ 1,300,249
Board-designated endowment	27,947	25,002
	<u>\$ 1,443,448</u>	<u>\$ 1,325,251</u>

Board-Designated Endowment – The Board has designated a portion of net assets without donor restrictions as a board-designated endowment for the purpose of funding the Foundation’s operational expenses.

19. Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes at December 31:

	<u>2019</u>	<u>2018</u>
Net assets currently available for:		
Children’s services	\$ 2,481	\$ 2,431
Education	2,625	1,965
Patient care	7,702	6,693
System priorities	705	505
Community impact	334	344
Quasi endowments	475	475
	<u>\$ 14,322</u>	<u>\$ 12,413</u>

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

19. Net Assets With Donor Restrictions (continued)

The various purposes of the above donor restricted amounts are as follows:

Children's services – Programs and services for pediatric patients throughout the Corporation

Education – Formal and continuing education

Patient care – Specific patient care services lines (i.e., cancer, cardiac, and trauma)

System priorities – Specific system initiatives as determined throughout the Corporation requiring formal approval and funding

Community impact – Initiatives that focus on preventive care and education throughout our community

Quasi endowments – Designated to be held in perpetuity, income generated to be used for indignant care and/or area of greatest need

20. Subsequent Events

The Corporation evaluated events and transactions occurring subsequent to December 31, 2019, through March 5, 2020, the date of issuance of the accompanying consolidated financial statements. During this period, there were no subsequent events requiring recognition or disclosure in the consolidated financial statements.

Supplementary Information



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Report of Independent Auditors on Supplementary Information

The Board of Directors
Beacon Health System, Inc. and Affiliated Corporations

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The following financial information is presented for purposes of additional analysis 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 audits 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. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Ernst & Young LLP

March 5, 2020

Beacon Health System, Inc. and Affiliated Corporations

Details of Consolidated Balance Sheet
(In Thousands)

December 31, 2019

	Consolidated	Eliminations	Memorial Hospital of South Bend, Inc.	Beacon Medical Group, Inc.	Beacon Health Foundation, Inc.	Beacon Health Ventures, Inc.	Elkhart General Hospital, Inc.	Beacon Health System, Inc.	Community Hospital of Bremen, Inc.
Assets									
Current assets:									
Cash and cash equivalents	\$ 67,962	\$ –	\$ 11,977	\$ 3,665	\$ 26	\$ 604	\$ 11,553	\$ 38,792	\$ 1,345
Short-term investments	13,201	–	12	–	1,219	–	–	11,970	–
Patient accounts receivable	180,883	(3,931)	107,471	20,704	–	448	52,105	1,088	2,998
Due from third-party payors	22,879	–	20,000	1,401	–	–	1,217	–	261
Other receivables	7,490	–	3,339	1,280	292	197	484	1,898	–
Other current assets	1,146	–	499	–	–	647	–	–	–
Inventories	24,908	–	17,209	–	–	136	7,304	–	259
Prepaid expenses	19,365	–	2,015	492	–	–	1,267	15,543	48
Due from affiliates	–	(10,398)	770	405	–	–	–	9,223	–
Total current assets	337,834	(14,329)	163,292	27,947	1,537	2,032	73,930	78,514	4,911
Assets limited as to use:									
Internally designated investments	755,371	–	–	–	–	–	–	755,371	–
Restricted cash	5,034	–	–	–	3,780	–	–	–	1,254
Externally designated investments – insurance trust	2,854	–	2,824	20	–	10	–	–	–
Board-designated endowment	27,947	–	–	–	27,947	–	–	–	–
Endowment and temporarily restricted investments	8,712	–	–	–	1,368	–	7,344	–	–
	799,918	–	2,824	20	33,095	10	7,344	755,371	1,254
Property and equipment:									
Land	51,925	–	21,501	4,015	–	–	3,846	21,784	779
Buildings and improvements	856,141	–	529,157	51,650	94	1,431	257,633	7,034	9,142
Furniture and equipment	529,342	–	309,525	35,612	163	2,697	123,834	54,854	2,657
Construction-in-progress	48,801	–	4,688	2,520	–	23	10,385	31,135	50
	1,486,209	–	864,871	93,797	257	4,151	395,698	114,807	12,628
Less allowances for depreciation and amortization	794,488	–	489,637	47,565	168	3,359	212,357	39,840	1,562
	691,721	–	375,234	46,232	89	792	183,341	74,967	11,066
Deferred charges and other assets	71,600	(12,367)	6,294	16,284	315	10,871	3,692	44,752	1,759
Interest in net assets of recipient organization	–	(6,978)	6,978	–	–	–	–	–	–
Interest rate swap	323	–	323	–	–	–	–	–	–
Total assets	\$ 1,901,396	\$ (33,674)	\$ 554,945	\$ 90,483	\$ 35,036	\$ 13,705	\$ 268,307	\$ 953,604	\$ 18,990

Beacon Health System, Inc. and Affiliated Corporations

Details of Consolidated Balance Sheet (continued)
(In Thousands)

December 31, 2019

	Consolidated	Eliminations	Memorial Hospital of South Bend, Inc.	Beacon Medical Group, Inc.	Beacon Health Foundation, Inc.	Beacon Health Ventures, Inc.	Elkhart General Hospital, Inc.	Beacon Health System, Inc.	Community Hospital of Bremen, Inc.
Liabilities and net assets									
Current liabilities:									
Accounts payable	\$ 55,291	\$ -	\$ 20,236	\$ 9,812	\$ -	\$ 638	\$ 12,491	\$ 11,693	\$ 421
Accrued salaries and benefits	39,169	(3,931)	19,037	8,490	-	465	9,484	5,574	50
Accrued expenses	4,294	-	2,103	-	-	-	868	1,211	112
Other current liabilities	1,125	-	478	-	-	647	-	-	-
Due to third-party payors	4,751	-	4,555	-	-	-	176	-	20
Due to affiliates	-	(10,398)	-	-	257	6,202	4	713	3,222
Current maturities of long-term debt	9,889	-	4,373	-	-	-	2,901	2,045	570
Total current liabilities	114,519	(14,329)	50,782	18,302	257	7,952	25,924	21,236	4,395
Noncurrent liabilities:									
Long-term debt, less current maturities	296,338	-	139,396	181	-	-	65,056	80,111	11,594
Other liabilities	17,885	-	9,891	23	-	3,869	1,753	2,349	-
Interest rate and basis swaps	14,884	-	14,884	-	-	-	-	-	-
Total liabilities	443,626	(14,329)	214,953	18,506	257	11,821	92,733	103,696	15,989
Net assets:									
Without donor restrictions	1,443,448	(12,367)	333,014	71,977	27,801	1,884	168,230	849,908	3,001
With donor restrictions	14,322	(6,978)	6,978	-	6,978	-	7,344	-	-
Total net assets	1,457,770	(19,345)	339,992	71,977	34,779	1,884	175,574	849,908	3,001
Total liabilities and net assets	\$ 1,901,396	\$ (33,674)	\$ 554,945	\$ 90,483	\$ 35,036	\$ 13,705	\$ 268,307	\$ 953,604	\$ 18,990

Beacon Health System, Inc. and Affiliated Corporations

Details of Consolidated Balance Sheet
(In Thousands)

December 31, 2018

	Consolidated	Eliminations	Memorial Hospital of South Bend, Inc.	Beacon Medical Group, Inc.	Beacon Health Foundation, Inc.	Beacon Health Ventures, Inc.	Elkhart General Hospital, Inc.	Beacon Health System, Inc.	Community Hospital of Bremen, Inc.
Assets									
Current assets:									
Cash and cash equivalents	\$ 56,926	\$ –	\$ (3,694)	\$ 6,167	\$ 100	\$ 4,602	\$ 13,337	\$ 35,377	\$ 1,037
Short-term investments	38,637	–	12	–	1,050	–	–	37,575	–
Patient accounts receivable	162,335	(5,340)	97,057	17,310	–	1,834	47,948	989	2,537
Due from third-party payors	46,739	–	44,999	1,133	–	–	607	–	–
Other receivables	8,256	–	3,577	1,410	811	262	1,302	891	3
Inventories	25,192	–	17,814	90	–	163	6,970	–	155
Prepaid expenses	14,357	–	1,774	755	–	113	1,348	10,219	148
Due from affiliates	–	(6,943)	4	9	–	–	1	6,929	–
Total current assets	352,442	(12,283)	161,543	26,874	1,961	6,974	71,513	91,980	3,880
Assets limited as to use:									
Internally designated investments	674,952	–	–	–	–	–	–	674,952	–
Restricted cash	3,886	–	–	–	2,632	–	–	–	1,254
Externally designated investments – insurance trust	2,747	–	2,718	19	–	10	–	–	–
Board-designated endowment	25,002	–	–	–	25,002	–	–	–	–
Endowment and temporarily restricted investments	7,322	–	–	–	742	–	6,580	–	–
	713,909	–	2,718	19	28,376	10	6,580	674,952	1,254
Property and equipment:									
Land	53,342	–	21,501	3,968	–	–	3,846	23,248	779
Buildings and improvements	824,120	–	504,886	50,077	19	1,437	254,069	4,598	9,034
Furniture and equipment	500,329	–	294,503	35,753	162	2,687	117,263	48,063	1,898
Construction-in-progress	21,295	–	3,936	648	75	–	1,468	15,147	21
	1,399,086	–	824,826	90,446	256	4,124	376,646	91,056	11,732
Less allowances for depreciation and amortization	737,060	–	460,418	43,089	156	3,149	195,121	34,623	504
	662,026	–	364,408	47,357	100	975	181,525	56,433	11,228
Deferred charges and other assets	57,411	(12,367)	4,530	18,904	521	7,027	4,896	32,129	1,771
Interest in net assets of recipient organization	–	(5,758)	5,758	–	–	–	–	–	–
Total assets	\$ 1,785,788	\$ (30,408)	\$ 538,957	\$ 93,154	\$ 30,958	\$ 14,986	\$ 264,514	\$ 855,494	\$ 18,133

Beacon Health System, Inc. and Affiliated Corporations

Details of Consolidated Balance Sheet (continued)
(In Thousands)

December 31, 2018

	Consolidated	Eliminations	Memorial Hospital of South Bend, Inc.	Beacon Medical Group, Inc.	Beacon Health Foundation, Inc.	Beacon Health Ventures, Inc.	Elkhart General Hospital, Inc.	Beacon Health System, Inc.	Community Hospital of Bremen, Inc.
Liabilities and net assets									
Current liabilities:									
Accounts payable	\$ 45,980	\$ –	\$ 19,435	\$ 8,088	\$ 26	\$ 1,860	\$ 10,987	\$ 5,427	\$ 157
Accrued salaries and benefits	46,223	(5,340)	21,913	9,244	–	648	11,500	6,951	1,307
Accrued expenses	5,557	–	2,428	8	–	97	939	1,945	140
Due to third-party payors	5,942	–	5,469	–	–	–	473	–	–
Due to affiliates	–	(6,943)	–	–	2	6,941	–	–	–
Current maturities of long-term debt	10,724	–	5,179	50	–	–	2,844	2,090	561
Total current liabilities	114,426	(12,283)	54,424	17,390	28	9,546	26,743	16,413	2,165
Noncurrent liabilities:									
Long-term debt, less current maturities	307,012	–	144,265	240	–	–	68,211	82,131	12,165
Pension and other liabilities	12,635	–	8,085	23	–	12	1,812	2,703	–
Interest rate and basis swaps	14,051	–	14,051	–	–	–	–	–	–
Total liabilities	448,124	(12,283)	220,825	17,653	28	9,558	96,766	101,247	14,330
Net assets:									
Without donor restrictions	1,325,251	(12,367)	312,374	75,501	25,097	5,428	161,168	754,247	3,803
With donor restrictions	12,413	(5,758)	5,758	–	5,833	–	6,580	–	–
Total net assets	1,337,664	(18,125)	318,132	75,501	30,930	5,428	167,748	754,247	3,803
Total liabilities and net assets	\$ 1,785,788	\$ (30,408)	\$ 538,957	\$ 93,154	\$ 30,958	\$ 14,986	\$ 264,514	\$ 855,494	\$ 18,133

Beacon Health System, Inc. and Affiliated Corporations

Details of Consolidated Statement of Operations and Changes in Net Assets
(In Thousands)

Year Ended December 31, 2019

	Consolidated	Eliminations	Memorial Hospital of South Bend, Inc.	Beacon Medical Group, Inc.	Beacon Health Foundation, Inc.	Beacon Health Ventures, Inc.	Elkhart General Hospital, Inc.	Beacon Health System, Inc.	Community Hospital of Bremen, Inc.
Unrestricted revenue, gains, and other support									
Patient service revenue	\$ 985,708	\$ –	\$ 539,841	\$ 123,095	\$ –	\$ 4,511	\$ 290,629	\$ 8,924	\$ 18,708
Other revenue	50,207	(6,212)	26,616	9,565	1,142	2,624	9,448	6,520	504
Net assets released from restrictions used for operations	926	–	587	29	115	–	61	134	–
	<u>1,036,841</u>	<u>(6,212)</u>	<u>567,044</u>	<u>132,689</u>	<u>1,257</u>	<u>7,135</u>	<u>300,138</u>	<u>15,578</u>	<u>19,212</u>
Expenses									
Salaries and wages	449,983	–	165,239	143,227	685	3,913	88,107	40,437	8,375
Employee benefits	108,337	–	41,741	25,723	160	1,139	23,102	14,515	1,957
Supplies and other	268,582	(6,212)	145,900	23,072	373	3,403	83,584	14,286	4,176
Management fees	–	–	41,724	13,583	218	918	22,855	(81,127)	1,829
Professional fees and purchased services	115,961	–	43,124	10,003	69	385	28,533	31,727	2,120
Depreciation and amortization	60,012	–	30,323	5,544	12	235	17,626	5,207	1,065
Interest	7,816	–	5,186	1	–	–	1,791	314	524
	<u>1,010,691</u>	<u>(6,212)</u>	<u>473,237</u>	<u>221,153</u>	<u>1,517</u>	<u>9,993</u>	<u>265,598</u>	<u>25,359</u>	<u>20,046</u>
Income (loss) from operations	26,150	–	93,807	(88,464)	(260)	(2,858)	34,540	(9,781)	(834)
Nonoperating income (expenses)									
Investment income, net	90,848	–	181	71	2,952	6	22	87,572	44
Unrealized gains on swap transactions, net	353	–	353	–	–	–	–	–	–
Realized gain on swap terminator	723	–	723	–	–	–	–	–	–
Loss on lease termination	(692)	–	–	–	–	(692)	–	–	–
Revenue and gains in excess of (less than) expenses	<u>117,382</u>	<u>–</u>	<u>95,064</u>	<u>(88,393)</u>	<u>2,692</u>	<u>(3,544)</u>	<u>34,562</u>	<u>77,791</u>	<u>(790)</u>

Beacon Health System, Inc. and Affiliated Corporations

Details of Consolidated Statement of Operations and Changes in Net Assets (continued)

(In Thousands)

Year Ended December 31, 2019

	Consolidated	Eliminations	Memorial Hospital of South Bend, Inc.	Beacon Medical Group, Inc.	Beacon Health Foundation, Inc.	Beacon Health Ventures, Inc.	Elkhart General Hospital, Inc.	Beacon Health System, Inc.	Community Hospital of Bremen, Inc.
Net assets without donor restrictions									
Revenue and gains in excess of (less than) expenses	\$ 117,382	\$ –	\$ 95,064	\$ (88,393)	\$ 2,692	\$ (3,544)	\$ 34,562	\$ 77,791	\$ (790)
Net assets released from restrictions used for capital purposes	815	–	734	–	–	–	81	–	–
Other	–	–	(75,158)	84,869	–	–	(27,581)	17,870	–
Contribution of net assets of Community Hospital of Bremen	–	–	–	–	12	–	–	–	(12)
Increase (decrease) in net assets without donor restrictions	118,197	–	20,640	(3,524)	2,704	(3,544)	7,062	95,661	(802)
Net assets with donor restrictions									
Purpose-restricted contributions	2,588	–	–	–	2,588	–	–	–	–
Investment income	1,062	–	–	–	298	–	764	–	–
Net assets released from restrictions used for operating and capital purposes	(1,741)	–	–	–	(1,741)	–	–	–	–
Change in interest in recipient organization	–	(1,220)	1,220	–	–	–	–	–	–
Increase (decrease) in net assets with donor restrictions	1,909	(1,220)	1,220	–	1,145	–	764	–	–
Increase (decrease) in net assets	120,106	(1,220)	21,860	(3,524)	3,849	(3,544)	7,826	95,661	(802)
Net assets at beginning of year	1,337,664	(18,125)	318,132	75,501	30,930	5,428	167,748	754,247	3,803
Net assets at end of year	\$ 1,457,770	\$ (19,345)	\$ 339,992	\$ 71,977	\$ 34,779	\$ 1,884	\$ 175,574	\$ 849,908	\$ 3,001

Beacon Health System, Inc. and Affiliated Corporations

Details of Consolidated Statement of Operations and Changes in Net Assets
(In Thousands)

Year Ended December 31, 2018

	Consolidated	Eliminations	Memorial Hospital of South Bend, Inc.	Beacon Medical Group, Inc.	Beacon Health Foundation, Inc.	Beacon Health Ventures, Inc.	Elkhart General Hospital, Inc.	Beacon Health System, Inc.	Community Hospital of Bremen, Inc.
Unrestricted revenue, gains, and other support									
Patient service revenue	\$ 975,114	\$ –	\$ 543,838	\$ 117,335	\$ –	\$ 13,390	\$ 280,131	\$ 9,139	\$ 11,281
Other revenue	46,776	(7,571)	21,555	7,208	1,121	3,291	9,392	10,444	1,336
Net assets released from restrictions used for operations	1,054	–	589	32	77	–	15	341	–
	1,022,944	(7,571)	565,982	124,575	1,198	16,681	289,538	19,924	12,617
Expenses									
Salaries and wages	418,097	–	151,191	136,045	–	10,723	82,149	32,835	5,154
Employee benefits	111,591	–	42,259	25,513	–	2,783	25,156	13,052	2,828
Supplies and other	250,122	(7,571)	137,248	21,567	326	3,762	79,083	12,998	2,709
Management fees	–	–	35,014	11,474	153	1,239	23,031	(71,578)	667
Professional fees and purchased services	117,650	–	46,196	5,257	1,095	717	28,970	33,703	1,712
Depreciation and amortization	58,951	–	30,115	5,470	6	434	17,810	4,620	496
Interest	7,905	–	5,604	2	–	–	1,908	62	329
	964,316	(7,571)	447,627	205,328	1,580	19,658	258,107	25,692	13,895
Income (loss) from operations	58,628	–	118,355	(80,753)	(382)	(2,977)	31,431	(5,768)	(1,278)
Nonoperating income (expenses)									
Investment income, net	(21,923)	–	122	61	(2,301)	5	22	(19,859)	27
Unrealized gains on swap transactions, net	1,628	–	1,628	–	–	–	–	–	–
Pension settlement	(118,087)	–	–	(52,854)	–	–	(65,233)	–	–
Revenue and gains in excess of (less than) expenses	(79,754)	–	120,105	(133,546)	(2,683)	(2,972)	(33,780)	(25,627)	(1,251)

Beacon Health System, Inc. and Affiliated Corporations

Details of Consolidated Statement of Operations and Changes in Net Assets (continued)

(In Thousands)

Year Ended December 31, 2018

	Consolidated	Eliminations	Memorial Hospital of South Bend, Inc.	Beacon Medical Group, Inc.	Beacon Health Foundation, Inc.	Beacon Health Ventures, Inc.	Elkhart General Hospital, Inc.	Beacon Health System, Inc.	Community Hospital of Bremen, Inc.
Net assets without donor restrictions									
Revenue and gains in excess of (less than) expenses	\$ (79,754)	\$ –	\$ 120,105	\$ (133,546)	\$ (2,683)	\$ (2,972)	\$ (33,780)	\$ (25,627)	\$ (1,251)
Net assets released from restrictions used for capital purposes	1,187	–	1,155	–	–	–	27	5	–
Other	6	–	(99,873)	96,123	910	–	(21,377)	19,169	5,054
Postretirement benefit adjustments other than periodic costs	98,035	–	–	40,139	–	–	57,896	–	–
Increase (decrease) in net assets without donor restrictions	19,474	–	21,387	2,716	(1,773)	(2,972)	2,766	(6,453)	3,803
Net assets with donor restrictions									
Purpose-restricted contributions	1,347	–	–	–	1,347	–	–	–	–
Investment income	(744)	–	–	–	(156)	–	(588)	–	–
Net assets released from restrictions used for operating and capital purposes	(2,247)	–	–	–	(2,247)	–	–	–	–
Change in interest in recipient organization	–	1,056	(1,056)	–	–	–	–	–	–
(Decrease) increase in net assets with donor restrictions	(1,644)	1,056	(1,056)	–	(1,056)	–	(588)	–	–
Increase (decrease) in net assets	17,830	1,056	20,331	2,716	(2,829)	(2,972)	2,178	(6,453)	3,803
Net assets at beginning of year	1,319,834	(19,181)	297,801	72,785	33,759	8,400	165,570	760,700	–
Net assets at end of year	\$ 1,337,664	\$ (18,125)	\$ 318,132	\$ 75,501	\$ 30,930	\$ 5,428	\$ 167,748	\$ 754,247	\$ 3,803

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