The Methodist Hospitals, Inc.

Consolidated Financial Report

December 31, 2019

The Methodist Hospitals, Inc.

Contents

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Independent Auditor's Report

To the Board of Directors
The Methodist Hospitals, Inc.

We have audited the accompanying consolidated financial statements of The Methodist Hospitals, Inc. (the "Hospital"), which comprise the consolidated balance sheet as of December 31, 2019 and 2018 and the related consolidated statements of operations, 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 Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Methodist Hospitals, Inc. as of December 31, 2019 and 2018 and the consolidated results of its operations, changes in net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2 to the consolidated financial statements, the Hospital adopted Accounting Standards Codification (ASC) 842, *Leases*, using a modified retrospective transition method effective January 1, 2019. Our opinion is not modified with respect to this matter.

Plante & Moran, PLLC

April 24, 2020

The Methodist Hospitals, Inc.

Consolidated Balance Sheet

December 31, 2019 and 2018

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	$ 23,867,445	$ 27,344,669
Short-term investments (Note 6)	603,597	585,543
Patient accounts receivable (Note 3)	38,318,290	42,367,404
Cost report settlements receivable (Note 4)	27,173,816	16,091,097
Other current assets (Note 9)	22,327,294	22,776,840
Total current assets	112,290,442	109,165,553
Assets Limited as to Use (Note 6)	110,272,707	108,629,625
Property and Equipment - Net (Note 10)	131,043,819	138,651,937
Right-of-use Operating Lease Assets (Note 14)	12,478,146	-
Other Assets	2,382,681	4,743,159
Total assets	**$ 368,467,795**	**$ 361,190,274**
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 15,820,302	$ 16,434,509
Current portion of long-term debt (Note 12)	2,674,296	2,552,245
Right-of-use operating lease obligation - Current portion (Note 14)	2,705,131	-
Cost report settlements payable (Note 4)	6,059,825	6,645,566
Accrued liabilities and other (Note 11)	17,146,571	16,616,765
Total current liabilities	44,406,125	42,249,085
Long-term Debt - Net of current portion (Note 12)	55,736,806	58,689,196
Right-of-use Operating Lease Obligation - Net of current portion (Note 14)	9,910,472	-
Other Liabilities (Note 13)	15,142,645	13,140,240
Total liabilities	125,196,048	114,078,521
Net Assets		
Without donor restrictions	242,869,167	246,681,823
With donor restrictions	402,580	429,930
Total net assets	243,271,747	247,111,753
Total liabilities and net assets	**$ 368,467,795**	**$ 361,190,274**

The Methodist Hospitals, Inc.

Consolidated Statement of Operations

Years Ended December 31, 2019 and 2018

	2019	2018
Revenue, Gains, and Other Support		
Patient service revenue	$ 280,837,078	$ 297,969,942
Other operating revenue	5,442,229	5,596,444
Medicaid disproportionate share revenue	68,044,191	58,627,542
Net assets released from restrictions used for operations	333,350	275,982
Total revenue, gains, and other support	354,656,848	362,469,910
Operating Expenses		
Salaries and wages	149,674,183	150,820,953
Employee benefits and payroll taxes	35,506,995	37,899,525
Supplies	57,816,881	63,834,280
Outside services	53,097,295	49,453,676
Professional and other liability costs	3,531,659	3,134,173
Utilities	6,938,932	7,075,262
Repairs and maintenance	9,367,235	9,228,497
Medicaid assessment fee (Note 4)	17,509,084	15,885,317
Depreciation and amortization	18,147,458	19,140,637
Interest expense	3,157,298	3,286,993
Other	8,558,249	8,625,561
Total operating expenses	363,305,269	368,384,874
Operating Loss	(8,648,421)	(5,914,964)
Nonoperating Income		
Investment income	12,264,424	4,405,915
Other (loss) income	(3,572,671)	443,841
Total nonoperating income	8,691,753	4,849,756
Excess of Revenue Over (Under) Expenses	43,332	(1,065,208)
Pension-related Changes Other than Net Periodic Cost (Note 16)	(3,855,988)	3,824,752
(Decrease) Increase in Net Assets without Donor Restrictions	**$ (3,812,656)**	**$ 2,759,544**

The Methodist Hospitals, Inc.

Consolidated Statement of Changes in Net Assets

Years Ended December 31, 2019 and 2018

	2019	2018
Net Assets without Donor Restrictions		
Excess of revenue over (under) expenses	$ 43,332	$ (1,065,208)
Pension-related changes other than net periodic cost	(3,855,988)	3,824,752
(Decrease) increase in net assets without donor restrictions	(3,812,656)	2,759,544
Net Assets with Donor Restrictions		
Restricted contributions	306,000	330,419
Net assets released from restriction	(333,350)	(275,982)
(Decrease) increase in net assets with donor restrictions	(27,350)	54,437
(Decrease) Increase in Net Assets	(3,840,006)	2,813,981
Net Assets - Beginning of year	247,111,753	244,297,772
Net Assets - End of year	**$ 243,271,747**	**$ 247,111,753**

See notes to consolidated financial statements.

The Methodist Hospitals, Inc.

Consolidated Statement of Cash Flows

Years Ended December 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
(Decrease) increase in net assets	$ (3,840,006)	$ 2,813,981
Adjustments to reconcile (decrease) increase in net assets to net cash and cash equivalents from operating activities:		
Depreciation and amortization	18,147,458	19,140,637
Net change in unrealized net (gains) losses on investments	(8,461,712)	12,951,589
Realized gains on investments	(544,085)	(13,852,558)
Pension-related changes other than net periodic costs	3,855,988	(3,824,752)
Loss (gain) on disposal of property and equipment	213,295	(94,712)
Amortization of bond premium	(318,677)	(318,677)
Amortization of right-of-use operating lease asset	137,457	-
Amortization of debt issuance costs	40,582	40,582
Changes in operating assets and liabilities that provided (used) cash and cash equivalents:		
Accounts receivable	4,049,114	6,546,301
Other current assets	449,546	(6,587,588)
Costs report settlements receivable	(11,082,719)	6,633,029
Other assets	2,360,478	90,192
Accounts payable	(614,207)	5,142,039
Accrued liabilities and other	529,806	(866,983)
Cost report settlements payable	(585,741)	(932,008)
Other liabilities	(1,853,583)	(4,030,648)
Net cash and cash equivalents provided by operating activities	2,482,994	22,850,424
Cash Flows from Investing Activities		
Purchase of property and equipment	(10,770,834)	(11,932,609)
Proceeds from sale of property and equipment	18,200	104,863
Purchases of investments and assets limited as to use	(25,734,164)	(98,687,320)
Proceeds from sales and maturities of investments and assets limited as to use	33,078,825	116,833,770
Net cash and cash equivalents (used in) provided by investing activities	(3,407,973)	6,318,704
Cash Flows from Financing Activities		
Payments on finance lease obligations	(202,245)	(186,520)
Principal payments on long-term debt	(2,350,000)	(2,250,000)
Net cash and cash equivalents used in financing activities	(2,552,245)	(2,436,520)
Net (Decrease) Increase in Cash and Cash Equivalents	(3,477,224)	26,732,608
Cash and Cash Equivalents - Beginning of year	27,344,669	612,061
Cash and Cash Equivalents - End of year	**$ 23,867,445**	**$ 27,344,669**
Supplemental Cash Flow Information		
Cash paid for interest	$ 3,469,663	$ 3,597,900
Right-of-use assets via operating lease obligation	15,036,464	-

Note 1 - Nature of Business

The Methodist Hospitals, Inc. (the "Hospital") is an Indiana nonprofit corporation operating a 251-staffed-bed general acute-care facility in Gary, Indiana (Northlake Campus) and a 283-staffed-bed general acute-care facility in Merrillville, Indiana (Southlake Campus). The Hospital also provides physician services to patients through the following wholly owned limited liability companies: Methodist Cardiographics, LLC; Methodist Anesthesia, LLC; Methodist Pathology, LLC; and Advanced Imaging Center, LLC.

The Hospital is the sole member of The Methodist Hospitals Foundation, Inc. (the "Foundation"), which was established to support and benefit the Hospital. The Foundation has been accounted for within the Hospital's consolidated financial statements.

Note 2 - Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements include the accounts of The Methodist Hospitals, Inc.; The Methodist Hospitals Foundation, Inc.; Methodist Cardiographics, LLC; Methodist Anesthesia, LLC; Methodist Pathology, LLC; and Advanced Imaging Center, LLC. All intercompany accounts have been eliminated in consolidation.

Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid investments purchased with an original maturity of three months or less, excluding those amounts included in assets limited as to use.

The Hospital's cash balances are only insured up to the Federal Deposit Insurance Corporation limit. As of December 31, 2019 and 2018, there was approximately $31.6 million and $32.0 million, respectively, of uninsured cash. The Hospital evaluates the financial institutions with which it deposits funds; however, it is not practical to insure all cash deposits. The Hospital has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

Accounts Receivable

Accounts receivable for patients, insurance companies, and governmental agencies are based on gross charges, reduced by explicit price concessions provided to third-party payors, discounts provided to qualifying individuals as part of our financial assistance policy, and implicit price concessions provided primarily to self-pay patients. Estimates for explicit price concessions are based on provider contracts, payment terms for relevant prospective payment systems, and historical experience adjusted for economic conditions and other trends affecting the Hospital's ability to collect outstanding amounts.

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records significant implicit price concessions in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheet. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in excess of revenue over (under) expenses unless the income or loss is restricted by donor or law.

The Hospital invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated balance sheet.

Note 2 - Significant Accounting Policies (Continued)

Goodwill

The recorded amounts of goodwill from prior business combinations are based on management's best estimates of the fair values of assets acquired and liabilities assumed at the date of acquisition. The Hospital assesses goodwill annually for impairment. Goodwill is recorded within other assets in the consolidated balance sheet.

During 2019, management determined that the carrying amount of the Hospital's investment in IMA Endoscopy Surgicenter, P.C. exceeded fair value, which was estimated based on the present value of expected future cash inflows. Accordingly, a goodwill impairment loss of $2,500,000 was recognized in 2019. Goodwill impairment loss is recorded to other (loss) income on the consolidated statement of operations.

Inventories

Inventories, which consist of medical and office supplies and pharmaceutical products, are stated at the lower of cost or net realizable value determined on a first-in, first-out basis.

Assets Limited as to Use

Assets limited as to use include assets designated by the governing board for future capital improvement, over which the board retains control and may, at its discretion, subsequently use for other purposes. Included in these investments are assets held by trustees under bond indenture agreements and assets held in self-insurance trust arrangements. Restricted foundation investments consist of assets whose use by the Hospital has been restricted by the donor.

Property and Equipment

Property and equipment amounts are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under finance lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the consolidated financial statements. Repairs and maintenance costs are charged to expense as incurred.

Unamortized Financing Costs

Unamortized financing costs are amortized over the term of the related financing.

Classification of Net Assets

Net assets of the Hospital are classified as net assets without donor restrictions or net assets with donor restrictions depending on the presence and characteristics of donor-imposed restrictions limiting the Hospital's ability to use or dispose of contributed assets or the economic benefits embodied in those assets. Donor-imposed restrictions may expire with the passage of time or be removed by meeting certain requirements. Additionally, donor-imposed restrictions may limit the use of net assets in perpetuity. Earnings, gains, and losses on restricted net assets are classified as changes in net assets without donor restrictions unless specifically restricted by the donor or by applicable state law.

Excess of Revenue Over (Under) Expenses

The consolidated statement of changes in net assets includes excess of revenue over (under) expenses. Changes in net assets without donor restrictions, which are excluded from excess of revenue over (under) expenses, consistent with industry practice, include net assets released from restrictions for the acquisition of long-lived assets and pension-related changes other than periodic benefit costs.

Note 2 - Significant Accounting Policies (Continued)

Revenue Recognition

Patient care service revenue is reported at the amount that reflects the consideration to which the Hospital 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 Hospital bills the patients and third-party payors several days after the services are performed 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. The majority of the Hospital's services represent a bundle of services that are not capable of being distinct and, as such, are treated as a single performance obligation satisfied over time as services are rendered.

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

Contributions

The Hospital reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of changes in net assets as net assets released from restrictions.

The Hospital reports gifts of property and equipment as revenue, gains, and other support unless explicit donor stipulations specify how the donated assets must be used. Gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Hospital reports the expiration of donor restrictions when the assets are placed in service.

Professional and Other Liability Insurance

The Hospital accrues an estimate of the ultimate expense, including litigation and settlement expense, for incidents of potential improper professional service and other liability claims occurring during the year, as well as for those claims that have not been reported at year end. Amounts receivable from insurance related to stop-loss provisions are recorded as a receivable and included in other assets.

Accounting for Conditional Asset Retirement Obligation

Management has considered its legal obligation to report asset retirement activities, such as asbestos removal, on its existing properties. Over the past 20 years, management has systematically renovated, replaced, or constructed the majority of the physical plant facilities, resulting in a relatively small portion of the facility with any remaining hazardous material. Management has calculated the present value of the retirement obligation, and the amount has been recognized as a liability on the consolidated balance sheet within other liabilities.

Note 2 - Significant Accounting Policies (Continued)

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care is determined based on established policies, using patient income and assets to determine payment ability. The amount reflects the cost of free or discounted health services, net of contributions, and other revenue received, as direct assistance for the provision of charity care. The estimated cost of providing charity services is based on a calculation which applies a ratio of cost to charges to the gross uncompensated charges associated with providing care to charity patients.

Federal Income Tax

The Internal Revenue Service (IRS) has ruled that the Hospital and its subsidiaries are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, and, accordingly, no tax provision is reflected in the consolidated financial statements.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Recently Adopted Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) established Topic 842, *Leases*, by issuing Accounting Standards Update (ASU) No. 2016-02, which requires lessees to recognize leases with terms longer than 12 months on the balance sheet and disclose key information about leasing arrangements. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations. The classification criteria for distinguishing between operating and finance (previously capital) leases are substantially similar to the previous lease guidance but with no explicit bright lines included within the classification criteria.

The Hospital adopted the standard as of January 1, 2019, electing the transition method that allows it to apply the standard as of the adoption date and record a cumulative-effect adjustment in net assets, if applicable. The Hospital has elected the package of practical expedients permitted under the transition guidance, which among other things, allows the Hospital to carry forward the historical lease classification. The new standard also provides practical expedients for an entity's ongoing accounting. The Hospital has made an accounting policy to keep leases with an initial term of 12 months or less off of the consolidated balance sheet and recognize those lease payments in the consolidated statement of operations on a straight-line basis over the lease term. The Hospital has also elected the practical expedient to allow hindsight in determining the lease term and in assessing impairment of the right-of-use assets. The adoption of this standard resulted in recognition of right-of-use assets and lease liabilities of $7,265,000 on its consolidated balance sheet as of January 1, 2019.

Note 2 - Significant Accounting Policies (Continued)

As of January 1, 2019, the Hospital adopted ASU No. 2017-07, *Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit*, which amends the presentation requirements related to reporting the service cost component of net benefit costs in the same line item as other compensation costs and requires the other components of net benefit costs to be presented separately from the service component, outside a subtotal of income from operations. The updated guidance was adopted by the Hospital for the year ended December 31, 2019 to more clearly present the components of its pension-related costs. The standard was retroactively applied to the year ended December 31, 2018, utilizing the amount previously disclosed in the pension plan noted as a practical expedient, as allowed under the standard, including retrospective application to the year ended December 31, 2018. As a result, approximately, $409,000 of income was reclassified from employee benefits and payroll taxes (included in operating expenses) to other income (included in nonoperating income).

As of January 1, 2019, the Hospital adopted ASU No. 2016-01, *Financial Instruments (Topic 825): Recognition and Measurement of Financial Assets and Financial Liabilities*, which requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. However, the Hospital may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The updated guidance was adopted by the Hospital as of January 1, 2019. The standard was applied on a prospective basis in the year of adoption. There was no impact to the consolidated balance sheet as of January 1, 2019.

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including April 24, 2020, which is the date the consolidated financial statements were issued.

Effective January 9, 2020, the Hospital issued $35,805,000 Taxable Hospital Revenue Bonds, Series 2020. The principal on the bonds is due upon maturity in January 2022. The interest rate on the bonds is the one-month London Interbank Offered Rate (LIBOR) plus the applicable spread (for the period beginning on (and including) the issuance date to (and including) January 2, 2021, 130 basis points (1.30 percent) and for the period beginning on (and including) January 3, 2021 to (but excluding) the maturity date, 185 basis points (1.85 percent), provided, however, that (i) in the event the rating assigned for the period beginning January 3, 2021 by S&P Global Ratings shall be BBB or better and the rating assigned by Fitch shall be BBB or better, the applicable spread shall be 155 basis points (1.55 percent); and (ii) in the event that the rating assigned by S&P Global Ratings shall be BB+ or the rating assigned by Fitch shall be BB+, the applicable spread shall be 250 basis points (2.50 percent).

Effective February 12, 2020, the Hospital purchased its medical office building finance lease obligations for $35,300,000.

Note 2 - Significant Accounting Policies (Continued)

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus a pandemic. First identified in late 2019 and now known as COVID-19, the outbreak has impacted thousands of individuals worldwide. In response, many countries have implemented measures to combat the outbreak that have impacted global business operations. Subsequent to the consolidated balance sheet date, the Hospital has experienced declines with inpatient admissions and procedural areas, which were driven by governmental mandates eliminating elective procedures and surgeries. The statewide shelter-in-place orders has further reduced volumes in most service areas, which has a negative impact on the Hospital's financial performance. The Hospital has responded to the outbreak by adjusting the facilities and services to meet the needs of the community, securing alternate sources for supplies and equipment, and expanding into telemedicine. In addition, the Hospital has begun furloughing nonessential personnel and implemented other staffing reductions to help mitigate the financial impact of the pandemic. No impairments were recorded as of the consolidated balance sheet date; however, due to significant uncertainty surrounding the situation, management's judgment regarding this could change in the future. In addition, while the Hospital's results of operations, cash flows, and financial condition could be negatively impacted, the extent of the impact cannot be reasonably estimated at this time.

Subsequent to year end, the Hospital's investment portfolio has incurred a significant decline in fair value, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined.

Note 3 - Patient Accounts Receivable

The composition of receivables from patients and third-party payors was as follows as of December 31:

	2019	2018
Medicare	36 %	41 %
Medicaid	27	24
Commercial and managed care	28	27
Self-pay	9	8
Total	100 %	100 %

Note 4 - Cost Report Settlements

A significant portion of the Hospital's revenue from patient services is received from the Medicare and Medicaid programs. A summary of the basis of reimbursement with these third-party payors is as follows:

Medicare

Inpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. Outpatient services related to Medicare beneficiaries are reimbursed based on a prospectively determined amount per episode of care.

Medicaid and Hospital Assessment Fee

Inpatient and outpatient services rendered to Medicaid program beneficiaries are also paid at prospectively determined rates per discharge or per procedure.

Note 4 - Cost Report Settlements (Continued)

The Indiana Hospital Association (IHA) and the Office of Medicaid Policy and Planning (OMPP) worked together to develop and implement a hospital assessment fee program, as enacted by the 2011 Session of the Indiana General Assembly. In 2012, the Centers for Medicare and Medicaid Services (CMS) approved the state plan amendment necessary to implement these changes with a retroactive effective date of July 1, 2011. The program expired on June 30, 2013. In March 2014, the program was again approved by CMS, with an effective date of July 1, 2013, and continued through June 30, 2019. Effective July 1, 2019, the program was extended through June 30, 2021. Under this program, OMPP will collect an assessment fee from eligible hospitals. The fee will be used in part to increase reimbursement to eligible hospitals for services provided in both fee-for-service and managed-care programs and as the state share of Disproportionate Share Hospital (DSH) payments. Starting in 2016, the Hospital will be assessed a Hospital Assessment Fee on the Indiana HIP (Healthy Indiana Plan) 2.0 program based on the Medicaid DSH eligibility surveys. Due to the shift in Medicaid population from FFS to managed care, since 2017, the collection of the existing assessment fee is being made through a combination of offsets from claims payment and check payments. During 2019 and 2018, the Hospital incurred $17,509,084 and $15,885,317, respectively, in Medicaid assessment fees under this program, which is reflected in total operating expenses in the accompanying consolidated statement of operations. At December 31, 2019 and 2018, there is $3,915,277 and $2,902,023, respectively, included in cost report settlement payable in the consolidated balance sheet related to the hospital assessment fee program.

Final reimbursement under the Medicare and Medicaid programs is subject to audit by fiscal intermediaries. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying consolidated financial statements. The effect of prior year settlements received in 2019 and 2018 resulted in an increase in revenue of approximately $514,000 and $1,905,000, respectively.

The Hospital qualifies as a Medicaid Disproportionate Share (DSH) provider under Indiana law and, as such, is eligible to receive DSH payments linked to the State of Indiana's fiscal year end, which is June 30. The Hospital records DSH program revenue and receivables when the related amounts are determinable and when collectibility is reasonably assured.

At December 31, 2019 and 2018, the Hospital recorded approximately $27,200,000 and $16,100,000, respectively, in amounts due from the State of Indiana under the DSH program. These amounts are reflected in cost report settlements receivable in the accompanying consolidated balance sheet. The amounts recorded represent estimated reimbursement due to the Hospital for services provided through December 31, 2019. During the years ended December 31, 2019 and 2018, approximately $30,218,000 and $28,374,000, respectively, was received in cash related to the DSH program.

Cost report settlements result from the adjustment of interim payments to final reimbursement under the Medicare and Medicaid programs that are subject to audit by fiscal intermediaries. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The Indiana Family and Social Services Administration (FSSA) has initiated a Medicaid Advisory Committee (MAC) initiative, whereby claims will be reviewed by contractors for validity, accuracy, and proper documentation. The Hospital is unable to determine the extent of liability for overpayments, if any. The potential exists for significant overpayment of claims liability for the Hospital at a future date.

Other Third-party Payors

The Hospital has also entered into agreements with certain commercial carriers, health maintenance organizations, and preferred provider organizations. The basis for reimbursement to the Hospital under these agreements is discounts from established charges, prospectively determined rates per discharge, and prospectively determined daily rates.

Note 5 - Charity Care

In support of its mission, the Hospital's policy is to treat patients in need of medical services without regard to their ability to pay for such services. Charity care covers services provided to persons who cannot afford to pay. Charity care is determined based on established policies, using patient income and assets to determine payment ability. The amount reflects the cost of free or discounted health services, net of contributions and other revenue received, as direct assistance for the provision of charity care. The estimated cost of providing charity services is based on a calculation that applies a ratio of cost to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total operating expenses divided by gross patient service revenue. The Hospital estimates that it provided approximately $10.9 million and $11.9 million of services to indigent patients during 2019 and 2018, respectively.

In addition, the Hospital performs many activities of community benefit, including programs provided to persons with inadequate healthcare resources or for other groups within the community that need special services and support. Examples include programs related to the poor, the elderly, those suffering from substance abuse, victims of child abuse, and others with specific particular healthcare needs. They also include broader populations who benefit from health community initiatives, such as health promotion, education, and health screening.

The Hospital also participates in the Medicare and Medicaid programs. At present, the reimbursement rates for both programs do not fully cover the cost of providing care to these patients. This represents the estimated “shortfall” created when a facility receives payments below the costs of treating Medicare and Medicaid beneficiaries. These uncompensated costs are not included above.

Note 6 - Assets Limited as to Use

The detail of assets limited as to use is summarized in the following schedule at December 31:

	2019	2018
Funds designated by trustees under bond indenture	$ 4,632,368	$ 4,518,947
Funds held in trust for payment of professional and other liability claims	3,614,447	3,870,188
Funds designated by board for future capital improvements	102,000,892	100,215,490
Fund designated by donors for specific purposes	25,000	25,000
Total assets limited as to use	$ 110,272,707	$ 108,629,625

Investments, including short-term investments, consist of the following at December 31:

	2019	2018
Money market investments	$ 8,822,929	$ 24,068,405
Government securities	11,847,884	4,263,562
Mutual funds	62,742,660	54,913,713
Corporate bonds	18,389,295	17,319,778
Pooled funds	1,997,363	1,672,543
Common stock	7,076,173	6,977,167
Total	$ 110,876,304	$ 109,215,168
Classified as:		
Short-term investments	$ 603,597	$ 585,543
Assets limited as to use	110,272,707	108,629,625
Total	$ 110,876,304	$ 109,215,168

Note 6 - Assets Limited as to Use (Continued)

Funds held by the trustee under a bond indenture are held for the purpose of making future bond principal and interest payments. Investment income accrues to the funds as earned.

Investment income and gains and losses are composed of the following for the years ended December 31:

	2019	2018
Interest and dividends	$ 3,258,627	$ 3,504,946
Change in net unrealized gains (losses)	8,461,712	(12,951,589)
Realized gains - Net	544,085	13,852,558
Total	$ 12,264,424	$ 4,405,915

Note 7 - Liquidity

The following reflects the Hospital's financial assets as of December 31, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the consolidated balance sheet date:

	2019	2018
Cash and cash equivalents	$ 23,867,445	$ 27,344,669
Short-term investments	603,597	585,543
Patient accounts receivable	38,318,290	42,367,404
Cost report settlements receivable	27,173,816	16,091,097
Other current assets	3,972,285	5,288,836
Assets limited as to use:		
Funds held by trustees under bond indeture	4,632,368	4,518,947
Funds held in trust for payment of professional and other liability claims	3,614,447	3,870,188
Funds held by board for future capital improvements	102,000,892	100,215,490
Fund held by donors for specific purposes	25,000	25,000
Financial assets - At year end	204,208,140	200,307,174
Less those unavailable for general expenditures within one year due to:		
Funds held by trustees under bond indenture	(4,632,368)	(4,518,947)
Funds held in trust for payment of professional and other liability claims	(3,614,447)	(3,870,188)
Funds held by board for future capital improvements	(102,000,892)	(100,215,490)
Fund held by donors for specific purposes	(25,000)	(25,000)
Financial assets available to meet cash needs for general expenditures within one year	$ 93,935,433	$ 91,677,549

The Hospital has certain board-designated assets limited to use, which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the qualitative information above for financial assets to meet general expenditures within one year. The Hospital has other assets limited to use for donor-restricted purposes, debt service, and the professional and general liability insurance program. Additionally, certain other board-designated assets are designated for future capital expenditures and an operating reserve. These assets limited to use, which are more fully described in Note 6, are not available for general expenditure within the next year. However, the board-designated amounts could be made available, if necessary.

Note 7 - Liquidity (Continued)

As part of the Hospital's liquidity management plan, cash in excess of daily requirements is invested in short-term investments and money market funds. Occasionally, the board of directors designates a portion of any operating surplus to an operating reserve, which was $604,000 and $586,000 as of December 31, 2019 and 2018, respectively. This fund established by the board of directors may be drawn upon, if necessary, to meet unexpected liquidity needs.

As of December 31, 2019, the Hospital was in compliance with bond covenants, as more fully described in Note 12.

Note 8 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the consolidated financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the Hospital's assets measured at fair value on a recurring basis at December 31, 2019 and 2018 and the valuation techniques used by the Hospital to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Hospital has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Hospital's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Note 8 - Fair Value Measurements (Continued)

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2019			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2019
Short-term Investments				
Money market investments	$ 358,218	$ -	$ -	$ 358,218
Assets Limited as to Use				
Money market investments	8,249,395	-	-	8,249,395
Common stock	7,076,173	-	-	7,076,173
Mutual funds:				
U.S. companies	18,554,054	-	-	18,554,054
International companies	17,200,189	-	-	17,200,189
Fixed income	6,857,162	-	-	6,857,162
Balanced funds	20,131,255	-	-	20,131,255
Fixed income:				
U.S. Treasurys	-	11,847,884	-	11,847,884
Pooled funds	-	1,997,363	-	1,997,363
Asset-backed securities	-	8,484,307	-	8,484,307
Mortgage-backed securities	-	6,340,963	-	6,340,963
Corporate - Domestic	-	1,715,434	-	1,715,434
Corporate - International	-	1,848,591	-	1,848,591
Total assets limited as to use	78,068,228	32,234,542	-	110,302,770
Total	$ 78,426,446	$ 32,234,542	$ -	$ 110,660,988

The assets limited as to use and short-term investments included in the consolidated balance sheet at December 31, 2019 included money market investments of $215,316, which are not measured at fair value on a recurring basis and, therefore, are not in the table above.

Note 8 - Fair Value Measurements (Continued)

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2018			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2018
Short-term Investments				
Money market investments	$ 350,179	$ -	$ -	$ 350,179
Assets Limited as to Use				
Money market investments	23,484,896	-	-	23,484,896
Common stock	6,977,167	-	-	6,977,167
Mutual funds:				
U.S. companies	14,938,214	-	-	14,938,214
International companies	15,202,366	-	-	15,202,366
Fixed income	18,581,282	-	-	18,581,282
Balanced funds	6,191,851	-	-	6,191,851
Fixed income:				
U.S. Treasurys	-	4,258,501	-	4,258,501
Governmental agency bonds	-	5,061	-	5,061
Pooled funds	-	1,672,543	-	1,672,543
Asset-backed securities	-	7,636,034	-	7,636,034
Mortgage-backed securities	-	4,126,008	-	4,126,008
Corporate - Domestic	-	3,624,349	-	3,624,349
Corporate - International	-	1,933,387	-	1,933,387
Total assets limited as to use	85,375,776	23,255,883	-	108,631,659
Total	$ 85,725,955	$ 23,255,883	$ -	$ 108,981,838

The assets limited as to use and short-term investments included in the consolidated balance sheet at December 31, 2018 included money market investments of $233,330, which are not measured at fair value on a recurring basis and, therefore, are not in the table above.

The fair value of fixed-income securities at December 31, 2019 and 2018 was determined primarily based on Level 2 inputs. The Methodist Hospitals, Inc. estimates the fair value of these investments using the fair market values determined by the investment custodians.

The Hospital's policy is to recognize transfers in and transfers out of Level 1, 2, and 3 fair value classifications as of the end of the reporting period. For the years ended December 31, 2019 and 2018, there were no significant transfers between levels.

Note 9 - Other Current Assets

The details of other assets at December 31, 2019 and 2018 are as follows:

	2019	2018
Prepaid expenses	$ 5,338,923	$ 5,019,441
Inventory	13,016,086	12,468,563
Other	720,999	938,240
Contract assets	3,251,286	4,350,596
Total	$ 22,327,294	$ 22,776,840

Note 10 - Property and Equipment

The cost of property, plant, and equipment and depreciable lives are summarized as follows:

	2019	2018	Depreciable Life - Years
Land	$ 5,373,674	$ 5,373,674	-
Buildings	277,273,610	277,238,982	2-40
Right-of-use finance lease assets	20,500,000	20,500,000	25-40
Equipment	187,574,190	183,020,341	3-5
Construction in progress	5,222,949	1,141,390	-
Total cost	495,944,423	487,274,387	
Accumulated depreciation	364,900,604	348,622,450	
Net property and equipment	$ 131,043,819	$ 138,651,937	

Depreciation and amortization expense, including assets under finance lease, totaled $18,147,458 and $19,140,637 in 2019 and 2018, respectively.

The Hospital holds buildings under finance leases with an original cost of approximately $20,500,000 at December 31, 2019 and 2018. Accumulated amortization for buildings under finance lease obligations was approximately $7,175,000 and $6,662,000 at December 31, 2019 and 2018, respectively.

Construction in progress consists primarily of costs incurred for building renovations and installation of various clinical equipment. Remaining costs to complete the project are approximately $1,231,000 as of December 31, 2019.

Note 11 - Accrued Liabilities and Other

The details of accrued liabilities at December 31 are as follows:

	2019	2018
Payroll and related items	$ 7,404,802	$ 6,594,228
Compensated absences	9,046,504	9,300,366
Interest	531,198	565,469
Other	164,067	156,702
Total accrued liabilities	$ 17,146,571	$ 16,616,765

Note 12 - Long-term Debt

The following is a summary of long-term debt and finance lease obligations at December 31, 2019 and 2018:

	2019	2018
Indiana Finance Authority Hospital Revenue Refunding Bonds, Series 2014A, interest ranging from 4.00 percent to 5.00 percent, due in installments through 2031	$ 36,425,000	$ 38,775,000
Medical office building finance lease obligations, expires on December 31, 2045, collateralized by leased medical office buildings. Finance lease obligations were purchased by the Hospital in February 2020	18,736,456	18,938,701
Unamortized premium	3,717,896	4,036,573
Total	58,879,352	61,750,274
Less current portion	2,674,296	2,552,245
Less unamortized debt issuance costs	468,250	508,833
Long-term portion	$ 55,736,806	$ 58,689,196

The Indiana Health Facility Financing Authority (the "IHFFA") has issued bonds on behalf of The Methodist Hospitals, Inc. Obligated Group (the "Obligated Group") and has loaned the proceeds to the Obligated Group under the terms of the master indenture. The sole member of the Obligated Group is The Methodist Hospitals, Inc.

Hospital Obligated Group Bonds Payable, Series 2014A consist of hospital revenue bonds issued by the Indiana Finance Authority (previously the IHFFA). The bonds consist of serial bonds payable in annual installments for 2015 through 2031, ranging from $1,875,000 to $3,465,000 at interest rates ranging from 4 percent to 5 percent and term bonds payable in annual installments beginning in 2030 through 2031, ranging from $3,375,000 to $3,555,000 at 5 percent interest.

The Series 2014A bonds have been issued under a master trust indenture and are secured by the gross revenue of the Hospital. In connection with the bond indenture and loan agreements, the Obligated Group is subject to certain financial covenants related to, among others, transfer of assets, restrictions on additional indebtedness, and maintenance of certain financial covenants, including a minimum debt service coverage ratio and minimum debt service reserve funds.

The Hospital has entered into a series of finance lease arrangements for a medical office building on the Merrillville hospital campus. The Hospital is leasing the underlying land to the developer under terms of a ground lease. The medical office building houses physician offices, laboratory and diagnostic facilities, and an ambulatory surgery center. The lease agreements have terms from 5 to 26 years. Under the terms of the lease arrangements, payments totaling $144,414 are due monthly through December 2045. The right-of-use asset and related lease liability have been calculated using a discount rate of 8.12 percent.

Note 12 - Long-term Debt (Continued)

Scheduled principal repayments on long-term debt and payments on finance lease obligations are as follows as of December 31:

Years Ending December 31	Long-term Debt	Finance Lease Obligations
2020	$ 2,455,000	$ 1,732,968
2021	2,570,000	1,732,968
2022	2,690,000	1,732,968
2023	2,815,000	1,732,968
2024	2,845,000	1,732,968
Thereafter	23,050,000	17,057,424
Total	36,425,000	25,722,264
Less amount representing interest under finance lease obligations	-	(6,985,808)
Total	$ 36,425,000	$ 18,736,456

Total interest payments on finance leases for the year 2019 is $1,530,723. Total amortization expense on finance leases for the year 2019 was approximately $513,000.

Note 13 - Other Liabilities

The detail of other liabilities is shown below:

	2019	2018
Accrued pension cost (Note 16)	$ 6,979,088	$ 5,230,012
Accrued professional and other liability claims (Note 17)	6,909,107	7,143,452
Other	1,254,450	766,776
Total other liabilities	$ 15,142,645	$ 13,140,240

Note 14 - Operating Leases

The Hospital is obligated under operating leases primarily for facilities and equipment, expiring at various dates through December 2030. The right-of-use asset and related lease liability have been calculated using discount rates ranging from 3.00 percent to 6.50 percent. The leases require the Hospital to pay taxes, insurance, utilities, and maintenance costs. Total rent expense under these leases was $2,777,000 and $2,336,000 for 2019 and 2018, respectively.

The Hospital assesses whether it is reasonable certain to exercise an option to extend or terminate a lease at the lease commencement date. In this assessment, the Hospital considers all relevant factors that create economic incentive to exercise such options including asset, contract, market, and entity-based factors.

When readily determinable, the Hospital utilizes the interest rate implicit in a lease to determine the present value of future lease payments. For leases where the implicit rate is not readily determinable, the Hospital's incremental borrowing rate is used.

Note 14 - Operating Leases (Continued)

Future minimum annual commitments under these operating leases are as follows:

Years Ending December 31	Amount
2020	$ 3,209,547
2021	2,633,599
2022	1,924,234
2023	1,751,869
2024	1,732,443
Thereafter	3,212,701
Total	14,464,393
Less amount representing interest	1,848,790
Present value of net minimum lease payments	12,615,603
Less current obligations	2,705,131
Long-term obligations	$ 9,910,472

Note 15 - Defined Contribution Plan

The Hospital established a defined contribution retirement plan effective January 1, 2006, which allows for employee contributions and requires a matching employer contribution of 50 percent of the first 6 percent of employees' earnings. Expense for the years ended December 31, 2019 and 2018 was approximately $2,114,000 and $2,175,000, respectively.

Note 16 - Pension Plan

The Methodist Hospitals, Inc. sponsors a defined benefit pension plan covering certain employees.

The board of directors of the Hospital elected to freeze the employees' participation in the future accrual of benefits under the existing defined benefit plan effective December 31, 2005.

Effective June 1, 2007, the plan was amended to provide early retirement window benefits to participants who had attained age 50 and completed 10 or more years of service on or before June 30, 2007. Under the terms of the amendment, eligible participants who elected to participate received three years of additional benefits accrual based on 2006 compensation, and the early retirement reduction was calculated assuming a participant was 50 years or older. Participants were allowed to take their full benefit as a lump sum. A significant portion of participants eligible for the early retirement program elected to participate in the program.

Note 16 - Pension Plan (Continued)

Obligations and Funded Status

	Pension Benefits	
	2019	2018
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 125,119,927	$ 137,678,895
Service cost	-	202,000
Interest cost	5,263,332	4,937,500
Actuarial loss (gains)	15,378,338	(12,754,116)
Benefits paid	(10,223,745)	(4,944,352)
Benefit obligation at end of year	135,537,852	125,119,927
Change in plan assets:		
Fair value of plan assets at beginning of year	119,889,915	125,217,290
Actual return on plan assets	15,692,594	(3,583,023)
Employer contributions	3,200,000	3,200,000
Benefits paid	(10,223,745)	(4,944,352)
Fair value of plan assets at end of year	128,558,764	119,889,915
Funded status at end of year	$ (6,979,088)	$ (5,230,012)

Components of net periodic benefit cost and other amounts recognized are as follows:

	Pension Benefits	
	2019	2018
Net Periodic Benefit Cost		
Service cost	$ -	$ 202,000
Interest cost	5,263,332	4,937,500
Expected return on plan assets	(6,805,009)	(7,736,908)
Amortization of net loss	2,634,765	2,390,567
Total cost	$ 1,093,088	$ (206,841)

Included in net assets without donor restrictions are the following amounts that have not yet been recognized in net periodic pension cost:

	Pension Benefits	
	2019	2018
Net loss (gain)	$ 3,855,988	$ (3,824,752)

Weighted-average assumptions used to determine benefit obligations at December 31 are as follows:

	Pension Benefits	
	2019	2018
Discount rate	3.40%	4.30%

Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31 are as follows:

	Pension Benefits	
	2019	2018
Discount rate	4.30%	3.70%
Expected long-term return on plan assets	5.75%	6.25%

Note 16 - Pension Plan (Continued)

In selecting the expected long-term rate of return on assets, the Hospital considered the average rate of earnings expected on the funds invested or to be invested to provide for the benefits of this plan. This included considering the allocation of trust assets and the expected returns likely to be earned over the life of the plan.

Pension Plan Assets

The goals of the pension plan investment program are to fully fund the obligation to pay retirement benefits in accordance with the plan documents and to provide returns that, along with appropriate funding from the Hospital, maintain an asset/liability ratio that is in compliance with all applicable laws and regulations and ensures timely payment of retirement benefits. Pension funds are invested in growth-oriented securities up to 30 percent in equities, including international equities.

The target allocation range of percentages for plan assets is 14 percent equity securities and 86 percent debt securities as of December 31, 2019 and 30 percent equity securities and 70 percent debt securities as of December 31, 2018.

The fair values of the Hospital's pension plan assets at December 31, 2019 and 2018 by major asset categories are as follows:

	Fair Value Measurements at December 31, 2019			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Asset Classes				
Equity securities:				
U.S. companies	$ 29,827,955	$ -	$ -	$ 29,827,955
International companies	8,888,175	-	-	8,888,175
Debt securities	-	47,171,721	-	47,171,721
Total	$ 38,716,130	$ 47,171,721	$ -	$ 85,887,851

	Fair Value Measurements at December 31, 2018			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Asset Classes				
Equity securities:				
U.S. companies	$ 17,146,652	$ -	$ -	$ 17,146,652
International companies	15,901,398	-	-	15,901,398
Debt securities	-	41,648,407	-	41,648,407
Total	$ 33,048,050	$ 41,648,407	$ -	$ 74,696,457

The pension plan assets shown above included cash and cash equivalents of $101,934 and $4,116 at December 31, 2019 and 2018, respectively. Cash and cash equivalents are not measured at fair value on a recurring basis and, therefore, are not included in the tables above.

The tables above present information about the pension plan assets measured at fair value at December 31, 2019 and 2018 and the valuation techniques used by the Hospital to determine those fair values.

Note 16 - Pension Plan (Continued)

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the plan has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Hospital's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each plan asset.

Reclassification

Certain prior year amounts have been reclassified to conform to the current year presentation. As a result of the reclassification during 2019, it was determined that an investment previously classified as common collective trust - equity fund and fixed income - pooled funds should be excluded from the fair value hierarchy based on the fund's underlying investments. Accordingly, the 2018 fair value disclosure has been updated.

The fair value of debt securities, fixed-income securities, and common collective trust at December 31, 2019 and 2018 was determined based on Level 2 inputs. The Methodist Hospitals, Inc. estimates the fair value of these investments using the fair market values as determined by the investment custodians.

The Hospital's policy is to recognize transfers in and transfers out of Level 1, 2, and 3 fair value classifications as of the end of the reporting period. For the years ended December 31, 2019 and 2018, there were no significant transfers between levels.

Investments in Entities that Calculate Net Asset Value per Share

The Hospital has investments in a common collective trust fund and 103-12 investment totaling $42,568,979 and $45,189,342 at December 31, 2019 and 2018, respectively. The Hospital holds shares or interests in the common collective trust fund and 103-12 investment at year end whereby the fair value of the investment held is estimated based on net asset value per share (or its equivalent) of the common collective trust fund and 103-12 investment.

The common collective trust fund invests primarily in common stock of small-cap companies in the U.S. The fair value of this investment has been estimated using net asset value per share of the investment.

The 103-12 investment fund invests primarily in U.S. dollar-denominated investment-grade and government securities, U.S. high yield, non-U.S. bonds, and TIPS. The fair value of this investment has been estimated using net asset value per share of the investment.

The investments measured at net asset value per share (or its equivalent) of the common collective trust fund and 103-12 investment do not have unfunded commitments or redemption periods.

Cash Flow

Contributions

The Hospital expects to contribute $3.2 million to the pension plan in 2020.

Note 16 - Pension Plan (Continued)

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Years Ending	Pension Benefits
2020	$ 5,429,208
2021	5,719,031
2022	6,091,702
2023	6,451,149
2024	6,784,339
2025-2029	37,550,241

Note 17 - Professional Liability Self-insurance

On April 2, 1983, the Hospital became qualified under the Indiana Medical Malpractice Act (the "Act"). The Act limits the amount of individual claims to $1,250,000 ($7,500,000 annual aggregate), of which $1,000,000 would be paid by the State of Indiana Patient Compensation Fund and $250,000 by the Hospital. The Hospital carries commercial insurance coverage for incidents that would exceed coverages specified by the self-insurance program. Prior to April 2, 1983, the Hospital carried commercial insurance for professional liability risks on an occurrence basis. The Hospital's liability for medical malpractice self-insurance is actuarially determined based upon the Hospital's estimated claims reserves and various assumptions and includes an estimate for claims incurred but not yet reported.

In connection with the self-insurance program, the Hospital established a trust. Under the trust agreement, the trust assets can only be used for payment of professional liability losses, related expenses, and the costs of administering the trust. The assets of the trust are included in funds and income from the trust assets, and administrative costs are included in the consolidated statement of operations.

Note 18 - Patient Care Service Revenue

Patient care service revenue is reported at the amount that reflects the consideration to which the Hospital 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 Hospital bills the patients and third-party payors several days after the services are performed 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 Hospital. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Hospital 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 our hospitals receiving inpatient acute care services or patients receiving services in our outpatient centers or in their homes (home care). The Hospital measures the performance obligation from admission into the Hospital or the commencement of an outpatient service to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to our patients and customers in a retail setting (for example, pharmaceuticals and medical equipment) and the Hospital does not believe it is required to provide additional goods or services related to that sale. The Hospital's revenue that is satisfied at a point in time is insignificant for both years ended December 31, 2019 and 2018.

Note 18 - Patient Care Service Revenue (Continued)

Because all of its performance obligations relate to contracts with a duration of less than one year, the Hospital has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied 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.

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

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 healthcare 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 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 Hospital'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 Hospital. In addition, the contracts the Hospital has with commercial payors also provide for retroactive audit and review of claims.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Hospital also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The Hospital estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. For the years ended December 31, 2019 and 2018, changes in its estimates of implicit price concessions, discounts, and contractual adjustments for performance obligations satisfied in prior years were not significant. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

Consistent with the Hospital's mission, care is provided to patients regardless of their ability to pay. Therefore, the Hospital has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Hospital expects to collect based on its collection history with those patients.

Patients who meet the Hospital'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.

Note 18 - Patient Care Service Revenue (Continued)

The Hospital has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors: payors and service lines. Tables providing details of these factors are presented below.

The composition of patient care service revenue by primary payor for the years ended December 31 is as follows:

	2019	2018
Payors:		
Blue Cross	$ 54,530,551	$ 56,923,727
Commercial	39,626,238	40,959,014
Medicaid	45,985,509	33,172,025
Medicare	116,477,715	137,262,418
Other	21,529,047	22,652,690
Uninsured	2,688,018	7,000,068
Total	$ 280,837,078	$ 297,969,942
Major service lines:		
Home health	$ 2,601,534	$ 3,014,530
Hospital	259,427,453	275,134,858
Provider services	18,808,091	19,820,554
Total	$ 280,837,078	$ 297,969,942

After a review of reimbursement methods and contract obligations, the Hospital deems all significant patient revenue to be fee for service and the performance obligation is met over time.

There is $3,251,286 and $4,350,596 of contract assets included within other current assets on the consolidated balance sheet as of December 31, 2019 and 2018, respectively.

Note 19 - Functional Expenses

The Hospital is a general acute care facility that provides inpatient and outpatient healthcare services to patients in Lake County and several surrounding counties. Expenses related to providing these services for the years ended December 31, 2019 and 2018 are as follows:

	2019		
	Program Services	Management and General	Total
Salaries and wages	$ 127,959,817	$ 21,714,366	$ 149,674,183
Employee benefits and payroll taxes	29,763,353	5,743,642	35,506,995
Supplies	54,218,534	3,598,347	57,816,881
Outside services	42,325,833	10,771,462	53,097,295
Professional and other liability costs	3,531,659	-	3,531,659
Utilities	3,944,459	2,994,473	6,938,932
Repairs and maintenance	3,920,694	5,446,541	9,367,235
Medicaid assessment fee	17,509,084	-	17,509,084
Depreciation and amortization	15,999,290	2,148,168	18,147,458
Interest expense	3,157,298	-	3,157,298
Other	5,978,531	2,579,718	8,558,249
Total 2019	$ 308,308,552	$ 54,996,717	$ 363,305,269

Note 19 - Functional Expenses (Continued)

	2018		
	Program Services	Management and General	Total
Salaries and wages	$ 129,709,103	$ 21,111,850	$ 150,820,953
Employee benefits and payroll taxes	32,097,980	5,801,545	37,899,525
Supplies	59,601,495	4,232,785	63,834,280
Outside services	38,673,763	10,779,913	49,453,676
Professional and other liability costs	3,134,173	-	3,134,173
Utilities	5,364,349	1,710,913	7,075,262
Repairs and maintenance	3,320,803	5,907,694	9,228,497
Medicaid assessment fee	15,885,317	-	15,885,317
Depreciation and amortization	17,097,387	2,043,250	19,140,637
Interest expense	3,286,130	863	3,286,993
Other	5,988,644	2,636,917	8,625,561
Total 2018	$ 314,159,144	$ 54,225,730	$ 368,384,874

The consolidated financial statements report certain functions or expense categories that support both program and support functions. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including revenue cycle, patient services, purchasing, and information technology expenses, are allocated between program and support based on based pro rata percentage of expense to total expenses.