

CONSOLIDATED FINANCIAL STATEMENTS AND OTHER INFORMATION
INDIANA UNIVERSITY HEALTH, INC. AND SUBSIDIARIES
AS OF JUNE 30, 2015 AND DECEMBER 31, 2014 AND FOR THE SIX MONTHS ENDED
JUNE 30, 2015 AND 2014

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MANAGEMENT'S DISCUSSION OF FINANCIAL PERFORMANCE
As of June 30, 2015 and December 31, 2014 and for the six months ended
June 30, 2015 and 2014

Indiana University Health, Inc. and subsidiaries
Management's Discussion of Financial Performance
As of June 30, 2015 and December 31, 2014 and for the six months ended June 30,
2015 and 2014
(Dollars in Thousands)

The financial statement information and other data as of June 30, 2015 and December 31, 2014 and for the six months ended June 30, 2015 and 2014 are derived from the unaudited consolidated financial statements and other records of Indiana University Health, Inc. (Indiana University Health) and subsidiaries (collectively referred to herein as the Indiana University Health System). The consolidated financial statements include all adjustments, consisting of normal recurring and other accruals, which management of the Indiana University Health System considers necessary for a fair presentation of financial position, results of operations and changes in net assets, and cash flows for these periods in conformity with generally accepted accounting principles (GAAP) in the United States. The financial data relating to the Obligated Group and the Obligated Group and Affiliates, as defined in the Indiana University Health Obligated Group Master Trust Indenture, as amended, is provided as supplementary information.

The accompanying financial statement information should be read in conjunction with the audited consolidated financial statements and the notes thereto of Indiana University Health and subsidiaries as of and for the years ended December 31, 2014 and 2013 (not included herein).

Nature of Operations

The principal operating activities of the Indiana University Health System are conducted at owned facilities or majority-owned or controlled subsidiaries and consist of the following:

Downtown Hospitals of the Academic Health Center (Hospital Campuses) – Consist of three acute, tertiary and quaternary care, and diagnostic facilities, licensed as a single hospital, which constitutes the principal hospital activities of the academic health center and whose operations are located in the downtown area of Indianapolis, Indiana. These three hospitals, Indiana University Health Methodist Hospital (Methodist Hospital), Indiana University Health University Hospital (University Hospital), and Riley Hospital for Children at Indiana University Health (Riley Hospital) are located on or near the campus of Indiana University-Purdue University in Indianapolis and the Indiana University School of Medicine (the School of Medicine).

Suburban Facilities (Indiana University Health West Hospital (West), Indiana University Health North Hospital (North), Indiana University Health Tipton Hospital (Tipton), Indiana University Health Saxony Hospital (Saxony), and Rehabilitation Hospital of Indiana (RHI)) – Consist of three acute care hospitals, a critical access hospital, and an acute care rehabilitation hospital located in the western and northern suburban areas of metropolitan Indianapolis, Indiana. Saxony operates as a division of the academic health center.

Statewide Facilities – Consist of acute care hospitals, outpatient facilities and health care systems located in Bedford, Bloomington, Goshen, Hartford City, Knox, Lafayette, La Porte, Martinsville, Monticello, Muncie, and Paoli, Indiana. Principal hospital subsidiaries include Indiana University Health Bedford Hospital (Bedford), Indiana University Health Arnett Hospital (Arnett), Indiana University Health La Porte Hospital and subsidiaries (La Porte) including Indiana University Health Starke (Starke), Indiana University Health Goshen and subsidiaries (Goshen), Indiana University Health Ball Memorial Hospital and subsidiaries (Ball Memorial) including Indiana University Health Blackford (Blackford), Indiana University Health Bloomington Hospital and subsidiaries (Bloomington) including Indiana University Health Paoli (Paoli), Indiana University Health Morgan (Morgan), and Indiana University Health White Memorial Hospital (White). As of April 1, 2015, Morgan operates as a division of the academic health center.

Physician Operations – Consist of physician offices and physician-group practices and clinics. Principal subsidiaries or divisions include Indiana University Health Physicians (IUHP), a nonprofit organization with locations primarily in Indianapolis, Indiana, as well as Indiana University Health Arnett Physicians, Indiana University Health Ball Memorial Physicians, Indiana University Health Southern Indiana Physicians, Indiana University Health La Porte Physicians, Indiana University Health Goshen Physicians, and Indiana University Health Transplant Institute.

Ambulatory Care – Consists of personal and home health care services, outpatient oncology services and outpatient surgery centers, which are located throughout the state of Indiana. Principal subsidiaries or divisions include Indiana University Health Home Care, Central Indiana Cancer Centers, and seven joint venture surgery centers.

Medical Risk – Consists of the medical management of health care services of members whose health care coverage is provided by the managed care networks of the Indiana University Health System.

Foundations - Indiana University Health is the sole corporate member of Methodist Health Foundation, Inc. (Methodist Health Foundation), which aids and supports Methodist Hospital and other programs and areas of Indiana University Health. Tipton is the sole corporate member of Tipton County Health Care Foundation, Inc. (Tipton Foundation), which aids in carrying out the mission of Tipton. Ball Memorial is the sole corporate member of Indiana University Health Ball Memorial Hospital Foundation (BMH Foundation), which aids in carrying out the mission of Ball Memorial. Morgan is the sole corporate member of Indiana University Health Morgan Foundation (Morgan Foundation), which aids and supports Morgan. Arnett is the sole corporate member of Indiana University Health Arnett Foundation (Arnett Foundation), which aids and supports Arnett. RHI is the sole corporate member of Rehabilitation Hospital Foundation (RHI Foundation), which aids and supports RHI. Goshen is the sole corporate member of IU Health Goshen Foundation (Goshen Foundation), which aids and supports Goshen. Paoli is the sole corporate member of IU Health Paoli Hospital Foundation (Paoli Foundation), which aids and supports Paoli.

Revenue. Total operating revenue of \$2,924,252 for the six months ended June 30, 2015 increased 3.5% (or \$100,053) as compared to the prior year (\$2,824,199).

Net patient service revenue, when excluding state disproportionate share revenue (DSH), upper payment limit reimbursement (UPL), and increased reimbursement related to the Medicaid Assessment Fee program, increased by \$247,128 or 11.0% for the six months ended June 30, 2015 over the prior year, which reflects increased inpatient admissions (see table below), inpatient and outpatient surgeries, physician office visits, improved collection efforts and a significant shift from self-pay to government payors, namely the Healthy Indiana Plan (HIP) 2.0. Additionally, inclement weather in the first quarter of 2014 negatively impacted volumes and net patient revenue for the first six months of 2014.

The table below shows admissions by division.

	<u>Year over Year</u>			
	<u>6/30/2015</u>	<u>6/30/2014</u>	<u>Variance</u>	<u>Percentage</u>
<u>Admissions</u>				
Consolidated	65,439	64,155	1,284	2.0%
Downtown	25,397	25,083	314	1.3%
Statewide	29,782	28,971	811	2.8%
Suburban	10,260	10,101	159	1.6%

The Indiana General Assembly approved a hospital assessment fee program (Medicaid Assessment Fee). Under this program, the Office of Medicaid Policy and Planning (OMPP) collects a fee from eligible hospitals. The fee is used in part to increase reimbursement to eligible hospitals for services provided in both fee-for-service and managed care programs, and as the state share of DSH payments. The program was initially effective for state fiscal years 2011 through 2013. On March 21, 2014, the Centers for Medicare and Medicaid Services approved the extension of the program for another four years. This approval reinstated the program retroactively to July 1, 2013. The Indiana University Health System recorded the increased revenue related to claims occurring after July 1, 2013 in the first quarter of 2014. As of June 30, 2015, increased reimbursement related to the Medicaid Assessment Fee program totaled \$108,114 of which approximately \$9,640 related to 2014. As of June 30, 2014, increased reimbursement related to the Medicaid Assessment Fee program totaled \$360,606, of which \$167,353 related to 2013. The decrease in reimbursement related to the Medicaid Assessment Fee Program relates to recording six months of reimbursement at June 30, 2015 compared to twelve months at June 30, 2014 as well as decreases in reimbursement rates. Additionally, effective August 2014, Medicaid Assessment Fee program rates decreased by 23% for inpatient services and 45% for outpatient services.

As of June 30, 2015, \$22,457 of DSH and UPL revenue was recognized compared to \$8,388 for the prior year. The variance between years is due to \$14,345 of DSH revenue

being recorded in the first quarter of 2015, but DSH revenue was not recorded until the fourth quarter of 2014 due to timing of notification. The amount of state DSH and UPL funds vary by year and the amount to be received in future periods cannot be guaranteed.

The provision for uncollectible patient accounts amounted to \$122,838 for the six months ended June 30, 2015 and \$162,750 in the prior year. As a percentage of gross patient revenue, the provision for uncollectible patient accounts was 1.5% in 2015 and 2.3% in 2014. This decrease is due to a shift from self-pay to government payors, mainly HIP 2.0, during the six months ended June 30, 2015.

Member premium revenue aggregated \$195,661 for the six months ended June 30, 2015 and \$114,845 for the prior year. The increase relates to additional premium revenue related to growth in health exchange-related insurance products introduced under the Affordable Care Act as well as more members in both Medicaid and Medicare programs.

Other operating revenue of \$111,943 for the six months ended June 30, 2015 increased \$13,520 (or 13.7%) compared to the six months ended June 30, 2014 due to improvements in related entity operations and an increase in shared staffing with the School of Medicine.

Expenses. Total operating expenses of \$2,574,759 increased by 6.0% compared to the six months ended June 30, 2014 (\$2,428,852).

Salaries, wages, and benefits increased 6.7% (or \$82,961) to \$1,318,021, compared to the prior year. The increase is mainly attributable to a base pay increase effective in September, 2014, as well as an increase in full-time equivalent employees (FTEs) driven primarily by increased volumes. For the six months ended June 30, 2015, the average number of FTEs was 28,192 compared to 27,696 for the same period of 2014.

Supplies, drugs, purchased services, and other expenses of \$908,364 increased 10.2% (\$84,131) compared to the prior year (\$824,233) driven by increased inpatient admissions and surgery volumes.

Fees related to the Medicaid Assessment Fee program were \$55,293 for the six months ended June 30, 2015, compared to \$148,082 in the prior year. Of the \$148,082 in 2014, \$74,230 related to 2013. The decrease relates to recording six months of reimbursement at June 30, 2015 compared to twelve months at June 30, 2014.

Health claims to providers expenses of \$136,755 increased 98.8% over that for the prior year (\$68,804), which relates to the growth of health exchange-related insurance products under the Affordable Care Act as well as more members in both Medicaid and Medicare programs.

Depreciation expense of \$129,486 increased 4.0% over that for the prior year (\$124,488) due to the continuing investment in property and equipment.

Interest expense of \$26,840 was 4.8% less than the prior year (\$28,185) due in part to a decline in outstanding indebtedness.

Other. For the six months ended June 30, 2015 and 2014, Indiana University Health expensed in each year \$8,750 related to educational and research support provided to the Indiana University School of Medicine.

Investment income amounted to \$66,226 for the six months ended June 30, 2015, including \$21,739 of interest and dividend income, \$8,813 of realized gains on investments, including fees, and \$35,675 of unrealized gains on investments. For the six months ended June 30, 2014, investment income aggregated \$86,064, which included \$19,137 of interest and dividend income, \$23,517 of realized gains on investments, net of fees, and \$43,410 of unrealized gains on investments. Gains (losses) on interest rate swaps aggregated \$27,580 for the six months ended June 30, 2015, and (\$10,324) for the six months ended June 30, 2014.

The decline in operating performance between periods was primarily driven by recognizing six months of net increased reimbursement related to the Medicaid Assessment Fee program in the six months ended June 30, 2015, as compared to twelve months at June 30, 2014. As shown on the adjusted operating income table on page 9, operating margin remained consistent between periods after adjusting for non-controlling interests and net reimbursement related to the Medicaid Assessment Fee related to the prior year. Although in 2015 net patient revenue was favorably impacted by improved inpatient and surgery volumes, as well as a shift from self-pay to government payors due to Medicaid expansion (HIP 2.0), the Indiana University Health System experienced increases in salaries, wages and benefits and other patient care related costs. As the healthcare landscape continues to change, management has taken many steps to ensure the Indiana University Health System can continue to provide a top level of care to patients into the future in anticipation of further reductions to the Medicaid Assessment Fee program and state DSH and UPL, as well as other forms of reimbursement. Moreover, management has taken these actions as they plan for significant capital expenditures within the next few years.

Consolidated Balance Sheet (Compared to year ended December 31, 2014)

Consolidated Financial Position. Total cash and investments (which principally consist of cash and cash equivalents, board-designated funds and other investments, and donor-restricted funds) amounted to \$4,059,060 at June 30, 2015 (\$3,718,374 at December 31, 2014). The number of days cash and investments on hand, excluding donor-restricted funds, trustee-held funds and funds held by insurance captives, was 288 days at June 30, 2015 (277 days as of December 31, 2014). The number of days revenue in receivables was 55 days at June 30, 2015 (excluding the increased reimbursement under the Medicaid Assessment Fee program and related receivable), and 51 days at December 31, 2014. The number of days expenses in accounts payable, accrued expenses, and certain other current liabilities (excluding fees associated with the Medicaid Assessment Fee program and related liability) was 59 days at June 30, 2015, and 57 days at December 31, 2014.

Net current assets, or working capital, decreased to \$512,456 at June 30, 2015 (\$549,700 at December 31, 2014). Net property and equipment of \$2,644,226 decreased \$56,606 from December 31, 2014 reflecting depreciation expense for the period, partially offset by continued investment in facilities and equipment. Other amounts for property and equipment are anticipated to be incurred and total approximately \$160,349 at June 30,

2015. However these amounts may not be legally required or committed, and are subject to change by authorization of the Board of Directors. These amounts are expected to be financed through operations, contributions, and, where applicable, proceeds from the issuance of tax-exempt bonds.

Indiana University Health has executed direct-pay letter-of-credit agreements in support of all of its publicly remarketed variable-rate bond series, which require the credit provider to purchase bonds in the event the bonds are not remarketed. In addition, it has executed direct purchase agreements, whereby the credit provider purchases bonds for a predetermined period of time, after which the agreement must be extended or the bonds must be remarketed or reissued. In each of these instances, the bonds have a longer nominal maturity than the agreement, but the existence and terms of these agreements allow for the long-term classification of the associated variable-rate bond series. When these agreements are set to expire in the next 12 months, a greater portion of the debt is classified as current portion of long-term debt, because if not otherwise extended, these agreements would require the principal balance of the related bonds to be repaid over a shortened timeframe. Accordingly, a principal balance of \$31,852 was included as current portion of long-term debt at December 31, 2014.

On May 7, 2015, through the Indiana Finance Authority, Indiana University Health issued \$287,395 in par value of Series 2015A tax-exempt fixed-rate bonds at a premium of \$27,022. Proceeds were used to advance refund \$117,130 in par of the Series 2006A tax-exempt fixed rate bonds; to refund the Series 2011J and 2011K taxable variable rate bonds outstanding in the amount of \$151,550; to refund a variable rate commercial bank loan in the amount of \$37,975; and to pay certain costs related to the issuance.

Also on May 7, 2015, through the Indiana Finance Authority, Indiana University Health issued at par \$193,675 of Series 2015B and 2015C tax-exempt variable-rate bonds. Proceeds were used to advance refund \$184,550 in par of the Series 2006A tax-exempt fixed rate bonds and to pay certain costs related to the issuance.

Also on May 7, 2015, Indiana University Health drew \$26,717 under its existing revolving line of credit to advance refund the final \$25,490 in par of the Series 2006A tax-exempt fixed rate bonds. Subsequently, on June 25, 2015, this line of credit agreement was amended to defer the expiration date until June 30, 2018. Accordingly, the balance drawn is included as long-term debt at June 30, 2015.

The refunding of the Series 2006A, 2011J, and 2011K bonds and the commercial bank loan were all accounted for as debt extinguishments, resulting in losses aggregating \$15,778 based upon the funds expended in excess of the carrying values net of unamortized discount and unamortized issuance costs associated with the refunded debt. This loss is shown within other nonoperating income (losses) on the consolidated statements of operations and changes in net assets.

Unrestricted net assets, or equity, amounted to \$5,037,709 at June 30, 2015 (\$4,650,831 at December 31, 2014) and includes the net unrealized losses on swaps of \$110,650 and \$145,339 at June 30, 2015 and December 31, 2014, respectively.

Strategic Initiatives

As part of its commitment to being a leader in both the treatment of patients with complex illnesses as well as in the transition from payment models that reward volumes to those that reward value, the Indiana University Health System continuously evaluates its operations with goals to achieve superior clinical outcomes and to treat patients in the most beneficial and least resource-intensive settings possible as it works to effectively manage the health of populations.

As part of this continual evaluation, management engages in discussions at times with unaffiliated third parties regarding potential affiliations, acquisitions, dispositions, divestitures, joint ventures and other transactions. In addition, management considers the potential to change the services offered at a given facility or consolidate and/or eliminate redundant services. Such changes could be material, impacting the future composition of the system.

As an example of developing new models of care for hospitals in smaller communities, effective April 1, 2015, Morgan converted to an outpatient care facility and ceased admitting overnight patients. The facility offers a 24-hour emergency room in addition to a range of outpatient procedures and services.

In order to remain at the forefront of the shifting health care environment, the Indiana University Health Board of Directors adopted a five year strategic plan, which is currently in the implementation stage. Some key decisions embedded within the strategic plan include further expansion of Indiana University Health Plans; increasing capabilities to manage the health of populations; simplification and focused realignment of organizational and governance structures; various strategies centered on employment and alignment of physicians; expansion of the Riley Hospital brand for pediatric care; and improving primary care capabilities.

After considerable strategic planning, on March 30, 2015, Indiana University Health, La Porte, and a subsidiary of Community Health Systems, Inc. signed a non-binding letter of intent to form a joint venture limited liability company that will include La Porte and subsidiaries, including Starke. The letter of intent stipulates that there will be a period of exclusive negotiations. There can be no assurance that the agreement contemplated by this letter of intent will be consummated. Indiana University Health and La Porte presently anticipate that, as part of this new partnership, Indiana University Health will likely cease to be the majority member of La Porte. Prior to any such change in control, Indiana University Health anticipates that La Porte will withdraw from the Obligated Group. For the six months ended June 30, 2015, La Porte represented 4.6% of the total operating revenues of the Credit Group and La Porte and subsidiaries, including Starke, together represented approximately 3.6% of the total operating revenues of Indiana University Health System.

In concert with its primary care strategy, in 2015 and 2016, Indiana University Health expects to open up to 12 urgent care clinics across central Indiana to offer fast, convenient treatment outside of traditional business hours. The new clinics will be owned by a joint venture with Premier Health, based in Baton Rouge, LA, who will also serve as the manager of the clinics.

In support of the newly designed model of care of Indiana University Health, the Indiana University Health Board of Directors recently approved a plan to consolidate adult services to one medical campus centered on Capitol Avenue and 16th Street in downtown Indianapolis, with women's services consolidated at or near the existing Riley Hospital campus. As Indiana University Health is committed to improving the health of our patients and communities, the plan also includes the development of an array of ambulatory care services for residents of the neighborhoods around the downtown Indianapolis campus. The campus facilities also will include a medical education building and faculty offices on site to enhance ongoing collaboration with the IU School of Medicine and support the tripartite mission of clinical care, research and education.

The Indiana University Health Board of Directors recently approved a plan to create a regional academic health campus in Bloomington, which will increase Bloomington's ability to improve patient care, by providing more opportunities for collaboration among clinical, research and medical staff and faculty. The decision will also allow the Indiana University School of Medicine to expand its medical education programs and research opportunities on the Bloomington campus. As part of this plan, Bloomington will build a replacement hospital, which will bring cutting-edge health services to the region.

Adjusted Operating Income

The following table adjusts operating income for significant one time transactions or significant items that relate to prior years. Management uses these measures internally for planning, forecasting, and evaluating the performance of the Indiana University Health System. The table also removes operating income attributable to noncontrolling interests, which primarily relates to ambulatory surgery centers in which third parties hold significant noncontrolling interests. Internally, management reviews operating results after allocation to noncontrolling interests, in part, because a significant portion of the operating results of these entities is distributed to the noncontrolling interest holders each period. Non-GAAP measures should be considered in addition to, not as a substitute for, or as superior to, measures of financial performance prepared in accordance with GAAP. For additional information on the programs that resulted in these adjustments and on noncontrolling interests refer to the interim consolidated financial statements and the notes thereto of Indiana University Health and subsidiaries as of and for the six months ended June 30, 2015 and 2014.

**Six Months Ended
June 30
(in thousands)**

	2015	2014
Operating income as reported	\$ 340,743	\$ 386,597
Noncontrolling interests in subsidiaries	(48,441)	(38,289)
Medicaid assessment fee program, net	(9,640)	(93,123)
Operating income adjusted	<u>\$ 282,662</u>	<u>\$ 255,185</u>
Operating margin adjusted	10.0%	9.9 %

- During 2015, net increased reimbursement under the Medicaid Assessment Fee program was received for 2014 claims. During 2014, net increased reimbursement under the Medicaid Assessment Fee program was received for 2013 claims retroactively.

CONSOLIDATED FINANCIAL STATEMENTS
As of June 30, 2015 and December 31, 2014 and for the six months ended
June 30, 2015 and 2014

Indiana University Health, Inc. and subsidiaries
Consolidated Balance Sheets
(Thousands of Dollars)

	June 30 2015	December 31 2014
Assets	(Unaudited)	(Audited)
Current assets:		
Cash and cash equivalents	\$ 445,030	\$ 527,682
Patient accounts receivable, less allowance for uncollectible accounts of \$188,939 and \$197,120 in 2015 and 2014, respectively	760,219	684,108
Other receivables	162,063	150,264
Prepaid expenses	45,188	48,577
Inventories	76,815	75,355
Total current assets	1,489,315	1,485,986
Assets limited as to use:		
Board-designated investment funds and other investments	3,541,555	3,113,805
Donor-restricted investment funds	72,475	76,887
Total assets limited as to use	3,614,030	3,190,692
Property and equipment:		
Cost of property and equipment in service	5,885,715	5,845,564
Less accumulated depreciation	(3,279,659)	(3,177,729)
	2,606,056	2,667,835
Construction-in-progress	38,170	32,997
Total property and equipment, net	2,644,226	2,700,832
Other assets:		
Equity interest in unconsolidated subsidiaries	50,636	49,202
Interest in net assets of foundations	14,042	13,976
Unamortized bond issuance costs	7,464	6,116
Goodwill, intangibles, and other assets	246,364	219,981
Total other assets	318,506	289,275
Total assets	\$ 8,066,077	\$ 7,666,785

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Indiana University Health, Inc. and subsidiaries
Consolidated Balance Sheets (continued)
(Thousands of Dollars)

	June 30	December 31
	2015	2014
	(Unaudited)	(Audited)
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 489,949	\$ 400,269
Accrued salaries, wages, and related liabilities	285,238	293,112
Accrued health claims	67,115	56,469
Estimated third-party payor allowances	88,728	107,679
Current portion of long-term debt	45,829	78,757
Total current liabilities	976,859	936,286
Noncurrent liabilities:		
Long-term debt, less current portion	1,636,981	1,618,812
Interest rate swaps	110,650	145,339
Accrued pension obligations	95,058	96,211
Accrued medical malpractice claims	69,048	63,663
Other	45,718	57,496
Total noncurrent liabilities	1,957,455	1,981,521
Total liabilities	2,934,314	2,917,807
Net assets:		
Indiana University Health	4,842,847	4,464,244
Noncontrolling interest in subsidiaries	194,862	186,587
Total unrestricted	5,037,709	4,650,831
Temporarily restricted	26,777	30,905
Permanently restricted	67,277	67,242
Total net assets	5,131,763	4,748,978
Total liabilities and net assets	\$ 8,066,077	\$ 7,666,785

Indiana University Health, Inc. and subsidiaries
Consolidated Statements of Operations and Changes in Net Assets
(Thousands of Dollars)

	Six Months Ended June 30		Three Months Ended June 30	
	2015	2014	2015	2014
	(Unaudited)		(Unaudited)	
Revenues:				
Patient service revenue (net of contractuels and discounts)	\$ 2,739,486	\$ 2,770,693	\$ 1,374,754	\$ 1,346,759
Provision for uncollectible accounts	(122,838)	(162,750)	(37,908)	(85,009)
Net patient service revenue	<u>2,616,648</u>	2,607,943	<u>1,336,846</u>	1,261,750
Member premium revenue	195,661	114,845	114,738	64,864
Other revenue	<u>111,943</u>	101,411	<u>58,678</u>	55,229
Total operating revenues	<u>2,924,252</u>	2,824,199	<u>1,510,262</u>	1,381,843
Expenses:				
Salaries, wages, and benefits	1,318,021	1,235,060	666,999	617,568
Supplies, drugs, purchased services, and other	908,364	824,233	474,609	429,114
Hospital assessment fee	55,293	148,082	28,282	36,656
Health claims to providers	136,755	68,804	80,291	39,923
Depreciation and amortization	129,486	124,488	65,597	63,531
Interest	<u>26,840</u>	28,185	<u>13,320</u>	13,997
Total operating expenses	<u>2,574,759</u>	2,428,852	<u>1,329,098</u>	1,200,789
Operating income before educational and research support	349,493	395,347	181,164	181,054
Educational and research support to Indiana University	<u>(8,750)</u>	<u>(8,750)</u>	<u>(4,375)</u>	<u>(4,375)</u>
Total operating income	<u>340,743</u>	386,597	<u>176,789</u>	176,679
Nonoperating income:				
Investment income, net	66,226	86,064	18,623	55,246
Gains (losses) on interest rate swaps, net	27,580	(10,324)	25,506	(13,359)
Inherent contribution of acquired entities	-	2,804	-	2,804
Gain (loss) on debt extinguishment and other	<u>(15,510)</u>	5,512	<u>(15,510)</u>	(834)
Total nonoperating income	<u>78,296</u>	84,056	<u>28,619</u>	43,857
Consolidated excess of revenues over expenses	419,039	470,653	205,408	220,536
Less amounts attributable to noncontrolling interest in subsidiaries	<u>48,441</u>	38,289	<u>27,430</u>	21,913
Excess of revenues over expenses attributable to Indiana University Health and subsidiaries	<u>370,598</u>	432,364	<u>177,978</u>	198,623

Continued on next page.

Indiana University Health, Inc. and subsidiaries
Consolidated Statements of Operations and Changes in Net Assets (continued)
(Thousands of Dollars)

	Six Months Ended June 30 2015			Six Months Ended June 30 2014		
	Total	(Unaudited) Controlling	Noncontrolling	Total	(Unaudited) Controlling	Noncontrolling
Unrestricted net assets:						
Excess of revenues over expenses	\$ 419,039	\$ 370,598	\$ 48,441	\$ 470,653	\$ 432,364	\$ 38,289
Contributions for capital expenditures	2,424	2,424	-	701	701	-
Distributions to noncontrolling interests	(48,952)	-	(48,952)	(48,171)	-	(48,171)
Issuance of noncontrolling interests related to acquisition	6,068	-	6,068	-	-	-
Purchase of controlling interests	3,108	3,108	-	-	-	-
Purchase of noncontrolling interests	2,970	-	2,970	-	-	-
Sale of member interest to noncontrolling member	-	-	-	2,714	(834)	3,548
Restriction reclassification	3,901	3,901	-	-	-	-
Other	(1,680)	(1,428)	(252)	1,242	(349)	1,591
	<u>386,878</u>	<u>378,603</u>	<u>8,275</u>	<u>427,139</u>	<u>431,882</u>	<u>(4,743)</u>
Temporarily restricted net assets						
Change in beneficial interest in net assets of foundations	(95)	(95)	-	353	353	-
Contributions	1,977	1,977	-	1,725	1,725	-
Investment return	89	89	-	87	87	-
Net assets released from restrictions	(2,198)	(2,198)	-	(6,535)	(6,535)	-
Restriction reclassification	(3,901)	(3,901)	-	-	-	-
Other	-	-	-	(2,700)	(2,700)	-
	<u>(4,128)</u>	<u>(4,128)</u>	<u>-</u>	<u>(7,070)</u>	<u>(7,070)</u>	<u>-</u>
Permanently restricted net assets:						
Change in beneficial interest in net assets of foundations	(84)	(84)	-	417	417	-
Contributions and other	119	119	-	135	135	-
	<u>35</u>	<u>35</u>	<u>-</u>	<u>552</u>	<u>552</u>	<u>-</u>
Increase (decrease) in net assets	<u>382,785</u>	<u>374,510</u>	<u>8,275</u>	<u>420,621</u>	<u>425,364</u>	<u>(4,743)</u>
Net assets at beginning of period	<u>4,748,978</u>	<u>4,562,391</u>	<u>186,587</u>	<u>4,091,425</u>	<u>3,910,745</u>	<u>180,680</u>
Net assets at end of period	<u>\$ 5,131,763</u>	<u>\$ 4,936,901</u>	<u>\$ 194,862</u>	<u>\$ 4,512,046</u>	<u>\$ 4,336,109</u>	<u>\$ 175,937</u>
	Three Months Ended June 30 2015			Three Months Ended June 30 2014		
	Total	(Unaudited) Controlling	Noncontrolling	Total	(Unaudited) Controlling	Noncontrolling
Unrestricted net assets:						
Excess of revenues over expenses	\$ 205,408	\$ 177,978	\$ 27,430	220,536	198,623	21,913
Contributions for capital expenditures	(3,199)	(3,199)	-	420	420	-
Distributions to noncontrolling interests	(20,400)	-	(20,400)	(22,230)	-	(22,230)
Sale of member interest to noncontrolling member	-	-	-	264	(834)	1,098
Restriction reclassification	22	22	-	-	-	-
Other	(2,737)	(2,483)	(254)	560	(230)	790
	<u>179,094</u>	<u>172,318</u>	<u>6,776</u>	<u>199,550</u>	<u>197,979</u>	<u>1,571</u>
Temporarily restricted net assets						
Change in beneficial interest in net assets of foundations	-	-	-	264	264	-
Contributions	1,088	1,088	-	810	810	-
Investment return	88	88	-	2	2	-
Net assets released from restrictions	(1,658)	(1,658)	-	(3,228)	(3,228)	-
Restriction reclassification	(22)	(22)	-	-	-	-
	<u>(504)</u>	<u>(504)</u>	<u>-</u>	<u>(2,152)</u>	<u>(2,152)</u>	<u>-</u>
Permanently restricted net assets:						
Change in beneficial interest in net assets of foundations	103	103	-	424	424	-
Contributions and other	65	65	-	71	71	-
	<u>168</u>	<u>168</u>	<u>-</u>	<u>495</u>	<u>495</u>	<u>-</u>
Increase in net assets	<u>178,758</u>	<u>171,982</u>	<u>6,776</u>	<u>197,893</u>	<u>196,322</u>	<u>1,571</u>
Net assets at beginning of period	<u>4,953,005</u>	<u>4,764,919</u>	<u>188,086</u>	<u>4,314,153</u>	<u>4,139,787</u>	<u>174,366</u>
Net assets at end of period	<u>\$ 5,131,763</u>	<u>\$ 4,936,901</u>	<u>\$ 194,862</u>	<u>\$ 4,512,046</u>	<u>\$ 4,336,109</u>	<u>\$ 175,937</u>

Indiana University Health, Inc. and subsidiaries
Consolidated Statements of Cash Flows
(Thousands of Dollars)

	Six Months Ended June 30		Three Months Ended June 30	
	2015	2014	2015	2014
	(Unaudited)		(Unaudited)	
Operating activities				
Increase in net assets	\$ 382,785	420,621	\$ 178,758	197,893
Adjustments to reconcile increase in net assets to net cash provided by operating activities:				
Change in fair value of interest rate swaps	(34,689)	2,291	(29,041)	9,768
(Income) loss in unconsolidated subsidiaries	(2,006)	468	(208)	(680)
Provision for uncollected patient accounts	122,838	162,750	37,908	85,009
Issuance of noncontrolling interests related to acquisition	(6,068)	-	-	-
Inherent contribution of acquired entities	-	(2,804)	-	(2,804)
Loss on consolidation of acquired entities	(270)	-	(270)	-
Depreciation and amortization	129,486	124,488	65,597	63,531
Amortization of deferred gain on sale of medical office buildings	(850)	(1,062)	(413)	(531)
Loss on extinguishment of debt	-	(6,296)	-	-
Restricted contributions and investment return	(2,006)	(2,717)	(1,344)	(1,571)
Purchase of controlling interests	(3,108)	-	-	-
Purchase of noncontrolling interests	(2,970)	-	-	-
Proceeds from the sale of member interest to noncontrolling member	-	(2,714)	-	(264)
Distributions to noncontrolling interests	48,952	48,171	20,400	22,230
Trading securities	(423,335)	(279,520)	(185,170)	(184,208)
Net changes in operating assets and liabilities				
Patient accounts receivable	(198,616)	(180,196)	(58,514)	(107,617)
Other assets	9,256	(27,893)	39,480	205,224
Accounts payable, accrued liabilities, and other liabilities	65,792	(35,601)	21,597	(29,170)
Salaries, wages, and related liabilities	(7,889)	(31,625)	45,165	23,136
Estimated third-party payor allowances	(18,951)	(13,424)	(22,498)	(13,699)
Net cash provided by operating activities	58,351	174,937	111,447	266,247
Investing activities				
Purchase of property and equipment, net of disposals	(65,872)	(48,776)	(37,201)	(22,632)
Acquisition of subsidiary	(15,932)	-	-	-
Net cash used in investing activities	(81,804)	(48,776)	(37,201)	(22,632)
Financing activities				
Increase in restricted net assets	2,006	2,717	1,344	1,571
Repayments on long-term debt	(526,118)	(62,344)	(486,488)	(5,395)
Proceeds from issuance of long-term debt	507,787	20	507,787	-
Purchase of controlling interests	3,108	-	-	-
Purchase of noncontrolling interests	2,970	-	-	-
Proceeds from the sale of members interest to noncontrolling member	-	2,714	-	264
Distributions to noncontrolling interests	(48,952)	(48,171)	(20,400)	(22,230)
Net cash (used in) provided by financing activities	(59,199)	(105,064)	2,243	(25,790)
(Decrease) increase in cash and cash equivalents	(82,652)	21,097	76,489	217,825
Cash and cash equivalents at beginning of period	527,682	442,672	368,541	245,944
Cash and cash equivalents at end of period	\$ 445,030	\$ 463,769	\$ 445,030	\$ 463,769

Indiana University Health, Inc. and subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
As of June 30, 2015 and December 31, 2014 and for the six months ended June 30,
2015 and 2014 (thousands of dollars)

1. Basis of Presentation

Indiana University Health, Inc. (Indiana University Health), an Indiana private, nonprofit organization (exempt from federal income taxes as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986), as amended (the Code), and classified as a public charity under Section 509(a) of the Code, is a health care delivery system that provides services throughout the State of Indiana (the State). Indiana University Health's mission is to improve the health of its patients and the communities it serves through innovation and excellence in care, education, research, and service.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete, annual financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal and recurring nature. Operating results for the six months ended June 30, 2015 are not necessarily indicative of the results to be expected for the year ending December 31, 2015. For further information, refer to the audited consolidated financial statements and notes thereto for the years ended December 31, 2014 and 2013 (not included herein).

The accompanying unaudited consolidated financial statements include the accounts of Indiana University Health and all majority-owned or controlled subsidiaries (collectively referred to herein as the Indiana University Health System). The equity method of accounting is used for investments in joint ventures, partnerships, and companies where control is participatory with others or where ownership is 50% or less. All significant intercompany balances and transactions have been eliminated in consolidation.

2. Summary of Significant Accounting Policies

Accounts Receivable and Allowance for Uncollectible Accounts

The provision for uncollected patient accounts, for all payors, is recognized when services are provided based upon management's assessment of historical and expected net collections, taking into consideration business and economic conditions, changes and trends in health care coverage, and other collection indicators. Periodically, management assesses the adequacy of the allowance for uncollectible accounts based upon accounts receivable payor composition and aging, the significance of individual payors to outstanding accounts receivable balances, and historical write-off experience by payor category, as adjusted for collection indicators. The results of this review are then used to make any modifications to the provision for uncollected patient accounts and the allowance for uncollectible accounts. In addition, the Indiana University Health System follows established guidelines for placing certain past due patient balances with collection agencies. Patient accounts that are uncollected, including those placed with collection agencies, are initially charged against the allowance for uncollectible accounts

Indiana University Health, Inc. and subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
As of June 30, 2015 and December 31, 2014 and for the six months ended June 30,
2015 and 2014 (thousands of dollars)

2. Summary of Significant Accounting Policies (continued)

in accordance with collection policies of the Indiana University Health System and, in certain cases, are reclassified to charity care if deemed to otherwise meet financial assistance policies of the Indiana University Health System.

The allowance for uncollectible accounts for self-pay patients, including self-pay discounts and charity care, was 76% and 83% of self-pay accounts receivable as of June 30, 2015 and December 31, 2014, respectively. Overall, the net of self-pay discounts and write-offs has not changed significantly for the six months ended June 30, 2015. Effective July 1, 2014, the Indiana University Health System changed its financial assistance policy to remove both out-of-state patients and those above 400% of the federal poverty level from being eligible to participate.

The Indiana University Health System serves certain patients whose medical care costs are not paid at established rates. These patients include those under government programs, such as Medicare and Medicaid, and those that cannot afford health insurance because of inadequate resources or those who are uninsured or underinsured. Patient service revenue is reported at estimated net realizable amounts for services rendered. The Indiana University Health System recognizes patient service revenue associated with patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, revenue is recognized on the basis of discounted rates in accordance with the financial assistance policy.

Patient service revenue, net of contractual allowances and discounts and before the provision for bad debts, recognized in the period from major payor sources is as follows:

	Six Months Ended	
	June 30	
	2015	2014
Third-party payors	\$ 2,737,451	\$ 2,653,640
Self-pay patients	2,035	117,053
Total payors	<u>\$ 2,739,486</u>	<u>\$ 2,770,693</u>

The decrease in self-pay patients' revenue for 2015 is due to a reduction in self-pay revenue and the identification of prior year accounts requiring reclassification from the provision for bad debts to charity care.

Indiana University Health, Inc. and subsidiaries
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2. Summary of Significant Accounting Policies (continued)

Hospital Assessment Fee Program

The Indiana General Assembly approved a hospital assessment fee program (Medicaid Assessment Fee). Under this program, the Office of Medicaid Policy and Planning (OMPP) collects a fee from eligible hospitals. The fee is used in part to increase reimbursement to eligible hospitals for services provided in both fee-for-service and managed care programs, and as the state share of DSH payments. The program was initially effective for state fiscal years 2011 through 2013. On March 21, 2014, the Centers for Medicare and Medicaid Services approved the extension of the program for another four years. This approval reinstated the program retroactively to July 1, 2013. The Indiana University Health System recorded the increased revenue related to claims occurring after July 1, 2013 in the first quarter of 2014 on the consolidated statements of operations and changes in net assets. As of June 30, 2015, increased reimbursement related to the Medicaid Assessment Fee program totaled \$108,114, of which we estimate that approximately \$9,640 related to 2014. As of June 30, 2014, increased reimbursement related to the Medicaid Assessment Fee program totaled \$360,606, of which \$167,353 related to 2013. As of June 30, 2015, an assessment fee was recognized of \$55,293. As of June 30, 2014, an assessment fee was recognized of \$148,082, of which \$74,230 related to 2013.

Subsequent Events

During July 2015, Indiana University Health terminated a basis swap with notional amount of \$309,200 and a maturity date of March 7, 2021 for a one-time cash receipt of \$44, after which no payments or other amounts are owed to either party with respect to this swap.

For the consolidated financial statements as of and for the six months ended June 30, 2015, management has evaluated subsequent events through August 10, 2015, the date that these financial statements were issued.

Indiana University Health, Inc. and subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
As of June 30, 2015 and December 31, 2014 and for the six months ended June 30,
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2. Summary of Significant Accounting Policies (continued)

New Accounting Guidance Not Yet Applicable

In May 2014, the Financial Accounting Standards Board issued guidance related to recognizing revenue from contracts with customers. This new guidance dictates that the standard be applied either retrospectively to each prior reporting period presented, or retrospectively with the cumulative effect of initially applying the revenue recognition standard recognized at the date of initial application. This new guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2017. Indiana University Health is evaluating the effect this guidance will have on its consolidated financial statements.

In April 2015, the Financial Accounting Standards Board issued guidance related to the financial statement presentation of debt issuance costs, which would require that debt issuance costs related to a recognized debt liability presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This new guidance dictates that the standard be applied retrospectively to each prior reporting period presented at the date of initial application. This new guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2015. Early adoption is permitted. Indiana University Health is evaluating the effect this guidance will have on its consolidated financial statements.

3. Significant Transactions

Indiana University Health and La Porte are presently seeking a partnership with a new or additional healthcare organization for La Porte. Both organizations presently anticipate that, as part of this new partnership, Indiana University Health will likely cease to be the majority member of La Porte, which represented approximately 3.6% of the total operating revenues of the Indiana University Health System for the six months ended June 30, 2015.

The Indiana University Health Board of Directors approved a plan to consolidate the two adult hospitals of the Academic Health Center in downtown Indianapolis into one location in downtown Indianapolis. A similar decision was made to relocate Bloomington Hospital. Both decisions may lead to impairment charges and/or accelerated depreciation expense on the existing facilities.

Indiana University Health, Inc. and subsidiaries
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As of June 30, 2015 and December 31, 2014 and for the six months ended June 30,
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4. Assets Limited as to Use

Board-designated and donor-restricted investment funds are invested in accordance with Board-approved policies. Trustee-held funds are generally invested in cash equivalents (including money market funds) and U.S. government and agency obligations, as defined by the debt agreements.

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

The Indiana University Health System is a limited partner in funds that employ hedged investment strategies and private funds that employ investment strategies that require long holding periods to create value, both of which are designed to reduce overall portfolio volatility. In the case of hedge funds, redemptions generally may be made quarterly with written notice ranging from 30 to 90 days; however, some funds employ lock-up periods that restrict redemptions or charge a redemption fee during the lock-up period. Lock-up periods range from one to three years with redemption charges of up to 5% of net asset value for redemptions made on or before the anniversary date of the initial investment or additional contribution.

Upon complete redemption, many of the funds have “hold-back” provisions that allow the fund to retain up to 10% of the assets until the fund completes its audited financial statements for the redemption period. These investments are accounted for using the equity method of accounting, based on the fund’s financial information. In the case of private funds, capital is returned as monetization events occur which may be infrequent in nature. Generally, capital is committed to a partnership for a period of five to ten years with the ability of the general partner to extend the life of the fund one to three additional years. During the first three to five years of a fund life the general partner, in order to facilitate its funding of investments, will call capital from the limited partners up to the amount of its commitment. As of June 30, 2015 and December 31, 2014, there were \$114,815 and \$57,676 respectively of unfunded commitments relating to private fund investments, which are expected to be paid over the next five years.

Alternative investments include certain other risks that may not exist with other investments that are more widely traded. These include reliance on the skill of the fund managers, who often employ complex strategies utilizing various financial instruments, including futures contracts, foreign currency contracts, structured notes, and interest rate,

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4. Assets Limited as to Use (continued)

total return, and credit default swaps. Additionally, alternative investments may provide limited information on a fund's underlying assets and have restrictive liquidity provisions. Management believes that the Indiana University Health System, in consultation with its investment consultants, has the capacity to analyze and interpret the risks associated with alternative investments and with this understanding, has determined that these investments represent a prudent approach for use in its portfolio management.

The composition of assets limited as to use is set forth below.

	June 30 2015	December 31 2014
Board designated investments and trustee-held funds:		
Cash and cash equivalents	\$ 37,144	\$ 57,627
Debt securities:		
Asset backed	46,926	46,871
Bank loans	181,472	144,493
Corporate debt	303,792	280,306
Government and agencies	321,597	257,236
Bond funds	239,408	266,013
Total debt securities	<u>1,093,195</u>	<u>994,919</u>
Equity securities:		
Domestic equities	61,530	53,503
Domestic equity funds	546,861	476,784
International equities	79,287	59,566
International equity funds	421,230	363,209
Total equity securities	<u>1,108,908</u>	<u>953,062</u>
Alternatives:		
Hedge funds	1,149,257	988,085
Private	91,225	88,260
Commodities	134,301	108,739
Total alternatives	<u>1,374,783</u>	<u>1,185,084</u>
Total assets limited to use	<u><u>\$ 3,614,030</u></u>	<u><u>\$ 3,190,692</u></u>

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Notes to Consolidated Financial Statements (Unaudited)
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5. Debt

Indiana University Health has executed direct-pay letter-of-credit agreements in support of all of its publicly remarketed variable-rate bond series, which require the credit provider to purchase bonds in the event the bonds are not remarketed. In addition, it has executed direct purchase agreements, whereby the credit provider purchases bonds for a predetermined period of time, after which the agreement must be extended or the bonds must be remarketed or reissued. In each of these instances, the bonds have a longer nominal maturity than the agreement, but the existence and terms of these agreements allow for the long-term classification of the associated variable-rate bond series. When these agreements are set to expire in the next 12 months, a greater portion of the debt is classified as current portion of long-term debt, because if not otherwise extended, these agreements would require the principal balance of the related bonds to be repaid over a shortened timeframe. Accordingly, a principal balance of \$31,852 was included as current portion of long-term debt at December 31, 2014.

On May 7, 2015, through the Indiana Finance Authority, Indiana University Health issued \$287,395 in par value of Series 2015A tax-exempt fixed-rate bonds at a premium of \$27,022. Proceeds were used to advance refund \$117,130 in par of the Series 2006A tax-exempt fixed rate bonds; to refund the Series 2011J and 2011K taxable variable rate bonds outstanding in the amount of \$151,550; to refund a variable rate commercial bank loan in the amount of \$37,975; and to pay certain costs related to the issuance.

Also on May 7, 2015, through the Indiana Finance Authority, Indiana University Health issued at par \$193,675 of Series 2015B and 2015C tax-exempt variable-rate bonds. Proceeds were used to advance refund \$184,550 in par of the Series 2006A tax-exempt fixed rate bonds and to pay certain costs related to the issuance.

Also on May 7, 2015, Indiana University Health drew \$26,717 under its existing revolving line of credit to advance refund the final \$25,490 in par of the Series 2006A tax-exempt fixed rate bonds. Subsequently, on June 25, 2015, this line of credit agreement was amended to defer the expiration date until June 30, 2018. Accordingly, the balance drawn is included as long-term debt at June 30, 2015.

The refunding of the Series 2006A, 2011J, and 2011K bonds and the commercial bank loan were all accounted for as debt extinguishments, resulting in losses aggregating \$15,778 based upon the funds expended in excess of the carrying values net of unamortized discount and unamortized issuance costs associated with the refunded debt. This loss is shown within other nonoperating income (losses) on the consolidated statements of operations and changes in net assets.

Indiana University Health, Inc. and subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
As of June 30, 2015 and December 31, 2014 and for the six months ended June 30,
2015 and 2014 (thousands of dollars)

6. Derivative Financial Instruments

Long-term interest rate swap arrangements have been entered into with the primary objective being to mitigate interest rate risk. The following fixed-pay swaps, stated at current notional amounts, remain in place as of June 30, 2015:

Notional Amount	Effective Date	Maturity Date	Rate Received	Rate Paid
\$ 39,200	11/15/2005	2/16/2021	62.30% one-month LIBOR (London Interbank Offered Rate) plus 0.24%	3.19%
60,195	6/23/2011	3/01/2036	62.30% one-month LIBOR plus 0.24%	2.68%
67,950	11/15/2005	2/15/2030	62.30% one-month LIBOR plus 0.24%	3.35%
68,200	6/20/2011	2/15/2030	62.30% one-month LIBOR plus 0.24%	3.35%
56,675	6/26/2003	3/01/2033	one-month LIBOR	4.92%
18,883	6/16/2011	3/01/2033	one-month LIBOR	4.92%
75,530	6/16/2011	3/01/2033	one-month LIBOR	4.92%
18,875	6/16/2011	3/01/2033	one-month LIBOR	4.92%
18,875	6/26/2003	3/01/2033	one-month LIBOR	4.92%
8,800	1/27/2006	11/02/2020	Securities Industry and Financial Markets Association Municipal Swap Index (SIFMA)	3.98%
1,238	6/01/2006	6/01/2026	one-month LIBOR plus 1.25%	7.15%
126	10/1/1999	10/01/2019	Prime minus 1.86%	7.72%

After giving effect to the above derivative transactions, the Indiana University Health System's variable-rate debt was approximately 13.9% and 11.9% of total debt outstanding as of June 30, 2015 and December 31, 2014, respectively.

In addition, long-term basis swap arrangements were entered into for the purpose of managing the effect of interest rates on cash flows and were in place as of June 30, 2015 as follows:

Notional Amount	Effective Date	Maturity Date	Swap Type	Rate Received	Rate Paid
\$ 140,446	3/10/2021	2/15/2033	Forward Starting Basis	75.00% three-month LIBOR minus 0.05%	SIFMA
168,952	1/04/2008	2/15/2033	Basis	75.00% one-month LIBOR	SIFMA
309,200	3/10/2021	1/07/2033	Forward Starting Basis	75.00% three-month LIBOR minus 0.04%	SIFMA
309,200	3/07/2009	3/07/2021	Basis	72.00% three-month LIBOR minus 0.12%	SIFMA
309,200	6/07/2011	1/07/2033	Basis	75.00% one-month LIBOR	SIFMA
250,000	3/01/2009	9/30/2038	Basis	77.00% three-month LIBOR minus 0.11%	SIFMA
250,000	3/01/2009	9/30/2038	Basis	77.00% three-month LIBOR minus 0.11%	SIFMA

Indiana University Health, Inc. and subsidiaries
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As of June 30, 2015 and December 31, 2014 and for the six months ended June 30,
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6. Derivative Financial Instruments (continued)

Guidance on fair value accounting stipulates that a credit valuation adjustment (CVA) should be applied to the mark-to-market valuation position of interest rate swaps to more closely capture the fair value of such instruments. Collateral arrangements reduce the credit exposure and are considered in determining the CVA. As of June 30, the fair value of interest rate swaps was a liability of \$110,650, which is net of CVA of \$15,974. As of December 31, 2014, the fair value of interest rate swaps was a liability of \$145,339, which is net of CVA of \$9,837. The fair values of the swaps have been included with noncurrent liabilities in the accompanying consolidated balance sheets.

As of June 30, 2015, interest rate swaps had a total notional amount of \$1,862,345, including \$434,547 of fixed-pay swaps and \$1,427,798 of basis swaps. Under agreements executed with counterparties, Indiana University Health is obligated to fund collateral amounts when the aggregate market value of swaps made with a given counterparty exceeds a threshold set forth in the related agreement. The aggregate fair value of all derivative instruments, consisting of fixed-pay and basis swaps, with credit-risk-related contingent features that are in a liability position on June 30, 2015 and December 31, 2014, respectively, was \$106,103 and \$132,509, respectively. No collateral was posted as of June 30, 2015 or December 31, 2014.

During June 2015, Indiana University Health terminated a basis swap with notional amount of \$168,952 and a maturity date of February 15, 2021 for a one-time cash receipt of \$37, after which no payments or other amounts are owed to either party with respect to this swap.

The Indiana University Health System recorded the following gains (losses), within nonoperating income, in the accompanying consolidated statements of operations and changes in net assets related to these derivative financial instruments:

	Six Months Ended	
	June 30	
	2015	2014
Gains (losses) on interest rate swaps, net:		
Unrealized gains (losses) on interest rate swaps	\$ 34,652	\$ (2,780)
Realized losses on interest rate swaps	(7,072)	(7,544)
	<u>\$ 27,580</u>	<u>\$ (10,324)</u>

Indiana University Health, Inc. and subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
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7. Fair Value Measurements

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

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

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities as of the reporting date. Includes debt issued by US agencies.

Level 2 – Pricing inputs other than quoted prices included in Level 1 that are either directly observable or that can be derived or supported from observable data as of the reporting date. Includes all collective trusts and off-shore mutual funds.

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

Indiana University Health, Inc. and subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
As of June 30, 2015 and December 31, 2014 and for the six months ended June 30,
2015 and 2014 (thousands of dollars)

7. Fair Value Measurements (continued)

The following tables set forth by level within the fair value hierarchy the Indiana University Health System's financial assets and liabilities that were accounted for at fair value on a recurring basis as of June 30, 2015 and December 31, 2014. The financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement requires judgment, could be subject to change or variation, and may affect the valuation of fair value assets and liabilities and their classification within the fair value hierarchy levels.

	Level 1	Level 2	Level 3	Total
June 30, 2015				
Assets				
Cash and cash equivalents	\$ 307,138	\$ -	\$ -	\$ 307,138
Debt securities				
Asset backed	-	46,926	-	46,926
Bank loans	-	174,351	7,121	181,472
Corporate debt	-	303,792	-	303,792
Government and agencies	321,597	-	-	321,597
Bond funds	110,747	128,661	-	239,408
Equity securities				
Domestic equities	61,530	-	-	61,530
Domestic equity funds	223,449	323,412	-	546,861
International equities	79,287	-	-	79,287
International equity funds	154,365	266,865	-	421,230
Alternatives				
Commodities	134,301	-	-	134,301
Beneficial interests in charitable remainder and perpetual trusts	-	10,005	-	10,005
Total assets measured at fair value on a recurring basis	<u>\$1,392,414</u>	<u>\$1,254,012</u>	<u>\$ 7,121</u>	<u>\$2,653,547</u>
Liabilities				
Interest rate swaps	\$ -	\$ 110,650	\$ -	\$ 110,650
Total liabilities measured at fair value on a recurring basis	<u>\$ -</u>	<u>\$ 110,650</u>	<u>\$ -</u>	<u>\$ 110,650</u>

Indiana University Health, Inc. and subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
As of June 30, 2015 and December 31, 2014 and for the six months ended June 30,
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7. Fair Value Measurements (continued)

	Level 1	Level 2	Level 3	Total
December 31, 2014				
Assets				
Cash and cash equivalents	\$ 485,320	\$ -	\$ -	\$ 485,320
Debt securities				
Asset backed	-	46,871	-	46,871
Bank loans	-	141,893	2,600	144,493
Corporate debt	-	280,306	-	280,306
Government and agencies	257,236	-	-	257,236
Bond funds	155,306	110,707	-	266,013
Equity securities				
Domestic equities	49,897	3,606	-	53,503
Domestic equity funds	197,873	278,911	-	476,784
International equities	58,766	800	-	59,566
International equity funds	140,785	222,424	-	363,209
Alternatives				
Commodities	108,739	-	-	108,739
Beneficial interests in charitable remainder and perpetual trusts	-	10,005	-	10,005
Total assets measured at fair value on a recurring basis	<u>\$1,453,922</u>	<u>\$1,095,523</u>	<u>\$ 2,600</u>	<u>\$2,552,045</u>
Liabilities				
Interest rate swaps	\$ -	\$ 145,339	\$ -	\$ 145,339
Total liabilities measured at fair value on a recurring basis	<u>\$ -</u>	<u>\$ 145,339</u>	<u>\$ -</u>	<u>\$ 145,339</u>

The fair value of cash and cash equivalents, which consist mainly of funds invested in money market funds, is based on quoted market prices and classified as Level 1. The fair value of Level 1 trading securities is based on quoted market prices from an active exchange. The fair value of Level 2 trading securities is based on third-party market quotes for similar securities and other observable inputs. The fair value of interest rate swaps is based upon forward interest rate curves, as adjusted for CVA (see Note 6).

Indiana University Health, Inc. and subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
As of June 30, 2015 and December 31, 2014 and for the six months ended June 30,
2015 and 2014 (thousands of dollars)

7. Fair Value Measurements (continued)

Cash and cash equivalents not held in money market accounts aggregated \$175,036 and \$99,989 as of June 30, 2015 and December 31, 2014, respectively, and are not included in the tables. The Indiana University Health System's \$1,240,482 and \$1,076,345 of hedge funds and private investments as of June 30, 2015 and December 31, 2014, respectively, are not included in the table because they are accounted for using the equity method of accounting. The beneficial interests in charitable remainder and perpetual trusts are shown within other long-term assets on the accompanying consolidated balance sheet.

In 2015, the Indiana University Health System modified its fair value hierarchy to provide consistency in the presentation of certain types of financial instruments. Some asset types were classified differently in the prior year.

The estimated fair value of the revenue bonds at June 30, 2015 and December 31, 2014, amounted to \$1,524,595 (which includes RHI – \$14,980) and \$1,564,659 (which includes RHI - \$14,980), respectively, based on market interest rates and conditions for similar issues as of those dates. The carrying value of the revenue bonds at June 30, 2015 and December 31, 2014, amounted to \$1,478,475 and \$1,512,500, respectively. The recorded value of all debt obligations not traded in the secondary credit markets approximated fair value at June 30, 2015 and December 31, 2014.

The Indiana University Health System engages a third party to assist in valuing the CVA. The third party uses the Income Approach to present value the cash flows using the relevant rate of return for the corresponding swap contracts. Where observable, this return would be the observed market rate(s) of return associated with the swap counterparty in a liability position. Collateral amounts posted, if any, are also taken into consideration. The CVA depicts the difference in the mark-to-market absent any credit risk, and the fair value of the swap that incorporates the credit risk of the party holding the swap in a liability position at that point in time. For swaps for which Indiana University Health is in a liability position, this credit risk is measured by comparing the mark-to-market value derived using the LIBOR swap curve to the fair value derived using the AA-rated Municipal Healthcare curve (or the AA+ rated Muni GO curve for the swaps insured by Assured Guaranty Municipal Corporation) adjusted to a taxable basis using the relevant SIFMA/LIBOR ratio.

Indiana University Health, Inc. and subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
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2015 and 2014 (thousands of dollars)

7. Fair Value Measurements (continued)

The value of the CVA may vary depending upon the following factors:

- whether the Indiana University Health System is required to post collateral under the swap agreements,
- to the extent that the credit rating of the Indiana University Health System increases or decreases, in which case the CVA would decrease and increase, respectively (assuming the swaps are in a liability position), or
- to the extent that the spread between the swap curves discussed above expands or compresses.

Generally, swaps are transferred between Level 2 and Level 3 when the CVA exceeds 10% of the gross valuation of the swap. Transfers are generally recorded at the end of the reporting period.

8. Commitments and Contingencies

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

9. Pension Plans

Pension benefits are provided to substantially all employees of the Indiana University Health System, primarily through defined contribution plans.

Defined-benefit pension plans sponsored by Indiana University Health, La Porte, Ball Memorial, and Bloomington have been curtailed with benefits frozen and no new participants allowed. IUHP also sponsors a frozen pension plan, which has ten participants. Pension benefits are based on years of service and compensation of employees (as defined) and are actuarially determined. Where applicable, the funding policy is to annually contribute the amount required to comply with applicable legislation and IRS regulations.

Indiana University Health, Inc. and subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
As of June 30, 2015 and December 31, 2014 and for the six months ended June 30,
2015 and 2014 (thousands of dollars)

9. Pension Plans (continued)

The following summarizes the components of net periodic benefit cost for the curtailed defined benefit pension plans.

	Six Months Ended	
	June 30	
	2015	2014
Service cost	\$ -	\$ 773
Interest cost	10,662	10,676
Expected return on plan assets	(13,640)	(13,310)
Amortization of unrecognized net asset	360	145
Amortization of unrecognized net loss	1,664	2,162
Termination benefit and settlement gain	-	(204)
Net periodic pension (income) cost	\$ (954)	\$ 242

The actuarial assumptions used to determine net periodic pension cost for the defined benefit pension plans are as follows:

	2015	2014
Discount rate	4.98%	4.04%
Expected rate of compensation increase	0.00%	2.00%
Expected long-term rate of return on plan assets	6.44%	6.47%

Contributions to the defined benefit pension plans are expected to aggregate \$587 during 2015.

10. Endowments

Endowment funds of Methodist Health Foundation and BMH Foundation consist of donor-restricted endowment funds held for various specific purposes. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of both foundations have interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the foundations classify as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by

Indiana University Health, Inc. and subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
As of June 30, 2015 and December 31, 2014 and for the six months ended June 30,
2015 and 2014 (thousands of dollars)

10. Endowments (continued)

the foundations in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the foundations consider the various factors in making a determination to appropriate or accumulate donor-restricted endowment funds, such as the duration and preservation of the fund, the purposes of the foundations and the donor-restricted endowment fund, general economic conditions, the possible effect of inflation and deflation, the expected total return from income and the appreciation of investments, other resources of the organization, and the investment policies of the foundations.

Changes in endowment net assets for both foundations for the six months ended June 30, 2015 and 2014 were as follows:

June 30, 2015	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at January 1, 2015	\$ 14,077	\$ 45,354	\$ 59,431
Contributions	26	-	26
Investment return	1,014	121	1,136
Appropriation of endowment assets for expenditures	(5,691)	-	(5,691)
Endowment net assets as of June 30, 2015	<u>\$ 9,426</u>	<u>\$ 45,475</u>	<u>\$ 54,902</u>

June 30, 2014	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at January 1, 2014	\$ 14,635	\$ 45,150	\$ 59,785
Contributions	-	133	133
Investment return	100	-	100
Appropriation of endowment assets for expenditures	(388)	-	(388)
Endowment net assets as of June 30, 2014	<u>\$ 14,347</u>	<u>\$ 45,283</u>	<u>\$ 59,630</u>

Indiana University Health, Inc. and subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
As of June 30, 2015 and December 31, 2014 and for the six months ended June 30,
2015 and 2014 (thousands of dollars)

10. Endowments (continued)

Methodist Health Foundation and BMH Foundation have adopted separate investment and spending policies for endowment assets. Policies for both foundations attempt to preserve capital, maximize the return within reasonable and prudent levels of risk, and provide a return to the restricted funds. Endowment assets are invested in a manner that is intended to produce results that exceed the initial recorded value of the investment and yield a targeted long-term rate while assuming a moderate level of investment risk. Distributions are made for the purposes of supporting various Indiana University Health and Ball Memorial program services. Each foundation has set a threshold for the amount available to distribute each year.

11. Health Care Legislation

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, participation requirements, reimbursement for patient services, Medicare and Medicaid fraud and abuse, and security, privacy, and standards of health information. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and noncompliance with regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, significant repayments for patient services previously billed, and disruptions or delays in processing administrative transactions, including the adjudication of claims and payment.

In the opinion of management, there are no known regulatory inquiries that are expected to have a material adverse effect on the consolidated financial statements of the Indiana University Health System; however, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

The Affordable Care Act and the Health Care and Education Reconciliation Act legislation, among other matters, is designed to expand access to coverage to substantively all citizens by 2019 through a combination of public program expansion and private industry health insurance. Changes to existing Medicare and Medicaid coverage and payments are also expected to occur as a result of this legislation which has also included the creation of a Health Insurance Marketplace. In addition, in January 2015 CMS approved Medicaid expansion for Indiana as part of its Healthy Indiana Plan. Implementing regulations are generally required for these legislative acts, which are to be adopted over a period of years.

OTHER INFORMATION

As of June 30, 2015 and December 31, 2014 and for the six months ended
June 30, 2015 and 2014

Indiana University Health, Inc. and subsidiaries
Special Purpose Combined Balance Sheets - Obligated Group and Affiliates
(Thousands of Dollars)

	June 30 2015	December 31 2014
Assets	(Unaudited)	
Current assets:		
Cash and cash equivalents	\$ 321,854	\$ 471,300
Patient accounts receivable, less allowance	444,467	396,375
Other receivables	91,526	79,141
Prepaid expenses	48,220	37,623
Inventories	50,706	49,047
Total current assets	956,773	1,033,486
Assets limited as to use:		
Board-designated investment funds and other investments	3,114,708	2,683,191
Property and equipment:		
Cost of property and equipment in service	4,009,482	3,972,586
Less accumulated depreciation	(2,252,309)	(2,175,338)
	1,757,173	1,797,248
Construction-in-progress	25,305	13,304
Total property and equipment, net	1,782,478	1,810,552
Other assets:		
Equity interest in unconsolidated subsidiaries	248,961	242,256
Interest in net assets of foundations	8,669	8,753
Unamortized bond issuance costs	7,243	5,882
Notes receivable and other (principally from related organizations)	701,584	705,409
Total other assets	966,457	962,300
Total assets	\$ 6,820,416	\$ 6,489,529

Continued on next page.

Indiana University Health, Inc. and subsidiaries
Special Purpose Combined Balance Sheets - Obligated Group and Affiliates (continued)
(Thousands of Dollars)

	June 30		December 31
	2015		2014
	(Unaudited)		
Liabilities and net assets			
Current liabilities:			
Accounts payable and accrued expenses	\$ 1,192,616	\$	1,036,307
Accrued salaries, wages, and related liabilities	145,880		139,107
Accrued health claims	56,460		53,577
Estimated third-party payor allowances	32,393		37,755
Current portion of long-term debt	44,188		77,140
Total current liabilities	1,471,537		1,343,886
Noncurrent liabilities:			
Long-term debt, less current portion	1,615,844		1,600,602
Interest rate swaps	109,812		144,417
Accrued pension obligations	22,415		22,891
Accrued medical malpractice claims	4,298		3,777
Other	33,835		34,917
Total noncurrent liabilities	1,786,204		1,806,604
Total liabilities	3,257,741		3,150,490
Net assets:			
Unrestricted	3,548,283		3,324,345
Temporarily restricted	2,697		2,795
Permanently restricted	11,695		11,899
Total net assets	3,562,675		3,339,039
Total liabilities and net assets	\$ 6,820,416	\$	6,489,529

Indiana University Health, Inc. and subsidiaries
Special Purpose Combined Statements of Operations - Obligated Group and Affiliates
(Thousands of Dollars)

	Six Months Ended June 30		Three Months Ended June 30	
	2015	2014	2015	2014
Revenues:	(Unaudited)		(Unaudited)	
Patient service revenue (net of contractually and discounts)	\$ 1,434,233	\$ 1,483,997	\$ 723,998	\$ 703,769
Provision for uncollected patient accounts	(36,916)	(74,241)	146	(40,624)
Net patient service revenue	1,397,317	1,409,756	724,144	663,145
Member premium revenue	121,430	107,741	67,342	61,112
Other revenue	180,738	138,606	89,907	70,531
Total operating revenues	1,699,485	1,656,103	881,393	794,788
Expenses:				
Salaries, wages, and benefits	598,334	568,051	305,469	282,672
Supplies, drugs, purchased services, and other	626,497	555,340	328,794	289,837
Hospital assessment fee	31,551	71,503	16,043	19,120
Health claims to providers	99,839	82,496	55,375	47,825
Depreciation and amortization	85,556	79,685	43,065	41,108
Interest	26,257	25,227	12,771	12,490
Total operating expenses	1,468,034	1,382,302	761,517	693,052
Operating income before educational and research support	231,451	273,801	119,876	101,736
Educational and research support to Indiana University	(8,750)	(8,750)	(4,375)	(4,375)
Total operating income	222,701	265,051	115,501	97,361
Nonoperating income:				
Investment income, net	71,715	84,855	19,815	51,408
Gains (losses) on interest rate swaps, net	27,496	(10,203)	25,427	(13,207)
Gain (losses) on debt extinguishment and other	(15,778)	6,346	(16,212)	-
Total nonoperating income	83,433	80,998	29,030	38,201
Excess of revenues over expenses	\$ 306,134	\$ 346,049	\$ 144,531	\$ 135,562

Indiana University Health, Inc. and subsidiaries
Special Purpose Combined Balance Sheets - Obligated Group
(Thousands of Dollars)

	June 30 2015	December 31 2014
(Unaudited)		
Assets		
Current assets:		
Cash and cash equivalents	\$ 305,429	\$ 458,258
Patient accounts receivable, less allowance	408,291	361,916
Other receivables	122,483	107,405
Prepaid expenses	42,847	33,976
Inventories	44,843	43,465
Total current assets	923,893	1,005,020
Assets limited as to use:		
Board-designated investment funds and other investments	2,944,862	2,514,837
Property and equipment:		
Cost of property and equipment in service	3,766,795	3,733,371
Less accumulated depreciation	(2,113,578)	(2,040,821)
	1,653,217	1,692,550
Construction-in-progress	17,263	8,018
Total property and equipment, net	1,670,480	1,700,568
Other assets:		
Equity interest in unconsolidated subsidiaries	248,517	241,577
Unamortized bond issuance costs	7,243	5,882
Notes receivable and other (principally from related organizations)	707,074	711,463
Total other assets	962,834	958,922
Total assets	\$ 6,502,069	\$ 6,179,347

Continued on next page.

Indiana University Health, Inc. and subsidiaries
Special Purpose Combined Balance Sheets - Obligated Group (continued)
(Thousands of Dollars)

	June 30 2015	December 31 2014
Liabilities and net assets	(Unaudited)	
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,189,039	\$ 1,025,562
Accrued salaries, wages, and related liabilities	131,942	124,109
Accrued health claims	56,460	53,577
Estimated third-party payor allowances	30,277	34,733
Current portion of long-term debt	43,892	76,836
Total current liabilities	1,451,610	1,314,817
Noncurrent liabilities:		
Long-term debt, less current portion	1,612,666	1,597,259
Interest rate swaps	109,547	144,122
Accrued pension obligations	22,415	22,891
Accrued medical malpractice claims	3,688	3,457
Other	33,346	34,162
Total noncurrent liabilities	1,781,662	1,801,891
Total liabilities	3,233,272	3,116,708
Net assets:		
Unrestricted	3,263,909	3,057,751
Permanently restricted	4,888	4,888
Total net assets	3,268,797	3,062,639
Total liabilities and net assets	\$ 6,502,069	\$ 6,179,347

Indiana University Health, Inc. and subsidiaries
Special Purpose Combined Statements of Operations - Obligated Group
(Thousands of Dollars)

	Six Months Ended June 30		Three Months Ended June 30	
	2015	2014	2015	2014
Revenues:	(Unaudited)		(Unaudited)	
Patient service revenue (net of contractals and discounts)	\$ 1,285,362	\$ 1,331,807	\$ 648,264	\$ 629,088
Provision for uncollected patient accounts	(24,111)	(58,376)	6,247	(31,587)
Net patient service revenue	1,261,251	1,273,431	654,511	597,501
Member premium revenue	121,430	107,741	67,342	61,112
Other revenue	173,967	131,986	86,617	67,491
Total operating revenues	1,556,648	1,513,158	808,470	726,104
Expenses:				
Salaries, wages, and benefits	534,206	505,567	273,215	251,056
Supplies, drugs, purchased services, and other	572,557	501,429	301,395	262,500
Hospital assessment fee	29,268	63,485	14,941	17,104
Health claims to providers	99,989	82,615	55,495	47,879
Depreciation and amortization	79,078	73,786	39,769	38,145
Interest	26,214	25,111	12,754	12,437
Total operating expenses	1,341,312	1,251,993	697,569	629,121
Operating income before educational and research support	215,336	261,165	110,901	96,983
Educational and research support to Indiana University	(8,750)	(8,750)	(4,375)	(4,375)
Total operating income	206,586	252,415	106,526	92,608
Nonoperating income:				
Investment income, net	69,422	77,193	20,303	45,945
Gains (losses) on interest rate swaps, net	27,502	(10,219)	25,427	(13,228)
Gain (losses) on debt extinguishment and other	(15,778)	6,346	(16,212)	-
Total nonoperating income	81,146	73,320	29,518	32,717
Excess of revenues over expenses	\$ 287,732	\$ 325,735	\$ 136,044	\$ 125,325

Indiana University Health, Inc. and subsidiaries
Statistical and Other Data
As of and for the Six Months and Years Ended June 30, 2015 and 2014
(Except as noted below)

Description	For the Six Months Ended June 30,	
	2015	2014
Academic Health Center		
Active Members	1,271	1,291
Residents	544	560
Other Members	797	779
Total Medical Staff	2,612	2,630
Consolidated Number of Available Beds	2,801	2,898
Employees		
Consolidated FTE employees	28,192	27,696
Methodist/IU/Riley/Saxony FTE employees	8,038	8,337
Obligated Group & Affiliates coverage of Debt Service (dollars in thousands, annualized)		
Revenues over expenses (1)	511,603	507,024
Depreciation, amortization and interest	223,626	209,824
Available to pay debt service	735,229	716,848
Actual debt service	115,190	135,545
Historical debt service coverage ratio	6.38	5.29
Forecast maximum annual debt service	125,355	148,012
Available to pay debt service	735,229	716,848
Forecast maximum annual debt service coverage ratio	5.87	4.84

Description	For the Three Months Ended Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Consolidated Utilization and Operating Statistics				
Patient Days	164,231	165,493	336,494	333,677
Admissions	32,444	32,853	65,479	64,197
Occupancy Rate (based on available beds)	64.43%	61.69%	66.37%	59.76%
Average Length of Stay	5.06	5.04	5.14	5.20
Surgery Cases IP	8,134	8,261	15,937	15,890
Surgery Cases OP	20,786	20,205	39,849	38,400
Surgery Cases Total	28,920	28,467	55,786	54,290
Emergency Room Visits	125,050	124,091	245,617	235,495
Radiological Examinations	327,738	295,504	635,277	571,276
Gross Patient Service Revenue				
Medicare	39.25%	40.32%	39.65%	40.26%
Medicaid	15.35%	17.45%	15.98%	17.47%
Commercial Insurance	2.40%	2.71%	2.66%	3.47%
HMO / PPO				
Wellpoint / Anthem	20.32%	19.68%	19.77%	19.21%
Other	12.35%	12.32%	12.84%	12.14%
Self Pay and Other	2.18%	5.40%	3.02%	5.50%
Other Governmental (2)	8.15%	2.12%	6.08%	1.95%
Total Gross Patient Service Revenue:	100.00%	100.00%	100.00%	100.00%
Medicare Case Mix Index, Academic Health Center (3)	2.114	2.109	2.133	2.136

Bed Complement: Available	June 30, 2015		June 30, 2014	
	Academic Health Center	Other System Hospitals	Academic Health Center	Other System Hospitals
Medical Surgical	745	896	759	984
ICU / CCU	198	143	196	146
OB / Labor Delivery	20	178	26	149
Pediatrics	178	94	169	94
Psychiatric	10	48	23	52
High-Risk Nursery	92	69	93	71
Rehab and other	-	130	-	136
Total Bed Complement	1,243	1,558	1,266	1,632

(1) Adjusted for certain gains (losses) as defined in the IU Health Obligated Group Master Trust Indenture.
(2) Other Governmental includes HIP 2.0.
(3) Medicare system of classification for DRGs is annually revised effective October 1 of each year.