

CONSOLIDATED FINANCIAL STATEMENTS AND OTHER INFORMATION  
INDIANA UNIVERSITY HEALTH, INC. AND SUBSIDIARIES  
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

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MANAGEMENT'S DISCUSSION OF FINANCIAL PERFORMANCE  
As of and for the years ended December 31, 2014 and 2013

**Indiana University Health, Inc. and subsidiaries**  
**Management's Discussion of Financial Performance**  
**As of and for the years ended December 31, 2014 and 2013**

The financial-statement information and other data as of December 31, 2014 and December 31, 2013 and for the years then ended are derived from the audited 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).

**Central Indiana 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 and health care systems located in Bedford, Bloomington, Goshen, Hartford City, Knox, Lafayette, LaPorte, 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 LaPorte 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 Hospital (Morgan), and Indiana University Health White Memorial Hospital (White).

**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 Hospital Foundation (Morgan Foundation), which aids and supports Morgan. Indiana University Health Arnett Foundation 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 \$5,726.6 million for the year ended December 31, 2014 increased 9.1% (or \$479.7 million) over the prior year (\$5,246.9 million).

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 \$95.4 million for the year ended December 31, 2014 over the prior year, which reflects increased physician office visits, improved collection efforts and a shift from self-pay to government payors. These increases were partially offset by a decline in admissions (see table below), although improvement was experienced late in the fourth quarter of 2014, as well as a cost report appeals settlement of \$6.4 million for 2000 through 2003. Management believes the declines in inpatient volumes and related revenues are a reflection of the current industry-wide trends in which health care systems across the nation are experiencing shifts from inpatient to outpatient as well as declining inpatient utilization.

The table below shows admissions by division.

	<u>Year over Year</u>			<u>%</u>
	<u>12/31/2014</u>	<u>12/31/2013</u>	<u>Variance</u>	
<u>Admissions</u>				
<b>Consolidated</b>	131,057	136,731	(5,674)	(4.1%)
<b>Downtown</b>	51,828	54,179	(2,351)	(4.3%)
<b>Statewide</b>	58,672	61,022	(2,350)	(3.9%)
<b>Central</b>	20,557	21,530	(973)	(4.5%)

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 December 31, 2014, increased reimbursement related to the Medicaid Assessment Fee program totaled \$514.7 million, of which approximately \$166.7 million related to 2013. As of December 31, 2013, increased reimbursement related to the Medicaid Assessment Fee program totaled \$176.2 million, of which \$9.6 million related to 2012.

As of December 31, 2014, \$32.7 million of DSH and UPL revenue was recognized, compared to \$93.1 million for the prior year. 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 \$299.3 million for the

year ended December 31, 2014 and \$343.1 million in the prior year. As a percentage of gross patient revenue, the provision for uncollectible patient accounts was 2.1% in 2014 and 2.5% in 2013.

Member premium revenue aggregated \$259.8 million for the year ended December 31, 2014 and \$156.6 million for the prior year. The increase of \$103.2 million relates to more members in both Medicaid and Medicare programs and additional premium revenue related to a new health exchange-related insurance product introduced under the Affordable Care Act.

Other operating revenue of \$208.4 million for the year ended December 31, 2014 increased \$3.0 million (or 1.5%) compared to the year ended December 31, 2013.

*Expenses.* Total operating expenses of \$4,913.8 million increased by 0.8% compared to the year ended December 31, 2013 (\$4,873.3 million).

Salaries, wages, and benefits decreased 5.1% (or \$134.0 million) to \$2,501.6 million, compared to the prior year. The decrease is mainly attributable to a decline in full time equivalent (FTE) employees driven by lower inpatient volumes as well as lower costs for the 2013 reduction-in-force than anticipated. As of December 31, 2014, the number of FTE employees was 27,584, compared to 29,395 as of December 31, 2013.

Supplies, drugs, purchased services, and other expenses of \$1,735.3 million decreased 0.9% (\$15.6 million) compared to the prior year (\$1,750.9 million) driven by lower inpatient volumes.

Fees related to the Medicaid Assessment Fee program were \$198.0 million for the year ended December 31, 2014, compared to \$82.4 million in the prior year. Of the \$198.0 million in 2014, \$72.9 million related to 2013, and of the \$82.4 million in 2013, \$11.6 million related to 2012.

Health claims to providers' expenses of \$171.0 million increased 81.0% over that for the prior year (\$94.4 million), which relates to more members in both Medicaid and Medicare programs and the addition of a health exchange-related insurance product under the Affordable Care Act.

Depreciation expense of \$251.2 million increased 1.0% over that for the prior year (\$248.8 million).

Interest expense of \$56.6 million was 7.2% less than the prior year (\$61.0 million) due in part to a decline in outstanding indebtedness.

*Other.* For the years ended December 31, 2014 and 2013, Indiana University Health expensed \$17.5 million, respectively, and \$50.0 million, related to educational and research support provided to the Indiana University School of Medicine.

Investment income amounted to \$38.8 million for the year ended December 31, 2014, including \$45.4 million of interest and dividend income and \$33.8 million of realized gains

on investments, net of fees, and \$40.4 million of unrealized losses on investments. For the year ended December 31, 2013, investment income aggregated \$191.1 million, which included \$35.4 million of interest and dividend income and \$82.9 million of realized gains on investments, net of fees, and \$72.8 million of unrealized gains on investments. Losses on interest rate swaps aggregated \$21.9 million for the year ended December 31, 2014, and gains aggregated \$11.4 million for the year ended December 31, 2013.

The improvement in operating performance was primarily driven by recognizing 18 months of net increased reimbursement related to the Medicaid Assessment Fee program in the year ended December 31, 2014, as compared to six months in the year ended December 31, 2013. Additionally, 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, including the implementation of cost savings in 2014 in anticipation of actual reductions to the Medicaid Assessment Fee program and possible reductions to state DSH and UPL, as well as other forms of reimbursement. Moreover, management has taken these actions as they anticipate and plan for significant capital expenditures within the next few years.

#### **Consolidated Balance Sheet (Compared to year ended December 31, 2013)**

*Consolidated Financial Position.* Total cash and investments (which principally consist of cash and cash equivalents, board-designated funds and other investments, donor-restricted funds, and trustee-held funds for construction and debt service) amounted to \$3,718.4 million at December 31, 2014 (\$3,071.9 million at December 31, 2013). The number of days cash and investments on hand was 304 days at December 31, 2014 (247 days as of December 31, 2013) and excludes fees associated with the Medicaid Assessment Fee program when determining cash expense per day. The number of days revenue in receivables was 51 days at December 31, 2014 (excluding the increased reimbursement under the Medicaid Assessment Fee program and related receivable), and 49 days at December 31, 2013. 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 57 days at December 31, 2014, and 58 days at December 31, 2013.

Net current assets, or working capital, increased to \$549.7 million at December 31, 2014 (\$342.7 million at December 31, 2013), which was partially driven by the net increased reimbursement received under the Medicaid Assessment fee program. Net property and equipment of \$2,700.8 million decreased \$68.2 million from December 31, 2013 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 \$119.4 million at December 31, 2014. 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 two 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. Two such agreements expire during 2015. If not otherwise extended, these agreements would require the principal balance of the related bonds to be repaid over a shortened timeframe. Accordingly, \$31.9 million has been reclassified to current portion of long-term debt to reflect the associated amount for 2015.

On April 1, 2013, the Ball Memorial redeemed at par (\$5.5 million) all of the outstanding Hospital Authority of Delaware County Hospital Revenue Refunding Bonds, Series 1997. These bonds carried a fixed interest rate of 5.00%.

The Stonehenge Community Development VII, LLC, Fixed Rate, Unsecured New Market Tax Credit Notes A and B were called by the lender for a one-time payment of \$18.7 million in March of 2014. This transaction resulted in a \$6.3 million gain on extinguishment of debt included in gains on sales and acquisitions and other in the accompanying consolidated statements of operations and changes in net assets.

In June of 2014, a direct bank loan (the proceeds of which were used to redeem Series 2003F bonds in 2008) was amended to defer the maturity date to June 30, 2016, with an interest rate based on one-month London Interbank Offered Rate (LIBOR).

In August of 2014, Indiana University Health repaid the outstanding balance of \$11.9 million and prepayment premium associated with a commercial bank loan, resulting in a \$0.2 million loss on extinguishment of debt.

In August of 2014, through the Indiana Finance Authority, Indiana University Health reissued its Series 2011H and Series 2011I bonds. The transaction was accounted for as a modification of debt. As part of the reissuance, the rate calculation methodology for each was amended resulting in a reduction to the rate applicable to each; the principal payment schedule was amended; and the bank purchase period was extended to November of 2017.

On October 14, 2014, through the Indiana Finance Authority, Indiana University Health issued at par \$69.9 million of Series 2014A tax-exempt fixed rate bonds at a premium of \$10.8 million. Proceeds were used to advance refund the Hospital Authority of Delaware County Hospital Revenue Bonds, Series 2006 (Ball Memorial Hospital, Inc. Obligated Group F/K/A Cardinal Health System Obligated Group) outstanding in the amount of \$67.1 million; to advance refund the Hospital Authority of Delaware County Hospital Revenue Refunding Bonds, Series 2009A (Ball Memorial Hospital, Inc. Obligated Group) outstanding in the amount of \$14.0 million; and to pay certain expenses related to the issuance. The refinancing was accounted for as a debt extinguishment, resulting in a loss of \$8.3 million based upon the funds expended in excess of the carrying values associated with the refunded debt.

Indiana University Health is evaluating a refunding of all or a portion of its Indiana Health and Educational Facility Financing Authority Hospital Revenue Bonds, Series 2006A, all or a portion of the Indiana Finance Authority Taxable Hospital Revenue Bonds, Series 2011J and 2011K, and all or a portion of the direct bank loan which was used to redeem the Series 2003F bonds in 2008. Each refunding is dependent on the issuance of one or more series of fixed and/or variable refunding bonds and market and other conditions, and there is no assurance that all or any outstanding debt will be refunded or redeemed or that refunding bonds will be issued. Management of Indiana University Health presently expects that, if one or more of these refunding transactions transpires, the transactions will close in the second quarter of 2015.

Unrestricted net assets, or equity, amounted to \$4,650.8 million at December 31, 2014 (\$3,983.3 million at December 31, 2013) and includes the net unrealized losses on swaps of \$145.3 million and \$139.1 million at December 31, 2014 and December 31, 2013, 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 will convert to an outpatient care facility and cease admitting overnight patients. The facility will offer 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 recently adopted a five year strategic plan, which is currently in the early stages of implementation. 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, 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. Prior to any such change in control, Indiana University Health anticipates that La Porte will withdraw from the Obligated Group. In 2014, La Porte represented approximately 5.4% of the total operating revenues of the Credit Group and La Porte and subsidiaries, including Starke, together represented approximately 3.9% of the total operating revenues of Indiana University Health System for the year-end December 31, 2014.

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. Management expects the new clinics to be owned by an anticipated joint venture with Premier Health, based in Baton Rouge, LA, who will also serve as the manager of the clinics.

### **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 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.

	<b>Years Ended December 31 (in millions)</b>	
	<b>2014</b>	<b>2013</b>
Operating income as reported	\$ 795.3	\$ 323.6
Noncontrolling interests in subsidiaries	(90.2)	(92.8)
Medicaid assessment fee program, net	(93.8)	2.0
DSH	-	(11.5)
UPL	3.0	(8.5)
Medicare cost report appeal settlements	(6.4)	-
Grants to School of Medicine	-	40.0
Operating income adjusted	<u>\$ 607.9</u>	<u>\$ 252.8</u>
Operating margin adjusted	<b>11.5%</b>	<b>5.0%</b>

- During 2014, net increased reimbursement under the Medicaid Assessment Fee program was received for 2013 claims. During 2013, adjustments were made to the Medicaid Assessment Fee program related to 2012.
- During 2013, DSH was received for state fiscal years 2012 and 2011.
- During 2014, an adjustment was made to UPL expected to be received for state fiscal year 2013. During 2013, UPL was recognized for state fiscal years 2010 through 2012.
- During 2014, Medicare cost report appeal settlements for 2000-2003 were recognized.
- During 2013, research grants were expensed.

**CONSOLIDATED FINANCIAL STATEMENTS**  
As of and for the years ended December 31, 2014 and 2013

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

	December 31 2014 (Audited)	December 31 2013 (Audited)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 527,682	\$ 442,672
Patient accounts receivable, less allowance for uncollectible accounts of \$197,120 and \$270,743 in 2014 and 2013, respectively	684,108	659,402
Other receivables	150,264	126,552
Prepaid expenses	48,577	39,341
Inventories	75,355	75,340
Current portion of trustee-held funds	-	114
Total current assets	<u>1,485,986</u>	<u>1,343,421</u>
Assets limited as to use:		
Board-designated investment funds and other investments	3,113,805	2,524,831
Donor-restricted investment funds	76,887	94,057
Trustee-held funds for construction and debt service, less current portion	-	10,242
Total assets limited as to use, less current portion	<u>3,190,692</u>	<u>2,629,130</u>
Property and equipment:		
Cost of property and equipment in service	5,845,564	5,690,685
Less accumulated depreciation	<u>(3,177,729)</u>	<u>(3,036,691)</u>
	2,667,835	2,653,994
Construction-in-progress	32,997	115,053
Total property and equipment, net	<u>2,700,832</u>	<u>2,769,047</u>
Other assets:		
Equity interest in unconsolidated subsidiaries	49,202	44,578
Interest in net assets of foundations	13,976	13,849
Unamortized bond issuance costs	6,116	6,659
Goodwill, intangibles, and other assets	219,981	244,390
Total other assets	<u>289,275</u>	<u>309,476</u>
Total assets	<u><u>\$ 7,666,785</u></u>	<u><u>\$ 7,051,074</u></u>

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

	December 31 2014 (Audited)	December 31 2013 (Audited)
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 400,269	\$ 466,772
Accrued salaries, wages, and related liabilities	293,112	269,641
Accrued health claims	56,469	57,684
Estimated third-party payor allowances	107,679	90,467
Current portion of long-term debt	78,757	116,149
Total current liabilities	<u>936,286</u>	<u>1,000,713</u>
Noncurrent liabilities:		
Long-term debt, less current portion	1,618,812	1,682,649
Interest rate swaps	145,339	139,072
Accrued pension obligations	96,211	23,992
Accrued medical malpractice claims	63,663	61,438
Other	57,496	51,785
Total noncurrent liabilities	<u>1,981,521</u>	<u>1,958,936</u>
Total liabilities	<u>2,917,807</u>	<u>2,959,649</u>
Net assets:		
Indiana University Health	4,464,244	3,802,631
Noncontrolling interest in subsidiaries	186,587	180,680
Total unrestricted	<u>4,650,831</u>	<u>3,983,311</u>
Temporarily restricted	30,905	41,554
Permanently restricted	67,242	66,560
Total net assets	<u>4,748,978</u>	<u>4,091,425</u>
Total liabilities and net assets	<u><u>\$ 7,666,785</u></u>	<u><u>\$ 7,051,074</u></u>

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

	Year Ended December 31		Three Months Ended December 31	
	2014	2013	2014	2013
	(Audited)		(Unaudited)	
Revenues:				
Patient service revenue (net of contractuels and discounts)	\$ 5,557,672	\$ 5,228,038	\$ 1,383,455	\$ 1,340,099
Provision for uncollectible accounts	(299,255)	(343,136)	(21,547)	(76,543)
Net patient service revenue	5,258,417	4,884,902	1,361,908	1,263,556
Member premium revenue	259,771	156,564	79,592	39,956
Other revenue	208,395	205,416	52,116	46,430
Total operating revenues	5,726,583	5,246,882	1,493,616	1,349,942
Expenses:				
Salaries, wages, and benefits	2,501,644	2,635,648	641,506	665,114
Supplies, drugs, purchased services, and other	1,735,338	1,750,948	479,067	460,278
Hospital assessment fee	197,994	82,442	20,230	14,472
Health claims to providers	170,970	94,446	57,502	19,319
Depreciation and amortization	251,210	248,825	65,573	59,758
Interest	56,630	61,019	14,099	15,448
Total operating expenses	4,913,786	4,873,328	1,277,977	1,234,389
Operating income before educational and research support	812,797	373,554	215,639	115,553
Educational and research support to Indiana University	(17,500)	(50,000)	(4,375)	(42,500)
Total operating income	795,297	323,554	211,264	73,053
Nonoperating income (loss):				
Investment income (loss), net	38,755	191,083	(13,583)	83,863
(Losses) gains on interest rate swaps, net	(21,939)	11,379	(17,843)	960
Inherent contribution of acquired entities	2,665	—	(139)	—
Gain on sales and acquisitions and other	926	14,815	(6,342)	461
Total nonoperating income (loss)	20,407	217,277	(37,907)	85,284
Consolidated excess of revenues over expenses	815,704	540,831	173,357	158,337
Less amounts attributable to noncontrolling interest in subsidiaries	90,175	92,846	29,827	31,693
Excess of revenues over expenses attributable to Indiana University Health and subsidiaries	725,529	447,985	143,530	126,644

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

	Year Ended December 31 2014			Year Ended December 31 2013		
	(Audited)			(Audited)		
	Total	Controlling	Noncontrolling	Total	Controlling	Noncontrolling
Unrestricted net assets:						
Excess of revenues over expenses	\$ 815,704	\$ 725,529	\$ 90,175	\$ 540,831	\$ 447,985	\$ 92,846
Change in pension obligations	(72,149)	(72,149)	—	86,055	86,055	—
Contributions for capital expenditures	5,652	5,652	—	8,142	8,142	—
Distributions to noncontrolling interests	(92,026)	—	(92,026)	(82,838)	—	(82,838)
Sale of member interest to noncontrolling member	5,194	(834)	6,028	—	—	—
Restriction reclassification	2,698	2,698	—	2,000	2,000	—
Other	2,447	717	1,730	2,286	504	1,782
	<u>667,520</u>	<u>661,613</u>	<u>5,907</u>	<u>556,476</u>	<u>544,686</u>	<u>11,790</u>
Temporarily restricted net assets						
Change in beneficial interest in net assets of foundations	352	352	—	642	642	—
Contributions	6,416	6,416	—	4,341	4,341	—
Investment return	(1,049)	(1,049)	—	3,252	3,252	—
Net assets released from restrictions	(9,670)	(9,670)	—	(1,230)	(1,230)	—
Restriction reclassification	(2,698)	(2,698)	—	(2,000)	(2,000)	—
Other	(4,000)	(4,000)	—	—	—	—
	<u>(10,649)</u>	<u>(10,649)</u>	<u>—</u>	<u>5,005</u>	<u>5,005</u>	<u>—</u>
Permanently restricted net assets:						
Change in beneficial interest in net assets of foundations	428	428	—	52	52	—
Contributions and other	254	254	—	244	244	—
	<u>682</u>	<u>682</u>	<u>—</u>	<u>296</u>	<u>296</u>	<u>—</u>
Increase in net assets	<u>657,553</u>	<u>651,646</u>	<u>5,907</u>	<u>561,777</u>	<u>549,987</u>	<u>11,790</u>
Net assets at beginning of period	<u>4,091,425</u>	<u>3,910,745</u>	<u>180,680</u>	<u>3,529,648</u>	<u>3,360,758</u>	<u>168,890</u>
Net assets at end 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>

  

	Three Months Ended December 31 2014			Three Months Ended December 31 2013		
	(Unaudited)			(Unaudited)		
	Total	Controlling	Noncontrolling	Total	Controlling	Noncontrolling
Unrestricted net assets:						
Excess of revenues over expenses	\$ 173,357	\$ 143,530	\$ 29,827	\$ 158,337	\$ 126,644	\$ 31,693
Change in pension obligations	(72,149)	(72,149)	—	86,055	86,055	—
Contributions for capital expenditures	1,715	1,715	—	3,765	3,765	—
Distributions to noncontrolling interests	(21,623)	—	(21,623)	(24,916)	—	(24,916)
Sale of member interest to noncontrolling member	2,480	—	2,480	—	—	—
Restriction reclassification	2,698	2,698	—	2,000	2,000	—
Other	1,112	836	276	1,844	1,081	763
	<u>87,590</u>	<u>76,630</u>	<u>10,960</u>	<u>227,085</u>	<u>219,545</u>	<u>7,540</u>
Temporarily restricted net assets						
Change in beneficial interest in net assets of foundations	—	—	—	145	145	—
Contributions	1,984	1,984	—	1,299	1,299	—
Investment return	(863)	(863)	—	3,363	3,363	—
Net assets released from restrictions	1,750	1,750	—	664	664	—
Restriction reclassification	(2,698)	(2,698)	—	(2,000)	(2,000)	—
Other	(1,300)	(1,300)	—	—	—	—
	<u>(1,127)</u>	<u>(1,127)</u>	<u>—</u>	<u>3,471</u>	<u>3,471</u>	<u>—</u>
Permanently restricted net assets:						
Change in beneficial interest in net assets of foundations	10	10	—	(111)	(111)	—
Contributions and other	57	57	—	82	82	—
	<u>67</u>	<u>67</u>	<u>—</u>	<u>(29)</u>	<u>(29)</u>	<u>—</u>
Increase in net assets	<u>86,530</u>	<u>75,570</u>	<u>10,960</u>	<u>230,527</u>	<u>222,987</u>	<u>7,540</u>
Net assets at beginning of period	<u>4,662,448</u>	<u>4,486,821</u>	<u>175,627</u>	<u>3,860,898</u>	<u>3,687,758</u>	<u>173,140</u>
Net assets at end 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>

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

	Year Ended December 31		Three Months Ended December 31	
	2014	2013	2014	2013
	(Audited)		(Unaudited)	
<b>Operating activities</b>				
Increase in net assets	\$ 657,553	\$ 561,777	\$ 86,530	\$ 230,527
Adjustments to reconcile increase in net assets to net cash provided by operating activities:				
Change in fair value of interest rate swaps	6,267	(26,851)	14,016	(4,709)
Change in pension liability	72,149	(86,055)	72,149	(86,055)
(Income) loss in unconsolidated subsidiaries	(1,066)	(1,145)	(668)	492
Provision for uncollected patient accounts	299,255	343,136	21,547	76,543
Inherent contribution of acquired entities	(2,665)	—	139	—
Gain on sale of clinics	—	(12,734)	—	97
Impairment of unconsolidated subsidiaries	2,073	10,134	2,073	10,134
Depreciation and amortization	251,210	248,825	65,573	59,758
Amortization of deferred gain on sale of medical office buildings	(2,122)	(2,216)	(528)	(491)
Loss on extinguishment of debt	2,313	—	8,370	—
Increase in restricted net assets	(6,401)	(8,531)	(1,188)	(4,778)
Proceeds from the sale of member interest to noncontrolling member	(5,194)	—	(2,480)	—
Distributions to noncontrolling interests	92,026	82,838	21,623	24,916
Trading securities	(561,448)	(552,691)	(180,968)	(166,927)
Net changes in operating assets and liabilities:				
Patient accounts receivable	(323,961)	(384,990)	(23,057)	(63,198)
Other assets	(13,746)	26,635	(23,781)	(14,308)
Accounts payable, accrued liabilities, and other liabilities	(57,909)	40,936	42,327	82,400
Salaries, wages, and related liabilities	23,471	(8,411)	62,601	45,389
Estimated third-party payor allowances	17,212	(17,085)	(6,312)	(24,226)
Net cash provided by operating activities	449,017	213,572	157,966	165,564
<b>Investing activities</b>				
Proceeds from sale of clinics	—	13,050	—	—
Purchase of property and equipment, net of disposals	(180,034)	(245,792)	(89,779)	(98,381)
Net cash used in investing activities	(180,034)	(232,742)	(89,779)	(98,381)
<b>Financing activities</b>				
Increase in restricted net assets	6,401	8,531	1,188	4,778
Repayments on long-term debt	(173,507)	(78,484)	(91,474)	(13,719)
Proceeds from issuance of long-term debt	69,965	3,003	69,945	—
Proceeds from the sale of members interest to noncontrolling member	5,194	—	2,480	—
Distributions to noncontrolling interests	(92,026)	(82,838)	(21,623)	(24,916)
Net cash used in financing activities	(183,973)	(149,788)	(39,484)	(33,857)
Increase (decrease) in cash and cash equivalents	85,010	(168,958)	28,703	33,326
Cash and cash equivalents at beginning of period	442,672	611,630	498,979	409,346
Cash and cash equivalents at end of period	\$ 527,682	\$ 442,672	\$ 527,682	\$ 442,672

## OTHER INFORMATION

As of and for the years ended December 31, 2014 and 2013

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

	December 31 2014	December 31 2013
	(Unaudited)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 471,300	\$ 356,123
Patient accounts receivable, less allowance	396,375	375,881
Other receivables	79,141	81,470
Prepaid expenses	37,623	26,015
Inventories	49,047	50,362
Total current assets	1,033,486	889,851
Assets limited as to use:		
Board-designated investment funds and other investments	2,683,191	2,111,562
Property and equipment:		
Cost of property and equipment in service	3,972,586	3,841,011
Less accumulated depreciation	(2,175,338)	(2,091,162)
	1,797,248	1,749,849
Construction-in-progress	13,304	107,874
Total property and equipment, net	1,810,552	1,857,723
Other assets:		
Equity interest in unconsolidated subsidiaries	242,256	232,556
Interest in net assets of foundations	8,753	8,734
Unamortized bond issuance costs	5,882	5,561
Notes receivable and other (principally from related organizations)	705,409	644,783
Total other assets	962,300	891,634
Total assets	\$ 6,489,529	\$ 5,750,770

*Continued on next page.*

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

	December 31 2014	December 31 2013
	(Unaudited)	
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,036,307	\$ 758,576
Accrued salaries, wages, and related liabilities	139,107	133,383
Accrued health claims	53,577	54,595
Estimated third-party payor allowances	37,755	19,401
Current portion of long-term debt	77,140	107,984
Total current liabilities	1,343,886	1,073,939
Noncurrent liabilities:		
Long-term debt, less current portion	1,600,602	1,574,667
Interest rate swaps	144,417	137,972
Accrued pension obligations	22,891	5,544
Accrued medical malpractice claims	3,777	4,405
Other	34,917	36,192
Total noncurrent liabilities	1,806,604	1,758,780
Total liabilities	3,150,490	2,832,719
Net assets:		
Unrestricted	3,324,345	2,900,030
Temporarily restricted	2,795	6,532
Permanently restricted	11,899	11,489
Total net assets	3,339,039	2,918,051
Total liabilities and net assets	\$ 6,489,529	\$ 5,750,770

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

	Year Ended December 31		Three Months Ended December 31	
	2014	2013	2014	2013
	(Unaudited)		(Unaudited)	
Revenues:				
Patient service revenue (net of contractals and discounts)	\$ 2,921,677	\$ 2,716,579	\$ 703,808	\$ 679,713
Provision for uncollected patient accounts	(120,894)	(151,920)	10,265	(27,526)
Net patient service revenue	2,800,783	2,564,659	714,073	652,187
Member premium revenue	230,377	144,215	61,092	38,058
Other revenue	291,668	271,389	79,689	70,223
Total operating revenues	3,322,828	2,980,263	854,854	760,468
Expenses:				
Salaries, wages, and benefits	1,128,013	1,216,001	277,318	303,643
Supplies, drugs, purchased services, and other	1,167,239	1,155,977	321,204	303,317
Hospital assessment fee	101,940	47,429	13,669	13,216
Health claims to providers	185,295	117,514	50,811	26,094
Depreciation and amortization	160,690	157,590	41,265	37,652
Interest	51,689	53,720	13,558	13,430
Total operating expenses	2,794,866	2,748,231	717,825	697,352
Operating income before educational and research support	527,962	232,032	137,029	63,116
Educational and research support to Indiana University	(17,500)	(50,000)	(4,375)	(42,500)
Total operating income	510,462	182,032	132,654	20,616
Nonoperating income (loss):				
Investment income (loss), net	57,012	172,891	(9,770)	75,926
(Losses) gains on interest rate swaps, net	(21,942)	10,693	(17,896)	632
Gain on sales and acquisitions and other	10,094	1,556	1,992	—
Total nonoperating income (loss)	45,164	185,140	(25,674)	76,558
Excess of revenues over expenses	\$ 555,626	\$ 367,172	\$ 106,980	\$ 97,174

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

	December 31 2014	December 31 2013
	<b>(Unaudited)</b>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 458,258	\$ 340,019
Patient accounts receivable, less allowance	361,916	339,441
Other receivables	107,405	130,782
Prepaid expenses	33,976	21,782
Inventories	43,465	43,190
Total current assets	<u>1,005,020</u>	<u>875,214</u>
Assets limited as to use:		
Board-designated investment funds and other investments	2,514,837	1,979,990
Property and equipment:		
Cost of property and equipment in service	3,733,371	3,608,308
Less accumulated depreciation	<u>(2,040,821)</u>	<u>(1,962,616)</u>
	1,692,550	1,645,692
Construction-in-progress	8,018	105,031
Total property and equipment, net	<u>1,700,568</u>	<u>1,750,723</u>
Other assets:		
Equity interest in unconsolidated subsidiaries	241,577	229,736
Interest in other assets	-	270
Unamortized bond issuance costs	5,882	5,561
Notes receivable and other (principally from related organizations)	<u>711,463</u>	<u>632,391</u>
Total other assets	958,922	867,958
Total assets	<u><u>\$ 6,179,347</u></u>	<u><u>\$ 5,473,885</u></u>

*Continued on next page.*

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

	December 31 2014	December 31 2013
	<u>(Unaudited)</u>	
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,025,562	\$ 749,773
Accrued salaries, wages, and related liabilities	124,109	116,732
Accrued health claims	53,577	54,595
Estimated third-party payor allowances	34,733	16,237
Current portion of long-term debt	76,836	105,729
Total current liabilities	<u>1,314,817</u>	<u>1,043,066</u>
Noncurrent liabilities:		
Long-term debt, less current portion	1,597,259	1,572,709
Interest rate swaps	144,122	137,319
Accrued pension obligations	22,891	5,544
Accrued medical malpractice claims	3,457	4,065
Other	34,162	35,439
Total noncurrent liabilities	<u>1,801,891</u>	<u>1,755,076</u>
Total liabilities	<u>3,116,708</u>	<u>2,798,142</u>
Net assets:		
Unrestricted	3,057,751	2,666,852
Temporarily restricted	-	4,000
Permanently restricted	4,888	4,891
Total net assets	<u>3,062,639</u>	<u>2,675,743</u>
Total liabilities and net assets	<u><u>\$ 6,179,347</u></u>	<u><u>\$ 5,473,885</u></u>



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

	Year Ended December 31		Three Months Ended December 31	
	2014	2013	2014	2013
Revenues:	(Unaudited)		(Unaudited)	
Patient service revenue (net of contractals and discounts)	\$ 2,619,382	\$ 2,422,734	\$ 627,604	\$ 608,337
Provision for uncollected patient accounts	(91,062)	(123,431)	18,547	(20,576)
Net patient service revenue	2,528,320	2,299,303	646,151	587,761
Member premium revenue	230,377	144,215	61,092	38,058
Other revenue	277,968	256,186	75,956	65,986
Total operating revenues	3,036,665	2,699,704	783,199	691,805
Expenses:				
Salaries, wages, and benefits	1,003,302	1,087,170	245,865	271,229
Supplies, drugs, purchased services, and other	1,055,169	1,049,818	290,474	275,085
Hospital assessment fee	92,179	43,321	13,269	12,580
Health claims to providers	185,596	117,690	50,877	26,148
Depreciation and amortization	148,739	144,750	38,214	34,383
Interest	51,506	53,451	13,531	13,359
Total operating expenses	2,536,491	2,496,200	652,230	632,784
Operating income before educational and research support	500,174	203,504	130,969	59,021
Educational and research support to Indiana University	(17,500)	(50,000)	(4,375)	(42,500)
Total operating income	482,674	153,504	126,594	16,521
Nonoperating income (loss):				
Investment income (loss), net	51,008	160,058	(10,599)	72,709
(Losses) gains on interest rate swaps, net	(21,974)	10,371	(17,875)	546
Gain on sales and acquisitions and other	10,094	1,556	1,992	—
Total nonoperating income (loss)	39,128	171,985	(26,482)	73,255
Excess of revenues over expenses	\$ 521,802	\$ 325,489	\$ 100,112	\$ 89,776

Indiana University Health, Inc. and subsidiaries  
Statistical and Other Data  
As of and for the Three Months and Years Ended December 31, 2014 and 2013  
(Except as noted below)

Description	For the Year Ended December 31,	
	2014	2013
<b>Methodist/IU/Riley/Saxony Medical Staff</b>		
Active Members	1,260	1,260
Residents	568	560
Other Members	775	847
Total Medical Staff	2,603	2,667
Consolidated Number of Available Beds	2,934	3,098
<b>Employees</b>		
Consolidated FTE employees	27,584	29,395
Methodist/IU/Riley/Saxony FTE employees	8,270	9,782
<b>Obligated Group &amp; Affiliates coverage of Debt Service (dollars in thousands, annualized)</b>		
Revenues over expenses (1)	596,132	286,670
Depreciation, amortization and interest	212,379	211,310
Available to pay debt service	808,511	497,980
Actual debt service	133,090	116,894
Historical debt service coverage ratio	6.07	4.26
Forecast maximum annual debt service	130,044	148,012
Available to pay debt service	808,511	497,980
Forecast maximum annual debt service coverage ratio	6.22	3.36

Description	For the Three Months Ended December 31,		For the Year Ended December 31,	
	2014	2013	2014	2013
<b>Consolidated Utilization and Operating Statistics</b>				
Patient Days	167,586	170,551	670,104	702,510
Admissions	33,206	33,337	131,057	136,731
Occupancy Rate (based on available beds)	62.09%	59.84%	60.21%	57.97%
Average Length of Stay	5.05	5.12	5.11	5.14
Surgery Cases IP	8,330	8,526	32,709	33,942
Surgery Cases OP	21,950	22,479	80,789	83,059
Surgery Cases Total	30,288	31,005	113,499	117,001
Emergency Room Visits	127,842	122,574	498,522	501,480
Radiological Examinations	319,660	290,919	1,222,784	1,184,802
<b>Gross Patient Service Revenue</b>				
Medicare	39.57%	39.43%	39.91%	39.90%
Medicaid	17.35%	17.65%	17.52%	17.67%
Commercial Insurance	2.56%	2.08%	3.16%	2.89%
HMO / PPO				
Wellpoint / Anthem	20.95%	20.64%	19.51%	19.41%
Sagamore	0.61%	1.05%	0.76%	1.01%
Other	12.62%	12.43%	11.95%	11.99%
Self Pay and Other	4.01%	5.08%	4.91%	5.36%
Other Governmental	2.33%	1.64%	2.28%	1.77%
Total Gross Patient Service Revenue:	100.00%	100.00%	100.00%	100.00%
<b>Medicare Case Mix Index, Methodist/IU/Riley/Saxony(2)</b>	2.049	2.110	2.091	2.062

Bed Complement: Available	December 31, 2014		December 31, 2013	
	Methodist / IU / Riley / Saxony	Other System Hospitals	Methodist / IU / Riley / Saxony	Other System Hospitals
Medical Surgical	759	1,169	776	1,047
ICU / CCU	193	144	216	170
OB / Labor Delivery	26	121	65	186
Pediatrics	169	69	181	71
Psychiatric	23	52	40	79
Long-Term Care	-	-	-	100
High-Risk Nursery	93	71	102	65
Other Special Care	-	45	-	-
Total Bed Complement	1,263	1,671	1,380	1,718

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