

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

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

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

The financial statement information and other data as of September 30, 2015 and December 31, 2014 and for the nine months ended September 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, outpatient surgery centers, and urgent care 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. The corporate members of the Indiana University Health Paoli Hospital Foundation (Paoli Foundation), which aids and supports Paoli, are Paoli, Bloomington and the Paoli County Commissioners.

*Revenue.* Total operating revenue of \$4,514,666 for the nine months ended September 30, 2015 increased 6.7% (or \$281,669) as compared to the prior year (\$4,232,967).

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 \$358,968 or 10.4% for the nine months ended September 30, 2015 over the prior year, which reflects increased outpatient surgeries and 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.

The table below shows admissions by division.

	<b>Year over Year</b>			
	<b><u>9/30/2015</u></b>	<b><u>9/30/2014</u></b>	<b><u>Variance</u></b>	<b><u>Percentage</u></b>
<b><u>Admissions</u></b>				
<b>Consolidated</b>	97,870	97,851	19	0.0%
<b>Downtown</b>	37,898	38,600	(702)	(1.8)%
<b>Statewide</b>	44,423	43,856	567	1.3%
<b>Suburban</b>	15,549	15,395	154	1.0%

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 September 30, 2015, increased reimbursement related to the Medicaid Assessment Fee program totaled \$163,097, of which approximately \$10,112 related to 2014. As of September 30, 2014, increased reimbursement related to the Medicaid Assessment Fee program totaled \$445,612, of which \$168,001 related to 2013. The decrease in reimbursement related to the Medicaid Assessment Fee Program relates to recording nine months of reimbursement at September 30, 2015 compared to fifteen months at September 30, 2014 as well as decreases in reimbursement rates. Specifically, effective August 2014, Medicaid Assessment Fee program rates decreased by 23% for inpatient services and 45% for outpatient services.

As of September 30, 2015, \$82,176 of DSH and UPL revenue was recognized compared to \$14,007 for the prior year. The variance between years is mainly due to recording DSH revenue related to state fiscal year 2014 in the third quarter of 2015 based upon notification from the OMPP. 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 \$185,942 for the nine months ended September 30, 2015 and \$277,708 in the prior year. As a percentage of gross patient revenue, the provision for uncollectible patient accounts was 1.5% in 2015 and 2.6% in 2014. This decrease is due to a shift from self-pay to government payors, mainly HIP 2.0, during the nine months ended September 30, 2015.

Member premium revenue aggregated \$299,532 for the nine months ended September 30, 2015 and \$180,179 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 \$174,003 for the nine months ended September 30, 2015 increased \$17,724 (or 11.3%) compared to the nine months ended September 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 \$3,903,736 increased by 7.4% (or \$267,967) compared to the nine months ended September 30, 2014 (\$3,635,809).

Salaries, wages, and benefits increased 7.6% (or \$140,756) to \$2,000,894, compared to the prior year. The increase is mainly attributable to base pay increases effective in September 2014 and July 2015, as well as an increase in full-time equivalent employees (FTEs) driven primarily by increased volumes. For the nine months ended September 30, 2015, the average number of FTEs was 28,447 compared to 27,592 for the same period of 2014.

Supplies, drugs, purchased services, and other expenses of \$1,348,913 increased 7.4% (or \$92,642) compared to the prior year (\$1,256,271) driven by increased pharmacy costs as well as outpatient surgery and emergency department volumes.

Fees related to the Medicaid Assessment Fee program were \$82,370 for the nine months ended September 30, 2015, compared to \$177,764 in the prior year. Of the \$177,764 in 2014, \$75,054 related to 2013. The decrease relates to recording nine months of reimbursement at September 30, 2015 compared to fifteen months at September 30, 2014.

Health claims to providers expenses of \$236,993 increased 108.9% (or \$123,525) over that for the prior year (\$113,468), 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 and amortization expense of \$193,775 increased 4.4% (or \$8,138) over

that for the prior year (\$185,637) due to the continuing investment in property and equipment.

Interest expense of \$40,791 was 4.1% (or \$1,740) less than the prior year (\$42,531) due in part to a decline in outstanding indebtedness.

*Other.* For the nine months ended September 30, 2015 and 2014 Indiana University Health expensed \$13,125 related to educational and research support provided to the Indiana University School of Medicine.

Investment losses amounted to \$77,316 for the nine months ended September 30, 2015, including \$28,888 of interest and dividend income, \$10,189 of realized losses on investments, including fees, and \$96,015 of unrealized losses on investments. For the nine months ended September 30, 2014, investment income aggregated \$52,338, which included \$30,973 of interest and dividend income, \$21,292 of realized gains on investments, net of fees, and \$73 of unrealized gains on investments. Gains (losses) on interest rate swaps aggregated \$15,468 for the nine months ended September 30, 2015, and (\$4,096) for the nine months ended September 30, 2014.

The decline in operating performance between periods was primarily driven by recognizing nine months of net increased reimbursement related to the Medicaid Assessment Fee program in the nine months ended September 30, 2015, as compared to fifteen months at September 30, 2014. As shown on the adjusted operating income table on page 9, operating margin declined slightly between periods after adjusting for non-controlling interests and net reimbursement related to the Medicaid Assessment Fee and DSH related to the prior year. In 2015, net patient revenue was favorably impacted by improved surgery volumes as well as a shift from self-pay to government payors due to Medicaid expansion (HIP 2.0). Consequently, 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 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 \$4,021,303 at September 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 283 days at September 30, 2015 (277 days as of December 31, 2014). The number of days revenue in receivables was 54 days at September 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 60 days at September 30, 2015, and 57



days at December 31, 2014.

Net current assets, or working capital, increased slightly to \$559,523 at September 30, 2015 (\$549,700 at December 31, 2014). Net property and equipment of \$2,630,698 decreased \$70,134 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 \$133,477 at September 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 September 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 (loss) income on the consolidated statements of operations and changes in net assets.

Unrestricted net assets, or equity, amounted to \$5,126,064 at September 30, 2015 (\$4,650,831 at December 31, 2014) and includes the net unrealized losses on swaps of \$119,276 and \$145,339 at September 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 brand for pediatric care; and improving primary care capabilities.

On October 22, 2015, the Indiana University Health Board of Directors approved a plan to form a joint venture limited liability company that will include La Porte and subsidiaries, including Starke. As part of this new partnership, Indiana University Health will 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 nine months ended September 30, 2015, La Porte represented 4.5% 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 first two of these clinics were opened in September, 2015 in Greenwood and Lawrence, IN. Another center is scheduled to open in Brownsburg, IN in November, 2015. 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 nine months ended September 30, 2015 and 2014.

	<b>Nine Months Ended</b> <b>September 30</b> <i>(in thousands)</i>	
	<b>2015</b>	<b>2014</b>
Operating income as reported	\$ <b>597,805</b>	\$ 584,033
Noncontrolling interests in subsidiaries	<b>(75,443)</b>	(60,348)
Medicaid assessment fee program, net	<b>(10,112)</b>	(92,947)
DSH	<b>(54,849)</b>	-
Operating income adjusted	<b>\$ 457,401</b>	<b>\$ 430,785</b>
Operating margin adjusted	<b>10.5%</b>	10.9 %

- 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.
- During 2015, DSH was recorded related to the state fiscal year 2014.

CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2015 and December 31, 2014 and for the nine months ended  
September 30, 2015 and 2014

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

	September 30 2015 (Unaudited)	December 31 2014 (Audited)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 382,382	\$ 527,682
Patient accounts receivable, less allowance for uncollectible accounts of \$182,319 and \$197,120 in 2015 and 2014, respectively	767,147	684,108
Other receivables	278,175	150,264
Prepaid expenses	45,427	48,577
Inventories	77,040	75,355
Total current assets	1,550,171	1,485,986
Assets limited as to use:		
Board-designated investment funds and other investments	3,568,220	3,113,805
Donor-restricted investment funds	70,701	76,887
Total assets limited as to use	3,638,921	3,190,692
Property and equipment:		
Cost of property and equipment in service	5,918,368	5,845,564
Less accumulated depreciation	(3,339,115)	(3,177,729)
	2,579,253	2,667,835
Construction-in-progress	51,445	32,997
Total property and equipment, net	2,630,698	2,700,832
Other assets:		
Equity interest in unconsolidated subsidiaries	66,007	49,202
Interest in net assets of foundations	14,075	13,976
Unamortized bond issuance costs	7,306	6,116
Goodwill, intangibles, and other assets	257,521	219,981
Total other assets	344,909	289,275
Total assets	<u>\$ 8,164,699</u>	<u>\$ 7,666,785</u>

*Continued on next page.*

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

	September 30 2015 (Unaudited)	December 31 2014 (Audited)
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 536,819	\$ 400,269
Accrued salaries, wages, and related liabilities	258,276	293,112
Accrued health claims	66,882	56,469
Estimated third-party payor allowances	83,115	107,679
Current portion of long-term debt	45,556	78,757
Total current liabilities	990,648	936,286
Noncurrent liabilities:		
Long-term debt, less current portion	1,634,043	1,618,812
Interest rate swaps	119,276	145,339
Accrued pension obligations	94,816	96,211
Accrued medical malpractice claims	63,010	63,663
Other	44,877	57,496
Total noncurrent liabilities	1,956,022	1,981,521
Total liabilities	2,946,670	2,917,807
Net assets:		
Indiana University Health	4,918,892	4,464,244
Noncontrolling interest in subsidiaries	207,172	186,587
Total unrestricted	5,126,064	4,650,831
Temporarily restricted	24,616	30,905
Permanently restricted	67,349	67,242
Total net assets	5,218,029	4,748,978
Total liabilities and net assets	\$ 8,164,699	\$ 7,666,785

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

	Nine Months Ended September 30		Three Months Ended September 30	
	2015	2014	2015	2014
	(Unaudited)		(Unaudited)	
Revenues:				
Patient service revenue (net of contractually and discounts)	\$ 4,227,073	\$ 4,174,217	\$ 1,487,587	\$ 1,403,524
Provision for uncollectible accounts	(185,942)	(277,708)	(63,104)	(114,958)
Net patient service revenue	4,041,131	3,896,509	1,424,483	1,288,566
Member premium revenue	299,532	180,179	103,871	65,334
Other revenue	174,003	156,279	62,060	54,868
Total operating revenues	4,514,666	4,232,967	1,590,414	1,408,768
Expenses:				
Salaries, wages, and benefits	2,000,894	1,860,138	682,873	625,078
Supplies, drugs, purchased services, and other	1,348,913	1,256,271	440,549	432,038
Hospital assessment fee	82,370	177,764	27,077	29,682
Health claims to providers	236,993	113,468	100,238	44,664
Depreciation and amortization	193,775	185,637	64,289	61,149
Interest	40,791	42,531	13,951	14,346
Total operating expenses	3,903,736	3,635,809	1,328,977	1,206,957
Operating income before educational and research support	610,930	597,158	261,437	201,811
Educational and research support to Indiana University	(13,125)	(13,125)	(4,375)	(4,375)
Total operating income	597,805	584,033	257,062	197,436
Nonoperating (loss) income:				
Investment (loss) income, net	(77,316)	52,338	(143,542)	(33,726)
Gains (losses) on interest rate swaps, net	15,468	(4,096)	(12,112)	6,228
Inherent contribution of acquired entities	—	2,804	—	—
Debt extinguishment and other	(15,780)	7,268	(270)	1,756
Total nonoperating (loss) income	(77,628)	58,314	(155,924)	(25,742)
Consolidated excess of revenues over expenses	520,177	642,347	101,138	171,694
Less amounts attributable to noncontrolling interest in subsidiaries	75,443	60,348	27,002	22,059
Excess of revenues over expenses attributable to Indiana University Health and subsidiaries	444,734	581,999	74,136	149,635

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

	Nine Months Ended September 30 2015			Nine Months Ended September 30 2014		
	(Unaudited)			(Unaudited)		
	Total	Controlling	Noncontrolling	Total	Controlling	Noncontrolling
Unrestricted net assets:						
Excess of revenues over expenses	\$ 520,177	\$ 444,734	\$ 75,443	\$ 642,347	\$ 581,999	\$ 60,348
Contributions for capital expenditures	2,555	2,555	—	3,937	3,937	—
Distributions to noncontrolling interests	(62,862)	—	(62,862)	(70,403)	—	(70,403)
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	4,210	4,210	—	—	—	—
Other	(993)	41	(1,034)	1,335	(119)	1,454
	<u>475,233</u>	<u>454,648</u>	<u>20,585</u>	<u>579,930</u>	<u>584,983</u>	<u>(5,053)</u>
Temporarily restricted net assets:						
Change in beneficial interest in net assets of foundations	(90)	(90)	—	352	352	—
Contributions	3,515	3,515	—	4,432	4,432	—
Investment return	(1,108)	(1,108)	—	(186)	(186)	—
Net assets released from restrictions	(4,396)	(4,396)	—	(11,420)	(11,420)	—
Restriction reclassification	(4,210)	(4,210)	—	—	—	—
Other	—	—	—	(2,700)	(2,700)	—
	<u>(6,289)</u>	<u>(6,289)</u>	<u>—</u>	<u>(9,522)</u>	<u>(9,522)</u>	<u>—</u>
Permanently restricted net assets:						
Change in beneficial interest in net assets of foundations	(100)	(100)	—	418	418	—
Contributions and other	207	207	—	197	197	—
	<u>107</u>	<u>107</u>	<u>—</u>	<u>615</u>	<u>615</u>	<u>—</u>
Increase (decrease) in net assets	<u>469,051</u>	<u>448,466</u>	<u>20,585</u>	<u>571,023</u>	<u>576,076</u>	<u>(5,053)</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>\$ 5,218,029</u>	<u>\$ 5,010,857</u>	<u>\$ 207,172</u>	<u>\$ 4,662,448</u>	<u>\$ 4,486,821</u>	<u>\$ 175,627</u>

  

	Three Months Ended September 30 2015			Three Months Ended September 30 2014		
	(Unaudited)			(Unaudited)		
	Total	Controlling	Noncontrolling	Total	Controlling	Noncontrolling
Unrestricted net assets:						
Excess of revenues over expenses	\$ 101,138	\$ 74,136	\$ 27,002	171,694	149,635	22,059
Contributions for capital expenditures	131	131	—	3,236	3,236	—
Distributions to noncontrolling interests	(13,910)	—	(13,910)	(22,232)	—	(22,232)
Restriction reclassification	309	309	—	—	—	—
Other	687	1,469	(782)	93	230	(137)
	<u>88,355</u>	<u>76,045</u>	<u>12,310</u>	<u>152,791</u>	<u>153,101</u>	<u>(310)</u>
Temporarily restricted net assets:						
Change in beneficial interest in net assets of foundations	5	5	—	(1)	(1)	—
Contributions	1,538	1,538	—	2,707	2,707	—
Investment return	(1,197)	(1,197)	—	(273)	(273)	—
Net assets released from restrictions	(2,198)	(2,198)	—	(4,885)	(4,885)	—
Restriction reclassification	(309)	(309)	—	—	—	—
	<u>(2,161)</u>	<u>(2,161)</u>	<u>—</u>	<u>(2,452)</u>	<u>(2,452)</u>	<u>—</u>
Permanently restricted net assets:						
Change in beneficial interest in net assets of foundations	(16)	(16)	—	1	1	—
Contributions and other	88	88	—	62	62	—
	<u>72</u>	<u>72</u>	<u>—</u>	<u>63</u>	<u>63</u>	<u>—</u>
Increase (decrease) in net assets	<u>86,266</u>	<u>73,956</u>	<u>12,310</u>	<u>150,402</u>	<u>150,712</u>	<u>(310)</u>
Net assets at beginning 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>
Net assets at end of period	<u>\$ 5,218,029</u>	<u>\$ 5,010,857</u>	<u>\$ 207,172</u>	<u>\$ 4,662,448</u>	<u>\$ 4,456,821</u>	<u>\$ 175,627</u>

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

	Nine Months Ended September 30		Three Months Ended September 30	
	2015	2014	2015	2014
	(Unaudited)		(Unaudited)	
<b>Operating activities</b>				
Increase in net assets	\$ 469,051	571,023	\$ 86,266	150,402
Adjustments to reconcile increase in net assets to net cash provided by operating activities:				
Change in fair value of interest rate swaps	(26,063)	(7,749)	8,626	(10,040)
Income in unconsolidated subsidiaries	(5,769)	(398)	(3,763)	(866)
Provision for uncollected patient accounts	185,942	277,708	63,104	114,958
Issuance of noncontrolling interests related to acquisition	(6,068)	—	—	—
Inherent contribution of acquired entities	—	(2,804)	—	—
Gain on consolidation of acquired entities	(270)	—	—	—
Depreciation and amortization	193,775	185,637	64,289	61,149
Amortization of deferred gain on sale of medical office buildings	(1,248)	(1,594)	(398)	(532)
Loss (gain) on extinguishment of debt	15,778	(6,057)	—	239
Restricted contributions and investment return	(2,424)	(5,213)	(418)	(2,496)
Purchase of controlling interests	(3,108)	—	—	—
Purchase of noncontrolling interests	(2,970)	—	—	—
Proceeds from the sale of member interest to noncontrolling member	—	(2,714)	—	—
Distributions to noncontrolling interests	62,862	70,403	13,910	22,232
Trading securities	(448,226)	(380,480)	(24,891)	(100,960)
Net changes in operating assets and liabilities				
Patient accounts receivable	(268,648)	(300,904)	(70,032)	(120,708)
Other assets	(129,960)	10,035	(139,216)	37,928
Accounts payable, accrued liabilities, and other liabilities	105,706	(100,236)	39,914	(64,635)
Salaries, wages, and related liabilities	(34,851)	(39,130)	(26,962)	(7,505)
Estimated third-party payor allowances	(24,564)	23,524	(5,613)	36,948
Net cash provided by operating activities	78,945	291,051	20,594	116,114
<b>Investing activities</b>				
Purchase of property and equipment, net of disposals	(116,633)	(90,255)	(50,761)	(41,479)
Acquisition of subsidiary	(15,932)	—	—	—
Net cash used in investing activities	(132,565)	(90,255)	(50,761)	(41,479)
<b>Financing activities</b>				
Increase in restricted net assets	2,424	5,213	418	2,496
Repayments on long-term debt	(545,058)	(82,033)	(3,162)	(19,689)
Proceeds from issuance of long-term debt	507,738	20	(49)	—
Purchase of controlling interests	3,108	—	—	—
Purchase of noncontrolling interests	2,970	—	—	—
Proceeds from the sale of members interest to noncontrolling member	—	2,714	—	—
Distributions to noncontrolling interests	(62,862)	(70,403)	(13,910)	(22,232)
Net cash used in financing activities	(91,680)	(144,489)	(32,481)	(39,425)
(Decrease) increase in cash and cash equivalents	(145,300)	56,307	(62,648)	35,210
Cash and cash equivalents at beginning of period	527,682	442,672	445,030	463,769
Cash and cash equivalents at end of period	\$ 382,382	\$ 498,979	\$ 382,382	\$ 498,979

**Indiana University Health, Inc. and subsidiaries**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**As of September 30, 2015 and December 31, 2014 and for the nine months ended**  
**September 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 nine months ended September 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)**  
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**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 79% and 83% of self-pay accounts receivable as of September 30, 2015 and December 31, 2014, respectively. Overall, the net of self-pay discounts and write-offs has not changed significantly for the nine months ended September 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:

	<b>Nine months Ended</b>	
	<b>September 30</b>	
	<b>2015</b>	<b>2014</b>
Third-party payors	\$ 4,217,898	\$ 4,022,887
Self-pay patients	9,175	151,330
Total payors	<u>\$ 4,227,073</u>	<u>\$ 4,174,217</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**  
**Notes to Consolidated Financial Statements (Unaudited)**  
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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 September 30, 2015, increased reimbursement related to the Medicaid Assessment Fee program totaled \$163,097, of which we estimate that approximately \$10,112 related to 2014. As of September 30, 2014, increased reimbursement related to the Medicaid Assessment Fee program totaled \$445,612, of which \$168,001 related to 2013. As of September 30, 2015, an assessment fee was recognized of \$82,370. As of September 30, 2014, an assessment fee was recognized of \$177,764, of which \$75,054 related to 2013.

**Subsequent Events**

For the consolidated financial statements as of and for the nine months ended September 30, 2015, management has evaluated subsequent events through October 30, 2015, the date that these financial statements were issued.

**Indiana University Health, Inc. and subsidiaries**  
**Notes to Consolidated Financial Statements (Unaudited)**  
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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**

On October 22, 2015, the Indiana University Health Board of Directors approved a plan involving a joint venture partnership with a subsidiary of Community Health Systems, Inc. for La Porte. As part of this new partnership, Indiana University Health will 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 nine months ended September 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. Management believes this could lead to accelerated depreciation expense on the existing facilities being recorded in 2015.

**Indiana University Health, Inc. and subsidiaries**  
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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 September 30, 2015 and December 31, 2014, there were \$191,915 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,

**Indiana University Health, Inc. and subsidiaries**  
**Notes to Consolidated Financial Statements (Unaudited)**  
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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.

	<b>September 30 2015</b>	<b>December 31 2014</b>
Board designated investments and trustee-held funds:		
Cash and cash equivalents	\$ 33,278	\$ 57,627
Debt securities:		
Asset backed	49,109	46,871
Bank loans	197,080	144,493
Corporate debt	333,206	280,306
Government and agencies	295,498	257,236
Bond funds	240,585	266,013
Total debt securities	1,115,478	994,919
Equity securities:		
Domestic equities	45,277	53,503
Domestic equity funds	539,535	476,784
International equities	61,124	59,566
International equity funds	416,984	363,209
Total equity securities	1,062,920	953,062
Alternatives:		
Hedge funds	1,212,221	988,085
Private	94,804	88,260
Commodities	120,220	108,739
Total alternatives	1,427,245	1,185,084
Total assets limited to use	\$ 3,638,921	\$ 3,190,692



**Indiana University Health, Inc. and subsidiaries**  
**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 September 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 (loss) income on the consolidated statements of operations and changes in net assets.

**Indiana University Health, Inc. and subsidiaries**  
**Notes to Consolidated Financial Statements (Unaudited)**  
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**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 September 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%
1,209	6/01/2006	6/01/2026	one-month LIBOR plus 1.25%	7.15%
120	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 September 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 September 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	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**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**As of September 30, 2015 and December 31, 2014 and for the nine months ended**  
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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 September 30, the fair value of interest rate swaps was a liability of \$119,276, which is net of CVA of \$14,408. 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 September 30, 2015, interest rate swaps had a total notional amount of \$1,862,310, including \$434,512 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 September 30, 2015 and December 31, 2014, respectively, was \$110,212 and \$132,509, respectively. No collateral was posted as of September 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.

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.

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:

	<b>Nine months Ended</b>	
	<b>September 30</b>	
	<b>2015</b>	<b>2014</b>
Gains (losses) on interest rate swaps, net:		
Unrealized gains on interest rate swaps	\$ 26,063	\$ 7,749
Realized losses on interest rate swaps	(10,595)	(11,845)
	<u>\$ 15,468</u>	<u>\$ (4,096)</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**  
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**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 September 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
<b>September 30, 2015</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 260,406	\$ -	\$ -	\$ 260,406
Debt securities				
Asset backed	-	48,959	150	49,109
Bank loans	-	186,715	10,365	197,080
Corporate debt	-	330,266	2,940	333,206
Government and agencies	295,498	-	-	295,498
Bond funds	110,787	129,798	-	240,585
Equity securities				
Domestic equities	45,277	-	-	45,277
Domestic equity funds	210,900	328,635	-	539,535
International equities	61,124	-	-	61,124
International equity funds	140,512	276,472	-	416,984
Alternatives				
Commodities	120,220	-	-	120,220
Beneficial interests in charitable remainder and perpetual trusts	-	10,005	-	10,005
Total assets measured at fair value on a recurring basis	<u>\$1,244,724</u>	<u>\$1,310,850</u>	<u>\$ 13,455</u>	<u>\$2,569,029</u>
<b>Liabilities</b>				
Interest rate swaps	\$ -	\$ -	\$ 119,276	\$ 119,276
Total liabilities measured at fair value on a recurring basis	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 119,276</u>	<u>\$ 119,276</u>

**Indiana University Health, Inc. and subsidiaries**  
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**7. Fair Value Measurements (continued)**

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>December 31, 2014</b>				
<b>Assets</b>				
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>
<b>Liabilities</b>				
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)**  
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**7. Fair Value Measurements (continued)**

Cash and cash equivalents not held in money market accounts aggregated \$155,254 and \$99,989 as of September 30, 2015 and December 31, 2014, respectively, and are not included in the tables. The Indiana University Health System's \$1,307,025 and \$1,076,345 of hedge funds and private investments as of September 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 September 30, 2015 and December 31, 2014, amounted to \$1,534,013 (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 September 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 September 30, 2015 and December 31, 2014.

The following table is a rollforward of the amounts included in the consolidated balance sheets for financial instruments classified within Level 3 of the valuation hierarchy defined above:

	<b>Financial Liabilities for Derivative Financial Instruments</b>
Fair Value at January 1, 2015	\$ -
Transfer in	145,339
Unrealized gains	(26,063)
Fair Value at September 30, 2015	<u>\$ 119,276</u>

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

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

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.

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 September 30, 2015 and December 31, 2014 and for the nine months ended**  
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**9. Pension Plans (continued)**

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

	<b>Nine months Ended</b>	
	<b>September 30</b>	
	<b>2015</b>	<b>2014</b>
Service cost	\$ -	\$ 691
Interest cost	<b>16,028</b>	15,959
Expected return on plan assets	<b>(20,457)</b>	(19,995)
Amortization of unrecognized net loss	<b>3,071</b>	3,492
Termination benefit and settlement expense (gain)	<b>375</b>	(750)
Net periodic pension income	<b>\$ (983)</b>	<b>\$ (603)</b>

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

	<b>2015</b>	<b>2014</b>
Discount rate	<b>4.98%</b>	4.04%
Expected rate of compensation increase	<b>0.00%</b>	2.00%
Expected long-term rate of return on plan assets	<b>6.44%</b>	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 the foundations in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

**10. Endowments (continued)**

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 nine months ended September 30, 2015 and 2014 were as follows:

<b>September 30, 2015</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets at January 1, 2015	\$ 14,077	\$ 45,354	\$ 59,431
Contributions	43	-	43
Investment return	1,655	179	1,834
Appropriation of endowment assets for expenditures	(8,140)	-	(8,140)
Endowment net assets as of September 30, 2015	<u>\$ 7,635</u>	<u>\$ 45,533</u>	<u>\$ 53,168</u>

<b>September 30, 2014</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets at January 1, 2014	\$ 14,635	\$ 45,150	\$ 59,785
Contributions	-	196	196
Investment return	2,328	-	2,328
Appropriation of endowment assets for expenditures	(1,798)	-	(1,798)
Endowment net assets as of September 30, 2014	<u>\$ 15,165</u>	<u>\$ 45,346</u>	<u>\$ 60,511</u>

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.

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

**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 September 30, 2015 and December 31, 2014 and for the nine months ended  
September 30, 2015 and 2014

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

	September 30 2015	December 31 2014
<b>Assets</b>	<b>(Unaudited)</b>	
Current assets:		
Cash and cash equivalents	\$ 279,842	\$ 471,300
Patient accounts receivable, less allowance	451,031	396,375
Other receivables	154,572	79,141
Prepaid expenses	42,939	37,623
Inventories	50,603	49,047
Total current assets	<u>978,987</u>	1,033,486
Assets limited as to use:		
Board-designated investment funds and other investments	3,147,443	2,683,191
Property and equipment:		
Cost of property and equipment in service	4,029,843	3,972,586
Less accumulated depreciation	<u>(2,291,646)</u>	<u>(2,175,338)</u>
	1,738,197	1,797,248
Construction-in-progress	29,711	13,304
Total property and equipment, net	<u>1,767,908</u>	1,810,552
Other assets:		
Equity interest in unconsolidated subsidiaries	263,674	242,256
Interest in net assets of foundations	8,669	8,753
Unamortized bond issuance costs	7,090	5,882
Notes receivable and other (principally from related organizations)	<u>700,296</u>	<u>705,409</u>
Total other assets	979,729	962,300
Total assets	<u><u>\$ 6,874,067</u></u>	<u><u>\$ 6,489,529</u></u>

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

	September 30 2015	December 31 2014
	(Unaudited)	
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,246,443	\$ 1,036,307
Accrued salaries, wages, and related liabilities	130,733	139,107
Accrued health claims	53,920	53,577
Estimated third-party payor allowances	50,107	37,755
Current portion of long-term debt	43,921	77,140
Total current liabilities	1,525,124	1,343,886
Noncurrent liabilities:		
Long-term debt, less current portion	1,613,957	1,600,602
Interest rate swaps	118,410	144,417
Accrued pension obligations	22,207	22,891
Accrued medical malpractice claims	4,377	3,777
Other	33,366	34,917
Total noncurrent liabilities	1,792,317	1,806,604
Total liabilities	3,317,441	3,150,490
Net assets:		
Unrestricted	3,542,250	3,324,345
Temporarily restricted	2,697	2,795
Permanently restricted	11,679	11,899
Total net assets	3,556,626	3,339,039
Total liabilities and net assets	\$ 6,874,067	\$ 6,489,529

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

	Nine Months Ended September 30		Three Months Ended September 30	
	2015	2014	2015	2014
Revenues:	(Unaudited)		(Unaudited)	
Patient service revenue (net of contractals and discounts)	\$ 2,229,901	\$ 2,217,869	\$ 795,668	\$ 733,872
Provision for uncollected patient accounts	(58,346)	(131,159)	(21,430)	(56,918)
Net patient service revenue	2,171,555	2,086,710	774,238	676,954
Member premium revenue	180,096	169,285	58,666	61,544
Other revenue	271,780	211,979	91,042	73,373
Total operating revenues	2,623,431	2,467,974	923,946	811,871
Expenses:				
Salaries, wages, and benefits	910,777	850,695	312,443	282,644
Supplies, drugs, purchased services, and other	935,236	846,035	308,739	290,695
Hospital assessment fee	46,303	88,271	14,752	16,768
Health claims to providers	159,775	134,484	59,936	51,988
Depreciation and amortization	127,591	119,425	42,035	39,740
Interest	38,644	38,131	12,387	12,904
Total operating expenses	2,218,326	2,077,041	750,292	694,739
Operating income before educational and research support	405,105	390,933	173,654	117,132
Educational and research support to Indiana University	(13,125)	(13,125)	(4,375)	(4,375)
Total operating income	391,980	377,808	169,279	112,757
Nonoperating (loss) income:				
Investment (loss) income, net	(52,395)	66,782	(124,110)	(18,073)
Gains (losses) on interest rate swaps, net	15,413	(4,046)	(12,083)	6,157
Debt extinguishment and other	(15,778)	8,102	-	1,756
Total nonoperating (loss) income	(52,760)	70,838	(136,193)	(10,160)
Excess of revenues over expenses	\$ 339,220	\$ 448,646	\$ 33,086	\$ 102,597

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

	September 30 2015	December 31 2014
	(Unaudited)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 266,058	\$ 458,258
Patient accounts receivable, less allowance	413,550	361,916
Other receivables	185,771	107,405
Prepaid expenses	37,575	33,976
Inventories	44,726	43,465
Total current assets	<u>947,680</u>	1,005,020
Assets limited as to use:		
Board-designated investment funds and other investments	2,981,365	2,514,837
Property and equipment:		
Cost of property and equipment in service	3,785,531	3,733,371
Less accumulated depreciation	<u>(2,149,979)</u>	<u>(2,040,821)</u>
	1,635,552	1,692,550
Construction-in-progress	21,636	8,018
Total property and equipment, net	<u>1,657,188</u>	1,700,568
Other assets:		
Equity interest in unconsolidated subsidiaries	263,230	241,577
Unamortized bond issuance costs	7,090	5,882
Notes receivable and other (principally from related organizations)	<u>705,942</u>	<u>711,463</u>
Total other assets	976,262	958,922
Total assets	<u><u>\$ 6,562,495</u></u>	<u><u>\$ 6,179,347</u></u>

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

	September 30 2015	December 31 2014
	<b>(Unaudited)</b>	
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,249,995	\$ 1,025,562
Accrued salaries, wages, and related liabilities	117,040	124,109
Accrued health claims	53,920	53,577
Estimated third-party payor allowances	44,658	34,733
Current portion of long-term debt	43,636	76,836
Total current liabilities	<u>1,509,249</u>	<u>1,314,817</u>
Noncurrent liabilities:		
Long-term debt, less current portion	1,610,863	1,597,259
Interest rate swaps	118,139	144,122
Accrued pension obligations	22,207	22,891
Accrued medical malpractice claims	3,766	3,457
Other	32,925	34,162
Total noncurrent liabilities	<u>1,787,900</u>	<u>1,801,891</u>
Total liabilities	<u>3,297,149</u>	<u>3,116,708</u>
Net assets:		
Unrestricted	3,260,458	3,057,751
Permanently restricted	4,888	4,888
Total net assets	<u>3,265,346</u>	<u>3,062,639</u>
Total liabilities and net assets	<u><u>\$ 6,562,495</u></u>	<u><u>\$ 6,179,347</u></u>

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

	Nine Months Ended September 30		Three Months Ended September 30	
	2015	2014	2015	2014
Revenues:	(Unaudited)		(Unaudited)	
Patient service revenue (net of contractals and discounts)	\$ 2,005,005	\$ 1,991,778	\$ 719,643	\$ 659,971
Provision for uncollected patient accounts	(37,955)	(109,609)	(13,844)	(51,233)
Net patient service revenue	1,967,050	1,882,169	705,799	608,738
Member premium revenue	180,096	169,285	58,666	61,544
Other revenue	262,048	202,012	88,081	70,026
Total operating revenues	2,409,194	2,253,466	852,546	740,308
Expenses:				
Salaries, wages, and benefits	814,127	757,437	279,921	251,870
Supplies, drugs, purchased services, and other	854,540	764,695	281,983	263,266
Hospital assessment fee	42,834	78,910	13,566	15,425
Health claims to providers	160,130	134,719	60,141	52,104
Depreciation and amortization	117,914	110,525	38,836	36,739
Interest	38,596	37,975	12,382	12,864
Total operating expenses	2,028,141	1,884,261	686,829	632,268
Operating income before educational and research support	381,053	369,205	165,717	108,040
Educational and research support to Indiana University	(13,125)	(13,125)	(4,375)	(4,375)
Total operating income	367,928	356,080	161,342	103,665
Nonoperating (loss) income:				
Investment (loss) income, net	(44,200)	61,607	(113,622)	(15,586)
Gains (losses) on interest rate swaps, net	15,443	(4,099)	(12,059)	6,120
Debt extinguishment and other	(15,778)	8,102	-	1,756
Total nonoperating (loss) income	(44,535)	65,610	(125,681)	(7,710)
Excess of revenues over expenses	\$ 323,393	\$ 421,690	\$ 35,661	\$ 95,955

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

Description	For the Nine Months Ended September 30,	
	2015	2014
<b>Academic Health Center</b>		
Active Members	1,271	1,251
Residents	555	581
Other Members	834	834
Total Medical Staff	2,660	2,666
Consolidated Number of Available Beds	2,813	2,945
<b>Employees</b>		
Consolidated FTE employees	28,447	27,592
Methodist/IU/Riley/Saxony FTE employees	8,113	8,296
<b>Obligated Group &amp; Affiliates coverage of Debt Service (dollars in thousands, annualized)</b>		
Revenues over expenses (1)	556,066	547,238
Depreciation, amortization and interest	221,647	210,075
Available to pay debt service	777,713	757,313
Actual debt service	114,110	134,157
Historical debt service coverage ratio	6.82	5.64
Forecast maximum annual debt service	125,355	146,613
Available to pay debt service	777,713	757,313
Forecast maximum annual debt service coverage ratio	6.20	5.17

Description	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
<b>Consolidated Utilization and Operating Statistics</b>				
Patient Days	165,530	168,841	502,024	502,518
Admissions	32,391	33,654	97,870	97,851
Occupancy Rate (based on available beds)	63.96%	62.32%	59.50%	59.78%
Average Length of Stay	5.11	5.02	5.13	5.14
Surgery Cases IP	8,317	8,489	24,254	24,379
Surgery Cases OP	21,258	20,439	61,107	58,839
Surgery Cases Total	29,575	28,928	85,361	83,218
Emergency Room Visits	137,080	135,185	382,697	370,680
Radiological Examinations	340,225	331,848	975,502	903,124
<b>Gross Patient Service Revenue</b>				
Medicare	40.12%	39.67%	39.92%	40.05%
Medicaid	14.21%	17.78%	15.23%	17.57%
HIP	6.82%	1.30%	5.50%	1.04%
Commercial Insurance	2.04%	3.16%	2.41%	3.36%
HMO / PPO				
Wellpoint / Anthem	22.50%	18.66%	20.76%	19.02%
Other	10.57%	13.19%	12.01%	12.52%
Self Pay and Other	3.74%	6.24%	4.17%	6.44%
Total Gross Patient Service Revenue:	100.00%	100.00%	100.00%	100.00%
<b>Medicare Case Mix Index, Academic Health Center (2)</b>	2.128	2.051	2.131	2.106

	September 30, 2015		September 30, 2014	
	Academic Health Center	Other System Hospitals	Academic Health Center	Other System Hospitals
<b>Bed Complement: Available</b>				
Medical Surgical	737	899	759	1,180
ICU / CCU	203	161	193	144
OB / Labor Delivery	20	184	26	121
Pediatrics	178	94	169	69
Psychiatric	10	42	23	52
High-Risk Nursery	92	69	93	71
Rehab and other	-	124	-	45
Total Bed Complement	1,240	1,573	1,263	1,682

(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.