

CONSOLIDATED FINANCIAL STATEMENTS AND OTHER INFORMATION
INDIANA UNIVERSITY HEALTH, INC. AND SUBSIDIARIES
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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MANAGEMENT'S DISCUSSION OF FINANCIAL PERFORMANCE
For the years ended December 31, 2018 and 2017

Indiana University Health, Inc. and subsidiaries
Management's Discussion of Financial Performance
As of and for the years ended December 31, 2018 and 2017
(Thousands of Dollars)

The financial statement information and other data as of December 31, 2018 and 2017 and for the years 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 U.S. generally accepted accounting principles (GAAP). The financial data relating to the Obligated Group and the Obligated Group and Designated 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, 2018 and 2017 (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 as of December 31, 2018:

Downtown Indianapolis Hospitals of the Academic Health Center – Consist of three acute, tertiary, 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 Indianapolis and the Indiana University School of Medicine (the School of Medicine).

Suburban Indianapolis Facilities – 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. Principal hospital subsidiaries include Indiana University Health North Hospital, Inc. (North), Indiana University Health West Hospital, Inc. (West), Indiana University Health Saxony Hospital (Saxony), Indiana University Health Tipton Hospital, Inc. (Tipton), and Rehabilitation Hospital of Indiana, Inc. (RHI).

Statewide Facilities – Consist of acute care hospitals and health care systems located in Lafayette, Monticello, Frankfort, Muncie, Hartford City, Portland, Bloomington, Bedford, and Paoli, Indiana. Principal hospital subsidiaries include Indiana University Health Arnett, Inc. (Arnett), Indiana University Health White Memorial Hospital, Inc. (White), Indiana University Health Frankfort Hospital, Inc. (Frankfort), Indiana University Health Ball Memorial Hospital, Inc. and subsidiaries (Ball Memorial) including Indiana University Health Blackford Hospital, Inc. (Blackford), Indiana University Health Jay, Inc. (Jay), Indiana University Health Bloomington, Inc. and subsidiaries (Bloomington), Indiana University Health Bedford, Inc. (Bedford), and Indiana University Health Paoli, Inc. (Paoli).

Physician Operations – Consist of physician offices and physician-group practices and clinics. Principal subsidiaries or divisions include Indiana University Health Physicians (IUHP), an organization with locations primarily in Indianapolis, Indiana, Indiana University Health Arnett Physicians, Indiana University Health Ball Memorial Physicians, Inc., Indiana University Health Fort Wayne, and Indiana University Health Southern Indiana Physicians, Inc.

Ambulatory Care – Consists of personal and home health care services, occupational health services, outpatient oncology services, outpatient surgery centers, and urgent care centers that are located throughout the State of Indiana. Principal divisions or subsidiaries include Indiana University Health Home Care, Indiana University Health Occupational Health Centers, Workplace Health Services, Indiana University Health Central Indiana Cancer Centers, Indiana University Health Morgan, surgery center joint ventures, and an urgent care center joint venture.

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. Includes health maintenance organizations and other insurance related organizations that provide health plan services to fully-insured and self-insured members residing in Indiana. Insurance offerings include commercial group products (fully-insured and self-insured), Medicare Advantage products, and Medicaid management services. The Indiana University Health System also participates in the medical management of Medicare fee-for-service members through a NextGen Accountable Care Organization contract with the Centers for Medicare and Medicaid (CMS).

Foundations – Consist of three main entities which aid in carrying out the mission of the Indiana University Health System: Indiana University Health Foundation, Inc. (Indiana University Health Foundation), Ball Memorial Hospital Foundation (BMH Foundation) and RHI Foundation, Inc. (RHI Foundation).

Consolidated Statement of Operations and Changes in Net Assets **(Compared to December 31, 2017)**

Revenue. Total operating revenue of \$6,427,842 for the year ended December 31, 2018 increased 1.4%, or \$86,748 compared to the prior year \$ 6,341,094.

Patient service revenue, when excluding increased reimbursement related to the Medicaid Assessment Fee program, upper payment limit reimbursement (UPL), and state disproportionate share revenue (DSH), increased by \$304,525 or 6.0% for the year ended December 31, 2018 over the prior year. The increase reflects the impact of recent strategic transactions, annual rate increases as well as increased inpatient volumes (see below).

The table below shows discharges and surgery cases by division.

	Year over Year			
	<u>12/31/2018</u>	<u>12/31/2017</u>	<u>Variance</u>	<u>Percentage</u>
<u>Inpatient Discharges</u>				
Consolidated	118,058	115,211	2,847	2.5%
Downtown	50,406	50,058	348	0.7%
Statewide	47,159	44,475	2,684	6.0%
Central	20,493	20,678	(185)	-0.9%
<u>Total Surgery Cases</u>				
Consolidated	110,445	109,525	920	0.8%
Downtown	34,114	34,407	(293)	-0.9%
Statewide	25,698	25,119	579	2.3%
Central	14,043	13,937	106	0.8%
Ambulatory	36,590	36,062	528	1.5%

The Indiana University Health System serves Medicaid patients and is subject to reimbursement under various programs. Under the Medicaid Hospital Assessment Fee (HAF) 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 Medicaid fee-for-service and managed care programs, and as the state share of DSH payments. Separately, the UPL reimbursement program, now known as the Physician Faculty Access to Care (PFAC) program, was established to pay qualifying providers the difference between what Medicare would have paid and what Medicaid actually paid. The state DSH program is dependent on regulatory approval by agencies of the federal and state governments and is determined by the level, extent, and cost of uncompensated care (as defined) and various other factors.

For the years ended December 31, 2018 and 2017, payments received related to these programs were recorded within patient service revenue in the consolidated statements of operations and changes in net assets, totaling \$473,212 and \$382,886, respectively. During the years ended December 31, 2018 and 2017, assessment fees were recorded within the hospital assessment fee line on the consolidated statements of operations and changes in net assets totaling \$146,391 and \$132,069, respectively.

Member premium revenue aggregated \$343,383 for the year ended December 31, 2018 and \$584,927 for the prior year. The decrease in member premium revenue is mainly related to not offering products on the Health Insurance Marketplace (Exchange) in 2018.

Other operating revenue of \$239,385 decreased by \$66,559 or 21.8% for the year ended December 31, 2018, compared to the prior year ended. The decrease was primarily due to the gain on the transfer of membership interests in MDwise in the fourth quarter of 2017 (see Strategic Transactions).

Expenses. Total operating expenses of \$5,815,922 increased by 1.1%, or \$62,645 compared to the year ended December 31, 2017, \$ 5,753,277.

Salaries, wages, and benefits increased 7.3%, or \$214,019, to \$3,126,015 compared to the year ended December 31, 2017. The increase is primarily a result of base pay increases effective mid-2017 and 2018, as well as an increase in full time equivalent employees (FTEs). The average number of FTEs was 30,011 and 28,874 for the year ended December 31, 2018 and 2017, respectively, due to the strategic transactions and increased volumes.

Supplies, drugs, purchased services, and other expenses of \$2,023,867 increased 2.8%, or \$54,757, compared to the year ended December 31, 2017, \$1,969,110. The increase was primarily driven by increases in supplies expense due to inpatient volumes and continued increases in pharmaceutical expenses.

Fees related to the Medicaid Assessment Fee program were \$146,391 for the year ended December 31, 2018, compared to \$132,069 in the same period in the prior year.

Health claims to providers expenses of \$239,137 decreased by 49.6%, or \$235,486, compared to the year ended December 31, 2017, \$474,623. The decrease in claims expense is mainly related to not offering Exchange products in 2018.

Depreciation and amortization expense of \$237,297 increased 2.7%, or \$6,288, from the prior year of \$231,009.

Interest expense of \$43,215 increased by 25.4%, or \$8,745, compared to the prior year, \$34,470, mainly due to an increase in the balance of debt outstanding, a higher proportion of underlying fixed-rate debt, and rising short-term interest rates in the market.

Investment losses amounted to \$202,401 for the year ended December 31, 2018, including \$98,248 of interest and dividend income, \$298,839 of unrealized losses on investments, and \$1,810 of realized losses on investments, net of fees. For the year ended December 31, 2017, investment income aggregated to \$504,915, which included \$75,568 of interest and dividend income, \$373,272 of unrealized gains on investments, and \$56,075 of realized gains on investments, net of fees. Gains on interest rate swaps aggregated \$12,962 and 5,720 for the year ended December 31, 2018, and 2017, respectively.

Consolidated Balance Sheet (Compared to year ended December 31, 2017)

Consolidated Financial Position. Total cash and investments (which principally consist of cash and cash equivalents, short-term investments, current portion of assets limited as to use, board-designated funds and other investments, and donor-restricted funds) amounted to \$5,788,424 at December 31, 2018, and \$5,443,259 at December 31, 2017. The number of days cash and investments on hand, excluding donor-restricted

funds, trustee-held funds and funds held by insurance captives, was 366 days at December 31, 2018 and 347 days as of December 31, 2017. The number of days revenue in receivables (excluding the increased reimbursement under the Medicaid Assessment Fee program and related receivable) was 58 days at December 31, 2018, and 62 days at December 31, 2017. 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 56 days at December 31, 2018 and December 31, 2017.

Net current assets, or working capital, increased 12.4% to \$693,797 at December 31, 2018 compared to \$617,365 at December 31, 2017 primarily due to the repayment of the drawn balance on the lines of credit with new debt proceeds from the issuance of the Series 2018A bonds. Net property and equipment of \$2,421,203 increased \$81,806 from December 31, 2017 due to ongoing capital projects (see Capital Expenditures). Firm commitments for construction-in-progress totaled \$242,323 at December 31, 2018.

Indiana University Health Obligated Group 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.

On April 17, 2018, Indiana University Health issued \$354,000 in par value of Series 2018A taxable, fixed-rate bonds. A portion of the proceeds was used to advance refund \$60,500 in par amount of the Indiana Finance Authority Hospital Revenue Bonds, Series 2011N (Indiana University Health Obligated Group), to refinance all of the Indiana Finance Authority Hospital Revenue Bonds, Series 2015C (Indiana University Health Obligated Group) in the amount of \$50,000, and to repay the balance on Indiana University Health's revolving commercial bank line of credit in the amount of \$50,000. Remaining proceeds were used to finance the termination payments related to certain interest rate swaps and for general corporate purposes.

On October 12, 2017, through the Indiana Finance Authority, Indiana University Health amended its 2011 Series H & I tax exempt, variable-rate, direct-purchase bonds changing both the variable rate and principal repayment schedule. Indiana University Health sold the bonds to a new direct purchaser with the expiration date of the direct-purchase agreement being the same date as the final maturity of the bonds.

As of December 31, 2018 and 2017, the Indiana University Health System maintained several lines of credit totaling \$226,000 and \$105,000, respectively. As of December 31, 2018, no amounts are drawn on the lines of credit. As of December 31, 2017, the total balance drawn on the lines of credit was \$50,000, which was included in the current portion of long-term debt, as the line of credit associated with the drawn balance had an expiration date of June 30, 2018. The balance on the line was repaid in April 2018

in conjunction with the issuance of the Series 2018A bonds.

Unrestricted net assets, or equity, amounted to \$6,924,929 at December 31, 2018 and \$6,594,120 at December 31, 2017 and includes the net unrealized losses on swaps of \$43,700 and \$75,813 at December 31, 2018 and 2017, 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 volume 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.

Capital Expenditures

In April 2018, the Indiana University Health Board of Directors approved a capital expenditure plan to invest in facilities improvement and medical office buildings at Frankfort.

In December 2017, the Indiana University Health Board of Directors approved a capital expenditure plan to integrate maternity and neonatal services at Riley Hospital. When finished, Riley Hospital will be able to accommodate more than 3,800 deliveries annually (up from approximately 3,200), including those from high risk mothers, and provide care for babies with known congenital anomalies.

Also in December 2017, the Indiana University Health Board of Directors approved a capital expenditure plan to build a cancer care facility at North. The plan is to build an approximately 88,000 square foot, two-story patient experience-focused facility that will provide full service cancer treatment options and necessary support services.

In October 2017, the Indiana University Health Board of Directors approved a capital expenditure plan to build a regional health campus in Bloomington, Indiana, which will increase Bloomington's ability to improve patient care by providing more opportunities for collaboration among clinical, research, and medical staff and faculty. This plan will 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 further its mission of providing cutting-edge health services to the region.

Also in October 2017, the Indiana University Health Board of Directors approved a capital expenditure plan for expansion at West. The expansion is expected to include approximately 48 additional inpatient beds, a new operating room, and additional support services space to accommodate rising patient volumes.

In April 2015, the Indiana University Health Board of Directors approved a plan to consolidate downtown Indianapolis adult services to one medical campus centered on Capitol Avenue and 16th Street (the current site of Methodist Hospital). As Indiana University Health is committed to improving the health of its 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 adult service medical campus is expected to include a medical education building and faculty offices on-site to enhance ongoing collaboration with the Indiana University School of Medicine and support the tripartite mission of clinical care, research, and education. While the Board has authorized certain preliminary activities, including strategic planning and analysis related to this plan, it has not approved the scope of this project or total capital expenditures related thereto.

Certain statements are forward-looking statements that are based on the beliefs of, and assumptions made by, the management of Indiana University Health. Such forward looking statements involve known and unknown risks, uncertainties and other factors that may cause the performance of the Indiana University Health System to be materially different from any expected future performance.

Strategic Transactions

On August 17, 2018, Indiana University Health formed a joint venture, Indiana University Health Fort Wayne, LLC (Fort Wayne), and contributed \$35,708 to be the majority partner, owning 67.37% of the joint venture. Fort Wayne will allow Indiana University Health to enhance and improve the delivery of cost effective, quality health care services in and around the greater Fort Wayne, Indiana area.

Indiana University Health held 50% membership interests in both MDwise, Inc. and MDwise Medicaid Network, Inc., with Health and Hospital Corporation of Marion County holding the other 50% membership interest. Effective December 29, 2017, all membership interest in MDwise, Inc. and MDwise Medicaid Network, Inc. was sold to Michigan-based McLaren Health Care, resulting in a gain of \$68,152 recognized in other revenue on the consolidated statement of operations and changes in net assets. Indiana University Health recognized an additional gain of \$4,572 during 2018 related to the sale.

Indiana University Health continued to provide care to certain members on a capitated basis through December 31, 2018. Beginning January 1, 2019, Indiana University Health will be reimbursed for these services on a fee for service basis.

Effective August 10, 2018, Indiana University Health sold its remaining 20% investment in LaPorte Health System to Frankfort Health Partner, Inc. (a subsidiary of Community Health Systems, Inc.) for \$19,980.

Effective March 1, 2018, Jay County Hospital, a 25-bed critical access hospital located in Portland, Indiana, transferred substantially all of its assets and liabilities to Indiana University Health Jay, Inc., a newly created nonprofit organization, and Indiana University Health became the sole corporate member. Indiana University Health recorded the assets acquired and the liabilities assumed, measured at fair value as of the date of acquisition, and recognized an inherent contribution of \$31,935 on the consolidated statement of operations and changes in net assets.

On June 1, 2017, Indiana University Health sold two outpatient hemodialysis in-center units in downtown Indianapolis and a home dialysis program to ISD Renal, Inc. a subsidiary of DaVita, Inc. for \$25,763 and recognized a gain of \$25,285 in other revenue on the consolidated statement of operations and changes in net assets.

Effective June 1, 2017, Indiana University Health entered into an agreement with Clinton County to lease and operate Frankfort Hospital, a 25-bed county-owned critical access hospital, and the affiliated medical offices located in Clinton County, Indiana with an annual minimum payment of \$1,000.

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 consolidated financial statements and the notes thereto of Indiana University Health and subsidiaries for the year ended December 31, 2018 and 2017.

Indiana University Health, Inc. and subsidiaries Adjusted Operating Income (Thousands of Dollars)

	Year Ended December 31	
	2018	2017
Operating income as reported	\$ 611,920	\$ 583,107
Noncontrolling interests in subsidiaries	(140,338)	(111,483)
Gain on sale of MDwise	-	(68,152)
Gain on sale of dialysis business	-	(25,285)
Operating income adjusted	<u>\$ 471,582</u>	<u>\$ 378,187</u>
Operating margin adjusted	7.6%	6.3%

- During 2017, Indiana University Health sold its membership interest in MDwise, Inc. and MDwise Medicaid Network, Inc. as well as its dialysis business (see Strategic Transactions).

CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2018 and 2017

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

	December 31	
	2018	2017
Assets	(Audited)	
Current assets:		
Cash and cash equivalents	\$ 345,025	\$ 414,674
Short-term investments	57,591	5,081
Current portion of assets limited as to use	156,060	143,611
Patient accounts receivable	858,270	870,252
Other receivables	184,634	156,281
Prepaid expenses	58,638	46,026
Inventories	101,990	85,856
Total current assets	1,762,208	1,721,781
 Assets limited as to use:		
Board-designated investment funds and other investments	5,139,501	4,791,654
Donor-restricted investment funds	90,247	88,239
Total assets limited as to use, less current portion	5,229,748	4,879,893
 Property and equipment:		
Cost of property and equipment in service	5,566,805	5,536,733
Less accumulated depreciation	(3,246,007)	(3,267,111)
	2,320,798	2,269,622
Construction-in-progress	100,405	69,775
Total property and equipment, net	2,421,203	2,339,397
 Other assets:		
Equity interest in unconsolidated subsidiaries	20,903	44,103
Interest in net assets of foundations	22,627	22,038
Goodwill, intangibles, and other assets	340,635	341,810
Total other assets	384,165	407,951
Total assets	\$ 9,797,324	\$ 9,349,022

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

	December 31	
	2018	2017
Liabilities and net assets	(Audited)	
Current liabilities:		
Accounts payable and accrued expenses	\$ 492,667	\$ 525,199
Accrued salaries, wages, and related liabilities	347,550	296,053
Accrued health claims	69,898	95,844
Estimated third-party payer allowances	105,746	87,215
Current portion of long-term debt	52,550	100,105
Total current liabilities	1,068,411	1,104,416
Noncurrent liabilities:		
Long-term debt, less current portion	1,529,648	1,351,115
Interest rate swaps	43,700	75,813
Accrued pension obligations	15,134	10,134
Accrued medical malpractice claims	63,133	63,626
Other	35,638	33,876
Total noncurrent liabilities	1,687,253	1,534,564
Total liabilities	2,755,664	2,638,980
Net assets:		
Indiana University Health	6,663,366	6,368,314
Noncontrolling interest in subsidiaries	261,563	225,806
Total without donor restrictions	6,924,929	6,594,120
With donor restrictions	116,731	115,922
Total net assets	7,041,660	6,710,042
Total liabilities and net assets	\$ 9,797,324	\$ 9,349,022

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	
	2018	2017	2018	2017
	(Audited)		(Unaudited)	
Revenues:				
Patient service revenue	\$ 5,845,074	\$ 5,450,223	\$ 1,571,494	1,444,034
Member premium revenue	343,383	584,927	88,512	150,917
Other revenue	239,385	305,944	63,610	132,612
Total operating revenues	<u>6,427,842</u>	6,341,094	<u>1,723,616</u>	1,727,563
Expenses:				
Salaries, wages, and benefits	3,126,015	2,911,996	836,932	750,415
Supplies, drugs, purchased services, and other	2,023,867	1,969,110	493,845	522,819
Hospital assessment fee	146,391	132,069	36,919	34,254
Health claims to providers	239,137	474,623	65,712	108,854
Depreciation and amortization	237,297	231,009	60,956	59,117
Interest	43,215	34,470	11,500	8,873
Total operating expenses	<u>5,815,922</u>	5,753,277	<u>1,505,864</u>	1,484,332
Operating income	<u>611,920</u>	587,817	<u>217,752</u>	243,231
Nonoperating (loss) income:				
Investment (loss) income, net	(202,401)	504,915	(324,537)	149,318
Gains on interest rate swaps, net	12,962	5,720	(6,362)	6,825
Inherent contribution of acquired entity	31,935	—	15	—
Debt extinguishment and other	(17,856)	2,280	(16,001)	187
Total nonoperating (loss) income	<u>(175,360)</u>	512,915	<u>(346,885)</u>	156,330
Consolidated excess (deficit) of revenues over expenses	<u>436,560</u>	1,100,732	<u>(129,133)</u>	399,561
Less amounts attributable to noncontrolling interest in subsidiaries	<u>140,338</u>	111,483	<u>42,114</u>	28,734
Excess (deficit) of revenues over expenses attributable to Indiana University Health and subsidiaries	<u>296,222</u>	989,249	<u>(171,247)</u>	370,827

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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 2018			Year Ended December 31 2017		
	(Audited)			(Audited)		
	Total	Controlling	Noncontrolling	Total	Controlling	Noncontrolling
Without donor restriction:						
Consolidated excess of revenues over expenses	\$ 436,560	\$ 296,222	\$ 140,338	\$ 1,100,732	\$ 989,249	\$ 111,483
Change in pension obligations	(2,884)	(2,884)	-	(1,098)	(1,098)	-
Contributions for capital expenditures	833	833	-	8,084	8,084	-
Distributions to noncontrolling interests	(120,654)	-	(120,654)	(133,231)	-	(133,231)
Contributions from noncontrolling interests	-	-	-	38,097	-	38,097
Issuance of noncontrolling interests related to joint venture	17,292	-	17,292	-	-	-
Other	(338)	881	(1,219)	(12,031)	(12,031)	-
	<u>330,809</u>	<u>295,052</u>	<u>35,757</u>	<u>1,000,553</u>	<u>984,204</u>	<u>16,349</u>
With donor restriction:						
Change in beneficial interest in net assets of foundations	592	592	-	8,263	8,263	-
Contributions	7,363	7,363	-	2,665	2,665	-
Investment return	422	422	-	3,919	3,919	-
Change in split interest agreements	(1,219)	(1,219)	-	838	838	-
Net assets released from restrictions	(4,821)	(4,821)	-	(3,437)	(3,437)	-
Other	(1,528)	(1,528)	-	14,437	14,437	-
	<u>809</u>	<u>809</u>	<u>-</u>	<u>26,685</u>	<u>26,685</u>	<u>-</u>
Increase in net assets	331,618	295,861	35,757	1,027,238	1,010,889	16,349
Net assets at beginning of period	6,710,042	6,484,236	225,806	5,682,804	5,473,347	209,457
Net assets at end of period	<u>\$ 7,041,660</u>	<u>\$ 6,780,097</u>	<u>\$ 261,563</u>	<u>\$ 6,710,042</u>	<u>\$ 6,484,236</u>	<u>\$ 225,806</u>
	Three Months Ended December 31 2018			Three Months Ended December 31 2017		
	(Unaudited)			(Unaudited)		
	Total	Controlling	Noncontrolling	Total	Controlling	Noncontrolling
Without donor restriction:						
Consolidated excess of revenues over expenses	\$ (129,133)	\$ (171,247)	\$ 42,114	\$ 399,561	\$ 370,827	\$ 28,734
Change in pension obligations	(2,884)	(2,884)	-	(1,098)	(1,098)	-
Contributions for capital expenditures	-	-	-	6,419	6,419	-
Distributions to noncontrolling interests	(32,499)	-	(32,499)	(38,305)	-	(38,305)
Contributions from noncontrolling interests	-	-	-	38,097	-	38,097
Issuance of noncontrolling interests related to joint venture	17,292	-	17,292	-	-	-
Other	(1,495)	135	(1,630)	3,829	5,038	(1,209)
	<u>(148,719)</u>	<u>(173,996)</u>	<u>25,277</u>	<u>408,503</u>	<u>381,186</u>	<u>27,317</u>
With donor restriction:						
Change in beneficial interest in net assets of foundations	1	1	-	8,255	8,255	-
Contributions	5,462	5,462	-	(5,734)	(5,734)	-
Investment return	(859)	(859)	-	2,573	2,573	-
Change in split interest agreements	(1,219)	(1,219)	-	838	838	-
Net assets released from restrictions	(3,350)	(3,350)	-	(3,203)	(3,203)	-
Other	999	999	-	(208)	(208)	-
	<u>1,034</u>	<u>1,034</u>	<u>-</u>	<u>2,521</u>	<u>2,521</u>	<u>-</u>
(Decrease) Increase in net assets	(147,685)	(172,962)	25,277	411,024	383,707	27,317
Net assets at beginning of period	7,189,345	6,953,059	236,286	6,299,018	6,100,529	198,489
Net assets at end of period	<u>\$ 7,041,660</u>	<u>\$ 6,780,097</u>	<u>\$ 261,563</u>	<u>\$ 6,710,042</u>	<u>\$ 6,484,236</u>	<u>\$ 225,806</u>

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

	Year Ended December 31		Three Months Ended December 31	
	2018	2017	2018	2017
	(Audited)		(Unaudited)	
Operating activities				
Increase in net assets	\$ 331,618	\$ 1,027,238	\$ (147,685)	\$ 411,024
Adjustments to reconcile increase in net assets to net cash provided by operating activities:				
Change in fair value of interest rate swaps	(16,987)	(16,427)	5,317	(9,269)
Change in pension liability	2,884	1,098	2,884	1,098
Gain in unconsolidated subsidiaries	(1,285)	(266)	(1,401)	(19,903)
Inherent contribution of acquired entity	(31,935)	—	(15)	—
Contributions from noncontrolling interests	—	(38,097)	—	(38,097)
Gain on sale of membership interests	(4,572)	(68,152)	(4,572)	(68,152)
Gain on sale of business unit	—	(25,285)	—	—
Depreciation and amortization	237,297	231,601	60,956	59,709
Amortization of deferred gain on sale of medical office buildings	(740)	(842)	(169)	(207)
Loss (gain) on extinguishment of debt	1,653	(17)	—	(3,564)
Contributions and investment return with donor restrictions	(7,158)	(15,686)	(3,116)	(5,941)
Distributions to noncontrolling interests	120,654	133,231	32,499	38,305
Assets limited as to use	(414,814)	(744,194)	262,755	(233,791)
Net changes in operating assets and liabilities:				
Patient accounts receivable	17,625	(94,072)	12,740	(10,401)
Other assets	(62,298)	(11,251)	(63,559)	73,462
Accounts payable, accrued liabilities, and other liabilities	(61,779)	(137,950)	(47,829)	(121,512)
Accrued salaries, wages, and related liabilities	49,475	54,537	36,346	(5,498)
Estimated third-party payer allowances	18,531	25,996	6,643	(17,518)
Net cash provided by operating activities	<u>178,169</u>	<u>321,462</u>	<u>151,794</u>	<u>49,745</u>
Investing activities				
Proceeds from sale of a business unit	—	25,763	—	—
Acquisition of subsidiary, net of cash received	9,243	(33,410)	(207)	(33,410)
Proceeds from exercise of put option in joint venture	19,980	—	—	—
Proceeds from sale of membership interests	—	49,108	—	49,108
Purchase of property and equipment, net of disposals	(295,035)	(188,702)	(162,469)	(98,668)
Net cash used in investing activities	<u>(265,812)</u>	<u>(147,241)</u>	<u>(162,676)</u>	<u>(82,970)</u>
Financing activities				
Increase in net assets with donor restrictions	7,158	15,686	3,116	5,941
Repayments on long-term debt	(224,976)	(314,961)	(17,976)	(137,307)
Proceeds from issuance of long-term debt	354,301	219,002	93	125,402
Proceeds from issuance of noncontrolling interests related to joint venture	17,292	—	17,292	—
Termination of swaps	(15,127)	—	—	—
Contributions from noncontrolling interests	—	38,097	—	38,097
Distributions to noncontrolling interests	(120,654)	(133,231)	(32,499)	(38,305)
Net cash provided by (used) in financing activities	<u>17,994</u>	<u>(175,407)</u>	<u>(29,974)</u>	<u>(6,172)</u>
Decrease in cash and cash equivalents	(69,649)	(1,186)	(40,856)	(39,397)
Cash and cash equivalents at beginning of period	414,674	415,860	385,881	454,071
Cash and cash equivalents at end of period	<u>\$ 345,025</u>	<u>\$ 414,674</u>	<u>\$ 345,025</u>	<u>\$ 414,674</u>

OTHER INFORMATION
For the years ended December 31, 2018 and 2017

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

	December 31 2018	December 31 2017
Assets	(Unaudited)	
Current assets:		
Cash and cash equivalents	\$ 329,576	\$ 401,799
Short-term investments	57,591	5,081
Current portion of assets limited as to use	83,112	52,206
Patient accounts receivable	441,172	459,145
Other receivables	83,075	135,199
Prepaid expenses	44,115	33,167
Inventories	69,357	54,835
Total current assets	1,107,998	1,141,432
Assets limited as to use:		
Board-designated investment funds and other investments	4,792,659	4,405,934
Property and equipment:		
Cost of property and equipment in service	3,627,285	3,605,969
Less accumulated depreciation	(2,157,394)	(2,146,624)
	1,469,891	1,459,345
Construction-in-progress	30,237	36,341
Total property and equipment, net	1,500,128	1,495,686
Other assets:		
Equity interest in unconsolidated subsidiaries	331,249	308,677
Interest in net assets of foundations from related organizations)	9,020	8,319
	671,608	695,341
Total other assets	1,011,877	1,012,337
Total assets	\$ 8,412,662	\$ 8,055,389

Continued on next page.

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

	December 31	December 31
	2018	2017
	(Unaudited)	
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,901,899	\$ 1,646,938
Accrued salaries, wages, and related liabilities	171,274	123,862
Accrued health claims	68,945	72,056
Estimated third-party payer allowances	69,940	60,719
Current portion of long-term debt	50,856	98,405
Total current liabilities	2,262,914	2,001,980
Noncurrent liabilities:		
Long-term debt, less current portion	1,516,479	1,336,369
Interest rate swaps	43,608	75,562
Accrued pension obligations	7,191	570
Accrued medical malpractice claims	2,624	2,562
Other	25,364	24,069
Total noncurrent liabilities	1,595,266	1,439,132
Total liabilities	3,858,180	3,441,112
Net assets:		
Without donor restriction	4,543,607	4,601,071
With donor restriction	10,875	13,206
Total net assets	4,554,482	4,614,277
Total liabilities and net assets	\$ 8,412,662	\$ 8,055,389

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

	Twelve Months Ended December 31		Three Months Ended December 31	
	2018	2017	2018	2017
	(Unaudited)		(Unaudited)	
Revenues:				
Patient service revenue	2,850,706	2,617,948	774,713	673,597
Member premium revenue	301,007	377,413	78,081	90,430
Other revenue	595,335	648,278	158,609	243,115
Total operating revenues	3,747,048	3,643,639	1,011,403	1,007,142
Expenses:				
Salaries, wages, and benefits	1,278,931	1,162,162	365,323	303,001
Supplies, drugs, purchased services, and other	1,417,294	1,294,022	337,087	334,502
Hospital assessment fee	68,390	63,393	16,861	16,438
Health claims to providers	268,506	352,006	77,011	68,886
Depreciation and amortization	146,305	145,476	38,293	37,930
Interest	42,427	34,035	11,388	9,427
Total operating expenses	3,221,853	3,051,094	845,963	770,184
Operating income	525,195	592,545	165,440	236,958
Nonoperating (loss) income:				
Investment (loss) income, net	(173,113)	498,972	(303,952)	148,708
Gain (losses) on interest rate swaps, net	12,803	5,531	(6,397)	6,756
Debt extinguishment and other	(6,788)	1,926	(6,111)	(167)
Total nonoperating (loss) income	(167,098)	506,429	(316,460)	155,297
Excess (deficit) of revenues over expenses	\$ 358,097	\$ 1,098,974	\$ (151,020)	\$ 392,255

Indiana University Health, Inc. and Subsidiaries
Special Purpose Combined Balance Sheets - Obligated Group

(Thousands of Dollars)

	December 31 2018	December 31 2017
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 329,783	\$ 401,948
Short-term investments	57,591	5,081
Current portion of assets limited as to use	83,029	52,147
Patient accounts receivable	435,799	454,080
Other receivables	85,646	137,407
Prepaid expenses	43,937	32,978
Inventories	68,739	54,142
Total current assets	1,104,524	1,137,783
Assets limited as to use:		
Board-designated investment funds and other investment	4,788,030	4,401,110
Property and equipment:		
Cost of property and equipment in service	3,611,828	3,591,312
Less accumulated depreciation	(2,146,939)	(2,136,578)
	1,464,889	1,454,734
Construction-in-progress	30,191	36,306
Total property and equipment, net	1,495,080	1,491,040
Other assets:		
Equity interest in unconsolidated subsidiaries from related organizations)	331,448	308,875
	676,517	700,735
Total other assets	1,007,965	1,009,610
Total assets	\$ 8,395,599	\$8,039,543

Continued on next page.

Indiana University Health, Inc. and Subsidiaries

Special Purpose Combined Balance Sheets - Obligated Group (continued)

(Thousands of Dollars)

	December 31	December 31
	2018	2017
	(Unaudited)	
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,925,968	\$1,667,856
Accrued salaries, wages, and related liabilities	170,179	122,736
Accrued health claims	68,945	72,056
Estimated third-party payer allowances	66,930	58,076
Current portion of long-term debt	50,856	98,405
Total current liabilities	<u>2,282,878</u>	2,019,129
Noncurrent liabilities:		
Long-term debt, less current portion	1,516,152	1,336,000
Interest rate swaps	43,608	75,562
Accrued pension obligations	7,191	570
Accrued medical malpractice claims	2,574	2,509
Other	25,364	24,069
Total noncurrent liabilities	<u>1,594,889</u>	1,438,710
Total liabilities	<u>3,877,767</u>	3,457,839
Net assets:		
Without donor restriction	4,515,977	4,576,817
With donor restriction	1,855	4,887
Total net assets	<u>4,517,832</u>	4,581,704
Total liabilities and net assets	<u><u>\$ 8,395,599</u></u>	<u><u>\$8,039,543</u></u>

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

	Twelve Months Ended December 31		Three Months Ended December 31	
	2018	2017	2018	2017
	(Unaudited)		(Unaudited)	
Revenues:				
Patient service revenue	2,812,894	2,582,282	764,030	663,792
Member premium revenue	301,007	377,413	78,081	90,430
Other revenue	601,406	654,468	160,019	239,410
Total operating revenues	<u>3,715,307</u>	3,614,163	<u>1,002,130</u>	993,632
Expenses:				
Salaries, wages, and benefits	1,265,219	1,148,605	361,803	299,448
Supplies, drugs, purchased services, and other	1,404,816	1,281,128	333,197	325,679
Hospital assessment fee	67,347	62,311	16,658	16,171
Health claims to providers	268,835	352,712	77,055	69,078
Depreciation and amortization	144,609	144,052	37,864	37,534
Interest	42,427	34,035	11,388	8,838
Total operating expenses	<u>3,193,253</u>	3,022,843	<u>837,965</u>	756,748
Operating income	<u>522,054</u>	591,320	<u>164,165</u>	236,884
Nonoperating (loss) income:				
Investment (loss) income, net	(173,358)	498,385	(303,814)	148,545
Gain (losses) on interest rate swaps, net	12,803	5,531	(6,397)	6,756
Debt extinguishment and other	(6,788)	1,926	(6,111)	(167)
Total nonoperating (loss) income	<u>(167,343)</u>	505,842	<u>(316,322)</u>	155,134
Excess (deficit) of revenues over expenses	<u>\$ 354,711</u>	<u>\$ 1,097,162</u>	<u>\$ (152,157)</u>	<u>\$ 392,018</u>

Indiana University Health, Inc. and subsidiaries
Statistical and Other Data
As of and for the Three Months and Year Ended December 31, 2018 and 2017
(Except as noted below)

Description	For the Year Ended December 31	
	2018	2017
Academic Health Center		
Active Members	1,255	1,305
Residents	710	682
Other Members	945	884
Total Medical Staff	2,910	2,870
Consolidated Number of Available Beds	2,608	2,560
Employees		
Consolidated FTE employees	30,011	28,874
Methodist/IU/Riley/Saxony/Morgan FTE employees	8,819	8,684
Credit Group coverage of Debt Service (dollars in thousands, annualized)		
Revenues over expenses (1)	609,464	643,815
Depreciation, amortization and interest (2)	188,732	191,096
Available to pay debt service	798,196	834,911
Actual debt service (2)	98,567	96,854
Historical debt service coverage ratio	8.10	8.62
Forecast maximum annual debt service (2)(3)	112,222	108,782
Available to pay debt service	798,196	834,911
Forecast maximum annual debt service coverage ratio	7.11	7.68

Description	For the Year Ended December 31		Three Months Ended December 31	
	2018	2017	2018	2017
Consolidated Utilization and Operating Statistics				
Inpatient Days	649,522	631,698	163,022	158,615
Admissions	118,019	115,354	29,496	29,745
Occupancy Rate (based on available beds)	91.24%	90.39%	67.95%	67.35%
Average Length of Stay	5.50	5.48	5.53	5.33
Surgery Cases IP	30,948	30,918	7,869	7,903
Surgery Cases OP	79,497	78,607	21,601	20,759
Surgery Cases Total	110,445	109,525	29,470	28,662
Emergency Room Visits	448,380	454,398	110,541	110,182
Radiological Examinations	1,240,273	1,182,714	311,224	290,771
Gross Patient Service Revenue				
Medicare and Other Government	40.09%	39.97%	39.46%	39.67%
Medicaid	13.92%	13.57%	13.50%	13.23%
HIP	8.10%	8.21%	8.10%	8.28%
Medicaid and HIP	22.02%	21.78%	21.60%	21.51%
Wellpoint / Anthem	18.55%	18.48%	19.76%	18.82%
Other	16.50%	16.89%	16.25%	17.17%
Commercial / Managed Care	35.05%	35.37%	36.01%	35.99%
Self Pay and Other	2.84%	2.88%	2.93%	2.83%
Total Gross Patient Service Revenue:	100.00%	100.00%	100.00%	100.00%
Medicare Case Mix Index, Academic Health Center (4)	2.218	2.234	2.258	2.241

Bed Complement: Available	December 31, 2018		December 31, 2017	
	Academic Health Center	Other System Hospitals	Academic Health Center	Other System Hospitals
Medical Surgical	694	759	683	831
ICU / CCU	231	122	237	112
OB / Labor Delivery	54	139	28	123
Pediatrics	173	50	172	50
Psychiatric	26	46	28	-
High-Risk Nursery	104	87	104	69
Rehab and other	-	123	-	123
Total Bed Complement	1,282	1,326	1,252	1,308

(1) Adjusted for certain gains (losses) as defined in the IU Health Obligated Group Master Trust Indenture.
(2) Assumes all interest rate swaps would have been "Identified Financial Product Agreements" (as such term is defined in the IU Health Obligated Group Master Trust Indenture), for the twelve months ended December 31, 2017.
(3) Calculated in accordance with the definition of "Maximum Annual Debt Service" as defined in the IU Health Obligated Group Master Trust Indenture, but assumes an interest rate of 3.50% (which rate is inclusive of remarketing and credit facility costs) for all variable-rate debt and a one-month LIBOR rate of 3.63% for purposes of interest rate swap cash flows.
(4) Medicare system of classification for DRGs is annually revised effective October 1 of each year.