

CONSOLIDATED FINANCIAL STATEMENTS AND OTHER INFORMATION  
INDIANA UNIVERSITY HEALTH, INC. AND SUBSIDIARIES  
AS OF SEPTEMBER 30, 2019 AND DECEMBER 31, 2018 AND FOR THE NINE  
MONTHS ENDED SEPTEMBER 30, 2019 AND 2018

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MANAGEMENT'S DISCUSSION OF FINANCIAL PERFORMANCE  
As of September 30, 2019 and December 31, 2018 and for the nine months ended  
September 30, 2019 and 2018

**Indiana University Health, Inc. and Subsidiaries**  
**Management's Discussion of Financial Performance**  
**As of September 30, 2019 and December 31, 2018 and for the nine months ended**  
**September 30, 2019 and 2018**  
*(Thousands of Dollars)*

The financial statement information and other data as of September 30, 2019 and December 31, 2018 and for the nine months ended September 30, 2019 and 2018 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 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 September 30, 2019:

**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. (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) and Medicare Advantage products. During 2018, the Indiana University Health System provided Medicaid management services related to MDwise Medicaid Network. 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 September 30, 2018)**

*Revenue.* Total operating revenue of \$4,947,228 for the nine months ended September 30, 2019 increased 5.3%, or \$249,856 compared to the nine months ended September 30, 2018, \$4,697,372.

Patient service revenue, when excluding increased reimbursement related to the Medicaid Hospital Assessment Fee (HAF) program, Physician Faculty Access to Care (PFAC), and state disproportionate share revenue (DSH), increased by \$286,008 or 7.3% for the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. The increase reflects a change in mix of services provided and annual rate increases, as well as increased surgery volumes (see below).

The table below shows discharges and surgery cases by division.

|                                    | Year over Year   |                  |                 |                   |
|------------------------------------|------------------|------------------|-----------------|-------------------|
|                                    | <u>9/30/2019</u> | <u>9/30/2018</u> | <u>Variance</u> | <u>Percentage</u> |
| <b><u>Inpatient Discharges</u></b> |                  |                  |                 |                   |
| <b>Consolidated</b>                | 86,041           | 88,544           | (2,503)         | -2.8%             |
| <b>Downtown</b>                    | 35,732           | 37,781           | (2,049)         | -5.4%             |
| <b>Statewide</b>                   | 35,398           | 35,371           | 27              | 0.1%              |
| <b>Suburban</b>                    | 14,911           | 15,392           | (481)           | -3.1%             |
| <b><u>Total Surgery Cases</u></b>  |                  |                  |                 |                   |
| <b>Consolidated</b>                | 83,197           | 80,975           | 2,222           | 2.7%              |
| <b>Downtown</b>                    | 25,590           | 25,438           | 152             | 0.6%              |
| <b>Statewide</b>                   | 19,680           | 18,923           | 757             | 4.0%              |
| <b>Suburban</b>                    | 10,973           | 10,114           | 859             | 8.5%              |
| <b>Ambulatory</b>                  | 26,954           | 26,500           | 454             | 1.7%              |

The Indiana University Health System serves Medicaid patients and is subject to reimbursement under various programs. Under the 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. 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. Separately, the PFAC program, was established to pay qualifying providers the difference between what Medicare would have paid and what Medicaid actually paid.

For the nine months ended September 30, 2019 and 2018, payments received related to these programs were recorded within patient service revenue in the consolidated statements of operations and changes in net assets, totaling \$388,519 and \$344,885,

respectively.

Member premium revenue aggregated \$151,349 for the nine months ended September 30, 2019 and \$254,871 for the nine months ended September 30, 2018. The decrease in member premium revenue is mainly related to no longer assuming risk for certain Medicaid members.

Other operating revenue of \$192,657 increased by \$23,736 or 14.1% for the nine months ended September 30, 2019, compared to the nine months ended September 30, 2018, partially due to additional gain recognized for a prior year strategic transaction.

*Expenses.* Total operating expenses of \$4,435,640 increased by 3.2%, or \$137,052 compared to the nine months ended September 30, 2018, \$4,298,588.

Salaries, wages, and benefits increased 4.7%, or \$107,064, to \$2,390,577 compared to the nine months ended September 30, 2018. The increase is primarily a result of base pay increases effective mid-2019, as well as an increase in full time equivalent employees (FTEs). The average number of FTEs was 30,525 and 29,893 for the nine months ended September 30, 2019 and 2018, respectively.

Supplies, drugs, purchased services, and other expenses of \$1,625,151 increased 6.6%, or \$100,578, compared to the nine months ended September 30, 2018, \$1,524,573. The increase was primarily driven by increases in supplies expense due to surgery volumes and continued increases in pharmaceutical expenses related to a higher usage of cancer infusion drugs.

Fees related to the HAF program were \$124,926 for the nine months ended September 30, 2019, compared to \$109,472 in the same period in the prior year.

Health claims to providers expenses of \$74,561 decreased by 57.0%, or \$98,864 compared to the nine months ended September 30, 2018, \$173,425. The decrease in claims expense is mainly related to no longer assuming risk for certain Medicaid members.

Depreciation and amortization expense of \$187,035 increased 6.3%, or \$11,125, from the same period in the prior year of \$175,910 mainly due to equipment purchases and building improvements made in the normal course of business.

Interest expense of \$33,390 increased by 5.3%, or \$1,695, compared to the same period in the prior year, \$31,695, mainly due to an increase in the average balance of debt outstanding during the period, a higher proportion of underlying fixed-rate debt, and higher short-term interest rates in the market.

Investment gains amounted to \$494,874 for the nine months ended September 30, 2019, including \$93,648 of interest and dividend income, \$361,471 of unrealized gains on investments, and \$39,755 of realized gains on investments, net of fees. For the nine months ended September 30, 2018, investment income aggregated to \$122,136, which included \$75,752 of interest and dividend income, \$928 of unrealized losses on investments, and \$47,312 of realized gains on investments, net of fees. (Losses) gains on interest rate swaps aggregated (\$13,606) and \$19,324 for the nine months ended September 30, 2019, and

2018, respectively.

### **Consolidated Balance Sheet (Compared to year ended December 31, 2018)**

*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 \$6,891,006 at September 30, 2019, and \$5,788,424 at December 31, 2018. The number of days cash and investments on hand, excluding donor-restricted funds, trustee-held funds and funds held by insurance captives, was 431 days at September 30, 2019 and 366 days as of December 31, 2018. The number of days revenue in receivables (excluding the increased reimbursement under the HAF program and related receivable) was 56 days at September 30, 2019 and 58 days at December 31, 2018. The number of days expenses in accounts payable, accrued expenses, and certain other current liabilities (excluding fees associated with the HAF program and related liability) was 57 days at September 30, 2019 and 56 days at December 31, 2018.

Net current assets, or working capital, increased 16.7% to \$809,729 at September 30, 2019 compared to \$693,797 at December 31, 2018. Net property and equipment of \$2,480,074 increased \$58,871, net of depreciation, from December 31, 2018, as the System continued to invest in new or expanded facilities (see Capital Expenditures). Firm commitments for construction-in-progress totaled \$391,626 at September 30, 2019.

On July 2, 2019, through the Indiana Finance Authority, Indiana University Health issued \$133,610 in par value of Series 2019A tax-exempt, fixed rate bonds at a premium of \$10,876, \$109,070 in par value of Series 2019B tax-exempt, fixed rate mandatory tender bonds at a premium of \$2,558, and \$102,615 in par value of Series 2019C tax-exempt, fixed rate bonds at a premium of \$11,590. On the same day, IU Health also issued \$39,408 in additional par value of Series 2018A taxable, fixed rate bonds at a premium of \$3,730, which additional bonds have been consolidated with the existing Series 2018A bonds. Also on the same day, Indiana University Health effectuated the conversion and public remarketing of the following bonds: (i) \$20,090 at par of Series 2011H bonds as tax-exempt, fixed rate mandatory tender bonds, (ii) \$20,090 at par of Series 2011I bonds as tax-exempt, fixed rate mandatory tender bonds, (iii) \$58,225 at par of Series 2011L bonds as tax-exempt, floating rate notes, (iv) \$49,565 at par of Series 2011M bonds as tax-exempt, floating rate notes, and (v) \$143,675 at par of Series 2015B bonds as tax-exempt, fixed rate mandatory tender bonds.

Proceeds of the Series 2019A and 2019B bonds have been or will be used for certain capital expenditures and to pay certain expenses incurred in connection with their issuance. The remaining proceeds in the amount of \$133,684 are recorded in current portion of assets limited as to use, including funds held by a trustee for capital expenditure. Proceeds of the Series 2019C bonds were used (i) to refund (on a current basis) the following bonds: (a) \$9,065 in par of Series 2011A bonds, (b) \$10,290 in par of Series 2011B bonds, (c) \$10,020 in par of Series 2011C bonds, (d) \$5,040 in par of Series 2011D bonds, (e) \$9,860 in par of Series 2011E bonds, (f) \$34,845 in par of Series 2011H bonds, and (g) \$34,845 in par of Series 2011I bonds and (ii) to pay certain expenses incurred in connection with their issuance. Proceeds of the additional Series 2018A bonds have been



or will be used to finance partial termination payments related to certain interest rate swaps, to finance certain capital expenditures, and to pay certain expenses incurred in connection with their issuance, the issuance of the Series 2019A, 2019B, and 2019C bonds, and the conversion and remarketing of the Series 2011H, 2011I, 2011L, 2011M, and 2015B bonds.

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.

As of September 30, 2019 and December 31, 2018, the Indiana University Health System maintained lines of credit totaling \$226,000. As of September 30, 2019 and December 31, 2018, no amounts were drawn on the lines of credit.

Net assets without donor restriction, or equity, amounted to \$7,810,825 at September 30, 2019 and \$6,924,929 at December 31, 2018 and includes the net unrealized losses on swaps of \$40,020 and \$43,700 at September 30, 2019 and December 31, 2018, 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 a replacement hospital and medical office building 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.

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.

## 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 nine months ended September 30, 2019 and 2018.

### Indiana University Health, Inc. and subsidiaries

#### Adjusted Operating Income

*(in thousands)*

|  | Nine Months Ended |                   |
|--|-------------------|-------------------|
|  | September 30      |                   |
|  | 2019              | 2018              |
| Operating income as reported             | \$ 511,588        | \$ 398,784        |
| Noncontrolling interests in subsidiaries | (102,206)         | (98,224)          |
| MDwise Medicaid Network adjustment       | (11,507)          | -                 |
| Operating income adjusted                | <u>\$ 397,875</u> | <u>\$ 300,560</u> |
| Operating margin adjusted                | 8.4%              | 6.6%              |

- During 2019, Indiana University Health recognized a gain adjustment related to the 2017 sale of MDwise Medicaid Network.

**CONSOLIDATED FINANCIAL STATEMENTS**  
**As of September 30, 2019 and December 31, 2018 and for the nine months ended**  
**September 30, 2019 and 2018**

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

|   | September 30<br>2019<br>(Unaudited) | December 31<br>2018<br>(Audited) |
|---|-------------------------------------|----------------------------------|
| <b>Assets</b>   |                                     |                                  |
| Current assets:   |                                     |                                  |
| Cash and cash equivalents   | \$ 358,366                          | \$ 345,025                       |
| Short-term investments  | 37,306                              | 57,591                           |
| Current portion of assets limited as to use, including funds held<br>by a trustee for capital expenditure | 299,796                             | 156,060                          |
| Patient accounts receivable   | 872,954                             | 858,270                          |
| Other receivables   | 159,508                             | 184,634                          |
| Prepaid expenses  | 70,949                              | 58,638                           |
| Inventories   | 105,618                             | 101,990                          |
| Total current assets  | 1,904,497                           | 1,762,208                        |
| Assets limited as to use:   |                                     |                                  |
| Board-designated investment funds and other investments   | 6,113,082                           | 5,139,501                        |
| Donor-restricted investment funds   | 82,456                              | 90,247                           |
| Total assets limited as to use, less current portion  | 6,195,538                           | 5,229,748                        |
| Property and equipment:   |                                     |                                  |
| Cost of property and equipment in service   | 5,569,083                           | 5,566,805                        |
| Less accumulated depreciation   | (3,331,797)                         | (3,246,007)                      |
|   | 2,237,286                           | 2,320,798                        |
| Construction-in-progress  | 242,788                             | 100,405                          |
| Total property and equipment, net   | 2,480,074                           | 2,421,203                        |
| Other assets:   |                                     |                                  |
| Equity interest in unconsolidated subsidiaries  | 30,310                              | 20,903                           |
| Interest in net assets of foundations   | 21,652                              | 22,627                           |
| Right-of-use assets   | 122,249                             | —                                |
| Goodwill, intangibles, and other assets   | 317,471                             | 340,635                          |
| Total other assets  | 491,682                             | 384,165                          |
| Total assets  | \$ 11,071,791                       | \$ 9,797,324                     |

*Continued on next page.*

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

|  | September 30<br>2019<br>(Unaudited) | December 31<br>2018<br>(Audited) |
|--|-------------------------------------|----------------------------------|
| <b>Liabilities and net assets</b>                |                                     |                                  |
| Current liabilities:                             |                                     |                                  |
| Accounts payable and accrued expenses            | \$ 530,326                          | \$ 492,667                       |
| Accrued salaries, wages, and related liabilities | 342,976                             | 347,550                          |
| Accrued health claims                            | 38,814                              | 69,898                           |
| Estimated third-party payer allowances           | 113,145                             | 105,746                          |
| Current portion of lease liabilities             | 32,944                              | —                                |
| Current portion of long-term debt                | 36,563                              | 52,550                           |
| Total current liabilities                        | <u>1,094,768</u>                    | <u>1,068,411</u>                 |
| Noncurrent liabilities:                          |                                     |                                  |
| Long-term debt, less current portion             | 1,794,940                           | 1,529,648                        |
| Interest rate swaps                              | 40,020                              | 43,700                           |
| Accrued pension obligations                      | 17,902                              | 15,134                           |
| Accrued medical malpractice claims               | 65,918                              | 63,133                           |
| Lease liabilities, less current portion          | 101,266                             | —                                |
| Other  | 30,583                              | 35,638                           |
| Total noncurrent liabilities                     | <u>2,050,629</u>                    | <u>1,687,253</u>                 |
| Total liabilities                                | <u>3,145,397</u>                    | <u>2,755,664</u>                 |
| Net assets:                                      |                                     |                                  |
| Indiana University Health                        | 7,546,204                           | 6,663,366                        |
| Noncontrolling interest in subsidiaries          | 264,621                             | 261,563                          |
| Total without donor restrictions                 | <u>7,810,825</u>                    | <u>6,924,929</u>                 |
| With donor restrictions                          | 115,569                             | 116,731                          |
| Total net assets                                 | <u>7,926,394</u>                    | <u>7,041,660</u>                 |
| Total liabilities and net assets                 | <u><u>\$ 11,071,791</u></u>         | <u><u>\$ 9,797,324</u></u>       |

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

|  | Nine Months Ended<br>September 30 |              | Three Months Ended<br>September 30 |           |
|--|-----------------------------------|--------------|------------------------------------|-----------|
|  | 2019                              | 2018         | 2019                               | 2018      |
|  | (Unaudited)                       |              | (Unaudited)                        |           |
| Revenues:  |                                   |              |                                    |           |
| Patient service revenue  | \$ 4,603,222                      | \$ 4,273,580 | \$ 1,600,478                       | 1,454,830 |
| Member premium revenue   | 151,349                           | 254,871      | 49,545                             | 83,585    |
| Other revenue  | 192,657                           | 168,921      | 77,079                             | 58,989    |
| Total operating revenues   | 4,947,228                         | 4,697,372    | 1,727,102                          | 1,597,404 |
| Expenses:  |                                   |              |                                    |           |
| Salaries, wages, and benefits  | 2,390,577                         | 2,283,513    | 811,440                            | 784,384   |
| Supplies, drugs, purchased services, and other   | 1,625,151                         | 1,524,573    | 555,904                            | 528,014   |
| Hospital assessment fee  | 124,926                           | 109,472      | 43,851                             | 41,841    |
| Health claims to providers   | 74,561                            | 173,425      | 36,830                             | 55,313    |
| Depreciation and amortization  | 187,035                           | 175,910      | 64,190                             | 58,985    |
| Interest   | 33,390                            | 31,695       | 11,238                             | 11,456    |
| Total operating expenses   | 4,435,640                         | 4,298,588    | 1,523,453                          | 1,479,993 |
| Operating income   | 511,588                           | 398,784      | 203,649                            | 117,411   |
| Nonoperating income:   |                                   |              |                                    |           |
| Investment income, net   | 494,874                           | 122,136      | 16,263                             | 78,940    |
| (Losses) gains on interest rate swaps, net   | (13,606)                          | 19,324       | (8,310)                            | 4,180     |
| Inherent contribution of acquired entity   | 604                               | 31,920       | —                                  | 60        |
| Debt extinguishment and other  | (7,423)                           | (6,471)      | (1,859)                            | (3,201)   |
| Total nonoperating income  | 474,449                           | 166,909      | 6,094                              | 79,979    |
| Consolidated excess of revenues over expenses  | 986,037                           | 565,693      | 209,743                            | 197,390   |
| Less amounts attributable to noncontrolling interest<br>in subsidiaries                        | 102,206                           | 98,224       | 32,923                             | 30,205    |
| Excess of revenues over expenses<br>attributable to Indiana University Health and subsidiaries | 883,831                           | 467,469      | 176,820                            | 167,185   |

Continued on next page.



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

|  | Nine Months Ended September 30, 2019 |                     |                   | Nine Months Ended September 30, 2018 |                     |                   |
|--|--------------------------------------|---------------------|-------------------|--------------------------------------|---------------------|-------------------|
|  | (Unaudited)                          |                     |                   | (Unaudited)                          |                     |                   |
|  | Total                                | Controlling         | Noncontrolling    | Total                                | Controlling         | Noncontrolling    |
| Without donor restriction:                                 |                                      |                     |                   |                                      |                     |                   |
| Consolidated excess of revenues over expenses              | \$ 986,037                           | \$ 883,831          | \$ 102,206        | \$ 565,693                           | \$ 467,469          | \$ 98,224         |
| Contributions for capital expenditures                     | 6,392                                | 6,392               | —                 | 833                                  | 833                 | —                 |
| Distributions to noncontrolling interests                  | (99,148)                             | —                   | (99,148)          | (88,155)                             | —                   | (88,155)          |
| Contributions from noncontrolling interests                | —                                    | —                   | —                 | 411                                  | —                   | 411               |
| Change in fair value of interest swaps                     | (2,393)                              | (2,393)             | —                 | —                                    | —                   | —                 |
| Other  | (4,992)                              | (4,992)             | —                 | 746                                  | 746                 | —                 |
|  | <b>885,896</b>                       | <b>882,838</b>      | <b>3,058</b>      | <b>479,528</b>                       | <b>469,048</b>      | <b>10,480</b>     |
| With donor restriction:                                    |                                      |                     |                   |                                      |                     |                   |
| Change in beneficial interest in net assets of foundations | (972)                                | (972)               | —                 | 591                                  | 591                 | —                 |
| Contributions  | 2,477                                | 2,477               | —                 | 1,901                                | 1,901               | —                 |
| Investment return  | (1,426)                              | (1,426)             | —                 | 1,281                                | 1,281               | —                 |
| Change in split interest agreements                        | 280                                  | 280                 | —                 | —                                    | —                   | —                 |
| Net assets released from restrictions                      | (1,133)                              | (1,133)             | —                 | (1,471)                              | (1,471)             | —                 |
| Other  | (388)                                | (388)               | —                 | (2,527)                              | (2,527)             | —                 |
|  | <b>(1,162)</b>                       | <b>(1,162)</b>      | <b>—</b>          | <b>(225)</b>                         | <b>(225)</b>        | <b>—</b>          |
| Increase in net assets                                     | <b>884,734</b>                       | <b>881,676</b>      | <b>3,058</b>      | <b>479,303</b>                       | <b>468,823</b>      | <b>10,480</b>     |
| Net assets at beginning of period                          | <b>7,041,660</b>                     | <b>6,780,097</b>    | <b>261,563</b>    | <b>6,710,042</b>                     | <b>6,484,236</b>    | <b>225,806</b>    |
| Net assets at end of period                                | <b>\$ 7,926,394</b>                  | <b>\$ 7,661,773</b> | <b>\$ 264,621</b> | <b>\$ 7,189,345</b>                  | <b>\$ 6,953,059</b> | <b>\$ 236,286</b> |

  

|  | Three Months Ended September 30, 2019 |                     |                   | Three Months Ended September 30, 2018 |                     |                   |
|--|---------------------------------------|---------------------|-------------------|---------------------------------------|---------------------|-------------------|
|  | (Unaudited)                           |                     |                   | (Unaudited)                           |                     |                   |
|  | Total                                 | Controlling         | Noncontrolling    | Total                                 | Controlling         | Noncontrolling    |
| Without donor restriction:                                 |                                       |                     |                   |                                       |                     |                   |
| Consolidated excess of revenues over expenses              | \$ 209,743                            | \$ 176,820          | \$ 32,923         | \$ 197,390                            | \$ 167,185          | \$ 30,205         |
| Contributions for capital expenditures                     | 60                                    | 60                  | —                 | —                                     | —                   | —                 |
| Distributions to noncontrolling interests                  | (29,940)                              | —                   | (29,940)          | (31,144)                              | —                   | (31,144)          |
| Contributions from noncontrolling interests                | —                                     | —                   | —                 | (159)                                 | —                   | (159)             |
| Other  | (3,970)                               | (3,970)             | —                 | 188                                   | 188                 | —                 |
|  | <b>175,893</b>                        | <b>172,910</b>      | <b>2,983</b>      | <b>166,275</b>                        | <b>167,373</b>      | <b>(1,098)</b>    |
| With donor restriction:                                    |                                       |                     |                   |                                       |                     |                   |
| Change in beneficial interest in net assets of foundations | 5                                     | 5                   | —                 | 166                                   | 166                 | —                 |
| Contributions  | 1,345                                 | 1,345               | —                 | 1,070                                 | 1,070               | —                 |
| Investment return  | (1,675)                               | (1,675)             | —                 | 1,280                                 | 1,280               | —                 |
| Net assets released from restrictions                      | (662)                                 | (662)               | —                 | (518)                                 | (518)               | —                 |
| Other  | 5                                     | 5                   | —                 | (152)                                 | (152)               | —                 |
|  | <b>(982)</b>                          | <b>(982)</b>        | <b>—</b>          | <b>1,846</b>                          | <b>1,846</b>        | <b>—</b>          |
| Increase (decrease) in net assets                          | <b>174,911</b>                        | <b>171,928</b>      | <b>2,983</b>      | <b>168,121</b>                        | <b>169,219</b>      | <b>(1,098)</b>    |
| Net assets at beginning of period                          | <b>7,751,483</b>                      | <b>7,489,845</b>    | <b>261,638</b>    | <b>7,021,224</b>                      | <b>6,783,840</b>    | <b>237,384</b>    |
| Net assets at end of period                                | <b>\$ 7,926,394</b>                   | <b>\$ 7,661,773</b> | <b>\$ 264,621</b> | <b>\$ 7,189,345</b>                   | <b>\$ 6,953,059</b> | <b>\$ 236,286</b> |

See accompanying notes to consolidated financial statements.

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

|   | Nine Months Ended<br>September 30 |            | Three Months Ended<br>September 30 |            |
|---|-----------------------------------|------------|------------------------------------|------------|
|   | 2019                              | 2018       | 2019                               | 2018       |
|   | (Unaudited)                       |            | (Unaudited)                        |            |
| <b>Operating activities</b>   |                                   |            |                                    |            |
| Increase in net assets  | \$ 884,734                        | \$ 479,303 | \$ 174,911                         | \$ 168,121 |
| Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities: |                                   |            |                                    |            |
| Change in fair value of interest rate swaps   | 14,342                            | (22,304)   | 26,077                             | (5,336)    |
| Gain in unconsolidated subsidiaries   | (13,182)                          | 116        | (11,961)                           | 445        |
| Inherent contribution of acquired entity  | (604)                             | (31,920)   | —                                  | (60)       |
| Contributions from noncontrolling interests   | —                                 | (411)      | —                                  | 159        |
| Depreciation and amortization   | 187,035                           | 175,910    | 64,190                             | 58,696     |
| Amortization of deferred gain on sale of medical office buildings                                       | (419)                             | (571)      | (102)                              | (170)      |
| Contributions and investment return with donor restrictions   | (359)                             | (4,042)    | 325                                | (2,516)    |
| Distributions to noncontrolling interests   | 99,148                            | 88,155     | 29,940                             | 31,144     |
| Assets limited as to use  | (1,089,241)                       | (677,569)  | (415,554)                          | (250,561)  |
| Net changes in operating assets and liabilities:  |                                   |            |                                    |            |
| Patient accounts receivable   | (14,684)                          | 4,885      | 17,821                             | (7,474)    |
| Other assets  | 49,666                            | 21,672     | (19,037)                           | 8,388      |
| Accounts payable, accrued liabilities, and other liabilities  | 7,492                             | (13,950)   | 24,250                             | 41,641     |
| Accrued salaries, wages, and related liabilities  | (4,574)                           | 13,129     | 73,779                             | 68,035     |
| Estimated third-party payer allowances  | 7,399                             | 11,888     | 8,096                              | 15,976     |
| Net cash provided by (used in) operating activities   | 126,753                           | 44,291     | (27,265)                           | 126,488    |
| <b>Investing activities</b>   |                                   |            |                                    |            |
| Acquisition of subsidiary, net of cash received   | —                                 | 9,450      | —                                  | —          |
| Purchase of property and equipment, net of disposals  | (245,906)                         | (132,566)  | (136,884)                          | (54,286)   |
| Net cash used in investing activities   | (245,906)                         | (123,116)  | (136,884)                          | (54,286)   |
| <b>Financing activities</b>   |                                   |            |                                    |            |
| Contributions and investment return with donor restrictions   | 359                               | 4,042      | (325)                              | 2,516      |
| Repayments on long-term debt  | (427,526)                         | (207,000)  | (383,548)                          | (3,157)    |
| Proceeds from issuance of long-term debt  | 676,348                           | 354,208    | 676,348                            | 110        |
| Termination of swaps  | (18,022)                          | (15,127)   | (18,022)                           | —          |
| Loss on extinguishment of debt  | 483                               | 1,653      | 483                                | —          |
| Contributions from noncontrolling interests   | —                                 | 411        | —                                  | (159)      |
| Distributions to noncontrolling interests   | (99,148)                          | (88,155)   | (29,940)                           | (31,144)   |
| Net cash provided by (used in) financing activities   | 132,494                           | 50,032     | 244,996                            | (31,834)   |
| Increase (decrease) in cash and cash equivalents  | 13,341                            | (28,793)   | 80,847                             | 40,368     |
| Cash and cash equivalents at beginning of period  | 345,025                           | 414,674    | 277,519                            | 345,513    |
| Cash and cash equivalents at end of period  | \$ 358,366                        | \$ 385,881 | \$ 358,366                         | \$ 385,881 |

**Indiana University Health, Inc. and subsidiaries**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**As of September 30, 2019 and December 31, 2018 and for the nine months ended**  
**September 30, 2019 and 2018**  
*(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 vision is to lead the transformation of healthcare through quality, innovation & education, and make Indiana one of the nation's healthiest states.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (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, 2019 are not necessarily indicative of the results to be expected for the year ending December 31, 2019. For further information, refer to the audited consolidated financial statements and notes thereto for the years ended December 31, 2018 and 2017 (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, but significant influence over the investee is established. All significant intercompany balances and transactions have been eliminated in consolidation.

**2. Summary of Significant Accounting Policies**

**Use of Estimates**

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

**Recent Accounting Pronouncements Adopted**

In June 2018, the FASB issued Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities – Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*. This ASU provides a more robust

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**2. Summary of Significant Accounting Policies (continued)**

framework to determine when a transaction should be accounted for as a contribution or as an exchange transaction and provides additional guidance about how to determine whether a contribution is conditional. Indiana University Health adopted this guidance effective January 1, 2019 on a modified prospective basis, which resulted in no material changes to the presentation of the consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Restricted Cash*. This ASU adds and clarifies guidance in the presentation of changes in restricted cash on the statement of cash flows and requires restricted cash to be included with cash and cash equivalents in the statement of cash flows. The ASU does not provide a definition of restricted cash. Indiana University Health adopted this guidance effective January 1, 2019, on a retrospective basis, which resulted in no material changes to the presentation of the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. This ASU adds or clarifies guidance on the classification of certain cash receipts and payments in the statement of cash flows. Indiana University Health adopted this guidance effective January 1, 2019 on a retrospective basis, which did not materially impact the statement of cash flows presentation.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* (ASU 2016-02). This ASU requires the rights and obligations arising from lease contracts, including existing and new arrangements, to be recognized as assets and liabilities on the balance sheet. The ASU required additional disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. Indiana University Health adopted this guidance effective January 1, 2019 for operating leases, choosing certain elections as allowed by the standard. Indiana University Health used an optional transition method applying the new lease standard at the date of adoption. No cumulative-effect adjustments were required. Indiana University Health has elected not to separate the lease and non-lease components and not to adopt the portfolio approach due to a diverse population of leases. Under the short-term lease exemption, Indiana University Health has elected to exclude leases with terms equal to or less than 12 months. For the purposes of measuring the lease liabilities, Indiana University Health elected to use a risk-free rate which was obtained using the U.S. Treasury Constant Maturities Nominal rate. Indiana University Health did not elect the hindsight practical expedient or to reassess land easements.

Indiana University Health elected practical expedients which were applied consistently to all leases prior to the January 1, 2019 effective date. Under the practical expedients, Indiana University Health was not required to reassess whether any expired or existing

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

contracts are or contained leases, the lease classification for any expired or existing leases, or the initial direct costs for any existing leases.

The most significant impact of adoption was the recognition of right-of-use assets and liabilities for operating leases, which are discussed further in Note 11. The accounting for finance leases remained substantially unchanged as a result of adoption.

**Subsequent Events**

For the consolidated financial statements as of and for the nine months ended September 30, 2019, management has evaluated subsequent events through October 24, 2019, the date that these financial statements were issued.

**Reclassifications**

Certain amounts in the 2018 consolidated financial statements have been reclassified to conform to the 2019 presentation. Such reclassifications had no effect on previously reported excess of revenues over expenses or net assets.

**3. Patient Service Revenue, Other Operating Revenue and Uncompensated Care**

The Indiana University Health System provides health care services through inpatient, outpatient, and ambulatory care facilities. The Indiana University Health System recognizes patient service revenue at the amount that reflects the consideration to which the Indiana University Health System expects to be paid for providing patient care.

Patient service revenue is recognized as performance obligations provided by the Indiana University Health System are satisfied. Performance obligations satisfied over time relate to patients in the Indiana University Health System hospitals who are receiving inpatient acute care services from admission to the point when services are no longer required, which is generally at the time of discharge.

Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. Outpatient services are performance obligations satisfied at a point in time, and revenue is recognized when goods or services are provided. The Indiana University Health System does not believe it is required to provide additional goods or services. Management believes this method provides a fair depiction of the transfer of services over the term of performance obligations, based on the inputs needed to satisfy the obligations.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Indiana University Health System has elected to apply the optional

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**3. Patient Service Revenue, Other Operating Revenue and Uncompensated Care (continued)**

exemption and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially satisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The Indiana University Health System uses a portfolio approach to account for categories of patient contracts as a collective group, rather than recognizing revenue on an individual contract basis. The portfolios consist of major payer classes for inpatient revenue and outpatient revenue. Based on the historical collection trends and other analysis, the Indiana University Health System believes that revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach were used.

The Indiana University Health System determines the transaction price, which involves significant estimates and judgment, based on standard charges for goods and services provided, reduced by explicit and implicit price concessions, including contractual adjustments provided to third-party payers, discounts provided to uninsured and underinsured patients in accordance with policy and/or implicit price concessions based on the historical collection experience of patient accounts. The Indiana University Health System determines the transaction price associated with services provided to patients who have third-party payer coverage with Medicare, Medicaid, managed care programs, and other third-party payers based on reimbursement terms per contractual agreements, discount policies, and historical experience. Payment arrangements with those payers include prospectively determined rates per admission or visit, reimbursed costs, discounted charges, per diem rates, and value based payments. Reported costs and/or services provided under certain arrangements are subject to retroactive audit and adjustment. In 2019 and 2018, changes in estimates due to settlements of prior fiscal years' cost reports, Medicaid settlements, and the disposition of other payer audits and settlements were not significant. Future changes in Medicare and Medicaid programs and reduction in funding levels could have an adverse effect on the Indiana University Health System. There were no other significant changes to the judgments used to determine the transaction price in prior periods.

The Indiana University Health System serves Medicaid patients and is subject to reimbursement under various programs. Under the HAF program, the 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 Medicaid DSH payments. The State DSH program is

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**3. Patient Service Revenue, Other Operating Revenue and Uncompensated Care (continued)**

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. Separately, 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.

For the nine months ended September 30, 2019 and 2018, payments received related to these programs were recorded within patient service revenue in the consolidated statements of operations and changes in net assets, totaling \$388,519 and \$344,885, respectively. During the nine months ended September 30, 2019 and 2018, assessment fees were recorded within the hospital assessment fee line on the consolidated statements of operations and changes in net assets totaling \$124,926 and \$109,472, respectively.

These revenues are subject to retroactive adjustments due to audits, reviews, change in program administration and rules, and outcome of litigation. These settlements are estimated based on the agreement with the payer and correspondence, which includes an assessment to ensure it is probable that a significant reversal in the amount of cumulative revenue recognition will not occur when the uncertainty associated with the retroactive adjustments is subsequently resolved.

In rare instances, the Indiana University Health System receives payment in advance of the services provided and considers these amounts to represent contract liabilities. Contract liabilities at September 30, 2019 were not significant.

Management has determined that the nature, amount, timing, and uncertainty of revenue and flows are affected by the payers and line of business that render services to patients. The composition of patient service revenue by payer was as follows:

|                         | <b>Nine Months Ended<br/>September 30</b> |                     |
|-------------------------|---|---------------------|
|                         | <b>2019</b>                               | <b>2018</b>         |
| Commercial/managed care | \$ 2,650,028                              | \$ 2,472,913        |
| Medicare                | 1,136,389                                 | 1,037,700           |
| Medicaid                | 725,410                                   | 674,998             |
| Self-pay and other      | 91,395                                    | 87,969              |
|                         | <u>\$ 4,603,222</u>                       | <u>\$ 4,273,580</u> |

The Indiana University Health System's practice is to assign a patient to the primary payer and not reflect other uninsured balances (for example, co-pays and deductibles) as

**Indiana University Health, Inc. and subsidiaries**  
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**3. Patient Service Revenue, Other Operating Revenue and Uncompensated Care (continued)**

self pay. Therefore, the payers listed above contain patient responsibility components, such as co-pays and deductibles. One managed care payer represented 31% and 32% of patient service revenue for the nine months ended September 30, 2019 and 2018, respectively.

The Indiana University Health System does not require collateral or other security from its patients, substantially all of whom are residents of the State, for the delivery of health care services. However, consistent with industry practice, the Indiana University Health System routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans or policies (e.g., Medicare, Medicaid, managed care payers, and commercial insurance policies). 32% and 30% of patient accounts receivable were collectible from government payers as of September 30, 2019 and December 31, 2018 respectively. The remaining 68% and 70% of patient accounts receivable as of September 30, 2019 and December 31, 2018, respectively, were collectible from managed care payers, commercial insurance payers, and uninsured and underinsured patients.

Other revenue is recognized at an amount that reflects the consideration to which the Indiana University Health System expects to be entitled in exchange for providing goods and services. The amounts recognized reflect consideration due from customers, third-party payers, and others. Primary categories of other revenue include income from joint ventures, grant revenue, cafeteria revenue, rent and lease revenue, and shared professional revenue.

The composition of other revenue by sources is as follows:

|                                | <b>Nine Months Ended</b> |                   |
|--------------------------------|--------------------------|-------------------|
|                                | <b>September 30</b>      |                   |
|                                | <b>2019</b>              | <b>2018</b>       |
| Shared health services revenue | \$ 118,803               | \$ 107,875        |
| Other                          | 73,854                   | 61,046            |
|                                | <u>\$ 192,657</u>        | <u>\$ 168,921</u> |



**Indiana University Health, Inc. and subsidiaries**  
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**4. Significant Transactions**

**Fort Wayne**

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.

**LaPorte**

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.

**Jay**

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.

**5. Assets Limited as to Use**

Board-designated and donor-restricted investment funds are invested in accordance with Board-approved policies. 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 sheet approximate fair value; (ii) marketable securities: the fair values 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 hedged strategies and private investments) are accounted for using the equity method of accounting based upon the net asset values as are generally determined by third-party valuation firms and/or administrators of each fund in consultation with and approval of the fund investment managers.

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**5. Assets Limited as to Use (continued)**

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.

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, 2019 and December 31, 2018, there were \$521,245 and \$328,469, respectively, of unfunded commitments relating to private fund investments, which are generally expected to be funded 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, interest rate, 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.

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**5. Assets Limited as to Use (continued)**

The composition of assets limited as to use is set forth in the following table.

|  | September 30<br>2019 | December 31<br>2018 |
|--|----------------------|---------------------|
| Assets limited as to use:                        |                      |                     |
| Cash and cash equivalents                        | \$ 209,016           | \$ 80,983           |
| Debt securities:                                 |                      |                     |
| Asset backed                                     | 195,294              | 157,642             |
| Bank loans                                       | 313,443              | 231,392             |
| Corporate debt                                   | 346,965              | 274,872             |
| Government and agencies                          | 462,770              | 235,016             |
| Bond funds                                       | 412,561              | 385,670             |
| Total debt securities                            | 1,731,033            | 1,284,592           |
| Equity securities:                               |                      |                     |
| Domestic equities                                | 73,187               | 78,925              |
| Domestic equity funds                            | 1,124,395            | 880,980             |
| International equities                           | 80,934               | 98,434              |
| International equity funds                       | 819,005              | 747,074             |
| Total equity securities                          | 2,097,521            | 1,805,413           |
| Commodities                                      | 208,271              | 190,794             |
| Alternatives:                                    |                      |                     |
| Hedge funds                                      | 1,611,320            | 1,429,178           |
| Private funds                                    | 638,173              | 594,848             |
| Total alternatives                               | 2,249,493            | 2,024,026           |
| Less current portion of assets limited as to use | (299,796)            | (156,060)           |
| Total assets limited as to use                   | \$ 6,195,538         | \$ 5,229,748        |

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**6. Financial Assets and Liquidity Reserves**

The table below represents financial assets and liquidity resources available for general expenditures within one year as of September 30, 2019 and December 31, 2018. The Indiana University Health System defines general expenditures as the normal expenditures related to operations of the Indiana University Health System, excluding capital expenditures.

|  | <b>September 30<br/>2019</b> | <b>December 31<br/>2018</b> |
|--|------------------------------|-----------------------------|
| Financial assets:  |                              |                             |
| Cash and cash equivalents  | \$ 358,366                   | \$ 345,025                  |
| Short-term investments   | 37,306                       | 57,591                      |
| Patient accounts receivable  | 872,954                      | 858,270                     |
| Other receivables  | 159,508                      | 184,634                     |
| Assets limited as to use   | 6,495,334                    | 5,385,808                   |
| Total financial assets   | <u>7,923,468</u>             | <u>6,831,328</u>            |
| Liquidity resource:  |                              |                             |
| Unused bank lines of credit  | 226,000                      | 226,000                     |
| Less amounts not available within one year or not<br>designated for general expenditures:      |                              |                             |
| Alternative investments  | (809,576)                    | (751,100)                   |
| Other  | (309,214)                    | (168,027)                   |
| Financial assets not available for use within one year   | <u>(1,118,790)</u>           | <u>(919,127)</u>            |
| Financial assets and liquidity resources available for<br>general expenditures within one year | <u><b>\$ 7,030,678</b></u>   | <u><b>\$ 6,138,201</b></u>  |

The Indiana University Health System has certain board-designated assets limited as to use which are available for general expenditures within one year in the normal course of operations. Indiana University Health System maintains a liquidity pool with a target range of \$350,000 to \$550,000, which is comprised of zero to three years fixed-income securities and cash equivalents. Alternative investments not available within one year consist of the private funds due to their nature, as well as a portion of the hedge funds based on contractual restrictions which prevent redemption of all or portions of such funds within a year. Additionally, the “Other” category above includes board-designated investments within the general liability captive insurance program, foundation assets not available within one year or for general expenditures, and other restricted cash.

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**7. Debt**

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. 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 July 2, 2019, through the Indiana Finance Authority, Indiana University Health issued \$133,610 in par value of Series 2019A tax-exempt, fixed rate bonds at a premium of \$10,876, \$109,070 in par value of Series 2019B tax-exempt, fixed rate mandatory tender bonds at a premium of \$2,558, and \$102,615 in par value of Series 2019C tax-exempt, fixed rate bonds at a premium of \$11,590. On the same day, IU Health also issued \$39,408 in additional par value of Series 2018A taxable, fixed rate bonds at a premium of \$3,730, which additional bonds have been consolidated with the existing Series 2018A bonds. Also on the same day, Indiana University Health effectuated the conversion and public remarketing of the following bonds: (i) \$20,090 at par of Series 2011H bonds as tax-exempt, fixed rate mandatory tender bonds, (ii) \$20,090 at par of Series 2011I bonds as tax-exempt, fixed rate mandatory tender bonds, (iii) \$58,225 at par of Series 2011L bonds as tax-exempt, floating rate notes, (iv) \$49,565 at par of Series 2011M bonds as tax-exempt, floating rate notes, and (v) \$143,675 at par of Series 2015B bonds as tax-exempt, fixed rate mandatory tender bonds.

Proceeds of the Series 2019A and 2019B bonds have been or will be used for certain capital expenditures and to pay certain expenses incurred in connection with their issuance. The remaining proceeds in the amount of \$133,684 are recorded in current portion of assets limited as to use, including funds held by a trustee for capital expenditure. Proceeds of the Series 2019C bonds were used (i) to refund (on a current basis) the following bonds: (a) \$9,065 in par of Series 2011A bonds, (b) \$10,290 in par of Series 2011B bonds, (c) \$10,020 in par of Series 2011C bonds, (d) \$5,040 in par of Series 2011D bonds, (e) \$9,860 in par of Series 2011E bonds, (f) \$34,845 in par of Series 2011H bonds, and (g) \$34,845 in par of Series 2011I bonds and (ii) to pay certain expenses incurred in connection with their issuance. Proceeds of the additional Series 2018A bonds have been or will be used to finance partial termination payments related to certain interest rate swaps, to finance certain capital expenditures, and to pay certain expenses incurred in connection with their issuance, the issuance of the Series 2019A, 2019B, and 2019C bonds, and the conversion and remarketing of the Series 2011H, 2011I, 2011L, 2011M, and 2015B bonds.

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

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**7. Debt (continued)**

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.

As of September 30, 2019 and December 31, 2018, the Indiana University Health System maintained lines of credit totaling \$226,000. As of September 30, 2019 and December 31, 2018, no amounts were drawn on the lines of credit.

**8. 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 and maximum future notional amounts, remain in place as of September 30, 2019:

| <b>Current<br/>Notional<br/>Amount</b> | <b>Maximum<br/>Future<br/>Notional<br/>Amount</b> | <b>Effective<br/>Date</b> | <b>Maturity<br/>Date</b> | <b>Rate Received</b>   | <b>Rate<br/>Paid</b> |
|--|---|---------------------------|--------------------------|--|----------------------|
| —                                      | 39,705  | 3/03/2022                 | 3/01/2036                | 62.30% LIBOR plus 0.24%  | 2.68%                |
| —                                      | 54,900  | 2/18/2022                 | 2/15/2030                | 62.30% LIBOR plus 0.24%  | 3.35%                |
| —                                      | 55,200  | 2/22/2022                 | 2/15/2030                | 62.30% LIBOR plus 0.24%  | 3.35%                |
| —                                      | 12,230  | 3/10/2022                 | 3/01/2033                | LIBOR  | 4.92%                |
| —                                      | 48,920  | 3/10/2022                 | 3/01/2033                | LIBOR  | 4.92%                |
| 3,400                                  | 3,400   | 1/27/2006                 | 11/02/2020               | Securities Industry and Financial Markets<br>Association Municipal Swap Index<br>(SIFMA) | 3.98%                |

After giving effect to the above derivative transactions, the Indiana University Health System's variable-rate debt was approximately 17.0% total debt outstanding as of September 30, 2019 and 23.0% as of December 31, 2018.

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**8. Derivative Financial Instruments (continued)**

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, 2019 as follows:

| <b>Current<br/>Notional<br/>Amount</b> | <b>Maximum<br/>Future<br/>Notional<br/>Amount</b> | <b>Effective<br/>Date</b> | <b>Maturity<br/>Date</b> | <b>Swap Type</b>          | <b>Rate Received</b>                    | <b>Rate<br/>Paid</b> |
|--|---|---------------------------|--------------------------|---------------------------|---|----------------------|
| –                                      | 309,200   | 6/10/2024                 | 1/7/2033                 | Forward<br>Starting Basis | 75.00% three-month<br>LIBOR minus 0.04% | SIFMA                |
| –                                      | 309,200   | 1/07/2020                 | 1/7/2033                 | Forward<br>Starting Basis | 75.00% one-month<br>LIBOR               | SIFMA                |

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, 2019, the fair value of interest rate swaps was a liability of \$40,020, which is net of CVA of \$1,772. As of December 31, 2018, the fair value of interest rate swaps was a liability of \$43,700, which is net of CVA of \$2,475. The fair values of the swaps have been included with noncurrent liabilities in the accompanying consolidated balance sheet.

As of September 30, 2019, interest rate swaps had a total current notional amount of \$3,400, comprised of \$3,400 of fixed-pay swaps and maximum future notional amount of \$832,755, comprised of \$214,355 of fixed-pay swaps and \$618,400 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. As of September 30, 2019 and December 31, 2018, all interest rate swaps were subject to credit-risk-related contingent features. No collateral was posted as of September 30, 2019 or December 31, 2018.

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**8. Derivative Financial Instruments (continued)**

The Indiana University Health System recorded the following (losses) gains, 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<br/>September 30</b> |                  |
|--|---|------------------|
|  | <b>2019</b>                               | <b>2018</b>      |
| (Losses) gains on interest rate swaps, net:      |   |                  |
| Unrealized (losses) gains on interest rate swaps | \$ (14,342)                               | \$ 22,304        |
| Change in unrealized due to swap terminations    | 18,022                                    | 15,127           |
| Realized losses on interest rate swaps           | (17,286)                                  | (18,107)         |
|  | <u>\$ (13,606)</u>                        | <u>\$ 19,324</u> |

During June 2019, Indiana University Health partially terminated each of its five fixed-pay interest rate swaps for a one-time cash payment (outflow) of \$17,767, paid in July 2019. Pursuant to these partial terminations and subsequent to this one-time payment, no payments or other amounts will be owed to either party with respect to these swaps until March 2022 and future contractual notional amounts were reduced.

During March 2019, Indiana University Health partially terminated a basis swap with a notional amount of \$309,200 and a maturity date of February 15, 2033. No payment was due related to this partial termination which resulted in an amended effective date of June 10, 2024 without any other modifications to the contractual terms. Also during March 2019, Indiana University Health partially terminated a basis swap with a notional amount of \$140,446. No payment was due related to this partial termination which resulted in an amended effective date of June 10, 2024 and a notional amount of \$98,901 without any other modifications to the contractual terms. During July 2019, Indiana University Health fully terminated the remaining \$98,901 notional amount basis swap for a one-time cash payment (outflow) of \$255.

During April 2018, Indiana University Health terminated four fixed-pay interest rate swaps in the aggregate notional amount of \$103,850 for a one-time cash payment (outflow) of \$15,127, after which no payments or other amounts are owed to either party with respect to these swaps.

**9. Fair Value Measurements**

The accounting guidance for the application of fair value provides, among other matters, for the following: (i) 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, (ii) establishes a



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**9. Fair Value Measurements (continued)**

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, (iii) requires consideration of nonperformance risk when valuing liabilities, and (iv) 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.
- 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.
- 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.
- Net Asset Value (NAV) – Indiana University Health invests in funds for which the NAV per share represents the fair value of the investment held. Risks and redemption restrictions for these investments are similar to the alternative investments (see Note 5). Management opted to use the NAV per share, or its equivalent, as a practical expedient for the fair value of the interest in certain funds. Valuations provided by the respective fund's management consider variables, such as the financial performance of underlying investments, recent sales prices of underlying investments, and other pertinent information.

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**9. 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, 2019 and December 31, 2018. 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.

|   | September 30, 2019 |            |          |              |              |               |                |
|---|--------------------|------------|----------|--------------|--------------|---------------|----------------|
|   | Level 1            | Level 2    | Level 3  | NAV          | Fair Value   | Equity Method | Carrying Value |
| <b>Assets</b>   |                    |            |          |              |              |               |                |
| Cash and cash equivalents   | \$ 358,366         | \$ —       | \$ —     | \$ —         | \$ 358,366   | \$ —          | \$ 358,366     |
| Short-term investments:   |                    |            |          |              |              |               |                |
| Debt securities:  |                    |            |          |              |              |               |                |
| Asset backed  | —                  | —          | —        | —            | —            | —             | —              |
| Corporate debt  | —                  | 8,182      | —        | —            | 8,182        | —             | 8,182          |
| Government and agencies   | 29,124             | —          | —        | —            | 29,124       | —             | 29,124         |
| Assets limited as to use:   |                    |            |          |              |              |               |                |
| Cash and cash equivalents   | 209,016            | —          | —        | —            | 209,016      | —             | 209,016        |
| Debt securities:  |                    |            |          |              |              |               |                |
| Asset backed  | —                  | 194,348    | 946      | —            | 195,294      | —             | 195,294        |
| Bank loans  | —                  | 311,744    | 1,699    | —            | 313,443      | —             | 313,443        |
| Corporate debt  | —                  | 346,544    | 421      | —            | 346,965      | —             | 346,965        |
| Government and agencies   | 462,770            | —          | —        | —            | 462,770      | —             | 462,770        |
| Bond funds  | 144,574            | —          | —        | 267,987      | 412,561      | —             | 412,561        |
| Equity securities:  |                    |            |          |              |              |               |                |
| Domestic equities   | 73,187             | —          | —        | —            | 73,187       | —             | 73,187         |
| Domestic equity funds   | 198,606            | —          | —        | 925,789      | 1,124,395    | —             | 1,124,395      |
| International equities  | 80,934             | —          | —        | —            | 80,934       | —             | 80,934         |
| International equity funds  | 176,652            | —          | —        | 642,353      | 819,005      | —             | 819,005        |
| Commodities   | 208,271            | —          | —        | —            | 208,271      | —             | 208,271        |
| Alternatives:   |                    |            |          |              |              |               |                |
| Hedge funds   | —                  | —          | —        | —            | —            | 1,611,320     | 1,611,320      |
| Private funds   | —                  | —          | —        | —            | —            | 638,173       | 638,173        |
| Beneficial interests in charitable remainder and perpetual trusts | —                  | 13,293     | —        | —            | 13,293       | —             | 13,293         |
| Total cash and investments  | \$ 1,941,500       | \$ 874,111 | \$ 3,066 | \$ 1,836,129 | \$ 4,654,806 | \$ 2,249,493  | \$ 6,904,299   |
| <b>Liabilities</b>  |                    |            |          |              |              |               |                |
| Interest rate swaps   | \$ —               | \$ 40,020  | \$ —     | \$ —         | \$ 40,020    | \$ —          | \$ 40,020      |
| Total liabilities measured at fair value on a recurring basis     | \$ —               | \$ 40,020  | \$ —     | \$ —         | \$ 40,020    | \$ —          | \$ 40,020      |

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**9. Fair Value Measurements (continued)**

|   | December 31, 2018 |            |          |              |              |               |                |  |
|---|-------------------|------------|----------|--------------|--------------|---------------|----------------|--|
|   | Level 1           | Level 2    | Level 3  | NAV          | Fair Value   | Equity Method | Carrying Value |  |
| <b>Assets</b>   |                   |            |          |              |              |               |                |  |
| Cash and cash equivalents   | \$ 345,025        | \$ —       | \$ —     | \$ —         | \$ 345,025   | \$ —          | \$ 345,025     |  |
| Short-term investments:   |                   |            |          |              |              |               |                |  |
| Debt securities:  |                   |            |          |              |              |               |                |  |
| Asset backed  | —                 | 565        | —        | —            | 565          | —             | 565            |  |
| Corporate debt  | —                 | 23,363     | —        | —            | 23,363       | —             | 23,363         |  |
| Government and agencies   | 33,663            | —          | —        | —            | 33,663       | —             | 33,663         |  |
| Assets limited as to use:   |                   |            |          |              |              |               |                |  |
| Cash and cash equivalents   | 80,983            | —          | —        | —            | 80,983       | —             | 80,983         |  |
| Debt securities:  |                   |            |          |              |              |               |                |  |
| Asset backed  | —                 | 156,644    | 998      | —            | 157,642      | —             | 157,642        |  |
| Bank loans  | —                 | 230,812    | 580      | —            | 231,392      | —             | 231,392        |  |
| Corporate debt  | —                 | 274,493    | 379      | —            | 274,872      | —             | 274,872        |  |
| Government and agencies   | 235,016           | —          | —        | —            | 235,016      | —             | 235,016        |  |
| Bond funds  | 135,562           | —          | —        | 250,108      | 385,670      | —             | 385,670        |  |
| Equity securities:  |                   |            |          |              |              |               |                |  |
| Domestic equities   | 78,925            | —          | —        | —            | 78,925       | —             | 78,925         |  |
| Domestic equity funds   | 158,735           | —          | —        | 722,245      | 880,980      | —             | 880,980        |  |
| International equities  | 98,434            | —          | —        | —            | 98,434       | —             | 98,434         |  |
| International equity funds  | 168,304           | —          | —        | 578,770      | 747,074      | —             | 747,074        |  |
| Commodities   | 190,794           | —          | —        | —            | 190,794      | —             | 190,794        |  |
| Alternatives:   |                   |            |          |              |              |               |                |  |
| Hedge funds   | —                 | —          | —        | —            | —            | 1,429,178     | 1,429,178      |  |
| Private funds   | —                 | —          | —        | —            | —            | 594,848       | 594,848        |  |
| Beneficial interests in charitable remainder and perpetual trusts | —                 | 13,013     | —        | —            | 13,013       | —             | 13,013         |  |
| Total cash and investments  | \$ 1,525,441      | \$ 698,890 | \$ 1,957 | \$ 1,551,123 | \$ 3,777,411 | \$ 2,024,026  | \$ 5,801,437   |  |
| <b>Liabilities</b>  |                   |            |          |              |              |               |                |  |
| Interest rate swaps   | \$ —              | \$ 43,700  | \$ —     | \$ —         | \$ 43,700    | \$ —          | \$ 43,700      |  |
| Total liabilities measured at fair value on a recurring basis     | \$ —              | \$ 43,700  | \$ —     | \$ —         | \$ 43,700    | \$ —          | \$ 43,700      |  |

The fair value of cash and cash equivalents 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 or deemed to have similar liquidity characteristics. The fair value of Level 2 trading securities is based on third-party market quotes in an inactive market or similar securities in an active market and other observable inputs. The fair value of Level 3 trading securities is based on historical costs provided by a third-party valuation firm.

The beneficial interests in charitable remainder and perpetual trusts are shown within other assets in the accompanying consolidated balance sheet.

The fair values of the interest rate swap contracts are determined based on the present value of expected future cash flows using discount rates appropriate with the risks

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**9. Fair Value Measurements (continued)**

involved. The valuations reflect a CVA (see Note 8) which is based on a discount curve reflecting nonperformance risk. The discount curve for the Indiana University Health System is derived from other comparably rated entities' bonds priced in the market. Generally, swaps are transferred between Level 2 and Level 3 when the CVA exceeds 10% of the gross valuation of the swap. Transfers are recorded at the end of the reporting period. Due to the volatility of the capital markets, there is a reasonable possibility of changes in fair value and additional gains (losses) in the near term subsequent to September 30, 2019.

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 or increase, respectively (assuming the swaps are in a liability position).
- To the extent the spread between the interest rate curves discussed above expands or compresses.

**10. 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 the outcome in any of its currently ongoing legal proceedings or the outcome of any other claims, individually or collectively, to have a material adverse effect on the Indiana University Health System's consolidated financial condition, results of operations, or cash flows.

**11. Leases**

Indiana University Health determines if an arrangement is a lease at inception. Operating leases are included in right-of-use assets, current portion of lease liabilities, and lease liabilities, less current portion on the consolidated balance sheet, as of September 30, 2019. Finance leases are included in property and equipment, current portion of long-term debt, and long-term debt, less current portion on the consolidated balance sheet.

Right-of-use assets and lease liabilities are recognized based on the net present value of the future minimum lease payments over the lease term at commencement date. Indiana University Health uses a risk-free rate in measuring lease liabilities and for classification purposes. The operating lease right-of-use asset also includes any lease payments made

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**11. Leases (continued)**

and excludes lease incentives and initial direct costs incurred. The asset includes a value for options to extend or terminate, in the case it is reasonably certain that the option will be exercised. Lease payments are recognized on a straight-line basis over the lease term. Variable lease payments are recognized in the period in which the obligation for those payments is incurred.

Indiana University Health has operating and finance leases for medical offices and certain equipment. The leases have remaining lease terms of one year to 15 years, some of which may include options to extend. As of September 30, 2019 and December 31, 2018, assets recorded under finance leases were \$4,502 and \$4,590. Accumulated depreciation associated with finance leases was \$3,510 and \$3,339, respectively.

Other information related to leases was as follows:

|   | <b>Nine Months Ended<br/>September 30, 2019</b> |
|---|---|
| <b>Supplemental cash flow information</b>                               |   |
| Cash paid for amounts included in the measurement of lease liabilities: |   |
| Operating cash flows from operating leases                              | \$ 30,393                                       |
| Operating cash flows from finance leases                                | 166   |
| Financing cash flows from finance leases                                | 570   |
| Right-of-use assets obtained in exchange for lease obligations:         |   |
| Operating leases  | \$ 122,249                                      |
| Finance leases  | 992   |
| <b>Weighted average remaining lease term (in years)</b>                 |   |
| Operating leases  | 6.16  |
| Finance leases  | 1.93  |
| <b>Weighted average discount rate</b>                                   |   |
| Operating leases  | 2.83%   |
| Finance leases  | 5.29%   |

**Indiana University Health, Inc. and subsidiaries**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**As of September 30, 2019 and December 31, 2018 and for the nine months ended**  
**September 30, 2019 and 2018**  
*(Thousands of Dollars)*

**11. Leases (continued)**

Future minimum lease payments under non-cancellable leases as of September 30, 2019 were as follows:

|   | <u>Operating</u>  | <u>Finance</u>  |
|---|-------------------|-----------------|
| 2019  | \$ 9,465          | \$ 259          |
| 2020  | 33,921            | 982             |
| 2021  | 26,879            | 446             |
| 2022  | 21,478            | 97              |
| 2023  | 16,928            | —               |
| Thereafter                                  | 38,871            | —               |
| Total future minimum lease payments         | 147,542           | 1,784           |
| Less imputed interest                       | 13,332            | 350             |
| Net present value of minimum lease payments | <u>\$ 134,210</u> | <u>\$ 1,434</u> |

**12. Retirement Plans**

**Defined Contribution Plans**

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

**Defined Benefit Plans**

On December 4, 2018, Indiana University Health became a single defined benefit plan sponsor (the Plan) after merging the plans previously sponsored by Ball Memorial and Bloomington into its existing plan. The Plan was curtailed with benefits frozen and no new participants. On June 1, 2019, the Plan was terminated and is expected to be liquidated in 2020.

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. Adjustments to pension liabilities to reflect funded status are charged or credited to net assets without donor restriction.

**Indiana University Health, Inc. and subsidiaries**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**As of September 30, 2019 and December 31, 2018 and for the nine months ended**  
**September 30, 2019 and 2018**  
*(Thousands of Dollars)*

**12. Retirement Plans (continued)**

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

|   | <b>Nine Months Ended<br/>September 30</b> |                 |
|---|---|-----------------|
|   | <b>2019</b>                               | <b>2018</b>     |
| Interest cost                                 | \$ 11,064                                 | \$ 10,205       |
| Expected return on plan assets                | (10,590)                                  | (11,909)        |
| Termination of benefit and settlement expense | —   | 680             |
| Amortization of unrecognized net loss         | 2,845                                     | 2,716           |
| Net periodic pension cost                     | <u>\$ 3,319</u>                           | <u>\$ 1,692</u> |

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

|  | <b>2019</b> | <b>2018</b> |
|--|-------------|-------------|
| Discount rate                          | 3.67%       | 4.12%       |
| Expected rate of return on plan assets | 4.00%       | 4.00%       |

There are no required contributions in 2019 and none were made in the first nine months of 2019. There were no required contributions in 2018 and none were made in 2018.

**13. Functional Expenses**

The tables below present expenses by both their nature and function for the nine months ended September 30, 2019 and 2018.

|   | <b>Health<br/>Services</b> | <b>Insurance<br/>Services</b> | <b>General &amp;<br/>Administrative</b> | <b>Total</b>        |
|---|----------------------------|-------------------------------|---|---------------------|
| Nine months ended September 30,<br>2019:          |                            |                               |   |                     |
| Salaries, wages, and benefits                     | \$ 2,270,945               | \$ 20,742                     | \$ 98,890                               | \$ 2,390,577        |
| Supplies, drugs, purchased<br>services, and other | 1,457,324                  | 48,997                        | 118,830                                 | 1,625,151           |
| Hospital assessment fee                           | 124,926                    | —                             | —                                       | 124,926             |
| Health claims to providers                        | —                          | 74,561                        | —                                       | 74,561              |
| Depreciation and amortization                     | 181,230                    | —                             | 5,805                                   | 187,035             |
| Interest  | 33,390                     | —                             | —                                       | 33,390              |
|   | <u>\$ 4,067,815</u>        | <u>\$ 144,300</u>             | <u>\$ 223,525</u>                       | <u>\$ 4,435,640</u> |

**Indiana University Health, Inc. and subsidiaries**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**As of September 30, 2019 and December 31, 2018 and for the nine months ended**  
**September 30, 2019 and 2018**  
*(Thousands of Dollars)*

**13. Functional Expenses (continued)**

|   | <b>Health<br/>Services</b> | <b>Insurance<br/>Services</b> | <b>General &amp;<br/>Administrative</b> | <b>Total</b>        |
|---|----------------------------|-------------------------------|---|---------------------|
| Nine months ended September 30,<br>2018:          |                            |                               |   |                     |
| Salaries, wages, and benefits                     | \$ 2,189,395               | \$ 11,874                     | \$ 82,244                               | \$ 2,283,513        |
| Supplies, drugs, purchased<br>services, and other | 1,373,231                  | 41,653                        | 109,689                                 | 1,524,573           |
| Hospital assessment fee                           | 109,472                    | —                             | —                                       | 109,472             |
| Health claims to providers                        | —                          | 173,425                       | —                                       | 173,425             |
| Depreciation and amortization                     | 169,549                    | —                             | 6,361                                   | 175,910             |
| Interest  | 31,695                     | —                             | —                                       | 31,695              |
|   | <u>\$ 3,873,342</u>        | <u>\$ 226,952</u>             | <u>\$ 198,294</u>                       | <u>\$ 4,298,588</u> |

The consolidated financial statements report certain categories of expenses that are attributable to more than one supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries, wages, and benefits, which are allocated on a per full-time equivalent basis.

**14. 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.



**Indiana University Health, Inc. and subsidiaries**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**As of September 30, 2019 and December 31, 2018 and for the nine months ended**  
**September 30, 2019 and 2018**  
*(Thousands of Dollars)*

**14. Health Care Legislation (continued)**

The Affordable Care Act and its associated legislation were designed, in part, to expand access to coverage to substantively all U.S. citizens through a combination of states' expansion of their Medicaid programs and the health insurance marketplace. For Indiana, the Centers for Medicare and Medicaid Services (CMS) approved the Healthy Indiana Plan 2.0, which was Indiana's response to expanding its Medicaid program. The State of Indiana's request for renewal of the Healthy Indiana Plan 2.0 waiver by CMS was approved in late January of 2018 for an additional three years, meaning that the State will continue to engage eligible adults in its signature health program through at least the year 2020. Effective 2019, Indiana deployed a work requirement associated with its Healthy Indiana Plan (HIP) 2.0 Medicaid benefit. However, the impact of these work requirements remains to be seen as Medicaid enrollees will not face consequences for failing to meet these new requirements until January 2020. On a national scale, Congress continues to debate the future of the Affordable Care Act, but the specific impact of any changes or new legislation on the Indiana University Health System is not determinable at this time.

OTHER INFORMATION

As of September 30, 2019 and December 31, 2018 and for the nine months ended  
September 30, 2019 and 2018

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

|  | September 30<br>2019 | December 31<br>2018 |
|--|----------------------|---------------------|
|  | (Unaudited)          |                     |
| <b>Assets</b>  |                      |                     |
| Current assets:  |                      |                     |
| Cash and cash equivalents  | \$ 362,223           | \$ 329,576          |
| Short-term investments   | 37,306               | 57,591              |
| Current portion of assets limited as to use, including funds held by a trustee for capital expenditure | 232,831              | 83,112              |
| Patient accounts receivable  | 464,205              | 441,172             |
| Other receivables  | 115,965              | 83,075              |
| Prepaid expenses   | 56,134               | 44,115              |
| Inventories  | 71,517               | 69,357              |
| Total current assets   | 1,340,181            | 1,107,998           |
| Assets limited as to use:  |                      |                     |
| Board-designated investment funds and other investments  | 5,714,943            | 4,792,659           |
| Property and equipment:  |                      |                     |
| Cost of property and equipment in service  | 3,644,059            | 3,627,285           |
| Less accumulated depreciation  | (2,225,167)          | (2,157,394)         |
|  | 1,418,892            | 1,469,891           |
| Construction-in-progress   | 58,167               | 30,237              |
| Total property and equipment, net  | 1,477,059            | 1,500,128           |
| Other assets:  |                      |                     |
| Equity interest in unconsolidated subsidiaries   | 339,867              | 331,249             |
| Interest in net assets of foundations  | 8,063                | 9,020               |
| Right-of-use assets  | 64,832               | —                   |
| Notes receivable and other (principally from related organizations)                                    | 637,352              | 671,608             |
| Total other assets   | 1,050,114            | 1,011,877           |
| Total assets   | \$ 9,582,297         | \$ 8,412,662        |

*Continued on next page.*

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

|  | September 30<br>2019 | December 31<br>2018 |
|--|----------------------|---------------------|
|  | (Unaudited)          |                     |
| <b>Liabilities and net assets</b>                |                      |                     |
| Current liabilities:                             |                      |                     |
| Accounts payable and accrued expenses            | \$ 2,140,153         | \$ 1,901,899        |
| Accrued salaries, wages, and related liabilities | 143,213              | 171,274             |
| Accrued health claims                            | 38,236               | 68,945              |
| Estimated third-party payer allowances           | 71,707               | 69,940              |
| Current portion of lease liabilities             | 14,929               | –                   |
| Current portion of long-term debt                | 34,946               | 50,856              |
| Total current liabilities                        | 2,443,184            | 2,262,914           |
| Noncurrent liabilities:                          |                      |                     |
| Long-term debt, less current portion             | 1,782,432            | 1,516,479           |
| Interest rate swaps                              | 39,952               | 43,608              |
| Accrued pension obligations                      | 10,273               | 7,191               |
| Accrued medical malpractice claims               | 2,639                | 2,624               |
| Lease liabilities, less current portion          | 53,720               | –                   |
| Other  | 23,008               | 25,364              |
| Total noncurrent liabilities                     | 1,912,024            | 1,595,266           |
| Total liabilities                                | 4,355,208            | 3,858,180           |
| Net assets:                                      |                      |                     |
| Without donor restriction                        | 5,217,171            | 4,543,607           |
| With donor restriction                           | 9,918                | 10,875              |
| Total net assets                                 | 5,227,089            | 4,554,482           |
| Total liabilities and net assets                 | \$ 9,582,297         | \$ 8,412,662        |

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

|  | Nine Months Ended<br>September 30 |              | Three Months Ended<br>September 30 |            |
|--|-----------------------------------|--------------|------------------------------------|------------|
|  | 2019                              | 2018         | 2019                               | 2018       |
|  | (Unaudited)                       |              | (Unaudited)                        |            |
| Revenues:                                      |                                   |              |                                    |            |
| Patient service revenue                        | \$ 2,255,465                      | \$ 2,075,993 | 785,119                            | 710,741    |
| Member premium revenue                         | 122,107                           | 222,926      | 39,514                             | 72,251     |
| Other revenue                                  | 483,791                           | 436,726      | 169,691                            | 144,330    |
| Total operating revenues                       | 2,861,363                         | 2,735,645    | 994,324                            | 927,322    |
| Expenses:                                      |                                   |              |                                    |            |
| Salaries, wages, and benefits                  | 942,204                           | 910,713      | 322,656                            | 319,272    |
| Supplies, drugs, purchased services, and other | 1,174,226                         | 1,079,097    | 401,989                            | 378,153    |
| Hospital assessment fee                        | 58,987                            | 51,529       | 21,724                             | 19,323     |
| Health claims to providers                     | 95,839                            | 191,495      | 37,590                             | 63,880     |
| Depreciation and amortization                  | 116,830                           | 108,010      | 40,661                             | 36,040     |
| Interest                                       | 32,908                            | 31,039       | 11,101                             | 11,258     |
| Total operating expenses                       | 2,420,994                         | 2,371,883    | 835,721                            | 827,926    |
| Operating income                               | 440,369                           | 363,762      | 158,603                            | 99,396     |
| Nonoperating income:                           |                                   |              |                                    |            |
| Investment income, net                         | 448,522                           | 130,839      | 11,136                             | 67,203     |
| (Losses) gain on interest rate swaps, net      | (13,629)                          | 19,200       | (8,324)                            | 4,142      |
| Debt extinguishment and other                  | (8,699)                           | (4,684)      | (3,113)                            | (403)      |
| Total nonoperating income                      | 426,194                           | 145,355      | (301)                              | 70,942     |
| Excess of revenues over expenses               | \$ 866,563                        | \$ 509,117   | \$ 158,302                         | \$ 170,338 |

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

|   | September 30<br>2019 | December 31<br>2018 |
|---|----------------------|---------------------|
|   | <b>(Unaudited)</b>   |                     |
| <b>Assets</b>   |                      |                     |
| Current assets:   |                      |                     |
| Cash and cash equivalents   | \$ 362,401           | \$ 329,783          |
| Short-term investments  | 37,306               | 57,591              |
| Current portion of assets limited as to use, including funds<br>held by a trustee for capital expenditure | 232,738              | 83,029              |
| Patient accounts receivable   | 461,946              | 435,799             |
| Other receivables   | 117,984              | 85,646              |
| Prepaid expenses  | 56,008               | 43,937              |
| Inventories   | 70,897               | 68,739              |
| Total current assets  | 1,339,280            | 1,104,524           |
| Assets limited as to use:   |                      |                     |
| Board-designated investment funds and other investments   | 5,709,914            | 4,788,030           |
| Property and equipment:   |                      |                     |
| Cost of property and equipment in service   | 3,628,168            | 3,611,828           |
| Less accumulated depreciation   | (2,213,903)          | (2,146,939)         |
|   | 1,414,265            | 1,464,889           |
| Construction-in-progress  | 58,121               | 30,191              |
| Total property and equipment, net   | 1,472,386            | 1,495,080           |
| Other assets:   |                      |                     |
| Equity interest in unconsolidated subsidiaries  | 340,066              | 331,448             |
| Right-of-use assets   | 64,350               | —                   |
| Notes receivable and other (principally<br>from related organizations)                                    | 641,637              | 676,517             |
| Total other assets  | 1,046,053            | 1,007,965           |
| Total assets  | <u>\$ 9,567,633</u>  | <u>\$ 8,395,599</u> |

*Continued on next page.*

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

|  | September 30<br>2019       | December 31<br>2018        |
|--|----------------------------|----------------------------|
|  | <b>(Unaudited)</b>         |                            |
| <b>Liabilities and net assets</b>                |                            |                            |
| Current liabilities:                             |                            |                            |
| Accounts payable and accrued expenses            | \$ 2,166,861               | \$ 1,925,968               |
| Accrued salaries, wages, and related liabilities | 141,998                    | 170,179                    |
| Accrued health claims                            | 38,236                     | 68,945                     |
| Estimated third-party payer allowances           | 69,494                     | 66,930                     |
| Current portion of operating liabilities         | 14,790                     | —                          |
| Current portion of long-term debt                | 34,946                     | 50,856                     |
| Total current liabilities                        | <u>2,466,325</u>           | <u>2,282,878</u>           |
| Noncurrent liabilities:                          |                            |                            |
| Long-term debt, less current portion             | 1,782,134                  | 1,516,152                  |
| Interest rate swaps                              | 39,952                     | 43,608                     |
| Accrued pension obligations                      | 10,273                     | 7,191                      |
| Accrued medical malpractice claims               | 2,588                      | 2,574                      |
| Lease liabilities, less current portion          | 53,335                     | —                          |
| Other  | 23,008                     | 25,364                     |
| Total noncurrent liabilities                     | <u>1,911,290</u>           | <u>1,594,889</u>           |
| Total liabilities                                | <u>4,377,615</u>           | <u>3,877,767</u>           |
| Net assets:                                      |                            |                            |
| Without donor restriction                        | 5,188,163                  | 4,515,977                  |
| With donor restriction                           | 1,855                      | 1,855                      |
| Total net assets                                 | <u>5,190,018</u>           | <u>4,517,832</u>           |
| Total liabilities and net assets                 | <u><u>\$ 9,567,633</u></u> | <u><u>\$ 8,395,599</u></u> |

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

|  | Nine Months Ended<br>September 30 |              | Three Months Ended<br>September 30 |            |
|--|-----------------------------------|--------------|------------------------------------|------------|
|  | 2019                              | 2018         | 2019                               | 2018       |
|  | (Unaudited)                       |              | (Unaudited)                        |            |
| Revenues:                                      |                                   |              |                                    |            |
| Patient service revenue                        | \$ 2,227,090                      | \$ 2,048,864 | 776,316                            | 702,755    |
| Member premium revenue                         | 122,107                           | 222,926      | 39,514                             | 72,251     |
| Other revenue                                  | 488,848                           | 441,387      | 171,406                            | 145,936    |
| Total operating revenues                       | 2,838,045                         | 2,713,177    | 987,236                            | 920,942    |
| Expenses:                                      |                                   |              |                                    |            |
| Salaries, wages, and benefits                  | 932,020                           | 900,521      | 319,232                            | 315,840    |
| Supplies, drugs, purchased services, and other | 1,163,397                         | 1,070,509    | 398,230                            | 375,200    |
| Hospital assessment fee                        | 58,099                            | 50,689       | 21,461                             | 19,009     |
| Health claims to providers                     | 96,091                            | 191,780      | 37,566                             | 63,989     |
| Depreciation and amortization                  | 115,537                           | 106,743      | 40,223                             | 35,602     |
| Interest                                       | 32,908                            | 31,039       | 11,101                             | 11,258     |
| Total operating expenses                       | 2,398,052                         | 2,351,281    | 827,813                            | 820,898    |
| Operating income                               | 439,993                           | 361,896      | 159,423                            | 100,044    |
| Nonoperating income:                           |                                   |              |                                    |            |
| Investment income, net                         | 447,526                           | 130,456      | 10,971                             | 66,891     |
| (Losses) gain on interest rate swaps, net      | (13,629)                          | 19,200       | (8,324)                            | 4,142      |
| Debt extinguishment and other                  | (8,699)                           | (4,684)      | (3,113)                            | (403)      |
| Total nonoperating income                      | 425,198                           | 144,972      | (466)                              | 70,630     |
| Excess of revenues over expenses               | \$ 865,191                        | \$ 506,868   | \$ 158,957                         | \$ 170,674 |



Indiana University Health, Inc. and subsidiaries  
Statistical and Other Data  
As of and for the Nine and Three Months Ended September 30, 2019 and 2018  
(Except as noted below)

| Description   | Nine Months Ended<br>September 30 |         |
|---|-----------------------------------|---------|
|   | 2019                              | 2018    |
| <b>Academic Health Center</b>   |                                   |         |
| Active Members  | 1,238                             | 1,267   |
| Residents   | 741                               | 698     |
| Other Members   | 1,003                             | 935     |
| Total Medical Staff   | 2,982                             | 2,900   |
| Consolidated Number of Available Beds   | 2,660                             | 2,608   |
| <b>Employees</b>  |                                   |         |
| Consolidated FTE employees  | 30,525                            | 29,893  |
| Methodist/IU/Riley/Saxony/Morgan FTE employees                                  | 8,699                             | 8,801   |
| <b>Credit Group coverage of Debt Service (dollars in thousands, annualized)</b> |                                   |         |
| Revenues over expenses (1)  | 692,193                           | 605,971 |
| Depreciation, amortization and interest (2)                                     | 199,651                           | 192,133 |
| Available to pay debt service   | 891,844                           | 798,104 |
| Actual debt service (2)   | 105,744                           | 104,032 |
| Historical debt service coverage ratio  | 8.43                              | 7.67    |
| Forecast maximum annual debt service (3)  | 120,255                           | 114,219 |
| Available to pay debt service   | 891,844                           | 798,104 |
| Forecast maximum annual debt service coverage ratio                             | 7.42                              | 6.99    |

| Description  | Nine Months Ended<br>September 30 |         | Three Months Ended<br>September 30 |         |
|--|-----------------------------------|---------|------------------------------------|---------|
|  | 2019                              | 2018    | 2019                               | 2018    |
| <b>Consolidated Utilization and Operating Statistics</b>   |                                   |         |                                    |         |
| Inpatient Days   | 482,104                           | 486,500 | 160,277                            | 163,184 |
| Admissions   | 86,016                            | 88,523  | 28,670                             | 29,748  |
| Occupancy Rate (based on available beds)                   | 66.39%                            | 68.34%  | 65.49%                             | 68.02%  |
| Average Length of Stay                                     | 5.60                              | 5.50    | 5.59                               | 5.49    |
| Surgery Cases IP   | 22,744                            | 23,079  | 7,711                              | 7,704   |
| Surgery Cases OP   | 60,453                            | 57,896  | 20,288                             | 19,296  |
| Surgery Cases Total  | 83,197                            | 80,975  | 27,999                             | 27,000  |
| Emergency Room Visits                                      | 337,410                           | 337,839 | 115,815                            | 115,146 |
| Radiological Examinations                                  | 1,015,579                         | 929,049 | 345,472                            | 311,698 |
| <b>Gross Patient Service Revenue</b>                       |                                   |         |                                    |         |
| Medicare and Other Government                              | 40.88%                            | 40.31%  | 41.16%                             | 40.52%  |
| Medicaid   | 14.37%                            | 14.07%  | 15.68%                             | 14.06%  |
| HIP  | 7.24%                             | 8.09%   | 5.75%                              | 8.21%   |
| Medicaid and HIP   | 21.61%                            | 22.16%  | 21.43%                             | 22.27%  |
| Wellpoint / Anthem   | 18.19%                            | 18.14%  | 18.01%                             | 18.11%  |
| Other  | 16.78%                            | 16.59%  | 16.82%                             | 16.62%  |
| Commercial / Managed Care                                  | 34.97%                            | 34.73%  | 34.83%                             | 34.73%  |
| Self Pay and Other   | 2.54%                             | 2.80%   | 2.58%                              | 2.48%   |
| Total Gross Patient Service Revenue:                       | 100.00%                           | 100.00% | 100.00%                            | 100.00% |
| <b>Medicare Case Mix Index, Academic Health Center (4)</b> | 2.262                             | 2.205   | 2.285                              | 2.215   |

|                                  | September 30, 2019     |                        | September 30, 2018     |                        |
|----------------------------------|------------------------|------------------------|------------------------|------------------------|
|                                  | Academic Health Center | Other System Hospitals | Academic Health Center | Other System Hospitals |
| <b>Bed Complement: Available</b> |                        |                        |                        |                        |
| Medical Surgical                 | 700                    | 785                    | 694                    | 759                    |
| ICU / CCU                        | 231                    | 122                    | 231                    | 122                    |
| OB / Labor Delivery              | 54                     | 144                    | 54                     | 139                    |
| Pediatrics                       | 173                    | 50                     | 173                    | 50                     |
| Psychiatric                      | 26                     | 56                     | 26                     | 46                     |
| High-Risk Nursery                | 104                    | 92                     | 104                    | 87                     |
| Rehab and other                  | -                      | 123                    | -                      | 123                    |
| Total Bed Complement             | 1,288                  | 1,372                  | 1,282                  | 1,326                  |

- (1) Adjusted for certain gains (losses) as defined in the IU Health Obligated Group Master Trust Indenture.  
(2) Assumes all interest rate swaps are "Identified Financial Product Agreements" (as such term is defined in the IU Health Obligated Group Master Trust Indenture) for the nine months ended September 30, 2018.  
(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.