

CONSOLIDATED FINANCIAL STATEMENTS AND OTHER INFORMATION  
INDIANA UNIVERSITY HEALTH, INC. AND SUBSIDIARIES  
AS OF SEPTEMBER 30, 2020 AND DECEMBER 31, 2019 AND FOR THE NINE  
MONTHS ENDED SEPTEMBER 30, 2020 AND 2019

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MANAGEMENT'S DISCUSSION OF FINANCIAL PERFORMANCE  
As of September 30, 2020 and December 31, 2019 and for the nine months ended  
September 30, 2020 and 2019

**Indiana University Health, Inc. and Subsidiaries**  
**Management's Discussion of Financial Performance**  
**As of September 30, 2020 and December 31, 2019 and for the nine months ended**  
**September 30, 2020 and 2019**  
*(Thousands of Dollars)*

The financial statement information and other data as of September 30, 2020 and December 31, 2019 and for the nine months ended September 30, 2020 and 2019 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, 2019 and 2018 (not included herein).

**Nature of Operations**

The Indiana University Health System operates as an integrated health care delivery system comprising nonprofit and for-profit entities, with coordinated activities and policies designed to meet the mission of the Indiana University Health System. The principal operating activities of the Indiana University Health System are conducted at majority-owned or controlled subsidiaries and consist of the following as of September 30, 2020:

**Inpatient, Outpatient, Emergency Health Care Services, Medical Education and Research**

**Downtown Indianapolis Hospitals of the Academic Health Center (Hospital Campuses)** – 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.

**Indianapolis Suburban 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).

**West Central Indiana Facilities** – Consist of one acute care hospital, and two critical access hospitals located in Lafayette, Monticello, and Frankfort, Indiana. Principal hospital subsidiaries include Indiana University Health Arnett, Inc. (Arnett), Indiana University Health White Memorial Hospital, Inc. (White), and Indiana University Health Frankfort Hospital, Inc. (Frankfort).

**East Central Indiana Facilities** – Consist of one acute care hospital, and two critical access hospitals located in Muncie, Hartford City, and Portland, Indiana. Principal hospital subsidiaries include Indiana University Health Ball Memorial Hospital, Inc. and subsidiaries (Ball Memorial) including Indiana University Health Blackford Hospital, Inc. (Blackford), as well as Indiana University Health Jay, Inc. (Jay).

**South Central Indiana Facilities** – Consist of one acute care hospital, and two critical access hospitals located in Bloomington, Bedford, and Paoli, Indiana. Principal hospital subsidiaries include Indiana University Health Bloomington, Inc. and subsidiaries (Bloomington), Indiana University Health Bedford, Inc. (Bedford), and Indiana University Health Paoli, Inc. (Paoli).

## **Physician Clinics and Group Practice Health Care Services**

**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.

## **Personal and Home Health Care Services**

**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 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 Management Services**

**Medical Risk** – Consists of the medical management of health care services of members whose health care coverage is provided by the managed care networks of the Indiana University Health System. Includes health maintenance organizations and other insurance

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

## **Philanthropic Activities**

**Foundations** – Consist of two entities which aid in carrying out the mission of the Indiana University Health System: Indiana University Health Foundation, Inc. (Indiana University Health Foundation) and RHI Foundation, Inc. (RHI Foundation). On August 1, 2020, Indiana University Health Ball Memorial Hospital Foundation, Inc. (BMH Foundation) was merged into the Indiana University Health Foundation. This foundation will continue to serve the same purpose as prior to the merger.

## **Coronavirus Disease 2019**

Due to the global viral outbreak caused by COVID-19 in 2020, there have been resulting effects in the economy generally and the healthcare industry specifically which have and will continue to impact Indiana University Health's financial condition, including significant capital market volatility, various temporary closures and cancellations, and other effects which have and will continue to result in supply disruptions and decisions to defer elective procedures and other medical treatments at the Indiana University Health System.

On March 16, 2020, Indiana Governor Eric Holcomb issued the Order directing the delay of all non-essential or elective surgeries and procedures. While elective procedures were authorized to resume as of 11:59 pm on April 26, 2020 pursuant to Executive Order 20-24, providers were directed to adopt policies and best practices, including ensuring sufficient quantities of Personal Protective Equipment PPE, to protect patients, physicians and staff against COVID-19. Indiana University Health began to resume elective procedures on May 4, 2020 and saw near normally expected volumes return by the end of June 2020. The extent and timing of federal and state grants, reimbursements and other contributions, to compensate for revenue losses and increased expenses are as yet not fully known, however, through September, Indiana University Health has received advanced payments and Coronavirus Aid, Relief, and Economic Security Act (CARES Act) stimulus funding, described below. Indiana University Health is monitoring liquidity and cash flow and is taking steps to protect its fiscal health, including a focus on maintaining liquidity to meet its obligations.

In April 2020, Indiana University Health received \$348,448 from CMS as an advance payment under the CARES Act. The funds were provided through the expansion of the Accelerated and Advance Payment Program to ensure providers and suppliers have the resources needed to combat the COVID-19 pandemic. The advance and accelerated payments are a loan that providers must repay, beginning one year after the date of disbursement. CMS will begin applying any advance or accelerated payments received in excess of Medicare billings in the seventeen months following the start of the repayment period. The funds were

recorded as contract liabilities within accounts payable and accrued expenses and other noncurrent liabilities in the consolidated balance sheets as of September 30, 2020.

Also during June and July, Indiana University Health received a total of \$255,985 in stimulus funds from HHS as a part of the Provider Relief Fund authorized by the CARES and Payroll Protection Program & Health Care Enhancement Acts. Through September 30, 2020, Indiana University Health recognized revenue of \$221,171, which is included in other revenue in the consolidated statements of operations and changes in net assets. The unrecognized amount is recorded as a contract liability in accounts payable and accrued expenses in the consolidated balance sheets as of September 30, 2020. Indiana University Health will continue to monitor compliance with the terms and conditions of the Provider Relief Fund. If unable to attest to or comply with current or future terms and conditions, the ability of Indiana University Health to retain some or all of the distributions received may be impacted. The payments are part of \$175,000,000 in funding earmarked for hospitals and other providers to receive the support needed for COVID-19 related expenses and lost revenue.

Due to the evolving nature of the COVID-19 response, the ultimate impact of these matters to Indiana University Health and its financial condition is presently unknown. The accompanying consolidated financial statements as of September 30, 2020 and for the nine months then ended, do not reflect the complete effects of these impacts of COVID-19.

**Consolidated Statement of Operations and Changes in Net Assets**  
**(Compared to September 30, 2019)**

*Revenue.* Total operating revenue of \$5,083,108 for the nine months ended September 30, 2020 increased 2.7%, or \$135,880 compared to the nine months ended September 30, 2019, \$4,947,228, when including the recognition of the \$221,171 stimulus funds as operating revenue (see Coronavirus Disease 2019).

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), decreased by \$89,976 or 2.1% for the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019. The decrease reflects volume loss as a result of COVID-19 (see below), partially offset by annual rate increases.

The table below shows discharges and surgery cases by division.

	<b>Year over Year</b>			
	<b><u>9/30/2020</u></b>	<b><u>9/30/2019</u></b>	<b><u>Variance</u></b>	<b><u>Percentage</u></b>
<b><u>Inpatient Discharges</u></b>				
<b>Consolidated</b>	78,494	86,041	(7,547)	-8.8%
<b>Downtown</b>	32,027	35,732	(3,705)	-10.4%
<b>Statewide</b>	32,730	35,398	(2,668)	-7.5%
<b>Suburban</b>	13,737	14,911	(1,174)	-7.9%
<b><u>Total Surgery Cases</u></b>				
<b>Consolidated</b>	69,838	83,197	(13,359)	-16.1%
<b>Downtown</b>	21,955	25,590	(3,635)	-14.2%
<b>Statewide</b>	16,101	19,680	(3,579)	-18.2%
<b>Suburban</b>	9,867	10,973	(1,106)	-10.1%
<b>Ambulatory</b>	21,915	26,954	(5,039)	-18.7%

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 upper payment limit (UPL) reimbursement program, now known as 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, 2020 and 2019, payments received related to these programs were recorded within patient service revenue in the consolidated statements of operations and changes in net assets, totaling \$362,703 and \$388,519, respectively.

Member premium revenue aggregated \$175,661 for the nine months ended September 30, 2020 and \$151,349 for the nine months ended September 30, 2019. The increase in member premium revenue is mainly related to prior year rate adjustments for the Medicare product and changes in commercial membership.

Other operating revenue of \$420,017 at September 30, 2020 increased by \$227,360 or 118.0% compared to nine months ended September 30, 2019, driven by the receipt of stimulus funds (see Coronavirus Disease 2019).

*Expenses.* Total operating expenses of \$4,664,845 increased by 5.2%, or \$229,205 compared to the nine months ended September 30, 2019, \$4,435,640.

Salaries, wages, and benefits increased 6.0%, or \$142,613, to \$2,533,190 compared to the nine months ended September 30, 2019. The increase is the result of base pay increases effective mid-2019, as well as an increase in full time equivalent employees (FTEs) and the costs of temporary labor associated with COVID-19 preparedness. The average number of FTEs was 31,217 and 30,525 for the nine months ended September 30, 2020 and 2019, respectively. The salaries, wages, and benefits increase also reflects that the Indiana University Health System continued to pay its team members who were impacted by lower volumes and deferral of elective procedures but were willing to be part of a resource pool to assist where needed as the impacts of COVID-19 ramped up.

Supplies, drugs, purchased services, and other expenses of \$1,713,333 increased 5.4%, or \$88,182, compared to the nine months ended September 30, 2019, \$1,625,151. The increase was primarily driven by increases in personal protective equipment usage and pricing associated with COVID-19, continued increase in pharmaceutical expenses, and growth from strategic initiatives.

Fees related to the HAF program were \$118,640 for the nine months ended September 30, 2020, compared to \$124,926 in the same period in the prior year.

Health claims to providers expenses of \$73,190 decreased by 1.8%, or \$1,371 compared to the nine months ended September 30, 2019, \$74,561.

Depreciation and amortization expense of \$195,702 increased 4.6%, or \$8,667, from the same period in the prior year of \$187,035 mainly due to equipment purchases and building improvements.

Interest expense of \$30,790 decreased 7.8% or \$2,600 compared with the nine months ended September 30, 2019, \$33,390 mainly due to capitalized interest related to ongoing capital projects and lower market interest rates, partially offset by financing activity in 2019.

Investment gains amounted to \$141,625 for the nine months ended September 30, 2020, including \$86,694 of interest and dividend income, net of fees, (\$385,284) of unrealized losses on investments, and \$440,215 of net realized gains on investments, with an equivalent offsetting amount in change in unrealized gains on investments to reflect realization of these gains. The realized gains largely reflect a change in structural portfolio positioning. For the nine months ended September 30, 2019, investment gains aggregated to \$494,874, which

included \$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. Losses on interest rate swaps aggregated (\$15,184) and (\$13,606) for the nine months ended September 30, 2020, and 2019, respectively.

### **Consolidated Balance Sheet (Compared to year ended December 31, 2019)**

*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 \$7,797,417 at September 30, 2020, and \$7,075,131 at December 31, 2019. The number of days cash and investments on hand, excluding donor-restricted funds, trustee-held funds and funds held by insurance captives, was 466 days at September 30, 2020 and 409 days as of December 31, 2019. The number of days revenue in receivables (excluding the increased reimbursement under the HAF program and related receivable) was 58 days at September 30, 2020 and 55 days at December 31, 2019. The number of days expenses in accounts payable, accrued expenses, and certain other current liabilities (excluding the Medicare advance or accelerated payment and fees associated with the HAF program and related liability) was 66 days at September 30, 2020 and 61 days at December 31, 2019.

Net current assets, or working capital, decreased 15.8% to \$687,858 at September 30, 2020 compared to \$594,117 at December 31, 2019. Net property and equipment of \$2,798,908 increased \$180,719, net of depreciation, from December 31, 2019, as the System continued to invest in new or expanded facilities (see Capital Expenditures). Firm commitments for construction-in-progress totaled \$274,915 at September 30, 2020.

During July 2020, Indiana University Health entered into a treasury rate lock in the notional amount of \$128,800 based on a 30-year treasury, thus locking a benchmark rate of 1.54% with a mandatory cash settlement date of July 1, 2021. This contract is intended to mitigate exposure to interest rate risk for future debt issuance and was designated by management as a hedge for accounting purposes.

During June 2020, Indiana University Health entered into two swaps to mitigate exposure to interest rates related to future refinancing debt issuances and designated both of these swaps as hedges for accounting purposes. One of these swaps is in the initial notional amount of \$287,395 effective on June 1, 2025, terminates December 3, 2040, and requires Indiana University Health to pay based on a fixed rate of 1.01% in exchange for a payment by the counterparty based on one-month LIBOR. The other swap is in the initial notional amount of \$109,070 effective on July 1, 2025, terminates December 1, 2058, and requires Indiana University Health to pay based on a fixed rate of 0.93% in exchange for a payment by the counterparty based on one-month LIBOR.

As of September 30, 2020 and December 31, 2019, the Indiana University Health System maintained lines of credit totaling \$226,000. As of March 31, 2020, Indiana University Health had drawn \$225,000 on the lines of credit. This balance was repaid in the second quarter and as of September 30, 2020 and December 31, 2019, no amounts were drawn on the lines of credit.

Net assets without donor restriction, or equity, amounted to \$8,480,080 at September 30, 2020 and \$8,029,284 at December 31, 2019.

### **Significant Transaction**

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. A lump-sum benefit payout option was offered to participants. The lump-sum offering window closed in March 2020. In June 2020, the remaining assets of the plan were used to annuitize the obligation. The outstanding non-cash, net actuarial loss of \$134,884 was recognized as annuitization of defined benefit plan in the consolidated statements of operations and changes in net assets.

### **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**

#### **Completed:**

In December 2017, the Indiana University Health Board of Directors approved a capital expenditure plan to build a cancer care facility at North. The Indiana University Health Joe & Shelly Schwarz Cancer Center, which is a two-story, 88,000 square foot, patient-focused facility that provides full service cancer treatment options and necessary support services, opened on January 6, 2020.

#### **In Build Phase:**

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. Construction is currently in progress with a targeted November 2020 date of completion.

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. Construction is currently in progress with a targeted April 2021 date of completion.

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. Construction is currently in progress with a targeted fourth quarter 2021 date of completion.

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. Construction is currently in progress with a targeted phased in date of completion through 2021.

#### **In Plan Phase:**

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.

## **Community Impact**

In November 2019, Indiana University Health demonstrated its commitment to improving the health of Indiana by establishing a \$100,000 fund to help address critical health issues affecting Hoosiers over the long term. Administered by Indiana University Health Foundation, the Indiana University Health Community Impact Investment Fund will award yearly grants to address social issues affecting health outcomes across the state. The grants awarded in 2020 will specifically focus on local COVID-19 relief.

## 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, 2020 and 2019.

### Indiana University Health, Inc. and subsidiaries Adjusted Operating Income (in thousands)

	Nine Months Ended September 30	
	2020	2019
Operating income as reported	\$ 418,263	\$ 511,588
DSH	(7,509)	–
Noncontrolling interests in subsidiaries	(78,933)	(102,206)
2019 cost report adjustments	(13,929)	–
CARES Act stimulus funds	(221,171)	–
MDwise Medicaid Network adjustment	–	(11,507)
Operating income adjusted	<u>\$ 96,721</u>	<u>\$ 397,875</u>
Operating margin adjusted	<u>2.1%</u>	<u>8.4%</u>

- During 2020, DSH revenue was recorded related to the state fiscal years ended June 30, 2018 and 2019.
- During 2020, adjustments were recorded related to 2019 cost report estimates.
- During 2020, stimulus funds were recorded from HHS as a part of the Provider Relief Fund authorized by the CARES Act and Payroll Protection Program & Health Care Enhancement Acts (see Coronavirus Disease 2019).
- 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, 2020 and December 31, 2019 and for the nine months ended  
September 30, 2020 and 2019

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

	September 30 2020 (Unaudited)	December 31 2019 (Audited)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 490,203	\$ 223,740
Short-term investments	462,480	135,104
Current portion of assets limited as to use, including funds held by trustee for capital expenditure	118,447	273,021
Patient accounts receivable	884,393	875,633
Other receivables	152,490	155,859
Prepaid expenses	92,329	80,033
Inventories	113,022	105,486
Total current assets	2,313,364	1,848,876
Assets limited as to use:		
Board-designated investment funds and other investments	6,646,229	6,362,587
Donor-restricted investment funds	80,058	80,679
Total assets limited as to use, less current portion	6,726,287	6,443,266
Property and equipment:		
Cost of property and equipment in service	5,831,542	5,633,967
Less accumulated depreciation	(3,521,119)	(3,332,405)
	2,310,423	2,301,562
Construction-in-progress	488,485	316,627
Total property and equipment, net	2,798,908	2,618,189
Other assets:		
Equity interest in unconsolidated subsidiaries	13,542	28,685
Interest in net assets of foundations	25,194	21,302
Right-of-use assets	122,583	124,847
Goodwill, intangibles, and other assets	372,636	328,304
Total other assets	533,955	503,138
Total assets	\$ 12,372,514	\$ 11,413,469

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

	September 30 2020 (Unaudited)	December 31 2019 (Audited)
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 733,014	\$ 553,387
Accrued salaries, wages, and related liabilities	429,089	381,071
Accrued health claims	48,667	55,637
Estimated third-party payer allowances	231,904	181,706
Current portion of lease liabilities	32,356	31,148
Current portion of long-term debt	150,476	51,810
Total current liabilities	<u>1,625,506</u>	<u>1,254,759</u>
Noncurrent liabilities:		
Long-term debt, less current portion	1,635,450	1,760,442
Interest rate swaps	46,507	31,696
Accrued pension obligations	7,932	21,438
Accrued medical malpractice claims	67,270	64,203
Lease liabilities, less current portion	102,268	105,517
Other	280,054	24,521
Total noncurrent liabilities	<u>2,139,481</u>	<u>2,007,817</u>
Total liabilities	<u>3,764,987</u>	<u>3,262,576</u>
Net assets:		
Indiana University Health	8,226,878	7,757,235
Noncontrolling interest in subsidiaries	253,202	272,049
Total without donor restrictions	<u>8,480,080</u>	<u>8,029,284</u>
With donor restrictions	127,447	121,609
Total net assets	<u>8,607,527</u>	<u>8,150,893</u>
Total liabilities and net assets	<u><u>\$ 12,372,514</u></u>	<u><u>\$ 11,413,469</u></u>

*See accompanying notes to consolidated financial statements.*

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

	Nine Months Ended September 30		Three Months Ended September 30	
	2020	2019	2020	2019
	(Unaudited)		(Unaudited)	
Revenues:				
Patient service revenue	\$ 4,487,430	\$ 4,603,222	\$ 1,663,352	1,600,478
Member premium revenue	175,661	151,349	55,563	49,545
Other revenue	420,017	192,657	94,382	77,079
Total operating revenues	5,083,108	4,947,228	1,813,297	1,727,102
Expenses:				
Salaries, wages, and benefits	2,533,190	2,390,577	870,123	811,440
Supplies, drugs, purchased services, and other	1,713,333	1,625,151	595,683	555,904
Hospital assessment fee	118,640	124,926	32,881	43,851
Health claims to providers	73,190	74,561	23,849	36,830
Depreciation and amortization	195,702	187,035	66,196	64,190
Interest	30,790	33,390	9,123	11,238
Total operating expenses	4,664,845	4,435,640	1,597,855	1,523,453
Operating income	418,263	511,588	215,442	203,649
Nonoperating (loss) income:				
Investment income, net	141,625	494,874	356,716	16,263
(Losses) gains on interest rate swaps, net	(15,184)	(13,606)	499	(8,310)
Annuity of defined benefit plan	(134,884)	—	(3,633)	—
Debt extinguishment and other	(2,371)	(6,819)	2,300	(1,859)
Total nonoperating (loss) income	(10,814)	474,449	355,882	6,094
Consolidated excess of revenues over expenses	407,449	986,037	571,324	209,743
Less amounts attributable to noncontrolling interest in subsidiaries	78,933	102,206	33,182	32,923
Excess of revenues over expenses attributable to Indiana University Health and subsidiaries	\$ 328,516	\$ 883,831	538,142	176,820

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

	Nine Months Ended September 30, 2020 (Unaudited)			Nine Months Ended September 30, 2019 (Unaudited)		
	Total	Controlling	Noncontrolling	Total	Controlling	Noncontrolling
Without donor restriction:						
Consolidated excess of revenues over expenses	\$ 407,449	\$ 328,516	\$ 78,933	\$ 986,037	\$ 883,831	\$ 102,206
Change in pension obligations	133,255	133,255	—	—	—	—
Contributions for capital expenditures	30	30	—	6,392	6,392	—
Distributions to noncontrolling interests	(92,750)	—	(92,750)	(99,148)	—	(99,148)
Change in fair value of interest rate swaps	—	—	—	(2,393)	(2,393)	—
Change in fair value of interest swaps qualifying for hedge accounting	10,809	10,809	—	—	—	—
Other	(7,998)	(2,968)	(5,030)	(4,992)	(4,992)	—
	<u>450,795</u>	<u>469,642</u>	<u>(18,847)</u>	<u>885,896</u>	<u>882,838</u>	<u>3,058</u>
With donor restriction:						
Change in beneficial interest in net assets of foundations	3,895	3,895	—	(972)	(972)	—
Contributions	4,170	4,170	—	2,477	2,477	—
Investment return	1,451	1,451	—	(1,426)	(1,426)	—
Change in split interest agreements	70	70	—	280	280	—
Net assets released from restrictions	(4,078)	(4,078)	—	(1,133)	(1,133)	—
Reclassification	70	70	—	—	—	—
Other	261	261	—	(388)	(388)	—
	<u>5,839</u>	<u>5,839</u>	<u>—</u>	<u>(1,162)</u>	<u>(1,162)</u>	<u>—</u>
Increase (decrease) in net assets	<u>456,634</u>	<u>475,481</u>	<u>(18,847)</u>	<u>884,734</u>	<u>881,676</u>	<u>3,058</u>
Net assets at beginning of period	<u>8,150,893</u>	<u>7,878,844</u>	<u>272,049</u>	<u>7,041,660</u>	<u>6,780,097</u>	<u>261,563</u>
Net assets at end of period	<u>\$ 8,607,527</u>	<u>\$ 8,354,325</u>	<u>\$ 253,202</u>	<u>\$ 7,926,394</u>	<u>\$ 7,661,773</u>	<u>\$ 264,621</u>

	Three Months Ended September 30, 2020 (Unaudited)			Three Months Ended September 30, 2019 (Unaudited)		
	Total	Controlling	Noncontrolling	Total	Controlling	Noncontrolling
Without donor restriction:						
Consolidated excess of revenues over expenses	\$ 571,324	\$ 538,142	\$ 33,182	\$ 209,743	\$ 176,820	\$ 32,923
Change in pension obligations	4	4	—	—	—	—
Contributions for capital expenditures	30	30	—	60	60	—
Distributions to noncontrolling interests	(38,155)	—	(38,155)	(29,940)	—	(29,940)
Change in fair value of interest swaps qualifying for hedge accounting	12,556	12,556	—	—	—	—
Other	341	2,494	(2,153)	(3,970)	(3,970)	—
	<u>546,100</u>	<u>553,226</u>	<u>(7,126)</u>	<u>175,893</u>	<u>172,910</u>	<u>2,983</u>
With donor restriction:						
Change in beneficial interest in net assets of foundations	3,895	3,895	—	5	5	—
Contributions	211	211	—	1,345	1,345	—
Investment return	(190)	(190)	—	(1,675)	(1,675)	—
Change in split interest agreements	70	70	—	—	—	—
Net assets released from restrictions	(2,354)	(2,354)	—	(662)	(662)	—
Restriction reclassification	70	70	—	—	—	—
Other	88	88	—	5	5	—
	<u>1,790</u>	<u>1,790</u>	<u>—</u>	<u>(982)</u>	<u>(982)</u>	<u>—</u>
Increase (decrease) in net assets	<u>547,890</u>	<u>555,016</u>	<u>(7,126)</u>	<u>174,911</u>	<u>171,928</u>	<u>2,983</u>
Net assets at beginning of period	<u>8,059,637</u>	<u>7,799,309</u>	<u>260,328</u>	<u>7,751,483</u>	<u>7,489,845</u>	<u>261,638</u>
Net assets at end of period	<u>\$ 8,607,527</u>	<u>\$ 8,354,325</u>	<u>\$ 253,202</u>	<u>\$ 7,926,394</u>	<u>\$ 7,661,773</u>	<u>\$ 264,621</u>

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30		Three Months Ended September 30	
	2020	2019	2020	2019
	(Unaudited)		(Unaudited)	
<b>Operating activities</b>				
Increase in net assets	\$ 456,634	\$ 884,734	\$ 547,890	\$ 174,911
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:				
Change in fair value of interest rate swaps	4,002	14,342	(13,058)	26,077
Change in pension obligation	(133,255)	—	(4)	—
Gain in unconsolidated subsidiaries	(172)	(13,182)	(12)	(11,961)
Inherent contribution of acquired entity	—	(604)	—	—
Depreciation and amortization	195,702	187,035	66,196	64,190
Amortization of deferred gain on sale of medical office buildings	(277)	(419)	66	(102)
Contributions and investment return with donor restrictions	(9,586)	(359)	(3,986)	325
Distributions to noncontrolling interests	92,750	99,148	38,155	29,940
Assets limited as to use	(444,252)	(1,108,594)	(553,480)	(443,017)
Net changes in operating assets and liabilities:				
Patient accounts receivable	(8,760)	(14,684)	(50,728)	17,821
Other assets	(38,340)	49,666	6,811	(19,037)
Accounts payable, accrued liabilities, and other liabilities	551,283	7,492	92,864	24,250
Accrued salaries, wages, and related liabilities	48,018	(4,574)	103,493	73,779
Estimated third-party payer allowances	50,198	7,399	8,320	8,096
Net cash provided by (used in) operating activities	763,945	107,400	242,527	(54,728)
<b>Investing activities</b>				
Purchase of property and equipment, net of disposals	(376,421)	(245,906)	(151,317)	(136,884)
Net cash used in investing activities	(376,421)	(245,906)	(151,317)	(136,884)
<b>Financing activities</b>				
Contributions and investment return with donor restrictions	9,586	359	3,986	(325)
Repayments on long-term debt	(26,326)	(427,526)	(2,778)	(383,548)
Proceeds from issuance of long-term debt	—	676,348	—	676,348
Proceeds from notes payable under lines of credit	225,000	—	—	—
Repayment of notes payable under lines of credit	(225,000)	—	—	—
Termination of swaps	—	(18,022)	—	(18,022)
Loss on extinguishment of debt	—	483	—	483
Distributions to noncontrolling interests	(92,750)	(99,148)	(38,155)	(29,940)
Net cash (used in) provided by financing activities	(109,490)	132,494	(36,947)	244,996
Increase (decrease) in cash and cash equivalents	278,034	(6,012)	54,263	53,384
Cash and cash equivalents at beginning of period	277,293	412,449	501,064	353,053
Cash and cash equivalents at end of period	\$ 555,327	\$ 406,437	\$ 555,327	\$ 406,437
Reconciliation of cash and cash equivalents to the consolidated balance sheets:				
Cash and cash equivalents	\$ 490,203	\$ 358,366	\$ 490,203	\$ 358,366
Cash and cash equivalents included in assets limited as to use	65,124	48,071	65,124	48,071
Cash and cash equivalents at end of period	\$ 555,327	\$ 406,437	\$ 555,327	\$ 406,437

See accompanying notes to consolidated financial statements.

**Indiana University Health, Inc. and subsidiaries**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**As of September 30, 2020 and December 31, 2019 and for the nine months ended**  
**September 30, 2020 and 2019**  
*(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 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, 2020 are not necessarily indicative of the results to be expected for the year ending December 31, 2020. For further information, refer to the audited consolidated financial statements and notes thereto for the years ended December 31, 2019 and 2018 (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. Significant Events**

Due to the global viral outbreak caused by COVID-19 in 2020, there have been resulting effects in the economy generally and the healthcare industry specifically which have and will continue to impact Indiana University Health's financial condition, including significant capital market volatility, various temporary closures and cancellations, and other effects which have and will continue to result in supply disruptions and decisions to defer elective procedures and other medical treatments at the Indiana University Health System.

On March 16, 2020, Indiana Governor Eric Holcomb issued the Order directing the delay of all non-essential or elective surgeries and procedures. While elective procedures were authorized to resume as of 11:59 pm on April 26, 2020 pursuant to Executive Order 20-24, providers were directed to adopt policies and best practices, including ensuring sufficient quantities of Personal Protective Equipment PPE, to protect patients, physicians and staff against COVID-19. Indiana University Health began to resume elective

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**2. Significant Events (continued)**

procedures on May 4, 2020 and saw near normally expected volumes return by the end of June 2020. The extent and timing of federal and state grants, reimbursements and other contributions, to compensate for revenue losses and increased expenses are as yet not fully known, however, through September, Indiana University Health has received advanced payments and CARES Act stimulus funding, described below. Indiana University Health is monitoring liquidity and cash flow and is taking steps to protect its fiscal health, including a focus on maintaining liquidity to meet its obligations.

In April 2020, Indiana University Health received \$348,448 from CMS as an advance payment under the CARES Act. The funds were provided through the expansion of the Accelerated and Advance Payment Program to ensure providers and suppliers have the resources needed to combat the COVID-19 pandemic. The advance and accelerated payments are a loan that providers must repay, beginning one year after the date of disbursement. CMS will begin applying any advance or accelerated payments received in excess of Medicare billings in the seventeen months following the start of the repayment period. The funds were recorded as contract liabilities within accounts payable and accrued expenses and other noncurrent liabilities in the consolidated balance sheets as of September 30, 2020.

Also during June and July, Indiana University Health received a total of \$255,985 in stimulus funds from HHS as a part of the Provider Relief Fund authorized by the CARES and Payroll Protection Program & Health Care Enhancement Acts. Through September 30, 2020, Indiana University Health recognized revenue of \$221,171, which is included in other revenue in the consolidated statements of operations and changes in net assets. The unrecognized amount is recorded as a contract liability in accounts payable and accrued expenses in the consolidated balance sheets as of September 30, 2020. Indiana University Health will continue to monitor compliance with the terms and conditions of the Provider Relief Fund. If unable to attest to or comply with current or future terms and conditions, the ability of Indiana University Health to retain some or all of the distributions received may be impacted. The payments are part of \$175,000,000 in funding earmarked for hospitals and other providers to receive the support needed for COVID-19 related expenses and lost revenue.

Due to the evolving nature of the COVID-19 response, the ultimate impact of these matters to Indiana University Health and its financial condition is presently unknown. The accompanying consolidated financial statements as of September 30, 2020 and for the nine months then ended, do not reflect the complete effects of these impacts of COVID-19.

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**3. Summary of Significant Accounting Policies**

**Use of Estimates**

The preparation of consolidated financial statements in conformity with U.S. 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.

**Fair Value of Financial Instruments**

Financial instruments include cash and cash equivalents, patient and other accounts receivable, assets limited as to use, accounts payable and accrued expenses, estimated third-party payer allowances, notes payable to banks, long-term debt, derivative financial instruments (i.e. fixed-pay and basis swaps), and certain other current assets and liabilities. The fair values for cash and cash equivalents, patient and other accounts receivable, accounts payable and accrued expenses, estimated third-party payer allowances, and certain other current assets and liabilities approximate the carrying amounts reported on the consolidated balance sheets and in the opinion of management, represent highly liquid assets or short-term obligations. The fair values for assets limited as to use and derivative financial instruments are described in Notes 5, 8, and 9.

**Subsequent Events**

For the consolidated financial statements as of and for the nine months ended September 30, 2020, management has evaluated subsequent events through October 29, 2020, the date that these financial statements were made publicly available.

**Reclassifications**

Certain amounts in the 2019 consolidated financial statements have been reclassified to conform to the 2020 presentation. Such reclassifications had no effect on previously reported excess of revenues over expenses or net assets.

**4. 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

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

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 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

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

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 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, 2020 and 2019, payments received related to these programs were recorded within patient service revenue in the consolidated statements of operations and changes in net assets, totaling \$362,703 and \$388,519, respectively. During the nine months ended September 30, 2020 and 2019, assessment fees were recorded within the hospital assessment fee line on the consolidated statements of operations and changes in net assets totaling \$118,640 and \$124,926, 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 as of September 30, 2020 were \$383,262 and were a result of funds received as part of the CARES Act (see Note 2). For the nine months ended September 30, 2020 none of the funds were recognized as part of revenue in the consolidated statements of operations and changes in net assets.

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

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 September 30</b>	
	<b>2020</b>	<b>2019</b>
Commercial/managed care	<b>\$ 2,488,418</b>	\$ 2,650,028
Medicare	<b>1,172,145</b>	1,136,389
Medicaid	<b>739,400</b>	725,410
Self-pay and other	<b>87,467</b>	91,395
	<b><u>\$ 4,487,430</u></b>	<b><u>\$ 4,603,222</u></b>

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 self pay. Therefore, the payers listed above contain patient responsibility components, such as co-pays and deductibles. One managed care payer represented 30% and 31% of patient service revenue for the nine months ended September 30, 2020 and 2019, 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). 28% and 29% of patient accounts receivable were collectible from government payers as of September 30, 2020 and December 31, 2019, respectively. The remaining 72% and 71% of patient accounts receivable as of September 30, 2020 and December 31, 2019, 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, shared professional revenue, and other. As a result of COVID-19 in 2020, Indiana University Health received \$255,985 in stimulus funds, which were intended to partially offset losses that were

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

incurred. Through September 30, 2020, Indiana University Health recognized revenue of \$221,171 (see Note 2). This additional funding is reflected within other revenue on the consolidated statements of operations and net assets.

The composition of other revenue by sources is as follows:

	<b>Nine Months Ended</b>	
	<b>September 30</b>	
	<b>2020</b>	<b>2019</b>
Shared health services revenue	\$ 102,179	\$ 118,803
CARES Act stimulus funds	221,171	—
Other	96,667	73,854
	<u>\$ 420,017</u>	<u>\$ 192,657</u>

**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 sheets 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 that are generally determined by third-party valuation firms and/or administrators of each fund in consultation with and approval of the fund investment managers.

The Indiana University Health System is a limited partner in funds that employ hedged investment strategies and private funds that employ investment strategies that require long holding periods to create value, both of which are designed to reduce overall portfolio volatility.

In the case of hedge funds, redemptions generally may be made quarterly with written notice ranging from 30 to 90 days; however, some funds employ lock-up periods that restrict redemptions or charge a redemption fee during the lock-up period. Lock-up

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

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, 2020 and December 31, 2019, there were \$613,838 and \$557,795, respectively, of unfunded commitments relating to private fund investments, which are 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.

During the second quarter of 2020, Indiana University Health created a leveraged position within the Board-designated investment funds of assets limited as to use. A component of the new asset allocation policy is to target a modest amount of leverage to achieve a total exposure of 110%. The utilization of this enhanced exposure within the policy aims to both enhance returns and risk characteristics (i.e. diversification) of the trading activities with the Board-designated investment funds. Indiana University Health utilizes futures contracts in order to enhance return and risk characteristic of the Board-designated assets, which provides exposure to markets such as equity and fixed income. The notional value was approximately \$382,196 and \$0 as of September 30, 2020 and 2019, respectively.

The fair value of futures contracts were \$579 and \$0 as of September 30, 2020 and 2019, respectively, and is included in assets limited as to use in the consolidated balance sheets. Gain/(loss) attributed to the enhanced exposure was \$12,783 and \$0 as of

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

September 30, 2020 and 2019, respectively, and is included in nonoperating investment income in the consolidated statements of operations and changes in net assets.

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

	September 30 2020	December 31 2019
Assets limited as to use:		
Cash	\$ 65,124	\$ 53,553
Short-term, liquid investments	37,364	122,855
Debt securities:		
Asset backed	222,527	199,401
Bank loans	286,320	351,801
Corporate debt	766,115	310,894
Government and agencies	484,558	416,598
Bond funds	242,908	492,352
Total debt securities	2,002,428	1,771,046
Equity securities:		
Domestic equities	1,689,034	82,309
Domestic equity funds	18,380	1,273,229
International equities	722,285	87,538
International equity funds	349,014	895,996
Total equity securities	2,778,713	2,339,072
Commodities	—	223,335
Alternatives:		
Hedge funds	1,248,841	1,574,752
Private funds	711,685	631,674
Other	579	—
Total alternatives	1,961,105	2,206,426
Less current portion of assets limited as to use	(118,447)	(273,021)
Total assets limited as to use	\$ 6,726,288	\$ 6,443,266

**Indiana University Health, Inc. and subsidiaries**  
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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, 2020 and December 31, 2019. 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</b>	<b>December 31</b>
	<b>2020</b>	<b>2019</b>
Financial assets:		
Cash and cash equivalents	\$ 490,203	\$ 223,740
Short-term investments	462,480	135,104
Patient accounts receivable	884,393	875,633
Other receivables	152,490	155,859
Assets limited as to use	6,844,734	6,716,287
Total financial assets	<u>8,834,300</u>	<u>8,106,623</u>
Liquidity resource:		
Unused bank lines of credit	226,000	226,000
Less amounts not available within one year or not designated for general expenditures:		
Alternative investments	(849,222)	(805,304)
Other	(265,540)	(204,366)
Financial assets not available for use within one year	<u>(1,114,762)</u>	<u>(1,009,670)</u>
Financial assets and liquidity resources available for general expenditures within one year	<u>\$ 7,945,538</u>	<u>\$ 7,322,953</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. The Indiana University Health System maintains a liquidity pool with a target range of \$350,000 to \$550,000, which is comprised of fixed income securities with maturities ranging from zero to three years and cash equivalents and is reflected in cash and cash equivalents, short term investments and assets limited as to use in the consolidated balance sheets. 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 or standby bond purchase 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 were used for certain capital expenditures and to pay certain expenses incurred in connection with their issuance. 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 March 13, 2020, Indiana University Health borrowed \$225,000 on its line of credit and invested the proceeds in a cash equivalent. The line of credit has a variable interest rate and matures on July 3, 2023. This balance was repaid in the second quarter of 2020.

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**7. Debt (continued)**

As of September 30, 2020 and December 31, 2019, the Indiana University Health System maintained lines of credit totaling \$226,000. As of September 30, 2020 and December 31, 2019, 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 and short-term treasury lock swaps, stated at current and maximum future notional amounts, remain in place as of September 30, 2020:

Current Notional Amount	Maximum Future Notional Amount	Effective Date	Maturity Date	Rate Received	Rate Paid
\$ —	\$ 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%
—	109,070	7/01/2025	12/01/2058	LIBOR	0.93%
—	287,395	6/01/2025	12/01/2040	LIBOR	1.01%
1,800	1,800	1/27/2006	11/02/2020	Securities Industry and Financial Markets Association Municipal Swap Index (SIFMA)	3.98%
—	128,800	7/01/2021	7/01/2021	30 year United States Treasury (UST)	1.54%

After giving effect to the above derivative transactions, the Indiana University Health System's variable-rate debt was approximately 17.8% of total debt outstanding as of September 30, 2020 and 17.5% as of December 31, 2019.

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, 2020 as follows:

Current Notional Amount	Maximum Future Notional Amount	Effective Date	Maturity Date	Swap Type	Rate Received	Rate Paid
\$ 309,200	\$ 309,200	01/07/2033	01/07/2033	Forward Starting Basis	75.00% one-month 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, 2020,

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

the fair value of interest rate swaps in liability positions was \$46,506, which is net of CVA of \$1,601. The fair value of interest rate swaps in asset positions was \$10,809 and is included within goodwill, intangibles, and other assets in the accompanying consolidated balance sheet.

As of December 31, 2019, the fair value of interest rate swaps was a liability of \$31,696, which is net of CVA of \$541.

As of September 30, 2020, interest rate swaps had a total current notional amount of \$311,000, comprised of \$1,800 of fixed-pay swaps and \$309,200 of forward starting basis swaps and maximum future notional amount of \$1,047,220, comprised of \$609,220 of fixed-pay swaps, \$128,800 of treasury lock swaps, and \$309,200 of forward starting 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, 2020 and December 31, 2019, all interest rate swaps were subject to credit-risk-related contingent features. No collateral was posted as of September 30, 2020 or December 31, 2019.

Changes in fair value for swaps not designated as hedges are included in losses on interest rate swaps within nonoperating (loss) income in the consolidated statements of operations and changes in net assets. Changes in fair value for swaps designated as hedges are included in other changes in net assets without donor restrictions in the consolidated statements of operations and changes in net assets.

	<b>Nine Months Ended</b>	
	<b>September 30</b>	
	<b>2020</b>	<b>2019</b>
Losses on interest rate swaps, net:		
Unrealized losses on interest rate swaps	\$ (14,815)	\$ (14,342)
Change in fair value of interest swaps qualifying for hedge accounting	10,809	—
Reclassification to realized losses due to swap terminations	—	18,022
Realized losses on interest rate swaps	(369)	(17,286)
	<u>\$ (4,375)</u>	<u>\$ (13,606)</u>

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

During July 2020, Indiana University Health entered into a treasury rate lock in the notional amount of \$128,800 based on a 30-year treasury, thus locking a benchmark rate of 1.54% with a mandatory cash settlement date of July 1, 2021. This contract is intended to mitigate exposure to interest rate risk for future debt issuance and was designated by management as a hedge for accounting purposes.

During June 2020, Indiana University Health entered into two swaps to mitigate exposure to interest rates related to future refinancing debt issuances and designated both of these swaps as hedges for accounting purposes. One of these swaps is in the initial notional amount of \$287,395 effective on June 1, 2025, terminates December 3, 2040, and requires Indiana University Health to pay based on a fixed rate of 1.01% in exchange for a payment by the counterparty based on one-month LIBOR. The other swap is in the initial notional amount of \$109,070 effective on July 1, 2025, terminates December 1, 2058, and requires Indiana University Health to pay based on a fixed rate of 0.93% in exchange for a payment by the counterparty based on one-month LIBOR.

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 November 2019, Indiana University Health fully terminated the remainder of the basis swap with a future notional amount of \$309,200 and a maturity date of February 15, 2033 for a one-time cash payment (outflow) of \$3,909.

**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, 2020 and December 31, 2019. 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, 2020						
	Level 1	Level 2	Level 3	NAV	Fair Value	Equity Method	Carrying Value
<b>Assets</b>							
Cash and cash equivalents	\$ 490,203	\$ –	\$ –	–	\$ 490,203	–	\$ 490,203
Short-term investments:							
Debt securities:							
Asset backed	–	3,177	–	–	3,177	–	3,177
Corporate debt	–	57,403	1,251	–	58,654	–	58,654
Government and agencies	400,649	–	–	–	400,649	–	400,649
Assets limited as to use:							
Cash	102,488	–	–	–	102,488	–	102,488
Debt securities:							
Asset backed	–	222,527	–	–	222,527	–	222,527
Bank loans	–	285,863	457	–	286,320	–	286,320
Corporate debt	–	759,599	6,516	–	766,115	–	766,115
Government and agencies	484,558	–	–	–	484,558	–	484,558
Bond funds	193,445	–	–	49,463	242,908	–	242,908
Equity securities:							
Domestic equities	1,689,023	–	11	–	1,689,034	–	1,689,034
Domestic equity funds	18,380	–	–	–	18,380	–	18,380
International equities	722,285	–	–	–	722,285	–	722,285
International equity funds	–	–	–	349,014	349,014	–	349,014
Alternatives:							
Hedge funds	–	–	–	–	–	1,248,841	1,248,841
Private funds	–	–	–	–	–	711,685	711,685
Other	579	–	–	–	579	–	579
Beneficial interests in charitable remainder and perpetual trusts	–	15,113	–	–	15,113	–	15,113
Interest Rate Swaps	–	10,809	–	–	10,809	–	10,809
Total cash and investments	<u>\$ 4,101,610</u>	<u>\$ 1,354,491</u>	<u>\$ 8,235</u>	<u>\$ 398,477</u>	<u>\$ 5,862,813</u>	<u>\$ 1,960,526</u>	<u>\$ 7,823,339</u>
<b>Liabilities</b>							
Interest rate swaps	\$ –	\$ 46,507	\$ –	–	\$ 46,507	–	\$ 46,507
Total liabilities measured at fair value on a recurring basis	<u>\$ –</u>	<u>\$ 48,756</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 46,507</u>	<u>\$ –</u>	<u>\$ 46,507</u>

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

	December 31, 2019							
	Level 1	Level 2	Level 3	NAV	Fair Value	Equity Method	Carrying Value	
<b>Assets</b>								
Cash and cash equivalents	\$ 223,740	\$ —	\$ —	\$ —	\$ 223,740	\$ —	\$ 223,740	
Short-term investments:								
Debt securities:								
Asset backed	—	8,984	—	—	8,984	—	8,984	
Corporate debt	—	77,630	—	—	77,630	—	77,630	
Government and agencies	48,490	—	—	—	48,490	—	48,490	
Assets limited as to use:								
Cash	53,553	—	—	—	53,553	—	53,553	
Short-term, liquid investments	122,855	—	—	—	122,855	—	122,855	
Debt securities:								
Asset backed	—	198,550	851	—	199,401	—	199,401	
Bank loans	—	350,015	1,786	—	351,801	—	351,801	
Corporate debt	—	310,389	506	—	310,895	—	310,895	
Government and agencies	416,598	—	—	—	416,598	—	416,598	
Bond funds	204,912	—	—	287,440	492,352	—	492,352	
Equity securities:								
Domestic equities	82,309	—	—	—	82,309	—	82,309	
Domestic equity funds	215,408	—	—	1,057,821	1,273,229	—	1,273,229	
International equities	87,538	—	—	—	87,538	—	87,538	
International equity funds	195,296	—	—	700,700	895,996	—	895,996	
Commodities	223,335	—	—	—	223,335	—	223,335	
Alternatives:								
Hedge funds	—	—	—	—	—	1,574,752	1,574,752	
Private funds	—	—	—	—	—	631,674	631,674	
Beneficial interests in charitable remainder and perpetual trusts	—	16,033	—	—	16,033	—	16,033	
Total cash and investments	\$ 1,874,034	\$ 961,601	\$ 3,143	\$ 2,045,961	\$ 4,884,739	\$ 2,206,426	\$ 7,091,165	
<b>Liabilities</b>								
Interest rate swaps	\$ —	\$ 31,696	\$ —	\$ —	\$ 31,696	\$ —	\$ 31,696	
Total liabilities measured at fair value on a recurring basis	\$ —	\$ 31,696	\$ —	\$ —	\$ 31,696	\$ —	\$ 31,696	

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.

Other investments include futures contracts used in Indiana University Health's enhanced exposure strategy that do not qualify for hedge accounting and are recorded at fair value (see Note 5).

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

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 involved. The valuations reflect a CVA (see Note 8) to the LIBOR discount curve in order to reflect the credit value adjustment for nonperformance risk. The Indiana University Health System credit spread adjustment 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, 2020.

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 leases property and equipment under finance and operating 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. Finance leases

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**11. Leases (continued)**

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 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, administrative offices, and certain equipment. The leases have remaining lease terms of 1 year to 15 years, some of which may include options to extend.

Other information related to leases was as follows:

	<b>Nine months ended September 30</b>	
	<b>2020</b>	<b>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	\$ 31,919	\$ 30,393
Operating cash flows from finance leases	93	166
Financing cash flows from finance leases	648	570
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	\$ 30,394	\$ 122,249
Finance leases	—	992
<b>Weighted average remaining lease term (in years)</b>		
Operating leases	5.78	6.16
Finance leases	1.24	1.93
<b>Weighted average discount rate</b>		
Operating leases	2.83%	2.83%
Finance leases	4.81%	5.29%

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**11. Leases (continued)**

Future minimum lease payments under non-cancellable leases as of September 30, 2020 were as follows:

	<b>Operating</b>	<b>Finance</b>
	<b>\$</b>	<b>\$</b>
2020	9,999	184
2021	35,887	438
2022	27,494	99
2023	22,257	2
2024	14,861	—
Thereafter	36,526	—
Total future minimum lease payments	147,024	723
Less imputed interest	12,400	47
Net present value of minimum lease payments	\$ 134,624	\$ 676

**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. A lump-sum benefit payout option was offered to participants. The lump-sum offering window closed in March 2020. In June 2020, the remaining assets of the plan were used to annuitize the obligation. The outstanding non-cash, net actuarial loss of \$134,884 was recognized as annuitization of defined benefit plan in the consolidated statements of operations and changes in net assets. As part of the termination of the Plan, contributions were required to be made and totaled \$13,050 as of September 30, 2020. There are no additional contributions expected to be made in 2020. There were no required contributions in 2019 and none were made in 2019.

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

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**12. Retirement Plans (continued)**

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

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

	<b>Nine Months Ended September 30</b>	
	<b>2020</b>	<b>2019</b>
Interest cost	\$ 6,305	\$ 11,064
Expected return on plan assets	(7,945)	(10,590)
Amortization of unrecognized net loss	134,991	2,845
Net periodic pension cost	<u>\$ 133,351</u>	<u>\$ 3,319</u>

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

	<b>2020</b>	<b>2019</b>
Discount rate	4.36%	3.67%
Expected rate of return on plan assets	4.00%	4.00%

**13. Functional Expenses**

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

	<b>Health Services</b>	<b>Insurance Services</b>	<b>General &amp; Administrative</b>	<b>Total</b>
Nine months ended September 30, 2020:				
Salaries, wages, and benefits	\$ 2,402,196	\$ 24,731	\$ 106,263	\$ 2,533,190
Supplies, drugs, purchased services, and other	1,527,283	49,394	136,656	1,713,333
Hospital assessment fee	118,640	—	—	118,640
Health claims to providers	—	73,190	—	73,190
Depreciation and amortization	188,733	—	6,969	195,702
Interest	30,790	—	—	30,790
	<u>\$ 4,267,642</u>	<u>\$ 147,315</u>	<u>\$ 249,888</u>	<u>\$ 4,664,845</u>

**Indiana University Health, Inc. and subsidiaries**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**As of September 30, 2020 and December 31, 2019 and for the nine months ended**  
**September 30, 2020 and 2019**  
*(Thousands of Dollars)*

**13. Functional Expenses (continued)**

	<b>Health Services</b>	<b>Insurance Services</b>	<b>General &amp; Administrative</b>	<b>Total</b>
Nine months ended September 30, 2019:				
Salaries, wages, and benefits	\$ 2,270,945	\$ 20,742	\$ 98,890	\$ 2,390,577
Supplies, drugs, purchased 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>

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, 2020 and December 31, 2019 and for the nine months ended**  
**September 30, 2020 and 2019**  
*(Thousands of Dollars)*

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

The Affordable Care Act and its associated legislation are 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 CMS approved the Healthy Indiana Plan, 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 October 2020 for an additional ten years, meaning that the state will continue to engage eligible adults in its signature health program through at least the year 2030. Indiana is also among a handful of states that have instituted work requirements for their Medicaid expansion populations, a program feature which is currently under judicial review for a number of states, including Indiana. As a result, in late October 2019, Indiana Medicaid opted to postpone plans to terminate Medicaid benefits scheduled to go into effect on January 1, 2020 for those enrollees who had not met the new work requirements. While the debate regarding the Affordable Care Act appears to have shifted from Congress to the Courts, 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, 2020 and December 31, 2019 and for the nine months ended  
September 30, 2020 and 2019

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

	September 30 2020	December 31 2019
	(Unaudited)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 485,179	\$ 219,490
Short-term investments	462,480	135,104
Current portion of assets limited as to use, including funds held by a trustee for capital expenditure	42,551	207,281
Patient accounts receivable	485,025	465,014
Other receivables	123,514	118,350
Prepaid expenses	64,866	58,158
Inventories	77,545	69,341
Total current assets	1,741,160	1,272,738
Assets limited as to use:		
Board-designated investment funds and other investments	6,190,294	5,926,944
Property and equipment:		
Cost of property and equipment in service	3,785,489	3,708,165
Less accumulated depreciation	(2,371,125)	(2,251,380)
	1,414,364	1,456,785
Construction-in-progress	102,537	50,243
Total property and equipment, net	1,516,901	1,507,028
Other assets:		
Equity interest in unconsolidated subsidiaries	360,575	350,968
Interest in net assets of foundations	9,235	7,713
Right-of-use assets	65,459	59,516
Goodwill, intangibles, and other assets	122,993	640,101
Total other assets	558,262	1,058,298
Total assets	\$ 10,006,617	\$ 9,765,008

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 2020	December 31 2019
	(Unaudited)	
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,899,708	\$ 2,100,891
Accrued salaries, wages, and related liabilities	189,263	175,929
Accrued health claims	48,593	55,564
Estimated third-party payer allowances	175,956	135,807
Current portion of lease liabilities	13,245	12,335
Current portion of long-term debt	149,688	50,130
Total current liabilities	2,476,453	2,530,656
Noncurrent liabilities:		
Long-term debt, less current portion	1,623,573	1,748,879
Interest rate swaps	46,489	31,649
Accrued pension obligations	—	13,238
Accrued medical malpractice claims	2,690	2,597
Lease liabilities, less current portion	43,714	47,082
Other	141,199	22,700
Total noncurrent liabilities	1,857,665	1,866,145
Total liabilities	4,334,118	4,396,801
Net assets:		
Without donor restriction	5,661,409	5,358,639
With donor restriction	11,090	9,568
Total net assets	5,672,499	5,368,207
Total liabilities and net assets	\$ 10,006,617	\$ 9,765,008

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

	Nine Months Ended September 30		Three Months Ended September 30	
	2020	2019	2020	2019
	(Unaudited)		(Unaudited)	
Revenues:				
Patient service revenue	\$ 2,225,895	\$ 2,255,465	808,113	785,119
Member premium revenue	133,392	122,107	44,726	39,514
Other revenue	607,080	483,791	170,775	169,691
Total operating revenues	2,966,367	2,861,363	1,023,614	994,324
Expenses:				
Salaries, wages, and benefits	990,034	942,204	353,228	322,656
Supplies, drugs, purchased services, and other	1,265,730	1,174,226	432,443	401,989
Hospital assessment fee	58,790	58,987	17,445	21,724
Health claims to providers	95,185	95,839	32,922	37,590
Depreciation and amortization	120,139	116,830	40,411	40,661
Interest	30,451	32,908	9,011	11,101
Total operating expenses	2,560,329	2,420,994	885,460	835,721
Operating income	406,038	440,369	138,154	158,603
Nonoperating income (loss):				
Investment income, net	155,121	448,522	344,915	11,136
(Losses) gains on interest rate swaps, net	(15,213)	(13,629)	488	(8,324)
Annuity of defined benefit plan	(134,884)	—	(3,633)	—
Debt extinguishment and other	(2,457)	(8,699)	1,762	(3,113)
Total nonoperating income (loss)	2,567	426,194	343,532	(301)
Excess of revenues over expenses	\$ 408,605	\$ 866,563	\$ 481,686	\$ 158,302

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

	September 30 2020	December 31 2019
<b>Assets</b>	<b>(Unaudited)</b>	
Current assets:		
Cash and cash equivalents	\$ 485,179	\$ 219,490
Short-term investments	462,480	135,104
Current portion of assets limited as to use, including funds held by a trustee for capital expenditure	42,530	207,176
Patient accounts receivable	480,972	462,081
Other receivables	125,597	120,648
Prepaid expenses	64,768	57,947
Inventories	76,823	68,622
Total current assets	<u>1,738,349</u>	<u>1,271,068</u>
Assets limited as to use:		
Board-designated investment funds and other investments	6,184,875	5,921,719
Property and equipment:		
Cost of property and equipment in service	3,769,052	3,691,844
Less accumulated depreciation	<u>(2,358,696)</u>	<u>(2,239,754)</u>
	1,410,356	1,452,090
Construction-in-progress	102,148	50,243
Total property and equipment, net	<u>1,512,504</u>	<u>1,502,333</u>
Other assets:		
Equity interest in unconsolidated subsidiaries	360,774	351,167
Right-of-use assets	64,977	59,034
Goodwill, intangibles, and other assets	126,820	644,443
Total other assets	<u>552,571</u>	<u>1,054,644</u>
Total assets	<u><u>\$ 9,988,299</u></u>	<u><u>\$ 9,749,764</u></u>

*Continued on next page.*

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

	September 30 2020	December 31 2019
	<b>(Unaudited)</b>	
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,935,024	\$ 2,128,412
Accrued salaries, wages, and related liabilities	187,479	174,800
Accrued health claims	48,593	55,564
Estimated third-party payer allowances	173,430	134,566
Current portion of lease liabilities	13,113	12,206
Current portion of long-term debt	149,650	50,092
Total current liabilities	<u>2,507,289</u>	<u>2,555,640</u>
Noncurrent liabilities:		
Long-term debt, less current portion	1,623,313	1,748,591
Interest rate swaps	46,489	31,649
Accrued pension obligations	–	13,238
Accrued medical malpractice claims	2,640	2,547
Lease liabilities, less current portion	43,451	46,720
Other	138,149	22,660
Total noncurrent liabilities	<u>1,854,042</u>	<u>1,865,405</u>
Total liabilities	<u>4,361,331</u>	<u>4,421,045</u>
Net assets:		
Without donor restriction	5,625,113	5,326,864
With donor restriction	1,855	1,855
Total net assets	<u>5,626,968</u>	<u>5,328,719</u>
Total liabilities and net assets	<u><u>\$ 9,988,299</u></u>	<u><u>\$ 9,749,764</u></u>

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

	Nine Months Ended September 30		Three Months Ended September 30	
	2020	2019	2020	2019
	(Unaudited)		(Unaudited)	
Revenues:				
Patient service revenue	\$ 2,193,481	\$ 2,227,090	796,910	776,316
Member premium revenue	133,392	122,107	44,726	39,514
Other revenue	611,936	488,848	176,508	171,406
Total operating revenues	2,938,809	2,838,045	1,018,144	987,236
Expenses:				
Salaries, wages, and benefits	979,356	932,020	349,659	319,232
Supplies, drugs, purchased services, and other	1,254,344	1,163,397	428,584	398,230
Hospital assessment fee	58,049	58,099	17,271	21,461
Health claims to providers	95,626	96,091	33,001	37,566
Depreciation and amortization	119,021	115,537	40,051	40,223
Interest	30,449	32,908	9,010	11,101
Total operating expenses	2,536,845	2,398,052	877,576	827,813
Operating income	401,964	439,993	140,568	159,423
Nonoperating income (loss):				
Investment income, net	154,676	447,526	344,583	10,971
(Losses) gains on interest rate swaps, net	(15,213)	(13,629)	488	(8,324)
Annuity of defined benefit plan	(134,884)	—	(3,633)	—
Debt extinguishment and other	(2,457)	(8,699)	1,762	(3,113)
Total nonoperating income (loss)	2,122	425,198	343,200	(466)
Excess of revenues over expenses	\$ 404,086	\$ 865,191	\$ 483,768	\$ 158,957

Indiana University Health, Inc. and subsidiaries  
Statistical and Other Data  
As of and for the Nine and Three Months Ended September 30, 2020 and 2019  
(Except as noted below)

Description	Nine Months Ended September 30	
	2020	2019
<b>Academic Health Center</b>		
Active Members	1,180	1,238
Residents	835	741
Other Members	1,102	1,003
Total Medical Staff	3,117	2,982
Consolidated Number of Available Beds	2,661	2,660
<b>Employees</b>		
Consolidated FTE employees	31,217	30,525
Methodist/IU/Riley/Saxony/Morgan FTE employees	8,636	8,699
<b>Credit Group coverage of Debt Service (dollars in thousands, annualized)</b>		
Revenues over expenses (1)	1,080,952	692,193
Depreciation, amortization and interest	200,787	199,651
Available to pay debt service	1,281,739	891,844
Actual debt service	109,348	105,744
Historical debt service coverage ratio	11.72	8.43
Forecast maximum annual debt service (2)	120,255	120,255
Available to pay debt service	1,281,739	891,844
Forecast maximum annual debt service coverage ratio	10.66	7.42

Description	Nine Months Ended September 30		Three Months Ended September 30	
	2020	2019	2020	2019
<b>Consolidated Utilization and Operating Statistics</b>				
Inpatient Days	445,445	482,104	158,054	160,277
Admissions	78,429	86,016	28,334	28,670
Occupancy Rate (based on available beds)	61.10%	66.39%	64.57%	65.49%
Average Length of Stay	5.68	5.60	5.58	5.59
Surgery Cases IP	19,731	22,744	7,551	7,711
Surgery Cases OP	50,107	60,453	20,410	20,288
Surgery Cases Total	69,838	83,197	27,961	27,999
Emergency Room Visits	282,622	337,410	99,570	115,815
Radiological Examinations	940,460	1,015,579	359,308	345,472
<b>Gross Patient Service Revenue</b>				
Medicare and Other Government	41.24%	40.88%	41.44%	41.16%
Medicaid	13.02%	14.37%	13.76%	15.68%
HIP	9.45%	7.24%	8.68%	5.75%
Medicaid and HIP	22.47%	21.61%	22.44%	21.43%
Wellpoint / Anthem	17.32%	18.19%	17.30%	18.01%
Other	16.63%	16.78%	16.34%	16.82%
Commercial / Managed Care	33.95%	34.97%	33.64%	34.83%
Self Pay and Other	2.34%	2.54%	2.48%	2.58%
Total Gross Patient Service Revenue:	100.00%	100.00%	100.00%	100.00%
<b>Medicare Case Mix Index, Academic Health Center (3)</b>	2.405	2.262	2.388	2.285

	September 30, 2020		September 30, 2019	
	Academic Health Center	Other System Hospitals	Academic Health Center	Other System Hospitals
<b>Bed Complement: Available</b>				
Medical Surgical	710	775	700	785
ICU / CCU	231	122	231	122
OB / Labor Delivery	54	150	54	144
Pediatrics	173	47	173	50
Psychiatric	24	56	26	56
High-Risk Nursery	104	92	104	92
Rehab and other	-	123	-	123
Total Bed Complement	1,296	1,365	1,288	1,372

(1) Adjusted for certain gains (losses) as defined in the IU Health Obligated Group Master Trust Indenture.

(2) 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.

(3) Medicare system of classification for DRGs is annually revised effective October 1 of each year.