

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

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MANAGEMENT'S DISCUSSION OF FINANCIAL PERFORMANCE  
As of March 31, 2020 and December 31, 2019 and for the three months ended March 31,  
2020 and 2019

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

The financial statement information and other data as of March 31, 2020 and December 31, 2019 and for the three months ended March 31, 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 March 31, 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 three entities which aid in carrying out the mission of the Indiana University Health System: Indiana University Health Foundation, Inc. (Indiana University Health Foundation), Ball Memorial Hospital Foundation, Inc. (BMH Foundation) and RHI Foundation, Inc. (RHI Foundation).

## **Coronavirus Disease 2019**

Due to the global viral outbreak caused by Coronavirus Disease 2019 (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 Emergency Executive Order 20-04 (the Order) directing delay of all non-essential or elective surgeries and procedures. The Order will continue for the duration of the peacetime emergency declared by Governor Holcomb. Indiana University Health expects the Order, combined with an expected growth in the volume of COVID-19 patients at its acute care hospitals, to have a negative impact on near-term operations and revenues, some of which was realized in March 2020. The timing, source and rate of reimbursement for COVID-19-related patient care; ability to respond to patient demand; 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. Also unknown are the length of delay and level of attrition in elective procedures, expense increases and acceleration, impact of changes in payer mix, potential rise in uninsured patients, need for charity care, and effect of the economic downturn on demand for elective procedures and billing cycle. 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 addition, Indiana University Health expects to apply for all appropriate COVID-19 related resources, including supplies, financial support, payroll tax deferrals and relief, and other assistance made available through local, state and federal government and community partners.

Due to the rapidly 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 March 31, 2020 and for the three-months then ended, do not reflect the complete effects of these subsequent impacts of COVID-19.

**Consolidated Statement of Operations and Changes in Net Assets**  
**(Compared to March 31, 2019)**

*Revenue.* Total operating revenue of \$1,624,123 for the three months ended March 31, 2020 increased 2.5%, or \$39,808 compared to the three months ended March 31, 2019, \$1,584,315.

Patient service revenue, when excluding increased reimbursement related to the Medicaid Hospital Assessment Fee (HAF) program, Physician Faculty Access to Care (PFAC), and state disproportionate share revenue (DSH), increased by \$43,035 or 3.2% for the three months ended March 31, 2020 compared to the three months ended March 31, 2019. The increase reflects revenue growth from strategic initiatives, annual rate increases and increased volumes in retail pharmacy, partially offset by lower volumes generally which were impacted by COVID-19 in March 2020 (see below).

The table below shows discharges and surgery cases by division.

	<b>Year over Year</b>			
	<b><u>3/31/2020</u></b>	<b><u>3/31/2019</u></b>	<b><u>Variance</u></b>	<b><u>Percentage</u></b>
<b><u>Inpatient Discharges</u></b>				
<b>Consolidated</b>	26,863	28,935	(2,072)	-7.2%
<b>Downtown</b>	10,940	12,155	(1,215)	-10.0%
<b>Statewide</b>	11,365	11,855	(490)	-4.1%
<b>Suburban</b>	4,558	4,925	(367)	-7.5%
<b><u>Total Surgery Cases</u></b>				
<b>Consolidated</b>	25,033	27,062	(2,029)	-7.5%
<b>Downtown</b>	7,532	8,354	(822)	-9.8%
<b>Statewide</b>	5,866	6,327	(461)	-7.3%
<b>Suburban</b>	3,380	3,669	(289)	-7.9%
<b>Ambulatory</b>	8,255	8,712	(457)	-5.2%

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 three months ended March 31, 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 \$124,120 and \$123,585, respectively.

Member premium revenue aggregated \$54,414 for the three months ended March 31, 2020 and \$58,207 for the three months ended March 31, 2019. The decrease in member premium revenue is mainly due to a one-time rate adjustment in 2019.

Other operating revenue of \$58,354 at March 31, 2020 remained consistent with the three months ended March 31, 2019.

*Expenses.* Total operating expenses of \$1,546,522 increased by 8.1%, or \$116,141 compared to the three months ended March 31, 2019, \$1,430,381.

Salaries, wages, and benefits increased 6.1%, or \$47,480, to \$826,483 compared to the three months ended March 31, 2019. The increase is primarily a result of base pay increases effective mid-2019, as well as an increase in full time equivalent employees (FTEs). The average number of FTEs was 31,009 and 30,270 for the three months ended March 31, 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 \$576,638 increased 11.0%, or \$57,271, compared to the three months ended March 31, 2019, \$519,367. The increase was primarily driven by continued increases in pharmaceutical expenses and growth from strategic initiatives, as well as increased cost associated with personal protective equipment (PPE) as a result of COVID-19.

Fees related to the HAF program were \$42,881 for the three months ended March 31, 2020, compared to \$40,538 in the same period in the prior year.

Health claims to providers expenses of \$24,381 increased by 28.9%, or \$5,461 compared to the three months ended March 31, 2019, \$18,920. The increase in claims expense is mainly related to favorable Medicaid claims run-out adjustments realized in 2019.

Depreciation and amortization expense of \$64,787 increased 5.5%, or \$3,393, from the same period in the prior year of \$61,394 mainly due to equipment purchases and building improvements made in the normal course of business.

Interest expense of \$11,352 remained consistent with the three months ended March 31, 2019.

Investment losses amounted to (\$662,453) for the three months ended March 31, 2020, including \$30,092 of interest and dividend income, net of fees, (\$692,545) of unrealized losses on investments, and \$410,455 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 three months ended March 31, 2019, investment gains aggregated to \$320,851, which included \$25,546 of interest and dividend income, \$267,930 of unrealized gains on

investments, and \$27,375 of realized gains on investments, net of fees. Losses on interest rate swaps aggregated \$16,862 and \$4,410 for the three months ended March 31, 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 \$6,589,489 at March 31, 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 392 days at March 31, 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 54 days at March 31, 2020 and 55 days at December 31, 2019. The number of days expenses in accounts payable, accrued expenses, and certain other current liabilities (excluding fees associated with the HAF program and related liability) was 54 days at March 31, 2020 and 61 days at December 31, 2019.

Net current assets, or working capital, increased 27.9% to \$760,165 at March 31, 2020 compared to \$594,117 at December 31, 2019. The increase is primarily due to a draw of \$225,000 on the Indiana University Health line of credit, the proceeds of which are invested in a cash equivalent. Net property and equipment of \$2,645,150 increased \$26,961, 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 \$372,454 at March 31, 2020.

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

Proceeds of the Series 2019A and 2019B bonds have been or will be used for certain capital expenditures and to pay certain expenses incurred in connection with their issuance. The remaining proceeds in the amount of \$34,166 are recorded in current portion of assets limited as to use, including funds held by a trustee for capital expenditure. Proceeds of the Series 2019C bonds were used (i) to refund (on a current basis) the following bonds: (a) \$9,065 in par of Series 2011A bonds, (b) \$10,290 in par of Series 2011B bonds, (c) \$10,020

in par of Series 2011C bonds, (d) \$5,040 in par of Series 2011D bonds, (e) \$9,860 in par of Series 2011E bonds, (f) \$34,845 in par of Series 2011H bonds, and (g) \$34,845 in par of Series 2011I bonds and (ii) to pay certain expenses incurred in connection with their issuance. Proceeds of the additional Series 2018A bonds have been or will be used to finance partial termination payments related to certain interest rate swaps, to finance certain capital expenditures, and to pay certain expenses incurred in connection with their issuance; the issuance of the Series 2019A, 2019B, and 2019C bonds; and the conversion and remarketing of the Series 2011H, 2011I, 2011L, 2011M, and 2015B bonds.

As of March 31, 2020 and December 31, 2019, the Indiana University Health System maintained lines of credit totaling \$226,000. As of March 31, 2020 and December 31, 2019, draws in the amount of \$225,000 and \$0, respectively, were drawn on the lines of credit.

Net assets without donor restriction, or equity, amounted to \$7,379,621 at March 31, 2020 and \$8,029,284 at December 31, 2019 and includes the net unrealized losses on swaps of \$48,233 and \$31,696 at March 31, 2020 and December 31 2019, respectively.

### **Strategic Initiatives**

As part of its commitment to being a leader in both the treatment of patients with complex illnesses as well as in the transition from payment models that reward volume to those that reward value, the Indiana University Health System continuously evaluates its operations with goals to achieve superior clinical outcomes and to treat patients in the most beneficial and least resource-intensive settings possible as it works to effectively manage the health of populations.

As part of this continual evaluation, management engages in discussions at times with unaffiliated third parties regarding potential affiliations, acquisitions, dispositions, divestitures, joint ventures, and other transactions. In addition, management considers the potential to change the services offered at a given facility or consolidate and/or eliminate redundant services. Such changes could be material, impacting the future composition of the system.

### **Capital Expenditures**

#### **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 plan was to build an approximately 88,000 square foot, two-story patient experience-focused facility that will provide full service cancer treatment options and necessary support services. The Indiana University Health Joe & Shelly Schwarz Cancer Center 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.

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.

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

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

#### **In 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.

## 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 three months ended March 31, 2020 and 2019.

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

	<b>Year Ended</b>	
	<b>March 31</b>	
	<b>2020</b>	<b>2019</b>
Operating income as reported	\$ 77,601	\$ 153,934
DSH	(7,037)	—
Noncontrolling interests in subsidiaries	(29,248)	(34,876)
Operating income adjusted	<u>\$ 41,316</u>	<u>\$ 119,058</u>
Operating margin adjusted	<b>2.6%</b>	<b>7.8%</b>

- During 2020, DSH revenue was recorded related to the state fiscal years ended June 30, 2018 and 2019.

**CONSOLIDATED FINANCIAL STATEMENTS**  
As of March 31, 2020 and December 31, 2019 and for the three months ended March 31,  
2020 and 2019

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

	March 31 2020 (Unaudited)	December 31 2019 (Audited)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 463,495	\$ 223,740
Short-term investments	132,014	135,104
Current portion of assets limited as to use, including funds held by trustee for capital expenditure	156,310	273,021
Patient accounts receivable	827,212	875,633
Other receivables	211,386	155,859
Prepaid expenses	101,333	80,033
Inventories	108,182	105,486
Total current assets	1,999,932	1,848,876
Assets limited as to use:		
Board-designated investment funds and other investments	5,758,910	6,362,587
Donor-restricted investment funds	78,760	80,679
Total assets limited as to use, less current portion	5,837,670	6,443,266
Property and equipment:		
Cost of property and equipment in service	5,723,964	5,633,967
Less accumulated depreciation	(3,395,868)	(3,332,405)
	2,328,096	2,301,562
Construction-in-progress	317,054	316,627
Total property and equipment, net	2,645,150	2,618,189
Other assets:		
Equity interest in unconsolidated subsidiaries	25,305	28,685
Interest in net assets of foundations	21,304	21,302
Right-of-use assets	122,999	124,847
Goodwill, intangibles, and other assets	332,302	328,304
Total other assets	501,910	503,138
Total assets	\$ 10,984,662	\$ 11,413,469

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

	March 31 2020 (Unaudited)	December 31 2019 (Audited)
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 541,921	\$ 553,387
Accrued salaries, wages, and related liabilities	331,614	381,071
Accrued health claims	57,129	55,637
Estimated third-party payer allowances	233,536	181,706
Current portion of lease liabilities	32,074	31,148
Current portion of long-term debt	43,493	51,810
Total current liabilities	<u>1,239,767</u>	<u>1,254,759</u>
Noncurrent liabilities:		
Long-term debt, less current portion	1,972,622	1,760,442
Interest rate swaps	48,233	31,696
Accrued pension obligations	21,407	21,438
Accrued medical malpractice claims	65,985	64,203
Lease liabilities, less current portion	103,092	105,517
Other	30,495	24,521
Total noncurrent liabilities	<u>2,241,834</u>	<u>2,007,817</u>
Total liabilities	<u>3,481,601</u>	<u>3,262,576</u>
Net assets:		
Indiana University Health	7,120,102	7,757,235
Noncontrolling interest in subsidiaries	259,519	272,049
Total without donor restrictions	<u>7,379,621</u>	<u>8,029,284</u>
With donor restrictions	123,440	121,609
Total net assets	<u>7,503,061</u>	<u>8,150,893</u>
Total liabilities and net assets	<u><u>\$ 10,984,662</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)

	<b>Three Months Ended March 31</b>	
	<b>2020</b>	<b>2019</b>
Revenues:		
Patient service revenue	\$ 1,511,355	\$ 1,467,785
Member premium revenue	54,414	58,207
Other revenue	58,354	58,323
Total operating revenues	<u>1,624,123</u>	<u>1,584,315</u>
Expenses:		
Salaries, wages, and benefits	826,483	779,003
Supplies, drugs, purchased services, and other	576,638	519,367
Hospital assessment fee	42,881	40,538
Health claims to providers	24,381	18,920
Depreciation and amortization	64,787	61,394
Interest	11,352	11,159
Total operating expenses	<u>1,546,522</u>	<u>1,430,381</u>
Operating income	77,601	153,934
Nonoperating (loss) income:		
Investment (loss) income, net	(662,453)	320,851
Losses on interest rate swaps, net	(16,862)	(4,410)
Inherent contribution of acquired entity	—	604
Debt extinguishment and other	(375)	(2,248)
Total nonoperating (loss) income	<u>(679,690)</u>	<u>314,797</u>
Consolidated (deficit) excess of revenues over expenses	(602,089)	468,731
Less amounts attributable to noncontrolling interest in subsidiaries	<u>29,248</u>	<u>34,876</u>
(Deficit) excess of revenues over expenses attributable to Indiana University Health and subsidiaries	<u><u>\$ (631,337)</u></u>	<u><u>\$ 433,855</u></u>

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

<b>Three Months Ended March 31, 2020</b>			
	<b>(Unaudited)</b>		
	<b>Total</b>	<b>Controlling</b>	<b>Noncontrolling</b>
Without donor restriction:			
Consolidated (deficit) excess of revenues over expenses	\$ (602,089)	\$ (631,337)	\$ 29,248
Distributions to noncontrolling interests	(39,861)	—	(39,861)
Other	(7,713)	(5,796)	(1,917)
	<u>(649,663)</u>	<u>(637,133)</u>	<u>(12,530)</u>
With donor restriction:			
Contributions	682	682	—
Investment return	1,510	1,510	—
Net assets released from restrictions	(282)	(282)	—
Other	(79)	(79)	—
	<u>1,831</u>	<u>1,831</u>	<u>—</u>
Decrease in net assets	(647,832)	(635,302)	(12,530)
Net assets at beginning of period	8,150,893	7,878,844	272,049
Net assets at end of period	<u>\$ 7,503,061</u>	<u>\$ 7,243,542</u>	<u>\$ 259,519</u>

  

<b>Three Months Ended March 31, 2019</b>			
	<b>(Unaudited)</b>		
	<b>Total</b>	<b>Controlling</b>	<b>Noncontrolling</b>
Without donor restriction:			
Consolidated excess of revenues over expenses	\$ 468,731	\$ 433,855	\$ 34,876
Contributions for capital expenditures	2,332	2,332	—
Distributions to noncontrolling interests	(34,443)	—	(34,443)
Other	(1,048)	(830)	(218)
	<u>435,572</u>	<u>435,357</u>	<u>215</u>
With donor restriction:			
Contributions	497	497	—
Investment return	62	62	—
Net assets released from restrictions	(297)	(297)	—
Other	(73)	(73)	—
	<u>189</u>	<u>189</u>	<u>—</u>
Increase in net assets	435,761	435,546	215
Net assets at beginning of period	7,041,660	6,780,097	261,563
Net assets at end of period	<u>\$ 7,477,421</u>	<u>\$ 7,215,643</u>	<u>\$ 261,778</u>

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

	<b>Three Months Ended March 31</b>	
	<b>2020</b>	<b>2019</b>
<b>Operating activities</b>		
(Decrease) increase in net assets	\$ (647,832)	\$ 435,761
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Change in fair value of interest rate swaps	16,537	3,441
Gain in unconsolidated subsidiaries	(454)	(845)
Inherent contribution of acquired entity	—	(604)
Depreciation and amortization	64,787	61,394
Amortization of deferred gain on sale of medical office buildings	(430)	(170)
Contributions and investment return with donor restrictions	(2,192)	(559)
Distributions to noncontrolling interests	39,861	34,443
Assets limited as to use	768,885	(440,317)
Net changes in operating assets and liabilities:		
Patient accounts receivable	48,421	(17,862)
Other assets	(79,339)	57,032
Accounts payable, accrued liabilities, and other liabilities	(1,819)	(55,165)
Accrued salaries, wages, and related liabilities	(49,457)	9,080
Estimated third-party payer allowances	51,830	4,700
Net cash provided by operating activities	<u>208,798</u>	<u>90,329</u>
<b>Investing activities</b>		
Purchase of property and equipment, net of disposals	(91,748)	(38,109)
Net cash used in investing activities	<u>(91,748)</u>	<u>(38,109)</u>
<b>Financing activities</b>		
Contributions and investment return with donor restrictions	2,192	559
Repayments on long-term debt	(21,137)	(42,151)
Proceeds from notes payable under lines of credit	225,000	—
Distributions to noncontrolling interests	(39,861)	(34,443)
Net cash provided by (used in) financing activities	<u>166,194</u>	<u>(76,035)</u>
Increase (decrease) in cash and cash equivalents	283,244	(23,815)
Cash and cash equivalents at beginning of period	277,293	412,449
Cash and cash equivalents at end of period	<u>\$ 560,537</u>	<u>\$ 388,634</u>
Reconciliation of cash and cash equivalents to the consolidated balance sheets:		
Cash and cash equivalents	\$ 463,495	\$ 317,813
Cash and cash equivalents included in assets limited as to use	97,042	70,821
Cash and cash equivalents at end of period	<u>\$ 560,537</u>	<u>\$ 388,634</u>

See accompanying notes to consolidated financial statements.

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

Indiana University Health, Inc. (Indiana University Health), an Indiana private, nonprofit organization (exempt from federal income taxes as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the Code)), and classified as a public charity under Section 509(a) of the Code, is a health care delivery system that provides services throughout the State of Indiana (the State). Indiana University Health's vision is to lead the transformation of healthcare through quality, innovation & education, and make Indiana one of the nation's healthiest states.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete, annual financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal and recurring nature. Operating results for the three months ended March 31, 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 Coronavirus Disease 2019 (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 Emergency Executive Order 20-04 (the Order) directing delay of all non-essential or elective surgeries and procedures. The Order will continue for the duration of the peacetime emergency declared by Governor Holcomb. Indiana University Health expects the Order, combined with an expected growth in the volume of COVID-19 patients at its acute care hospitals,

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**2. Significant Events (continued)**

to have a negative impact on near-term operations and revenues, some of which was realized in March 2020. The timing, source and rate of reimbursement for COVID-19-related patient care; ability to respond to patient demand; 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. Also unknown are the length of delay and level of attrition in elective procedures, expense increases and acceleration, impact of changes in payer mix, potential rise in uninsured patients, need for charity care, and effect of the economic downturn on demand for elective procedures and billing cycle. 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 addition, Indiana University Health expects to apply for all appropriate COVID-19 related resources, including supplies, financial support, payroll tax deferrals and relief, and other assistance made available through local, state and federal government and community partners.

Due to the rapidly 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 March 31, 2020 and for the three-months then ended, do not reflect the complete effects of these subsequent impacts of COVID-19 (See Note 3, Subsequent Events).

**3. Summary of Significant Accounting Policies**

**Use of Estimates**

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

**Subsequent Events**

For the consolidated financial statements as of and for the three months ended March 31, 2020, management has evaluated subsequent events through April 23, 2020, the date that these financial statements were made publicly available.

In April 2020, Indiana University Health received \$348,000 from the Centers for Medicare and Medicaid (CMS) as an advance payment under the Coronavirus Aid, Relief, and Economic Security Act (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 Coronavirus Disease 2019 (COVID-19) pandemic. The advance and accelerated payments are a loan that providers must

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

repay and CMS will begin to apply claims payments to offset the advance and accelerated payments 120 days after disbursement. Hospitals will have up to one year from the date the accelerated payment was made to repay the balance, if the advance was in excess of the Medicare billing for the year following receipt.

In April 2020, Indiana University Health also received \$67,699 in stimulus funds from CMS as a part of the CARES Act. This payment was part of an additional \$100,000,000 in funding earmarked for hospitals and other providers to receive the support needed for COVID-19 related expenses and lost revenue.

The accompanying consolidated financial statements as of and for the three months ended March 31, 2020 do not reflect these subsequent events.

**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 acute care services from admission to the point when services are no longer required, which is generally at the time of discharge.

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

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

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

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

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

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

The Indiana University Health System serves Medicaid patients and is subject to reimbursement under various programs. Under the HAF program, the OMPP collects a fee from eligible hospitals. The fee is used in part to increase reimbursement to eligible hospitals for services provided in both Medicaid fee-for-service and managed care programs, and as the State share of Medicaid DSH payments. The State DSH program is

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

dependent on regulatory approval by agencies of the federal and state governments and is determined by the level, extent, and cost of uncompensated care (as defined) and various other factors. Separately, the Physician Faculty Access to Care (PFAC) program was established to pay qualifying providers the difference between what Medicare would have paid and what Medicaid actually paid.

For the three months ended March 31, 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 \$124,120 and \$123,585, respectively. During the three months ended March 31, 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 \$42,881 and \$40,538, respectively.

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

In rare instances, the Indiana University Health System receives payment in advance of the services provided and considers these amounts to represent contract liabilities. Contract liabilities at March 31, 2020 were not significant.

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

	<b>Three Months Ended</b>	
	<b>March 31</b>	
	<b>2020</b>	<b>2019</b>
Commercial/managed care	\$ 831,770	\$ 859,427
Medicare	405,988	353,797
Medicaid	241,795	225,731
Self-pay and other	31,802	28,830
	<u><u>\$ 1,511,355</u></u>	<u><u>\$ 1,467,785</u></u>

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

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 29% and 32% of patient service revenue for the three months ended March 31, 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). 30% and 29% of patient accounts receivable were collectible from government payers as of March 31, 2020 and December 31, 2019 respectively. The remaining 70% and 71% of patient accounts receivable as of March 31, 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.

The composition of other revenue by sources is as follows:

	<b>Three Months Ended</b>	
	<b>March 31</b>	
	<b>2020</b>	<b>2019</b>
Shared health services revenue	\$ 35,529	\$ 37,647
Other	22,825	20,676
	<u>\$ 58,354</u>	<u>\$ 58,323</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

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

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 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 March 31, 2020 and December 31, 2019, there were \$520,315 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

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

consultation with its investment consultants, has the capacity to analyze and interpret the risks associated with alternative investments and, with this understanding, has determined that these investments represent a prudent approach for use in its portfolio management.

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

	<b>March 31</b>	<b>December 31</b>
	<b>2020</b>	<b>2019</b>
Assets limited as to use:		
Cash	\$ 97,042	\$ 53,553
Short-term, liquid investments	48,804	122,855
Debt securities:		
Asset backed	186,858	199,401
Bank loans	248,962	351,801
Corporate debt	293,441	310,894
Government and agencies	152,853	416,598
Bond funds	420,305	492,352
Total debt securities	1,302,419	1,771,046
Equity securities:		
Domestic equities	1,263,072	82,309
Domestic equity funds	15,596	1,273,229
International equities	560,063	87,538
International equity funds	269,950	895,996
Total equity securities	2,108,681	2,339,072
Commodities	159,571	223,335
Alternatives:		
Hedge funds	1,575,724	1,574,752
Private funds	701,739	631,674
Total alternatives	2,277,463	2,206,426
Less current portion of assets limited as to use	(156,310)	(273,021)
Total assets limited as to use	\$ 5,837,670	\$ 6,443,266

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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 March 31, 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>March 31 2020</b>	<b>December 31 2019</b>
Financial assets:		
Cash and cash equivalents	\$ 463,495	\$ 223,740
Short-term investments	132,014	135,104
Patient accounts receivable	827,212	875,633
Other receivables	211,386	155,859
Assets limited as to use	5,993,980	6,716,287
Total financial assets	<u>7,628,087</u>	<u>8,106,623</u>
Liquidity resource:		
Unused bank lines of credit	1,000	226,000
Less amounts not available within one year or not designated for general expenditures:		
Alternative investments	(876,085)	(805,304)
Other	(182,906)	(204,366)
Financial assets not available for use within one year	<u>(1,058,991)</u>	<u>(1,009,670)</u>
Financial assets and liquidity resources available for general expenditures within one year	<u><u>\$ 6,570,096</u></u>	<u><u>\$ 7,322,953</u></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 have been or will be used for certain capital expenditures and to pay certain expenses incurred in connection with their issuance. The remaining proceeds in the amount of \$34,166 are recorded in current portion of assets limited as to use, including funds held by a trustee for capital expenditure. Proceeds of the Series 2019C bonds were used (i) to refund (on a current basis) the following bonds: (a) \$9,065 in par of Series 2011A bonds, (b) \$10,290 in par of Series 2011B bonds, (c) \$10,020 in par of Series 2011C bonds, (d) \$5,040 in par of Series 2011D bonds, (e) \$9,860 in par of Series 2011E bonds, (f) \$34,845 in par of Series 2011H bonds, and (g) \$34,845 in par of Series 2011I bonds and (ii) to pay certain expenses incurred in connection with their issuance. Proceeds of the additional Series 2018A bonds have been or will be used to finance partial termination payments related to certain interest rate swaps, to finance certain capital expenditures, and to pay certain expenses incurred in connection with their issuance, the issuance of the Series 2019A, 2019B, and 2019C bonds, and the conversion and remarketing of the Series 2011H, 2011I, 2011L, 2011M, and 2015B bonds.

On 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.

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**7. Debt (continued)**

As of March 31, 2020 and December 31, 2019, the Indiana University Health System maintained lines of credit totaling \$226,000. As of March 31, 2020 and December 31, 2019, draws in the amount of \$225,000 and \$0, respectively, were drawn on the lines of credit.

**8. Derivative Financial Instruments**

Long-term interest rate swap arrangements have been entered into with the primary objective being to mitigate interest rate risk. The following fixed-pay swaps, stated at current and maximum future notional amounts, remain in place as of March 31, 2020:

<b>Current Notional Amount</b>	<b>Maximum Future Notional Amount</b>	<b>Effective Date</b>	<b>Maturity Date</b>	<b>Rate Received</b>	<b>Rate Paid</b>
—	39,705	3/03/2022	3/01/2036	62.30% LIBOR plus 0.24%	2.68%
—	54,900	2/18/2022	2/15/2030	62.30% LIBOR plus 0.24%	3.35%
—	55,200	2/22/2022	2/15/2030	62.30% LIBOR plus 0.24%	3.35%
—	12,230	3/10/2022	3/01/2033	LIBOR	4.92%
—	48,920	3/10/2022	3/01/2033	LIBOR	4.92%
1,800	1,800	1/27/2006	11/02/2020	Securities Industry and Financial Markets Association Municipal Swap Index (SIFMA)	3.98%

After giving effect to the above derivative transactions, the Indiana University Health System's variable-rate debt was approximately 26.9% of total debt outstanding as of March 31, 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 March 31, 2020 as follows:

<b>Notional Amount</b>	<b>Effective Date</b>	<b>Maturity Date</b>	<b>Swap Type</b>	<b>Rate Received</b>	<b>Rate Paid</b>
309,200	1/07/2020	1/7/2033	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 March 31, 2020, the fair value of interest rate swaps was a liability of \$48,233, which is net of CVA of \$541.

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

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. The fair values of the swaps have been included with noncurrent liabilities in the accompanying consolidated balance sheet.

As of March 31, 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 basis swaps, and maximum future notional amount of \$521,955, comprised of \$212,755 of fixed-pay swaps and \$309,200 of basis swaps. Under agreements executed with counterparties, Indiana University Health is obligated to fund collateral amounts when the aggregate market value of swaps made with a given counterparty exceeds a threshold set forth in the related agreement. As of March 31, 2020 and December 31, 2019, all interest rate swaps were subject to credit-risk-related contingent features. No collateral was posted as of March 31, 2020 or December 31, 2019.

The Indiana University Health System recorded the following losses, within nonoperating income, in the accompanying consolidated statements of operations and changes in net assets related to these derivative financial instruments:

	<b>Three Months Ended</b>	
	<b>March 31</b>	
	<b>2020</b>	<b>2019</b>
Losses on interest rate swaps, net:		
Unrealized losses on interest rate swaps	\$ (16,538)	\$ (3,441)
Realized losses on interest rate swaps	(324)	(969)
	<u>\$ (16,862)</u>	<u>\$ (4,410)</u>

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

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

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

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 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.

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

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 March 31, 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.

	March 31, 2020						
	Level 1	Level 2	Level 3	NAV	Fair Value	Equity Method	Carrying Value
<b>Assets</b>							
Cash and cash equivalents	\$ 463,495	\$ –	\$ –	–	\$ 463,495	–	\$ 463,495
Short-term investments:							
Debt securities:							
Asset backed	–	4,316	–	–	4,316	–	4,316
Corporate debt	–	69,241	–	–	69,241	–	69,241
Government and agencies	58,457	–	–	–	58,457	–	58,457
Assets limited as to use:							
Cash	97,042	–	–	–	97,042	–	97,042
Short-term, liquid investments	48,804	–	–	–	48,804	–	48,804
Debt securities:							
Asset backed	–	186,858	–	–	186,858	–	186,858
Bank loans	–	247,896	1,065	–	248,961	–	248,961
Corporate debt	–	292,389	1,052	–	293,441	–	293,441
Government and agencies	152,853	–	–	–	152,853	–	152,853
Bond funds	175,678	–	–	244,627	420,305	–	420,305
Equity securities:							
Domestic equities	1,262,860	–	212	–	1,263,072	–	1,263,072
Domestic equity funds	15,596	–	–	–	15,596	–	15,596
International equities	560,000	–	63	–	560,063	–	560,063
International equity funds	–	–	–	269,950	269,950	–	269,950
Commodities	159,571	–	–	–	159,571	–	159,571
Alternatives:							
Hedge funds	–	–	–	–	–	1,575,724	1,575,724
Private funds	–	–	–	–	–	701,739	701,739
Beneficial interests in charitable remainder and perpetual trusts	–	16,033	–	–	16,033	–	16,033
Total cash and investments	\$ 2,994,356	\$ 816,733	\$ 2,392	\$ 514,577	\$ 4,328,058	\$ 2,277,463	\$ 6,605,521
<b>Liabilities</b>							
Interest rate swaps	\$ –	\$ 48,233	\$ –	–	\$ 48,233	–	\$ 48,233
Total liabilities measured at fair value on a recurring basis	\$ –	\$ 48,233	\$ –	–	\$ 48,233	–	\$ 48,233

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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.

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

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

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 March 31, 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, as of March 31, 2020. Finance leases are included in property and equipment, current portion of long-term debt, and long-term debt, less current portion on the consolidated balance sheet.

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**11. Leases (continued)**

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>Three Months Ended March 31</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	\$ 10,660	\$ 10,277
Operating cash flows from finance leases	36	193
Financing cash flows from finance leases	227	52
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	\$ 122,999	\$ 126,035
Finance leases	1,048	1,338
<b>Weighted average remaining lease term (in years)</b>		
Operating leases	6.13	6.26
Finance leases	1.57	2.30
<b>Weighted average discount rate</b>		
Operating leases	2.68%	2.62%
Finance leases	4.92%	5.18%

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**11. Leases (continued)**

Future minimum lease payments under non-cancellable leases as of March 31, 2020 were as follows:

	<b>Operating</b>	<b>Finance</b>
	<b>\$</b>	<b>\$</b>
2020	28,122	643
2021	32,376	438
2022	27,716	99
2023	22,608	2
2024	15,387	—
Thereafter	40,676	—
Total future minimum lease payments	166,885	1,182
Less imputed interest	31,718	101
Net present value of minimum lease payments	\$ 135,167	\$ 1,081

**12. Retirement Plans**

**Defined Contribution Plans**

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

**Defined Benefit Plans**

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

Pension benefits are based on years of service and compensation of employees (as defined) and are actuarially determined. Where applicable, the funding policy is to annually contribute the amount required to comply with applicable legislation and IRS regulations. Adjustments to pension liabilities to reflect funded status are charged or credited to net assets without donor restriction.

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**12. Retirement Plans (continued)**

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

	<b>Three Months Ended March 31</b>	
	<b>2020</b>	<b>2019</b>
Interest cost	\$ 1,591	\$ 3,688
Expected return on plan assets	(1,986)	(3,530)
Amortization of unrecognized net loss	36	948
Net periodic pension cost	<u>\$ (359)</u>	<u>\$ 1,106</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	<u>4.36%</u>	3.67%
Expected rate of return on plan assets	<u>4.00%</u>	4.00%

Required contributions for 2020 are expected to be \$15,000. No contributions were made in the first three months of 2020. There were no required contributions in 2019 and none were made in 2019.

**13. Functional Expenses**

The tables below present expenses by both their nature and function for the three months ended March 31.

	<b>Health Services</b>	<b>Insurance Services</b>	<b>General &amp; Administrative</b>	<b>Total</b>
2020:				
Salaries, wages, and benefits	\$ 789,473	\$ 7,388	\$ 29,622	\$ 826,483
Supplies, drugs, purchased services, and other	523,478	16,004	37,156	576,638
Hospital assessment fee	42,881	—	—	42,881
Health claims to providers	—	24,381	—	24,381
Depreciation and amortization	62,183	—	2,604	64,787
Interest	11,352	—	—	11,352
	<u>\$ 1,429,367</u>	<u>\$ 47,773</u>	<u>\$ 69,382</u>	<u>\$ 1,546,522</u>

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**13. Functional Expenses (continued)**

	<b>Health Services</b>	<b>Insurance Services</b>	<b>General &amp; Administrative</b>	<b>Total</b>
2019:				
Salaries, wages, and benefits	\$ 742,548	\$ 6,338	\$ 30,117	\$ 779,003
Supplies, drugs, purchased services, and other	465,513	13,227	40,627	519,367
Hospital assessment fee	40,538	—	—	40,538
Health claims to providers	—	18,920	—	18,920
Depreciation and amortization	59,301	—	2,093	61,394
Interest	11,159	—	—	11,159
	<u>\$ 1,319,059</u>	<u>\$ 38,485</u>	<u>\$ 72,837</u>	<u>\$ 1,430,381</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.

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**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 2.0, which was Indiana's response to expanding its Medicaid program. The State of Indiana's request for renewal of the Healthy Indiana Plan 2.0 waiver by CMS was approved in late January of 2018 for an additional three years, meaning that the state will continue to engage eligible adults in its signature health program through at least the year 2020. 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 March 31, 2020 and December 31, 2019 and for the three months ended March 31,  
2020 and 2019

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

	March 31 2020	December 31 2019
	(Unaudited)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 482,520	\$ 219,490
Short-term investments	132,014	135,104
Current portion of assets limited as to use, including funds held by a trustee for capital expenditure	95,530	207,281
Patient accounts receivable	468,886	465,014
Other receivables	137,401	118,350
Prepaid expenses	82,573	58,158
Inventories	71,753	69,341
Total current assets	1,470,677	1,272,738
Assets limited as to use:		
Board-designated investment funds and other investments	5,367,380	5,926,944
Property and equipment:		
Cost of property and equipment in service	3,715,658	3,708,165
Less accumulated depreciation	(2,291,627)	(2,251,380)
	1,424,031	1,456,785
Construction-in-progress	69,092	50,243
Total property and equipment, net	1,493,123	1,507,028
Other assets:		
Equity interest in unconsolidated subsidiaries	351,053	350,968
Interest in net assets of foundations	7,713	7,713
Right-of-use assets	61,997	59,516
Notes receivable and other (principally from related organizations)	76,580	640,101
Total other assets	497,343	1,058,298
Total assets	\$ 8,828,523	\$ 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)*

	March 31 2020	December 31 2019
	(Unaudited)	
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,550,275	\$ 2,100,891
Accrued salaries, wages, and related liabilities	153,121	175,929
Accrued health claims	57,060	55,564
Estimated third-party payer allowances	170,994	135,807
Current portion of lease liabilities	12,226	12,335
Current portion of long-term debt	41,911	50,130
Total current liabilities	1,985,587	2,530,656
Noncurrent liabilities:		
Long-term debt, less current portion	1,961,189	1,748,879
Interest rate swaps	48,198	31,649
Accrued pension obligations	13,238	13,238
Accrued medical malpractice claims	2,628	2,597
Lease liabilities, less current portion	46,694	47,082
Other	22,362	22,700
Total noncurrent liabilities	2,094,309	1,866,145
Total liabilities	4,079,896	4,396,801
Net assets:		
Without donor restriction	4,739,059	5,358,639
With donor restriction	9,568	9,568
Total net assets	4,748,627	5,368,207
Total liabilities and net assets	\$ 8,828,523	\$ 9,765,008

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

	<b>Three Months Ended March 31</b>	
	<b>2020</b>	<b>2019</b>
	<b>(Unaudited)</b>	
Revenues:		
Patient service revenue	\$ 744,221	\$ 715,052
Member premium revenue	43,669	47,616
Other revenue	160,668	155,563
Total operating revenues	<u>948,558</u>	<u>918,231</u>
Expenses:		
Salaries, wages, and benefits	314,322	301,331
Supplies, drugs, purchased services, and other	420,194	374,536
Hospital assessment fee	20,673	18,632
Health claims to providers	33,329	26,786
Depreciation and amortization	39,871	38,353
Interest	11,241	10,964
Total operating expenses	<u>839,630</u>	<u>770,602</u>
Operating income	<u>108,928</u>	<u>147,629</u>
Nonoperating (loss) income:		
Investment (loss) income, net	(600,410)	293,239
Losses on interest rate swaps, net	(16,871)	(4,413)
Debt extinguishment and other	(906)	(2,557)
Total nonoperating (loss) income	<u>(618,187)</u>	<u>286,269</u>
(Deficit) excess of revenues over expenses	<u>\$ (509,259)</u>	<u>\$ 433,898</u>

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

	<b>March 31</b>	<b>December 31</b>
	<b>2020</b>	<b>2019</b>
<b>Assets</b>	<b>(Unaudited)</b>	
Current assets:		
Cash and cash equivalents	\$ 482,520	\$ 219,490
Short-term investments	132,014	135,104
Current portion of assets limited as to use, including funds held by a trustee for capital expenditure	95,474	207,176
Patient accounts receivable	466,660	462,081
Other receivables	139,562	120,648
Prepaid expenses	82,476	57,947
Inventories	71,031	68,622
Total current assets	<u>1,469,737</u>	<u>1,271,068</u>
Assets limited as to use:		
Board-designated investment funds and other investments	5,362,666	5,921,719
Property and equipment:		
Cost of property and equipment in service	3,699,338	3,691,844
Less accumulated depreciation	<u>(2,279,707)</u>	<u>(2,239,754)</u>
	1,419,631	1,452,090
Construction-in-progress	69,082	50,243
Total property and equipment, net	<u>1,488,713</u>	<u>1,502,333</u>
Other assets:		
Equity interest in unconsolidated subsidiaries	351,252	351,167
Right-of-use assets	61,516	59,034
Notes receivable and other (principally from related organizations)	80,137	644,443
Total other assets	<u>492,905</u>	<u>1,054,644</u>
Total assets	<u><u>\$ 8,814,021</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)*

	March 31 2020	December 31 2019
	<b>(Unaudited)</b>	
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,579,291	\$ 2,128,412
Accrued salaries, wages, and related liabilities	151,687	174,800
Accrued health claims	57,060	55,564
Estimated third-party payer allowances	169,405	134,566
Current portion of lease liabilities	12,096	12,206
Current portion of long-term debt	41,873	50,092
Total current liabilities	<u>2,011,412</u>	<u>2,555,640</u>
Noncurrent liabilities:		
Long-term debt, less current portion	1,960,910	1,748,591
Interest rate swaps	48,198	31,649
Accrued pension obligations	13,238	13,238
Accrued medical malpractice claims	2,578	2,547
Lease liabilities, less current portion	46,365	46,720
Other	22,321	22,660
Total noncurrent liabilities	<u>2,093,610</u>	<u>1,865,405</u>
Total liabilities	<u>4,105,022</u>	<u>4,421,045</u>
Net assets:		
Without donor restriction	4,707,144	5,326,864
With donor restriction	1,855	1,855
Total net assets	<u>4,708,999</u>	<u>5,328,719</u>
Total liabilities and net assets	<u><u>\$ 8,814,021</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)*

	<b>2020</b>	<b>March 31</b>	<b>2019</b>
	<b>(Unaudited)</b>		
Revenues:			
Patient service revenue	\$ 733,997	\$	705,139
Member premium revenue	43,669		47,616
Other revenue	162,545		157,317
Total operating revenues	<u>940,211</u>		910,072
Expenses:			
Salaries, wages, and benefits	310,853		298,004
Supplies, drugs, purchased services, and other	416,303		371,382
Hospital assessment fee	20,389		18,319
Health claims to providers	33,512		26,897
Depreciation and amortization	39,471		37,925
Interest	11,240		10,964
Total operating expenses	<u>831,768</u>		763,491
Operating income	<u>108,443</u>		146,581
Nonoperating (loss) income:			
Investment (loss) income, net	(600,057)		292,757
Losses on interest rate swaps, net	(16,871)		(4,413)
Debt extinguishment and other	(906)		(2,557)
Total nonoperating (loss) income	<u>(617,834)</u>		285,787
(Deficit) excess of revenues over expenses	<u>\$ (509,391)</u>	\$	<u>432,368</u>

Indiana University Health, Inc. and subsidiaries  
Statistical and Other Data  
As of and for the Three Months Ended March 31, 2020 and 2019  
(Except as noted below)

Description	For the Three Months Ended March 31	
	2020	2019
<b>Academic Health Center</b>		
Active Members	1,239	1,255
Residents	737	710
Other Members	973	1,008
Total Medical Staff	2,949	2,973
Consolidated Number of Available Beds	2,660	2,662
<b>Employees</b>		
Consolidated FTE employees	31,009	30,270
Methodist/IU/Riley/Saxony/Morgan FTE employees	8,583	8,722
<b>Credit Group coverage of Debt Service (dollars in thousands, annualized)</b>		
Revenues over expenses (1)	957,771	697,161
Depreciation, amortization and interest	204,448	197,268
Available to pay debt service	1,162,219	894,429
Actual debt service	112,572	101,533
Historical debt service coverage ratio	10.32	8.81
Forecast maximum annual debt service (2)	120,255	112,222
Available to pay debt service	1,162,219	894,429
Forecast maximum annual debt service coverage ratio	9.66	7.97

Description	For the Three Months Ended March 31	
	2020	2019
<b>Consolidated Utilization and Operating Statistics</b>		
Inpatient Days	150,292	164,262
Admissions	26,472	28,899
Occupancy Rate (based on available beds)	62.09%	68.56%
Average Length of Stay	5.68	5.68
Surgery Cases IP	6,607	7,471
Surgery Cases OP	18,426	19,591
Surgery Cases Total	25,033	27,062
Emergency Room Visits	105,917	110,450
Radiological Examinations	324,637	328,027
<b>Gross Patient Service Revenue</b>		
Medicare and Other Government	41.90%	40.47%
Medicaid	14.11%	13.90%
HIP	7.50%	8.05%
Medicaid and HIP	21.61%	21.95%
Wellpoint / Anthem	17.43%	18.35%
Other	16.38%	16.65%
Commercial / Managed Care	33.81%	35.00%
Self Pay and Other	2.68%	2.58%
Total Gross Patient Service Revenue:	100.00%	100.00%
<b>Medicare Case Mix Index, Academic Health Center (3)</b>	2.441	2.226

	March 31, 2020		March 31, 2019	
	Academic Health Center	Other System Hospitals	Academic Health Center	Other System Hospitals
<b>Bed Complement: Available</b>				
Medical Surgical	700	785	700	787
ICU / CCU	231	122	231	122
OB / Labor Delivery	54	144	54	144
Pediatrics	173	50	173	50
Psychiatric	26	56	26	56
High-Risk Nursery	104	92	104	92
Rehab and other	-	123	-	123
Total Bed Complement	1,288	1,372	1,288	1,374

(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-

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