

CONSOLIDATED FINANCIAL STATEMENTS AND OTHER INFORMATION  
INDIANA UNIVERSITY HEALTH, INC. AND SUBSIDIARIES  
AS OF MARCH 31, 2021 AND DECEMBER 31, 2020 AND FOR THE THREE MONTHS  
ENDED MARCH 31, 2021 AND 2020

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MANAGEMENT'S DISCUSSION OF FINANCIAL PERFORMANCE  
As of March 31, 2021 and December 31, 2020 and for the three months ended March 31,  
2021 and 2020

**Indiana University Health, Inc. and Subsidiaries**  
**Management's Discussion of Financial Performance**  
**As of March 31, 2021 and December 31, 2020 and for the three months ended March 31, 2021 and 2020**  
*(Thousands of Dollars)*

The financial statement information and other data as of March 31, 2021 and December 31, 2020 and for the three months ended March 31, 2021 and 2020 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, 2020 and 2019 (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, 2021:

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

**Downtown Indianapolis Hospitals of the Academic Health Center** – Consist of three acute, tertiary, quaternary care, and diagnostic facilities, licensed as a single hospital, which constitutes the principal hospital activities of the academic health center and whose operations are located in the downtown area of Indianapolis, Indiana. These three hospitals, Indiana University Health Methodist Hospital (Methodist Hospital), Indiana University Health University Hospital (University Hospital), and Riley Hospital for Children at Indiana University Health (Riley Hospital), are located on or near the campus of Indiana University-Purdue University Indianapolis and the Indiana University School of Medicine.

**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, 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) including 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 urgent care centers.

## **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) and Medicare Advantage products. The Indiana University Health System also participates in the medical management of Medicare fee-for-service members through a NextGen Accountable Care Organization contract with the Centers for Medicare and Medicaid (CMS).

## **Philanthropic Activities**

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

## **Coronavirus Disease 2019**

The global viral outbreak caused by coronavirus disease 2019 (COVID-19) resulted in a national public health emergency. 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 likely 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 an executive order directing the delay of all non-essential or elective surgeries and procedures. The Governor relaxed restrictions on elective procedures in late April 2020, and elective procedures resumed at Indiana University Health on May 4, 2020, returning to near expected volumes by the end of June 2020. From December 6, 2020 through January 3, 2021, an executive order from the Governor offered healthcare providers an opportunity to halt non-emergency, inpatient surgeries to allow them to prepare for expected surges of COVID-19 cases.

**Consolidated Statement of Operations and Changes in Net Assets**  
**(Compared to the three months ended March 31, 2020)**

*Revenue.* For the three months ended March 31, 2021, Indiana University Health recognized \$58,338 of funds from the Provider Relief Fund under the provisions of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and Payroll Protection Program & Health Care Enhancement Act. Of this, \$29,830 was received in the first quarter of 2021, and \$28,508 was previously deferred in accounts payable and accrued expenses on the consolidated balance sheets as of December 31, 2020. For the three months ended March 31, 2020, Indiana University Health did not receive any stimulus funds. The recognized funds are recorded as other revenue on the consolidated statements of operations and changes in net assets for the three months ended March 31, 2021. Indiana University Health will continue to monitor compliance with the terms and conditions of the Provider Relief Fund. If unable to attest to or comply with current or future terms and conditions, the ability of Indiana University Health to retain some or all of the distributions received may be impacted.

In April 2020, Indiana University Health received \$348,448 from the Centers for Medicare and Medicaid Services (CMS) as an advance payment under the Accelerated and Advance Payment Program, which was expanded through provisions of the CARES Act to ensure providers and suppliers have the resources needed to combat COVID-19. The funds provided under this program represent advances on payments for future goods or services to be provided to Medicare patients. Healthcare providers have one year from the date of receipt before CMS will begin recouping the advance payments by offsetting newly submitted Medicare claims. For the first 11 months of the recoupment period, CMS will withhold 25% of the claims amount, and, for the six months following, this will increase to 50% of the claims amount. Any unpaid balance at the end of the recoupment period is subject to interest. The current and noncurrent portion of the contract liability of \$215,127 and \$133,321, respectively, is included within accounts payable and accrued expenses and other noncurrent liabilities, respectively, on the consolidated balance sheets as of March 31, 2021. As of December 31, 2020, the current and noncurrent portion of the contract liability was \$149,394 and \$199,054, respectively.

Due to the evolving nature and unknown duration of COVID-19, the ultimate impact to Indiana University Health and its financial condition is presently unknown. COVID-19 could still negatively affect the operating margins and financial results of Indiana University Health as the duration of the pandemic is not known at this time.

Total operating revenue of \$1,853,949 for the three months ended March 31, 2021 increased 14.2%, or \$229,826 compared to the three months ended March 31, 2020, \$1,624,123.

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 \$148,820 or 10.7% for the three months ended March 31, 2021 over the prior year. The increase is mainly related to the significant impact of the executive order in March 2020 that delayed all non-essential or elective surgeries and procedures on volumes in the prior period (see surgery volumes below).

The table below shows discharges and surgery cases by division.

	<b>Year over Year</b>			
	<b><u>3/31/2021</u></b>	<b><u>3/31/2020</u></b>	<b><u>Variance</u></b>	<b><u>Percentage</u></b>
<b><u>Inpatient Discharges</u></b>				
<b>Consolidated</b>	26,960	26,863	97	0.4%
<b>Downtown</b>	11,042	10,940	102	0.9%
<b>Statewide</b>	11,012	11,365	(353)	-3.1%
<b>Suburban</b>	4,906	4,558	348	7.6%
<b><u>Total Surgery Cases</u></b>				
<b>Consolidated</b>	27,110	25,033	2,077	8.3%
<b>Downtown</b>	8,097	7,532	565	7.5%
<b>Statewide</b>	6,103	5,866	237	4.0%
<b>Suburban</b>	4,136	3,380	756	22.4%
<b>Ambulatory</b>	8,774	8,255	519	6.3%

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, 2021 and 2020, payments received related to these programs were recorded within patient service revenue in the consolidated statements of operations and changes in net assets, totaling \$141,668 and \$124,120, respectively.

Member premium revenue aggregated \$52,626 for the three months ended March 31, 2021 and \$54,414 for the three months ended March 31, 2020.

Other operating revenue of \$123,600 increased by \$65,246 or 111.8% for the three months ended March 31, 2021, compared to the prior year, driven by the recognition of stimulus funds (see Revenue).



*Expenses.* Total operating expenses of \$1,661,293 increased by 7.4%, or \$114,771 compared to the three months ended March 31, 2020, \$1,546,522.

Salaries, wages, and benefits increased 8.5%, or \$70,166, to \$896,649 compared to the three months ended March 31, 2020. The increase is the result of base pay increases effective mid-year 2020, as well as an increase in full time equivalent employees (FTEs) due to increased volumes and the costs of temporary labor associated with COVID-19. The average number of FTEs was 31,585 and 31,009 for the three months ended March 31, 2021 and 2020, respectively.

Supplies, drugs, purchased services, and other expenses of \$622,248 increased 7.9%, or \$45,610, compared to the three months ended March 31, 2020, \$576,638. The increase was primarily driven by year over year surgery volumes and continued increase in pharmaceutical expenses.

Fees related to the HAF program were \$37,909 for the three months ended March 31, 2021, compared to \$42,881 in the same period in the prior year.

Health claims to providers expenses of \$26,989 increased by 10.7%, or \$2,608 compared to the three months ended March 31, 2020, \$24,381.

Depreciation and amortization expense of \$70,151 increased 8.3%, or \$5,364, from the same period in the prior year of \$64,787 mainly due to the completion of the capital expenditures for the West expansion, replacement Frankfort hospital, and planned equipment purchases and building improvements.

Interest expense of \$7,347 decreased 35.3% or \$4,005 compared to the prior year, \$11,352 mainly due to lower outstanding principal as a result of the December 2020 bond redemption and defeasance as well as lower market interest rates.

Investment gains amounted to \$168,303 for the three months ended March 31, 2021, including \$37,365 of interest and dividend income, net of fees, \$33,060 of unrealized gains on investments, and \$97,878 of net realized gains on investments. For the three months ended March 31, 2020, investment losses aggregated to (\$662,453), which included \$30,092 of interest and dividend income, net of fees, (\$692,545) of unrealized losses on investments. Due largely to a change in structural portfolio positioning, \$410,455 of net gains were realized, with an equivalent offsetting amount in change in unrealized gains on investments to reflect realization of these gains. Gains (losses) on interest rate swaps aggregated \$11,450 and (\$16,862) for the three months ended March 31, 2021, and 2020, respectively.

The Indiana University Health System recorded the change in fair value of interest rate swaps designated as hedges of \$58,166 as changes in net assets without donor restrictions in the consolidated statements of operations and changes in net assets for the three months ended March 31, 2021. No amounts were recorded for the change in fair value of interest rate swaps designated as hedges for the three months ended March 31, 2020.

## **Consolidated Balance Sheet (Compared to December 31, 2020)**

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 \$8,141,848 at March 31, 2021, and \$7,791,565 at December 31, 2020. The number of days cash and investments on hand, excluding donor-restricted funds, trustee-held funds and funds held by insurance captives, was 449 days at March 31, 2021 and 453 days as of December 31, 2020. The number of days revenue in receivables (excluding the increased reimbursement under the HAF program and related receivable) was 55 days at March 31, 2021 and 56 days at December 31, 2020. The number of days expenses in accounts payable, accrued expenses, and certain other current liabilities (excluding the Medicare advance or accelerated payment and fees associated with the HAF program and related liability) was 60 days at March 31, 2021 and 55 days at December 31, 2020.

Net current assets, or working capital, increased 17.1% to \$319,283 at March 31, 2021 compared to \$272,763 at December 31, 2020. Net property and equipment of \$2,928,059 decreased \$21,882 from December 31, 2020, due to the continued depreciation of assets, partially offset by the System's continued investment in equipment and new or expanded facilities (see Capital Expenditures). Firm commitments for construction-in-progress totaled \$197,901 at March 31, 2021.

As of March 31, 2021 and December 31, 2020, the Indiana University Health System maintained a line of credit totaling \$225,000. As of March 31, 2021 and December 31, 2020 no amounts were drawn on the line of credit.

Net assets without donor restriction amounted to \$9,674,823 at March 31, 2021 and \$9,293,814 at December 31, 2020.

### **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.

Effective February 1, 2021 Indiana University Health became the sole-owner of its former urgent care joint venture. As a result of the transaction, nine urgent care facilities around the state have been incorporated at 100% within the financial results of the Indiana University Health System.

## **Capital Expenditures**

### **In Build Phase:**

In December 2017, the Indiana University Health Board of Directors approved a capital expenditure plan to integrate maternity and neonatal services at Riley Hospital. When finished, Riley Hospital will be able to accommodate more than 3,800 deliveries annually (up from approximately 3,200), including those from high risk mothers, and provide care for babies with known congenital anomalies. Construction is currently in progress and expected to be completed in the second half of 2021.

In October 2017, the Indiana University Health Board of Directors approved a capital expenditure plan to build a regional health campus in Bloomington, Indiana, which will increase Bloomington's ability to improve patient care by providing more opportunities for collaboration among clinical, research, and medical staff and faculty. This plan will allow the Indiana University School of Medicine to expand its medical education programs and research opportunities on the Bloomington campus. As part of this plan, Bloomington will build a replacement hospital, which will further its mission of providing cutting-edge health services to the region. Construction is currently in progress with a targeted fourth quarter 2021 date of completion.

Also, in October 2017, the Indiana University Health Board of Directors approved a capital expenditure plan for expansion at West. The expansion is expected to include approximately 48 additional inpatient beds, a new operating room, and additional support services space to accommodate rising patient volumes. Construction is currently in progress with targeted phased in dates of completion throughout 2021.

### **In Plan Phase:**

In April 2015, the Indiana University Health Board of Directors approved preliminary planning activities including strategic planning and analysis to consolidate downtown Indianapolis adult services to one medical campus centered on Capitol Avenue and 16th Street (near the current site of Methodist Hospital). As Indiana University Health is committed to improving the health of its patients and communities, the adult service medical campus is planned to include the 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. In December 2020, the Indiana University Health Board of Directors approved a capital expenditure plan and finalized the scope for the project, which anticipates to see the first patient in 2026. The approval included \$1,600,000 for the construction of an expanded medical campus that will consolidate its two existing hospitals and \$1,080,000 for additional investments to its downtown Indianapolis campus and its neighboring property holdings.

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**

Indiana University Health has 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. For the three months ended March 31, 2021 and 2020, Indiana University Health Foundation disbursed \$4,500 and \$2,167, respectively, related to this commitment.

## 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, 2021 and 2020.

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

	Three Months Ended	
	March 31	
	2021	2020
Operating income, as reported	\$ 192,656	\$ 77,601
CARES Act stimulus funds	(58,338)	-
Noncontrolling interests in subsidiaries	(33,853)	(29,248)
DSH	-	(7,037)
Operating income, as adjusted	\$ 100,465	\$ 41,316
Operating margin, as adjusted	5.0%	2.6%

- For the three months ended March 31, 2021, stimulus funds were recorded from HHS as a part of the Provider Relief Fund authorized by the CARES Act and Payroll Protection Program & Health Care Enhancement Acts (see Revenue).
- For the three months ended March 31, 2020, DSH revenue was recorded related to the state fiscal years ended June 30, 2018 and 2019.

CONSOLIDATED FINANCIAL STATEMENTS  
As of March 31, 2021 and December 31, 2020 and for the three months ended March 31,  
2021 and 2020

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

	<b>March 31</b>	<b>December 31</b>
	<b>2021</b>	<b>2020</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 389,395	\$ 223,035
Short-term investments	136,225	148,024
Current portion of assets limited as to use	109,522	130,531
Patient accounts receivable	939,217	888,486
Other receivables	175,235	146,930
Prepaid expenses	68,743	80,907
Inventories	140,866	138,917
Total current assets	1,959,203	1,756,830
Assets limited as to use:		
Board-designated investment funds and other investments	7,418,826	7,204,067
Donor-restricted investment funds	87,881	85,908
Total assets limited as to use, less current portion	7,506,707	7,289,975
Property and equipment:		
Cost of property and equipment in service	6,070,545	6,051,238
Less accumulated depreciation	(3,641,259)	(3,573,871)
	2,429,286	2,477,367
Construction-in-progress	498,773	472,574
Total property and equipment, net	2,928,059	2,949,941
Other assets:		
Equity interest in unconsolidated subsidiaries	12,175	13,291
Interests in net assets of foundations	23,413	23,371
Right-of-use assets	129,105	127,463
Interest rate swaps	88,683	30,517
Goodwill, intangibles, and other assets	377,708	373,826
Total other assets	631,084	568,468
Total assets	\$ 13,025,053	\$ 12,565,214

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

	<b>March 31</b>	<b>December 31</b>
	<b>2021</b>	<b>2020</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 866,024	\$ 653,012
Accrued salaries, wages, and related liabilities	402,913	435,157
Accrued health claims	47,259	44,685
Estimated third-party payer allowances	136,943	155,761
Current portion of lease liabilities	34,951	33,543
Current portion of long-term debt	151,830	161,909
Total current liabilities	<b>1,639,920</b>	1,484,067
Noncurrent liabilities:		
Long-term debt, less current portion	1,192,715	1,194,796
Interest rate swaps	33,138	44,546
Accrued pension obligations	8,187	8,227
Accrued medical malpractice claims	72,234	70,569
Lease liabilities, less current portion	111,755	110,736
Other	158,477	226,501
Total noncurrent liabilities	<b>1,576,506</b>	1,655,375
Total liabilities	<b>3,216,426</b>	3,139,442
Net assets:		
Indiana University Health	9,420,774	9,033,355
Noncontrolling interest in subsidiaries	254,049	260,459
Total without donor restrictions	<b>9,674,823</b>	9,293,814
With donor restrictions	133,804	131,958
Total net assets	<b>9,808,627</b>	9,425,772
Total liabilities and net assets	<b>\$ 13,025,053</b>	\$ 12,565,214



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

	<b>Three Months Ended</b>	
	<b>March 31</b>	
	<b>2021</b>	<b>2020</b>
	<b>(Unaudited)</b>	
Revenues:		
Patient service revenue	\$ 1,677,723	\$ 1,511,355
Member premium revenue	52,626	54,414
Other revenue	123,600	58,354
Total operating revenues	<u>1,853,949</u>	<u>1,624,123</u>
Expenses:		
Salaries, wages, and benefits	896,649	826,483
Supplies, drugs, purchased services, and other	622,248	576,638
Hospital assessment fee	37,909	42,881
Health claims to providers	26,989	24,381
Depreciation and amortization	70,151	64,787
Interest	7,347	11,352
Total operating expenses	<u>1,661,293</u>	<u>1,546,522</u>
Operating income	192,656	77,601
Nonoperating income:		
Investment income (loss) income, net	168,303	(662,453)
Gains (losses) on interest rate swaps, net	11,450	(16,862)
Debt extinguishment and other	(8,052)	(375)
Total nonoperating (loss) income	<u>171,701</u>	<u>(679,690)</u>
Consolidated excess (deficit) of revenues over expenses	364,357	(602,089)
Less amounts attributable to noncontrolling interest in subsidiaries	33,853	29,248
Excess (deficit) of revenue over expenses attributable to Indiana University Health and subsidiaries	<u>\$ 330,504</u>	<u>\$ (631,337)</u>

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, 2021</b>			
<b>(Unaudited)</b>			
	<b>Total</b>	<b>Controlling</b>	<b>Noncontrolling</b>
<b>Without donor restriction:</b>			
Consolidated excess of revenues over expenses	\$ 364,357	330,504	33,853
Distributions to noncontrolling interests	(40,048)	–	(40,048)
Change in fair value of interest swaps designated as hedges	58,166	58,166	–
Other	(1,466)	(1,251)	(215)
	<b>381,009</b>	<b>387,419</b>	<b>(6,410)</b>
<b>With donor restriction:</b>			
Change in beneficial interest in net assets of foundations	32	32	–
Contributions	1,727	1,727	–
Investment return	503	503	–
Net assets released from restrictions	(258)	(258)	–
Other	(158)	(158)	–
	<b>1,846</b>	<b>1,846</b>	–
 Increase (decrease) in net assets	 <b>382,855</b>	 <b>389,265</b>	 <b>(6,410)</b>
Net assets at beginning of period	<b>9,425,772</b>	<b>9,165,313</b>	<b>260,459</b>
Net assets at end of period	<b>\$ 9,808,627</b>	<b>9,554,578</b>	<b>254,049</b>

<b>Three Months Ended March 31, 2020</b>			
<b>(Unaudited)</b>			
	<b>Total</b>	<b>Controlling</b>	<b>Noncontrolling</b>
<b>Without donor restriction:</b>			
Consolidated 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)
	<b>(649,663)</b>	<b>(637,133)</b>	<b>(12,530)</b>
<b>With donor restriction:</b>			
Contributions	682	682	–
Investment return	1,510	1,510	–
Net assets released from restrictions	(282)	(282)	–
Other	(79)	(79)	–
	<b>1,831</b>	<b>1,831</b>	–
 Decrease in net assets	 <b>(647,832)</b>	 <b>(635,302)</b>	 <b>(12,530)</b>
Net assets at beginning of period	<b>8,150,893</b>	<b>7,878,844</b>	<b>272,049</b>
Net assets at end of period	<b>\$ 7,503,061</b>	<b>7,243,542</b>	<b>259,519</b>

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

	Three Months Ended March 31	
	2021	2020
	(Unaudited)	
<b>Operating activities</b>		
Increase (decrease) in net assets	\$ 382,855	\$ (647,832)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Change in fair value of interest rate swaps	(69,574)	16,537
Gain in unconsolidated subsidiaries	(110)	(454)
Amortization of deferred gain on sale of medical office buildings	–	(430)
Depreciation and amortization	70,151	64,787
Contributions and investment return with donor restriction	(2,262)	(2,192)
Distributions to noncontrolling interests	40,048	39,861
Assets limited as to use	(253,141)	768,885
Net changes in operating assets and liabilities:		
Patient accounts receivable	(50,730)	48,421
Other assets	(20,004)	(79,339)
Accounts payable, accrued liabilities, and other liabilities	149,188	(1,819)
Accrued salaries, wages, and related liabilities	(32,244)	(49,457)
Estimated third-party payer allowances	(18,818)	51,830
Net cash provided by operating activities	<u>195,359</u>	208,798
<b>Investing activities</b>		
Purchase of property and equipment, net of disposals	(48,269)	(91,748)
Net cash used in investing activities	<u>(48,269)</u>	(91,748)
<b>Financing activities</b>		
Proceeds from notes payable under lines of credit	–	225,000
Contributions and investment return with donor restrictions	2,262	2,192
Repayments on long-term debt	(12,161)	(21,137)
Distributions to non controlling interests	(40,048)	(39,861)
Net cash (used in) provided by financing activities	<u>(49,947)</u>	166,194
Net increase in cash and cash equivalents	97,143	283,244
Cash and cash equivalents at beginning of period	332,832	277,293
Cash and cash equivalents at end of period	<u>\$ 429,975</u>	<u>\$ 560,537</u>
<b>Reconciliation of cash and cash equivalents to the consolidated balance sheets</b>		
Cash and cash equivalents	\$ 389,395	\$ 463,495
Cash and cash equivalents included in assets limited as to use	40,580	97,042
Cash and cash equivalents at end of period	<u>\$ 429,975</u>	<u>\$ 560,537</u>

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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 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, 2021 are not necessarily indicative of the results to be expected for the year ending December 31, 2021. For further information, refer to the audited consolidated financial statements and notes thereto for the years ended December 31, 2020 and 2019 (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**

The global viral outbreak caused by coronavirus disease 2019 (COVID-19) has resulted in a national public health emergency during 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 likely 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 an executive order directing the delay of all non-essential or elective surgeries and procedures. The Governor relaxed restrictions on elective procedures in late April 2020, and elective procedures resumed at Indiana University Health on May 4, 2020, returning to near expected volumes by the end of June 2020. From December 6, 2020 through January 3, 2021, an executive order from

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**2. Significant Events (continued)**

the Governor offered healthcare providers an opportunity to halt non-emergency, inpatient surgeries to allow them to prepare for expected surges of COVID-19 cases.

For the three months ended March 31, 2021, Indiana University Health recognized \$58,338 of funds from the Provider Relief Fund under the provisions of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and Payroll Protection Program & Health Care Enhancement Act. Of this, \$29,830 was received in the first quarter of 2021, and \$28,508 was previously deferred in accounts payable and accrued expenses on the consolidated balance sheets as of December 31, 2020. For the three months ended March 31, 2020, Indiana University Health did not receive any stimulus funds. The recognized funds are recorded as other revenue on the consolidated statements of operations and changes in net assets for the three months ended March 31, 2021. Indiana University Health will continue to monitor compliance with the terms and conditions of the Provider Relief Fund. If unable to attest to or comply with current or future terms and conditions, the ability of Indiana University Health to retain some or all of the distributions received may be impacted.

The CARES Act also allows for a refundable tax credit of 50% of up to \$10,000 in wages paid by an eligible employer whose business has been financially impacted by COVID-19. For the year ended December 31, 2020, Indiana University Health recognized \$7,279 in other revenue on the consolidated statements of operations and changes in net assets for employer tax credits on eligible wages.

In April 2020, Indiana University Health received \$348,448 from the Centers for Medicare and Medicaid Services (CMS) as an advance payment under the Accelerated and Advance Payment Program, which was expanded through provisions of the CARES Act to ensure providers and suppliers have the resources needed to combat COVID-19. The funds provided under this program represent advances on payments for future goods or services to be provided to Medicare patients. Healthcare providers have one year from the date of receipt before CMS will begin recouping the advance payments by offsetting newly submitted Medicare claims. For the first 11 months of the recoupment period, CMS will withhold 25% of the claims amount, and, for the six months following, this will increase to 50% of the claims amount. Any unpaid balance at the end of the recoupment period is subject to interest. The current and noncurrent portion of the contract liability of \$215,127 and \$133,321, respectively, is included within accounts payable and accrued expenses and other noncurrent liabilities, respectively, on the consolidated balance sheets as of March 31, 2021. As of December 31, 2020, the current and noncurrent portion of the contract liability was \$149,394 and \$199,054, respectively.

Due to the evolving nature and unknown duration of COVID-19, the ultimate impact to Indiana University Health and its financial condition is presently unknown. COVID-19

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**2. Significant Events (continued)**

could still negatively affect the operating margins and financial results of Indiana University Health as the duration of the pandemic is not known at this time.

**3. Summary of Significant Accounting Policies**

**Use of Estimates**

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

**Fair Value of Financial Instruments**

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

**Subsequent Events**

For the consolidated financial statements as of and for the three months ended March 31, 2021, management has evaluated subsequent events through April 29, 2021, the date that these financial statements were made publicly available.

**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, based on the nature of the services 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.

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

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

Because all of its performance obligations relate to contracts with a duration of less than one year, the Indiana University Health System has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) 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 2021 and 2020, changes in estimates due to settlements

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

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 Medicaid Hospital Assessment Fee program, the Office of Medicaid Policy and Planning 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 Disproportionate Share Hospital (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 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, 2021 and 2020, payments received related to these programs were recorded within patient service revenue on the consolidated statements of operations and changes in net assets, totaling \$141,668 and \$124,120, respectively. During the three months ended March 31, 2021 and 2020, assessment fees were recorded within the hospital assessment fee line on the consolidated statements of operations and changes in net assets totaling \$37,909 and \$42,881, respectively.

These revenues are subject to retroactive adjustments due to audits, reviews, changes 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. Laws and regulations governing Medicare, Medicaid, and other governmental programs are complex, prone to changes, and subject to varying interpretation. The Indiana University Health System believes it is in compliance with applicable laws and regulations governing Medicare, Medicaid, and other governmental programs, as well as contracts that it has with commercial payers, and that adequate provisions have been recorded for any adjustments that may result from final settlements.

In rare instances, the Indiana University Health System receives payment in advance of the services provided and considers these amounts to represent contract liabilities. Contract liabilities as of March 31, 2021 and December 31, 2020, were \$348,448 and were a result



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

of funds received as part of the Medicare Accelerated and Advance Payment Program (see Note 2). For the three months ended March 31, 2021 and March 31, 2020, none of the funds were recognized as part of revenue on the consolidated statement of operations and changes in net assets.

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 March 31</b>	
	<b>2021</b>	<b>2020</b>
Commercial/managed care	<b>\$ 916,891</b>	\$ 831,770
Medicare	<b>441,751</b>	405,988
Medicaid	<b>292,236</b>	241,795
Self-pay and other	<b>26,845</b>	31,802
	<b><u>\$ 1,677,723</u></b>	<b><u>\$ 1,511,355</u></b>

The Indiana University Health System's practice is to assign a patient to the primary payer and not reflect other uninsured balances (for example, co-pays and deductibles) as self-pay. Therefore, the payers listed above contain patient responsibility components, such as co-pays and deductibles.

One payer represented 28% and 29% of patient service revenue for the three months ended March 31, 2021 and 2020, 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, 2021 and December 31, 2020, respectively. The remaining 70% and 71% of patient accounts receivable as of March 31, 2021 and December 31, 2020, respectively, were collectible from managed care payers, commercial insurance payers, and uninsured and underinsured patients.

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

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 March 31</b>	
	<b>2021</b>	<b>2020</b>
Shared health services revenue	\$ 36,871	\$ 35,529
CARES Act stimulus funds	58,338	—
Other	28,391	22,825
	<b>\$ 123,600</b>	<b>\$ 58,354</b>

**5. Assets Limited as to Use**

Board-designated and donor-restricted investment funds are invested in accordance with Board approved policies. The estimated fair value of the assets limited as to use is determined using market information and other appropriate valuation methodologies. The methods and assumptions used to estimate the fair value of assets limited as to use are as follows: (i) cash and cash equivalents: the carrying amounts reported on 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: accounted for using the equity method of accounting, and fair values are 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 utilized to increase portfolio diversification.

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 lockup periods that restrict redemptions or charge a redemption fee during the lockup period. Lockup periods range

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

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. These events are typically 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 their commitment. As of March 31, 2021 and December 31, 2020, there were \$625,658 and \$661,663, respectively, of unfunded commitments relating to private fund investments, which are expected to be funded over the next five years.

Alternative investments include certain other risks that may not exist with other investments that are more widely traded. These include reliance on the skill of the fund managers, who often employ complex strategies utilizing various financial instruments, including futures contracts, foreign currency contracts, structured notes, interest rate, total return, and credit default swaps.

Additionally, alternative investments may provide limited information on a fund's underlying assets and have restrictive liquidity provisions. Management believes that the Indiana University Health System, in consultation with its investment consultants, has the capacity to analyze and interpret the risks associated with alternative investments and, with this understanding, has determined that these investments represent a prudent approach for use in its portfolio management.

In 2020, Indiana University Health revised its asset allocation policy. A component of the new asset allocation policy is to target a modest amount of leverage to achieve a total exposure of 110%. The utilization of this increased exposure within the policy aims to enhance both returns and risk characteristics (i.e., diversification) of the trading activities with the Board-designated investment funds in assets limited as to use. Indiana University Health utilizes futures contracts to provide exposure to markets such as equity and fixed income.

The notional value of futures contracts was approximately \$825,479 as of March 31, 2021. The fair value of futures contracts included in assets limited as to use on the consolidated balance sheet was \$838 as of March 31, 2021. The notional value of futures contracts was approximately \$599,948 as of December 31, 2020. The fair value of futures contracts included in assets limited as to use on the consolidated balance sheet was \$316 as of

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

December 31, 2020. Gain attributed to the enhanced exposure was \$5,869 for the three months ended March 31, 2021, and is included in investment income, net on the consolidated statement of operations and changes in net assets. There were no futures contracts held as of or during the three months ended March 31, 2020.

The composition of assets limited as to use is set forth below.

	<b>March 31</b>	<b>December 31</b>
	<b>2021</b>	<b>2020</b>
Assets limited as to use:		
Cash	\$ 40,580	\$ 109,797
Short-term, liquid investments	60,153	9,625
Debt securities:		
Asset backed	316,425	276,044
Bank loans	433,624	294,415
Corporate debt	948,629	830,454
Government and agencies	486,452	512,786
Bond funds	202,863	203,818
Total debt securities	<u>2,387,993</u>	<u>2,117,517</u>
Equity securities:		
Domestic equities	1,912,353	1,909,007
Domestic equity funds	19,671	20,995
International equities	847,728	816,283
International equity funds	426,268	417,048
Total equity securities	<u>3,206,020</u>	<u>3,163,333</u>
Alternatives:		
Hedge funds	1,082,222	1,217,621
Private funds	838,424	802,297
Other	837	316
Total alternatives	<u>1,921,483</u>	<u>2,020,234</u>
Less current portion of assets limited as to use	<u>(109,522)</u>	<u>(130,531)</u>
Total assets limited as to use	<u>\$ 7,506,707</u>	<u>\$ 7,289,975</u>

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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, 2021 and December 31, 2020. 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</b>	<b>December 31</b>
	<b>2021</b>	<b>2020</b>
Financial assets:		
Cash and cash equivalents	\$ 389,395	\$ 223,035
Short-term investments	136,225	148,024
Patient accounts receivable	939,217	888,486
Other receivables	175,235	146,930
Assets limited as to use	7,616,229	7,420,506
Total financial assets	<u>9,256,301</u>	<u>8,826,981</u>
Liquidity resource:		
Unused bank lines of credit	225,000	225,000
Less amounts not available within one year or not designated for general expenditures:		
Alternative investments	(1,009,187)	(981,706)
Other	(270,773)	(291,004)
Financial assets not available for use within one year	<u>(1,279,960)</u>	<u>(1,272,710)</u>
Financial assets and liquidity resources available for general expenditures within one year	<u>\$ 8,201,341</u>	<u>\$ 7,779,271</u>

The Indiana University Health System has certain board designated assets limited as to use that 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 cash equivalents and debt securities with maturities ranging from zero to three years and is reflected in cash and cash equivalents, short-term investments, and assets limited as to use on the consolidated balance sheets. Alternative investments not available within one year consist of the private funds, as well as a portion of the hedge funds due to contractual restrictions which prevent redemption of all or portions of such funds within a year.

Additionally, the “Other” amounts not available within one year include 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**

As of March 31, 2021 and December 31, 2020, the Indiana University Health System maintained a line of credit totaling \$225,000. In March 2020, Indiana University Health drew \$225,000 on the line of credit, which was repaid in the second quarter of 2020. As of March 31, 2021 and December 31, 2020 no amounts were drawn on the line of credit.

**8. Derivative Financial Instruments**

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

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

Long-term interest rate swap arrangements have been entered into with the primary objective being to mitigate interest rate risk. The following fixed-pay and short-term treasury lock swaps, stated at current and maximum future notional amounts, remain in place as of March 31, 2021:

<b>Current Notional Amount</b>	<b>Maximum Future Notional Amount</b>	<b>Effective Date</b>	<b>Maturity Date</b>	<b>Rate Received<sup>A</sup></b>	<b>Rate Paid</b>
\$ –	\$ 39,705	3/3/2022	3/1/2036	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	3/1/2033	LIBOR	4.92
–	48,920	3/10/2022	3/1/2033	LIBOR	4.92
–	109,070	7/1/2025	12/1/2058	LIBOR	0.93
–	287,395	6/1/2025	12/1/2040	LIBOR	1.01
–	128,800	7/1/2021	7/1/2021	30 year U.S. Treasury	1.54

<sup>A</sup> In the tables above and below, LIBOR represents the one-month London Interbank Offered Rate and SIFMA represents the Securities Industry and Financial Markets Association Municipal Swap Index.

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

After giving effect to the above derivative transactions, the Indiana University Health System's variable-rate debt was approximately 8.0% of total debt outstanding as of March 31, 2021 and 7.9% as of December 31, 2020.

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, 2021 as follows:

<b>Current Notional Amount</b>	<b>Maximum Future 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	\$ 309,200	1/7/2020	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, 2021, the fair value of interest rate swaps in liability positions was \$33,138, which is net of CVA of \$1,057, and the fair value of interest rate swaps in asset positions was \$88,683, which is net of CVA of \$11,691. As of December 31, 2020, the fair value of interest rate swaps in liability positions was \$44,546, which is net of CVA of \$651, and the fair value of interest rate swaps in asset positions was \$30,517, which is net of CVA of \$1,988. The fair value of swaps in liability positions is included within noncurrent liabilities on the accompanying consolidated balance sheets. The fair value of swaps in asset positions is included within interest rate swaps on the accompanying consolidated balance sheet as of March 31, 2021.

As of March 31, 2021, interest rate swaps had a total current notional amount of \$309,200, comprising \$309,200 of basis swaps, and maximum future notional amount of \$1,045,420, comprising \$607,420 of fixed-pay swaps, \$128,800 of treasury lock 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 is a liability that exceeds a threshold set forth in the related agreement. As of March 31, 2021 and December 31, 2020, all interest rate swaps were subject to credit-risk-related contingent features. No collateral was posted as of March 31, 2021 or December 31, 2020.

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

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

	<b>Three months ended March 31</b>	
	<b>2021</b>	<b>2020</b>
Unrealized gains (losses) on interest rate swaps	\$ 11,408	\$ (16,538)
Realized gains (losses) on interest rate swaps	42	(324)
	<b>\$ 11,450</b>	<b>\$ (16,862)</b>

**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



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

other unobservable inputs, represent more than 10% of the fair value of the assets or liabilities. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

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

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

The following tables set forth by level, within the fair value hierarchy, the Indiana University Health System's financial assets and liabilities that were accounted for at fair value on a recurring basis as of March 31, 2021 and December 31, 2020. 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, 2021						
	Level 1	Level 2	Level 3	NAV	Fair Value	Equity Method	Carrying Value
<b>Assets</b>							
Cash and cash equivalents	\$ 389,395	\$ -	\$ -	\$ -	\$ 389,395	\$ -	\$ 389,395
Short-term investments:							
Debt securities:							
Asset backed	-	2,080	-	-	2,080	-	2,080
Corporate debt	-	59,162	-	-	59,162	-	59,162
Government and agencies	74,982	-	-	-	74,982	-	74,982
Assets limited as to use:							
Cash	40,580	-	-	-	40,580	-	40,580
Short-term, liquid investments	60,153	-	-	-	60,153	-	60,153
Debt securities:							
Asset backed	-	316,425	-	-	316,425	-	316,425
Bank loans	-	432,091	1,533	-	433,624	-	433,624
Corporate debt	-	946,721	1,908	-	948,629	-	948,629
Government and agencies	486,452	-	-	-	486,452	-	486,452
Bond funds	-	-	-	202,863	202,863	-	202,863
Equity securities:							
Domestic equities	1,912,353	-	-	-	1,912,353	-	1,912,353
Domestic equity funds	19,671	-	-	-	19,671	-	19,671
International equities	847,728	-	-	-	847,728	-	847,728
International equity funds	-	-	-	426,268	426,268	-	426,268
Alternatives:							
Hedge funds	-	-	-	-	-	1,082,221	1,082,221
Private funds	-	-	-	-	-	838,424	838,424
Other	837	-	-	-	837	-	837
Other assets:							
Interest rate swaps	-	88,683	-	-	88,683	-	88,683
Beneficial interests in charitable remainder and perpetual trusts	-	16,148	-	-	16,148	-	16,148
<b>Total assets</b>	<b>\$ 3,832,151</b>	<b>\$ 1,861,310</b>	<b>\$ 3,441</b>	<b>\$ 629,131</b>	<b>\$ 6,326,033</b>	<b>\$ 1,920,645</b>	<b>\$ 8,246,678</b>
<b>Liabilities</b>							
Interest rate swaps	\$ -	\$ 33,138	\$ -	\$ -	\$ 33,138	\$ -	\$ 33,138
<b>Total liabilities measured at fair value on a recurring basis</b>	<b>\$ -</b>	<b>\$ 33,138</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 33,138</b>	<b>\$ -</b>	<b>\$ 33,138</b>

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

	December 31, 2020						
	Level 1	Level 2	Level 3	NAV	Fair Value	Equity Method	Carrying Value
<b>Assets</b>							
Cash and cash equivalents	\$ 223,035	\$ –	\$ –	\$ –	\$ 223,035	\$ –	\$ 223,035
Short-term investments:							
Debt securities:							
Asset backed	–	549	–	–	549	–	549
Corporate debt	–	91,055	–	–	91,055	–	91,055
Government and agencies	56,420	–	–	–	56,420	–	56,420
Assets limited as to use:							
Cash	109,797	–	–	–	109,797	–	109,797
Short-term, liquid investments	9,625	–	–	–	9,625	–	9,625
Debt securities:							
Asset backed	–	276,044	–	–	276,044	–	276,044
Bank loans	–	292,184	2,231	–	294,415	–	294,415
Corporate debt	–	828,566	1,888	–	830,454	–	830,454
Government and agencies	512,786	–	–	–	512,786	–	512,786
Bond funds	–	–	–	203,818	203,818	–	203,818
Equity securities:							
Domestic equities	1,909,007	–	–	–	1,909,007	–	1,909,007
Domestic equity funds	20,995	–	–	–	20,995	–	20,995
International equities	816,283	–	–	–	816,283	–	816,283
International equity funds	–	–	–	417,048	417,048	–	417,048
Alternatives:							
Hedge funds	–	–	–	–	–	1,217,621	1,217,621
Private funds	–	–	–	–	–	802,297	802,297
Other	316	–	–	–	316	–	316
Other assets:							
Interest rate swaps	–	30,517	–	–	30,517	–	30,517
Beneficial interests in charitable remainder and perpetual trusts	–	16,394	–	–	16,394	–	16,394
<b>Total assets</b>	<b>\$ 3,658,264</b>	<b>\$ 1,535,309</b>	<b>\$ 4,119</b>	<b>\$ 620,866</b>	<b>\$ 5,818,558</b>	<b>\$ 2,019,918</b>	<b>\$ 7,838,476</b>
<b>Liabilities</b>							
Interest rate swaps	\$ –	\$ 44,546	\$ –	\$ –	\$ 44,546	\$ –	\$ 44,546
<b>Total liabilities measured at fair value on a recurring basis</b>	<b>\$ –</b>	<b>\$ 44,546</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ 44,546</b>	<b>\$ –</b>	<b>\$ 44,456</b>

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

Beneficial interests in charitable remainder and perpetual trusts are included in goodwill, intangibles, and other assets on the consolidated balance sheets.

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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 for swaps in a liability position is derived from other comparably rated entities' bonds priced in the market. The credit spread adjustment for swaps in an asset position is derived from market values for bonds issued by institutions with comparable ratings to those of the relevant counterparty. 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, 2021.

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 or relevant counterparty increases or decreases, in which case the CVA would decrease or increase, respectively.
- 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 whether an arrangement is a lease at inception. For leases with terms greater than 12 months, Indiana University Health records the related right-of-use (ROU) assets and lease liabilities at the present value of lease payments over the term. Leases may include rental escalation clauses and options to

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**11. Leases (continued)**

extend or terminate the lease that are factored into the determination of lease payments when appropriate. Indiana University Health does not separate lease and non-lease components of contracts. For the purposes of measuring the lease liabilities, Indiana University Health uses a risk-free rate from the U.S. Treasury Constant Maturities Nominal rate based on the period comparable with that of each lease term.

Operating leases are included in ROU assets, current portion of lease liabilities, and lease liabilities, less current portion on the consolidated balance sheet. Operating lease expense is recognized on a straight-line basis over the lease term and is included in supplies, drugs, purchased services, and other on the consolidated statements of operations and changes in net assets.

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 sheets. Property and equipment under finance lease obligations are amortized on the straight-line method over the lease term or the estimated useful life of the equipment, whichever period is shorter. Such amortization is included with depreciation on the accompanying consolidated statements of operations and changes in net assets.

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>2021</b>	<b>2020</b>
<b>Supplemental cash flow information</b>		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 8,069	\$ 10,660
Operating cash flows from finance leases	10	36
Financing cash flows from finance leases	122	227
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	\$ 11,791	\$ 8,783
Finance leases	608	–
<b>Weighted average remaining lease term (in years)</b>		
Operating leases	5.77	6.13
Finance leases	3.56	1.57

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**11. Leases (continued)**

**Weighted average discount rate**

Operating leases	<b>2.53%</b>	<b>2.68%</b>
Finance leases	<b>1.78%</b>	<b>4.92%</b>

Future minimum lease payments under non-cancellable leases as of March 31, 2021 were as follows:

	<u>Operating</u>	<u>Finance</u>
2020	\$ 31,200	\$ 329
2021	33,802	245
2022	28,554	147
2023	19,142	141
2024	14,448	122
Thereafter	33,265	13
Total future minimum lease payments	<u>160,411</u>	<u>997</u>
Less imputed interest	13,705	43
Net present value of minimum lease payments	<u>\$ 146,706</u>	<u>\$ 954</u>

**12. Retirement Plans**

**Defined Contribution Plans**

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

**Defined Benefit Plans**

On December 4, 2018, Indiana University Health became a single defined benefit plan sponsor (the Plan) after merging the plans previously sponsored by Ball Memorial and Bloomington into its existing plan. The Plan was curtailed with benefits frozen and no new participants. On June 1, 2019, the Plan was terminated. A lump-sum benefit payout option was offered to participants. The lump-sum offering window closed in March 2020. In June 2020, the remaining assets of the Plan were used to annuitize the obligation. The outstanding noncash, net actuarial loss of \$131,672 was recognized as annuitization of defined benefit plan on the consolidated statement of operations and changes in net assets. As part of the termination of the Plan, contributions were required to be made and totaled \$13,050 in 2020. There was no accrued pension obligation related to the Plan recorded at March 31, 2021 or December 31, 2020.

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**12. Retirement Plans (continued)**

The remaining accrued pension obligations balance as of March 31, 2021 and December 31, 2020, is related to a small medical group plan. Indiana University Health is the sponsor of this small defined benefit plan backed by life insurance policies. The physicians who are part of the plan receive monthly benefits once retired and have life insurance policies in their name, which are owned by Indiana University Health. Upon death of the physician, Indiana University Health will receive the life insurance policy proceeds and the physician's designated beneficiary becomes the recipient of a monthly cash benefit. This plan, which had an unfunded status of \$8,187 and \$8,227 as of March 31, 2021 and December 31, 2020, respectively, is included in accrued pension obligations on the consolidated balance sheets.

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**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 and Administrative</b>	<b>Total</b>
Three months ended March 31, 2021:				
Salaries, wages, and benefits	\$ 845,869	\$ 7,679	\$ 43,101	\$ 896,649
Supplies, drugs, purchased services, and other	585,128	13,966	23,154	622,248
Hospital assessment fee	37,909	–	–	37,909
Health claims to providers	–	26,989	–	26,989
Depreciation and amortization	63,513	–	6,638	70,151
Interest	7,347	–	–	7,347
	<b>\$ 1,539,766</b>	<b>\$ 48,634</b>	<b>\$ 72,893</b>	<b>\$ 1,661,293</b>

	<b>Health Services</b>	<b>Insurance Services</b>	<b>General and Administrative</b>	<b>Total</b>
Three months ended March 31, 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
	<b>\$ 1,429,367</b>	<b>\$ 47,773</b>	<b>\$ 69,382</b>	<b>\$ 1,546,522</b>

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.



**Indiana University Health, Inc. and subsidiaries**  
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**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.

The Affordable Care Act and associated legislation, including the most recently enacted American Rescue Plan Act of 2021, 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, CMS approved the Healthy Indiana Plan, which was Indiana's response to expanding its Medicaid program. The State of Indiana's request for renewal of the Healthy Indiana Plan waiver by CMS was approved in October 2020 for an additional ten years, meaning that the state will continue to engage eligible adults in its signature health program through at least the year 2030. Indiana was also among a handful of states that instituted work requirements for their Medicaid expansion population. Although, this feature was never implemented as the state opted to postpone its January 1, 2020 go-live date due to federal litigation calling into question whether states' work requirement programs meet Medicaid objectives. In March, the US Supreme Court recently pulled the two legal cases challenging Medicaid work requirements in New Hampshire and Arkansas off its docket following a request from the Biden administration to remove the cases citing they "no longer present a suitable context for the court to address." 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, 2021 and December 31, 2020 and for the three months ended March 31,  
2021 and 2020

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

	<b>March 31</b>	<b>December 31</b>
	<b>2021</b>	<b>2020</b>
	<b>(Unaudited)</b>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 422,459	\$ 231,679
Short-term investments	136,225	148,024
Current portion of assets limited as to use	45,752	56,886
Patient accounts receivable	512,158	479,783
Other receivables	191,457	180,431
Prepaid expenses	61,352	62,076
Inventories	83,189	81,919
Total current assets	1,452,592	1,240,798
Assets limited as to use:		
Board-designated investment funds and other investments	6,917,018	6,711,962
Total assets limited as to use, less current portion	6,917,018	6,711,962
Property and equipment:		
Cost of property and equipment in service	3,899,163	3,887,954
Less accumulated depreciation	(2,444,218)	(2,402,720)
	1,454,945	1,485,234
Construction-in-progress	112,249	118,755
Total property and equipment, net	1,567,194	1,603,989
Other assets:		
Equity interest in unconsolidated subsidiaries	362,799	362,141
Interests in net assets of foundations	9,316	9,316
Right-of-use assets	61,419	63,366
Interest rate swaps	88,683	30,517
Goodwill, intangibles, and other assets	168,338	142,867
Total other assets	690,555	608,207
Total assets	\$ 10,627,359	\$ 10,164,956

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

	<b>March 31</b>	<b>December 31</b>
	<b>2021</b>	<b>2020</b>
	<b>(Unaudited)</b>	
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 2,111,349	\$ 1,851,672
Accrued salaries, wages, and related liabilities	275,800	212,297
Accrued health claims	47,252	44,677
Estimated third-party payer allowances	87,924	110,019
Current portion of lease liabilities	15,119	14,806
Current portion of long-term debt	154,919	160,608
Total current liabilities	2,692,363	2,394,079
Noncurrent liabilities:		
Long-term debt, less current portion	1,178,126	1,184,566
Interest rate swaps	33,141	44,546
Accrued medical malpractice claims	2,369	2,326
Lease liabilities, less current portion	54,346	56,632
Other	51,837	110,897
Total noncurrent liabilities	1,319,819	1,398,967
Total liabilities	4,012,182	3,793,046
Net assets:		
Total without donor restrictions	6,604,005	6,360,739
With donor restrictions	11,172	11,171
Total net assets	6,615,177	6,371,910
Total liabilities and net assets	\$ 10,627,359	\$ 10,164,956

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

	<b>Three Months Ended</b>	
	<b>March 31</b>	
	<b>2021</b>	<b>2020</b>
	<b>(Unaudited)</b>	
<b>Revenues:</b>		
Patient service revenue	\$ 817,194	\$ 744,221
Member premium revenue	45,645	43,669
Other revenue	190,030	160,668
Total operating revenues	<b>1,052,869</b>	<b>948,558</b>
<b>Expenses:</b>		
Salaries, wages, and benefits	340,440	314,322
Supplies, drugs, purchased services, and other	454,431	420,194
Hospital assessment fee	18,530	20,673
Health claims to providers	36,180	33,329
Depreciation and amortization	42,493	39,871
Interest	7,256	11,241
Total operating expenses	<b>899,330</b>	<b>839,630</b>
Operating income	<b>153,539</b>	<b>108,928</b>
<b>Nonoperating income:</b>		
Investment income (loss), net	170,562	(600,410)
Gains (losses) on interest rate swaps, net	11,446	(16,871)
Debt extinguishment and other	(1,453)	(906)
Total nonoperating income (loss)	<b>180,555</b>	<b>(618,187)</b>
Excess (deficit) of revenue over expenses	<b>\$ 334,094</b>	<b>\$ (509,259)</b>

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>2021</b>	<b>2020</b>
	<b>(Unaudited)</b>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 422,258	\$ 231,680
Short-term investments	136,225	148,024
Current portion of assets limited as to use	45,711	56,648
Patient accounts receivable	507,204	473,844
Other receivables	192,709	183,391
Prepaid expenses	61,263	61,935
Inventories	82,390	80,903
Total current assets	1,447,760	1,236,425
Assets limited as to use:		
Board-designated investment funds and other investments	6,910,971	6,706,253
Total assets limited as to use, less current portion	6,910,971	6,706,253
Property and equipment:		
Cost of property and equipment in service	3,883,556	3,872,418
Less accumulated depreciation	(2,432,878)	(2,391,656)
	1,450,678	1,480,762
Construction-in-progress	112,223	118,669
Total property and equipment, net	1,562,901	1,599,431
Other assets:		
Equity interest in unconsolidated subsidiaries	362,998	362,339
Right-of-use assets	61,115	63,032
Interest rate swaps	88,683	30,517
Goodwill, intangibles, and other assets	170,318	146,682
Total other assets	683,114	602,570
Total assets	\$ 10,604,746	\$ 10,144,679

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

	<b>March 31</b>	<b>December 31</b>
	<b>2021</b>	<b>2020</b>
	<b>(Unaudited)</b>	
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 2,146,949	\$ 1,886,586
Accrued salaries, wages, and related liabilities	274,931	210,783
Accrued health claims	47,252	44,677
Estimated third-party payer allowances	84,661	107,013
Current portion of lease liabilities	14,986	14,673
Current portion of long-term debt	154,881	160,570
Total current liabilities	2,723,660	2,424,302
Noncurrent liabilities:		
Long-term debt, less current portion	1,177,924	1,184,316
Interest rate swaps	33,141	44,546
Accrued medical malpractice claims	2,342	2,299
Lease liabilities, less current portion	54,150	56,403
Other	50,808	108,468
Total noncurrent liabilities	1,318,365	1,396,032
Total liabilities	4,042,025	3,820,334
Net assets:		
Total without donor restrictions	6,560,866	6,322,490
With donor restrictions	1,855	1,855
Total net assets	6,562,721	6,324,345
Total liabilities and net assets	\$ 10,604,746	\$ 10,144,679

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

	<b>Three Months Ended</b>	
	<b>March 31</b>	
	<b>2021</b>	<b>2020</b>
	<b>(Unaudited)</b>	
Revenues:		
Patient service revenue	\$ 806,511	\$ 733,997
Member premium revenue	45,645	43,669
Other revenue	188,473	162,545
Total operating revenues	1,040,629	940,211
Expenses:		
Salaries, wages, and benefits	336,932	310,853
Supplies, drugs, purchased services, and other	450,825	416,303
Hospital assessment fee	18,280	20,389
Health claims to providers	36,427	33,512
Depreciation and amortization	42,110	39,471
Interest	7,256	11,240
Total operating expenses	891,830	831,768
Operating income	148,799	108,443
Nonoperating income:		
Investment income (loss), net	170,418	(600,057)
Gains (losses) on interest rate swaps, net	11,446	(16,871)
Debt extinguishment and other	(1,454)	(906)
Total nonoperating income (loss)	180,410	(617,834)
Excess (deficit) of revenue over expenses	\$ 329,209	\$ (509,391)



Indiana University Health, Inc. and subsidiaries  
Statistical and Other Data  
As of and for the Three Months Ended March 31, 2021 and 2020  
(Except as noted below)

Description	For the Three Months Ended March 31	
	2021	2020
<b>Academic Health Center</b>		
Active Members	1,192	1,239
Residents	809	737
Other Members	1,088	973
Total Medical Staff	3,089	2,949
Consolidated Number of Available Beds	2,682	2,660
<b>Employees</b>		
Consolidated FTE employees	31,585	31,009
Methodist/IU/Riley/Saxony/Morgan FTE employees	8,397	8,636
<b>Credit Group coverage of Debt Service (dollars in thousands, annualized)</b>		
Revenues over expenses (1)	900,364	957,771
Depreciation, amortization and interest	198,998	204,448
Available to pay debt service	1,099,362	1,162,219
Actual debt service	103,203	112,572
Historical debt service coverage ratio	10.65	10.32
Forecast maximum annual debt service (2)	106,405	120,255
Available to pay debt service	1,099,362	1,162,219
Forecast maximum annual debt service coverage ratio	10.33	9.66

Description	For the Three Months Ended March 31	
	2021	2020
<b>Consolidated Utilization and Operating Statistics</b>		
Inpatient Days	158,666	150,292
Admissions	26,995	26,472
Occupancy Rate (based on available beds)	65.73%	62.09%
Average Length of Stay	5.88	5.68
Surgery Cases IP	6,772	6,607
Surgery Cases OP	20,338	18,426
Surgery Cases Total	27,110	25,033
Emergency Room Visits	92,464	105,917
Radiological Examinations	333,460	324,637
<b>Gross Patient Service Revenue</b>		
Medicare and Other Government	41.11%	41.90%
Medicaid	12.48%	14.11%
HIP	9.75%	7.50%
Medicaid and HIP	22.23%	21.61%
Wellpoint / Anthem	17.72%	17.43%
Other	16.83%	16.38%
Commercial / Managed Care	34.55%	33.81%
Self Pay and Other	2.11%	2.68%
Total Gross Patient Service Revenue:	100.00%	100.00%
<b>Medicare Case Mix Index, Academic Health Center (3)</b>	2.397	2.441

Bed Complement: Available	March 31, 2021		March 31, 2020	
	Academic Health Center	Other System Hospitals	Academic Health Center	Other System Hospitals
Medical Surgical	700	807	700	785
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	1,394	1,288	1,372

(1) Adjusted for certain gains (losses) as defined in the IU Health Obligated Group Master Trust Indenture.  
(2) Calculated in accordance with the definition of "Maximum Annual Debt Service" as defined in the IU Health Obligated Group Master Trust Indenture, but assumes an interest rate of 3.50% (which rate is inclusive of remarketing and credit facility costs) for all variable-  
(3) Medicare system of classification for DRGs is annually revised effective October 1 of each year.