Consolidated Financial Statements

Indiana University Health, Inc. and Subsidiaries
Years Ended December 31, 2021 and 2020
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

Indiana University Health, Inc. and Subsidiaries

Consolidated Financial Statements

Years Ended December 31, 2021 and 2020

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Report of Independent Auditors

The Board of Directors
Indiana University Health, Inc. and Subsidiaries

Opinion

We have audited the consolidated financial statements of Indiana University Health, Inc. and Subsidiaries (Indiana University Health), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes (collectively referred to as the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Indiana University Health, Inc. and Subsidiaries at December 31, 2021 and 2020, and the related changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Indiana University Health and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Indiana University Health's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Indiana University Health's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Indiana University Health's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal-control-related matters that we identified during the audit.

Ernst & Young LLP

February 25, 2022

Indiana University Health, Inc. and Subsidiaries

Consolidated Balance Sheets

(Thousands of Dollars)

	December 31	
	2021	**2020**
Assets		
Current assets:		
Cash and cash equivalents	**$ 263,492**	$ 223,035
Short-term investments	**9,136**	148,024
Current portion of assets limited as to use	**176,167**	130,531
Patient accounts receivable	**1,058,084**	888,486
Other receivables	**85,945**	146,930
Prepaid expenses	**84,268**	80,907
Inventories	**157,257**	138,917
Total current assets	**1,834,349**	1,756,830
Assets limited as to use:		
Board-designated investment funds and other investments	**6,877,092**	7,080,281
Board-designated funds – community health	**734,365**	123,786
Board-designated funds – innovation	**400,293**	–
Donor-restricted investment funds	**99,845**	85,908
Total assets limited as to use, less current portion	**8,111,595**	7,289,975
Property and equipment:		
Cost of property and equipment in service	**6,820,698**	6,051,238
Less accumulated depreciation	**(3,805,953)**	(3,573,871)
	3,014,745	2,477,367
Construction-in-progress	**131,237**	472,574
Total property and equipment, net	**3,145,982**	2,949,941
Other assets:		
Equity interest in unconsolidated subsidiaries	**15,380**	13,291
Interests in net assets of foundations	**15,820**	23,371
Right-of-use assets	**160,107**	127,463
Interest rate swaps	**32,839**	30,517
Goodwill, intangibles, and other assets	**381,021**	373,826
Total other assets	**605,167**	568,468
Total assets	**$ 13,697,093**	$ 12,565,214

Continued on next page.

Indiana University Health, Inc. and Subsidiaries

Consolidated Balance Sheets (continued)
(Thousands of Dollars)

	December 31 2021	December 31 2020
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 926,209**	$ 653,012
Accrued salaries, wages, and related liabilities	**426,780**	435,157
Accrued health claims	**59,667**	44,685
Estimated third-party payer allowances	**105,140**	155,761
Current portion of lease liabilities	**41,060**	33,543
Current portion of long-term debt	**56,718**	161,909
Total current liabilities	**1,615,574**	1,484,067
Noncurrent liabilities:		
Long-term debt, less current portion	**1,535,473**	1,194,796
Interest rate swaps	**7,606**	44,546
Accrued pension obligations	**7,487**	8,227
Accrued medical malpractice claims	**72,102**	70,569
Lease liabilities, less current portion	**130,868**	110,736
Other	**28,056**	226,501
Total noncurrent liabilities	**1,781,592**	1,655,375
Total liabilities	**3,397,166**	3,139,442
Net assets:		
Indiana University Health	**9,892,320**	9,033,355
Noncontrolling interest in subsidiaries	**266,242**	260,459
Total without donor restrictions	**10,158,562**	9,293,814
With donor restrictions	**141,365**	131,958
Total net assets	**10,299,927**	9,425,772
Total liabilities and net assets	**$ 13,697,093**	$ 12,565,214

See accompanying notes to the consolidated financial statements.

Indiana University Health, Inc. and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

(Thousands of Dollars)

	Year Ended December 31	
	2021	**2020**
Revenues:		
Patient service revenue	**$ 7,208,654**	$ 6,311,835
Member premium revenue	**281,361**	287,753
Other revenue	**379,183**	503,205
Total operating revenues	**7,869,198**	7,102,793
Expenses:		
Salaries, wages, and benefits	**4,020,999**	3,559,311
Supplies, drugs, purchased services, and other	**2,623,978**	2,309,988
Contribution to related entity	**416,000**	–
Hospital assessment fee	**185,979**	173,637
Health claims to providers	**146,271**	99,267
Depreciation and amortization	**279,433**	265,297
Interest	**35,832**	39,513
Total operating expenses	**7,708,492**	6,447,013
Operating income	**160,706**	655,780
Nonoperating income:		
Investment income, net	**882,845**	739,649
Gains (losses) on interest rate swaps, net	**4,306**	(13,219)
Annuitization of defined benefit plan	**–**	(131,672)
Debt extinguishment and other	**(34,554)**	(20,251)
Total nonoperating income	**852,597**	574,507
Consolidated excess of revenues over expenses	**1,013,303**	1,230,287
Less amounts attributable to noncontrolling interest in subsidiaries	**151,792**	118,615
Excess of revenue over expenses attributable to Indiana University Health, Inc. and Subsidiaries	**$ 861,511**	$ 1,111,672

Continued on next page.

Indiana University Health, Inc. and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets (continued)

(Thousands of Dollars)

	Year Ended December 31, 2021		
	Total	**Controlling**	**Noncontrolling**
Without donor restriction:			
Consolidated excess of revenues over expenses	**$ 1,013,303**	**$ 861,511**	**$ 151,792**
Change in pension obligations	**581**	**581**	**–**
Distributions to noncontrolling interests	**(147,008)**	**–**	**(147,008)**
Change in fair value of interest rate swaps designated as hedges	**18,207**	**18,207**	**–**
Purchase of noncontrolling interests	**(36,804)**	**(19,512)**	**(17,292)**
Other	**16,469**	**(1,822)**	**18,291**
	864,748	**858,965**	**5,783**
With donor restriction:			
Change in beneficial interest in net assets of foundations	**(6,576)**	**(6,576)**	**–**
Contributions	**12,635**	**12,635**	**–**
Investment return	**6,342**	**6,342**	**–**
Change in split interest agreements	**1,768**	**1,768**	**–**
Net assets released from restrictions	**(4,303)**	**(4,303)**	**–**
Other	**(459)**	**(459)**	**–**
	9,407	**9,407**	**–**
Increase in net assets	**874,155**	**868,372**	**5,783**
Net assets at beginning of period	**9,425,772**	**9,165,313**	**260,459**
Net assets at end of period	**$ 10,299,927**	**$ 10,033,685**	**$ 266,242**

	Year Ended December 31, 2020		
	Total	**Controlling**	**Noncontrolling**
Without donor restriction:			
Consolidated excess of revenues over expenses	$ 1,230,287	$ 1,111,672	$ 118,615
Change in pension obligations	132,871	132,871	–
Distributions to noncontrolling interests	(120,740)	–	(120,740)
Change in fair value of interest rate swaps designated as hedges	30,517	30,517	–
Other	(8,405)	1,060	(9,465)
	1,264,530	1,276,120	(11,590)
With donor restriction:			
Change in beneficial interest in net assets of foundations	1,191	1,191	–
Contributions	8,324	8,324	–
Investment return	5,571	5,571	–
Change in split interest agreements	983	983	–
Net assets released from restrictions	(5,787)	(5,787)	–
Other	67	67	–
	10,349	10,349	–
Increase (decrease) in net assets	1,274,879	1,286,469	(11,590)
Net assets at beginning of period	8,150,893	7,878,844	272,049
Net assets at end of period	$ 9,425,772	$ 9,165,313	$ 260,459

See accompanying notes to the consolidated financial statements.

Indiana University Health, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(Thousands of Dollars)

	Year Ended December 31	
	2021	**2020**
Operating activities		
Increase in net assets	**$ 874,155**	$ 1,274,879
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Change in fair value of interest rate swaps	**(22,403)**	(17,667)
Change in pension obligation	**(581)**	(132,871)
Gain in unconsolidated subsidiaries	**(1,498)**	(227)
Depreciation and amortization	**279,433**	265,297
Loss on extinguishment of debt	**–**	3,892
Contributions and investment return with donor restriction	**(14,169)**	(16,069)
Distributions to noncontrolling interests	**147,008**	120,740
Assets limited as to use	**(674,434)**	(660,895)
Net changes in operating assets and liabilities:		
Patient accounts receivable	**(169,598)**	(12,853)
Other assets	**79,861**	(52,560)
Accounts payable, accrued liabilities, and other liabilities	**91,108**	416,891
Accrued salaries, wages, and related liabilities	**(8,377)**	54,086
Estimated third-party payer allowances	**(50,621)**	(25,945)
Net cash provided by operating activities	**529,884**	1,216,698
Investing activities		
Purchase of property and equipment, net of disposals	**(472,497)**	(597,049)
Net cash used in investing activities	**(472,497)**	(597,049)
Financing activities		
Proceeds from notes payable under lines of credit	**–**	225,000
Repayment of notes payable under lines of credit	**–**	(225,000)
Issuance of long-term debt, net of discount	**404,791**	–
Repayments on long-term debt, net of discount	**(169,305)**	(459,439)
Termination of interest rate swaps	**(16,684)**	–
Contributions and investment return with donor restrictions	**14,169**	16,069
Purchase of noncontrolling interests	**(48,958)**	–
Distributions to noncontrolling interests	**(147,008)**	(120,740)
Net cash provided by (used in) financing activities	**37,005**	(564,110)
Net increase in cash and cash equivalents	**94,392**	55,539
Cash and cash equivalents at beginning of period	**332,832**	277,293
Cash and cash equivalents at end of period	**$ 427,224**	$ 332,832
Reconciliation of cash and cash equivalents to the consolidated balance sheets		
Cash and cash equivalents	**$ 263,492**	$ 223,035
Cash and cash equivalents included in assets limited as to use	**163,732**	109,797
Cash and cash equivalents at end of period	**$ 427,224**	$ 332,832

See accompanying notes to the consolidated financial statements.

Enterprise Vision:

We will lead the transformation of healthcare through quality, innovation & education, and make Indiana one of the nation's healthiest states.

Promise:

The Best Care, Designed for You.

Values:

Purpose. Excellence. Compassion. Team.

1. Organization and Nature of Operations

History and Organization

Indiana University Health, Inc. (Indiana University Health) and Subsidiaries operate as an integrated health care delivery system, which includes an academic health center affiliated with Indiana University, providing health care services in the State of Indiana. Health care services provided by Indiana University Health and its subsidiaries (hereinafter referred to as the Indiana University Health System) include acute, nonacute, tertiary, and quaternary care services on an inpatient, outpatient, and emergency basis; medical education and research; health care diagnostic and treatment services for individuals and families in physician clinics and physician-group practices; personal and home health care; and medical management services. The Indiana University Health System is also involved in philanthropic activities through affiliated foundations.

Indiana University Health was formed as an Indiana nonprofit corporation through a consolidation, as of January 1, 1997, under the terms of a Definitive Health Care Resources Consolidation Agreement, as amended (the Consolidation Agreement), and certain other related agreements by and between the Trustees of Indiana University and Methodist Health Group, Inc. (formerly known as Methodist Hospital of Indiana, Inc.). The facilities and operations of Indiana University Health University Hospital (University Hospital), Riley Hospital for Children at Indiana University Health (Riley Hospital), and Indiana University Health Methodist Hospital (Methodist Hospital) (collectively, the Downtown Indianapolis Hospitals of the Academic Health Center)

1. Organization and Nature of Operations (continued)

were merged and consolidated to form a single corporate entity, which was then licensed as a single acute care hospital and operates as an academic health center. Members of the Board of Directors (the Board) of Indiana University Health are selected by its two classes of members: the Methodist Class (members of which are members of Methodist Health Group, Inc.) and the University Class (members of which are the individuals who are the Trustees of Indiana University).

The Consolidation Agreement requires Indiana University Health to fund the salaries and related employee benefit costs for medical doctor interns and residents of the Indiana University School of Medicine (the School of Medicine) who provide services at the Indiana University Health System's facilities. The Board annually reviews and determines the level of support to provide to the School of Medicine for these programs and the number of internships and residencies to be supported. The Consolidation Agreement also requires Indiana University Health to provide additional support to the School of Medicine to recognize, as a result of the consolidation, the enhanced and increased level of services being provided, including services to the medically indigent through medical education and research.

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 December 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, Methodist Hospital, University Hospital, and Riley Hospital, are located on or near the campus of Indiana University-Purdue University Indianapolis and the School of Medicine.

1. Organization and Nature of Operations (continued)

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.

1. Organization and Nature of Operations (continued)

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 & Medicaid Services (CMS).

Philanthropic Activities

Foundations – Consist of two entities that 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. On August 1, 2020, Indiana University Health Ball Memorial Hospital Foundation, Inc. was merged into the Indiana University Health Foundation. The Foundation will continue to serve the same purpose as prior to the merger.

2. Significant Events

Coronavirus Pandemic

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 health care industry specifically that 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 that 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 nonessential 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 health care providers an opportunity to halt nonemergency, inpatient surgeries to allow them to prepare for expected surges of COVID-19 cases. As COVID-19 patient hospitalizations continued to surge throughout 2021, Indiana University Health responded by postponing certain elective inpatient surgeries and procedures.

For the year ended December 31, 2021, Indiana University Health recognized $77,961 of stimulus funds as other revenue from the U.S. Department of Health and Human Services (HHS) Provider Relief Fund (PRF) under the provisions of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and Payroll Protection Program & Health Care Enhancement Act. Of this, $49,454 was received in 2021, and $28,507 was previously deferred in accounts payable and accrued expenses on the consolidated balance sheet as of December 31, 2020. For the year ended December 31, 2020, Indiana University Health received a total of $256,977 in stimulus funds and recognized $228,470 of the funds as other revenue on the consolidated statement of operations and changes in net assets for the year ended December 31, 2020. The remaining $28,507 was recorded as a contract liability in accounts payable and accrued expenses on the consolidated balance sheet as of December 31, 2020.

On September 10, 2021, HHS announced an additional round of provider funding from the American Rescue Plan (ARP). Indiana University Health applied for and received $31,963 from the ARP distribution. Of the amount received, Indiana University Health recognized $29,963 in

2. Significant Events (continued)

other revenue on the consolidated statement of operations and changes in net assets for the year ended December 31, 2021. The remaining $2,000 was recorded as a contract liability in accounts payable and accrued expenses on the consolidated balance sheet as of December 31, 2021. Indiana University Health will continue to monitor compliance with the terms and conditions of the PRF and ARP. 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% 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 statement of operations and changes in net assets for employer tax credits on eligible wages. No amounts have been recorded in the 2021 consolidated financial statements related to this tax credit.

In April 2020, Indiana University Health received $348,448 from 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. Health care providers had one year from the date of receipt before CMS began 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 6 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. As of December 31, 2021, CMS has recouped $143,286 from the advance payment to Indiana University Health. The remaining portion of the contract liability of $205,162 is included within accounts payable and accrued expenses on the consolidated balance sheet as of December 31, 2021. As of December 31, 2020, the current and noncurrent portion of the contract liability was $149,394 and $199,054, and is included within accounts payable and accrued expenses, and other noncurrent liabilities, respectively.

Due to the ongoing impacts of COVID-19, the pandemic is still negatively affecting the operating margins and financial results of Indiana University Health due to changes in the care model, patient behavior, variants of the virus, and market pressures influencing other operating costs.

2. Significant Events (continued)

Fort Wayne

On August 17, 2018, Indiana University Health formed a joint venture, Indiana University Health Fort Wayne, LLC, as the majority partner, owning 67.37% of the joint venture. On October 7, 2021, Indiana University Health acquired all of the noncontrolling ownership interests for $48,958, which includes the return of the partner's invested capital. Indiana University Health will continue to establish a long-term presence to enhance and improve the delivery of cost-effective, quality health care services in the Fort Wayne market.

3. Community Benefit

The Indiana University Health System provides health care services and financial support through various programs that are designed to enhance the health of each community served, improve the health of low-income patients, and foster medical education and research through its affiliation with the School of Medicine. In addition, the Indiana University Health System provides services intended to benefit the poor and underserved, including those persons who are uninsured or underinsured. Health care services to patients under government programs, such as Medicare and Medicaid, are also considered part of the Indiana University Health System's benefit provided to the community since a substantial portion of such services is reimbursed at amounts less than cost.

The Indiana University Health System also provides education for health care providers, including support to the School of Medicine; chaplaincy programs that support patients' medical, spiritual, and emotional needs; programs to enhance health and well-being in the community, including neighborhood revitalization, community health clinics, and food access programs; charity, equality, and justice programs, including education programs available to independent health providers, and obesity prevention programs such as Jump IN for Healthy Kids and Playworks; other medical research, including support to the Indiana University Health Values Children's Fund; and the fostering of an internal community of trust, respect, and empowerment.

Through statewide facility-by-facility community health needs assessments, Indiana University Health and community stakeholders identified and selected priority community health needs on which Indiana University Health will focus, including improving access to affordable health care; behavioral health (includes drug and substance abuse, as well as mental health); smoking, tobacco use, and exposure to secondhand smoke; social determinants of health; and obesity and diabetes prevention. The costs of providing these programs and services are included in total operating expenses on the accompanying consolidated statements of operations and changes in net assets.

4. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Indiana University Health and all majority-owned or controlled subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

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

Cash Equivalents

Cash and equivalents include highly liquid short-term investments with maturities of 90 days or less from the date of purchase, other than those included in the investment portfolio.

The Indiana University Health System routinely invests in money market funds, including treasury and agency money market funds, that are considered by management to be cash equivalents. Such instruments, as well as bank deposits, are potentially subject to concentrations of credit risk. In order to mitigate such risk, the Indiana University Health System generally places its cash and cash equivalents with institutions of high credit quality.

Patient Accounts Receivable

Patient accounts receivable are based upon the estimated amounts expected to be paid from patients and third-party payers.

Inventories

Inventories consist primarily of drugs and supplies, are stated at the lower of cost or net realizable value, and are generally valued using the average cost method.

4. Summary of Significant Accounting Policies (continued)

Assets Limited as to Use

Assets limited as to use include the following: (i) cash and cash equivalents and designated investment assets, including those funds held by the consolidated foundations, set aside by the Board for future capital improvements, over which the Board retains control and may, in certain circumstances, use for other purposes; (ii) current portion of assets limited as to use includes funds held by a trustee; and (iii) donor-restricted investment assets, the use of which has been specified by the donor. Substantially all assets limited as to use are invested and managed by professional investment managers and are held in custody by financial institutions. These funds are classified as trading securities. Accordingly, changes in unrealized gains and losses in the fair value of investments are included in nonoperating income within investment income on the accompanying consolidated statements of operations and changes in net assets. The Indiana University Health System is a limited partner in certain funds that employ hedged investment strategies and funds that employ investment strategies that require long holding periods to create value (collectively referred to as alternative investments). These alternative investments are accounted for using the equity method of accounting, based on the fund's financial information. Management has utilized the best available information for reported alternative investment values, which in some instances are valuations as of an interim date.

In 2019, Indiana University Health furthered its commitment to improving the health of Indiana by establishing a \$100,000 Community Impact Investment Fund, to help address critical health issues affecting Hoosiers over the long term. On December 9, 2021, the Indiana University Health, Inc. Board of Directors approved an additional \$1,000,000 in continued support of its mission to make Indiana one of the healthiest states. Funds totaling \$600,000 for community health were set aside and allocated to three separate funds. A contribution of \$100,000 was made to the previously established Community Impact Investment Fund. A \$200,000 health district investment fund was also created to support needs related to the health district, the area that will be developed in conjunction with the new Adult Academic Health Center. This fund will focus on improving the health of patients, employees, visitors, and neighbors in the surrounding area. The needs identified as part of the health district investment fund include a partnership with Indianapolis Public Schools to build a medical magnet curriculum and career pathway programming, as well as a collaboration with several community partners to support the work, life, and learning goals of individuals seeking greater self-sufficiency. Finally, a \$300,000 health district support fund was created for

4. Summary of Significant Accounting Policies (continued)

additional needs, including one time support for projects such as urban agriculture and revitalizing areas in the health district. These three funds are recorded as Board-designated funds – community health on the consolidated balance sheet as of December 31, 2021. Additionally, funds totaling $400,000 were earmarked to establish the Innovation Investment Fund for use in future health care innovation initiatives. These funds are recorded as Board-designated funds – innovation on the consolidated balance sheet as of December 31, 2021. The Indiana University Health, Inc. Board of Directors retains control of these funds.

Property and Equipment

Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets.

Interest cost incurred on borrowed funds during the period of construction and other interest costs related to tax-exempt bonds are capitalized as a component of the cost of constructing the assets. In addition, interest earnings on unexpended borrowed funds related to tax-exempt financings offset capitalized tax-exempt interest. Repair and maintenance costs are expensed when incurred.

The Indiana University Health System evaluates when events or changes in circumstances have occurred that would indicate that the remaining estimated useful life of long-lived assets warrant revision or that the remaining balance of such assets may not be recoverable. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset or asset group. If undiscounted cash flows are insufficient to recover the carrying value of the long-lived asset, such asset is written down to its fair value.

Equity Interest in Unconsolidated Subsidiaries

The Indiana University Health System has joint venture arrangements for health care-related services in which it owns 50% or less. Where applicable, these arrangements are accounted for using the equity method of accounting. Total equity interest in unconsolidated subsidiaries was $15,380 and $13,291 as of December 31, 2021 and 2020, respectively. The Indiana University Health System has recorded its interest in the income of its unconsolidated subsidiaries within other operating revenue on the consolidated statements of operations and changes in net assets.

4. Summary of Significant Accounting Policies (continued)

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 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.

Goodwill and Intangible Assets

In connection with business combinations, the Indiana University Health System has recorded goodwill and definite-lived intangible assets on the accompanying consolidated balance sheets. The Indiana University Health System evaluates goodwill for impairment annually or more frequently if events or changes in circumstances suggest that the carrying value of an asset may not be recoverable. The goodwill impairment analysis, performed at the reporting unit level, generally includes estimating the fair value of a reporting unit and comparing that with the carrying value. If fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered to be impaired. These valuation methods require the Indiana University Health System to make estimates and assumptions regarding future operating results, cash flows, changes in working capital, capital expenditures, profitability, and the cost of capital.

4. Summary of Significant Accounting Policies (continued)

The Indiana University Health System also reviews whether events or changes in circumstances suggest impairment may have occurred related to the carrying value of the definite-lived intangible assets, which are amortized over periods of 5 to 35 years. It has been determined that there was no impairment of goodwill or definite-lived intangible assets during 2021 or 2020. Intangible assets included in goodwill, intangibles, and other assets on the accompanying consolidated balance sheets as of December 31, 2021 and 2020, were $208,167 and $209,802, respectively, which includes goodwill of $197,989 and $196,646 at December 31, 2021 and 2020, respectively.

Unamortized Bond Issuance Costs and Bond Discount or Premium

Costs incurred in connection with the issuance of long-term debt and bond discounts or premiums are amortized or accreted using the effective interest rate method. Amortization and accretion are included in interest expense on the accompanying consolidated statements of operations and changes in net assets (see Note 9).

Derivative Financial Instruments

The Indiana University Health System has entered into certain interest rate swap transactions (fixed-pay swaps and basis swaps). As of December 31, 2021 and 2020, three of the Indiana University Health System's fixed-pay swaps qualified for hedge accounting, whereas all other fixed-pay swaps as of those dates did not qualify for hedge accounting. Changes in fair value of interest rate swaps not designated as hedges, as well as the ineffective portion of the change in fair value of any interest rate swaps designated as hedges, during these years are reported in nonoperating income on the consolidated statements of operations and changes in net assets. Changes in fair value of interest rate swaps designated as hedges are included in other changes in net assets without donor restrictions on the consolidated statements of operations and changes in net assets.

Contributions

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is made. Conditional promises to give, including indications of an intention to give, are reported at fair value at the date the gift is made. If the gifts are made with donor stipulations that limit the use of the donated assets, the gifts are reported as donor restricted. Donor-restricted contributions for which restrictions are met in the same year as made are reported as unrestricted contributions in the accompanying consolidated financial statements.

4. Summary of Significant Accounting Policies (continued)

Noncontrolling Interest in Subsidiaries

The Indiana University Health System recorded $151,792 and $118,615 for the years ended December 31, 2021 and 2020, respectively, of excess of revenues over expenses attributable to noncontrolling interest in subsidiaries based on the ownership percentage of the noncontrolling interests in certain of the Indiana University Health System's consolidated subsidiaries. These amounts primarily relate to the surgery center joint ventures. For the years ended December 31, 2021 and 2020, the surgery center joint ventures accounted for $148,996 and $116,418, respectively, of the excess of revenues over expenses attributable to noncontrolling interest in subsidiaries. The surgery center joint ventures realized operating revenue of $374,292 and $304,688 and operating income of $200,531 and $157,771 in 2021 and 2020, respectively. The operating revenue and operating income are reflected in total operating revenue and total operating income, respectively, on the consolidated statements of operations and changes in net assets.

Net Assets With Donor Restriction

Donor-restricted net assets are those assets whose use has been limited by donors to a specific time period or purpose. These net assets are generally restricted for medical education and research programs, medical supplies and equipment, and patient care services. Interests in net assets of unconsolidated foundations are included in other assets on the accompanying consolidated balance sheets (see Note 17).

Business Combinations

The Indiana University Health System allocates the purchase price of an acquisition to the various assets and liabilities based upon the relative fair value, which may be derived from various observable or unobservable inputs and assumptions. Also, the Indiana University Health System may use third-party valuation specialists. These components typically include buildings, land, and equipment and may also include intangibles related to noncompete agreements or other specifically identified intangible assets. The excess of the fair value of assets acquired over liabilities assumed and the fair value of any noncontrolling interest are recorded as an inherent contribution within the performance indicator as defined below. Goodwill is recorded to the extent that liabilities assumed and noncontrolling interests exceed the fair value of assets acquired.

4. Summary of Significant Accounting Policies (continued)

Fair Values 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 6, 10, and 11.

Member Premium Revenue and Health Claims

The Indiana University Health System has agreements to provide medical services to subscribing participants or members that generally provide for predefined payments (on a per member, per month basis), regardless of services actually performed. The cost to provide health care services under these agreements is accrued in the period in which the health care services are provided to a member based, in part, on estimates, including an accrual for medical services provided but not yet reported. Expenses to providers are reported as health claims to providers on the accompanying consolidated statements of operations and changes in net assets. The accrual for medical services provided but not yet reported is reflected as accrued health claims on the accompanying consolidated balance sheets.

Income Taxes

The Internal Revenue Service (IRS) has determined that Indiana University Health and certain of its affiliated entities are tax-exempt organizations as defined in Section 501(c)(3) of the Internal Revenue Code (IRC). Indiana University Health and its tax-exempt affiliates are, however, subject to federal and state income taxes on unrelated business income under the provisions of IRC Section 511.

4. Summary of Significant Accounting Policies (continued)

Deferred income taxes that, as of December 31, 2021 and 2020, have no net carrying value reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting and the amounts used for income tax purposes. As of December 31, 2021 and 2020, the Indiana University Health System had gross deferred tax assets of $146,281 and $135,889, respectively, primarily relating to net operating loss carryovers. Management determined that a full valuation allowance at December 31, 2021 and 2020, was necessary to reduce the deferred tax assets to the amount that would more likely than not be realized. Based on the weight of the evidence, if it is more likely than not that some portion or all of the deferred tax assets will not be realized, a valuation allowance to reduce the deferred tax assets is recorded. The increase in the valuation allowance for the current year is $10,392. At December 31, 2021, Indiana University Health System has available net operating loss carryforwards of $588,158. Net operating losses generated from 2001 through 2017 will expire between 2022 and 2037. Net operating losses generated after 2017 do not expire.

Operating and Performance Indicators

The primary purpose of Indiana University Health is to provide quality health care services to meet the needs of the State of Indiana. Since substantially all resources are derived from providing health care services, the activities directly associated with the furtherance of this purpose are considered operating activities. These activities serve as an important factor in evaluating how well management has discharged its stewardship responsibilities:

Operating Indicator (Operating Income) – Includes all unrestricted revenue, gains, donor contributions to offset operating expenses, other support, equity income or loss of unconsolidated health care subsidiaries, and expenses directly related to the recurring and ongoing health care operations during the reporting period. Any activities peripheral to Indiana University Health's primary purpose are excluded from the operating indicator and are considered nonoperating.

Performance Indicator (Excess of Revenues Over Expenses) – Includes operating income and nonoperating income. The performance indicator excludes certain changes in pension obligations; changes in the fair value of interest rate swaps designated as hedges; purchases of noncontrolling interests; and contributions for capital expenditures, distributions, and net assets released from restricted funds.

4. Summary of Significant Accounting Policies (continued)

Subsequent Events

For the consolidated financial statements as of and for the year ended December 31, 2021, management has evaluated subsequent events through February 25, 2022, the date that these consolidated financial statements were made publicly available.

Reclassifications

Certain amounts related to assets limited as to use; member premium revenue; and salaries, wages, and benefits expense in the 2020 consolidated financial statements have been reclassified to conform to the 2021 presentation. Such reclassifications had no effect on previously reported excess of revenues over expenses or net assets.

5. 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 are satisfied based on the nature of the services provided by the Indiana University Health System. Performance obligations satisfied over time relate to patients in the Indiana University Health System hospitals who are receiving inpatient acute care services from admission to the point when services are no longer required, which is generally at the time of discharge.

Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. Outpatient services are performance obligations satisfied at a point in time, and revenue is recognized when goods or services are provided and 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.

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

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 Financial Accounting Standards Board (FASB) Accounting Standards Codification (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. Changes in estimates due to settlements of prior fiscal years' cost reports, Medicaid settlements, and the disposition of other payer audits and settlements were not significant. Future changes in Medicare and Medicaid programs and reduction in funding levels could have an adverse effect on the Indiana University Health System. There were no other significant changes to the judgments used to determine the transaction price in prior periods.

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

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's share of disproportionate hospital share (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 Physician Faculty Access to Care program, was established to pay qualifying providers the difference between what Medicare would have paid and what Medicaid actually paid.

For the years ended December 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 $641,039 and $593,978, respectively. During the years ended December 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 $185,979 and $173,637, 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 support of its mission, the Indiana University Health System provides care to uninsured and underinsured patients. The Indiana University Health System provides charity care to patients who lack financial resources and are deemed to be medically indigent. Financial assistance is available to qualifying uninsured and underinsured patients receiving care at an

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

Indiana University Health System hospital location. Under its financial assistance policy, the Indiana University Health System provides medically necessary care to uninsured patients. Financial assistance up to the full amount of patient financial responsibility is available for uninsured and underinsured patients receiving care via the emergency department, direct admission from a physician's office, or transfer from another hospital. The federal poverty level (FPL) thresholds for this type of financial assistance are based on household makeup. Households without dependents are eligible for assistance if household income is less than or equal to 200% FPL, two adults and at least one dependent are eligible if household income is less than or equal to 250% FPL, and households with one adult and at least one dependent are eligible if household income is less than or equal to 300% FPL. Individuals with medical bills totaling more than 20% of annual household income, regardless of FPL, qualify for catastrophic assistance and are eligible for a reduction in patient financial responsibility to 20% of annual household income. Since the Indiana University Health System does not pursue collection of these amounts, the discounted amounts are not reported as patient service revenue. The Indiana University Health System uses presumptive eligibility screening procedures for some forms of financial assistance and recognizes net patient service revenue on services provided to self-pay patients at the discounted rate at the time services are rendered. The estimated cost of charity care, using the consolidated cost to charge ratio, was $133,584 and $90,358 in 2021 and 2020, respectively.

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 December 31, 2021 and 2020, were $205,162 and $348,448, respectively, and were a result of funds received as part of the Medicare Accelerated and Advance Payment Program (see Note 2). For the years ended December 31, 2021 and 2020, $143,286 and $0, respectively, of the funds were recouped and offset accounts receivable on the consolidated balance sheets.

(Thousands of Dollars)

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

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

	Year Ended December 31	
	2021	**2020**
Commercial/managed care	**$ 3,870,640**	$ 3,436,011
Medicare	**1,834,750**	1,620,625
Medicaid	**1,392,028**	1,150,558
Self-pay and other	**111,236**	104,641
	$ 7,208,654	$ 6,311,835

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 31% and 33% of patient service revenue for December 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). As of December 31, 2021 and 2020, 29% of patient accounts receivable were collectible from government payers. The remaining 71% of patient accounts receivable in 2021 and 2020 were collectible from managed care payers, commercial insurance payers, and uninsured and underinsured patients.

Other revenue is recognized at an amount that reflects the consideration to which the Indiana University Health System expects to be entitled in exchange for providing goods and services. The amounts recognized reflect consideration due from customers, third-party payers, and others.

(Thousands of Dollars)

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

Primary categories of other revenue include income from joint ventures, grant revenue, cafeteria revenue, rent and lease revenue, shared professional revenue, CARES Act stimulus funds and tax credits, and other.

The composition of other revenue by sources is as follows:

	Year Ended December 31	
	2021	**2020**
Shared health services revenue	**$ 170,178**	$ 137,030
Stimulus funds and tax credits	**107,924**	235,749
Other	**101,081**	130,426
	$ 379,183	$ 503,205

6. 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 mainly utilized to increase portfolio diversification.

6. Assets Limited as to Use (continued)

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 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 December 31, 2021 and 2020, there were $693,545 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.

6. Assets Limited as to Use (continued)

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 $851,038 and $599,948 as of December 31, 2021 and 2020, respectively. The fair value of futures contracts included in assets limited as to use on the consolidated balance sheet were $1,320 and $316 as of December 31, 2021 and 2020, respectively. Gains attributed to these futures contracts were $57,462 and $45,302 for the years ended December 31, 2021 and 2020, respectively, and are included in investment income, net on the consolidated statements of operations and changes in net assets.

The notional value of total return swaps was $49,492 as of December 31, 2021. The fair value of total return swap contracts and associated collateral posted was $(54) and $150, respectively, as of December 31, 2021. Indiana University Health has elected to offset these values and record the net fair value in assets limited to use on the consolidated balance sheet. The loss attributed to the total return swaps was $54 for the year ended December 31, 2021, and is included in investment income, net on the consolidated statements of operations and changes in net assets. There were no total return swap contracts held as of or during the year ended December 31, 2020.

(Thousands of Dollars)

6. Assets Limited as to Use (continued)

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

	December 31 2021	December 31 2020
Assets limited as to use:		
Cash	**$ 163,732**	$ 109,797
Short-term, liquid investments	**–**	9,625
Debt securities:		
Asset backed	**218,246**	276,044
Bank loans	**344,076**	294,415
Corporate debt	**849,941**	830,454
Government and agencies	**603,258**	512,786
Bond funds	**203,031**	203,818
Total debt securities	**2,218,552**	2,117,517
Equity securities:		
Domestic equities	**2,294,618**	1,909,007
Domestic equity funds	**23,011**	20,995
International equities	**933,667**	816,283
International equity funds	**404,733**	417,048
Total equity securities	**3,656,029**	3,163,333
Alternatives:		
Hedge funds	**1,208,133**	1,217,621
Private funds	**1,039,898**	802,297
Other	**1,418**	316
Total alternatives	**2,249,449**	2,020,234
Less current portion of assets limited as to use	**(176,167)**	(130,531)
Total assets limited as to use	**$ 8,111,595**	$ 7,289,975

(Thousands of Dollars)

6. Assets Limited as to Use (continued)

Assets limited as to use include funds held by the foundations whose fair values as of December 31, 2021, aggregated to $277,130, of which $177,285 is considered Board-designated investment funds and $99,845 is considered donor-restricted investment funds. Assets limited as to use include funds held by the foundations whose fair values as of December 31, 2020, aggregated to $219,710, of which $133,802 is considered Board-designated investment funds and $85,908 is considered donor-restricted investment funds.

The composition and presentation of investment income, net, recognized in nonoperating income on the accompanying consolidated statements of operations and changes in net assets are as follows:

	Year Ended December 31	
	2021	**2020**
Investment income:		
Interest and dividend income	**$ 174,255**	$ 130,645
Investment management and administrative fees	**(11,713)**	(10,315)
Realized gains on sale of investments, net	**290,012**	535,597
Unrealized gains on investments	**341,599**	12,286
Unrealized equity gains on alternative investments	**88,692**	71,436
	$ 882,845	$ 739,649

(Thousands of Dollars)

7. Financial Assets and Liquidity Reserves

The table below represents financial assets and liquidity resources available for general expenditures within one year as of December 31, 2021 and 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.

	December 31	
	2021	**2020**
Financial assets:		
Cash and cash equivalents	**$ 263,492**	$ 223,035
Short-term investments	**9,136**	148,024
Patient accounts receivable	**1,058,084**	888,486
Other receivables	**85,945**	146,930
Assets limited as to use	**8,287,762**	7,420,506
Total financial assets	**9,704,419**	8,826,981
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	**(1,199,245)**	(981,706)
Other	**(272,767)**	(291,004)
Financial assets not available for use within one year	**(1,472,012)**	(1,272,710)
Financial assets and liquidity resources available for general expenditures within one year	**$ 8,457,407**	$ 7,779,271

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 $200,000 to $375,000, which comprises 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 that prevent redemption of all or portions of such funds within a year.

(Thousands of Dollars)

7. Financial Assets and Liquidity Reserves (continued)

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.

8. Property and Equipment

The cost of property and equipment is summarized as follows:

	December 31	
	2021	**2020**
Land and improvements	**$ 342,583**	$ 277,841
Buildings and improvements	**3,836,779**	3,222,968
Equipment	**2,641,336**	2,550,429
	$ 6,820,698	$ 6,051,238

Useful lives of each category of assets are based on the estimated useful time frame that the particular assets are expected to be in service, generally in accordance with guidelines established by the American Hospital Association. Assets are depreciated on a straight-line basis beginning in the month when placed in service, with asset lives ranging as follows: 20 to 30 years for land improvements; 15 to 40 years for buildings and improvements; and 3 to 10 years for equipment, including software developed for internal use.

The Indiana University Health System has several approved large capital projects within construction-in-progress. As of December 31, 2021, the projects primarily include the consolidation of the downtown Indianapolis adult services into one medical campus, while December 31, 2020, primarily comprises renovations to Riley Hospital in order to integrate maternity and neonatal services, construction of a regional health campus and replacement hospital in Bloomington, and an expansion and renovation of West.

Construction-in-progress for assets currently under development was $131,237 and $472,574 at December 31, 2021 and 2020, respectively, and includes incurred costs for these projects and the construction, refurbishment, and replacement of other facilities and equipment. Firm commitments for future construction-in-progress spending totaled $238,764 at December 31, 2021.

9. Debt

Obligated Groups

The Indiana University Health System operates under two separate Master Trust Indentures (MTIs). Each MTI provides for the issuance of long-term debt and sets forth the terms pursuant to which underlying debt is issued. These MTIs set forth the provisions governing membership for the respective obligated groups, which presently consist of the following specific separate entities: (i) the Indiana University Health Obligated Group, which includes Indiana University Health (entity that includes divisions such as the Downtown Indianapolis Hospitals of the Academic Health Center, Saxony, and Morgan) as the sole member, and (ii) the Rehabilitation Hospital of Indiana Obligated Group, which includes RHI as the sole member. Each obligated group is required to meet certain covenants, and future members, if any, together with existing members will be jointly and severally liable for the obligations under their respective MTI. Each is subject to financial performance covenants that, among other compliance requirements, require the maintenance of debt service ratios and limit its ability to encumber certain of its respective assets. All Obligations Outstanding under the Indiana University Health Obligated Group MTI are secured by security interests in the Gross Receivables of the Obligated Group Members (capitalized terms in this sentence not otherwise defined herein have the meanings assigned to them in the Indiana University Health Obligated Group MTI). As of December 31, 2021, the Indiana University Health System was in compliance with all financial covenants.

Issuance, Modification, and Extinguishment of Debt

On July 1, 2021, Indiana University Health issued $300,000 in par value of Series 2021A taxable, fixed-rate bonds. On the same day, Indiana University Health effectuated the conversion and public remarketing of the following bonds: (i) $58,225 at par of Series 2011L bonds as tax-exempt, fixed-rate mandatory tender bonds; and (ii) $49,565 at par of Series 2011M bonds as tax-exempt, fixed-rate mandatory tender bonds. Proceeds of the Series 2021A bonds were used for general corporate purposes and to pay certain expenses incurred in connection with their issuance and the conversion and remarketing of the Series 2011L and 2011M bonds.

On December 30, 2020, Indiana University Health redeemed at par all of the outstanding Series 2011A, Series 2011B, Series 2011C, Series 2011D, Series 2011E, Series 2016B, and Series 2016C bonds for $211,810. Also on December 30, 2020, Indiana University Health legally defeased all of the Series 2011H, Series 2011I, and Series 2015B bonds for $186,740 plus accrued interest. These transactions were accounted for as debt extinguishments, resulting in a loss of $3,892 based

(Thousands of Dollars)

9. Debt (continued)

upon carrying values less than the funds expended plus unamortized issuance costs associated with the redeemed and defeased debt. The loss is recognized in debt extinguishment and other within the consolidated statement of operations and changes in net assets for the year ended December 31, 2020.

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

Long-term debt consists of the following:

	December 31	
	2021	**2020**
Indiana University Health Obligated Group		
Fixed-Rate, Taxable Bonds, Series 2021A, payable in a single principal installment at maturity in 2051, with an interest rate of 2.85% at December 31, 2021	**$ 300,000**	$ –
Fixed-Rate, Taxable Bonds, Series 2018A, payable in a single principal installment at maturity in 2048, with an interest rate of 3.97% at December 31, 2021 and 2020	**393,408**	393,408
Indiana Finance Authority:		
Fixed-Rate, Tax-Exempt Health System Revenue Bonds, Series 2019A, payable in varying principal installments in 2047 and 2049, with an interest rate of 4.00% at December 31, 2021 and 2020	**133,610**	133,610
Fixed-Rate, Tax-Exempt Health System Revenue Bonds, Series 2019B, payable in varying principal installments in 2057 and 2058 and subject to mandatory tender and remarketing in 2025, with an interest rate of 2.25% at December 31, 2021 and 2020	**109,070**	109,070
Fixed-Rate, Tax-Exempt Health System Revenue Bonds, Series 2019C, payable in varying principal installments through 2024, with an interest rate of 5.00% at December 31, 2021 and 2020	**61,795**	80,990
Fixed-Rate, Tax-Exempt Hospital Revenue Refunding Bonds, Series 2016A Bonds, payable in varying principal installments through 2025, with an interest rate of 5.00% at December 31, 2021 and 2020	**104,375**	123,285
Fixed-Rate, Tax-Exempt Hospital Revenue Refunding Bonds, Series 2015A Bonds, payable in varying principal installments through 2040, with interest rates ranging from 4.00% to 5.00% at December 31, 2021 and 2020	**287,395**	287,395

(Thousands of Dollars)

9. Debt (continued)

	December 31 2021	December 31 2020
Fixed-Rate, Tax-Exempt Hospital Revenue Refunding Bonds, Series 2014A Bonds, payable in varying principal installments through 2030, with an interest rate of 5.00% at December 31, 2021 and 2020	**$ 40,805**	$ 44,785
Fixed-Rate, Tax-Exempt Hospital Revenue Refunding Bonds, Series 2011N Bonds, repaid in 2021	**–**	10,055
Variable-Rate, Tax-Exempt Hospital Revenue Bonds, Series 2011L and M, payable in varying principal installments through 2046 and subject to mandatory remarketing in 2026, with an interest rate of 0.70% and 0.37% at December 31, 2021 and 2020, respectively	**107,790**	107,790
Rehabilitation Hospital of Indiana Obligated Group		
Indiana Finance Authority: Fixed-Rate, Tax-Exempt Hospital Revenue Bonds, Series 2011A, payable in varying principal installments through 2031, with an interest rate of 2.22% at December 31, 2021 and 2020	**9,567**	10,635
Other debt		
Finance lease obligations	**1,298**	443
Other	**1,043**	1,954
Total long-term debt	**1,550,156**	1,303,420
Unamortized premium, net of unamortized discount	**51,983**	61,048
Unamortized bond issuance costs	**(9,948)**	(7,763)
Less current portion	**(56,718)**	(161,909)
Long-term debt, less current portion	**$ 1,535,473**	$ 1,194,796

(Thousands of Dollars)

9. Debt (continued)

The scheduled maturities and mandatory redemptions of long-term debt, assuming remarketing of variable-rate bonds, are as follows:

	Indiana University Health Obligated Group MTI Debt	RHI Obligated Group MTI Debt	Other	Total
Year ending December 31:				
2022	$ 54,670	$ 905	$ 1,143	$ 56,718
2023	52,885	920	645	54,450
2024	50,735	940	258	51,933
2025	25,890	950	205	27,045
2026	5,075	965	90	6,130
Thereafter	1,348,993	4,887	–	1,353,880
	$ 1,538,248	$ 9,567	$ 2,341	$ 1,550,156

Total interest paid on long-term debt for the years ended December 31, 2021 and 2020, aggregated $56,394 and $60,418, respectively.

10. Derivative Financial Instruments

During October 2021, Indiana University Health terminated fixed-pay interest rate swaps and recognized a loss of $9,730 pursuant to the terminations. During November 2021, Indiana University Health terminated fixed-pay interest rate swaps and recognized a loss of $23,014 pursuant to the terminations. The losses are recorded as gains (losses) on interest rate swaps on the consolidated statements of operations and changes in net assets.

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 was intended to mitigate exposure to interest rate risk for debt issuance and was designated by management as a hedge for accounting purposes.

(Thousands of Dollars)

10. Derivative Financial Instruments (continued)

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 of mitigating interest rate risk. The following fixed-pay swaps, stated at current and maximum future notional amounts, remain in place as of December 31, 2021:

Current Notional Amount	Maximum Future Notional Amount	Effective Date	Maturity Date	Rate Received[A]	Rate Paid
$ –	$ 109,070	7/1/2025	12/1/2058	LIBOR	0.93%
–	287,395	6/1/2025	12/1/2040	LIBOR	1.01

[A] 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.

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 December 31, 2021, as follows:

Current Notional Amount	Maximum Future Notional Amount	Effective Date	Maturity Date	Swap Type	Rate Received[A]	Rate Paid[A]
$ 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) 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.

(Thousands of Dollars)

10. Derivative Financial Instruments (continued)

As of December 31, 2021, the fair value of interest rate swaps in a liability positions was $7,606, which is net of CVA of $548, and the fair value of interest rate swaps in asset positions was $32,839, which is net of CVA of $5,917. As of December 31, 2020, the fair value of interest rate swaps in a 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 other assets on the accompanying consolidated balance sheets as of December 31, 2021 and 2020.

As of December 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 $705,665, comprising $396,465 of fixed-pay swaps and $309,200 of basis swaps. Under agreements executed with counterparties, Indiana University Health is obligated to fund collateral amounts when the aggregate market value of swaps made with a given counterparty is a liability that exceeds a threshold set forth in the related agreement. As of December 31, 2021 and 2020, all interest rate swaps were subject to credit-risk-related contingent features. No collateral was posted as of December 31, 2021 or 2020.

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:

	Year Ended December 31	
	2021	**2020**
Gains (losses) on interest rate swaps, net:		
Unrealized gains (losses) on interest rate swaps	**$ 36,938**	$ (12,849)
Change in realized due to swap terminations	**(32,744)**	–
Realized gains (losses) on interest rate swaps	**112**	(370)
	$ 4,306	$ (13,219)

The Indiana University Health System recorded the change in fair value of interest rate swaps designated as hedges of $18,207 and $30,517 as changes in net assets without donor restrictions on the consolidated statements of operations and changes in net assets for the years ended December 31, 2021 and 2020, respectively.

11. Fair Value Measurements

The accounting guidance for the application of fair value provides, among other matters, for the following: (i) defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value, (ii) establishes a three-level hierarchy for fair value measurements based upon the observability of inputs to the valuation of an asset or liability as of the measurement date, (iii) requires consideration of nonperformance risk when valuing liabilities, and (iv) expands disclosures about instruments measured at fair value. The three-level hierarchy is based upon the nature of valuation techniques and whether such techniques are based upon observable or unobservable inputs, as defined.

Observable inputs are intended to reflect market data obtained from independent sources, while unobservable inputs may reflect market assumptions made by management or measurements made by financial specialists generally associated with the financial asset or liability. These two types of inputs create the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities as of the reporting date.

- Level 2 – Pricing inputs other than quoted prices included in Level 1 that are either directly observable or that can be derived or supported from observable data as of the reporting date.

- Level 3 – Pricing inputs include those that are significant to the fair value of the financial asset or financial liability and are not observable from objective sources. In evaluating the significance of inputs, the Indiana University Health System generally classifies assets or liabilities as Level 3 when their fair value is determined using unobservable inputs that, individually or when aggregated with other unobservable inputs, represent more than 10% of the fair value of the assets or liabilities. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

Net Asset Value (NAV) – Indiana University Health invests in funds for which the NAV per share represents the fair value of the investment held. 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.

(Thousands of Dollars)

11. 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 December 31, 2021 and 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.

	December 31, 2021						
	Level 1	Level 2	Level 3	NAV	Fair Value	Equity Method	Carrying Value
Assets							
Cash and cash equivalents	$ 263,492	$ –	$ –	$ –	$ 263,492	$ –	$ 263,492
Debt securities:							
Asset backed	–	62	–	–	62	–	62
Corporate debt	–	9,074	–	–	9,074	–	9,074
Assets limited as to use:							
Cash	163,732	–	–	–	163,732	–	163,732
Debt securities:							
Asset backed	–	218,246	–	–	218,246	–	218,246
Bank loans	–	344,076	–	–	344,076	–	344,076
Corporate debt	–	847,376	2,565	–	849,941	–	849,941
Government and agencies	597,333	5,925	–	–	603,258	–	603,258
Bond funds	–	–	–	203,031	203,031	–	203,031
Equity securities:							
Domestic equities	2,294,618	–	–	–	2,294,618	–	2,294,618
Domestic equity funds	23,011	–	–	–	23,011	–	23,011
International equities	933,667	–	–	–	933,667	–	933,667
International equity funds	–	–	–	404,733	404,733	–	404,733
Alternatives:							
Hedge funds	–	–	–	–	–	1,208,133	1,208,133
Private funds	–	–	–	–	–	1,039,898	1,039,898
Other	1,418	–	–	–	1,418	–	1,418
Other assets:							
Interest rate swaps	–	–	32,839	–	32,839	–	32,839
Beneficial interests in charitable remainder and perpetual trusts	–	20,345	–	–	20,345	–	20,345
Total assets	$ 4,277,271	$ 1,445,104	$ 35,404	$ 607,764	$ 6,365,543	$ 2,248,031	$ 8,613,574
Liabilities							
Interest rate swaps	$ –	$ 7,606	$ –	$ –	$ 7,606	$ –	$ 7,606
Total liabilities measured at fair value on a recurring basis	$ –	$ 7,606	$ –	$ –	$ 7,606	$ –	$ 7,606

(Thousands of Dollars)

11. Fair Value Measurements (continued)

	December 31, 2020						
	Level 1	**Level 2**	**Level 3**	**NAV**	**Fair Value**	**Equity Method**	**Carrying Value**
Assets							
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
Total assets	$ 3,658,264	$ 1,535,309	$ 4,119	$ 620,866	$ 5,818,558	$ 2,019,918	$ 7,838,476
Liabilities							
Interest rate swaps	$ –	$ 44,546	$ –	$ –	$ 44,546	$ –	$ 44,546
Total liabilities measured at fair value on a recurring basis	$ –	$ 44,546	$ –	$ –	$ 44,546	$ –	$ 44,546

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 6).

Beneficial interests in charitable remainder and perpetual trusts of $20,345 and $16,394 as of December 31, 2021 and 2020, respectively, are included in goodwill, intangibles, and other assets on the consolidated balance sheets.

(Thousands of Dollars)

11. 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 10) 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 December 31, 2021.

The following table is a rollforward of the amount included on the consolidated balance sheet for interest rate swaps classified within Level 3 of the valuation hierarchy defined above:

	Financial Assets for Derivative Financial Instruments
Fair value at January 1, 2021	$ –
Transfers in	38,756
Other	(5,917)
Fair value at December 31, 2021	$ 32,839

There were no material transfers between Level 3 investments in 2020.

The value of the CVA may vary depending upon the following factors:

- Whether the Indiana University Health System is required to post collateral under the swap agreements.
- To the extent that the credit rating of the Indiana University Health System or relevant counterparty increases or decreases, in which case the CVA would decrease or increase, respectively.

11. Fair Value Measurements (continued)

- To the extent that the spread between the interest rate curves discussed above expands or compresses.

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

13. Leases

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.

Rent and lease expense, included in supplies, drugs, purchased services, and other expenses on the accompanying consolidated statements of operations and changes in net assets, amounted to $61,759 and $62,392 for the years ended December 31, 2021 and 2020, respectively.

(Thousands of Dollars)

13. Leases (continued)

Other information related to leases was as follows:

	Year Ended December 31 2021	2020
Supplemental cash flow information		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	**$ 43,082**	$ 46,391
Operating cash flows from finance leases	**32**	111
Financing cash flows from finance leases	**469**	826
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	**$ 74,661**	$ 44,558
Finance leases	**1,294**	106
Weighted average remaining lease term (in years)		
Operating leases	**5.68**	6.02
Finance leases	**4.62**	1.51
Weighted average discount rate		
Operating leases	**1.94%**	2.71%
Finance leases	**0.84**	4.22

Future minimum lease payments under noncancelable leases as of December 31, 2021, were as follows:

	Operating	Finance
2022	$ 43,646	$ 367
2023	38,219	270
2024	28,392	263
2025	22,793	206
2026	17,216	91
Thereafter	29,833	121
Total future minimum lease payments	180,099	1,318
Less imputed interest	8,171	20
Net present value of minimum lease payments	$ 171,928	$ 1,298

13. Leases (continued)

As of December 31, 2021, Indiana University Health reviewed leases that had been signed in 2021 with commencement dates in subsequent years. None of these agreements were deemed material for disclosure.

14. Medical Malpractice

The Indiana University Health System's medical malpractice coverage is provided through the IU Health Risk Retention Group, Inc. (IUHRRG), a 99%-owned subsidiary. The program of medical malpractice coverage considers the per claim limitation of liability prescribed by the Indiana Medical Malpractice Act (the Act), which limits the amount of individual claims to the following: (i) for acts of negligence prior to June 30, 2017, $1,250 and annual aggregate claims to $7,500, of which up to $1,000 would be paid by the State of Indiana Patient Compensation Fund (the Fund) and $250 by the Indiana University Health System for each occurrence of malpractice; (ii) for acts of negligence from July 1, 2017 to June 30, 2019, $1,650 and annual aggregate claims to $12,000 of which up to $1,250 would be paid by the Fund and $400 by the Indiana University Health System for each occurrence of malpractice; and (iii) for acts of negligence from July 1, 2019, and forward, $1,800 and annual aggregate claims to $15,000 of which up to $1,300 would be paid by the Fund and $500 by the Indiana University Health System for each occurrence of malpractice. The Act also requires that health care providers meet certain requirements, including making funding payments to the Fund and maintaining certain insurance levels. The Indiana University Health System has met these requirements and is a qualified provider under the Act, retaining risk of $250 per occurrence and $7,500 in the annual aggregate for acts of negligence occurring prior to June 30, 2017; $400 per occurrence and $12,000 in the annual aggregate for acts of negligence occurring from July 1, 2017 to June 30, 2019; and $500 per occurrence and $15,000 in the annual aggregate for acts of negligence occurring from July 1, 2019, forward. Indiana University Health System's medical malpractice program includes coverage offered by IUHRRG and reinsured by IUH Assurance SPC, Ltd. (IUHAL), a wholly owned subsidiary. This reinsurance also serves as excess insurance for general liability, automobile liability, IUHAL helipad, non-owned aircraft, employer's liability, managed care errors and omissions, and professional liability. This coverage is provided on a claims-made basis (aggregating $70,000 as of July 1, 2014, and $100,000 prior).

14. Medical Malpractice (continued)

Contributions for coverage provided by the captive insurance companies are expensed as incurred, and loss reserves are established for incurred but not yet reported claims. Laws in the jurisdictions in which the captive insurance companies are domiciled require, among other matters, that certain capital and funding requirements be met. The actuarially determined amount of accrued medical malpractice claims is included in noncurrent liabilities on the accompanying consolidated balance sheets.

15. Retirement Plans

Defined Contribution Plans

Retirement benefits are provided to substantially all employees of the Indiana University Health System, primarily through defined contribution plans. Contributions to the defined contribution plans, which are included in salaries, wages, and benefits on the consolidated statements of operations and changes in net assets, are based on compensation of qualified employees and amounted to $105,160 and $150,499 in 2021 and 2020, respectively (net of forfeitures of $1,637 and $1,730 in 2021 and 2020, respectively).

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 in nonoperating income on the consolidated statement of operations and changes in net assets for the year ended December 31, 2020. As part of the termination of the Plan, contributions were required to be made and totaled $13,050 as of December 31, 2020.

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

(Thousands of Dollars)

15. Retirement Plans (continued)

The remaining accrued pension obligations balance as of December 31, 2021, 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 $7,487 and $8,227 as of December 31, 2021 and 2020, respectively, is included in accrued pension obligations on the consolidated balance sheets. The change in unfunded status of all plans was $740 and $13,211 for the years ended December 31, 2021 and 2020, respectively, and is recorded in other net assets without donor restriction on the consolidated statements of operations and changes in net assets.

16. Functional Expenses

The tables below present expenses by both their nature and function for the years ended December 31, 2021 and 2020.

	Health Services	Insurance Services	General and Administrative	Total
Year ended December 31, 2021:				
Salaries, wages, and benefits	**$ 3,859,559**	**$ 31,862**	**$ 129,578**	**$ 4,020,999**
Supplies, drugs, purchased services, and other	**2,338,722**	**79,751**	**205,505**	**2,623,978**
Contribution to related entity	**416,000**	**–**	**–**	**416,000**
Hospital assessment fee	**185,979**	**–**	**–**	**185,979**
Health claims to providers	**–**	**146,271**	**–**	**146,271**
Depreciation and amortization	**267,306**	**–**	**12,127**	**279,433**
Interest	**35,832**	**–**	**–**	**35,832**
	$ 7,103,398	**$ 257,884**	**$ 347,210**	**$ 7,708,492**

(Thousands of Dollars)

16. Functional Expenses (continued)

	Health Services	Insurance Services	General and Administrative	Total
Year ended December 31, 2020:				
Salaries, wages, and benefits	$ 3,388,357	$ 33,333	$ 137,621	$ 3,559,311
Supplies, drugs, purchased services, and other	2,077,956	62,863	169,169	2,309,988
Hospital assessment fee	173,637	–	–	173,637
Health claims to providers	–	99,267	–	99,267
Depreciation and amortization	255,848	–	9,449	265,297
Interest	39,513	–	–	39,513
	$ 5,935,311	$ 195,463	$ 316,239	$ 6,447,013

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.

17. Related-Party Transactions

Indiana University School of Medicine

The Consolidation Agreement requires that Indiana University Health fund salaries and related employee benefit costs for medical doctor interns and residents of the School of Medicine who provide services at the Indiana University Health System's facilities. These costs totaled $48,166 and $47,401 in 2021 and 2020, respectively, and have been reported within salaries, wages, and benefits expense on the accompanying consolidated statements of operations and changes in net assets.

The Indiana University Health System purchases certain services from the School of Medicine. These expenses, principally for certain physician and staff salaries, medical directors, medical care case management services, utilities, laboratory services, and other services, totaled $59,725 and $53,011, net of offsetting funds from the School of Medicine, for the years ended December 31, 2021 and 2020, respectively, and have been reported within salaries, wages, and benefits and supplies, drugs, purchased services, and other expenses on the accompanying consolidated statements of operations and changes in net assets.

17. Related-Party Transactions (continued)

The Indiana University Health System also provides additional support to the School of Medicine to assist with medical education and research. During 2021 and 2020, Indiana University Health expensed $65,686 and $61,620, respectively, within supplies, drugs, purchased services, and other expenses on the accompanying consolidated statements of operations and changes in net assets.

Additionally, in 2012, Indiana University Health committed $75,000 to support for a five-year period through December 31, 2016, certain basic, clinical, and translational research programs of the School of Medicine. In 2017, a new five-year term of $55,000 was agreed upon effective July 1, 2017 through June 30, 2022. In December 2021, the agreement was amended to expire early and, as such, as of December 31, 2021, the remainder of the commitment was reflected in supplies, drugs, purchased services. and other on the consolidated statements of operations and changes in net assets. For the years ended December 31, 2021 and 2020, the Indiana University Health System expensed $17,000 and $11,000, respectively, in each year under these agreements within supplies, drugs, purchased services, and other expenses on the accompanying consolidated statements of operations and changes in net assets, of which $736 and $23,752 was accrued related to these agreements within accounts payable and accrued expenses at December 31, 2021 and 2020, respectively.

On December 9, 2021, the Indiana University Health, Inc. Board of Directors approved a one-time contribution to the Indiana University School of Medicine. Indiana University Health provided the Indiana University School of Medicine an unrestricted contribution of $416,000, with $400,000 supporting the education and research mission of the Indiana University School of Medicine, including recruitment, diversity, equity, and inclusion; $16,000 was specifically designated for the Indiana University School of Nursing. The contribution was paid on December 30, 2021, and was recorded as contribution to related entity on the consolidated statement of operations and changes in net assets for the year ended December 31, 2021.

Other Foundations

Tipton County Foundation is a tax-exempt organization under Section 501(c)(3) of the IRC; this foundation holds funds solely on behalf of Tipton.

17. Related-Party Transactions (continued)

The financial statements of this foundation are not included in the consolidated financial statements. The interests in net assets of this and other foundations, which totaled $15,820 and $23,371 at December 31, 2021 and 2020, respectively, are included within interests in net assets of foundations on the accompanying consolidated balance sheets and principally represent donor-restricted funds.

These foundations also hold other net assets that are subject to the direction of their respective boards of directors. Other changes in the net assets of these foundations are generally reflected within temporarily and permanently restricted net assets.

18. Health Care Legislation and Regulation

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 (HIP), which was Indiana's response to expanding its Medicaid program. The State of Indiana's request for renewal of the HIP 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

18. Health Care Legislation and Regulation (continued)

the year 2030. Under the Trump Administration, Indiana was among a handful of states that received approval for a Medicaid work requirement known as Gateway to Work. This program would have required select HIP enrollees to work at least 20 hours per week to continue receiving their Medicaid benefits; however, a lawsuit later prompted Indiana to suspend the work requirements in 2019 before ever being implemented. During 2021, in a review by the Biden Administration, CMS formally revoked the approval of the Gateway to Work program, citing that the work requirements do not “promote the objectives of the Medicaid statute.”

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