Consolidated Financial Statements

Indiana University Health, Inc. and Subsidiaries
Years Ended December 31, 2020 and 2019
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, 2020 and 2019

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Report of Independent Auditors

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

We have audited the accompanying consolidated financial statements of Indiana University Health, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Indiana University Health, Inc. and Subsidiaries at December 31, 2020 and 2019, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

February 25, 2021

Indiana University Health, Inc. and Subsidiaries

Consolidated Balance Sheets

(Thousands of Dollars)

	December 31 2020	December 31 2019
Assets		
Current assets:		
Cash and cash equivalents	**$ 223,035**	$ 223,740
Short-term investments	**148,024**	135,104
Current portion of assets limited as to use, including funds held by trustee for capital expenditure	**130,531**	273,021
Patient accounts receivable	**888,486**	875,633
Other receivables	**146,930**	155,859
Prepaid expenses	**80,907**	80,033
Inventories	**138,917**	105,486
Total current assets	**1,756,830**	1,848,876
Assets limited as to use:		
Board-designated investment funds and other investments	**7,204,067**	6,362,587
Donor-restricted investment funds	**85,908**	80,679
Total assets limited as to use, less current portion	**7,289,975**	6,443,266
Property and equipment:		
Cost of property and equipment in service	**6,051,238**	5,633,967
Less accumulated depreciation	**(3,573,871)**	(3,332,405)
	2,477,367	2,301,562
Construction-in-progress	**472,574**	316,627
Total property and equipment, net	**2,949,941**	2,618,189
Other assets:		
Equity interest in unconsolidated subsidiaries	**13,291**	28,685
Interest in net assets of foundations	**23,371**	21,302
Right-of-use assets	**127,463**	124,847
Interest rate swaps	**30,517**	–
Goodwill, intangibles, and other assets	**373,826**	328,304
Total other assets	**568,468**	503,138
Total assets	**$ 12,565,214**	$ 11,413,469

Continued on next page.

Indiana University Health, Inc. and Subsidiaries

Consolidated Balance Sheets (continued)
(Thousands of Dollars)

	December 31 2020	December 31 2019
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 653,012**	$ 553,387
Accrued salaries, wages, and related liabilities	**435,157**	381,071
Accrued health claims	**44,685**	55,637
Estimated third-party payer allowances	**155,761**	181,706
Current portion of lease liabilities	**33,543**	31,148
Current portion of long-term debt	**161,909**	51,810
Total current liabilities	**1,484,067**	1,254,759
Noncurrent liabilities:		
Long-term debt, less current portion	**1,194,796**	1,760,442
Interest rate swaps	**44,546**	31,696
Accrued pension obligations	**8,227**	21,438
Accrued medical malpractice claims	**70,569**	64,203
Lease liabilities, less current portion	**110,736**	105,517
Other	**226,501**	24,521
Total noncurrent liabilities	**1,655,375**	2,007,817
Total liabilities	**3,139,442**	3,262,576
Net assets:		
Indiana University Health	**9,033,355**	7,757,235
Noncontrolling interests in subsidiaries	**260,459**	272,049
Total without donor restrictions	**9,293,814**	8,029,284
With donor restrictions	**131,958**	121,609
Total net assets	**9,425,772**	8,150,893
Total liabilities and net assets	**$ 12,565,214**	$ 11,413,469

See accompanying notes to consolidated financial statements.

Indiana University Health, Inc. and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

(Thousands of Dollars)

	Year Ended December 31	
	2020	**2019**
Revenues:		
Patient service revenue	**$ 6,311,835**	$ 6,247,880
Member premium revenue	**229,514**	205,982
Other revenue	**503,205**	254,191
Total operating revenues	**7,044,554**	6,708,053
Expenses:		
Salaries, wages, and benefits	**3,501,072**	3,313,376
Supplies, drugs, purchased services, and other	**2,309,988**	2,160,123
Hospital assessment fee	**173,637**	169,748
Health claims to providers	**99,267**	92,371
Depreciation and amortization	**265,297**	249,465
Interest	**39,513**	44,295
Total operating expenses	**6,388,774**	6,029,378
Operating income	**655,780**	678,675
Nonoperating income:		
Investment income, net	**739,649**	737,884
Losses on interest rate swaps, net	**(13,219)**	(9,186)
Contribution to related party	**–**	(145,000)
Annuitization of defined benefit plan	**(131,672)**	–
Debt extinguishment and other	**(20,251)**	(18,027)
Total nonoperating income	**574,507**	565,671
Consolidated excess of revenues over expenses	**1,230,287**	1,244,346
Less amounts attributable to noncontrolling interests in subsidiaries	**118,615**	146,499
Excess of revenues over expenses attributable to Indiana University Health and subsidiaries	**$ 1,111,672**	$ 1,097,847

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, 2020		
	Total	**Controlling**	**Noncontrolling**
Without donor restriction:			
Consolidated excess of revenues over expenses	**$ 1,230,287**	**$ 1,111,672**	**$ 118,615**
Change in accrued pension obligations	**132,871**	**132,871**	**–**
Distributions to noncontrolling interests in subsidiaries	**(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 donor 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**

	Year Ended December 31, 2019		
	Total	**Controlling**	**Noncontrolling**
Without donor restriction:			
Consolidated excess of revenues over expenses	$ 1,244,346	$ 1,097,847	$ 146,499
Change in pension obligations	(2,386)	(2,386)	–
Contributions for capital expenditures	6,399	6,399	–
Distributions to noncontrolling interests in subsidiaries	(136,848)	–	(136,848)
Other	(7,156)	(7,991)	835
	1,104,355	1,093,869	10,486
With donor restriction:			
Change in beneficial interest in net assets of foundations	(1,326)	(1,326)	–
Contributions	5,935	5,935	–
Investment return	2,188	2,188	–
Change in split interest agreements	2,848	2,848	–
Net assets released from donor restrictions	(4,421)	(4,421)	–
Other	(346)	(346)	–
	4,878	4,878	–
Increase in net assets	1,109,233	1,098,747	10,486
Net assets at beginning of period	7,041,660	6,780,097	261,563
Net assets at end of period	$ 8,150,893	$ 7,878,844	$ 272,049

See accompanying notes to consolidated financial statements.

Indiana University Health, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(Thousands of Dollars)

	Year Ended December 31	
	2020	**2019**
Operating activities		
Increase in net assets	**$ 1,274,879**	$ 1,109,233
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Change in fair value of interest rate swaps	**(17,667)**	9,927
Change in pension obligation	**(132,871)**	2,386
Gain in unconsolidated subsidiaries	**(227)**	(2,025)
Proceeds from issuance of noncontrolling interests related to joint venture	**–**	(120)
Gain on sale of membership interests	**–**	(7,570)
Depreciation and amortization	**265,297**	249,465
Amortization of deferred gain on sale of medical office buildings	**(212)**	(521)
Loss on extinguishment of debt	**3,892**	483
Contributions and investment return with donor restrictions	**(16,069)**	(9,645)
Distributions to noncontrolling interests	**120,740**	136,848
Assets limited as to use	**(660,895)**	(1,421,863)
Net changes in operating assets and liabilities:		
Patient accounts receivable	**(12,853)**	(17,363)
Other assets	**(52,348)**	31,171
Accounts payable, accrued liabilities, and other liabilities	**416,891**	40,851
Accrued salaries, wages, and related liabilities	**54,086**	33,521
Estimated third-party payer allowances	**(25,945)**	75,960
Net cash provided by operating activities	**1,216,698**	230,738
Investing activities		
Purchase of property and equipment, net of disposals	**(597,049)**	(446,451)
Net cash used in investing activities	**(597,049)**	(446,451)
Financing activities		
Contributions and investment return with donor restrictions	**16,069**	9,645
Repayments on long-term debt	**(459,439)**	(446,777)
Proceeds from issuance of long-term debt	**–**	676,348
Proceeds from notes payable under lines of credit	**225,000**	–
Repayment of notes payable under lines of credit	**(225,000)**	–
Proceeds from issuance of noncontrolling interests related to joint venture	**–**	120
Termination of interest rate swaps	**–**	(21,931)
Distributions to noncontrolling interests	**(120,740)**	(136,848)
Net cash (used in) provided by financing activities	**(564,110)**	80,557
Increase (decrease) in cash and cash equivalents	**55,539**	(135,156)
Cash and cash equivalents at beginning of period	**277,293**	412,449
Cash and cash equivalents at end of period	**$ 332,832**	$ 277,293
Reconciliation of cash and cash equivalents to the consolidated balance sheets:		
Cash and cash equivalents	**$ 223,035**	$ 223,740
Cash and cash equivalents included in assets limited as to use	**109,797**	53,553
Cash and cash equivalents at end of period	**$ 332,832**	$ 277,293

See accompanying notes to 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) were merged and consolidated to form a single corporate entity, which was then licensed as a

1. Organization and Nature of Operations (continued)

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, 2020:

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 an urgent care center joint venture.

Medical Management Services

Medical Risk – Consists of the medical management of health care services of members whose health care coverage is provided by the managed care networks of the Indiana University Health System. Includes health maintenance organizations and other insurance related organizations that provide health plan services to fully insured and self-insured members residing in Indiana. Insurance offerings include commercial group products (fully insured and self-insured) 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 which aid in carrying out the mission of the Indiana University Health System: Indiana University Health Foundation, Inc. (Indiana University Health Foundation) and RHI Foundation, Inc. (RHI Foundation). On August 1, 2020, Indiana University Health Ball Memorial Hospital Foundation, Inc. (BMH Foundation) was merged into the Indiana University Health Foundation. This foundation will continue to serve the same purpose as prior to the merger.

2. Significant Events

The global viral outbreak caused by coronavirus disease 2019 (COVID-19) has resulted in a national public health emergency during 2020. There have been resulting effects in the economy generally and the 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 of December 31, 2020, Indiana University Health had received a total of $256,977 in stimulus funds from the Provider Relief Fund under the provisions of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and Paycheck Protection Program and Health Care Enhancement Act. Of the $256,977 of funds received, Indiana University Health recognized $228,470 as other revenue on the consolidated statement of operations and changes in net assets for the year ended December 31, 2020. The unrecognized amount is recorded in accounts payable and accrued expenses on the consolidated balance sheet as of December 31, 2020. Indiana University Health will continue to monitor compliance with the terms and conditions of the Provider Relief Fund. If unable to attest to or comply with current or future terms and conditions, the ability of Indiana University Health to retain some or all of the distributions received may be impacted.

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

2. Significant Events (continued)

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 have one year from the date of receipt before CMS will begin recouping the advance payments by offsetting newly submitted Medicare claims. For the first 11 months of the recoupment period, CMS will withhold 25% of the claims amount, and for the six months following, this will increase to 50% of the claims amount. Any unpaid balance at the end of the recoupment period is subject to interest. The current and noncurrent portion of the contract liability of $149,394 and $199,054, respectively, is included within accounts payable and accrued expenses and other noncurrent liabilities, respectively, on the consolidated balance sheet as of December 31, 2020.

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

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 quality of and respect for life, including neighborhood revitalization, community health clinics, and school-based health programs; charity, equality, and justice programs, including education programs available to independent health providers, and

3. Community Benefit (continued)

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

Investments in highly liquid instruments with an original maturity of three months or less when purchased, excluding assets limited as to use, are considered by management to be cash equivalents.

4. Summary of Significant Accounting Policies (continued)

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 service revenue and patient accounts receivable are reported at the amount that reflects the consideration to which the Indiana University Health System expects to be entitled in exchange for providing patient care.

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.

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 (loss) within investment income (loss) 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 Alternatives). 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.

4. Summary of Significant Accounting Policies (continued)

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 $13,291 and $28,685 as of December 31, 2020 and 2019, 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.

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

4. Summary of Significant Accounting Policies (continued)

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 in 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 to 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.

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 2020 or 2019. Intangible assets included in goodwill, intangibles, and other assets on the accompanying consolidated balance sheets as of December 31, 2020 and 2019, were $209,802 and $212,835, respectively, which includes goodwill of $196,646 at December 31, 2020 and 2019.

4. Summary of Significant Accounting Policies (continued)

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, 2020, three of the Indiana University Health System's fixed-pay swaps qualified for hedge accounting, whereas all other fixed-pay swaps as of that date and as of December 31, 2019, 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 (loss) 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.

Noncontrolling Interest in Subsidiaries

The Indiana University Health System recorded $118,615 and $146,499 for the years ended December 31, 2020 and 2019, 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

4. Summary of Significant Accounting Policies (continued)

amounts primarily relate to the surgery center joint ventures. For the years ended December 31, 2020 and 2019, the surgery center joint ventures accounted for $116,418 and $146,690, respectively, of the excess of revenues over expenses attributable to noncontrolling interest in subsidiaries. The surgery center joint ventures realized operating revenue of $304,688 and $348,916 and operating income of $157,771 and $198,945 in 2020 and 2019, 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.

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,

4. Summary of Significant Accounting Policies (continued)

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, debt, and derivative financial instruments are described in Notes 6, 9, 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.

Deferred income taxes that, as of December 31, 2020 and 2019, 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, 2020 and 2019, the Indiana University Health System had gross deferred tax assets of $135,889 and $143,157, respectively, primarily relating to net operating loss carryovers. Management determined that a full valuation allowance at December 31, 2020 and 2019, 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

4. Summary of Significant Accounting Policies (continued)

assets is recorded. The decrease in the valuation allowance for the current year was $7,264. At December 31, 2020, the Indiana University Health System has available net operating loss carryforwards of $546,376. Net operating losses generated from 2000 through 2017 will expire between 2021 and 2037. Net operating losses generated after 2017 do not expire.

Operating and Performance Indicators

The activities of the Indiana University Health System are primarily related to providing health care services, and accordingly, expense information by functional classification is not used as a basis for measuring performance. Furthermore, since substantially all resources are derived from providing health care services, similar to that if provided by a business enterprise, the following indicators are considered important 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. The operating indicator excludes investment income or losses on assets limited as to use (including changes in unrealized gains and losses on investments), changes in the fair value of interest rate swaps, unrestricted activities of wholly owned foundations, gain or loss on the extinguishment of debt, loss on deconsolidation, annuitization of defined benefit plan, inherent contribution of acquired entities, noncontrolling interest, and gains and losses deemed by management not to be directly related to providing health care services.

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, 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, 2020, management has evaluated subsequent events through February 25, 2021, the date that these consolidated financial statements were made publicly available.

In January 2021, Indiana University Health received $29,830 in additional stimulus funds from the CARES Act Provider Relief Fund. The payments are part of a third round of Provider Relief Fund funding earmarked for hospitals and other providers to receive the support needed for COVID-19-related expenses and lost revenue through June 30, 2021.

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

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

Because all of its performance obligations relate to contracts with a duration of less than one year, the Indiana University Health System has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially satisfied

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

at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

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

The Indiana University Health System determines the transaction price, which involves significant estimates and judgment, based on standard charges for goods and services provided, reduced by explicit and implicit price concessions, including contractual adjustments provided to third-party payers, discounts provided to uninsured and underinsured patients in accordance with policy, and/or implicit price concessions based on the historical collection experience of patient accounts. The Indiana University Health System determines the transaction price associated with services provided to patients who have third-party payer coverage with Medicare, Medicaid, managed care programs, and other third-party payers based on reimbursement terms per contractual agreements, discount policies, and historical experience. Payment arrangements with those payers include prospectively determined rates per admission or visit, reimbursed costs, discounted charges, per diem rates, and value based payments. Reported costs and/or services provided under certain arrangements are subject to retroactive audit and adjustment. In 2020 and 2019, 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 share of Medicaid Disproportionate Share Hospital (DSH) payments. The state DSH program is dependent on regulatory approval by agencies of the federal and state governments and is determined by the level, extent, and cost of uncompensated care (as defined) and various other factors. Separately, the upper payment limit reimbursement program, now known as the 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, 2020 and 2019, payments received related to these programs were recorded within patient service revenue on the consolidated statements of operations and changes in net assets, totaling $593,978 and $518,647, respectively. During the years ended December 31, 2020 and 2019, assessment fees were recorded within the hospital assessment fee line on the consolidated statements of operations and changes in net assets totaling $173,637 and $169,748, 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.

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

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 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 $90,358 and $96,693 in 2020 and 2019, 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, 2020, were $348,448 and were a result of funds received as part of the Medicare Accelerated and Advance Payment Program (see Note 2). For the year ended December 31, 2020, none of the funds were recognized as part of revenue on the consolidated statement of operations and changes in net assets. Contract liabilities at December 31, 2019, were not significant.

(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 2020	2019
Commercial/managed care	**$ 3,436,011**	$ 3,712,306
Medicare	**1,620,625**	1,418,683
Medicaid	**1,150,558**	985,179
Self-pay and other	**104,641**	131,712
	$ 6,311,835	$ 6,247,880

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 33% and 35% of patient service revenue for December 31, 2020 and 2019, respectively.

The Indiana University Health System does not require collateral or other security from its patients, substantially all of whom are residents of the State, for the delivery of health care services. However, consistent with industry practice, the Indiana University Health System routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, managed care payers, and commercial insurance policies). As of December 31, 2020 and 2019, 29% of patient accounts receivable were collectible from government payers. The remaining 71% of patient accounts receivable in 2020 and 2019 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, and other.

The composition of other revenue by sources is as follows:

	Year Ended December 31 2020	2019
Shared health services revenue	**$ 137,030**	$ 136,772
CARES Act stimulus funds and tax credits	**235,749**	–
Other	**130,426**	117,419
	$ 503,205	$ 254,191

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 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, 2020 and 2019, there were $661,663 and $557,795, respectively, of unfunded commitments relating to private fund investments, which are expected to be funded over the next five years.

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

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

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.

(Thousands of Dollars)

6. Assets Limited as to Use (continued)

The notional value of futures contracts was approximately $599,948 as of December 31, 2020. The fair value of futures contracts included in assets limited as to use on the consolidated balance sheet was $316 as of December 31, 2020. Gain attributed to the enhanced exposure was $45,302 for the year ended December 31, 2020, and is included in investment income, net on the consolidated statement of operations and changes in net assets. There were no futures contracts held as of or during the year ended December 31, 2019.

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

	December 31	
	2020	**2019**
Assets limited as to use:		
Cash	**$ 109,797**	$ 53,553
Short-term, liquid investments	**9,625**	122,855
Debt securities:		
Asset backed	**276,044**	199,401
Bank loans	**294,415**	351,801
Corporate debt	**830,454**	310,894
Government and agencies	**512,786**	416,598
Bond funds	**203,818**	492,352
Total debt securities	**2,117,517**	1,771,046
Equity securities:		
Domestic equities	**1,909,007**	82,309
Domestic equity funds	**20,995**	1,273,229
International equities	**816,283**	87,538
International equity funds	**417,048**	895,996
Total equity securities	**3,163,333**	2,339,072
Commodities	**–**	223,335
Alternatives:		
Hedge funds	**1,217,621**	1,574,752
Private funds	**802,297**	631,674
Other	**316**	–
Total alternatives	**2,020,234**	2,206,426
Less current portion of assets limited as to use	**(130,531)**	(273,021)
Total assets limited as to use	**$ 7,289,975**	$ 6,443,266

(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, 2020, aggregated to $219,711, of which $133,802 is considered Board-designated investment funds and $85,909 is considered donor-restricted investment funds. Assets limited as to use include funds held by the foundations whose fair values as of December 31, 2019, aggregated to $195,809, of which $115,130 is considered Board-designated investment funds and $80,679 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	
	2020	**2019**
Investment income:		
Interest and dividend income	**$ 130,645**	$ 122,546
Investment management and administrative fees	**(10,315)**	(10,562)
Realized gains on sale of investments, net	**535,597**	77,747
Unrealized gains on investments	**12,286**	446,927
Unrealized equity gains on alternative investments	**71,436**	101,226
	$ 739,649	$ 737,884

(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, 2020 and 2019. The Indiana University Health System defines general expenditures as the normal expenditures related to operations of the Indiana University Health System, excluding capital expenditures.

	December 31	
	2020	**2019**
Financial assets:		
Cash and cash equivalents	**$ 223,035**	$ 223,740
Short-term investments	**148,024**	135,104
Patient accounts receivable	**888,486**	875,633
Other receivables	**146,930**	155,859
Assets limited as to use	**7,420,506**	6,716,287
Total financial assets	**8,826,981**	8,106,623
Liquidity resource:		
Unused bank lines of credit	**225,000**	226,000
Less amounts not available within one year or not designated for general expenditures:		
Alternative investments	**(981,706)**	(805,304)
Other	**(291,004)**	(204,366)
Financial assets not available for use within one year	**(1,272,710)**	(1,009,670)
Financial assets and liquidity resources available for general expenditures within one year	**$ 7,779,271**	$ 7,322,953

The Indiana University Health System has certain Board-designated assets limited as to use that are available for general expenditures within one year in the normal course of operations. The Indiana University Health System maintains a liquidity pool with a target range of $350,000 to $550,000, which 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	
	2020	**2019**
Land and improvements	**$ 277,841**	$ 279,485
Buildings and improvements	**3,222,968**	3,153,397
Equipment	**2,550,429**	2,201,085
	$ 6,051,238	$ 5,633,967

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, and proceeds of the Series 2019A and 2019B bonds (see Note 9) have been or will be drawn upon for certain portions of the related expenditures. The projects include renovations to Riley Hospital in order to integrate maternity and neonatal services, construction of a cancer care facility at North, construction of a regional health campus and replacement hospital in Bloomington, an expansion and renovation of West, and a replacement hospital at Frankfort.

Construction-in-progress for assets currently under development was $472,574 and $316,627 at December 31, 2020 and 2019, 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 $180,428 at December 31, 2020.

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 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, 2020, the Indiana University Health System was in compliance with all financial covenants.

Issuance, Modification, and Extinguishment of Debt

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 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.

9. Debt (continued)

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

Proceeds of the Series 2019A and 2019B bonds were used for certain capital expenditures and to pay certain expenses incurred in connection with their issuance. Proceeds of the Series 2019C bonds were used (i) to refund (on a current basis) the following bonds: (a) $9,065 in par of Series 2011A bonds, (b) $10,290 in par of Series 2011B bonds, (c) $10,020 in par of Series 2011C bonds, (d) $5,040 in par of Series 2011D bonds, (e) $9,860 in par of Series 2011E bonds, (f) $34,845 in par of Series 2011H bonds, and (g) $34,845 in par of Series 2011I bonds and (ii) to pay certain expenses incurred in connection with their issuance. Proceeds of the additional Series 2018A bonds have been or will be used to finance partial termination payments related to certain interest rate swaps, to finance certain capital expenditures, and to pay certain expenses incurred in connection with their issuance; the issuance of the Series 2019A, 2019B, and 2019C bonds; and the conversion and remarketing of the Series 2011H, 2011I, 2011L, 2011M, and 2015B bonds.

As of December 31, 2020 and 2019, the Indiana University Health System maintained lines of credit totaling $225,000 and $226,000, respectively. In March 2020, Indiana University Health drew $225,000 on the lines of credit. This balance was repaid during the year, and as of December 31, 2020 and 2019, no amounts were drawn on the lines of credit.

(Thousands of Dollars)

9. Debt (continued)

Long-term debt consists of the following:

	December 31 2020	December 31 2019
Indiana University Health Obligated Group		
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, 2020 and 2019	**$ 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, 2020 and 2019	**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, 2020 and 2019	**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, 2020 and 2019	**80,990**	99,025
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, 2020 and 2019	**123,285**	132,625
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, 2020 and 2019	**287,395**	287,395
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, 2020 and 2019	**44,785**	48,575
Fixed-Rate, Tax-Exempt Hospital Revenue Refunding Bonds, Series 2011N Bonds, payable in 2021, with an interest rate of 5.00% and interest rates ranging from 3.50% to 5.00% at December 31, 2020 and 2019, respectively	**10,055**	28,320
Fixed-Rate, Tax-Exempt Hospital Revenue Bonds, Series 2011H and I and Series 2015B, defeased in 2020	**–**	183,855
Variable-Rate, Tax-Exempt Hospital Revenue Bonds, Series 2011L and M, payable in varying principal installments through 2046 and subject to mandatory tender and remarketing in 2021, with an interest rate of 0.37% and 1.89% at December 31, 2020 and 2019, respectively	**107,790**	107,790
Variable-Rate, Tax-Exempt Hospital Revenue Bonds, Series 2011A, B, C, D, E, and Series 2016B and C, repaid in 2020	**–**	211,810

(Thousands of Dollars)

9. Debt (continued)

	December 31 2020	December 31 2019
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, 2020 and 2019	**$ 10,635**	$ 11,475
Other debt		
Finance lease obligations	**443**	1,392
Other	**1,954**	2,496
Total long-term debt	**1,303,420**	1,750,846
Unamortized premium, net of unamortized discount	**61,048**	71,322
Unamortized bond issuance costs	**(7,763)**	(9,916)
Less current portion	**(161,909)**	(51,810)
Long-term debt, less current portion	**$ 1,194,796**	$ 1,760,442

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:				
2021	$ 159,930	$ 890	$ 1,089	$ 161,909
2022	54,670	905	775	56,350
2023	52,885	920	533	54,338
2024	50,735	940	–	51,675
2025	25,890	950	–	26,840
Thereafter	946,278	6,030	–	952,308
	$ 1,290,388	$ 10,635	$ 2,397	$ 1,303,420

Total interest paid on long-term debt for the years ended December 31, 2020 and 2019, aggregated $60,418 and $54,077, respectively.

10. Derivative Financial Instruments

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

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

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

During March 2019, Indiana University Health partially terminated a basis swap with a future notional amount of $309,200 and a maturity date of January 7, 2033. No payment was due related to this partial termination, which resulted in an amended effective date of June 10, 2024, without any other modifications to the contractual terms. Also during March 2019, Indiana University Health partially terminated a basis swap with a notional amount of $140,446. No payment was due related to this partial termination, which resulted in an amended effective date of June 10, 2024, and a notional amount of $98,901 without any other modifications to the contractual terms. During July 2019, Indiana University Health fully terminated the remaining $98,901 notional amount basis swap for a one-time cash payment (outflow) of $255. During November 2019, Indiana University Health fully terminated the remainder of the basis swap with a future notional amount of $309,200 and a maturity date of January 7, 2033, for a one-time cash payment (outflow) of $3,909.

(Thousands of Dollars)

10. Derivative Financial Instruments (continued)

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, 2020:

Current Notional Amount	Maximum Future Notional Amount	Effective Date	Maturity Date	Rate Received[A]	Rate Paid
$ –	$ 39,705	3/3/2022	3/1/2036	62.30% LIBOR plus 0.24%	2.68%
–	54,900	2/18/2022	2/15/2030	62.30% LIBOR plus 0.24%	3.35
–	55,200	2/22/2022	2/15/2030	62.30% LIBOR plus 0.24%	3.35
–	12,230	3/10/2022	3/1/2033	LIBOR	4.92
–	48,920	3/10/2022	3/1/2033	LIBOR	4.92
–	109,070	7/1/2025	12/1/2058	LIBOR	0.93
–	287,395	6/1/2025	12/1/2040	LIBOR	1.01
–	128,800	7/1/2021	7/1/2021	30 year U.S. Treasury	1.54

[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.

After giving effect to the above derivative transactions, the Indiana University Health System's variable-rate debt was approximately 7.9% and 17.5% of total debt outstanding as of December 31, 2020 and 2019, respectively.

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, 2020, as follows:

Current Notional Amount	Maximum Future Notional Amount	Effective Date	Maturity Date	Swap Type	Rate Received	Rate Paid
$ 309,200	$ 309,200	1/7/2020	1/7/2033	Basis	75.00% one-month LIBOR	SIFMA

Guidance on fair value accounting stipulates that a credit valuation adjustment (CVA) should be applied to the mark-to-market valuation position of interest rate swaps to more closely capture the fair value of such instruments. Collateral arrangements reduce the credit exposure and are considered in determining the CVA.

(Thousands of Dollars)

10. Derivative Financial Instruments (continued)

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. As of December 31, 2019, the fair value of interest rate swaps was a liability of $31,696, which is net of CVA of $541. The fair 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 sheet as of December 31, 2020.

As of December 31, 2020, interest rate swaps had a total current notional amount of $309,200, comprising $309,200 of basis swaps, and maximum future notional amount of $1,045,420, comprising $607,420 of fixed-pay swaps, $128,800 of treasury lock swaps, and $309,200 of basis swaps. Under agreements executed with counterparties, Indiana University Health is obligated to fund collateral amounts when the aggregate market value of swaps made with a given counterparty is a liability that exceeds a threshold set forth in the related agreement. As of December 31, 2020 and 2019, all interest rate swaps were subject to credit-risk-related contingent features. No collateral was posted as of December 31, 2020 or 2019.

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	
	2020	**2019**
Gains (losses) on interest rate swaps, net:		
Unrealized losses on interest rate swaps	**$ (12,849)**	$ (9,927)
Reclassification to realized losses due to swap terminations	–	21,931
Realized losses on interest rate swaps	**(370)**	(21,190)
	$ (13,219)	$ (9,186)

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

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, 2020 and 2019. The financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement requires judgment, could be subject to change or variation, and may affect the valuation of fair value assets and liabilities and their classification within the fair value hierarchy levels.

	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

(Thousands of Dollars)

11. Fair Value Measurements (continued)

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

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 $16,394 and $16,033 as of December 31, 2020 and 2019, are included in goodwill, intangibles, and other assets on the consolidated balance sheets.

11. Fair Value Measurements (continued)

There were no material transfers between Level 3 investments in 2020 or 2019.

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, 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.

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

(Thousands of Dollars)

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 $62,392 and $61,593 for the years ended December 31, 2020 and 2019, respectively.

Other information related to leases was as follows:

	Year Ended December 31	
	2020	**2019**
Supplemental cash flow information		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	**$ 46,391**	$ 42,261
Operating cash flows from finance leases	**111**	210
Financing cash flows from finance leases	**826**	923
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	**$ 44,558**	$ 124,847
Finance leases	**106**	1,231
Weighted average remaining lease term (in years)		
Operating leases	**6.02**	6.05
Finance leases	**1.51**	1.74

(Thousands of Dollars)

13. Leases (continued)

Weighted average discount rate		
Operating leases	**2.71%**	2.86%
Finance leases	**4.22**	4.94

Future minimum lease payments under noncancelable leases as of December 31, 2020, were as follows:

	Operating	Finance
2021	$ 38,575	$ 463
2022	30,121	123
2023	24,756	26
2024	17,381	19
2025	13,346	–
Thereafter	33,190	–
Total future minimum lease payments	157,369	631
Less imputed interest	13,250	23
Net present value of minimum lease payments	$ 144,119	$ 608

As of December 31, 2020, Indiana University Health reviewed leases that had been signed in 2020 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 97%-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

14. Medical Malpractice (continued)

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., a wholly owned subsidiary. This reinsurance also serves as excess insurance for general liability, automobile liability, 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).

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 $150,499 and $142,087 in 2020 and 2019, respectively (net of forfeitures of $1,730 and $1,464 in 2020 and 2019, 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 as annuitization of defined benefit plan on the consolidated statement of operations and changes in net assets. As part of the termination of the Plan, contributions were required to be made and totaled $13,050 as of December 31, 2020. There were no required contributions in 2019.

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.

The remaining accrued pension obligations balance as of December 31, 2020, is related to a small medical group plan. Indiana University Health is the sponsor of this small defined benefit plan backed by life insurance policies. The physicians who are part of the plan receive monthly benefits once retired and have life insurance policies in their name, which are owned by Indiana University Health. Upon death of the physician, Indiana University Health will receive the life insurance

(Thousands of Dollars)

15. Retirement Plans (continued)

policy proceeds and the physician's designated beneficiary becomes the recipient of a monthly cash benefit. This plan, which had an unfunded status of $8,227 and $8,199 as of December 31, 2020 and 2019, respectively, is included in accrued pension obligations on the consolidated balance sheets.

The following table sets forth the funded status of the defined benefit pension plans and amounts recognized in the consolidated financial statements:

	December 31	
	2020	**2019**
Accumulated benefit obligation	**$ 8,227**	$ 433,321
Changes in benefit obligation of the plans:		
Benefit obligations at beginning of year	**$ 433,321**	$ 380,473
Interest cost	**6,364**	14,762
Actuarial (gain) loss	**(10,239)**	70,720
Annuity premium for the Plan	**(301,398)**	–
Benefits paid	**(119,821)**	(32,634)
Benefit obligations at end of year	**$ 8,227**	$ 433,321
Changes in assets of the plans:		
Fair value of assets at beginning of year	**$ 411,883**	$ 365,339
Actual (loss) return on assets	**(3,338)**	78,443
Employer contributions	**13,785**	735
Annuity premium for the Plan	**(301,398)**	–
Benefits paid	**(119,821)**	(32,634)
Assets to revert back to employer from the Plan	**(1,111)**	–
Fair value of assets at end of year	**$ –**	$ 411,883
Unfunded status at December 31	**$ (8,227)**	$ (21,438)
Included in net assets without donor restriction is the following item not yet recognized as a component of net periodic pension cost:		
Net actuarial loss	**$ 1,636**	$ 134,507

(Thousands of Dollars)

15. Retirement Plans (continued)

The following is a summary of amounts related to the Plan's activity that have been recognized as a (decrease) increase in net assets without donor restrictions for the years ended December 31:

	2020	2019
Net actuarial loss	**$ 1,099**	$ 6,333
Amortization of net actuarial loss	**(144)**	(3,947)
Annuitization of defined benefit plan	**(131,672)**	–
Other	**(2,154)**	–
	$ (132,871)	$ 2,386

The following is a summary of the components of net period pension (benefit) cost recorded in debt extinguishment and other within the consolidated statements of operations and changes in net assets for the years ended December 31:

	2020	2019
Components of net periodic pension cost:		
Interest cost	**$ 6,364**	$ 14,762
Expected return on assets	**(7,999)**	(14,057)
Amortization of net actuarial loss	**144**	3,947
Other	**683**	–
Net periodic pension cost	**$ (808)**	$ 4,652

The Indiana University Health System recorded the loss on the annuitization of the defined benefit plan of $131,672 in nonoperating income on the consolidated statements of operations and changes in net assets for the year ending December 31, 2020.

	December 31	
	2020	**2019**
Weighted average actuarial assumptions to determine benefit cost of the Plan:		
Discount rate for net periodic pension cost	3.00%	4.36%
Discount rate for benefit obligations	2.16	2.98
Expected rate of return on plan assets	N/A	4.00

(Thousands of Dollars)

15. Retirement Plans (continued)

The weighted average asset allocations of the Plan, by asset category, as of December 31, 2019, are as follows:

Asset category	
Cash and cash equivalents	27%
Debt securities	73
	100%

The following table presents the Plan's financial instruments as of December 31, 2019, measured at fair value on a recurring basis within the fair value hierarchy as disclosed in Note 11:

	Level 1	**Level 2**	**Level 3**	**NAV**	**Total**
Assets					
Cash and cash equivalents	$ 111,459	$ –	$ –	$ –	$ 111,459
Debt securities:					
Corporate debt	–	243,299	–	–	243,299
Government and agencies	56,701	–	–	–	56,701
Alternatives:					
Hedge funds	–	–	–	424	424
Total plan assets at fair value	$ 168,160	$ 243,299	$ –	$ 424	$ 411,883

As the Plan's assets were used to annuitize the obligation during the year, there are no plan assets remaining as of December 31, 2020.

The calculation of the fair value of each level of investment is described in Note 11.

The Plan invests in hedged funds for which the NAV per share represents the fair value of the investment held. Risks and redemption restrictions for these investments are similar to the alternative investments (see Note 6). Management opted to use the NAV per share, or its equivalent, as a practical expedient for the fair value of the Plan's 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)

16. Functional Expenses

The tables below present expenses by both their nature and function for the years ended December 31, 2020 and 2019.

	Health Services	Insurance Services	General and Administrative	Total
Year ended December 31, 2020:				
Salaries, wages, and benefits	**$ 3,330,118**	**$ 33,333**	**$ 137,621**	**$ 3,501,072**
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**
	$ 5,877,072	**$ 195,463**	**$ 316,239**	**$ 6,388,774**

	Health Services	Insurance Services	General and Administrative	Total
Year ended December 31, 2019:				
Salaries, wages, and benefits	$ 3,151,296	$ 28,761	$ 133,319	$ 3,313,376
Supplies, drugs, purchased services, and other	1,957,083	57,726	145,314	2,160,123
Hospital assessment fee	169,748	–	–	169,748
Health claims to providers	–	92,371	–	92,371
Depreciation and amortization	241,455	–	8,010	249,465
Interest	44,295	–	–	44,295
	$ 5,563,877	$ 178,858	$ 286,643	$ 6,029,378

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 $47,401 and $46,508 in 2020 and 2019, 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 $53,011 and $49,287, net of offsetting funds from the School of Medicine, for the years ended December 31, 2020 and 2019, 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.

The Indiana University Health System also provides additional support to the School of Medicine to assist with medical education and research. During 2020 and 2019, Indiana University Health expensed $61,620 and $62,963, 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. For the years ended December 31, 2020 and 2019, the Indiana University Health System expensed $11,000 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 $23,752 and $26,942 was accrued related to these agreements within accounts payable and accrued expenses at December 31, 2020 and 2019, respectively.

17. Related-Party Transactions (continued)

In December 2019, the Indiana University Health Board approved an unrestricted contribution of $145,000 to Indiana University for costs associated with a new medical and education research building. The unrestricted contribution was made in December 2019 and is reflected in contribution to related party on the consolidated statement of operations and changes in net assets.

Other Foundations

Bloomington Hospital Foundation, Inc. and Tipton are tax-exempt organizations under Section 501(c)(3) of the IRC; these foundations hold funds solely on behalf of Bloomington and Tipton, respectively.

The financial statements of these foundations are not included in the consolidated financial statements. The interests in net assets of these other foundations, which totaled $23,371 and $21,206 at December 31, 2020 and 2019, 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.

18. Health Care Legislation and Regulation (continued)

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 its associated legislation are designed, in part, to expand access to coverage to substantively all U.S. citizens through a combination of states' expansion of their Medicaid programs and the health insurance marketplace. For Indiana, CMS approved the Healthy Indiana Plan, which was Indiana's response to expanding its Medicaid program. The State of Indiana's request for renewal of the Healthy Indiana Plan waiver by CMS was approved in October 2020 for an additional ten years, meaning that the state will continue to engage eligible adults in its signature health program through at least the year 2030. Indiana was among a handful of states that instituted work requirements for their Medicaid expansion populations, a program feature that is currently under judicial review for a number of states, including Indiana. As a result, in late October 2019, Indiana Medicaid opted to postpone plans to terminate Medicaid benefits scheduled to go into effect on January 1, 2020, which would have terminated Medicaid benefits for those enrollees who had not met the new work requirements. While the debate regarding the Affordable Care Act appears to have shifted from Congress to the courts, the specific impact of any changes or new legislation on the Indiana University Health System is not determinable at this time.

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