

CONSOLIDATED FINANCIAL STATEMENTS

Indiana University Health, Inc. and Subsidiaries
Years Ended December 31, 2023 and 2022
With Report of Independent Auditors

Ernst & Young LLP



Indiana University Health, Inc. and Subsidiaries

Consolidated Financial Statements

Years Ended December 31, 2023 and 2022

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Report of Independent Auditors

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

Opinion

We have audited the consolidated financial statements of Indiana University Health, Inc. and Subsidiaries (Indiana University Health), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Indiana University Health at December 31, 2023 and 2022, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Ernst & Young LLP

February 22, 2024

Indiana University Health, Inc. and Subsidiaries

Consolidated Balance Sheets
(Thousands of Dollars)

	December 31	
	2023	2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 432,409	\$ 342,828
Short-term investments	19,655	22,916
Current portion of assets limited as to use, including funds held by a trustee	789,562	171,132
Patient accounts receivable	1,195,016	1,008,169
Other receivables	109,230	90,448
Prepaid expenses	66,747	84,151
Inventories	167,431	166,088
Total current assets	<u>2,780,050</u>	<u>1,885,732</u>
Assets limited as to use:		
Board-designated investment funds and other investments	6,043,470	5,632,873
Board-designated funds – community health	746,710	668,638
Board-designated funds – innovation	388,733	356,361
Donor-restricted investment funds	101,148	96,911
Total assets limited as to use, less current portion	<u>7,280,061</u>	<u>6,754,783</u>
Property and equipment:		
Cost of property and equipment in service	7,265,180	7,117,877
Less accumulated depreciation	(4,074,325)	(3,958,490)
	<u>3,190,855</u>	<u>3,159,387</u>
Construction-in-progress	735,844	366,757
Total property and equipment, net	<u>3,926,699</u>	<u>3,526,144</u>
Other assets:		
Equity interest in unconsolidated subsidiaries	17,967	17,028
Interests in net assets of foundations	18,259	15,737
Right-of-use assets	114,714	130,786
Interest rate swaps	38,413	86,200
Goodwill, intangibles, and other assets	372,119	374,425
Total other assets	<u>561,472</u>	<u>624,176</u>
Total assets	<u>\$ 14,548,282</u>	<u>\$ 12,790,835</u>

Continued on next page.

Indiana University Health, Inc. and Subsidiaries

Consolidated Balance Sheets (continued)
(Thousands of Dollars)

	December 31	
	2023	2022
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 600,874	\$ 629,565
Accrued salaries, wages, and related liabilities	470,765	434,560
Accrued health claims	49,007	49,050
Estimated third-party payer allowances	182,462	53,981
Current portion of lease liabilities	29,520	30,623
Current portion of long-term debt	52,406	54,027
Total current liabilities	<u>1,385,034</u>	<u>1,251,806</u>
Noncurrent liabilities:		
Long-term debt, less current portion	2,157,294	1,686,652
Interest rate swaps	1,896	10,360
Accrued medical malpractice claims	89,504	81,624
Lease liabilities, less current portion	94,468	110,773
Other	25,810	32,514
Total noncurrent liabilities	<u>2,368,972</u>	<u>1,921,923</u>
Total liabilities	<u>3,754,006</u>	<u>3,173,729</u>
Net assets:		
Indiana University Health	10,391,873	9,229,613
Noncontrolling interest in subsidiaries	255,350	257,633
Total without donor restrictions	<u>10,647,223</u>	<u>9,487,246</u>
With donor restrictions	147,053	129,860
Total net assets	<u>10,794,276</u>	<u>9,617,106</u>
Total liabilities and net assets	<u>\$ 14,548,282</u>	<u>\$ 12,790,835</u>

See accompanying notes to the consolidated financial statements.

Indiana University Health, Inc. and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets
(Thousands of Dollars)

	Year Ended December 31	
	2023	2022
Revenues:		
Patient service revenue	\$ 8,024,509	\$ 7,538,854
Member premium revenue	321,064	289,385
Other revenue	298,313	257,777
Total operating revenues	<u>8,643,886</u>	<u>8,086,016</u>
Expenses:		
Salaries, wages, and benefits	4,623,831	4,568,951
Supplies, drugs, purchased services, and other	2,915,603	2,706,656
Hospital assessment fee	234,778	206,632
Health claims to providers	155,544	130,407
Depreciation and amortization	315,866	303,451
Interest	55,143	49,305
Total operating expenses	<u>8,300,765</u>	<u>7,965,402</u>
Operating income	343,121	120,614
Nonoperating income (loss):		
Investment income (loss), net	931,205	(698,160)
Gains (losses) on interest rate swaps, net	8,823	(2,399)
Other	(46,179)	(7,309)
Total nonoperating income (loss)	<u>893,849</u>	<u>(707,868)</u>
Consolidated excess (deficit) of revenues over expenses	1,236,970	(587,254)
Less amounts attributable to noncontrolling interest in subsidiaries	<u>102,866</u>	<u>127,859</u>
Excess (deficit) of revenue over expenses attributable to Indiana University Health, Inc. and Subsidiaries	<u>\$ 1,134,104</u>	<u>\$ (715,113)</u>

Continued on next page.

Indiana University Health, Inc. and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets
(Thousands of Dollars)

	Year Ended December 31, 2023		
	Total	Controlling	Noncontrolling
Without donor restrictions:			
Consolidated excess of revenues over expenses	\$ 1,236,970	\$ 1,134,104	\$ 102,866
Distributions to noncontrolling interests	(101,814)	-	(101,814)
Change in fair value of interest swaps designated as hedges	25,966	25,966	-
Other	(1,145)	2,190	(3,335)
	<u>1,159,977</u>	<u>1,162,260</u>	<u>(2,283)</u>
With donor restrictions:			
Change in beneficial interest in net assets of foundations	2,518	2,518	-
Contributions	12,633	12,633	-
Investment return	8,366	8,366	-
Change in split interest agreements	1,503	1,503	-
Net assets released from restrictions	(7,780)	(7,780)	-
Other	(47)	(47)	-
	<u>17,193</u>	<u>17,193</u>	<u>-</u>
Increase (decrease) in net assets	<u>1,177,170</u>	<u>1,179,453</u>	<u>(2,283)</u>
Net assets at beginning of period	<u>9,617,106</u>	<u>9,359,473</u>	<u>257,633</u>
Net assets at end of period	<u>\$ 10,794,276</u>	<u>\$ 10,538,926</u>	<u>\$ 255,350</u>
	Year Ended December 31, 2022		
	Total	Controlling	Noncontrolling
Without donor restrictions:			
Consolidated (deficit) excess of revenues over expenses	\$ (587,254)	\$ (715,113)	\$ 127,859
Distributions to noncontrolling interests	(119,473)	-	(119,473)
Change in fair value of interest swaps designated as hedges	53,006	53,006	-
Purchase of noncontrolling interests	(16,290)	-	(16,290)
Other	(1,305)	(600)	(705)
	<u>(671,316)</u>	<u>(662,707)</u>	<u>(8,609)</u>
With donor restrictions:			
Change in beneficial interest in net assets of foundations	(306)	(306)	-
Contributions	5,999	5,999	-
Investment return	(4,980)	(4,980)	-
Change in split interest agreements	(2,257)	(2,257)	-
Net assets released from restrictions	(7,537)	(7,537)	-
Other	(2,424)	(2,424)	-
	<u>(11,505)</u>	<u>(11,505)</u>	<u>-</u>
Decrease in net assets	<u>(682,821)</u>	<u>(674,212)</u>	<u>(8,609)</u>
Net assets at beginning of period	<u>10,299,927</u>	<u>10,033,685</u>	<u>266,242</u>
Net assets at end of period	<u>\$ 9,617,106</u>	<u>\$ 9,359,473</u>	<u>\$ 257,633</u>

See accompanying notes to the consolidated financial statements.

Indiana University Health, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (Thousands of Dollars)

	Year Ended December 31	
	2023	2022
Operating activities		
Increase (decrease) in net assets	\$ 1,177,170	\$ (682,821)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Change in fair value of interest rate swaps	39,323	(50,607)
Gain in unconsolidated subsidiaries	(19,832)	(1,802)
Depreciation and amortization	315,866	303,451
Contributions and investment return with donor restrictions	(25,020)	1,544
Distributions to noncontrolling interests	101,814	119,473
Assets limited as to use	(1,237,693)	1,282,796
Net changes in operating assets and liabilities:		
Patient accounts receivable	(186,847)	49,915
Other assets	(59,912)	7,291
Accounts payable, accrued liabilities, and other liabilities	(3,924)	(300,768)
Accrued salaries, wages, and related liabilities	36,205	7,780
Estimated third-party payer allowances	128,481	(51,159)
Net cash provided by operating activities	265,631	685,093
Investing activities		
Purchase of property and equipment, net of disposals	(739,642)	(682,209)
Net cash used in investing activities	(739,642)	(682,209)
Financing activities		
Proceeds from notes payable under lines of credit	318,000	315,000
Repayments of notes payable under lines of credit	(538,000)	(95,000)
Issuance of long-term debt, net of premium and issuance costs	750,047	-
Repayments on long-term debt	(61,026)	(71,512)
Proceeds from termination of interest rate swap	74,118	-
Contributions and investment return with donor restrictions	25,020	(1,544)
Purchase of noncontrolling interests	-	(16,290)
Distributions to noncontrolling interests	(101,814)	(119,473)
Net cash provided by financing activities	466,345	11,181
Net (decrease) increase in cash and cash equivalents	(7,666)	14,065
Cash and cash equivalents at beginning of period	441,289	427,224
Cash and cash equivalents at end of period	\$ 433,623	\$ 441,289
Reconciliation of cash and cash equivalents to the consolidated balance sheets		
Cash and cash equivalents	\$ 432,409	\$ 342,828
Cash and cash equivalents included in assets limited as to use	1,214	98,461
Cash and cash equivalents at end of period	\$ 433,623	\$ 441,289

See accompanying notes to the consolidated financial statements.

Indiana University Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Thousands of Dollars)

December 31, 2023

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

Indiana University Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Thousands of Dollars)

1. Organization and Nature of Operations (continued)

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 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. Management 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, 2023:

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.

Indiana University Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Thousands of Dollars)

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.; Indiana University Health West Hospital, Inc.; Indiana University Health Saxony Hospital; Indiana University Health Tipton Hospital, Inc.; and Rehabilitation Hospital of Indiana, Inc.

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.; Indiana University Health White Memorial Hospital, Inc.; and Indiana University Health Frankfort, Inc.

East Central Indiana Facilities – Consist of one acute care hospital and one critical access hospital, located in Muncie and Portland, Indiana. Principal hospital subsidiaries include Indiana University Health Ball Memorial Hospital, Inc., and subsidiaries and Indiana University Health Jay, Inc.

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 Hospital); Indiana University Health Bedford, Inc.; and Indiana University Health Paoli, Inc.

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, 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.

Indiana University Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Thousands of Dollars)

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, Workplace Health Services, Indiana University Health Central Indiana Cancer Centers, Indiana University Health Morgan, Indiana University Health Blackford, Inc., surgery center joint ventures, and urgent care centers.

Medical Management Services

Medical Risk – Consists of the medical management of health care services of members whose health care coverage is provided by the managed care networks of the Indiana University Health System and third parties. 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 direct contracting entity participant agreement.

Philanthropic Activities

Foundations – Consist of two entities that aid in carrying out the mission of the Indiana University Health System: Indiana University Health Foundation, Inc. (Indiana University Health Foundation) and RHI Foundation, Inc.

Indiana University Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Thousands of Dollars)

2. Community Benefit

Indiana University Health provides healthcare services and free or discounted care through various strategies (including population health management and community health) that are designed to enhance the health of communities served by Indiana University Health affiliate hospitals, improve the health of patients experiencing health inequities, and foster medical education and research through its affiliation with the School of Medicine. In addition, Indiana University Health provides services to patients and communities that have limited access to healthcare services and are underserved, including those persons who are uninsured or underinsured. Healthcare services to patients who qualify for government programs, such as Medicare and Medicaid, are also considered part of Indiana University Health's benefit provided to the community since a substantial portion of such services is reimbursed at amounts less than cost.

Indiana University Health also provides education for healthcare providers, including support to the School of Medicine; education and training for allied health professionals; chaplaincy programs that support patients' medical, spiritual, and emotional needs; programs to enhance health and well-being in the community, including neighborhood revitalization, community health screenings and vaccines, and food access programs; charity, equality, and justice programs, including education programs available to independent health providers; chronic disease and chronic disease management programs and services such as Playworks and iHEART; community transformation grants through the Community Impact and Investment Fund; and 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.

All affiliate hospitals in the healthcare system, along with community stakeholders, identified and prioritized significant needs unique to the communities they serve, including improving access to healthcare services; aging population and needs of seniors; behavioral health (includes drug and substance abuse, as well as mental health); chronic disease and chronic disease management; education, workforce training, and unemployment; maternal and infant health and child well-being; smoking, tobacco use, and exposure to secondhand smoke; and other social determinants of health. These needs are identified through the community health needs assessment process. Some of these needs are common in communities served by multiple affiliate hospitals in the healthcare system and align with system priority areas,

Indiana University Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Thousands of Dollars)

2. Community Benefit (continued)

warranting a system level strategy. The Community Health Division and Office of Health Equity Research and Engagement (HERE) plans and provides technical assistance for strategies that address these common needs, including health equity, tobacco, behavioral health access, infant and maternal health, hypertension, and social determinants of health. Each affiliate hospital works collaboratively with the Community Health Division and HERE to align and activate local resources to support these strategies. This benefits the community each affiliate hospital serves and works towards a statewide impact on health outcomes. 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.

3. 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 accounting principles generally accepted in the United States of America (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 and Cash Equivalents

Cash and cash equivalents on the consolidated balance sheets include cash and other highly liquid short-term investments with maturities of 90 days or less from the date of purchase, other than those money market funds included in assets limited as to use.

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.

Indiana University Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Thousands of Dollars)

3. Summary of Significant Accounting Policies (continued)

Patient Accounts Receivable

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

Inventories

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

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) funds held by trustees; and (iii) donor-restricted investment assets, the use of which has been specified by the donor. The current portion of assets limited as to use represent highly liquid short-term investments with maturities of less than one year, which Indiana University Health expects to use to support operations within the year. 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 alternative investments). These alternative investments are accounted for using the equity method of accounting, based on the fund's financial information. Management has utilized the best available information for reported alternative investment values which, in some instances, are valuations as of an interim date (see Note 5).

Indiana University Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Thousands of Dollars)

3. Summary of Significant Accounting Policies (continued)

Funds totaling an initial \$700,000 for community health have been set aside and allocated to three separate funds: (i) a contribution of \$200,000 to the community impact investment fund to help address critical health issues affecting Hoosiers over the long term; (ii) \$200,000 to the health district investment fund was to support needs related to the health district, the area that will be developed in conjunction with the new Adult Academic Health Center; and (iii) \$300,000 to the health district support fund for additional needs, including onetime support for projects such as urban agriculture and revitalizing areas in the health district. These three funds are recorded as Board-designated funds – community health on the consolidated balance sheets as of December 31, 2023 and 2022.

Additionally, funds totaling \$400,000 were earmarked to establish the innovation investment fund for use in future health care innovation initiatives. These funds are recorded as Board-designated funds – innovation on the consolidated balance sheets as of December 31, 2023 and 2022.

The Indiana University Health, Inc. Board retains control of the community health and innovation investment funds. The community health and innovation investment funds are subject to market fluctuations similar to other assets limited as to use.

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 which would indicate that the remaining estimated useful life of long-lived assets warrants 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

Indiana University Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Thousands of Dollars)

3. Summary of Significant Accounting Policies (continued)

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 (see Note 7).

Interest in Unconsolidated Subsidiaries

The Indiana University Health System has joint venture arrangements for healthcare-related services in which it owns 50% or less. Where applicable, these arrangements are accounted for using the equity method of accounting. Total interest in unconsolidated subsidiaries was \$17,967 and \$17,028 as of December 31, 2023 and 2022, 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 assets and lease liabilities at the present value of lease payments over the term. Leases may include rental escalation clauses and options to extend or terminate the lease that are factored into the determination of lease payments when appropriate. Indiana University Health does not separate lease and non-lease components of contracts. For the purposes of measuring the lease liabilities, Indiana University Health uses a risk-free rate from the U.S. Treasury constant maturities nominal rate based on the period comparable with that of each lease term.

Operating leases are included in right-of-use assets, current portion of lease liabilities, and lease liabilities, less current portion on the consolidated balance sheets. 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.

Indiana University Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Thousands of Dollars)

3. Summary of Significant Accounting Policies (continued)

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 and amortization on the accompanying consolidated statements of operations and changes in net assets (see Note 12).

Goodwill and Intangible Assets

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

The Indiana University Health System also reviews whether events or changes in circumstances suggest that 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 2023 or 2022. Intangible assets included in goodwill, intangibles, and other assets on the accompanying consolidated balance sheets as of December 31, 2023 and 2022 were \$206,957 and \$206,728, respectively, which includes goodwill of \$198,675 at December 31, 2023 and \$197,989 at December 31, 2022.

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 8).

Indiana University Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Thousands of Dollars)

3. Summary of Significant Accounting Policies (continued)

Derivative Financial Instruments

The Indiana University Health System has entered into certain interest rate swap transactions (fixed-pay swaps, fixed-receiver, and basis swaps). As of December 31, 2023 and 2022, the Indiana University Health System's fixed-pay swaps qualified for hedge accounting, whereas the basis swap as of those dates did not qualify for hedge accounting. Changes in fair value of interest rate swaps not designated as hedges, as well as the ineffective portion of the change in fair value of any interest rate swaps designated as hedges during these years, are reported in nonoperating income (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 (see Note 9). Swap assets and liabilities are not offset on the consolidated balance sheet.

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 not recognized until the condition is satisfied. 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.

Net Assets With Donor Restrictions

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 16).

Indiana University Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Thousands of Dollars)

3. Summary of Significant Accounting Policies (continued)

Noncontrolling Interest in Subsidiaries

The Indiana University Health System recorded \$102,866 and \$127,859 for the years ended December 31, 2023 and 2022, respectively, of excess of revenues over expenses attributable to noncontrolling interest in subsidiaries based on the ownership percentage of the noncontrolling interests in certain of the Indiana University Health System's consolidated subsidiaries. These amounts primarily relate to the surgery center joint ventures. For the years ended December 31, 2023 and 2022, the surgery center joint ventures accounted for \$101,874 and \$127,820, respectively, of the excess of revenues over expenses attributable to noncontrolling interest in subsidiaries. The surgery center joint ventures realized operating revenue of \$329,455 and \$357,006 and operating income of \$138,547 and \$157,288 in 2023 and 2022, 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.

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,

Indiana University Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Thousands of Dollars)

3. Summary of Significant Accounting Policies (continued)

accounts payable and accrued expenses, estimated third-party payer allowances, and certain other current assets and liabilities approximate the carrying amounts reported on the consolidated balance sheets and, in the opinion of management, represent highly liquid assets or short-term obligations. The fair values for assets limited as to use, and derivative financial instruments are described in Notes 5, 9, and 10.

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 which, as of December 31, 2023 and 2022, 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, 2023 and 2022, the Indiana University Health System had gross deferred tax assets of \$141,386 and \$145,194, respectively, relating to net operating loss carryovers. Management determined that a full valuation allowance at December 31, 2023 and 2022 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

Indiana University Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Thousands of Dollars)

3. Summary of Significant Accounting Policies (continued)

tax assets is recorded. The decrease in the gross deferred tax asset and the valuation allowance for the current year is \$3,009. At December 31, 2023, Indiana University Health System has available net operating loss carryforwards of \$571,690, Net operating losses generated from 2004 through 2017 expire between 2024 and 2037. Net operating losses generated after 2017 do not expire.

Operating and Performance Indicators

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

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

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

Subsequent Events

For the consolidated financial statements as of and for the year ended December 31, 2023, management has evaluated subsequent events through February 22, 2024, the date that these consolidated financial statements were made publicly available.

Indiana University Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Thousands of Dollars)

4. Patient Service and Other Operating Revenue

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 and the Indiana University Health System does not believe it is required to provide additional goods or services. Management believes this method provides a fair depiction of the transfer of services over the term of performance obligations, based on the inputs needed to satisfy the obligations.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Indiana University Health System has elected to apply the optional exemption provided in Financial Accounting Standards Board Accounting Standards Codification (ASC) 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially satisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

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

Indiana University Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Thousands of Dollars)

4. Patient Service and Other Operating Revenue (continued)

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

The Indiana University Health System serves Medicaid patients and is subject to reimbursement under various programs. Under the Medicaid Hospital Assessment Fee program, the Office of Medicaid Policy and Planning collects a fee from eligible hospitals. The fee is used in part to increase reimbursement to eligible hospitals for services provided in both Medicaid fee-for-service and managed care programs, and as the State's share of disproportionate hospital share (DSH) payments. The State DSH program is dependent on regulatory approval by agencies of the federal and state governments and is determined by the level, extent, and cost of uncompensated care (as defined) and various other factors. Separately, the upper payment limit reimbursement program, now known as the Physician Faculty Access to Care program, was established to pay qualifying providers the difference between what Medicare would have paid and what Medicaid actually paid.

For the years ended December 31, 2023 and 2022, payments recognized related to these programs were recorded within patient service revenue on the consolidated statements of operations and changes in net assets, totaling \$801,773 and \$729,477, respectively. As of December 31, 2023 and 2022, \$121,937 and \$10,467, respectively, of payments related to

Indiana University Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Thousands of Dollars)

4. Patient Service and Other Operating Revenue (continued)

these programs were reserved and recorded within estimated third-party payer allowances on the consolidated balance sheets. During the years ended December 31, 2023 and 2022, assessment fees were recorded within the hospital assessment fee line on the consolidated statements of operations and changes in net assets, totaling \$234,778 and \$206,632, 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 adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known or as years are settled or are no longer subject to audits or reviews.

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

In support of its mission, the Indiana University Health System provides care to uninsured and underinsured patients. The Indiana University Health System provides charity care to patients who lack the financial resources to pay for their medical care. Financial assistance is available to qualifying uninsured and underinsured patients receiving care at an Indiana University Health System hospital location. 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 are used when a patient applies for financial assistance due to financial hardship. In determining the level of financial assistance based on household makeup, single person 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

Indiana University Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Thousands of Dollars)

4. Patient Service and Other Operating Revenue (continued)

equal to 300% FPL. Qualifying 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 5% of annual household income or Amounts Generally Billed, whichever is less. 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 \$95,909 and \$88,213 in 2023 and 2022, 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. No contract liabilities were recorded as of December 31, 2023 and 2022.

In November 2023, CMS published a final ruling to remedy the unlawful payment cuts received by certain hospitals that participated in the 340b drug pricing program between 2018 and 2022. The ruling included a settlement amount of \$62,094 due to Indiana University Health. Indiana University Health recognized the full settlement amount in net patient service revenue on the consolidated statements of operations and changes in net assets and in patient accounts receivable on the accompanying consolidated balance sheet as of and for the year ended December 31, 2023. Indiana University Health received the settlement payment in January 2024.

Management has determined that the nature, amount, timing, and uncertainty of revenue and cash 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	
	2023	2022
Commercial/managed care	\$ 4,152,364	\$ 3,978,943
Medicare	2,125,739	1,963,992
Medicaid	1,624,884	1,493,390
Self-pay and other	121,522	102,529
	<u>\$ 8,024,509</u>	<u>\$ 7,538,854</u>

Indiana University Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Thousands of Dollars)

4. Patient Service and Other Operating Revenue (continued)

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

One payer represented 30% of patient service revenue for December 31, 2023 and 2022.

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, 2023 and 2022, 36% and 29% of patient accounts receivable were collectible from government payers, respectively. The remaining 64% and 71% of patient accounts receivable in 2023 and 2022, respectively, were collectible from managed care payers, commercial insurance payers, and uninsured and underinsured patients.

Other revenue is recognized at an amount that reflects the consideration to which the Indiana University Health System expects to be entitled in exchange for providing goods and services.

The amounts recognized reflect consideration due from customers, third-party payers, and others. Primary categories of other revenue include income from joint ventures, grant revenue, cafeteria revenue, risk arrangements and rent and lease revenue.

The composition of other revenue by sources is as follows:

	Year Ended December 31	
	2023	2022
Shared health services revenue	\$ 172,565	\$ 166,860
Stimulus funds	-	17,183
Prior year transaction settlement	17,896	-
Risk arrangements	15,284	(1,585)
Other	92,568	75,319
	<u>\$ 298,313</u>	<u>\$ 257,777</u>

Indiana University Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Thousands of Dollars)

5. Assets Limited as to Use

Board-designated and donor-restricted investment funds are invested in accordance with Board-approved policies. The estimated fair value of the assets limited as to use is determined using market information and other appropriate valuation methodologies. The methods and assumptions used to estimate the fair value of assets limited as to use are as follows: (i) cash and cash equivalents: the carrying amounts reported on the consolidated balance sheets approximate fair value; (ii) marketable securities: the fair values are based on quoted market prices or, if quoted market prices are not available, quoted market prices of comparable instruments and other observable inputs; and (iii) other investments, including alternative investments: accounted for using the equity method of accounting, and fair values are based upon the net asset values that are generally determined by third-party valuation firms and/or administrators of each fund in consultation with and approval of the fund investment managers.

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

In the case of hedge funds, redemptions generally may be made quarterly with written notice, ranging from 30 to 90 days; however, some funds employ lockup periods that restrict redemptions or charge a redemption fee during the lockup period. Lockup periods range 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, 2023 and 2022, there were \$1,012,250 and \$959,704, respectively, of unfunded commitments relating to private fund investments, which are expected to be funded over the next five years.

Indiana University Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Thousands of Dollars)

5. Assets Limited as to Use (continued)

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.

Indiana University Health's 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 Board-designated investment funds in assets limited as to use.

Indiana University Health primarily utilizes futures contracts to provide exposure to markets such as equity and fixed income. The notional value of futures contracts was \$883,874 and \$620,662 as of December 31, 2023 and 2022, respectively. The fair values of futures contracts included in assets limited as to use on the consolidated balance sheets were \$10,278 and \$2,760 as of December 31, 2023 and 2022, respectively. Gains (losses) attributed to these futures contracts were \$70,554 and \$(104,288) for the years ended December 31, 2023 and 2022, respectively, and are included in investment income (loss), net on the consolidated statements of operations and changes in net assets.

Indiana University Health also utilizes total return swaps to provide exposure to fixed-income markets. The notional value of total return swaps was \$106,862 as of December 31, 2023. The fair value of total return swap contracts was \$3,971 as of December 31, 2023. The gain attributed to the total return swaps was \$3,971 for the year ended December 31, 2023 and is included in investment income (loss), net on the consolidated statement of operations and changes in net assets. The notional value of total return swaps was \$69,693 as of

Indiana University Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Thousands of Dollars)

5. Assets Limited as to Use (continued)

December 31, 2022. The fair value of total return swap contracts of \$(563) as of December 31, 2022. The loss attributed to the total return swaps was \$563 for the year ended December 31, 2022, and is included in investment income (loss) net on the consolidated statement of operations and changes in net assets.

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

	December 31	
	2023	2022
Assets limited as to use:		
Cash	\$ 1,214	\$ 98,461
Money market funds and short-term government and agency securities	627,854	36,184
Debt securities:		
Asset backed	220,228	152,459
Bank loans	315,412	256,566
Corporate debt	719,533	546,547
Government and agencies	517,422	388,005
Bond funds	219,203	154,138
Total debt securities	1,991,798	1,497,715
Equity securities:		
Domestic equities	1,700,105	1,638,851
Domestic equity funds	24,205	15,261
International equities	724,211	707,759
International equity funds	283,411	288,664
Total equity securities	2,731,932	2,650,535
Alternatives:		
Hedge funds	1,194,939	1,211,145
Private funds	1,517,829	1,429,259
Other	4,057	2,616
Total alternatives	2,716,825	2,643,020
Less current portion of assets limited as to use	(789,562)	(171,132)
Total assets limited as to use	<u>\$ 7,280,061</u>	<u>\$ 6,754,783</u>

Indiana University Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Thousands of Dollars)

5. Assets Limited as to Use (continued)

Assets limited as to use include funds held by the foundations whose fair values as of December 31, 2023 aggregated to \$299,060, of which \$197,912 is considered Board-designated investment funds and \$101,148 is donor-restricted investment funds. Assets limited as to use include funds held by the foundations whose fair values as of December 31, 2022, aggregated to \$264,323, of which \$167,412 is considered Board-designated investment funds and \$96,911 is donor-restricted investment funds.

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

	Year Ended December 31	
	2023	2022
Investment income (loss):		
Interest and dividend income	\$ 214,854	\$ 175,733
Investment management and administrative fees	(9,725)	(12,345)
Realized gains (losses) on sale of investments, net	180,506	(129,114)
Change in unrealized gains (losses) on investments	474,931	(887,660)
Unrealized equity gains on alternative investments	70,639	155,226
	\$ 931,205	\$ (698,160)

Indiana University Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Thousands of Dollars)

6. 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, 2023 and 2022. 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	
	2023	2022
Financial assets:		
Cash and cash equivalents	\$ 432,409	\$ 342,828
Short-term investments	19,655	22,916
Patient accounts receivable	1,195,016	1,008,169
Other receivables	109,230	90,448
Assets limited as to use	<u>8,069,623</u>	<u>6,925,915</u>
Total financial assets	<u>9,825,933</u>	<u>8,390,276</u>
Liquidity resource:		
Unused bank lines of credit	500,000	280,000
Less amounts not available within one year or not designated for general expenditures:		
Alternative investments	(1,666,726)	(1,561,114)
Other	(592,045)	(244,303)
Financial assets not available for use within one year	<u>(2,258,771)</u>	<u>(1,805,417)</u>
Financial assets and liquidity resources available for general expenditures within one year	<u><u>\$ 8,067,162</u></u>	<u><u>\$ 6,864,859</u></u>

The Indiana University Health System has certain Board-designated assets limited as to use that are available for general expenditures within one year in the normal course of operations. The Indiana University Health System maintains a liquidity pool with a target range of \$150,000 to \$550,000, which comprises cash equivalents and debt securities 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.

Indiana University Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Thousands of Dollars)

6. 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.

7. Property and Equipment

The cost of property and equipment is summarized as follows:

	December 31	
	2023	2022
Land and improvements	\$ 452,015	\$ 420,608
Buildings and improvements	4,147,346	4,080,324
Equipment	2,665,819	2,616,945
	<u>\$7,265,180</u>	<u>\$7,117,877</u>

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.

Depreciation expense was \$315,453 and \$302,047 for the years ended December 31, 2023 and 2022, respectively.

The Indiana University Health System has several approved capital projects within construction-in-progress. As of December 31, 2023 and 2022, the projects primarily include the consolidation of the downtown Indianapolis adult services into one medical campus.

Construction-in-progress for assets currently under development was \$735,844 and \$366,757 at December 31, 2023 and 2022, 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 \$1,464,531 at December 31, 2023, mostly relating to the new downtown medical campus.

Indiana University Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Thousands of Dollars)

8. Debt

Obligated Group

The Indiana University Health System operates under a single Master Trust Indenture (MTI). The MTI provides for the issuance of long-term debt and sets forth the terms pursuant to which underlying debt is issued and the security for such obligations. The MTI also sets forth the provisions governing membership for the Obligated Group, which presently consists of Indiana University Health (entity that includes such divisions as the Downtown Indianapolis Hospitals of the Academic Health Center, Saxony, and Morgan) as the sole member. Future members of the Obligated Group, if any, together with existing members will be jointly and severally liable for the obligations under the MTI. Under the terms of the MTI, the Obligated Group is required to comply with certain covenants, including financial performance covenants that, among other compliance requirements, require the maintenance of debt service coverage ratios and limit its ability to encumber certain of its assets. All Obligations Outstanding under the 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 MTI). As of December 31, 2023, the Indiana University Health System was in compliance with all financial covenants.

Issuance, Modification, and Extinguishment of Debt

On July 6, 2023, Indiana University Health issued \$282,335 in par value of Series 2023A tax-exempt, fixed rate bonds at a premium of \$19,422 and \$410,985 in par value of series 2023B tax-exempt, long-term rate bonds at a premium of \$41,287. Proceeds of the Series 2023 Bonds have been and will be used for financing capital expenditures related to the new downtown Indianapolis adult services medical campus and a capital expansion project at Indiana University Health Fishers, funding capitalized interest on the Series 2023 Bonds, refinancing prior amounts drawn on Indiana University Health's line of credit for expansion projects at Bloomington Hospital and Riley Hospital, and paying costs of issuance related to the Series 2023 Bonds.

As of December 31, 2023 and 2022, the Indiana University Health System maintained a \$500,000 line of credit. On June 16, 2022, Indiana University Health terminated its existing line of credit and entered into a new syndicated line of credit. The outstanding balance on the existing line of credit was transferred to the new syndicated line of credit. This new syndicated

Indiana University Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Thousands of Dollars)

8. Debt (continued)

line of credit is comprised of three tranches totaling \$500,000. Tranche A is \$130,000 and has a maturity date of July 1, 2025. Tranche B is \$130,000 and has a maturity date of July 1, 2026. Tranche C is \$240,000 and has a maturity date of July 1, 2027. As of December 31, 2023, no amounts are outstanding on the line of credit. As of December 31, 2022, \$220,000 was outstanding on the line of credit.

Long-term debt consists of the following:

	December 31	
	2023	2022
Indiana University Health Obligated Group		
Fixed-Rate, Taxable Bonds, Series 2021A, payable in a single principal installment at maturity in 2051, with an interest rate of 2.85% at December 31, 2023 and 2022	\$ 300,000	\$ 300,000
Fixed-Rate, Taxable Bonds, Series 2018A, payable in a single principal installment at maturity in 2048, with an interest rate of 3.97% at December 31, 2023 and 2022	393,408	393,408
Indiana Finance Authority:		
Fixed-Rate, Tax-Exempt Health System Revenue Bonds, Series 2023A, payable in varying principal installments through 2053, with an interest rate of 5.00% at December 31, 2023	282,335	-
Fixed-Rate, Tax-Exempt Health System Revenue Bonds, Series 2023B-1, payable in varying principal installments through 2062 and subject to mandatory tender and remarketing in 2028, with an interest rate of 5.00% at December 31, 2023	185,685	-
Fixed-Rate, Tax-Exempt Health System Revenue Bonds, Series 2023B-2, payable in varying principal installments through 2060 and subject to mandatory tender and remarketing in 2030, with an interest rate of 5.00% at December 31, 2023	139,100	-
Fixed Rate, Tax-Exempt Health System Revenue Bonds, Series 2023B-3, payable in varying principal installments through 2055 and subject to mandatory tender and remarketing in 2032, with an interest rate of 5.00% at December 31, 2023	86,200	-
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, 2023 and 2022	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, 2023 and 2022	109,070	109,070

Indiana University Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Thousands of Dollars)

8. Debt (continued)

	December 31	
	2023	2022
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, 2023 and 2022	\$ 16,900	\$ 37,720
Fixed-Rate, Tax-Exempt Hospital Revenue Refunding Bonds, Series 2016A, payable in varying principal installments through 2025, with an interest rate of 5.00% at December 31, 2023 and 2022	50,280	77,960
Fixed-Rate, Tax-Exempt Hospital Revenue Refunding Bonds, Series 2015A, payable in varying principal installments through 2040, with interest rates ranging from 4.00% to 5.00% at December 31, 2023 and 2022	287,395	287,395
Fixed-Rate, Tax-Exempt Hospital Revenue Refunding Bonds, Series 2014A, payable in varying principal installments through 2030, with an interest rate of 5.00% at December 31, 2023 and 2022	32,240	36,625
Fixed-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 2026, with an interest rate of 0.70% at December 31, 2023 and 2022	107,790	107,790
Variable Rate Commercial Bank Revolving Line of Credit, maturing in tranches from July 1, 2025 through July 1, 2027	-	220,000
Other debt		
Finance lease obligations	2,531	2,009
Other	-	379
Total long-term debt	<u>2,126,544</u>	<u>1,705,966</u>
Unamortized premium, net of unamortized discount	95,708	44,193
Unamortized bond issuance costs	(12,552)	(9,480)
Less current portion	(52,406)	(54,027)
Long-term debt, less current portion	<u>\$ 2,157,294</u>	<u>\$ 1,686,652</u>

Indiana University Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Thousands of Dollars)

8. Debt (continued)

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

	Indiana University Health Obligated Group MTI Debt	Other	Total
Year ending December 31:			
2024	\$ 50,735	\$ 1,671	\$ 52,406
2025	25,890	647	26,537
2026	5,075	91	5,166
2027	5,330	77	5,407
2028	5,595	45	5,640
Thereafter	2,031,388	-	2,031,388
	<u>\$ 2,124,013</u>	<u>\$ 2,531</u>	<u>\$ 2,126,544</u>

Total interest paid on long-term debt for the years ended December 31, 2023 and 2022 aggregated \$72,965 and \$58,527, respectively.

9. Derivative Financial Instruments

During November 2023, Indiana Health University terminated an interest rate swap and received \$74,118 from the settlement. This interest rate swap was designated by management as a hedge for accounting purposes. The \$74,118 change in fair value related to the hedged interest rate swap continues to be recorded in net assets without donor restrictions, as it was determined the hedged transaction, which is forecasted for 2025, is still probable to occur.

During June 2023, Indiana University Health entered into two swaps to effectively convert a portion of the Series 2023 bonds to a variable rate. One of these swaps is in the initial notional amount of \$100,486 effective on July 6, 2023, terminates July 1, 2027 and requires Indiana University Health to pay 75% of the Secured Overnight Financing Rate (SOFR) in exchange for a payment based on a fixed rate of 2.72% by the counterparty. The other swap is in the initial

Indiana University Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Thousands of Dollars)

9. Derivative Financial Instruments (continued)

notional amount of \$153,928 effective on July 6, 2023, terminates July 1, 2029 and requires Indiana University Health to pay the Securities Industry and Financial Markets Association Municipal Swap Index (SIFMA) in exchange for a payment based on a fixed rate of 2.76% by the counterparty.

Long-term interest rate swap arrangements have been entered into with the primary objective of mitigating interest rate risk. In addition, long-term basis swap and fixed-receive swap arrangements were entered into for the purpose of managing the effect of interest rates on cash flows. The following swaps, stated at current and maximum future notional amounts, remain in place as of December 31, 2023:

Current Notional Amount	Maximum Future Notional Amount	Effective Date	Maturity Date	Swap Type	Rate Received	Rate Paid
\$ -	\$ 109,070	7/1/2025	12/1/2058	Fixed-pay	SOFR + 0.114%	0.93%
153,478	153,478	7/6/2023	7/1/2029	Fixed-receive	2.76%	SIFMA
100,150	100,150	7/6/2023	7/1/2027	Fixed-receive	2.72%	75.0% SOFR
309,200	309,200	1/7/2020	1/7/2033	Basis	75.00% of SOFR + 0.086%	SIFMA

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

As of December 31, 2023, the fair value of interest rate swaps in a liability position was \$1,896, which is net of CVA of \$1, and the fair value of interest rate swaps in asset positions was \$38,413, which is net of CVA of \$9,642. As of December 31, 2022, the fair value of interest rate swaps in a liability position was \$10,360, which is net of CVA of \$1,221, and the fair value of interest rate swaps in asset positions was \$86,200, which is net of CVA of \$19,064. The fair value of swaps in liability positions is included within noncurrent liabilities on the accompanying consolidated balance sheets. The fair value of swaps in asset positions is included within other assets on the accompanying consolidated balance sheets as of December 31, 2023 and 2022.

Indiana University Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Thousands of Dollars)

9. Derivative Financial Instruments (continued)

As of December 31, 2023, interest rate swaps had a total current notional amount of \$562,828 and maximum future notional amount of \$671,898, comprising \$109,070 of fixed-pay swaps, \$253,628 of fixed-receive 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. The counterparty is also required to pledge collateral. As of December 31, 2023 and 2022, all interest rate swaps were subject to credit-risk-related contingent features. No collateral was posted as of December 31, 2023 or 2022.

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

	Year Ended December 31	
	2023	2022
Gains (losses) on interest rate swaps, net:		
Unrealized gains (losses) on interest rate swaps	\$ 8,463	\$ (2,747)
Realized gains on interest rate swaps	360	348
	<u>\$ 8,823</u>	<u>\$ (2,399)</u>

The Indiana University Health System recorded the change in fair value of interest rate swaps designated as hedges, net of amortization of \$25,966 and \$53,006, as changes in net assets without donor restrictions on the consolidated statements of operations and changes in net assets for the years ended December 31, 2023 and 2022, respectively.

10. 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 a liability as of the measurement date, (iii) requires consideration of nonperformance risk when valuing liabilities, and (iv) expands disclosures about

Indiana University Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Thousands of Dollars)

10. Fair Value Measurements (continued)

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. Some of the risks and redemption restrictions for these investments are similar to the alternative investments (see Note 5). Management opted to use the NAV per share, or its equivalent, as a practical expedient for the fair value of the interest in certain funds. Valuations provided by the respective fund's management consider variables such as the financial performance of underlying investments, recent sales prices of underlying investments, and other pertinent information.

Indiana University Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Thousands of Dollars)

10. 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, 2023 and 2022. 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, 2023						
	Level 1	Level 2	Level 3	NAV	Fair Value	Equity Method	Carrying Value
Assets							
Cash and cash equivalents	\$ 432,409	\$ -	\$ -	\$ -	\$ 432,409	\$ -	\$ 432,409
Short-term investments:							
Debt securities:							
Asset backed	-	166	-	-	166	-	166
Corporate debt	-	17,262	-	-	17,262	-	17,262
Government and agencies	-	2,227	-	-	2,227	-	2,227
Assets limited as to use:							
Cash	1,214	-	-	-	1,214	-	1,214
Money market funds and short-term government and agency securities	627,854	-	-	-	627,854	-	627,854
Debt securities:							
Asset backed	-	220,228	-	-	220,228	-	220,228
Bank loans	-	312,955	2,457	-	315,412	-	315,412
Corporate debt	-	718,720	813	-	719,533	-	719,533
Government and agencies	514,472	2,950	-	-	517,422	-	517,422
Bond funds	-	-	-	219,203	219,203	-	219,203
Equity securities:							
Domestic equities	1,697,292	-	2,813	-	1,700,105	-	1,700,105
Domestic equity funds	24,205	-	-	-	24,205	-	24,205
International equities	724,211	-	-	-	724,211	-	724,211
International equity funds	-	-	-	283,411	283,411	-	283,411
Alternatives:							
Hedge funds	-	-	-	-	-	1,194,939	1,194,939
Private funds	-	-	-	-	-	1,517,829	1,517,829
Other	-	4,057	-	-	4,057	-	4,057
Other assets:							
Interest rate swaps	-	-	38,413	-	38,413	-	38,413
Beneficial interests in charitable remainder and perpetual trusts	-	18,922	-	-	18,922	-	18,922
Total assets	\$4,021,657	\$1,297,487	\$ 44,496	\$ 502,614	\$5,866,254	\$2,712,768	\$8,579,022
Liabilities							
Interest rate swaps	\$ -	\$ 1,896	\$ -	\$ -	\$ 1,896	\$ -	\$ 1,896
Total liabilities	\$ -	\$ 1,896	\$ -	\$ -	\$ 1,896	\$ -	\$ 1,896

Indiana University Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Thousands of Dollars)

10. Fair Value Measurements (continued)

	December 31, 2022					
	Level 1	Level 2	Level 3	NAV	Fair Value	Equity Method Carrying Value
Assets						
Cash and cash equivalents	\$ 342,828	\$ -	\$ -	\$ -	\$ 342,828	\$ - \$ 342,828
Short-term investments:						
Debt securities:						
Asset backed	-	2,589	-	-	2,589	- 2,589
Corporate debt	-	20,327	-	-	20,327	- 20,327
Assets limited as to use:						
Cash	98,461	-	-	-	98,461	- 98,461
Money market funds and short-term government and agency securities	36,184	-	-	-	36,184	- 36,184
Debt securities:						
Asset backed	-	152,459	-	-	152,459	- 152,459
Bank loans	-	253,484	3,082	-	256,566	- 256,566
Corporate debt	-	546,140	407	-	546,547	- 546,547
Government and agencies	385,651	2,354	-	-	388,005	- 388,005
Bond funds	-	-	-	154,138	154,138	- 154,138
Equity securities:						
Domestic equities	1,636,108	-	2,743	-	1,638,851	- 1,638,851
Domestic equity funds	15,261	-	-	-	15,261	- 15,261
International equities	707,759	-	-	-	707,759	- 707,759
International equity funds	-	-	-	288,664	288,664	- 288,664
Alternatives:						
Hedge funds	-	-	-	-	-	1,211,145 1,211,145
Private funds	-	-	-	-	-	1,429,259 1,429,259
Other	2,616	-	-	-	2,616	- 2,616
Other assets:						
Interest rate swaps	-	-	86,200	-	86,200	- 86,200
Beneficial interests in charitable remainder and perpetual trusts	-	17,247	-	-	17,247	- 17,247
Total assets	\$3,224,868	\$ 994,600	\$ 92,432	\$ 442,802	\$4,754,702	\$2,640,404 \$7,395,106
Liabilities						
Interest rate swaps	\$ -	\$ -	\$ 10,360	\$ -	\$ 10,360	\$ - \$ 10,360
Total liabilities	\$ -	\$ -	\$ 10,360	\$ -	\$ 10,360	\$ - \$ 10,360

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

Beneficial interests in charitable remainder and perpetual trusts of \$18,922 and \$17,247 as of December 31, 2023 and 2022, respectively, are included in goodwill, intangibles, and other assets on the consolidated balance sheets.

Indiana University Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Thousands of Dollars)

10. Fair Value Measurements (continued)

The fair values of the interest rate swap contracts are determined based on the present value of expected future cash flows using discount rates appropriate with the risks involved. The valuations reflect a CVA (see Note 9) to the 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, 2023.

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

	December 31	
	2023	2022
Fair value at January 1	\$ 75,840	\$ 32,839
Transfers in	-	(7,612)
Unrealized gains	33,427	63,088
Other	728	(12,475)
Swap termination	(74,118)	-
Transfers out	2,536	-
Fair value at December 31	<u>\$ 38,413</u>	<u>\$ 75,840</u>

There were no material transfers between Level 3 investments in 2023 and 2022.

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.

Indiana University Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Thousands of Dollars)

10. Fair Value Measurements (continued)

- 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.

11. Commitments and Contingencies

The Indiana University Health System is, from time to time, subject to various legal proceedings and claims arising in the ordinary course of business. The Indiana University Health System's management does not expect the outcome in any of its currently ongoing legal proceedings or the outcome of any other claims, individually or collectively, to have a material adverse effect on the Indiana University Health System's consolidated financial condition, results of operations, or cash flows.

12. 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 11 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 \$53,729 and \$60,471 for the years ended December 31, 2023 and 2022, respectively.

Indiana University Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Thousands of Dollars)

12. Leases (continued)

Other information related to leases was as follows:

	Year Ended December 31	
	2023	2022
Supplemental cash flow information		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 38,314	\$ 43,580
Operating cash flows from finance leases	15	13
Financing cash flows from finance leases	1,109	701
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	\$ 12,701	\$ 64,184
Finance leases	926	1,395
Weighted average remaining lease term (in years)		
Operating leases	5.29	6.24
Finance leases	1.81	3.04
Weighted average discount rate		
Operating leases	1.80%	2.61%
Finance leases	1.59	0.85

Future net present value minimum lease payments under noncancelable leases as of December 31, 2023 were as follows:

	Operating	Finance
2024	\$ 33,853	\$ 1,677
2025	30,034	651
2026	27,745	91
2027	21,130	78
2028	7,899	44
Thereafter	17,133	-
Total future minimum lease payments	137,794	2,541
Less imputed interest	13,806	10
Net present value of minimum lease payments	\$ 123,988	\$ 2,531

Indiana University Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Thousands of Dollars)

12. Leases (continued)

As of December 31, 2023, Indiana University Health reviewed leases that had been signed in 2023 with commencement dates in subsequent years. None of these agreements were deemed material for disclosure.

13. Medical Malpractice

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

Indiana University Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Thousands of Dollars)

13. Medical Malpractice (continued)

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

14. Retirement 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 \$118,066 and \$119,687 in 2023 and 2022, respectively (net of forfeitures of \$1,164 and \$1,753 in 2023 and 2022, respectively).

15. Functional Expenses

The tables below present expenses by both their nature and function for the years ended December 31, 2023 and 2022:

	Health Services	Insurance Services	General and Administrative	Total
Year ended December 31, 2023:				
Salaries, wages, and benefits	\$ 4,441,303	\$ 27,545	\$ 154,983	\$ 4,623,831
Supplies, drugs, purchased services, and other	2,665,768	58,005	191,830	2,915,603
Hospital assessment fee	234,778	-	-	234,778
Health claims to providers	-	155,544	-	155,544
Depreciation and amortization	300,985	-	14,881	315,866
Interest	55,143	-	-	55,143
	<u>\$ 7,697,977</u>	<u>\$ 241,094</u>	<u>\$ 361,694</u>	<u>\$ 8,300,765</u>

Indiana University Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Thousands of Dollars)

15. Functional Expenses (continued)

	Health Services	Insurance Services	General and Administrative	Total
Year ended December 31, 2022:				
Salaries, wages, and benefits	\$ 4,397,218	\$ 32,638	\$ 139,095	\$ 4,568,951
Supplies, drugs, purchased services, and other	2,480,277	58,176	168,203	2,706,656
Hospital assessment fee	206,632	-	-	206,632
Health claims to providers	-	130,407	-	130,407
Depreciation and amortization	286,637	-	16,814	303,451
Interest	49,305	-	-	49,305
	<u>\$ 7,420,069</u>	<u>\$ 221,221</u>	<u>\$ 324,112</u>	<u>\$ 7,965,402</u>

The consolidated financial statements report certain categories of expenses that are attributable to more than one supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries, wages, and benefits, which are allocated on a per full-time equivalent basis.

16. 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 \$55,997 and \$48,410 in 2023 and 2022, respectively, and have been reported within salaries, wages, and benefits expense on the accompanying consolidated statements of operations and changes in net assets.

The Indiana University Health System purchases certain services from the School of Medicine. These expenses, principally for certain physician and staff salaries, medical directors, medical care case management services, utilities, laboratory services, and other services, totaled \$59,381 and \$60,420, net of offsetting funds from the School of Medicine, for the years ended December 31, 2023 and 2022, 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.

Indiana University Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Thousands of Dollars)

16. Related-Party Transactions (continued)

The Indiana University Health System also provides additional support to the School of Medicine to assist with medical education and research. During 2023 and 2022, Indiana University Health expensed \$18,474 and \$19,078, respectively, within supplies, drugs, purchased services, and other expenses on the accompanying consolidated statements of operations and changes in net assets.

Other Foundations

As a commitment to continued support of educational and research efforts, Indiana University Health recognized contributions of \$0 and \$29,019 for the years ended December 31, 2023 and 2022, respectively, to the Indiana University Medical Group Foundation. The contributions were recorded as supplies, drugs, purchased services, and other expenses on the accompanying consolidated statements of operations and changes in net assets. The contributions serve to enhance current teaching programs and ultimately the access to high-quality medical care.

Tipton County Foundation is a tax-exempt organization under Section 501(c)(3) of the IRC; this foundation holds funds solely on behalf of Tipton Hospital. The financial statements of this foundation are not included in the consolidated financial statements. The interests in net assets of this and other foundations, which totaled \$18,259 and \$15,737 at December 31, 2023 and 2022, 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 net assets with donor restrictions.

17. 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

Indiana University Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Thousands of Dollars)

17. Health Care Legislation and Regulation (continued)

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.

During the COVID-19 pandemic, the rate of Americans without health insurance dropped to a near-historic low in response to various federal initiatives connected to the federally declared Public Health Emergency (PHE). However, on April 10, 2023, President Biden signed a bipartisan Congressional resolution to bring the PHE to a close after three years – several weeks before it was set to expire on May 11, 2023. States began the process of conducting Medicaid redeterminations which were authorized to start as early as April 1, 2023 pursuant to the Congressional Omnibus package signed into law late last year. Providers and patient advocacy groups continue to express that millions of low-income and middle-income Americans are at risk of losing health insurance now that states have begun the process of Medicaid redeterminations. Notably, the state of Indiana reported that through December 31, 2023 more than 330,000 Hoosiers lost Medicaid coverage due to its Medicaid redeterminations. Specifically, 30,000 members fell off the Medicaid rolls per month during the fourth quarter on average, down from an average of roughly 33,000 members in the third quarter and 47,000 members during the second quarter.

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