

CONSOLIDATED FINANCIAL STATEMENTS AND OTHER INFORMATION
INDIANA UNIVERSITY HEALTH, INC. AND SUBSIDIARIES
AS OF MARCH 31, 2023 AND DECEMBER 31, 2022 AND FOR THE THREE MONTHS ENDED
MARCH 31, 2023 AND 2022

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MANAGEMENT'S DISCUSSION OF FINANCIAL PERFORMANCE
As of March 31, 2023 and December 31, 2022 and for the three months ended
March 31, 2023 and 2022

Indiana University Health, Inc. and Subsidiaries
Management's Discussion of Financial Performance
As of March 31, 2023 and December 31, 2022 and for the three months ended
March 31, 2023 and 2022
(Thousands of Dollars)

The financial statement information and other data as of March 31, 2023 and December 31, 2022 and for the three months ended March 31, 2023 and 2022 are derived from the unaudited consolidated financial statements and other records of Indiana University Health, Inc. (Indiana University Health) and Subsidiaries (collectively referred to herein as the Indiana University Health System). The consolidated financial statements include all adjustments, consisting of normal recurring and other accruals, which management of the Indiana University Health System considers necessary for a fair presentation of financial position, results of operations and changes in net assets, and cash flows for these periods in conformity with U.S. generally accepted accounting principles (GAAP). The financial data relating to the Obligated Group and the Obligated Group and Designated Affiliates, as defined in the Indiana University Health Obligated Group Master Trust Indenture, as amended, is provided as supplementary information.

The accompanying financial statement information should be read in conjunction with the audited consolidated financial statements and the notes thereto of Indiana University Health and Subsidiaries as of and for the years ended December 31, 2022 and 2021 (not included herein).

Nature of Operations

The Indiana University Health System operates as an integrated health care delivery system comprising nonprofit and for-profit entities, with coordinated activities and policies designed to meet the mission of the Indiana University Health System. The principal operating activities of the Indiana University Health System are conducted at majority-owned or controlled subsidiaries and consist of the following as of March 31, 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, Indiana University Health Methodist Hospital (Methodist Hospital), Indiana University Health University Hospital, and Riley Hospital for Children at Indiana University Health, are located on or near the campus of Indiana University-Purdue University Indianapolis and the Indiana University School of Medicine.

Indianapolis Suburban Facilities – Consist of three acute care hospitals, a critical access hospital, and an acute care rehabilitation hospital located in the western and northern suburban areas of metropolitan Indianapolis, Indiana. Principal hospital subsidiaries include Indiana University Health North Hospital, Inc.; Indiana University

Health West Hospital, Inc.; Indiana University Health Saxony Hospital (Saxony); 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 two critical access hospitals located in Muncie; Hartford City; and Portland, Indiana. Principal hospital subsidiaries include Indiana University Health Ball Memorial Hospital, Inc., and subsidiaries, including Indiana University Health Blackford Hospital, Inc.; 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, 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.

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, 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. Beginning January 1, 2022, 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.

Consolidated Statement of Operations and Changes in Net Assets
(Compared to December 31, 2022)

Revenue. Total operating revenue of \$2,080,528 for the three months ended March 31, 2023 increased 8.1%, or \$155,157 compared to the three months ended March 31, 2022, \$1,925,371.

Patient service revenue, when excluding increased reimbursement related to the Medicaid Hospital Assessment Fee (HAF) program, Physician Faculty Access to Care (PFAC), and state disproportionate share revenue (DSH), increased by \$117,957 or 7.3% for the three months ended March 31, 2023 over the prior year. The increase is mainly driven by increased inpatient and outpatient surgeries, primarily due to the delay of certain elective procedures in the first quarter of 2022.

| | Three Months Ended March 31 | | | |
|------------------------------------|------------------------------------|-------------|-----------------|-------------------|
| | <u>2023</u> | <u>2022</u> | <u>Variance</u> | <u>Percentage</u> |
| <u>Inpatient Discharges</u> | | | | |
| Consolidated | 27,639 | 27,785 | (146) | -0.5% |
| Downtown | 11,134 | 11,706 | (572) | -4.9% |
| Statewide | 11,062 | 10,978 | 84 | 0.8% |
| Suburban | 5,443 | 5,101 | 342 | 6.7% |
| <u>Total Surgery Cases</u> | | | | |
| Consolidated | 30,013 | 25,759 | 4,254 | 16.5% |
| Downtown | 8,926 | 7,709 | 1,217 | 15.8% |
| Statewide | 6,680 | 5,294 | 1,386 | 26.2% |
| Suburban | 5,370 | 3,282 | 2,088 | 63.6% |
| Ambulatory | 9,037 | 9,474 | (437) | -4.6% |

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

For the three months ended March 31, 2023 and 2022, payments recognized related to these programs were recorded within patient service revenue in the consolidated

statements of operations and changes in net assets, totaling \$179,192 and \$169,118, respectively.

Member premium revenue of \$84,665 for the three months ended March 31, 2023 increased \$10,905 compared to \$73,760 for the three months ended March 31, 2022. The change is primarily due to the increased membership in our Medicare Advantage product.

Other operating revenue of \$78,709 increased by \$16,221 or 26.0% for the three months ended March 31, 2023, compared to the prior year, mainly driven by the final settlement of a transaction that occurred in 2017.

Expenses. Total operating expenses of \$2,035,406 increased by 4.1%, or \$80,202 compared to the three months ended March 31, 2022, \$1,955,204. Expenses increased mainly due to supplies and pharmaceuticals associated with the increased surgical volumes.

Salaries, wages, and benefits of \$1,139,879 were comparable to the three months ended March 31, 2022, as the Indiana University Health System continues to decrease premium pay programs, but has been offset by mid-year 2022 wage increases and market adjustments.

Supplies, drugs, purchased services, and other expenses of \$708,476 increased \$73,776 compared to the three months ended March 31, 2022, \$634,700. The increase primarily relates to higher surgical volumes and changes in services that require a different mix of supplies and pharmaceuticals.

Fees related to the HAF program were \$58,556 for the three months ended March 31, 2023 and were comparable to the same period in the prior year of \$60,103.

Health claims to providers expenses of \$36,601 were \$7,947 higher than the three months ended March 31, 2022, \$28,654 primarily due to increased membership.

Depreciation and amortization expense of \$78,874 and was comparable to the same period in the prior year of \$75,334.

Interest expense of \$13,020 increased \$885 and was comparable to the prior year of \$12,135.

Investment gains amounted to \$298,708 for the three months ended March 31, 2023, including \$49,925 of interest and dividend income, net of fees, \$169,172 of unrealized gains on investments, and \$79,611 of net realized gains on investments. For the three months ended March 31, 2022, investment losses aggregated to \$286,657, which included \$25,688 of interest and dividend income, net of fees, \$303,179 of unrealized losses on investments, and \$9,166 of net realized losses. Gains (losses) on interest rate swaps aggregated \$2,768 and (\$5,344) for the three months ended March 31, 2023, and 2022, respectively.

The Indiana University Health System recorded the change in fair value of interest rate swaps designated as hedges of (\$6,158) and \$15,697 as changes in net assets without donor restrictions in the consolidated statements of operations and changes in net assets for the three months ended March 31, 2023 and 2022, respectively.

Consolidated Balance Sheet (Compared to December 31, 2022)

Total cash and investments (which principally consist of cash and cash equivalents, short-term investments, current portion of assets limited as to use, board-designated funds and other investments, and donor-restricted funds) amounted to \$7,546,826 at March 31, 2023, and \$7,291,659 at December 31, 2022. The number of days cash and investments on hand, excluding donor-restricted funds, trustee-held funds, and funds held by insurance captives, was 338 days at March 31, 2023 and December 31, 2022. The number of days revenue in receivables (excluding the increased reimbursement under the HAF program and related receivable) was 52 days at March 31, 2023 and 53 days at December 31, 2022. The number of days expenses in accounts payable, accrued expenses, and certain other current liabilities (excluding the Medicare advance or accelerated payment, and fees associated with the HAF program and related liability) was 43 days at March 31, 2023 and 49 days at December 31, 2022.

Net current assets, or working capital, increased 43.8% to \$911,811 at March 31, 2023 compared to \$633,926 at December 31, 2022 primarily from unrealized gains on investments due to financial market performance as well as increased draws on the line of credit of \$47,000. Net property and equipment of \$3,548,266 increased \$22,122 from December 31, 2022, due to continued investments in new equipment in facilities and partially offset by increased depreciation. Firm commitments for construction-in-progress totaled \$599,285 at March 31, 2023.

As of March 31, 2023 and December 31, 2022, the Indiana University Health System maintained a \$500,000 line of credit. As of March 31, 2023, \$267,000 is outstanding. As of December 31, 2022, \$220,000 was outstanding.

Net assets without donor restriction amounted to \$9,807,822 at March 31, 2023 and \$9,487,246 at December 31, 2022.

Strategic Initiatives

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

As part of this continual evaluation, management engages in discussions at times with unaffiliated third parties regarding potential affiliations, acquisitions, dispositions, divestitures, joint ventures, and other transactions. In addition, management considers the potential to change the services offered at a given facility or consolidate and/or

eliminate redundant services. Such changes could be material, impacting the future composition of the system.

Certain statements are forward-looking statements that are based on the beliefs of, and assumptions made by, the management of Indiana University Health. Such forward looking statements involve known and unknown risks, uncertainties and other factors that may cause the performance of the Indiana University Health System to be materially different from any expected future performance.

Capital Expenditures

In Design Phase:

The Indiana University Health Board of Directors approved a \$300,000 investment for a significant expansion of the Saxony campus and services, and the addition of offsite, outpatient access to primary care and specialists to more holistically meet the needs of Fishers, Indiana, one of the state's fastest-growing communities. In recognition of this growth, the expansion will include a re-naming of the hospital campus to Indiana University Health Fishers. Groundbreaking for the hospital expansion occurred in late 2022 with completion slated for 2025.

In Build Phase:

In April 2015, the Indiana University Health Board of Directors approved preliminary planning activities including strategic planning and analysis to consolidate downtown Indianapolis adult services to one medical campus centered on Capitol Avenue and 16th Street (near the current site of Methodist Hospital). As Indiana University Health is committed to improving the health of its patients and communities, the adult service medical campus is planned to include the medical education building and faculty offices on-site to enhance ongoing collaboration with the Indiana University School of Medicine and support the tripartite mission of clinical care, research, and education. In December 2020, the Indiana University Health Board of Directors (Board) approved a capital expenditure plan. In December 2022, the scope, cost, and timing of this project was re-evaluated in light of higher than expected demand learned from COVID, inflation, and sustainability goals. The capital expenditure plan which anticipates to see the first patient in the fourth quarter of 2027, includes \$2,310,000 for the construction of an expanded medical campus that will consolidate its two existing downtown adult hospitals and \$1,980,000 for additional investments to its downtown Indianapolis campus and its neighboring property holdings.

Reducing the Cost of Care for Hoosiers

Indiana University Health is committed to being a leader within the provider community in addressing cost of healthcare in Indiana, despite the pressure of rising labor costs and inflation; and has initiated a multi-year strategy and affordability plan to bring hospital pricing to the national average for commercial insurance by the end of 2025. In prior years, focused price reductions were implemented with commercial payers for numerous services including, but not limited to: radiology (average of a 45% reduction in price);

laboratory (nearly all lab services at Medicare prices or lower); specialty pharmacy (average of a 30% reduction in price); and ambulance services (average of a 23.8% reduction in price).

Indiana University Health places importance on transparency and has offered comprehensive patient estimates since 2015. In 2021, Indiana University Health also began offering a self-service estimates option for many common services.

Healthcare Legislation

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 have begun the process of conducting Medicaid redeterminations, which they 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 will be at risk of losing health insurance now that states have begun the process of Medicaid redeterminations. In fact, the State of Indiana estimates that approximately 375,000 Hoosiers could be disenrolled or downgraded to less comprehensive benefits as a result of redeterminations.

Community Health

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 one time support for projects such as urban agriculture and revitalizing areas in the health district. These three funds are recorded as Board-designated funds – community health on the consolidated balance sheet as of March 31, 2023 and 2022. For the three months ended March 31, 2023 and 2022, Indiana University Health Foundation disbursed \$9,750 and \$4,500, respectively, from the community impact investment fund.

These funds are subject to market fluctuations similar to other assets limited as to use and the Indiana University Health, Inc. Board of Directors retains control of these funds.

Innovation

Additionally, funds totaling \$400,000 were earmarked to establish the innovation investment fund for use in future health care innovation initiatives. These funds are recorded as Board-designated funds – innovation on the consolidated balance sheet as of March 31, 2023 and 2022. Indiana University Health distributed \$2,663 from this fund for the three months ended March 31, 2023. No distributions were made from the fund for the three months ended March 31, 2022.

These funds are subject to market fluctuations similar to other assets limited as to use and the Indiana University Health, Inc. Board of Directors retains control of these funds.

Adjusted Operating Income (Loss)

The following table adjusts operating income for significant one-time transactions or significant items that relate to prior years. Management uses these measures internally for planning, forecasting, and evaluating the performance of the Indiana University Health System. The table also removes operating income attributable to noncontrolling interests, which primarily relates to ambulatory surgery centers in which third parties hold significant noncontrolling interests. Internally, management reviews operating results after allocation to noncontrolling interests, in part, because a significant portion of the operating results of these entities is distributed to the noncontrolling interest holders each period. Non-GAAP measures should be considered in addition to, not as a substitute for, or as superior to, measures of financial performance prepared in accordance with GAAP. For additional information on the programs that resulted in these adjustments and on noncontrolling interests, refer to the consolidated financial statements and the notes thereto of Indiana University Health and Subsidiaries for the three months ended March 31, 2023 and 2022.

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

| | Three Months Ended | |
|--|--------------------|--------------------|
| | March 31 | |
| | 2023 | 2022 |
| Operating income (loss), as reported | \$ 45,122 | \$ (29,833) |
| Noncontrolling interests in subsidiaries | (27,023) | (35,965) |
| Stimulus funds | - | (3,772) |
| Prior year transaction settlement | (17,896) | - |
| Operating income (loss), as adjusted | <u>\$ 203</u> | <u>\$ (69,570)</u> |
| Operating margin, as adjusted | 0.0% | -3.8% |

- For the three months ended March 31, 2022, stimulus funds were recorded from the U.S. Department of Health and Human Services as a part of the Provider Relief Fund (PRF) authorized by the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and Payroll Protection Program & Health Care Enhancement Acts and the American Rescue Plan (ARP).
- For the three months ended March 31, 2023, adjustments were recorded related to the final settlement of a 2017 transaction.

CONSOLIDATED FINANCIAL STATEMENTS
As of March 31, 2023 and December 31, 2022 and for the three months ended
March 31, 2023 and 2022

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

| | March 31 | December 31 |
|---|--------------------|--------------------|
| | 2023 | 2022 |
| | (Unaudited) | (Audited) |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 297,026 | \$ 342,828 |
| Short-term investments | 26,330 | 22,916 |
| Current portion of assets limited as to use | 394,121 | 171,132 |
| Patient accounts receivable | 1,014,851 | 1,008,169 |
| Other receivables | 75,654 | 90,448 |
| Prepaid expenses | 108,176 | 84,151 |
| Inventories | 162,947 | 166,088 |
| Total current assets | 2,079,105 | 1,885,732 |
| Assets limited as to use: | | |
| Board-designated investment funds and other investments | 5,677,788 | 5,632,873 |
| Board designated funds - community health | 688,162 | 668,638 |
| Board designated funds - innovation | 369,138 | 356,361 |
| Donor-restricted investment funds | 94,261 | 96,911 |
| Total assets limited as to use, less current portion | 6,829,349 | 6,754,783 |
| Property and equipment: | | |
| Cost of property and equipment in service | 7,205,572 | 7,117,877 |
| Less accumulated depreciation | (4,034,400) | (3,958,490) |
| | 3,171,172 | 3,159,387 |
| Construction-in-progress | 377,094 | 366,757 |
| Total property and equipment, net | 3,548,266 | 3,526,144 |
| Other assets: | | |
| Equity interest in unconsolidated subsidiaries | 17,337 | 17,028 |
| Interests in net assets of foundations | 15,740 | 15,737 |
| Right of use assets | 130,805 | 130,786 |
| Interest rate swaps | 80,133 | 86,200 |
| Goodwill, intangibles, and other assets | 371,014 | 374,425 |
| Total other assets | 615,029 | 624,176 |
| Total assets | \$ 13,071,749 | \$ 12,790,835 |

Continued on next page.

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

| | March | December |
|--|--------------------|------------------|
| | 2023 | 2022 |
| | (Unaudited) | (Audited) |
| Liabilities and net assets | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 626,364 | \$ 629,565 |
| Accrued salaries, wages, and related liabilities | 357,592 | 434,560 |
| Accrued health claims | 44,454 | 49,050 |
| Estimated third-party payer allowances | 52,917 | 53,981 |
| Current portion of lease liabilities | 31,926 | 30,623 |
| Current portion of long-term debt | 54,041 | 54,027 |
| Total current liabilities | 1,167,294 | 1,251,806 |
| Noncurrent liabilities: | | |
| Long-term debt, less current portion | 1,732,435 | 1,686,652 |
| Interest rate swaps | 7,987 | 10,360 |
| Accrued medical malpractice claims | 81,691 | 81,624 |
| Lease liabilities, less current portion | 109,202 | 110,773 |
| Other | 33,576 | 32,514 |
| Total noncurrent liabilities | 1,964,891 | 1,921,923 |
| Total liabilities | 3,132,185 | 3,173,729 |
| Net assets: | | |
| Indiana University Health | 9,539,764 | 9,229,613 |
| Noncontrolling interest in subsidiaries | 268,058 | 257,633 |
| Total without donor restrictions | 9,807,822 | 9,487,246 |
| With donor restrictions | 131,742 | 129,860 |
| Total net assets | 9,939,564 | 9,617,106 |
| Total liabilities and net assets | \$ 13,071,749 | \$ 12,790,835 |

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)

| | Three Months Ended March 31 | |
|--|--------------------------------|--------------|
| | 2023 | 2022 |
| | (Unaudited) | |
| Revenues: | | |
| Patient service revenue | \$ 1,917,154 | \$ 1,789,123 |
| Member premium revenue | 84,665 | 73,760 |
| Other revenue | 78,709 | 62,488 |
| Total operating revenues | 2,080,528 | 1,925,371 |
| Expenses: | | |
| Salaries, wages, and benefits | 1,139,879 | 1,144,278 |
| Supplies, drugs, purchased services, and other | 708,476 | 634,700 |
| Hospital assessment fee | 58,556 | 60,103 |
| Health claims to providers | 36,601 | 28,654 |
| Depreciation and amortization | 78,874 | 75,334 |
| Interest | 13,020 | 12,135 |
| Total operating expenses | 2,035,406 | 1,955,204 |
| Operating income (loss) | 45,122 | (29,833) |
| Nonoperating income (loss): | | |
| Investment income (loss), net | 298,708 | (286,657) |
| Gains (losses) on interest rate swaps, net | 2,768 | (5,344) |
| Other | (7,839) | (744) |
| Total nonoperating income (loss) | 293,637 | (292,745) |
| Consolidated excess (deficit) of revenues over expenses | 338,759 | (322,578) |
| Less amounts attributable to noncontrolling interest in subsidiaries | 27,023 | 35,965 |
| Excess (deficit) of revenue over expenses attributable to Indiana University Health, Inc. and Subsidiaries | \$ 311,736 | \$ (358,543) |

Continued on next page.

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

| | Three Months Ended March 31, 2023 | | |
|---|-----------------------------------|--------------|----------------|
| | (Unaudited) | | |
| | Total | Controlling | Noncontrolling |
| Without donor restriction: | | | |
| Consolidated excess of revenues over expenses | \$ 338,759 | \$ 311,736 | \$ 27,023 |
| Distributions to noncontrolling interests | (16,589) | - | (16,589) |
| Change in fair value of interest swaps designated as hedges | (6,158) | (6,158) | - |
| Other | 4,564 | 4,573 | (9) |
| | 320,576 | 310,151 | 10,425 |
| With donor restriction: | | | |
| Contributions | 642 | 642 | - |
| Investment return | 1,334 | 1,334 | - |
| Other | (94) | (94) | - |
| | 1,882 | 1,882 | - |
| Increase in net assets | 322,458 | 312,033 | 10,425 |
| Net assets at beginning of period | 9,617,106 | 9,359,473 | 257,633 |
| Net assets at end of period | \$ 9,939,564 | \$ 9,671,506 | \$ 268,058 |

| | Three Months Ended March 31, 2022 | | |
|---|-----------------------------------|--------------|----------------|
| | (Unaudited) | | |
| | Total | Controlling | Noncontrolling |
| Without donor restriction: | | | |
| Consolidated excess of revenues over expenses | \$ (322,579) | \$ (358,543) | \$ 35,965 |
| Distributions to noncontrolling interests | (33,551) | - | (33,551) |
| Change in fair value of interest swaps designated as hedges | 15,697 | 15,697 | - |
| Other | (10,156) | (9,646) | (510) |
| | (350,588) | (352,492) | 1,904 |
| With donor restriction: | | | |
| Change in beneficial interest in net assets of foundations | (104) | (104) | - |
| Contributions | 536 | 536 | - |
| Investment return | (2,837) | (2,837) | - |
| Other | (417) | (417) | - |
| | (2,822) | (2,822) | - |
| (Decrease) increase in net assets | (353,410) | (355,314) | 1,904 |
| Net assets at beginning of period | 10,299,927 | 10,033,685 | 266,242 |
| Net assets at end of period | \$ 9,946,517 | \$ 9,678,371 | \$ 268,146 |

See accompanying notes to the consolidated financial statements.

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

| | Three Months Ended March 31 | |
|--|--------------------------------|--------------|
| | 2023 | 2022 |
| | (Unaudited) | |
| Operating activities | | |
| Increase (decrease) in net assets | \$ 322,458 | \$ (353,410) |
| Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities: | | |
| Change in fair value of interest rate swaps | 3,694 | (10,428) |
| Gain in unconsolidated subsidiaries | (18,204) | (678) |
| Depreciation and amortization | 78,874 | 75,334 |
| Contributions and investment return with donor restriction | (2,078) | 2,405 |
| Distributions to noncontrolling interests | 16,589 | 33,551 |
| Assets limited as to use | (262,649) | 461,079 |
| Net changes in operating assets and liabilities: | | |
| Patient accounts receivable | (6,682) | (18,599) |
| Accounts payable, accrued liabilities, and other liabilities | (6,668) | (79,687) |
| Accrued salaries, wages, and related liabilities | (76,968) | 1,293 |
| Estimated third-party payer allowances | (1,064) | 5,837 |
| Other assets | 14,925 | (31,581) |
| Net cash provided by operating activities | 62,227 | 85,116 |
| Investing activities | | |
| Purchase of property and equipment, net of disposals | (100,996) | (67,471) |
| Net cash used in investing activities | (100,996) | (67,471) |
| Financing activities | | |
| Proceeds from notes payable under lines of credit | 47,000 | 10,000 |
| Contributions and investment return with donor restrictions | 2,078 | (2,405) |
| Repayments on long-term debt, net of discount | (1,203) | (1,992) |
| Distributions to noncontrolling interests | (16,589) | (33,551) |
| Net cash provided by (used in) financing activities | 31,286 | (27,948) |
| Net (decrease) in cash and cash equivalents | (7,483) | (10,303) |
| Cash and cash equivalents at beginning of period | 441,289 | 427,224 |
| Cash and cash equivalents at end of period | \$ 433,806 | \$ 416,921 |
| Reconciliation of cash and cash equivalents to the consolidated balance sheets | | |
| Cash and cash equivalents | \$ 297,026 | \$ 321,959 |
| Cash and cash equivalents included in assets limited as to use | 136,780 | 94,962 |
| Cash and cash equivalents at end of period | \$ 433,806 | \$ 416,921 |

See accompanying notes to the consolidated financial statements.

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1. Basis of Presentation

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with GAAP for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete, annual financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal and recurring nature. Operating results for the three months ended March 31, 2023 are not necessarily indicative of the results to be expected for the year ending December 31, 2023. For further information, refer to the audited consolidated financial statements and notes thereto for the years ended December 31, 2022 and 2021 (not included herein).

The accompanying unaudited consolidated financial statements include the accounts of Indiana University Health and all majority-owned or controlled subsidiaries (collectively referred to herein as the Indiana University Health System). The equity method of accounting is used for investments in joint ventures, partnerships, and companies where control is participatory with others or where ownership is 50% or less, but significant influence over the investee is established. All significant intercompany balances and transactions have been eliminated in consolidation.

2. Significant Events

Coronavirus Pandemic

The global viral outbreak caused by coronavirus disease 2019 (COVID-19) resulted in a national public health emergency. There have been resulting effects in the economy generally and the health care industry specifically that have and will continue to impact Indiana University Health's financial condition. During 2020 through 2022, the U.S. government issued legislation to authorize funding to healthcare providers to prevent, prepare for, and respond to COVID-19, and to reimburse the recipient for health care related expenses and lost revenues attributable to COVID-19. Additionally, funds were available to reimburse providers for COVID-19 related treatment of uninsured patients. Indiana University Health has recognized revenue from payments received under these pieces of legislation when related conditions have been substantially met.

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2. Significant Events (continued)

For the three months ended March 31, 2023 and 2022, Indiana University Health recognized a total of \$0 and \$3,772, respectively, in stimulus funds as other revenue from provisions of the CARES Act and the ARP.

In April 2020, Indiana University Health received \$348,448 from CMS as an advance payment under the Accelerated and Advance Payment Program, which was expanded through provisions of the CARES Act to ensure providers and suppliers have the resources needed to combat COVID-19. The recoupment period for Indiana University Health ended mid-October 2022. At the end of the recoupment period, all funds had been repaid and no interest related to the advanced payments was owed. As of March 31, 2023 and December 31, 2022, there was no remaining portion of the contract liability associated with this payment.

3. Summary of Significant Accounting Policies

Use of Estimates

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

Fair Value of Financial Instruments

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

Subsequent Events

For the consolidated financial statements as of and for the three months ended March 31, 2023, management has evaluated subsequent events through May 1, 2023 the date that these financial statements were made publicly available.

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

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

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

The Indiana University Health System determines the transaction price, which involves significant estimates and judgment, based on standard charges for goods and services provided, reduced by explicit and implicit price concessions, including contractual adjustments provided to third-party payers, discounts provided to uninsured and

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4. Patient Service and Other Operating Revenue (continued)

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. For the three months ended March 31, 2023 and 2022, 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 Medicaid Disproportionate Share Hospital (DSH) payments. The State DSH program is dependent on regulatory approval by agencies of the federal and state governments and is determined by the level, extent, and cost of uncompensated care (as defined) and various other factors. Separately, the upper payment limit reimbursement program, now known as the Physician Faculty Access to Care program, was established to pay qualifying providers the difference between what Medicare would have paid and what Medicaid actually paid.

For the three months ended March 31, 2023 and 2022, payments received related to these programs were recorded within patient service revenue on the consolidated statements of operations and changes in net assets, totaling \$179,192 and \$169,118, respectively. During the three months ended March 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 \$58,556 and \$60,103, 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

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4. Patient Service and Other Operating Revenue (continued)

an assessment to ensure it is probable that a significant reversal in the amount of cumulative revenue recognition will not occur when the uncertainty associated with the retroactive adjustments is subsequently resolved. Laws and regulations governing Medicare, Medicaid, and other governmental programs are complex, prone to changes, and subject to varying interpretation. The Indiana University Health System believes it is in compliance with applicable laws and regulations governing Medicare, Medicaid, and other governmental programs, as well as contracts that it has with commercial payers, and that adequate provisions have been recorded for any adjustments that may result from final settlements.

In rare instances, the Indiana University Health System receives payment in advance of the services provided and considers these amounts to represent contract liabilities. There were no contract liabilities as of March 31, 2023 and December 31, 2022. For the three months ended March 31, 2023 and 2022, \$0 and \$59,487, respectively, of the funds were recognized and offset accounts receivable on the consolidated balance sheet.

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

| | Three months ended 31 | |
|-------------------------|------------------------------|---------------------------|
| | 2023 | 2022 |
| Commercial/managed care | \$1,022,019 | \$ 945,727 |
| Medicare | 508,152 | 463,650 |
| Medicaid | 360,705 | 357,059 |
| Self-pay and other | 26,278 | 22,687 |
| | <u>\$1,917,154</u> | <u>\$1,789,123</u> |

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.

The largest single payer represented 27% of patient service revenue for the three months ended March 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)

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4. Patient Service and Other Operating Revenue (continued)

patients' benefits payable under their health insurance programs, plans or policies (e.g., Medicare, Medicaid, managed care payers, and commercial insurance policies). 28% and 29% of patient accounts receivable were collectible from government payers as of March 31, 2023 and December 31, 2022, respectively. The remaining 72% and 71% of patient accounts receivable as of March 31, 2023 and December 31, 2022, respectively, were collectible from managed care payers, commercial insurance payers, and uninsured and underinsured patients. Changes in general economic conditions, payer mix, or federal or state governmental health care coverage could affect collection of accounts receivable, cash flows and results of operations. Indiana University Health does not believe there are any significant concentrations of revenues from any particular payer that would be subject to significant credit risks in the collection of accounts receivable.

Other revenue is recognized at an amount that reflects the consideration to which the Indiana University Health System expects to be entitled in exchange for providing goods and services. The amounts recognized reflect consideration due from customers, third-party payers, and others. Primary categories of other revenue include income from joint ventures, grant revenue, cafeteria revenue, rent and lease revenue, shared professional revenue, and other.

The composition of other revenue by sources is as follows:

| | Three months ended March 31 | |
|-----------------------------------|--------------------------------|------------------|
| | 2023 | 2022 |
| Shared health services revenue | \$ 39,018 | \$ 39,919 |
| Stimulus funds | - | 3,772 |
| Prior year transaction settlement | 17,896 | - |
| Other | 21,795 | 18,797 |
| | <u>\$ 78,709</u> | <u>\$ 62,488</u> |

5. Assets Limited as to Use

Board-designated and donor-restricted investment funds are invested in accordance with Board approved policies. The estimated fair value of the assets limited as to use is determined using market information and other appropriate valuation methodologies. The 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:

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5. Assets Limited as to Use (continued)

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 March 31, 2023 and December 31, 2022, there were \$922,813 and \$959,704, respectively, of unfunded commitments relating to private fund investments, which are expected to be funded over the next five years.

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

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

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5. Assets Limited as to Use (continued)

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 utilizes futures contracts to provide exposure to markets such as equity and fixed income. The notional value of futures contracts was approximately \$551,528 and \$620,662 as of March 31, 2023 and December 31, 2022, respectively. The fair value of futures contracts included in assets limited as to use on the consolidated balance sheet was \$2,760 as of March 31, 2023 and December 31, 2022. Gains (losses) attributed to these futures contracts were \$22,794 and (\$33,127) for the three months ended March 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 \$101,921 and \$69,693 as of March 31, 2023 and December 31, 2022, respectively. The fair value of total return swap contracts and associated collateral posted was \$1,402 and (\$730) respectively, as of March 31, 2023. The net fair value of total return swap contracts and associated collateral posted was (\$563) and \$420, respectively, as of December 31, 2022. Indiana University Health has elected to offset these values and record the net fair value in assets limited as to use on the consolidated balance sheet. The gain (loss) attributed to the total return swaps was \$1,402 and (\$1,191) for the three months ended March 31, 2023 and 2022, respectively, and is included in investment income (loss), net on the consolidated statements of operations and changes in net assets.

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5. Assets Limited as to Use (continued)

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

| | March 31 2023 | December 31 2022 |
|--|---------------------|---------------------|
| Assets limited as to use: | | |
| Cash | \$ 136,780 | \$ 98,461 |
| Short-term, liquid investments | 236,184 | 36,184 |
| Debt securities: | | |
| Asset backed | 158,121 | 152,459 |
| Bank loans | 238,182 | 256,566 |
| Corporate debt | 643,681 | 546,547 |
| Government and agencies | 414,266 | 388,005 |
| Bond funds | 164,507 | 154,138 |
| Total debt securities | 1,618,757 | 1,497,715 |
| Equity securities: | | |
| Domestic equities | 1,633,138 | 1,638,851 |
| Domestic equity funds | 16,279 | 15,261 |
| International equities | 735,165 | 707,759 |
| International equity funds | 295,537 | 288,664 |
| Total equity securities | 2,680,119 | 2,650,535 |
| Alternatives: | | |
| Hedge funds | 1,121,934 | 1,211,145 |
| Private funds | 1,426,264 | 1,429,259 |
| Other | 3,432 | 2,616 |
| Total alternatives | 2,551,630 | 2,643,020 |
| Less current portion of assets limited as to use | (394,121) | (171,132) |
| Total assets limited as to use | <u>\$ 6,829,349</u> | <u>\$ 6,754,783</u> |

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6. Financial Assets and Liquidity Reserves

The table below represents financial assets and liquidity resources available for general expenditures within one year as of March 31, 2023 and December 31, 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.

| | March 31 2023 | December 31 2022 |
|---|--------------------|---------------------|
| Financial assets: | | |
| Cash and cash equivalents | \$ 297,026 | \$ 342,828 |
| Short-term investments | 26,330 | 22,916 |
| Patient accounts receivable | 1,014,851 | 1,008,169 |
| Other receivables | 75,654 | 90,448 |
| Assets limited as to use | 7,223,470 | 6,925,915 |
| Total financial assets | <u>8,637,331</u> | <u>8,390,276</u> |
| Liquidity resource: | | |
| Unused bank lines of credit | 233,000 | 280,000 |
| Less amounts not available within one year or not designated for general expenditures: | | |
| Alternative investments | (1,554,495) | (1,561,114) |
| Other | (266,407) | (244,303) |
| Financial assets not available for use within one year | <u>(1,820,902)</u> | <u>(1,805,417)</u> |
| Financial assets and liquidity resources available for general expenditures within one year | <u>\$7,049,429</u> | <u>\$ 6,864,859</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 with maturities ranging from zero to three years and is reflected in cash and cash equivalents, short-term investments, and assets limited as to use on the consolidated balance sheets. Alternative investments not available within one year consist of the private funds, as well as a portion of the hedge funds due to contractual restrictions that prevent redemption of all or portions of such funds within a year.

Additionally, the "Other" amounts not available within one year include Board-designated investments within the general liability captive insurance program,

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6. Financial Assets and Liquidity Reserves (continued)

foundation assets not available within one year or for general expenditures, and other restricted cash.

7. Debt

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 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 March 31, 2023 and December 31, 2022, \$267,000 and \$220,000, respectively, were outstanding on the line of credit.

8. Derivative Financial Instruments

Long-term interest rate swap arrangements have been entered into with the primary objective being to mitigate interest rate risk. The following fixed-pay swaps, stated at current and maximum future notional amounts, remain in place as of March 31, 2023:

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

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

In addition, long-term basis swap arrangements were entered into for the purpose of managing the effect of interest rates on cash flows and were in place as of March 31, 2023 as follows:

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

Guidance on fair value accounting stipulates that a credit valuation adjustment (CVA) be applied to the mark-to-market valuation position of interest rate swaps to more

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8. Derivative Financial Instruments (continued)

closely capture the fair value of such instruments. Collateral arrangements reduce the credit exposure and are considered in determining the CVA.

As of March 31, 2023, the fair value of interest rate swaps in liability positions was \$7,987, which is net of CVA of \$966, and the fair value of interest rate swaps in asset positions was \$80,133, which is net of CVA of \$(18,543). As of December 31, 2022, the fair value of interest rate swaps in liability positions 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 sheet. The fair value of swaps in asset positions is included within interest rate swaps on the accompanying consolidated balance sheet as of March 31, 2023 and December 31, 2022.

As of March 31, 2023, interest rate swaps had a total current notional amount of \$309,200, comprising \$309,200 of basis swaps, and maximum future notional amount of \$705,665, comprising \$396,465 of fixed-pay swaps and \$309,200 of basis swaps. Under agreements executed with counterparties, Indiana University Health is obligated to fund collateral amounts when the aggregate market value of swaps made with a given counterparty is a liability that exceeds a threshold set forth in the related agreement. As of March 31, 2023 and December 31, 2022, all interest rate swaps were subject to credit-risk-related contingent features. No collateral was posted as of March 31, 2023 or December 31, 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:

| | Three months ended March 31 | |
|--|--|-------------------|
| | 2023 | 2022 |
| Unrealized gains (losses) on interest rate swaps | \$ 2,373 | \$ (5,352) |
| Realized gains on interest rate swaps | 395 | 8 |
| | \$ 2,768 | \$ (5,344) |

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9. Fair Value Measurements

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

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

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities as of the reporting date.
- Level 2 – Pricing inputs other than quoted prices included in Level 1 that are either directly observable or that can be derived or supported from observable data as of the reporting date.

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

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

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9. Fair Value Measurements (continued)

The following tables set forth by level, within the fair value hierarchy, the Indiana University Health System's financial assets and liabilities that were accounted for at fair value on a recurring basis as of March 31, 2023 and December 31, 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.

| | March 31, 2023 | | | | | | |
|--|--------------------|--------------------|------------------|-------------------|--------------------|--------------------|--------------------|
| | Level 1 | Level 2 | Level 3 | NAV | Fair Value | Equity Method | Carrying Value |
| Assets | | | | | | | |
| Cash and cash equivalents | \$ 297,026 | \$ - | \$ - | \$ - | \$ 297,026 | \$ - | \$ 297,026 |
| Short-term investments: | | | | | | | |
| Debt securities: | | | | | | | |
| Asset Backed | - | 1,705 | - | - | 1,705 | - | 1,705 |
| Corporate debt | - | 21,691 | - | - | 21,691 | - | 21,691 |
| Government and agencies | 2,447 | 487 | - | - | 2,934 | - | 2,934 |
| Assets limited as to use: | | | | | | | |
| Cash and cash equivalents | 136,780 | - | - | - | 136,780 | - | 136,780 |
| Short-term, liquid investments | 236,184 | - | - | - | 236,184 | - | 236,184 |
| Debt securities: | | | | | | | |
| Asset backed | - | 158,121 | - | - | 158,121 | - | 158,121 |
| Bank loans | - | 234,653 | 3,529 | - | 238,182 | - | 238,182 |
| Corporate debt | - | 643,295 | 386 | - | 643,681 | - | 643,681 |
| Government and agencies | 411,407 | 2,859 | - | - | 414,266 | - | 414,266 |
| Bond funds | - | - | - | 164,507 | 164,507 | - | 164,507 |
| Equity securities: | | | | | | | |
| Domestic equities | 1,630,424 | - | 2,714 | - | 1,633,138 | - | 1,633,138 |
| Domestic equity funds | 16,279 | - | - | - | 16,279 | - | 16,279 |
| International equities | 735,165 | - | - | - | 735,165 | - | 735,165 |
| International equity funds | - | - | - | 295,537 | 295,537 | - | 295,537 |
| Alternatives: | | | | | | | |
| Hedge funds | - | - | - | - | - | 1,121,934 | 1,121,934 |
| Private funds | - | - | - | - | - | 1,426,264 | 1,426,264 |
| Other | 3,432 | - | - | - | 3,432 | - | 3,432 |
| Other assets: | | | | | | | |
| Interest rate swaps | - | - | 80,133 | - | 80,133 | - | 80,133 |
| Beneficial interest in charitable remainder and perpetual trusts | - | 17,394 | - | - | 17,394 | - | 17,394 |
| Total assets | <u>\$3,469,144</u> | <u>\$1,080,205</u> | <u>\$ 86,762</u> | <u>\$ 460,044</u> | <u>\$5,096,155</u> | <u>\$2,548,198</u> | <u>\$7,644,353</u> |
| Liabilities | | | | | | | |
| Interest rate swaps | \$ - | \$ - | \$ 7,987 | \$ - | \$ 7,987 | \$ - | \$ 7,987 |
| Total liabilities | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 7,987</u> | <u>\$ -</u> | <u>\$ 7,987</u> | <u>\$ -</u> | <u>\$ 7,987</u> |

Indiana University Health, Inc. and subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
As of March 31, 2023 and December 31, 2022 and for the three months ended March 31, 2023 and 2022
(Thousands of Dollars)

9. 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 and cash equivalents | 98,461 | - | - | - | 98,461 | - | 98,461 |
| Short-term, liquid investments | 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 interest 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).

Indiana University Health, Inc. and subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
As of March 31, 2023 and December 31, 2022 and for the three months ended March 31, 2023 and 2022
(Thousands of Dollars)

9. Fair Value Measurements (continued)

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

The fair values of the interest rate swap contracts are determined based on the present value of expected future cash flows using discount rates appropriate with the risks involved. The valuations reflect a CVA (see Note 8) to the LIBOR discount curve in order to reflect the credit value adjustment for nonperformance risk. The Indiana University Health System credit spread adjustment for swaps in a liability position is derived from other comparably rated entities' bonds priced in the market. The credit spread adjustment for swaps in an asset position is derived from market values for bonds issued by institutions with comparable ratings to those of the relevant counterparty. Generally, swaps are transferred between Level 2 and Level 3 when the CVA exceeds 10% of the gross valuation of the swap. Transfers are recorded at the end of the reporting period. Due to the volatility of the capital markets, there is a reasonable possibility of changes in fair value and additional gains (losses) in the near term subsequent to March 31, 2023.

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

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

The following table is a rollforward of the amount included in the consolidated balance sheet for financial instruments classified within Level 3 of the valuation hierarchy defined above:

| | March 31 2023 | December 31 2022 |
|-----------------------------|------------------|---------------------|
| Fair value at January 1 | \$ 75,840 | \$ 32,839 |
| Transfers in | - | (7,612) |
| Unrealized gains | (3,960) | 63,088 |
| Other | 266 | (12,475) |
| Fair value at end of period | <u>\$ 72,146</u> | <u>\$ 75,840</u> |

Indiana University Health, Inc. and subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
As of March 31, 2023 and December 31, 2022 and for the three months ended March 31, 2023 and 2022
(Thousands of Dollars)

10. Commitments and Contingencies

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

11. Leases

Indiana University Health leases property and equipment under finance and operating leases. Indiana University Health determines whether an arrangement is a lease at inception. For leases with terms greater than 12 months, Indiana University Health records the related right-of-use (ROU) assets and lease liabilities at the present value of lease payments over the term. Leases may include rental escalation clauses and options to extend or terminate the lease that are factored into the determination of lease payments when appropriate. Indiana University Health does not separate lease and non-lease components of contracts. For the purposes of measuring the lease liabilities, Indiana University Health uses a risk-free rate from the U.S. Treasury Constant Maturities Nominal rate based on the period comparable with that of each lease term.

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

Finance leases are included in property and equipment, current portion of long-term debt, and long-term debt, less current portion on the consolidated balance sheet. Property and equipment under finance lease obligations are amortized on the straight-line method over the lease term or the estimated useful life of the equipment, whichever period is shorter. Such amortization is included with depreciation on the accompanying consolidated statements of operations and changes in net assets.

Indiana University Health has operating and finance leases for medical offices, administrative offices, and certain equipment. The leases generally have remaining lease terms of 1 year to 15 years, some of which may include options to extend.

Indiana University Health, Inc. and subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
As of March 31, 2023 and December 31, 2022 and for the three months ended March 31, 2023 and 2022
(Thousands of Dollars)

11. Leases (continued)

Other information related to leases was as follows:

| | Three months ended March 31 | |
|---|--------------------------------|-----------|
| | 2023 | 2022 |
| Supplemental cash flow information | | |
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating cash flows from operating leases | \$ 9,607 | \$ 12,049 |
| Operating cash flows from finance leases | 4 | 2 |
| Financing cash flows from finance leases | 188 | 146 |
| Right-of-use assets obtained in exchange for lease obligations: | | |
| Operating leases | \$ 5,133 | \$ 7,172 |
| Finance leases | - | 113 |
| Weighted average remaining lease term (in years) | | |
| Operating leases | 5.72 | 5.46 |
| Finance leases | 3.00 | 4.33 |
| Weighted average discount rate | | |
| Operating leases | 2.01% | 2.01% |
| Finance leases | 0.98% | 0.56% |

Future minimum lease payments under non-cancellable leases as of March 31, 2023 were as follows:

| | Operating | Finance |
|---|------------|----------|
| 2023 | \$ 26,305 | \$ 1,279 |
| 2024 | 29,634 | 1,699 |
| 2025 | 26,209 | 840 |
| 2026 | 22,644 | 499 |
| Thereafter | 43,650 | 494 |
| Total future minimum lease payments | 148,442 | 4,811 |
| Less imputed interest | 7,314 | 2,317 |
| Net present value of minimum lease payments | \$ 141,128 | \$ 2,494 |

Indiana University Health, Inc. and subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
As of March 31, 2023 and December 31, 2022 and for the three months ended March 31, 2023 and 2022
(Thousands of Dollars)

12. Functional Expenses

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

| | Health Services | Insurance Services | General and Administrative | Total |
|---|---------------------|-----------------------|-------------------------------|---------------------|
| Three months ended March 31, 2023: | | | | |
| Salaries, wages, and benefits | \$ 1,096,973 | \$ 7,268 | \$ 35,638 | \$ 1,139,879 |
| Supplies, drugs, purchased services, and other | 652,690 | 15,419 | 40,367 | 708,476 |
| Hospital assessment fee | 58,556 | - | - | 58,556 |
| Health claims to providers | - | 36,601 | - | 36,601 |
| Depreciation and amortization | 73,526 | - | 5,348 | 78,874 |
| Interest | 13,020 | - | - | 13,020 |
| | <u>\$ 1,894,765</u> | <u>\$ 59,288</u> | <u>\$ 81,353</u> | <u>\$ 2,035,406</u> |

| | Health Services | Insurance Services | General and Administrative | Total |
|---|---------------------|-----------------------|-------------------------------|---------------------|
| Three months ended March 31, 2022: | | | | |
| Salaries, wages, and benefits | \$ 1,109,871 | \$ 7,878 | \$ 26,529 | \$ 1,144,278 |
| Supplies, drugs, purchased services, and other | 582,597 | 12,647 | 39,456 | 634,700 |
| Hospital assessment fee | 60,103 | - | - | 60,103 |
| Health claims to providers | - | 28,654 | - | 28,654 |
| Depreciation and amortization | 72,772 | - | 2,562 | 75,334 |
| Interest | 12,135 | - | - | 12,135 |
| | <u>\$ 1,837,478</u> | <u>\$ 49,179</u> | <u>\$ 68,547</u> | <u>\$ 1,955,204</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.

Indiana University Health, Inc. and subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
As of March 31, 2023 and December 31, 2022 and for the three months ended March 31, 2023 and 2022
(Thousands of Dollars)

13. Health Care Legislation and Regulation

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure; accreditation; participation requirements; reimbursement for patient services; Medicare and Medicaid fraud and abuse; and security, privacy, and standards of health information. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and noncompliance with regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, significant repayments for patient services previously billed, and disruptions or delays in processing administrative transactions, including the adjudication of claims and payment.

In the opinion of management, there are no known regulatory inquiries that are expected to have a material adverse effect on the consolidated financial statements of the Indiana University Health System; however, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

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 have begun the process of conducting Medicaid redeterminations, which they 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 will be at risk of losing health insurance now that states have begun the process of Medicaid redeterminations. In fact, the State of Indiana estimates that approximately 375,000 Hoosiers could be disenrolled or downgraded to less comprehensive benefits as a result of redeterminations.

OTHER INFORMATION

As of March 31, 2023 and December 31, 2022 and for the three months ended
March 31, 2023 and 2022

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

| | March 31 | December 31 |
|---|-----------------|--------------------|
| | 2023 | 2022 |
| | (Unaudited) | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 296,356 | 362,743 |
| Short-term investments | 26,330 | 22,916 |
| Current portion of assets limited as to use | 276,077 | 77,682 |
| Patient accounts receivable | 575,523 | 565,421 |
| Other receivables | 156,754 | 240,512 |
| Prepaid expenses | 88,409 | 65,810 |
| Inventories | 100,380 | 99,776 |
| Total current assets | 1,519,829 | 1,434,860 |
| Assets limited as to use: | | |
| Board-designated investment funds and other investments | 5,156,764 | 5,119,055 |
| Board-designated investment funds - community health | 688,162 | 668,638 |
| Board-designated investment funds - innovation | 369,138 | 356,361 |
| Total assets limited as to use, less current portion | 6,214,064 | 6,144,054 |
| Property and equipment: | | |
| Cost of property and equipment in service | 4,460,754 | 4,435,065 |
| Less accumulated depreciation | (2,707,998) | (2,663,259) |
| | 1,752,756 | 1,771,806 |
| Construction-in-progress | 357,923 | 255,292 |
| Total property and equipment, net | 2,110,679 | 2,027,098 |
| Other assets: | | |
| Interest in unconsolidated subsidiaries | 391,243 | 387,213 |
| Interests in net assets of foundations | 11,602 | 11,602 |
| Right of use assets | 52,335 | 54,380 |
| Interest rate swaps | 80,133 | 86,200 |
| Goodwill, intangibles, and other assets | 181,787 | 187,113 |
| Total other assets | 717,100 | 726,508 |
| Total assets | \$ 10,561,672 | 10,332,520 |

Continued on next page.

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

| | March 31 | December 31 |
|--|-----------------|-------------|
| | 2023 | 2022 |
| Liabilities and net assets | (Unaudited) | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 2,011,823 | 1,944,133 |
| Accrued salaries, wages, and related liabilities | 198,468 | 234,735 |
| Accrued health claims | 44,448 | 49,046 |
| Estimated third-party payer allowances | 9,647 | 8,734 |
| Current portion of lease liabilities | 13,134 | 13,584 |
| Current portion of long-term debt | 57,838 | 58,216 |
| Total current liabilities | 2,335,358 | 2,308,448 |
| Noncurrent liabilities: | | |
| Long-term debt, less current portion | 1,727,689 | 1,682,235 |
| Interest rate swaps | 7,987 | 10,360 |
| Accrued medical malpractice claims | 2,279 | 2,241 |
| Lease liabilities, less current portion | 45,497 | 47,333 |
| Other | 14,574 | 15,622 |
| Total noncurrent liabilities | 1,798,026 | 1,757,791 |
| Total liabilities | 4,133,384 | 4,066,239 |
| Net assets: | | |
| Total without donor restrictions | 6,414,830 | 6,252,823 |
| With donor restrictions | 13,458 | 13,458 |
| Total net assets | 6,428,288 | 6,266,281 |
| Total liabilities and net assets | \$ 10,561,672 | 10,332,520 |

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

| | Three Months Ended March 31 | |
|--|-----------------------------|------------|
| | 2023 | 2022 |
| | (Unaudited) | |
| Revenues: | | |
| Patient service revenue | \$ 915,650 | \$ 876,375 |
| Member premium revenue | 72,549 | 64,701 |
| Other revenue | 215,266 | 173,670 |
| Total operating revenues | 1,203,465 | 1,114,746 |
| Expenses: | | |
| Salaries, wages, and benefits | 438,569 | 473,672 |
| Supplies, drugs, purchased services, and other | 515,507 | 468,496 |
| Hospital assessment fee | 26,663 | 28,601 |
| Health claims to providers | 48,348 | 21,999 |
| Depreciation and amortization | 45,094 | 42,656 |
| Interest | 12,924 | 12,044 |
| Total operating expenses | 1,087,105 | 1,047,468 |
| Operating income | 116,360 | 67,278 |
| Nonoperating income (loss): | | |
| Investment income (loss), net | 254,657 | (246,032) |
| Gains (losses) on interest rate swaps, net | 2,768 | (5,344) |
| Other | (1,647) | (1,583) |
| Total nonoperating income (loss) | 255,778 | (252,959) |
| Excess (deficit) excess of revenue over expenses | \$ 372,138 | (185,681) |

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

| | March 31 | December 31 |
|--|-----------------|--------------------|
| | 2023 | 2022 |
| | (Unaudited) | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 293,342 | 359,809 |
| Short-term investments | 26,330 | 22,916 |
| Current portion of assets limited as to use | 275,812 | 77,605 |
| Patient accounts receivable | 571,223 | 561,004 |
| Other receivables | 157,861 | 242,482 |
| Prepaid expenses | 88,276 | 65,692 |
| Inventories | 99,232 | 98,566 |
| Total current assets | 1,512,076 | 1,428,074 |
| Assets limited as to use: | | |
| investments | 5,150,673 | 5,113,041 |
| Board-designated investment funds - community health | 688,162 | 668,638 |
| Board-designated investment funds - innovation | 369,138 | 356,361 |
| Total assets limited as to use, less current portion | 6,207,973 | 6,138,040 |
| Property and equipment: | | |
| Cost of property and equipment in service | 4,442,256 | 4,416,528 |
| Less accumulated depreciation | (2,695,027) | (2,650,608) |
| | 1,747,229 | 1,765,920 |
| Construction-in-progress | 357,923 | 255,270 |
| Total property and equipment, net | 2,105,152 | 2,021,190 |
| Other assets: | | |
| Interest in unconsolidated subsidiaries | 391,441 | 387,411 |
| Right of use assets | 52,339 | 54,398 |
| Interest rate swaps | 80,133 | 86,200 |
| Goodwill, intangibles, and other assets | 183,299 | 189,612 |
| Total other assets | 707,212 | 717,621 |
| Total assets | \$ 10,532,413 | 10,304,925 |

Continued on next page

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

| | March 31 2023 | December 31 2022 |
|--|--------------------------|-----------------------------|
| (Unaudited) | | |
| Liabilities and net assets | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 2,051,862 | 1,985,298 |
| Accrued salaries, wages, and related liabilities | 197,427 | 233,709 |
| Accrued health claims | 44,448 | 49,046 |
| Estimated third-party payer allowances | 7,198 | 5,978 |
| Current portion of lease liabilities | 13,076 | 13,491 |
| Current portion of long-term debt | 57,838 | 58,216 |
| Total current liabilities | 2,371,849 | 2,345,738 |
| Noncurrent liabilities: | | |
| Long-term debt, less current portion | 1,727,558 | 1,682,095 |
| Interest rate swaps | 7,987 | 10,360 |
| Accrued medical malpractice claims | 2,256 | 2,218 |
| Lease liabilities, less current portion | 45,497 | 47,333 |
| Other | 14,534 | 15,583 |
| Total noncurrent liabilities | 1,797,832 | 1,757,589 |
| Total liabilities | 4,169,681 | 4,103,327 |
| Net assets: | | |
| Total without donor restrictions | 6,360,877 | 6,199,743 |
| With donor restrictions | 1,855 | 1,855 |
| Total net assets | 6,362,732 | 6,201,598 |
| Total liabilities and net assets | \$ 10,532,413 | 10,304,925 |

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

| | Three Months Ended March 31 | |
|--|-----------------------------|------------|
| | 2023 | 2022 |
| | (Unaudited) | |
| Revenues: | | |
| Patient service revenue | \$ 905,227 | \$ 865,521 |
| Member premium revenue | 72,549 | 64,701 |
| Other revenue | 217,432 | 175,559 |
| Total operating revenues | 1,195,208 | 1,105,781 |
| Expenses: | | |
| Salaries, wages, and benefits | 434,935 | 469,588 |
| Supplies, drugs, purchased services, and other | 511,612 | 464,351 |
| Hospital assessment fee | 26,241 | 28,180 |
| Health claims to providers | 48,533 | 22,317 |
| Depreciation and amortization | 44,674 | 42,182 |
| Interest | 12,924 | 12,044 |
| Total operating expenses | 1,078,919 | 1,038,662 |
| Operating income | 116,289 | 67,119 |
| Nonoperating income (loss): | | |
| Investment income (loss), net | 253,854 | (245,629) |
| Gains (losses) on interest rate swaps, net | 2,768 | (5,344) |
| Other | (1,646) | (1,584) |
| Total nonoperating income (loss) | 254,976 | (252,557) |
| Excess (deficit) of revenue over expenses | \$ 371,265 | (185,438) |

Indiana University Health, Inc. and subsidiaries
Statistical and Other Data
As of and for the Three Months Ended March 31, 2023 and 2022
(Except as noted below)

| Description | For the Three Months Ended March 31 | |
|---|--|---------|
| | 2023 | 2022 |
| Academic Health Center | | |
| Active Members | 994 | 883 |
| Residents | 1,056 | 642 |
| Other Members | 1,415 | 1,514 |
| Total Medical Staff | 3,465 | 3,039 |
| Consolidated Number of Available Beds | 2,684 | 2,703 |
| Employees | | |
| Consolidated FTE employees | 35,068 | 34,660 |
| Methodist Hospital/University Hospital/Riley Hospital/Saxony/Morgan FTE employees | 9,603 | 9,652 |
| Credit Group coverage of Debt Service (dollars in thousands, annualized) | | |
| Revenues over expenses (1) | 646,414 | 420,963 |
| Depreciation, amortization and interest | 232,071 | 218,800 |
| Available to pay debt service | 878,485 | 639,763 |
| Actual debt service | 120,414 | 112,429 |
| Historical debt service coverage ratio | 7.30 | 5.69 |
| Forecast maximum annual debt service (2) | 117,030 | 112,338 |
| Available to pay debt service | 878,485 | 639,763 |
| Forecast maximum annual debt service coverage ratio | 7.51 | 5.69 |

| Description | For the Three Months Ended March 31 | |
|--|--|---------|
| | 2023 | 2022 |
| Consolidated Utilization and Operating Statistics | | |
| Inpatient Days | 159,061 | 172,040 |
| Admissions | 27,706 | 27,512 |
| Occupancy Rate (based on available beds) | 65.85% | 70.72% |
| Average Length of Stay | 5.74 | 6.25 |
| Surgery Cases IP | 6,522 | 6,115 |
| Surgery Cases OP | 23,491 | 19,644 |
| Surgery Cases Total | 30,013 | 25,759 |
| Emergency Room Visits | 117,033 | 104,721 |
| Radiological Examinations | 402,655 | 372,957 |
| Gross Patient Service Revenue | | |
| Medicare and Other Government | 40.73% | 40.92% |
| Medicaid | 13.85% | 13.61% |
| HIP | 9.69% | 9.85% |
| Medicaid and HIP | 23.54% | 23.46% |
| Elevance Health, Inc. | 16.56% | 17.14% |
| Other | 17.13% | 16.37% |
| Commercial / Managed Care | 33.69% | 33.51% |
| Self Pay and Other | 2.04% | 2.11% |
| Total Gross Patient Service Revenue: | 100.00% | 100.00% |
| Medicare Case Mix Index, Academic Health Center (3) | 2.287 | 2.417 |

| Bed Complement: Available | March 31, 2023 | | March 31, 2022 | |
|---------------------------|------------------------|------------------------|------------------------|------------------------|
| | Academic Health Center | Other System Hospitals | Academic Health Center | Other System Hospitals |
| | Medical Surgical | 713 | 892 | 710 |
| ICU / CCU | 252 | 97 | 238 | 112 |
| OB / Labor Delivery | 65 | 141 | 68 | 147 |
| Pediatrics | 160 | 33 | 201 | 37 |
| Psychiatric | 28 | - | 24 | 25 |
| High-Risk Nursery | 105 | 90 | 81 | 90 |
| Rehab and other | 1 | 107 | - | 107 |
| Total Bed Complement | 1,324 | 1,360 | 1,322 | 1,381 |

(1) Adjusted for certain gains (losses) as defined in the IU Health Obligated Group Master Trust Indenture.

(2) Calculated in accordance with the definition of "Maximum Annual Debt Service" as defined in the IU Health Obligated Group Master Trust Indenture, but assumes an interest rate of 3.50% (which rate is inclusive of remarketing and credit facility costs) for all variable-rate debt.

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