

FINANCIAL STATEMENTS

Indiana University Health Foundation, Inc.
Years Ended December 31, 2020 and 2019
With Report of Independent Auditors

Ernst & Young LLP



Indiana University Health Foundation, Inc.

Financial Statements

Years Ended December 31, 2020 and 2019

Contents

Report of Independent Auditors 1

Financial Statements

Statements of Financial Position..... 3

Statements of Activities and Functional Expenses 4

Statements of Cash Flows 6

Notes to Financial Statements 7



Ernst & Young LLP
Suite 4000
111 Monument Circle
Indianapolis, IN 46204

Tel: +1 317 681 7000
Fax: +1 317 681 7216
ey.com

Report of Independent Auditors

The Board of Directors
Indiana University Health Foundation, Inc.

We have audited the accompanying financial statements of Indiana University Health Foundation, Inc., which comprise the statements of financial position as of December 31, 2020 and 2019, and the related statements of activities and functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Opinion

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

Ernst + Young LLP

April 2, 2021

Indiana University Health Foundation, Inc.

Statements of Financial Position

	December 31	
	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 13,942,002	\$ 11,033,533
Current portion of assets limited as to use	5,059,702	2,565,561
Accounts receivable and other	394,626	641,629
Contributions receivable, net	1,303,694	1,698,661
IU Health Ball Memorial Hospital Foundation, Inc. merger contribution receivable from IU Health, Inc.	10,000,000	—
Total current assets	<u>30,700,024</u>	15,939,384
Assets limited as to use	224,515,294	127,346,005
Other assets:		
Beneficial interest in perpetual trusts	10,633,913	9,858,779
Beneficial interest in charitable remainder trusts	5,513,818	6,174,282
Contributions receivable, net	6,460,451	4,901,333
Other	3,081,324	177,132
Total other assets	<u>25,689,506</u>	21,111,526
Total assets	<u>\$ 280,904,824</u>	<u>\$ 164,396,915</u>
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 5,747,834	\$ 5,949,030
Funds held for others	430,000	335,000
Due on split interest agreements	251,816	238,847
Total current liabilities	<u>6,429,650</u>	6,522,877
Noncurrent liabilities:		
Due on split interest agreements	2,893,135	2,634,078
Funds held for others	480,000	760,000
Total noncurrent liabilities	<u>3,373,135</u>	3,394,078
Total liabilities	9,802,785	9,916,955
Net assets:		
Without donor restrictions	161,957,212	74,792,829
With donor restrictions	109,144,827	79,687,131
Total net assets	<u>271,102,039</u>	154,479,960
Total liabilities and net assets	<u>\$ 280,904,824</u>	<u>\$ 164,396,915</u>

See accompanying notes.

Indiana University Health Foundation, Inc.

Statements of Activities and Functional Expenses

Year Ended December 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and other support:			
Contributions and grants	\$ 801,383	\$ 7,436,853	\$ 8,238,236
In-kind revenues	8,322,403	514,055	8,836,458
Professional fees income	2,351,261	-	2,351,261
Other	285,278	-	285,278
Net assets released from restriction	5,418,955	(5,418,955)	-
Total revenue and other support	17,179,280	2,531,953	19,711,233
Expenses			
Program services			
Program support	14,230,813	-	14,230,813
Administrative support	2,108,276	-	2,108,276
Total program services	16,339,089	-	16,339,089
Management and general:			
Salaries and benefits	1,166,813	-	1,166,813
Other operating and facility	1,080,015	-	1,080,015
Total management and general	2,246,828	-	2,246,828
Fundraising:			
Fundraising salaries and benefits	2,923,478	-	2,923,478
Special events	325,736	-	325,736
Other fundraising	608,483	-	608,483
Total fundraising	3,857,697	-	3,857,697
Total expenses	22,443,614	-	22,443,614
Excess of (expenses over revenue and other support) or revenue and other support over expenses	(5,264,334)	2,531,953	(2,732,381)
Other gains (losses):			
Investment income, net	19,370,637	5,266,244	24,636,881
Change in value of beneficial interest and split interest agreements	(142,741)	921,200	778,459
Loss on provision of uncollectible accounts	(57,782)	(45,197)	(102,979)
Other	27,012	361,465	388,477
Total other gains, net	19,197,126	6,503,712	25,700,838
Other changes in net assets:			
IU Health Ball Memorial Hospital Foundation, Inc. Merger	57,823,091	20,422,031	78,245,122
Transfer from IU Health, Inc.	15,408,500	-	15,408,500
	73,231,591	20,422,031	93,653,622
Increase in net assets	87,164,383	29,457,696	116,622,079
Net assets at beginning of year	74,792,829	79,687,131	154,479,960
Net assets at end of year	<u>\$ 161,957,212</u>	<u>\$ 109,144,827</u>	<u>\$ 271,102,039</u>

See accompanying notes.

Indiana University Health Foundation, Inc.

Statements of Activities and Functional Expenses

Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and other support:			
Contributions and grants	\$ 981,170	\$ 5,656,179	\$ 6,637,349
In-kind revenues	8,722,194	13,039	8,735,233
Professional fees income	1,961,131	-	1,961,131
Registration fees and dues income	15,219	-	15,219
Event income	694,215	-	694,215
Clinical research support	247,011	-	247,011
Other	346,779	-	346,779
Net assets released from restriction	4,111,590	(4,111,590)	-
Total revenue and other support	17,079,309	1,557,628	18,636,937
Expenses			
Program services:			
Program support	11,050,221	-	11,050,221
Administrative support	1,487,439	-	1,487,439
Total program services	12,537,660	-	12,537,660
Management and general:			
Salaries and benefits	1,067,304	-	1,067,304
Other operating and facility	885,047	-	885,047
Total management and general	1,952,351	-	1,952,351
Fundraising:			
Fundraising salaries and benefits	2,788,423	-	2,788,423
Special events	1,618,631	-	1,618,631
Other fundraising	992,203	-	992,203
Total fundraising	5,399,257	-	5,399,257
Total expenses	19,889,268	-	19,889,268
Excess of (expenses over revenue and other support) or revenue and other support over expenses	(2,809,959)	1,557,628	(1,252,331)
Other gains (losses):			
Investment income, net	11,975,430	1,984,145	13,959,575
Change in value of split interest agreements	13,921	2,567,711	2,581,632
Loss on uncollectible contributions	(17,677)	(2,029)	(19,706)
Other	(61,779)	62,762	983
Total other gains, net	11,909,895	4,612,589	16,522,484
Transfer to IU Health, Inc.	(1,712,102)	-	(1,712,102)
Increase in net assets	7,387,834	6,170,217	13,558,051
Net assets at beginning of year	67,404,995	73,516,914	140,921,909
Net assets at end of year	\$ 74,792,829	\$ 79,687,131	\$ 154,479,960

See accompanying notes.

Indiana University Health Foundation, Inc.

Statements of Cash Flows

	Year Ended December 31	
	2020	2019
Operating activities		
Change in net assets	\$ 116,622,079	\$ 13,558,051
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Assets limited as to use	(29,045,944)	(31,252,639)
Change in value of beneficial interest and split interest agreements	(1,040,455)	(2,740,390)
Contributions to beneficial interests	(518,450)	—
Liquidations of beneficial interests	1,503,697	—
Loss on provision for uncollectible contributions	102,979	19,706
Contributions and investment return with donor restriction	(5,896,083)	—
Transfers from IU Health, Inc.	(5,408,500)	—
Excess of assets acquired over liabilities assumed in merger with IU Health Ball Memorial Hospital Foundation, Inc.	(78,245,122)	—
Changes in operating assets and liabilities:		
Contributions receivable, net	(1,264,616)	(2,530,112)
IU Health Ball Memorial Hospital Foundation, Inc. merger contribution from IU Health, Inc.	(10,000,000)	—
Accounts receivable and other	370,455	166,819
Other assets	(517,215)	929,132
Due on split interest agreements	261,996	158,758
Funds held for others	(185,000)	1,095,000
Accounts payable and accrued expenses	(201,475)	3,680,038
Net cash used in operating activities	<u>(13,461,654)</u>	<u>(16,915,637)</u>
Investing activities		
Cash and cash equivalents acquired in merger	5,065,540	—
Net cash provided by investing activities	<u>5,065,540</u>	—
Financing activities		
Contributions and investment return with donor restriction	5,896,083	—
Transfer from IU Health, Inc.	5,408,500	—
Net cash provided by financing activities	<u>11,304,583</u>	—
Net change in cash and cash equivalents	2,908,469	(16,915,637)
Cash and cash equivalents at beginning of year	11,033,533	27,949,170
Cash and cash equivalents at end of year	<u>\$ 13,942,002</u>	<u>\$ 11,033,533</u>

See accompanying notes.

Indiana University Health Foundation, Inc.

Notes to Financial Statements

December 31, 2020 and 2019

1. Organization and Summary of Significant Accounting Policies

Description of Organization

Indiana University Health Foundation, Inc. (the Foundation), a not-for-profit corporation, is an educational and charitable corporation which aids and supports Indiana University Health, Inc. (IU Health) and all hospitals within the State of Indiana that are operated, supervised, or controlled directly by or in connection with IU Health. IU Health is the sole member of the Foundation and approves the appointment of all members of the Foundation's Board of Directors (Board).

On August 1, 2020, Indiana University Health Ball Memorial Hospital Foundation, Inc. (BMHF) was merged into the Foundation. See Note 2 for additional information regarding the BMHF merger.

Nature of Operations

The Foundation operates to harness the positive impact of philanthropy in support of the IU Health vision to make Indiana one of the nation's healthiest states. The Foundation's activities and policies support this vision by championing IU Health as a health care change agent, ensuring gifts are managed and stewarded in support of the IU Health vision, and by serving as a catalyst for fundraising.

Use of Estimates

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

Cash and Cash Equivalents

Investments in highly liquid instruments with an original maturity of three months or less when purchased, excluding assets limited as to use, are considered by management to be cash and cash equivalents. Investments include money market funds, including treasury and agency money market funds that are considered by management to be cash equivalents. Such instruments, as well as bank deposits, are potentially subject to concentrations of credit risk. In order to mitigate such risk, cash and cash equivalent instruments are invested in high-credit-quality instruments.

Indiana University Health Foundation, Inc.

Notes to Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Contributions and Pledges Receivable

Gifts of cash and other assets received without donor stipulations are reported as revenue and other support without donor restriction in the statements of activities and functional expenses. Unconditional promises to give cash and other assets are reported at fair value at the date the promise is made. Contributions receivable are discounted based on the nature of the individual pledge using a discount rate commensurate with the risks involved. Amortization of the discount is included as a reduction to contributions and grants within the statements of activities and functional expenses. Conditional promises to give are reported at fair value at the date the gift is made and the conditions are satisfied.

Promises to give with donor restrictions that limit the use of the donated assets are reported as net assets with donor restrictions until the donor restriction expires. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, donor restricted net assets are reclassified to net assets without donor restriction in the statements of activities and functional expenses as net assets released from restrictions. If a restriction is fulfilled in the same time period in which the contribution is received, the contribution is reported as revenue and other support with donor restriction and released from restriction.

Allowance for Uncollectible Contributions

An allowance for uncollectible contributions is recorded based upon the Foundation's historical losses, specific circumstances, and economic conditions.

Assets Limited as to Use

Investments, including those held both in and outside of the IU Health Pool, consist of cash and short-term liquid investments, debt securities (including asset-backed securities, bank loans, corporate debt, government and agencies, and bond funds) and domestic and international equity securities, which can be in the form of individual securities or funds, as well as commodities, hedge funds, and private funds. Investments in equity and debt securities and commodities are measured at fair value based on Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurement*. The value of alternatives is recorded on an equity method basis and reflect the net contribution to the alternative investment and an allocated share of the realized and unrealized investment income and expenses. The values provided by the

Indiana University Health Foundation, Inc.

Notes to Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

respective partnerships are based on historical cost, appraisals, third-party pricing sources, and other estimates that require varying degrees of judgments. Management has utilized the best available information for reported alternative investment values, which in some instances are valuations as of an interim date.

A majority of the Foundation's investments are in a pooled structure (the IU Health Pool) with IU Health's assets, where the Foundation's share in the IU Health Pool is reported as assets limited as to use in the statements of financial position.

Gains and losses on investments are allocated to the Foundation based on its investment balance relative to the total investment balance of the IU Health Pool. Investment income, net includes realized and unrealized gains and losses on investments, dividends, and interest, and are included in other gains (losses), net in the statements of activities and functional expenses.

The remainder of the Foundation's investments are held outside of the IU Health Pool and include the following: (i) cash and cash equivalents and designated investment assets, over which the Board and East Central Region Philanthropy Committee (ECR Committee) retain joint control and may use for other philanthropic purposes; (ii) current portion of assets limited as to use includes funds held by a trustee; and (iii) donor-restricted investment assets, the use of which has been specified by the donor. All assets limited as to use are invested and managed by professional investment managers and are held in custody by financial institutions. These funds are classified as trading securities. Accordingly, changes in unrealized gains and losses in the fair value of investments are included within investment income, net on the accompanying statements of activities and functional expenses.

The IU Health Pool and other investments are structured in a manner that endeavors to take a prudent amount of investment risk in its pursuit of the return objectives. Short-term volatility and uncertainty of investment results are recognized as real risks that are managed through diversification and specific asset allocation strategies. The Foundation, through IU Health Pool and other investments, invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements.

Indiana University Health Foundation, Inc.

Notes to Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Net Assets

Net assets without donor restrictions do not contain either a time or purpose restriction; though, in certain cases, they may be internally designated by the Board in support of various programs.

Net assets with donor restrictions include those whose use by the Foundation has been restricted by the donor for future time periods or specific purposes and net assets restricted by donors to be maintained in perpetuity.

Expense Classification and Allocation

Expenses have been classified as program services, management and general, and fundraising in the statements of activities and functional expenses based on the nature of the actual direct expenditures and cost allocations. Certain expenses are allocated to the Foundation by IU Health, including salaries and benefits expense. These expenses are allocated on a reasonable basis that is consistently applied. Salaries and benefits are allocated based on the duties performed by each employee supporting the Foundation.

Tax Status

The Internal Revenue Service (IRS) has determined that the Foundation is a tax-exempt organization as defined in Section 501(c)(3) of the Internal Revenue Code (IRC). Income taxes from unrelated business activities of the organization are not significant to the accompanying financial statements.

Subsequent Events

For the financial statements as of and for the years ended December 31, 2020, management has evaluated subsequent events through April 2, 2021, the date that these financial statements were issued.

Indiana University Health Foundation, Inc.

Notes to Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncement Adopted

Effective January 1, 2020, the Foundation adopted Accounting Standards Update (ASU) No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Requirements for Fair Value Measurements*. This ASU removes and modifies certain disclosure requirements on fair value measurements to improve the effectiveness and clarify the information required in the disclosures. The Foundation adopted this guidance on a modified prospective basis, which resulted in no material changes to the presentation of the financial statements.

2. Significant Events and Transactions

COVID-19

The global viral outbreak caused by coronavirus disease 2019 (COVID-19) has resulted in a national public health emergency during 2020, which also resulted in stock market exchange volatility, various temporary or permanent business closures, event cancellations, supply disruptions, and disruptions to the provision of care by healthcare providers. While the Foundation has taken appropriate actions to respond to the COVID-19 pandemic, due to the continued and evolving nature of the COVID-19 pandemic, the ultimate impact to the Foundation is unknown.

Merger

On August 1, 2020, BMHF merged into the Foundation. The purpose of the merger was to leverage IU Health system-wide resources for greater local impact, enhance efficiencies, increase fundraising efforts and ultimately provide additional support for Indiana University Health Ball Memorial Hospital, Inc. (BMH). As part of the BMHF merger, the ECR Committee was established. The ECR Committee shall advise the Foundation on distributions from the funds transferred and subsequently contributed for the purposes to support BMH and all other hospitals within the surrounding area.

Upon execution of the merger, the assets and liabilities of BMHF became the assets and liabilities of the Foundation, the surviving legal entity. The Foundation recorded the assets acquired and the liabilities assumed on the statement of activities and functional expenses as merger of IU Health Ball Memorial Hospital Foundation, Inc. Additionally, upon execution of the merger, IU Health agreed to contribute \$10,000,000 to the Foundation for expenditures and grants to BMH. The

Indiana University Health Foundation, Inc.

Notes to Financial Statements (continued)

2. Significant Events and Transactions (continued)

amounts pledged by IU Health are recorded as IU Health Ball Memorial Hospital Foundation, Inc. merger contribution receivable from IU Health, Inc. in the statement of financial position as of December 31, 2020, and transfers from IU Health, Inc. in the statement of activities and functional expenses for the year ended December 31, 2020. The value of assets acquired and liabilities assumed as of the merger date, August 1, 2020 were as follows:

Assets

Current assets:

Cash and cash equivalents	\$ 5,065,540
Current portion of assets limited as to use	4,911,253
Accounts receivable and other	123,452
Contributions receivable, net	<u>2,514</u>
Total current assets	10,102,759
Assets limited as to use	65,706,233

Other assets:

Beneficial interest in perpetual trusts	59,462
Other	<u>2,386,977</u>
Total other assets	2,446,439
Total assets	<u>\$ 78,255,431</u>

Liabilities and net assets

Current liabilities:

Accounts payable and accrued expenses	\$ 279
Due on split interest agreements	<u>10,030</u>
Total current liabilities	10,309

Net assets:

Without donor restriction	57,823,091
With donor restriction	<u>20,422,031</u>
Total net assets	78,245,122
Total liabilities and net assets	<u>\$ 78,255,431</u>

Indiana University Health Foundation, Inc.

Notes to Financial Statements (continued)

3. Assets Limited as to Use

The following is a summary of assets limited as to use as of:

	December 31	
	2020	2019
IU Health Pool	\$ 150,247,666	\$ 129,911,566
Other investments	79,327,330	—
	<u>\$ 229,574,996</u>	<u>\$ 129,911,566</u>

Indiana University Health Foundation, Inc.

Notes to Financial Statements (continued)

3. Assets Limited as to Use (continued)

A majority of the Foundation's investments are in the IU Health Pool. The carrying value of the assets held by the Foundation is an allocation of the underlying market value of the assets in the IU Health Pool based on its relative ownership percentage, which was 2.18% and 2.11% at December 31, 2020 and 2019, respectively. The Foundation's relative share of the IU Health Pool consisted of the following:

	December 31	
	2020	2019
Cash	\$ 1,299,274	\$ 660,227
Debt securities:		
Asset backed	2,766,879	1,727,589
Bank loans	6,421,286	7,423,599
Corporate debt	14,823,372	4,635,474
Government and agencies	9,607,380	6,922,905
Bond funds	3,879,807	9,331,720
Total debt securities	<u>37,498,724</u>	30,041,287
Equity securities:		
Domestic equities	41,003,005	1,208,570
Domestic equity funds	-	26,488,766
International equities	17,583,203	1,620,385
International equity funds	9,095,936	18,907,034
Total equity securities	<u>67,682,144</u>	48,224,755
Commodities	-	4,712,740
Alternatives:		
Hedge funds	26,262,302	32,943,169
Private funds	17,498,334	13,329,388
Other	6,888	-
Total alternatives	<u>43,767,524</u>	46,272,557
Total share of IU Health Pool	<u>150,247,666</u>	129,911,566
Less current portion	<u>(1,124,350)</u>	(2,565,561)
Share of IU Health Pool less current portion	<u>\$ 149,123,316</u>	<u>\$ 127,346,005</u>

Indiana University Health Foundation, Inc.

Notes to Financial Statements (continued)

3. Assets Limited as to Use (continued)

The remainder of the Foundation's investments are held by financial institutions outside of the IU Health Pool.

Board-designated and donor-restricted investment funds are invested in accordance with Board and ECR Committee 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 statements of financial position approximate fair value; (ii) marketable securities: the fair values are based on quoted market prices or, if quoted market prices are not available, quoted market prices of comparable instruments and other observable inputs; and (iii) other investments, including alternative investments: accounted for using the equity method of accounting, and fair values are based upon the net asset values that are generally determined by third-party valuation firms and/or administrators of each fund in consultation with and approval of the fund investment managers.

The Foundation is a limited partner in a fund that employs hedged investment strategies which are utilized to increase portfolio diversification.

Redemption requests are generally permitted semi-annually, with written notice 95 days; however, the number of units that are redeemed during each redemption, and there is a risk that the Foundation's full redemption request may not be honored based upon the total number of units the fund repurchases. Upon complete redemption, the fund has a "hold-back" provision that allows the fund to retain up to 5% of the assets for 120 days after the redemption date.

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 Foundation, in consultation with its investment consultants, has the capacity to analyze and interpret the risks associated with alternative investments and, with this understanding, has determined that these investments represent a prudent approach for use in its portfolio management.

Indiana University Health Foundation, Inc.

Notes to Financial Statements (continued)

3. Assets Limited as to Use (continued)

The composition of assets limited as to use outside of the IU Health Pool is set forth below:

	December 31, 2020
	<hr/>
Short-term, liquid investments	\$ 3,230,033
Debt securities:	
Asset backed	10,298,580
Corporate debt	10,578,977
Government and agencies	2,597,548
Total debt securities	<hr/> 23,475,105
Equity securities:	
Domestic equities	29,034,816
International equities	10,089,712
Total equity securities	<hr/> 39,124,528
Alternatives:	
Hedge funds	13,497,664
Total assets limited as to use	<hr/> 79,327,330
Less current portion	<hr/> (3,935,352)
Total assets limited as to use, less current portion	<hr/> <hr/> \$ 75,391,978

The composition of investment income, recorded in the statements of activities and functional expenses is as follows:

	Year Ended December 31	
	2020	2019
	<hr/>	<hr/>
Dividends and interest	\$ 2,764,575	\$ 2,652,204
Net realized gains on investments	12,471,966	1,420,013
Net change in unrealized gains on investments	9,400,340	9,887,358
Total investment income, net	<hr/> <hr/> \$ 24,636,881	<hr/> <hr/> \$ 13,959,575

Indiana University Health Foundation, Inc.

Notes to Financial Statements (continued)

4. Financial Assets and Liquidity Reserves

The table below represents financial assets available for general expenditures within one year as of December 31, 2020 and 2019. The Foundation defines general expenditures as the normal expenditures related to disbursement of funds to supported organizations.

	December 31	
	2020	2019
Financial assets:		
Cash and cash equivalents	\$ 13,942,002	\$ 11,033,533
Accounts receivable and other	394,626	641,629
Contributions receivable, net	7,764,145	6,599,994
BMHF merger contribution from IU Health, Inc.	10,000,000	–
Assets limited as to use	229,574,996	129,911,566
Beneficial interest in perpetual trusts	10,633,913	9,858,779
Beneficial interest in charitable remainder trusts	5,513,818	6,174,282
Total financial assets	<u>277,823,500</u>	<u>164,219,783</u>
Less amounts not available within one year or not designated for general expenditures:		
Noncurrent portion of contributions receivable, net	(6,460,451)	(4,901,333)
Donor restricted endowment corpus and accumulated earnings	(60,518,655)	(40,175,247)
Board restricted endowment corpus and accumulated earnings	(819,501)	–
Board-designated expendable for specific purpose	(106,023,932)	(39,958,818)
Beneficial interests in perpetual trusts	(10,633,913)	(9,858,779)
Beneficial interests in charitable remainder trusts	(5,513,818)	(6,174,282)
Beneficial interests in assets held by others	(2,902,556)	(62,885)
Campaign funds	(3,204,876)	(3,371,937)
Financial assets not available for use within one year	<u>(196,077,702)</u>	<u>(104,503,281)</u>
Financial assets and liquidity resources available for general expenditures within one year	<u>\$ 81,745,798</u>	<u>\$ 59,716,502</u>

Indiana University Health Foundation, Inc.

Notes to Financial Statements (continued)

5. Contributions Receivable

Outstanding contributions receivable consist of the following:

	December 31	
	2020	2019
Amounts due in:		
Less than one year	\$ 1,324,142	\$ 1,762,215
One to five years	1,422,037	1,156,778
Six years or more	5,680,000	5,630,000
	8,426,179	8,548,993
Allowance for uncollectible contributions	(38,655)	(60,738)
Unamortized present value discount	(623,379)	(1,888,261)
Contributions receivable, net	7,764,145	6,599,994
Less current portion, net of allowance for uncollectible contributions	(1,303,694)	(1,698,661)
Contributions receivable, net	\$ 6,460,451	\$ 4,901,333

Contributions receivable were discounted using a discount rate of 0.6% and 2.0% for 2020 and 2019, respectively.

6. Beneficial Interest in Trusts

The Foundation is the beneficiary under charitable remainder trusts administered by the Foundation and outside parties. Under a charitable remainder trust, the donors have specified income beneficiaries to receive distributions of investment returns annually until death. Upon the death of the income beneficiaries, the remaining assets in the trusts will be distributed to the Foundation. Based on the income beneficiaries' life expectancies and discount rates of 0.6% and 2.0% at December 31, 2020 and 2019, respectively, the present value of the future benefits expected to be received by the Foundation is estimated to be \$5,513,818 and \$6,174,282 at December 31, 2020 and 2019, respectively.

The Foundation is also the beneficiary under perpetual trusts administered by outside parties. Under the terms of the trusts, the Foundation has the irrevocable right to receive amounts ranging from 10% to 100% of income earned on the trusts' assets in perpetuity, but the Foundation will never receive the assets held in trust. The fair value of these trusts is \$10,633,913 and \$9,858,779

Indiana University Health Foundation, Inc.

Notes to Financial Statements (continued)

6. Beneficial Interest in Trusts (continued)

at December 31, 2020 and 2019, respectively, which represents between 10% and 100% of the fair value of each trust's assets at year-end, depending on the percentage of trust earnings allocated to the Foundation.

The change in the Foundation's beneficial interests in perpetual and charitable remainder trusts is \$114,670 and \$2,740,390 for the years ended December 31, 2020 and 2019, respectively, and is reflected in the statements of activities and functional expenses as follows:

	Year Ended December 31	
	2020	2019
Change in value of split interest agreements	\$ 1,040,455	\$ 2,740,390
Contributions and grants	518,450	—
Net assets released from restriction	(1,503,697)	—
BMHF merger	59,462	—
	<u>\$ 114,670</u>	<u>\$ 2,740,390</u>

Net assets released from restriction represent the liquidation of charitable remainder trusts previously recorded as net assets with donor restriction, restricted by time.

7. Due on Split Interest Agreements

The Foundation is the recipient and, in some circumstances, administrator of several gift annuities and charitable remainder trusts, which require future payments to the donors or their named beneficiaries. The Foundation has recorded current and noncurrent liabilities which represent the present value of the future obligations as due on split-interest agreements in the statements of financial position. The liabilities are determined using discount rates 0.6% and a range from 1.6% to 5.5% for the years ended December 31, 2020 and 2019, respectively. The change in value of the Foundation's amount due on split-interest agreements for the years ended December 31, 2020 and 2019 is \$272,026 and \$158,758, respectively, and is reflected in the statements of activities and functional expenses as follows:

	Year Ended December 31	
	2020	2019
Change in value of split interest agreements	\$ (261,996)	\$ (158,758)
BMHF merger	(10,030)	—
	<u>\$ (272,026)</u>	<u>\$ (158,758)</u>

Indiana University Health Foundation, Inc.

Notes to Financial Statements (continued)

8. Fair Value of Financial Instruments

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 within 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 Foundation 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.

In instances where the determination of fair value measurement is based on inputs from different levels of the fair value hierarchy, 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 Foundation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

Indiana University Health Foundation, Inc.

Notes to Financial Statements (continued)

8. Fair Value of Financial Instruments (continued)

In order to meet the requirements of ASC 820, the Foundation utilizes three basic valuation approaches to determine the fair value of its assets and liabilities required to be recorded at fair value. The first approach is the cost approach. The cost approach is generally the value a market participant would expect to replace the respective asset or liability. The second approach is the market approach. The market approach looks at what a market participant would consider an exact or similar asset or liability to that of the Foundation, including those traded on exchanges, to determine value. The third approach is the income approach. The income approach uses estimation techniques to determine the estimated future cash flows of the Foundation's respective asset or liability expected by a market participant and discounts those cash flows back to present value (typically referred to as a discounted cash flow approach).

Based on the Foundation's method of accounting for its share of the IU Health Pool and allocation of cash and cash equivalents from corporate master account, fair value measurements disclosure under ASC 820 is not required within the notes to the financial statements. The Foundation believes the carrying amount of the IU Health Pool and cash and cash equivalents approximates fair value based on the nature of the underlying assets.

The following tables set forth by level, within the fair value hierarchy, the Foundation's financial assets that were accounted for at fair value as of December 31, 2020. The financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement requires judgment, could be subject to change or variation, and may affect the valuation of fair value assets and their classification within the fair value hierarchy levels.

Indiana University Health Foundation, Inc.

Notes to Financial Statements (continued)

8. Fair Value of Financial Instruments (continued)

	December 31, 2020				
	Level 1	Level 2	Fair Value	Equity Method	Carrying Value
Assets					
Assets limited as to use:					
Short-term, liquid investments	\$ 3,230,033	\$ -	\$ 3,230,033	\$ -	\$ 3,230,033
Debt securities:					
Asset backed	-	10,298,580	10,298,580	-	10,298,580
Corporate debt	-	10,578,977	10,578,977	-	10,578,977
Government and agencies	2,597,548	-	2,597,548	-	2,597,548
Equity securities:					
Domestic equities	29,034,816	-	29,034,816	-	29,034,816
International equities	10,089,712	-	10,089,712	-	10,089,712
Alternatives:					
Hedge funds	-	-	-	13,497,664	13,497,664
Contributions receivable, net	-	7,764,145	7,764,145	-	7,764,145
Beneficial interests in perpetual trusts	-	10,633,913	10,633,913	-	10,633,913
Beneficial interests in charitable remainder trusts	-	5,513,818	5,513,818	-	5,513,818
Total cash and investments	\$ 44,952,109	\$ 44,789,433	\$ 89,741,542	\$ 13,497,664	\$ 103,239,206
December 31, 2019					
	Level 1	Level 2	Fair Value	Equity Method	Carrying Value
Assets					
Contributions receivable, net	\$ -	\$ 6,599,994	\$ 6,599,994	\$ -	\$ 6,599,994
Beneficial interests in perpetual trusts	-	9,858,779	9,858,779	-	9,858,779
Beneficial interests in charitable remainder trusts	-	6,174,282	6,174,282	-	6,174,282
Total cash and investments	\$ -	\$ 22,633,055	\$ 22,633,055	\$ -	\$ 22,633,055

The fair value of the Foundation's contributions receivable is based on discounted cash flow analysis and adjusted for consideration of the donors' credit and other factors as of the date of the original pledge. Management believes these are Level 2 fair value measurements recorded on a recurring basis. The Foundation measures the contributions receivable at fair value at December 31st based on market rates.

Indiana University Health Foundation, Inc.

Notes to Financial Statements (continued)

8. Fair Value of Financial Instruments (continued)

The Foundation is an income beneficiary of charitable remainder trusts and perpetual trusts. The Foundation has recorded the fair value of the ownership interest of these trusts based on its pro rata share of the underlying assets or income. Based on the observable inputs, typically marketable debt or equity securities held in the irrevocable trust funds, the Foundation has determined its beneficial interests in outside trusts are within Level 2 of the fair value hierarchy.

9. Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following:

	December 31	
	2020	2019
Restricted by time:		
Beneficial interests in charitable remainder trusts	\$ 2,276,362	\$ 3,574,553
Beneficial interests in assets held by others	426,028	–
Restricted by purpose:		
Program services	13,337,298	10,126,208
Education and research	3,585,331	3,105,615
Capital projects	4,170,462	3,113,903
Financial assistance and other	3,469,632	2,740,863
Endowment earnings available for spending (<i>Note 10</i>)	7,763,777	6,929,078
Accumulated endowment earnings (<i>Note 10</i>)	11,573,134	6,277,382
Restricted in perpetuity:		
Endowment funds (<i>Note 10</i>)	48,945,521	33,897,865
Beneficial interests in charitable remainder trusts	518,449	–
Beneficial interests in perpetual trusts	10,633,913	9,858,779
Beneficial interests in assets held by others	2,444,920	62,885
	<u>\$ 109,144,827</u>	<u>\$ 79,687,131</u>

10. Endowment Funds

The Foundation's endowment consists of endowment funds with donor restrictions for various purposes associated with the benefit of IU Health. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Indiana University Health Foundation, Inc.

Notes to Financial Statements (continued)

10. Endowment Funds (continued)

Interpretation of Relevant Law

The Board of the Foundation has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions (i) the original value of gifts donated to the permanent endowment, (ii) the original value of subsequent gifts to the permanent endowment, and (iii) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment is also classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA.

In accordance with SPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (i) The duration and preservation of the fund
- (ii) The purposes of the organization and the donor-restricted endowment fund
- (iii) General economic conditions
- (iv) The possible effects of inflation and deflation
- (v) The expected total return from income and the appreciation of investments
- (vi) Other resources of the organization
- (vii) The investment policies of the organization

Indiana University Health Foundation, Inc.

Notes to Financial Statements (continued)

10. Endowment Funds (continued)

Investment Objectives and Policy

The Foundation's investment and spending policies for endowment assets attempt to preserve capital, maximize the return within reasonable and prudent levels of risk, and provide a return to the donor-restricted funds which the Foundation must hold in perpetuity. To satisfy long-term rate-of-return objectives, the Foundation follows the investment strategies of the IU Health Pool and for other investments that are total return strategies in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (dividends and interest). The IU Health Pool and other investments target a diversified asset allocation that places an emphasis on equity-based, fixed-income and alternative investments to achieve its long-term return objectives within prudent risk constraints. Investment returns are allocated to the funds periodically based on the actual returns of the investment portfolios.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Distributions are made for the purposes of supporting various IU Health program services. The amount available for distribution each year is based on rates of 4.5% or 5.0% of the endowment fund balance through June 30. Any unspent funds are accumulated and can be used in a later period for allowable expenditures or can be returned to the endowment fund to grow the corpus.

Additionally, the Foundation's investment policy includes a three-year commitment, expiring June 30, 2021, made by IU Health to financially support the Foundation in the form of a corpus backstop in the event of investment losses or returns below 4.5%. The backstop ensures the maintenance of purchasing power of the endowment regardless of negative developments related to investment performance, realized inflation, and distribution methodology. The backstop applies to current endowment funds and new endowment funds established over the three-year period ending June 30, 2021, invested in the IU Health Pool. In the event there is a shortfall, IU Health will make a contribution to the Foundation in the amount necessary to bring the endowment to the level of the original value of the total donor gifts multiplied by the Consumer Price Index over the three-year commitment period. As of December 31, 2020, the BMHF funds were held outside of the IU Health Pool and, as such, were not eligible for the corpus backstop.

Indiana University Health Foundation, Inc.

Notes to Financial Statements (continued)

10. Endowment Funds (continued)

Funds With Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor of SPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported as net assets with donor restrictions. Unless determined a prudent use of funds, the Foundation will not appropriate endowment funds for spending until the market value of the funds exceeds the original value of the gift. As of December 31, 2020 and 2019, deficiencies resulted from disbursement of accumulated earnings in excess of historic investment earnings. At December 31, 2020, two endowments with accumulated gift value of \$351,616, fair value of \$345,806 and deficiencies of \$5,810 are reported within net assets with donor restrictions. At December 31, 2019, seven endowments with accumulated gift value of \$3,879,835, fair value of \$3,711,319 and deficiencies of \$168,516 are reported within net assets with donor restrictions.

The Foundation's endowment-related activities with donor restrictions are as follows:

	December 31	
	2020	2019
Net assets at beginning of year	\$ 47,104,325	\$ 46,662,192
Contributions, net	629,839	455,432
BMHF merger	16,338,808	–
Investment earnings	5,266,244	1,983,554
Appropriation for expenditure	(1,219,490)	(1,879,156)
Change in deficiency of investment earnings	162,706	(117,697)
Net assets at end of year	<u>\$ 68,282,432</u>	<u>\$ 47,104,325</u>

Indiana University Health Foundation, Inc.

Notes to Financial Statements (continued)

11. Board Designations

The Foundation has designated net assets without donor restrictions for the following:

	December 31	
	2020	2019
Designated by purpose:		
Program services	\$ 33,096,668	\$ 12,160,186
Education and research	13,074,578	12,158,658
Capital projects	1,206,545	1,647,591
Financial assistance and other	7,734,747	8,867,576
Endowment earnings available for spending	10,549	–
Accumulated endowment earnings	222,005	–
Designated in perpetuity:		
Endowment funds	597,495	–
	<u>\$ 55,942,587</u>	<u>\$ 34,834,011</u>

Additionally, the Board has designated endowments funds for the purposes of supporting various IU Health program services. The investment objectives and spending policy for endowments with donor restrictions apply for board-designated endowments, as described in Note 10.

12. Related-Party Transactions

The Foundation periodically enters into business transactions with outside vendors that employ members of the Board. Under the Foundation's conflict of interest policy, the Board monitors these transactions, and steps are taken to ensure transactions are appropriate and properly approved. As of December 31, 2020, and 2019, a liability of \$2,719,009 and \$2,595,183, respectively, to a beneficiary of a charitable remainder trust, who is a member of the Board, is reported within liabilities due on split-interest agreements on the statements of financial position. Disbursements to the income beneficiary totaled \$213,855 and \$196,892 for the years ended December 31, 2020 and 2019, respectively.

At December 31, 2020 and 2019, the Foundation reported \$5,096,629 and \$5,624,510, respectively, due to IU Health related to program support, which was included in accounts payable and accrued expenses in the statements of financial position.

Indiana University Health Foundation, Inc.

Notes to Financial Statements (continued)

12. Related-Party Transactions (continued)

During 2019, the Foundation received \$350,000 related to IU Health's interest in assets held by an external foundation. The funds are included in funds held for others in the statements of financial position at December 31, 2020 and 2019.

As part of the BMHF merger on August 1, 2020, IU Health agreed to contribute \$10,000,000 to the Foundation. See Note 2 for additional information.

IU Health holds a \$100,000,000 board designated Community Impact Investment (CII) Fund with the intent to support charitable activities in the following areas: (i) alleviating concentrated poverty; (ii) improving healthy living neighborhoods; (iii) workforce development; (iv) fostering career track and leadership succession; (v) alleviating the education achievement gap; (vi) improving academic and social supports; (vii) reducing infant mortality, the incidence of obesity, smoking use, and substance disorders; and (viii) increasing behavioral health access. The targeted areas of community impact initiatives may change over time. On December 31, 2019, the Foundation entered into a contract with IU Health to administer distributions from the CII Fund to grantees. During 2020, IU Health made a first annual distribution of \$4,500,000 from the CII Fund to the Foundation, which is recorded within transfer from IU Health, Inc. in the statement of activities and functional expenses. This agreement will remain in effect until December 31, 2022, and is renewable annually thereafter unless written notice to terminate the agreement is given by either party.

Additional support from IU Health for community health improvement grants and research support, totaling \$908,500 for the year ended December 31, 2020 were also recorded within transfer from IU Health, Inc. in the statement of activities and functional expenses.

The Foundation recorded \$387,480 and \$408,977 as revenue and other support from IU Health in the statements of activities and functional expenses for the years ended December 31, 2020 and 2019, respectively.

The Foundation's administrative office and gift shop retail spaces are provided by IU Health at no charge for the duration of its occupancy. The value of the office and retail space is estimated at \$180,000 for the years ended December 31, 2020 and 2019, and is recorded within in-kind revenue and other operating and facility expenses in the statements of activities and functional expenses.

Indiana University Health Foundation, Inc.

Notes to Financial Statements (continued)

12. Related-Party Transactions (continued)

The Foundation provided funding to IU Health during 2020 in the amount of \$14,425,813, of which \$14,230,813 is included in the statement of activities and functional expenses as program support and \$195,000 as part of the change in funds held for others on the statement of financial position, and in the amount of \$11,212,221 during 2019, which is included in the statement of activities and functional expenses as program support.

As the Foundation has no employees, IU Health donated personnel and administrative services to the Foundation of \$7,943,417 and \$7,539,092 for the years ended December 31, 2020 and 2019, respectively, which was recorded as in-kind revenue and allocated among program services, management and general, and fundraising expenses based on the nature of the expense.

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

Ernst & Young LLP is a client-serving member firm of Ernst & Young Global Limited operating in the US.

© 2021 Ernst & Young LLP.
All Rights Reserved.

ey.com