Consolidated Financial Statements

Indiana University Health and subsidiaries
(formerly known as Clarian Health Partners, Inc. and subsidiaries)
Years Ended December 31, 2010 and 2009
With Report of Independent Auditors

Ernst & Young LLP

Indiana University Health and subsidiaries

Consolidated Financial Statements

Years Ended December 31, 2010 and 2009

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Report of Independent Auditors

The Board of Directors
Indiana University Health and subsidiaries

We have audited the accompanying consolidated balance sheets of Indiana University Health (formerly known as Clarian Health Partners, Inc.) and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the management of Indiana University Health and subsidiaries. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of Indiana University Health's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Indiana University Health's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Indiana University Health and subsidiaries at December 31, 2010 and 2009, and the consolidated results of their operations and changes in their net assets and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

March 4, 2011

Indiana University Health and subsidiaries

Consolidated Balance Sheets
(Thousands of Dollars)

	December 31 2010	December 31 2009
Assets		
Current assets:		
Cash and cash equivalents	**$ 505,027**	$ 296,758
Patient accounts receivable, less allowance for uncollectible accounts of $193,284 and $189,745 at 2010 and 2009, respectively	**484,398**	487,414
Member premium and other receivables	**58,312**	70,095
Prepaid expenses (including educational and research support to Indiana University of $49,882 in 2010)	**82,088**	32,064
Inventories	**76,292**	67,650
Current portion of trustee-held funds	**4,428**	4,501
Total current assets	**1,210,545**	958,482
Assets limited as to use:		
Board-designated investment funds	**1,265,790**	1,136,947
Donor-restricted investment funds	**89,308**	102,847
Funds held under swap credit annex agreements	**26,847**	26,847
Trustee-held funds for construction and debt service, less current portion	**13,723**	14,112
Total assets limited as to use, less current portion	**1,395,668**	1,280,753
Property and equipment:		
Cost of property and equipment in service	**4,842,881**	4,386,260
Less accumulated depreciation	**(2,496,108)**	(2,292,747)
	2,346,773	2,093,513
Construction-in-progress	**195,579**	362,487
Total property and equipment, net	**2,542,352**	2,456,000
Other assets:		
Equity interest in unconsolidated subsidiaries	**74,668**	63,627
Interest in net assets of foundations	**12,959**	4,429
Unamortized bond issuance costs	**13,134**	14,983
Other	**64,004**	51,950
Total other assets	**164,765**	134,989
Total assets	**$ 5,313,330**	$ 4,830,224

Indiana University Health and subsidiaries

Consolidated Balance Sheets
(Thousands of Dollars)

	December 31	
	2010	**2009**
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 331,597**	$ 258,584
Accrued salaries, wages, and related liabilities	**191,017**	189,126
Deferred state disproportionate share revenue	**119,781**	–
Accrued health claims	**37,628**	27,074
Estimated third-party payor allowances	**50,901**	38,889
Current portion of notes payable to banks	**–**	47,334
Current portion of long-term debt	**82,965**	51,984
Total current liabilities	**813,889**	612,991
Noncurrent liabilities:		
Long-term debt, less current portion	**1,607,139**	1,632,281
Interest rate swaps	**140,916**	66,686
Accrued pension obligations	**94,846**	112,449
Accrued medical malpractice claims	**58,535**	61,921
Other	**43,483**	29,571
Total noncurrent liabilities	**1,944,919**	1,902,908
Total liabilities	**2,758,808**	2,515,899
Net assets:		
Indiana University Health	**2,438,003**	2,218,416
Noncontrolling interest in subsidiaries	**14,516**	4,051
Total unrestricted	**2,452,519**	2,222,467
Temporarily restricted	**37,126**	35,468
Permanently restricted	**64,877**	56,390
Total net assets	**2,554,522**	2,314,325
Total liabilities and net assets	**$ 5,313,330**	$ 4,830,224

See accompanying notes.

Indiana University Health and subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

(Thousands of Dollars)

	Year Ended December 31	
	2010	**2009**
Revenues:		
Net patient service revenue	**$ 4,058,796**	$ 3,526,943
Member premium revenue	**133,443**	90,298
Other revenue	**136,520**	143,016
Total operating revenues	**4,328,759**	3,760,257
Expenses:		
Salaries, wages, and benefits	**1,895,423**	1,682,170
Supplies, drugs, purchased services, and other	**1,498,788**	1,264,077
Health claims to providers	**81,822**	71,443
Depreciation and amortization	**244,358**	221,027
Provision for uncollected patient accounts	**281,645**	213,205
Interest	**53,244**	53,671
Total operating expenses	**4,055,280**	3,505,593
Operating income before educational and research support	**273,479**	254,664
Educational and research support to Indiana University	**(71,353)**	(81,130)
Total operating income	**202,126**	173,534
Nonoperating income (losses):		
Investment income, net	**126,884**	104,580
Income (losses) on interest rate swaps, net	**(94,094)**	175,668
Other	**–**	(307)
Total nonoperating income	**32,790**	279,941
Consolidated excess of revenues over expenses	**234,916**	453,475
Less amounts attributable to noncontrolling interest in subsidiaries	**22,746**	9,022
Excess of revenues over expenses attributable to Indiana University Health and subsidiaries	**212,170**	444,453

Continued on next page.

Indiana University Health and subsidiaries

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

	December 31 2010			December 31 2009		
	Total	**Controlling**	**Noncontrolling**	**Total**	**Controlling**	**Noncontrolling**
Unrestricted net assets:						
Excess of revenues over expenses	**$ 234,916**	**$ 212,170**	**$ 22,746**	$ 453,475	$ 444,453	$ 9,022
Change in pension obligations	**(380)**	**(380)**	**–**	23,102	23,102	–
Contributions for capital expenditures	**6,427**	**6,427**	**–**	5,436	5,436	–
Distributions to noncontrolling interests	**(11,977)**	**–**	**(11,977)**	(9,056)	–	(9,056)
Other	**1,066**	**1,370**	**(304)**	10,170	8,730	1,440
	230,052	**219,587**	**10,465**	483,127	481,721	1,406
Temporarily restricted net assets:						
Change in beneficial interest in net assets of foundations	**2,722**	**2,722**	**–**	(2,573)	(2,573)	–
Contributions	**4,324**	**4,324**	**–**	1,497	1,497	–
Investment return	**(466)**	**(466)**	**–**	595	595	–
Net assets released from restrictions	**(4,369)**	**(4,369)**	**–**	(20,581)	(20,581)	–
Other	**(553)**	**(553)**	**–**	–	–	–
	1,658	**1,658**	**–**	(21,062)	(21,062)	–
Permanently restricted net assets:						
Change in beneficial interest in net assets of foundations	**5,807**	**5,807**	**–**	2,816	2,816	–
Contributions and other	**2,680**	**2,680**	**–**	–	–	–
	8,487	**8,487**	**–**	2,816	2,816	–
Increase in net assets before contributions of net assets of acquired organizations	**240,197**	**229,732**	**10,465**	464,881	463,475	1,406
Contributions of net assets of acquired organizations at January 1, 2009:						
Unrestricted net assets of Ball Memorial	**–**	**–**	**–**	132,999	132,131	868
Temporarily restricted net assets of Ball Memorial	**–**	**–**	**–**	8,570	8,570	–
Permanently restricted net assets of Ball Memorial	**–**	**–**	**–**	14,401	14,401	–
Contributions of net assets of acquired organizations at December 31, 2009:						
Unrestricted net assets of Bloomington	**–**	**–**	**–**	210,023	210,023	–
Unrestricted net assets of Methodist Health Foundation	**–**	**–**	**–**	45,608	45,608	–
Temporarily restricted net assets of Bloomington	**–**	**–**	**–**	3,474	3,474	–
Permanently restricted net assets of Bloomington	**–**	**–**	**–**	634	634	–
	–	**–**	**–**	415,709	414,841	868
Increase in net assets	**240,197**	**229,732**	**10,465**	880,590	878,316	2,274
Net assets at beginning of year	**2,314,325**	**2,310,274**	**4,051**	1,433,735	1,431,958	1,777
Net assets at end of year	**$ 2,554,522**	**$ 2,540,006**	**$ 14,516**	$ 2,314,325	$ 2,310,274	$ 4,051

See accompanying notes.

Indiana University Health and subsidiaries

Consolidated Statements of Cash Flows

(Thousands of Dollars)

	Year Ended December 31	
	2010	**2009**
Operating activities		
Increase in net assets	**$ 240,197**	$ 464,881
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Change in fair value of interest rate swaps	**74,230**	(193,204)
Loss on extinguishment of debt	**–**	279
Change in pension liability	**380**	(23,102)
Loss (income) in unconsolidated subsidiaries	**15,478**	(21,811)
Provision for uncollected patient accounts	**281,645**	213,205
Depreciation and amortization	**244,358**	221,027
Gain on sale of medical office buildings (including amortization of deferred gain)	**(3,787)**	(4,424)
Restricted contributions	**(14,514)**	(2,335)
Trading securities	**(114,842)**	(143,762)
Net changes in operating assets and liabilities:		
Patient accounts receivable, net	**(278,629)**	(225,501)
Inventories and other assets	**(91,652)**	8,538
Accounts payable and accrued liabilities	**73,591**	(89,214)
Salaries, wages, and related liabilities	**1,891**	16,869
Deferred state disproportionate share revenue	**119,781**	–
Estimated third-party payor allowances	**12,012**	6,903
Net cash provided by operating activities	**560,139**	228,349
Investing activities		
Proceeds on sale of medical office buildings, net	**22,816**	42,457
Acquisition of subsidiary, net of cash received	**(10,506)**	(4,751)
Distributions received from managed care organization	**4,824**	4,702
Purchase of property and equipment, net of disposals	**(342,023)**	(176,645)
Net cash used in investing activities	**(324,889)**	(134,237)
Financing activities		
Increase in restricted net assets	**14,514**	2,335
Repayments on long-term debt	**(185,545)**	(67,486)
Proceeds from issuance of long-term debt	**121,218**	54,510
Proceeds from notes payable under line of credit, net of repayments	**22,832**	11,334
Net cash (used in) provided by financing activities	**(26,981)**	693
Increase in cash and cash equivalents	**208,269**	94,805
Beginning cash balances of acquired or merged organizations related to Ball Memorial, Bloomington, and Methodist Health Foundation	**–**	61,246
Cash and cash equivalents at beginning of year	**296,758**	140,707
Cash and cash equivalents at end of year	**$ 505,027**	$ 296,758

See accompanying notes.

Indiana University Health and subsidiaries

Notes to Consolidated Financial Statements
(Thousands of Dollars)

December 31, 2010 and 2009

Mission Statement

The mission of Indiana University Health is to improve the health of our patients and community through innovation and excellence in care, education, research, and service.

Indiana University Health will preserve, strengthen and build upon these values:
A patient's ***total care****, including mind, body and spirit*
Excellence in ***education*** *for health care providers*
Quality of care and ***respect*** *for life*
Charity*, equality and justice in health care*
Leadership in health promotion and ***wellness***
Excellence in ***research***
An internal community of ***trust*** *and respect*

1. Organization and Nature of Operations

Name Change

During 2010, Clarian Health Partners, Inc. (Clarian) filed a Certificate of Assumed Business Name with the Secretary of the State of Indiana for itself and certain of its subsidiaries to change the "doing business as" names of the entities to include specific reference to Indiana University Health. Additionally, on January 6, 2011 Clarian filed a Certificate of Amendment with the Office of the Secretary of the State of Indiana to legally change its name to Indiana University Health, Inc. The change will become legally effective on April 1, 2011; however public notice was made on January 24, 2011, from which date forward, Clarian is to be known as Indiana University Health. These 2010 financial statements reflect this name change. No change in the corporate structure, management, or governance was made as a result of this name change.

History and Organization

Indiana University Health and subsidiaries operate as a health care delivery system, which includes an academic health center affiliated with Indiana University, providing health care services throughout the state of Indiana. Health care services provided by Indiana University Health and its subsidiaries (hereinafter referred to as the Indiana University Health System) include acute, nonacute, tertiary, and quaternary care services on an inpatient, outpatient, and emergency basis; medical education and research; medical management services; health care diagnostic and treatment services for individuals and families in physician clinics and physician-group practices; occupational health care for businesses; and personal and home health care.

1. Organization and Nature of Operations (continued)

Indiana University Health was formed as an Indiana nonprofit corporation through a consolidation, as of January 1, 1997, under the terms of a Definitive Health Care Resources Consolidation Agreement, as amended (the Consolidation Agreement), and certain other related agreements by and between the Trustees of Indiana University and Methodist Health Group, Inc. The facilities and operations of Indiana University Hospital and Outpatient Center (University Hospital), James Whitcomb Riley Hospital for Children (Riley Hospital), and Methodist Hospital of Indiana (Methodist Hospital) (collectively, the Downtown Academic Health Center) were merged and consolidated to form a single corporate entity, which was then licensed as a single, acute care hospital and operating as an academic health center.

Under terms of the Consolidation Agreement and related agreements, substantially all real property of University Hospital, Riley Hospital, and Methodist Hospital was sold, transferred, leased, or otherwise conveyed on a long-term basis (99 years) at an annual, nominal amount. Substantially all liabilities were also assumed or, in the case of long-term debt, refinanced. Members of the Board of Directors (Board) are selected by its two classes of members – the Methodist Class (members of which are members of Methodist Health Group, Inc.) and the University Class (members of which are the individuals who are the Trustees of Indiana University).

The Consolidation Agreement requires that the salaries and related employee benefit costs be funded for medical doctor interns and residents of the Indiana University School of Medicine (School of Medicine). The Board annually reviews and determines the level of support to the School of Medicine for these programs and the number of internships and residencies to be supported. The Consolidation Agreement also provides for additional support to the School of Medicine to recognize, as a result of the consolidation, the enhanced and increased level of services being provided, including services to the medically indigent through medical education and research. Annually (or more often), an appointed committee consisting of representatives of Indiana University Health, Methodist Health Group, Inc., and Indiana University determines the amount of such additional support to be provided to the School of Medicine.

1. Organization and Nature of Operations (continued)

The fifteen hospital subsidiaries or divisions of Indiana University Health are as follows:

Previously Known As	Doing Business As
Ball Memorial Hospital	Indiana University Health Ball Memorial Hospital
Bedford Regional Medical Center	Indiana University Health Bedford Hospital
Blackford Community Hospital	Indiana University Health Blackford Hospital
Bloomington Hospital	Indiana University Health Bloomington Hospital
Bloomington Hospital of Orange County	Indiana University Health Paoli Hospital
Clarian Arnett Health System	Indiana University Health Arnett Hospital
Clarian Health North	Indiana University Health North Hospital
Clarian Health West	Indiana University Health West Hospital
Goshen Health System	Indiana University Health Goshen
Indiana University Hospital	Indiana University Health University Hospital
LaPorte Regional Health System	Indiana University Health LaPorte Hospital
Methodist Hospital	Indiana University Health Methodist Hospital
Riley Hospital for Children	Riley Hospital for Children at Indiana University Health
Starke Memorial Hospital	Indiana University Health Starke Hospital
Tipton Hospital	Indiana University Health Tipton Hospital

Nature of Operations

The Indiana University Health System operates as an integrated health care delivery system, comprised of 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 owned facilities or majority-owned or controlled subsidiaries and consist of the following:

Downtown Academic Health Center (Hospital Campuses) – Consists of three acute, nonacute, tertiary and 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 (University Hospital),

1. Organization and Nature of Operations (continued)

and Riley Hospital for Children at Indiana University Health (Riley Hospital) are located on or near the campus of Indiana University-Purdue University in Indianapolis and the Indiana University School of Medicine.

Suburban Facilities (Indiana University Health West Hospital (West) and Indiana University Health North Hospital (North)) – Consist of two acute care hospitals located in the western and northern suburban areas of metropolitan Indianapolis, Indiana.

Statewide Facilities – Consist of acute care hospitals and health care systems located in Bedford, Bloomington, Goshen, Hartford City, Knox, Lafayette, LaPorte, Muncie, Paoli, and Tipton, Indiana. Principal hospital subsidiaries include Indiana University Health Bedford Hospital (Bedford), Indiana University Health Arnett Hospital (Arnett), Indiana University Health LaPorte Hospital (LaPorte), Indiana University Health Goshen (Goshen), Indiana University Health Ball Memorial Hospital and subsidiaries (Ball Memorial), Indiana University Health Tipton Hospital (Tipton), and Indiana University Health Bloomington Hospital and subsidiaries (Bloomington). Ball Memorial and Tipton were merged into consolidated operations effective January 1, 2009, and Bloomington was merged effective December 31, 2009 (see Note 4).

Physician Operations – Consists of physician offices and physician-group practices and clinics. Principal subsidiaries or divisions include Indiana University Health Arnett Physicians, Indiana University Health Ball Memorial Physicians, Indiana University Health Southern Indiana Physicians, Indiana University Health LaPorte Physicians, Indiana University Health Goshen Physicians, Methodist Cardiology Physicians, Clarian Cardiovascular Surgeons Group, LLC, Indiana Radiology Partners, Inc., and Heart Partners of Indiana, LLC. Additionally, physician operations include Indiana University Health Physicians, a nonprofit organization, with locations primarily in Indianapolis, Indiana designed to integrate Indiana University Health-owned or operated physician practices, privately owned practices, and the practice plans of the School of Medicine into a delivery model that facilitates access, coordinates care, and improves quality, all designed to provide a better health care experience for patients. Certain physician groups of Indiana University Health and the School of Medicine joined the Indiana University Health Physicians in 2010 and 2009 (see Note 4).

Ambulatory Care – Consists of occupational, personal, and home health care services, which are located throughout the state of Indiana. Principal subsidiaries or divisions include Indiana University Health Occupational Services and Indiana University Health Home Care.

1. Organization and Nature of Operations (continued)

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.

Foundations - Indiana University Health is the sole corporate member of Methodist Health Foundation, Inc. (Methodist Health Foundation), which aids and supports Methodist Hospital and other programs and areas of Indiana University Health. Ball Memorial is the sole corporate member of Indiana University Ball Memorial Hospital Foundation (BMH Foundation), which aids in carrying out the mission of Ball Memorial.

Indiana University Health or its subsidiaries have also entered into certain limited liability company agreements with physicians for the operation of ambulatory surgery and diagnostic centers (located throughout the state of Indiana); network or management arrangements with several other hospitals to provide or operate hospital, rural outreach, or other medical services and programs (located in Columbus, Evansville, Greensburg, Kokomo, Martinsville, South Bend, and Terre Haute, Indiana); a joint venture arrangement with another Indianapolis, Indiana hospital for the operation of a long-term rehabilitative care hospital (also located in Indianapolis, Indiana); a 50% membership interest with a county governmental institution (located in Indianapolis, Indiana) in a nonprofit corporation that holds a health maintenance organization license and manages networks serving Medicaid patients; and a 50% membership interest with Indiana University Emerging Technology Corp., a nonprofit corporation owned by Indiana University, in a specialized cancer treatment and diagnostic clinic (located in Bloomington, Indiana.) In addition, due to the existence of certain participatory rights by the minority ownership members, Indiana University Health does not meet the conditions of control of Indiana University Health Physicians for purposes of consolidation. Where applicable, these arrangements are accounted for using the equity method of accounting.

2. Community Benefit and Charity Care

The Indiana University Health System provides health care services and other financial support through various programs that are designed, among other matters, to enhance the health of the community, improve the health of low-income patients, and foster medical education and research through its affiliation with the School of Medicine. In addition, the Indiana University Health System provides services intended to benefit the poor and underserved, including those persons who cannot afford health insurance because of inadequate resources or are uninsured or underinsured. Health care services to patients under government programs, such as Medicare and Medicaid, are also considered part of the Indiana University Health System's benefit provided to the community since a substantial portion of such services are reimbursed at amounts less than cost.

2. Community Benefit and Charity Care (continued)

The Indiana University Health System's financial assistance policies are designed to provide care to patients regardless of their ability to pay. Patients who meet certain criteria for charity care (generally based on up to 400% of federal poverty income guidelines, who are victims of certain catastrophic events, or who meet criteria to be part of the Indiana University Health System's medical education and research programs) are provided care without charge or at amounts less than established rates. In addition, financial assistance is available to patients under the Indiana University Health System policies in which services are to be provided at discounted rates, generally determined based on federal poverty income guidelines.

The amount of charity care provided is determined based on the qualifying criteria, as defined in the financial assistance policies, through approved applications completed by patients and their families or beneficiaries, or based on analysis of patients without third-party insurance coverage who did not apply for charity and whose income was equal to or less than 200% of federal poverty income guidelines. No payment for services is anticipated for those patients whose charity care applications have been approved, as well as for those other patient accounts identified whose income is equal to or less than 200% of federal poverty income guidelines and meet certain other criteria. Charity care, measured by the difference between standard charges for services rendered and the amount, if any, ultimately received, was $331,765 and $233,067 in 2010 and 2009, respectively. In addition, the Indiana University Health System provides a significant amount of uncompensated care to other uninsured and underinsured patients, which is included in the provision for uncollected patient accounts.

Enacted March 23, 2010, the Patient Protection and Affordable Care Act (Affordable Care Act) requires, among other things, that hospital organizations establish a financial assistance policy and a policy relating to emergency medical care. The hospital organizations of the Indiana University Health System have adopted a financial assistance policy which conforms with the Affordable Care Act and includes: financial assistance eligibility criteria, the basis for calculating amounts charged to patients, the method for applying for financial assistance, billing and collections policies with regards to actions that may be taken in the case of nonpayment as well as its measures to widely publicize the policy within the communities served by the organization. Additionally, the Indiana University Health System's hospital organizations have adopted policies requiring the organizations to provide, without discrimination, care for emergency medical conditions to individuals regardless of their eligibility under their financial assistance policy. These hospital organizations have also adopted policies to limit the amount charged for emergency or other medically necessary care that is provided to individuals eligible for assistance under the organization's financial assistance policy to not more than the amounts generally billed to individuals who have insurance covering such care. Finally, the Indiana University Health System hospital organizations have adopted policies to forego extraordinary collection actions against an individual before the organization has made reasonable efforts to determine whether the individual is eligible for assistance under the hospital organization's financial assistance policy. Conformance with the Affordable Care Act did not have a material impact on the consolidated financial position or results of operations of the Indiana University Health System for the year ended December 31, 2010.

2. Community Benefit and Charity Care (continued)

Reimbursements are received by the Indiana University Health System for Medicare and Medicaid beneficiaries in accordance with reimbursement agreements and related regulatory rules and regulations. Also, the Indiana University Health System receives certain additional Medicaid Disproportionate Share (DSH) payments from the state of Indiana for those patients who qualify as medically indigent (see Note 3). These reimbursements and payments are less than the cost of providing the related services.

The Indiana University Health System also provides education for health care providers, including support to the School of Medicine; counseling centers and chaplaincy programs that support patients' medical, spiritual, and emotional needs; programs to enhance quality of and respect for life, including neighborhood revitalization, community health clinics, and school-based health programs; charity, equality, and justice programs, including education programs available to independent health providers, and an AIDS clinic, older adult clinics, and other clinical programs; health promotion and wellness programs, Indiana Poison Center, safe driving, and other prevention and intervention programs; other medical research and support to the Children's Values Fund; and fosters an internal community of trust, respect, and empowerment, including employee wellness development. The costs of providing these programs and services are included in expenses in the accompanying consolidated statements of operations and changes in net assets.

3. Summary of Significant Accounting Policies

Principles of Consolidation

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

Use of Estimates

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

Fair Values of Financial Instruments

Financial instruments include cash and cash equivalents, patient, member premium and other accounts receivable, assets limited as to use, accounts payable and accrued expenses, estimated third-party payor allowances, notes payable to banks, long-term debt, derivative financial instruments (i.e., fixed payor and basis swaps), and certain other current assets and liabilities.

3. Summary of Significant Accounting Policies (continued)

The fair values for cash and cash equivalents, patient, member premiums and other accounts receivable, accounts payable and accrued expenses, estimated third-party payor allowances, notes payable to banks, and certain other current assets and liabilities approximate the carrying amounts reported in the consolidated balance sheets and, in the opinion of management, represent highly liquid assets or short-term obligations. The fair values for assets limited as to use, long-term debt, and derivative financial instruments are described in Notes 5, 7, 8, and 9.

In September 2009, accounting guidance was issued to define how to measure the fair value of alternative investments held in the defined benefit plans. This guidance also requires additional disclosures for organizations that hold alternative investments and was effective for interim and annual periods ending after December 15, 2009. The adoption of this guidance did not have a material impact on the Indiana University Health System's consolidated financial condition or results of operations.

In January 2010, accounting guidance was issued to further expand disclosure requirements related to fair value measurements. Additional disclosures under this guidance include disclosing transfers in and out of Level 1 and Level 2 fair value measurements and the reasons for those transfers, valuation techniques and inputs used to measure Level 2 and Level 3 fair value measurements, and disclosure of purchases, sales, issuances, and settlements separately within the Level 3 fair value measurements reconciliation. The Indiana University Health System adopted this guidance effective January 1, 2010.

Derivative Financial Instruments

The Indiana University Health System has entered into fixed payor swap and basis swap transactions. As of and for the years ended December 31, 2010 and 2009, the Indiana University Health System's fixed payor swap and basis swap agreements did not qualify for hedge accounting. Therefore, the changes in fair value of these interest rate swaps during these years are reported with nonoperating income (losses) in the consolidated statements of operations and changes in net assets.

Net Patient Service Revenue

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others at the time services are rendered. Certain revenue is subject to estimated retroactive revenue adjustments under reimbursement agreements with third-party payors due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period that the related services are rendered, and such amounts are adjusted in future periods as adjustments become known.

For the year ended December 31, 2010, the percentage of net patient service revenue derived under Medicare, Medicaid, and managed care programs approximated 25%, 7%, and 55%, respectively (23%, 8%, and 51%, respectively, in 2009). A managed care provider represented 33% of net patient service

3. Summary of Significant Accounting Policies (continued)

revenue in 2010 and 30% in 2009. Provision has been made, by a charge to contractual allowances as an offset to patient service revenue, for the differences between gross charges for patient services and estimated reimbursement from these government and insurance programs.

Indiana University Health has historically qualified as a Medicaid DSH provider under Indiana law (IC 12-15-16(1-3)) and, as such, is eligible to receive state DSH payments. For the most recently determined fiscal year (2010) of the state of Indiana, certain subsidiaries of Indiana University Health qualified as state DSH providers. The amount of these additional state DSH funds 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. For the years ended December 31, 2010 and 2009, state DSH payments have been made by the state of Indiana, and amounts were recorded as revenue based on data acceptable to the state of Indiana less any amounts management believes may be subject to adjustment. State DSH payments by the state of Indiana are based on the fiscal year of the state, which ends June 30th of each year. State DSH reimbursement is recognized as revenue after eligibility is determined by the state, and payments are probable and reasonably estimable. The 2010 state DSH payments received by Indiana University Health and certain subsidiaries were $173,032, of which $169,032 was recorded in operating revenue in the accompanying consolidated statements of operations, and the remainder was recorded within estimated third-party payor allowances on the accompanying consolidated balance sheets. Additionally, Indiana University Health and certain subsidiaries received $119,781 of 2011 state DSH payments in December 2010, which was recorded as deferred state DSH revenue in the accompanying consolidated balance sheets.

Laws and regulations governing Medicare, Medicaid, and other government programs are extremely complex and subject to interpretation. As a result, there is a reasonable possibility that recorded estimated settlements could change by a material amount in the near term. The Indiana University Health System received favorable Medicare, Medicaid, and Champus settlements and resolutions on prior year filed and appealed cost reports and other matters, which increased excess of revenues over expenses by $3,965 in 2010 and $14,199 in 2009.

Member Premium Revenue and Health Claims

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

3. Summary of Significant Accounting Policies (continued)

Cash Equivalents

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

The Indiana University Health System routinely invests in money market funds. These funds generally invest in prime funds. Financial instruments that are potentially subject to concentrations of credit risk include cash and cash equivalents. The Indiana University Health System places its cash and cash equivalents with institutions with high credit quality, since, at certain times, such cash and cash equivalents may be in excess of government-provided insurance limits.

Accounts Receivable and Allowance for Uncollectible Accounts

The Indiana University Health System does not require collateral or other security for the delivery of health care services from its patients, substantially all of whom are residents of the state of Indiana. However, assignment of benefit payments payable under patients' health insurance programs and plans (e.g., Medicare, Medicaid, health maintenance organizations, and commercial insurance policies) is routinely obtained, consistent with industry practice.

The provision for uncollected patient accounts is based upon management's assessment of historical and expected net collections considering business and economic conditions, changes and trends in health care coverage, and other collection indicators. Periodically, management assesses the adequacy of the allowance for uncollectible accounts based upon accounts receivable payor composition and aging, the significance of individual payors to outstanding accounts receivable balances, and historical write-off experience by payor category, as adjusted for collection indicators. The results of this review are then used to make any modifications to the provision for uncollected patient accounts and the allowance for uncollectible accounts. In addition, the Indiana University Health System follows established guidelines for placing certain past due patient balances with collection agencies. Patient accounts that are uncollected, including those placed with collection agencies, are initially charged against the allowance for uncollectible accounts in accordance with collection policies of the Indiana University Health System and, in certain cases, are reclassified to charity care if deemed to otherwise meet financial assistance policies of the Indiana University Health System.

(Thousands of Dollars)

3. Summary of Significant Accounting Polices (continued)

The composition of net patient accounts receivable is summarized as follows as of December 31:

	2010	**2009**
Managed care	**49%**	46%
Medicare	**22**	21
Medicaid	**8**	8
Other third-party payors	**12**	14
Patients	**9**	11
	100%	100%

A managed care payor represented 26% and 22% of net patient accounts receivables at December 31, 2010 and 2009, respectively.

Inventories

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

Assets Limited as to Use

Assets limited as to use include: (i) cash and cash equivalents and designated investment assets, including those funds held by the consolidated foundations, set aside by the Board for future capital improvements and for other purposes, over which the Board retains control and may, at its discretion, use for other purposes; (ii) donor-restricted investment assets in which their use has been specified by the donor; (iii) assets held by trustees under bond or trust indenture agreements for construction and debt service; and (iv) funds held under swap credit annex agreements that serve as collateral provided to swap counterparties. Substantially all assets limited as to use are invested and managed by professional investment managers and are held in custody by financial institutions. These funds are classified as trading securities. Accordingly, changes in unrealized gains and losses in the fair value of investments are included in nonoperating income with investment income in the accompanying consolidated statements of operations and changes in net assets. The Indiana University Health System is a limited partner in funds that focus on absolute return investment strategies. These investments are accounted for using the equity method of accounting, based on the fund's financial information.

Property and Equipment

Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets. Included in property and equipment are costs for software developed for internal use.

3. Summary of Significant Accounting Polices (continued)

Equipment under capital lease obligations is 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 in the accompanying consolidated statements of operations and changes in net assets. Interest cost incurred on borrowed funds during the period of construction and other interest costs related to tax-exempt bonds are capitalized as a component of the cost of constructing the assets. In addition, interest earnings on unexpended borrowed funds related to tax-exempt financings offset capitalized tax-exempt interest. Repair and maintenance costs are expensed when incurred.

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

Unamortized Bond Issuance Costs and Bond Discount or Premium

Costs incurred in connection with the issuance of long-term debt and bond discounts or premiums are amortized or accreted using the effective interest rate method. Amortization and accretion is included in interest expense in the accompanying consolidated statements of operations and changes in net assets (see Note 7).

Goodwill and Intangible Assets

In connection with past business combinations, the Indiana University Health System has recorded goodwill and definite lived intangible assets on the accompanying consolidated balance sheets. The Indiana University Health System reviews annually, or more frequently if events or changes in circumstances suggest impairment may have occurred, the carrying value of the goodwill and intangible assets for impairment and to determine if an adjustment, for definite-lived intangibles, to the amortization period is necessary. If circumstances suggest that the recorded amounts of any of these assets cannot be recovered, the carrying values of such assets are reduced to fair value. If the carrying value of any of these assets is impaired, a material charge may be incurred to results of operations. It has been determined that there was no significant impairment to intangible assets, including goodwill, as of December 31, 2010 and 2009.

3. Summary of Significant Accounting Policies (continued)

Contributions

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

Noncontrolling Interest in Subsidiaries

In December 2007, accounting guidance was issued related to noncontrolling (minority) interests in a consolidated subsidiary. This guidance became effective for not-for-profits for fiscal years beginning after December 15, 2009 and, among other matters, requires the recognition of a noncontrolling interest as net assets in the consolidated financial statements and separate from the parent's net assets. The amount of net income attributable to the noncontrolling interest is included in consolidated excess of revenues over expenses in the consolidated statements of operations and changes in net assets. The Indiana University Health System adopted the guidance on January 1, 2010, and reclassified amounts from other liabilities to unrestricted net assets, which results in the presentation of $4,051 of noncontrolling interests at December 31, 2009. This accounting guidance also stated that a portion of the excess of revenues over expenses would be allocated (on a prospective basis) to the noncontrolling interest even if the majority interest had not been credited the full amount of losses it had absorbed under prior guidance. The Indiana University Health System attributed income of $22,746 and $9,022 for the years ended December 31, 2010 and 2009, respectively to the noncontrolling interests based on the ownership percentage of the noncontrolling interests in certain of the Indiana University Health System's consolidated subsidiaries. These amounts are reflected in the unrestricted net assets in the consolidated balance sheets, net of distributions.

Distributions

Certain consolidated subsidiaries of Indiana University Health have members who hold a noncontrolling ownership interest. Upon authorization from the Boards of Directors of those subsidiaries, cash available for distribution, or a portion thereof, arising from operations may be distributed to Indiana University Health and the noncontrolling members ratably in accordance with the members' respective membership interests.

3. Summary of Significant Accounting Policies (continued)

Temporarily and Permanently Restricted Net Assets

Temporarily and permanently restricted net assets are those assets whose use has been limited by donors to a specific time period or purpose. These net assets are generally restricted for indigent and other patient care services, medical education and research programs, and medical supplies and equipment.

Interests in net assets of unconsolidated foundations are included in other assets in the accompanying consolidated balance sheets. The underlying assets of these interests in foundations consist primarily of cash and cash equivalents, money market and mutual funds, and marketable equity and debt securities (see Note 14).

Business Combinations

Accounting guidance was recently issued for mergers and acquisitions involving not-for-profit entities. This guidance establishes principles to assist not-for-profit entities in determining if a combination is to be accounted for as a merger or an acquisition. The guidance applies the carryover (similar to pooling) method to accounting for a merger, and the purchase accounting method to accounting for an acquisition, and clarifies the valuation basis to be used in determining the values of the assets and liabilities acquired. In addition, this guidance makes provisions related to goodwill and noncontrolling interests fully applicable to not-for-profit entities. This accounting guidance was effective for fiscal years beginning after December 15, 2009 or for mergers (as defined in the new accounting guidance) that occurred after December 15, 2009 and retroactive application is prohibited. The impact of this guidance substantively changes the accounting for certain business combinations, which prior to the effective date would have been accounted for similar to the pooling-of-interests method.

Operating and Performance Indicators

The activities of the Indiana University Health System are primarily related to providing health care services and, accordingly, expense information by functional classification is not used as a basis for measuring performance. Further, since substantially all resources are derived from providing health care services, similar to that if provided by a business enterprise, the following indicators are considered important in evaluating how well management has discharged its stewardship responsibilities:

> **Operating Indicator (Operating Income)** – Includes all unrestricted revenue, gains, and other support, equity income or loss of unconsolidated health care subsidiaries, and expenses directly related to the recurring and ongoing health care operations during the reporting period. The operating indicator excludes investment income or losses on assets limited as to use (including changes in unrealized gains and losses on investments), changes in the fair value of fixed payor and basis swaps, gain or loss on the extinguishment of debt, noncontrolling interest, and gains and losses deemed by management not to be directly related to providing health care services.

3. Summary of Significant Accounting Policies (continued)

Performance Indicator (Excess (Deficiency) of Revenues Over Expenses) – Includes operating income and nonoperating income (losses). The performance indicator excludes certain changes in pension obligations and contributions for capital expenditures, distributions, and net assets released from restricted funds.

Income Taxes

The Internal Revenue Service (IRS) has determined that Indiana University Health and certain of its affiliated entities are tax-exempt organizations as defined in Section 501(c)(3) of the Internal Revenue Code. The Suburban Hospitals are organized as pass-through limited liability companies for which Indiana University Health's share of operating results is generally not taxable.

Certain subsidiaries of Indiana University Health are taxable entities, the tax expense and liabilities of which are not material to the consolidated financial statements.

Subsequent Events

For the consolidated financial statements as of and for the year ended December 31, 2010, management has evaluated subsequent events through March 4, 2011, the date that these financial statements were issued.

New Accounting Guidance Not Yet Applicable

In August 2010, new accounting guidance was issued that requires cost be used as the measurement basis for charity care disclosure purposes and, for those purposes, defines cost as the direct and indirect costs of providing charity care. This guidance also requires disclosure of the method used to identify and determine costs. This guidance is effective for fiscal years beginning after December 15, 2010. Adoption of this guidance will not have an impact on the Indiana University Health System's financial condition or results of operations.

In August 2010, new accounting guidance was issued that clarifies health care entities should not net expected insurance recoveries against a related claim liability. In addition, the claim liability is determined without consideration of insurance recoveries. A cumulative-effect adjustment is to be recognized in the opening net assets in the period of adoption if a difference exists between any liabilities and insurance receivables recorded as a result of applying this new guidance. This guidance is effective for annual or interim periods beginning after December 15, 2010. The Indiana University Health System is currently evaluating the impact of adoption of this guidance on January 1, 2011 on its financial condition and results of operations, but the impact, if any, is not expected to be material.

4. Business Combinations and Other Strategic Transactions

Bloomington Hospital

On March 5, 2009, Indiana University Health executed an Integration Agreement (the Bloomington Integration Agreement) whereby Indiana University Health became the sole corporate member of Bloomington effective December 31, 2009. The Bloomington Integration Agreement was designed to enable both organizations to further their common charitable missions of improving the health of their respective patients and communities they serve.

As a result of the change in control, the membership structure of Bloomington changed, but the commitments and operational obligations of Bloomington remain with Bloomington. The Bloomington debt obligations, issued pursuant to its Master Trust Indenture (MTI), remain the obligations of the Bloomington Obligated Group.

As the sole corporate member of Bloomington, Indiana University Health has control of Bloomington (and its wholly controlled subsidiary, Bloomington Hospital of Orange County in Paoli, Indiana) through appointment of the majority of the Board of Directors of Bloomington. The transaction with Bloomington was accounted for in a manner similar to the pooling of interests method. At December 31, 2009, Indiana University Health recorded the value of the working capital and assets limited to use of $133,548, and property and equipment $139,941, net of long-term debt assumed of $59,357, with an increase to net assets of $214,132. The balance sheet of Bloomington was consolidated effective December 31, 2009, but the operations of Bloomington for the year ended December 31, 2009, have not been consolidated. Results of Bloomington's operations are reflected in Indiana University Health's consolidated financial statements effective January 1, 2010.

Starke Memorial Hospital

LaPorte entered into an Asset Purchase Agreement for the purchase of Starke Memorial Hospital (Starke Memorial) for $6,815 effective July 1, 2009. Starke Memorial is a 35-bed hospital located in Knox, Indiana. The transaction was accounted for as a purchase by LaPorte with the assets acquired of $7,452, which includes property and equipment of $6,500, and liabilities assumed of $637 recorded at their fair value as of the effective date of the purchase.

Cardinal Health System, Inc.

On November 19, 2008, Indiana University Health entered into an Integration Agreement (the Cardinal Integration Agreement) with Cardinal Health System, Inc. and its subsidiaries (Cardinal) whereby Cardinal merged into its wholly owned subsidiary, Ball Memorial, and Indiana University Health replaced Cardinal as the sole corporate member of Ball Memorial, all effective as of January 1, 2009. The Cardinal Integration Agreement was designed to enable both organizations to further their common charitable missions of improving the health of their respective patients and communities that they serve.

4. Business Combinations and Other Strategic Transactions (continued)

As a result of the change in control, the membership structure of Ball Memorial changed, but the commitments and operational obligations of Ball Memorial and its subsidiaries remain with Ball Memorial. The Ball Memorial debt obligations, issued pursuant to its MTI, remain the obligations of the Ball Memorial Obligated Group, as defined in the MTI.

As the sole corporate member of Ball Memorial, Indiana University Health has control of Ball Memorial (and its wholly controlled subsidiary, Blackford Community Hospital, Inc. in Hartford City, Indiana) through appointment of the majority of the Board of Directors of Ball Memorial. The transaction with Ball Memorial was accounted for in a manner similar to the pooling of interests method. The financial position and financial results of Ball Memorial were consolidated with Indiana University Health effective January 1, 2009.

Tipton County Memorial Hospital

On October 31, 2008, Indiana University Health entered into an Affiliation and Asset Purchase Agreement (the Tipton Agreement) with Tipton County Memorial Hospital, a county hospital located in Tipton, Indiana, whereby effective January 1, 2009, Tipton County Memorial Hospital ceased to exist, sold certain of its assets and liabilities (excluding Tipton Hospital Foundation) to Tipton, a newly created nonprofit organization, and Indiana University Health became the sole corporate member of Tipton. The Tipton Agreement was designed to enable both organizations to better position themselves to serve patients and to provide Tipton with system support.

The purchase price was $1.00, plus the assumption of liabilities and the forgiveness of an amount due from Tipton County Memorial Hospital prior to affiliation with Indiana University Health of $198. The transaction was accounted for as a purchase by Tipton with the assets acquired, including a definite-lived intangible asset of $13,813 relating to a favorable (below-market), fixed-term operating lease for the hospital and related buildings and the land on which they are located, and liabilities assumed recorded at their fair market value as of the effective date of the purchase. The intangible asset is being amortized over 35 years, which is equal to the lease term. The results of operations of Tipton have been included in the consolidated statements of operations and changes in net assets effective January 1, 2009.

CNI Surgicare

LaPorte entered into an Asset Purchase Agreement for the purchase of Lakeshore Surgicare for $10,506 effective April 1, 2010. Lakeshore Surgicare is an ambulatory surgery center located in Chesterton, Indiana. The transaction was accounted for as a purchase by LaPorte with the assets acquired of $6,148, which includes property and equipment of $5,484, and liabilities assumed of $288 recorded at their fair value as of the effective date of the purchase. This purchase resulted in goodwill of $4,646.

(Thousands of Dollars)

4. Business Combinations and Other Strategic Transactions (continued)

Methodist Health Foundation

On December 16, 2009, Indiana University Health became the sole corporate member of Methodist Health Foundation, replacing Methodist Health Group, Inc. This transaction was designed to enable Indiana University Health and Methodist Health Foundation to further aid and support Methodist Hospital. Prior to this transaction, Indiana University Health recorded its interest in the net assets of the Methodist Health Foundation for donor-restricted funds held for the benefit of Indiana University Health.

The transaction was accounted for in a manner similar to the pooling of interests method, and net assets of Methodist Health Foundation were recorded as contributions to net assets. The balance sheet of Methodist Health Foundation was consolidated as of December 31, 2009, but the operations for the year ended December 31, 2009 have not been consolidated because they are not material. Results of Methodist Health Foundation's operations are reflected in Indiana University Health's consolidated financial statements effective January 1, 2010.

The following table summarizes abbreviated financial statement information of Bloomington and Methodist Health Foundation prior to Indiana University Health obtaining control because the results of operations of these entities were not reflected in these consolidated financial statements until January 1, 2010. CNI Surgicare and Starke Memorial have been excluded from the table below due to immateriality.

	Fiscal Year 2009		
	Bloomington	**Methodist Health Foundation**	**Total**
		(Unaudited)	
Operating revenues	$ 346,807	$ 10,409	$ 357,216
Operating expenses	329,410	13,280	342,690
Operating income (losses)	17,397	(2,871)	14,526
Nonoperating income	13,993	18,634	32,627
Excess of revenues over expenses	$ 31,390	$ 15,763	$ 47,153

Saxony Medical Center, L.L.C.

Clarian Saxony Medical Center, LLC, doing business as Indiana University Health Saxony Hospital (Saxony), was organized by Indiana University Health in 2008 to operate an acute care hospital and ambulatory care facility providing cardiology, cardiovascular, orthopedic, and neurosurgery services in Hamilton County, Indiana.

4. Business Combinations and Other Strategic Transactions (continued)

On December 1, 2009, Indiana University Health and Saxony entered into an agreement with an independent development company (Hospital Developer) for the design and construction, including the completion of site work, of the hospital facility. The land on which the facility will be located is owned by Indiana University Health and was leased by the Hospital Developer and was to be subleased to Saxony under a 99-year land lease. Upon completion of the construction, Saxony was to lease the hospital facility from the Hospital Developer. Because, among other factors, Indiana University Health previously incurred certain costs related to this development and held a purchase option on the hospital facility, accounting guidance required the development assets to be capitalized, with an offsetting financing obligation.

During 2010, Indiana University Health entered into an Agreement of Purchase and Sale of Membership Interests with the Hospital Developer to purchase the hospital facility improvements, thereby terminating both the land lease with Indiana University Health and the lease of the hospital facility from the Hospital Developer. Total consideration transferred by Indiana University Health was $102,659 and was recorded as construction in progress at the transaction date.

On November 25, 2009, Indiana University Health entered into an agreement with another independent development company for the design, construction, and completion of site work of a medical office building located adjacent to the hospital and ambulatory care facility. The total cost of construction is estimated to be $25,337. Saxony and certain other Indiana University Health subsidiaries will lease certain space in the medical office building from the developer upon its completion.

Neuroscience Center of Excellence (NCOE)

On November 18, 2010, Indiana University Health entered into a lease, as amended on December 23, 2010, and construction agreements with an NCOE Developer to construct the Neuroscience Center of Excellence medical office building, parking structure and related site development. The medical office building will be located on the campus of Methodist Hospital. It is designed to become a destination for patients throughout the Midwestern United States suffering from brain, nerve and mental maladies. The construction started on the building in December 2010 and is expected to be completed in the first half of 2012.

The project is being financed through a 25-year capital lease with an NCOE Developer, as well as $18,800 financing from Indiana University Health. Under the lease, Indiana University Health obtains ownership of the medical office building at the end of the lease term. Additionally, Indiana University Health has a call option in year five of the lease to acquire the project for the then-current balance of amounts owed under the capital lease. As of December 31, 2010, $19,735 had been capitalized as construction in progress related to this development.

4. Business Combinations and Other Strategic Transactions (continued)

Indiana University Health Physicians

On January 23, 2009, Indiana University Health became a Class B member of Indiana University Health Care Associates, Inc. (doing business as Indiana University Health Physicians). Indiana University Health holds 51 membership units. Individuals who serve as the Trustees of Indiana University are the Class A members and hold 49 membership units. Due to participatory rights of the Class A members, Indiana University Health accounts for Indiana University Health Physicians using the equity method of accounting (see Note 14).

Certain physicians who were employed by other certain subsidiaries of Indiana University Health became employees of Indiana University Health Physicians effective December 20, 2009 and, on this date, Indiana University Health Physicians purchased the fixed assets of these physician groups for approximately $3,300. Additional physicians that are employed by Indiana University Health or its subsidiaries are expected to become employees of Indiana University Health Physicians, and it is anticipated that Indiana University Health Physicians will purchase the fixed assets of these physician groups. Certain physicians and physician groups previously affiliated with Indiana University joined Indiana University Health Physicians in 2009, and other physician groups, both those affiliated and unaffiliated with Indiana University, joined in 2010.

5. Assets Limited as to Use

Board-designated and donor-restricted investment funds are invested in accordance with Board-approved policies, which include, among other matters, targeted investment returns balanced by diversification of the investment portfolio, establishment of credit risk parameters, and limitation in the amount of investment in any single organization. Trustee-held funds are generally invested in cash equivalents and U.S. government and agency obligations, as defined by the debt agreements.

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: cash and cash equivalents — the carrying amounts reported in the consolidated balance sheets approximate fair value; marketable securities — the fair value amounts of marketable securities are based on quoted market prices or, if quoted market prices are not available, fair values are based on quoted market prices of comparable instruments; and other investments, including alternative investments (such as hedge funds, absolute return investments, and private equity investments) — these investments are accounted for using the equity method of accounting based upon the net asset values as determined by the administrators of each underlying fund, in consultation with and approval of the fund investment managers.

5. Assets Limited as to Use (continued)

The Indiana University Health System is a limited partner in funds that focus on absolute return investment strategies. Although execution could be limited, absolute return investment strategies are designed to reduce overall portfolio risk while producing positive investment returns regardless of market direction; however, investment returns are not guaranteed. Generally, redemptions may be made with written notice ranging from 30 to 90 days; however, some funds have redemption charges of 3% of net asset value for redemptions made on or before the first anniversary date of initial investment. Upon complete redemption, many of the funds have "hold-back" provisions of up to 10% that are returned only after the fund's audited financial statements for the redemption period are issued. These investments are accounted for using the equity method of accounting, based on the fund's financial information.

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 with various financial instruments, including futures contracts, foreign currency contracts, structured notes, and interest rate, total return, and credit default swaps. Additionally, alternative investments may have limited information on a fund's underlying assets and valuation, and limited redemption or redemption-penalty provisions. Management believes that the Indiana University Health System, in consultation with its investment advisor, has the capacity to analyze and interpret the risks associated with alternative investments, and with this understanding, has determined that investing in these investments creates a balanced approach to its portfolio management.

The largest fund allocation to any fund manager is $145,700 at December 31, 2010, and there are no investments in any individual fund greater than 10% of that fund's net assets. As of December 31, 2010, there are no unfunded commitments relating to alternative investments. Changes in the value of these funds are included in nonoperating income and losses in the accompanying consolidated statements of operations and changes in net assets.

(Thousands of Dollars)

5. Assets Limited as to Use (continued)

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

	December 31	
	2010	**2009**
Cash and cash equivalents	**$ 159,742**	$ 124,552
Marketable securities:		
U.S. government and agency obligations	**85,167**	117,422
U.S. corporate obligations	**318,770**	288,839
U.S. equity securities	**254,066**	223,924
Non-U.S. securities	**188,737**	164,496
Total marketable securities	**846,740**	794,681
Other investments:		
Alternative investments:		
Absolute return strategy (fund of funds)	**310,284**	280,532
Absolute return strategy (direct)	**74,268**	74,661
Real estate investment trusts and other	**9,062**	10,828
Total other investments	**393,614**	366,021
	1,400,096	1,285,254
Less current portion	**(4,428)**	(4,501)
Total assets limited as to use, less current portion	**$ 1,395,668**	$ 1,280,753

The current portion of assets limited as to use represents construction draws on trustee-held funds for amounts included in accounts payable.

The fair value of assets limited as to use held by Methodist Health Foundation and BMH Foundation as of December 31, 2010 aggregated $179,443, of which $90,135 is considered board-designated investment funds and $89,308 is considered donor-restricted investment funds.

(Thousands of Dollars)

5. Assets Limited as to Use (continued)

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

	Year Ended December 31 2010	2009
Investment income (losses):		
Interest and dividend income	**$ 24,722**	$ 22,104
Investment management and administration fees	**(1,664)**	(2,050)
Realized gains (losses) on sales of investments, net	**41,978**	(143,545)
Unrealized gains on investments	**37,831**	175,319
Equity gains of absolute return strategy investments	**24,017**	52,752
	$ 126,884	$ 104,580

6. Property and Equipment

The cost of property and equipment in service is summarized as follows:

	December 31 2010	2009
Land and improvements	**$ 216,639**	$ 217,795
Buildings and improvements	**2,678,067**	2,323,993
Equipment (including software developed for internal use of $201,004 in 2010 and $170,159 in 2009)	**1,948,175**	1,844,472
	$ 4,842,881	$ 4,386,260

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

(Thousands of Dollars)

6. Property and Equipment (continued)

Construction-in-progress for assets currently under development is anticipated to extend through 2014 and includes commitments for the construction, refurbishment, and replacement of facilities and equipment. A summary of the construction-in-progress is as follows:

	December 31	
	2010	**2009**
Riley Simon Family Tower	**$ –**	$ 239,405
Software developed for internal use	**19,021**	35,790
Saxony development	**117,835**	24,594
Neuroscience Center of Excellence	**19,735**	–
Other facilities and equipment	**38,988**	62,698
	$ 195,579	$ 362,487

Firm commitments for construction-in-progress totaled $127,543 at December 31, 2010. However, other amounts are anticipated to be incurred but are not legally required or committed and are subject to change or authorization by the Board, aggregating approximately $346,431.

Certain buildings, medical and computer equipment, and software are accounted for as capital leases expiring in various years through 2021 and are included in property and equipment. Amortization of assets under capital leases is included in depreciation expense. The following is a summary of property held under capital leases:

	December 31	
	2010	**2009**
Software	**$ 20,885**	$ 21,135
Computer and office equipment	**2,272**	1,902
Medical equipment	**22,054**	16,856
Buildings	**16,108**	16,001
	61,319	55,894
Less accumulated amortization	**(27,467)**	(21,757)
	$ 33,852	$ 34,137

Interest rates are imputed based on the lower of the incremental borrowing rate at the inception of each lease or the lessor's implicit rate of return.

7. Debt

Obligated Groups

The Indiana University Health System operates under three separate MTIs. Each indenture provides for the issuance of long-term debt under various obligated group structures. The obligated groups and their respective members are comprised of the specific separate entities so named in the indenture and are described as follows: (1) the Indiana University Health Obligated Group, which includes the Downtown Academic Health Center and LaPorte as members; (2) the Ball Memorial Obligated Group, including Ball Memorial, and Indiana University Health Blackford Hospital, as members, and (3) the Bloomington Obligated Group, which includes Bloomington as the sole member. These groups are required to meet certain covenants and their members are jointly and severally liable for the obligations under their respective MTIs. The obligated groups are also subject to financial performance covenants that, among other compliance requirements, require the maintenance of debt service ratios and limit each obligated group's ability to encumber certain of its respective assets.

As of December 31, 2010, the Indiana University Health System was in compliance with all financial covenants.

Issuance and Extinguishment of Debt

Indiana University Health Obligated Group

Variable Rate Demand Securities, Tax-Exempt Revenue Refunding Bonds, Series 2008B were redeemed for par value, or $48,385, plus accrued interest on December 9, 2010 with the proceeds from the Indiana University Health System's revolving line of credit.

On December 17, 2010, a direct bank loan of $42,550 (which was used to redeem Series 2003F bonds) was amended to include a maturity date of January 31, 2012, with interest at one-month London Interbank Offered Rate (LIBOR), plus a margin of 0.85%.

7. Debt (continued)

Ball Memorial Obligated Group

On December 8, 2009, Series 2009A, tax-exempt, fixed rate, refunding bonds were issued for $24,700, with the proceeds used to refund the Series 1998 variable rate bonds, fund a debt service reserve of $2,470, and pay certain expenses incurred with the issuance. At the time of refinancing, the Series 1998 bonds were outstanding in the principal amount of $23,200, including $20,400 of such outstanding amount representing "Bank Bonds" (as defined), which previously failed to market under the normal remarketing process. These transactions resulted in a write-off of $279 in unamortized issuance costs, which was included in other nonoperating expenses for the year ended December 31, 2009.

Other

In December 2010, Tipton refunded its Adjustable Rate Demand Economic Development Revenue Bonds, Series 2006A and Series 2006B in the aggregate principal amount of $24,670 and terminated the related interest rate swap for a one-time cash expenditure of $760. Proceeds for the transaction were acquired by liquidating $9,000 from Tipton's investments with the remaining proceeds borrowed under the line of credit.

On April 9, 2010, Indiana University Health entered into a $25,332 fixed-rate, fully amortizing, and privately placed tax-exempt lease purchase agreement to finance four helicopters. Pursuant to the terms of the agreement, principal and interest are payable using a ten-year amortization at a fixed rate of 4.09% per annum. The financing agreement is secured with a lien on the helicopters.

On March 18, 2010, Indiana University Health executed a $45,000 loan agreement to finance information technology property and services. Under the agreement, periodic advances are to be amortized and paid over five years at an annual interest rate of 4.75%. The loan agreement is secured under the provisions of Indiana University Health Obligated Group's MTI and as of December 31, 2010, $43,325 was advanced under the loan agreement.

The Indiana University Health Obligated Group has executed stand-by purchase and direct-pay letter-of-credit agreements in support of its variable rate bond series, which require the credit provider to purchase bonds in the event the bonds are not remarketed. The existence of these agreements allows for the long-term classification of the associated variable rates bond series. As of December 31, 2010, no amounts were drawn on these agreements. Because certain of these agreements expire prior to December 31, 2011, Indiana University Health reflected approximately $21,000 of variable rate bonds as the current portion of long-term debt in the accompanying balance sheet.

(Thousands of Dollars)

7. Debt (continued)

Long-term debt as of December 31, 2010 and 2009 consists of the following:

	2010	2009
Indiana University Health Obligated Group		
Indiana Finance Authority:		
Variable Rate Demand Securities, Tax-Exempt Revenue Refunding Bonds, Series 2008A, B, C, and D, Series 2005 A, B, C, and D payable in varying installments through 2033, variable interest rates ranging between 0.31% and 0.36%, respectively, at December 31, 2010	**$ 401,405**	$ 466,215
Variable Rate Demand Notes, Taxable Hospital Revenue Bonds, Series 2003E and G Serial Bonds, payable in varying principal installments through 2033, with variable interest rates ranging between 0.50% and 0.62%, respectively, at December 31, 2010,	**169,275**	172,225
Indiana Health and Educational Facility Financing Authority:		
Fixed Rate, Tax-Exempt Hospital Revenue Refunding Bonds, Series 2006A, 2006B, and 200A Serial and Term Bonds, payable in varying principal installments through 2040, with interest rates ranging from 4.75% to 5.25% at December 31, 2010	**682,835**	689,220
Variable Rate Commercial Bank Loans, payable in varying principal installments through 2015, with interest rates ranging from 0.96% to 1.11% at December 31, 2010	**112,716**	43,300
Fixed Rate Commercial Bank Loan, payable in varying principal installments through 2016, with an interest rate of 4.75% at December 31, 2010	**43,325**	–
Ball Memorial Obligated Group		
Hospital Authority of Delaware County, Indiana:		
Fixed Rate, Tax-Exempt Revenue Refunding Bonds, Series 2009A, 2006, and 1997 Term Bonds, payable in varying principal installments through 2036, with interest rates ranging from 5.00% to 5.63% at December 31, 2010	**108,985**	112,915
Bloomington Obligated Group		
Hospital Authority of Monroe County, Indiana:		
Fixed Rate, Tax-Exempt Revenue Bonds, Series 1999B and 1997 Serial and Term Bonds payable in varying principal installments through 2029, with interest rates ranging from 5.13% to 6.00% at December 31, 2010	**39,360**	41,120
Variable Rate, Tax-Exempt Equipment Financing Agreements, payable in varying installments through 2016, with interest rates ranging from 1.49% to 1.72% at December 31, 2010	**9,183**	11,795
Fixed Rate, Commercial Bank Loan, payable in annual principal installments through 2011, with an interest rate of 4.84% at December 31, 2010	**3,165**	6,965
Other Nonobligated Group Debt		
Tipton, Tax-Exempt Adjustable Rate Demand Economic Development Revenue Bonds, Series 2006A and Taxable Series 2006B	**–**	25,415
Bloomington, Variable Rate, Taxable Revenue Bonds, Series 2008 Private Placement Bonds, payable in quarterly installments through 2019, variable interest rate of 0.81% at December 31, 2010	**3,612**	3,941
Stonehenge Community Development VII, LLC:	**25,000**	25,000
Fixed Rate, Unsecured New Market Tax Credit Notes A and B, due in 2014 at an interest rate of 3.29%		
Mortgage obligations (interest rates ranging from 4.10% to 7.05 %)	**14,710**	17,274
Capital lease obligations	**40,290**	42,244
Other	**32,823**	23,324
Total long-term debt	**1,686,684**	1,680,953
Unamortized premium	**3,420**	3,312
Less current portion	**(82,965)**	(51,984)
Long-term portion, less current portion	**$ 1,607,139**	$ 1,632,281

(Thousands of Dollars)

7. Debt (continued)

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

	Indiana University Health Obligated Group	Ball Memorial Obligated Group	Bloomington Obligated Group	Other	Total
Year ending December 31:					
2011	$ 55,642	$ 5,623	$ 8,121	$ 13,579	$ 82,965
2012	146,882	3,906	4,305	10,007	165,100
2013	36,617	5,241	3,696	6,385	51,939
2014	37,833	4,666	3,444	33,142	79,085
2015	37,596	4,817	3,416	5,595	51,424
Thereafter	1,094,986	93,084	36,350	31,751	1,256,171
	$ 1,409,556	$ 117,337	$ 59,332	$ 100,459	$ 1,686,684

The estimated fair value of the revenue bonds at December 31, 2010 and 2009 amounted to $1,321,198 (which includes Ball Memorial – $89,382 and Bloomington – $35,997) and $1,441,946, respectively, based on market interest rates and conditions for similar issues as of those dates. The carrying value of the revenue bonds at December 31, 2010 and 2009 amounted to $1,401,860 and $1,507,110, respectively. The recorded value of all debt obligations not traded in the secondary credit markets approximated fair value at December 31, 2010 and 2009.

During December 2010, Indiana University Health renewed its $86,000 secured line of credit, which is secured under the terms of its Obligated Group MTI and bears interest on a variable rate based on LIBOR and matures January 31, 2012. As of December 31, 2010, the Indiana University Health System had total lines of credit totaling $90,000 of which $70,166 was drawn and outstanding and included within long-term debt in the consolidated balance sheet.

Total interest paid on long-term debt for the years ended December 31, 2010 and 2009 aggregated $68,789 and $77,396, respectively. Total interest capitalized during the years ended December 31, 2010 and 2009 amounted to $8,393 and $12,984, respectively, which was offset by interest income of $8 and $29, respectively, on nontaxable, unexpended borrowed funds.

(Thousands of Dollars)

7. Debt (continued)

Guarantees

Indiana University Health has guaranteed with its joint venture partner the long-term debt of a rehabilitative care hospital. Indiana University Health's portion of its guarantee aggregated approximately $6,400 and $7,009 as of December 31, 2010 and 2009, respectively, and could be subject to execution due to noncompliance with certain financial covenants by the rehabilitative care hospital. In addition to this guarantee, Indiana University Health has also loaned the rehabilitative care hospital $1,500 during 2010, which matures during 2017.

Indiana University Health and certain of its subsidiaries also have agreements with physician groups and others that guarantee minimum revenue totals. Accruals are made periodically for any minimum revenue guarantee, which aggregated $1,900 at December 31, 2010 and $2,927 at December 31, 2009.

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 payor swaps, stated at current notional amounts, remain in place as of December 31, 2010:

Notional Amount	Effective Date	Maturity Date	Underlying Debt	Rate Received	Rate Paid
$139,425	2/15/2005	5/15/2021	Series 2005A and B	62.3% LIBOR plus .24%	3.19%
148,250	11/15/2005	2/15/2030	Series 2005C and D	62.3% LIBOR plus .24%	3.35%
211,600	6/26/2003	3/01/2033	Series 2003E, Direct Bank Loan (2003F refunded), and 2003G	LIBOR	4.92%
4,000	6/30/2008	6/30/2013	Mortgage	LIBOR plus 1.75%	6.00%
2,311	6/01/2004	6/01/2024	Mortgage	LIBOR plus 1.50%	7.05%
1,744	6/01/2006	6/01/2026	Mortgage	LIBOR plus 1.25%	7.15%
221	10/1/1999	10/01/2019	Mortgage	Prime plus 1.86%	7.72%

(Thousands of Dollars)

8. Derivative Financial Instruments (continued)

In addition, long-term basis swap arrangements were entered into for the purpose of mitigating the effect on cash flows and were in place as of December 31, 2010 as follows:

Notional Amount	Effective Date	Maturity Date	Swap Type	Rate Received	Rate Paid
$140,446	3/10/2021	2/15/2033	Forward Starting Basis	75.0% three-month LIBOR minus 0.05%	Securities Industry and Financial Markets Association (SIFMA)
183,957	1/02/2008	2/15/2033	Basis	75.0% one-month LIBOR	SIFMA
183,957	2/15/2009	2/15/2021	Basis	72.0% three-month LIBOR minus 0.13%	SIFMA
309,200	3/10/2021	1/07/2033	Forward Starting Basis	75.0% three-month LIBOR minus 0.04%	SIFMA
309,200	3/7/2009	3/07/2021	Basis	72.0% three-month LIBOR minus 0.12%	SIFMA
309,200	1/03/2008	1/07/2033	Basis	75.0% one-month LIBOR	SIFMA
250,000	3/10/2021	9/30/2038	Forward Starting Basis	80.5% three-month LIBOR minus 0.03%	SIFMA
250,000	3/01/2009	3/01/2021	Basis	77.0% three-month LIBOR minus 0.11%	SIFMA
250,000	3/01/2009	3/01/2021	Basis	77.0% three-month LIBOR minus 0.11%	SIFMA
250,000	3/10/2021	9/30/2038	Forward Starting Basis	81.0% three-month LIBOR minus 0.03%	SIFMA

As of December 31, 2010, interest rate swaps had a total notional amount of $1,993,865, including $507,551 of fixed payor swaps and $1,486,314 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 each counterparty falls below certain thresholds. The aggregate fair value of all derivative instruments, consisting of fixed payor and basis swaps, with credit-risk-related contingent features that are in a liability position on December 31, 2010 and 2009, respectively, was $124,141 and $49,962, respectively, for which collateral of $26,847, had been posted for both years. Such collateral amounts are shown as funds held under swap credit annex agreements in the consolidated balance sheets.

During March 2009, Indiana University Health transferred uninsured interest rate swaps to a new counterparty and negotiated with existing counterparties to restructure various contractual terms associated with its basis swaps. The restructuring included assigning the first 12 years of the term structure to a new counterparty with the existing counterparty retaining a forward starting position.

(Thousands of Dollars)

8. Derivative Financial Instruments (continued)

Guidance on fair value accounting stipulates that a credit valuation adjustment (CVA) should be applied to the mark-to-market valuation position of interest rate swaps to more closely capture the fair value of such instruments. Collateral arrangements reduce the credit exposure and are considered in determining the CVA. As of December 31, 2010, the fair value of interest rate swaps was $140,916, which is net of CVA of $15,219. As of December 31, 2009, the fair value of interest rate swaps was $66,686, which is net of CVA of $3,214. The fair values of the swaps have been included with noncurrent liabilities in the accompanying consolidated balance sheets. Changes in the fair value of these derivative financial instruments are included in the accompanying consolidated statements of operations and changes in net assets with nonoperating income and losses.

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

	Year Ended December 31	
	2010	**2009**
Income (losses) on interest rate swaps, net:		
Unrealized gains (losses) on interest rate swaps	**$ (74,229)**	$ 193,824
Realized losses on interest rate swaps	**(19,865)**	(18,156)
	$ (94,094)	$ 175,668

9. Fair Value Measurements

Recent accounting guidance addresses aspects of the expanding application of fair value accounting. The fair value accounting guidance provides, among other matters, for the following: 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; 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; requires consideration of nonperformance risk when valuing liabilities; and 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.

9. Fair Value Measurements (continued)

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 1 primarily consists of financial instruments such as money market securities and listed equities.

- 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. Instruments in this category include certain U.S. government agency and sponsored entity debt securities and interest rate swap contracts.

- 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 observable 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.

The following table sets forth by level within the fair value hierarchy the Indiana University Health System's financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2010 and 2009. 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.

(Thousands of Dollars)

9. Fair Value Measurements (continued)

December 31, 2010	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Cash and cash equivalents	**$ 551,764**	**$ –**	**$ –**	**$ 551,764**
Trading securities:				
U.S. government and agency	**60,254**	**24,913**	**–**	**85,167**
U.S. corporate obligations	**264,782**	**53,988**	**–**	**318,770**
U.S. equity securities	**253,491**	**575**	**–**	**254,066**
Non-U.S. securities	**123,937**	**64,800**	**–**	**188,737**
Real estate investment trusts and other	**6,302**	**2,760**	**–**	**9,062**
Beneficial interests in charitable remainder and perpetual trusts	**–**	**9,525**	**–**	**9,525**
Total assets measured at fair value on a recurring basis	**$ 1,260,530**	**$ 156,561**	**$ –**	**$ 1,417,091**
Liabilities				
Interest rate swaps	**$ –**	**$ 140,916**	**$ –**	**$ 140,916**
Total liabilities measured at fair value on a recurring basis	**$ –**	**$ 140,916**	**$ –**	**$ 140,916**

December 31, 2009	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Cash and cash equivalents	$ 304,967	$ –	$ –	$ 304,967
Trading securities:				
U.S. government and agency	86,405	31,017	–	117,422
U.S. corporate obligations	209,050	79,789	–	288,839
U.S. equity securities	221,687	2,237	–	223,924
Non-U.S. securities	135,429	29,067	–	164,496
Real estate investment trusts and other	9,124	1,704	–	10,828
Beneficial interests in charitable remainder and perpetual trusts	–	9,007	–	9,007
Total assets measured at fair value on a recurring basis	$ 966,662	$ 152,821	$ –	$1,119,483
Liabilities				
Interest rate swaps	$ –	$ 66,686	$ –	$ 66,686
Total liabilities measured at fair value on a recurring basis	$ –	$ 66,686	$ –	$ 66,686

9. Fair Value Measurements (continued)

The fair value of cash and cash equivalents, which consist mainly of funds invested in money market funds, is based on quoted market prices and classified as Level 1. The fair value of Level 1 trading securities is based on quoted market prices from an active exchange. The fair value of Level 2 trading securities is based on third-party quotes based on quoted market prices of similar securities and other observable inputs. The fair value of interest rate swaps is based upon forward interest rate curves, as adjusted for CVA (see Note 8).

The Indiana University Health System's cash and cash equivalents of \$113,005 and \$116,343, as of December 31, 2010 and 2009, respectively, are not included in the table because they are not held in money market accounts. The Indiana University Health System's \$384,552 and \$355,193 of alternative investments as of December 31, 2010 and 2009, respectively, are not included in the table because they are accounted for using the equity method of accounting (see Note 5). The beneficial interests in charitable remainder and perpetual trusts are shown within other long-term assets on the accompanying consolidated balance sheet.

10. Commitments and Contingencies

Leases

In August 2010, a medical office building of West was sold for \$23,260, and the buyer obtained all rights and interests as landlord for the existing leases of the medical office building. West and other subsidiaries of Indiana University Health entered into operating leases with the buyer to leaseback a portion of the office building. A gain on the sale of the office building of \$6,018 was recognized, of which \$2,083 was recognized at the time of sale with the remaining \$3,935 gain being accreted over the term of the leases. Indiana University Health continues to own the land, and a ground lease agreement was entered into with the buyer under which the land that the facilities occupy is leased for 75 years. The total amount of rent over the term was \$330, was prepaid to Indiana University Health, and is being recognized over the term of the ground lease.

In December 2009, a medical office building of North was sold for \$25,800, and the buyer obtained all rights and interests as landlord for the existing leases of the medical office building. North and other subsidiaries of Indiana University Health entered into operating leases with the buyer to leaseback a portion of the office building. A gain on the sale of the office building of \$6,863 was recognized, of which \$1,693 was recognized at the time of sale with the remaining \$5,170 gain being accreted over the term of the leases. Indiana University Health continues to own the land, and a ground lease agreement was entered into with the buyer under which the land that the facilities occupy is leased for 75 years. The total amount of rent over the term was \$2,600, was prepaid to Indiana University Health, and is being recognized over the term of the ground lease.

(Thousands of Dollars)

10. Commitments and Contingencies (continued)

In May 2009, Indiana University Health entered into a sale-leaseback arrangement with a real estate investment trust. Under the arrangement, various outpatient and professional office facilities were sold and then leased back. The leaseback has been accounted for as an operating lease. A gain on the sale of the office building of $9,225 was recognized, of which $2,302 was recognized at the time of sale with the remaining $6,923 gain being accreted over the term of the leases. For the year ended December 31, 2009, $2,371 of gain was recognized relating to the sale. Concurrently with this sale-leaseback arrangement, Indiana University Health and the real estate investment trust entered into a ground lease agreement under which the land that the facilities occupy is leased for 75 years. The total amount of rent over the term of the lease is $905, was prepaid to Indiana University Health, and is being recognized over the term of the ground lease.

Rent and lease expense amounted to $68,967 and $60,539 for the years ended December 31, 2010 and 2009, respectively.

Other buildings and medical and office equipment are leased under noncancelable operating and capital leases. Future minimum lease payments as of December 31, 2010 are as follows:

Year ending December 31:	Operating Leases	Capital Leases
2011	$ 37,375	$ 14,063
2012	27,339	9,330
2013	20,836	6,347
2014	16,558	5,562
2015	12,494	4,473
Thereafter	32,108	13,923
Total minimum lease payments	$ 146,710	53,698
Less amount representing interest		(13,408)
Present value of net minimum lease payments		$ 40,290

On December 17, 2010, Indiana University Health entered in a Purchase and Sale Agreement to purchase a 280,000 square foot building located in Indianapolis, Indiana, for $8,200. Indiana University Health System currently leases space in the building under operating leases for administrative and support services. In connection with this agreement, Indiana University Health also entered into an agreement to purchase certain parking lot space related to the building for approximately $4,500. These agreements are anticipated to become effective in the first quarter of 2011.

11. Medical Malpractice

The Indiana University Health System's medical malpractice coverage is provided through a program of commercial insurance with a self-insured retention for claims made prior to July 1, 2002, and coverage through wholly owned captive insurance companies effective July 1, 2002. The program of medical malpractice coverage considers limitations in claims and damages prescribed by the Indiana Medical Malpractice Act (the Act), which limits the amount of individual claims to $1,250 and annual aggregate claims to $7,500, of which up to $1,000 would be paid by the State of Indiana Patient Compensation Fund (the Fund) and $250 by the Indiana University Health System for each occurrence of malpractice. The Act also requires that health care providers meet certain requirements, including making funding payments to the Fund and maintaining certain insurance levels. The Indiana University Health System has met these requirements and is a qualified provider under the Act, retaining risk of $250 per occurrence and $7,500 in the annual aggregate.

The Indiana University Health System's medical malpractice program includes coverage offered by the captive insurance companies or, from July 1, 2002 to June 30, 2004, by the fronting carrier, Continental Casualty Company. Commercial insurance carriers also provide reinsurance for certain excess general liability coverage of the captive insurance companies on a claims-made basis (aggregating $100,000).

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

Investments held by the captive insurance companies aggregated $73,286 and $61,667 at December 31, 2010 and 2009, respectively, and are included in the accompanying consolidated balance sheets with board-designated investment funds.

12. Retirement Plans

Defined Contribution Plans

Pension benefits are provided to substantially all employees of the Indiana University Health System primarily through defined contribution plans. Contributions to the defined contribution plans are based on compensation of qualified employees and amounted to $71,627 in 2010 and $61,982 in 2009 (net of forfeitures of $1,519 and $830 in 2010 and 2009, respectively).

12. Retirement Plans (continued)

Defined Benefit Plans

Defined benefit pension plans sponsored by Indiana University Health, LaPorte, Ball Memorial, and Bloomington have been curtailed with benefits generally frozen or limited and no new participants are allowed. The defined benefit pension plans applicable to Indiana University Health were principally limited to current and former employees who elected not to participate in the defined contribution plan established at the time of Indiana University Health's formation and current and former executives who participated in a supplemental employee retirement plan of Indiana University Health. The LaPorte defined benefit pension plan was limited to current and former employees of LaPorte who were participants in the LaPorte defined benefit pension plan as of November 30, 2006. Ball Memorial's defined benefit pension plan was frozen December 31, 2006 for new employees and replaced with a defined contribution plan. During July 2009, benefits were frozen within Ball Memorial's defined benefit pension plan, which resulted in a gain of $21,917. Bloomington's defined benefit plan was frozen on July 1, 2006 for participants under 50 years of age as of December 31, 2006 and replaced with a defined contribution plan. Employees who had attained age 50 as of December 31, 2006 continue to receive credit for service years for the remainder of their employment based on earnings as of June 30, 2006.

Pension benefits are based on years of service and compensation of employees (as defined) and are actuarially determined. Where applicable, the funding policy is to annually contribute the contribution required to comply with applicable legislation and IRS regulations.

Adjustments to pension liabilities to reflect funded status are charged or credited to unrestricted net assets. A reduction to the pension liability of $10,134 has been recorded in 2010 due primarily to improvement in the capital markets in 2010 and employer contributions made to the plans in 2010. Additionally, the pension liability decreased $7,469 due to the transfer of a physician group defined benefit plan to Indiana University Health Physicians, an equity method joint venture, in April 2010.

(Thousands of Dollars)

12. Retirement Plans (continued)

The following table sets forth the funded status of the defined benefit pension plans and amounts recognized in the consolidated financial statements as of and for the years ended December 31, 2010 and 2009. The date of data collection was January 1 for 2010 and 2009 (rolled forward to year-end and adjusted for changes in employment status). The discount rates used vary with each plan based on plan characteristics such as the average age of participants. The net periodic pension costs related to Bloomington's pension plan is not included for 2009 in the table below and amounted to $5,050 for 2009.

	2010	**2009**
Changes in benefit obligation of the plans:		
Benefit obligation at beginning of the year	**$ 385,382**	$ 117,067
Ball Memorial benefit obligation as of January 1, 2009	**–**	181,566
Transfer of benefit obligation to Indiana University Health Physicians	**(7,469)**	–
Benefit obligation at the beginning of the year, as adjusted	**377,913**	298,633
Service cost and other	**2,737**	4,520
Interest cost	**21,848**	18,658
Actuarial loss	**16,695**	23,283
Benefits paid	**(14,748)**	(16,155)
Plan amendments	**–**	(21,846)
Bloomington benefit obligation as of December 31, 2009	**–**	78,289
Benefit obligation at end of year	**$ 404,445**	$ 385,382
Changes in assets of the plans:		
Fair value of assets at beginning of year	**$ 273,199**	**$** 66,221
Ball Memorial fair value of assets at January 1, 2009	**–**	118,138
Fair value of assets at beginning of year, as adjusted	**273,199**	184,359
Actual return on assets	**30,551**	27,609
Employer contributions	**20,863**	9,902
Benefits paid	**(14,748)**	(16,155)
Bloomington fair value of assets at December 31, 2010	**–**	67,484
Fair value of assets at end of year	**$ 309,865**	$ 273,199
Funded deficiency at December 31	**$ (94,580)**	$ (112,183)
Items not yet recognized as a component of net periodic pension cost:		
Net actuarial loss	**$ 86,761**	$ 88,345
Prior service cost	**(880)**	(1,158)
Net transition obligation	**–**	242
	$ 85,881	$ 87,429

(Thousands of Dollars)

12. Retirement Plans (continued)

The amount of items not yet recognized as a component of net periodic pension cost for Bloomington as of December 31, 2009 was $18,427.

	2010	2009
Components of net pension benefit cost:		
Service cost	**$ 2,737**	$ 4,520
Interest cost	**21,848**	18,658
Expected return on assets	**(22,132)**	(14,666)
Amortization of unrecognized prior service cost	**(283)**	(286)
Amortization of unrecognized net asset	**–**	81
Amortization of unrecognized net loss	**8,941**	11,115
Termination benefit and settlement expense	**–**	687
Net periodic pension cost	**$ 11,111**	$ 20,109

	2010	2009
Weighted-average actuarial assumptions to determine benefit cost:		
Discount rate for net periodic pension cost	**5.90%**	6.28%
Discount rate for benefit obligations	**5.56**	5.88
Expected rate of return on plan assets	**8.00**	8.00
Rate of compensation increase	**3.00**	2.33
Accumulated benefit obligation	**$ 402,361**	$ 383,667
Fair value of assets at end of year	**309,865**	273,199
Accumulated benefit obligation exceeding fair value of plan assets	**$ 92,496**	$ 110,468

Expected future benefit payments:	
2011	$ 14,587
2012	16,242
2013	18,747
2014	24,840
2015	20,660
2016 – 2019	134,483

(Thousands of Dollars)

12. Retirement Plans (continued)

Contributions are expected to aggregate $13,678 to the defined benefit pension plans during 2011.

Accumulated adjustments to unrestricted net assets at December 31, 2010 include amounts related to net actuarial loss, prior service costs, and transition obligations that have not yet been recognized in net pension benefit cost. Expected amortization of amounts in unrestricted net assets are expected to increase net periodic pension costs of $6,961 during the year ending December 31, 2011.

The principal long-term determinant of a plan's investment return is its asset allocation. The plans' allocations are heavily weighted towards equity assets versus other investments. The expected long-term rate of return assumption is based on the mix of assets in the plans, the long-term earnings expected to be associated with each asset class, and any additional return expected through active management. These assumptions are periodically benchmarked against peer plans.

The weighted-average asset allocations of the plans at December 31, by asset category, are as follows:

Asset category	**2010**	**2009**
Equity securities	**52%**	53%
Fixed income securities	**25**	29
Absolute return strategy (fund of funds)	**20**	16
Cash and cash equivalents	**3**	2
	100%	100%

The allocation strategy for the plans is currently comprised of approximately 50% to 85% of equity investments and 15% to 50% of fixed income investments. The largest component of these equity instruments is public equity securities that are diversified and invested in U.S. and international companies.

(Thousands of Dollars)

12. Retirement Plans (continued)

The following table presents the plans' financial instruments as of December 31, 2010 and 2009, measured at fair value on a recurring basis within the fair value hierarchy as disclosed in Note 9:

December 31, 2010	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Cash equivalents	**$ 7,420**	**$ –**	**$ –**	**$ 7,420**
Equity securities	**144,146**	**16,687**	**–**	**160,833**
Fixed income securities	**48,059**	**30,194**	**–**	**78,253**
Absolute return strategy (fund of funds)	**-**	**63,359**	**–**	**63,359**
Total assets measured at fair value on a recurring basis	**$ 199,625**	**$ 110,240**	**$ –**	**$ 309,865**

December 31, 2009	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Cash equivalents	$ 5,580	$ 209	$ –	$ 5,789
Equity securities	140,779	4,206	–	144,985
Fixed income securities	79,837	–	–	79,837
Absolute return strategy (fund of funds)	–	42,588	–	42,588
Total assets measured at fair value on a recurring basis	$ 226,196	$ 47,003	$ –	$ 273,199

The fair value of cash equivalents, which consist mainly of funds invested in money market funds, is based on quoted market prices and classified as Level 1. The fair value of Level 1 investments is based on quoted market prices from an active exchange. The fair value of Level 2 investments is based on third-party quotes based on quoted market prices of similar securities and other observable inputs.

(Thousands of Dollars)

13. Endowments

Endowment funds of Methodist Health Foundation and BMH Foundation consist of donor-restricted endowment funds held for various specific purposes. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of both foundations have interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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 foundations classify as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) 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 fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the foundations in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the foundations consider the various factors in making a determination to appropriate or accumulate donor-restricted endowment funds, such as the duration and preservation of the fund, the purposes of the foundations and the donor-restricted endowment fund, general economic conditions, the possible effect of inflation and deflation, the expected total return from income and the appreciation of investments, other resources of the organization, and the investment policies of the foundations.

The endowment net asset composition by type of fund for both foundations as of December 31, 2010 and December 31, 2009 were as follows:

December 31, 2010	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	**$ 10,470**	**$ 44,349**	**$ 54,819**

December 31, 2009	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ 12,104	$ 43,150	$ 55,254

(Thousands of Dollars)

13. Endowments (continued)

Changes in endowment net assets for both foundations for the year ended December 31, 2010 and December 31, 2009 were as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at January 1, 2010	**$ 12,104**	**$ 43,150**	**$ 55,254**
Contributions	**36**	**–**	**36**
Investment return	**(368)**	**1,199**	**831**
Appropriation of endowment assets for expenditures	**(1,302)**	**–**	**(1,302)**
Endowment net assets at December 31, 2010	**$ 10,470**	**$ 44,349**	**$ 54,819**

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at January 1, 2009	$ 13,904	$ 41,106	$ 55,010
Contributions	1	2,044	2,045
Investment return	(41)	403	362
Reclassification	(443)	(403)	(846)
Appropriation of endowment assets for expenditures	(1,252)	–	(1,252)
Other	(65)	–	(65)
Endowment net assets at December 31, 2009	$ 12,104	$ 43,150	$ 55,254

In 2010, Methodist Health Foundation and BMH Foundation transferred a total of $869 from unrestricted net assets to temporarily restricted net assets to maintain donor restricted endowment funds at the level required by the donor stipulations or law. In 2009, the BMH Foundation transferred a total of $846 from temporarily and permanently restricted net assets back to unrestricted net assets as a result of a 2008 transfer from unrestricted to maintain donor restricted endowment funds at the level required by the donor stipulations or law.

Methodist Health Foundation and BMH Foundation have adopted separate investment and spending policies for endowment assets. Policies for both foundations attempt to preserve capital, maximize the return within reasonable and prudent levels of risk, and provide a return to the restricted funds. Endowment assets are invested in a manner that is intended to produce results that exceed the initial

13. Endowments (continued)

recorded value of the investment and yield a targeted long-term rate while assuming a moderate level of investment risk. Distributions are made for the purposes of supporting various Indiana University Health and Ball Memorial program services. Each foundation has set a threshold for the amount available to distribute each year.

14. Related Party Transactions

Indiana University School of Medicine

The Consolidation Agreement requires that Indiana University Health fund salaries and related employee benefit costs for medical doctor interns and residents of the School of Medicine who provide services at the Indiana University Health System's facilities. These costs totaled $37,453 and $36,274 in 2010 and 2009, respectively, and have been reported with salaries, wages, and benefits expense in the accompanying consolidated statements of operations and changes in net assets.

The Consolidation Agreement also provides for additional support to the School of Medicine to recognize, as a result of the consolidation, the enhanced and increased level of services being provided, including services to the medically indigent through medical education and research. During 2010 and 2009, Indiana University Health paid and expensed $71,353 and $81,130, respectively, related to educational and research support provided to the School of Medicine. As of December 31, 2010, Indiana University Health had prepaid $49,882 of education and research support to the School of Medicine. The School of Medicine rents space at Indiana University Health's Fairbanks Hall, an educational and resource center, under a 34-year lease agreement with Indiana University Health. The School of Medicine prepaid the rent, totaling $4,887 under the agreement, and the income is being recognized over the term of the lease.

Indiana University Health purchases certain services from the School of Medicine. These expenses, principally for medical care case management services, utilities, laboratory services, and other services, totaled $18,898 and $21,364 for the years ended December 31, 2010 and 2009, respectively, and have been reported with supplies, drugs, purchased services, and other expenses in the accompanying consolidated statements of operations and changes in net assets.

Suburban Hospitals

The Suburban Hospitals are limited liability companies formed by Indiana University Health, which each own, operate, or lease an acute care hospital and a related medical office building. As of December 31, 2010, Indiana University Health holds 76.9% and 63.8% of the membership interests in West and North, respectively. The remaining membership interests are held by physicians and physician-group practices. Under the terms of the membership offerings, Indiana University Health will hold not less than 60% of

14. Related Party Transactions (continued)

the membership interests in West and North. Total assets of the Suburban Hospitals are $417,238 and $414,398 as of December 31, 2010 and 2009. Total revenues are $380,909 and $346,936 as of December 31, 2010 and 2009.

Other Foundations

Bloomington Hospital Foundation and Riley Children's Foundation are tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code and are organized primarily to provide support to indigent and other patient care programs, fund medical education and research activities, and engage in fundraising activities, a substantial portion of which is on behalf of, or for, specific health care activities. Tipton County Foundation, a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, holds funds solely on behalf of Tipton. The financial statements of these foundations are not included in the consolidated financial statements. The interests in net assets of these other foundations are included with other assets and net assets in the accompanying consolidated balance sheets and solely represent donor-restricted funds for the benefit of Bloomington, Tipton, and Riley Hospitals.

The interest in net assets of the Bloomington Hospital Foundation amounted to $4,314 and $4,109 at December 31, 2010, and 2009, respectively. The interest in net assets of the Tipton County Foundation amounted to $8,356 at December 31, 2010. The interest in net assets of the Riley Children's Foundation amounted to $289 and $320 at December 31, 2010 and 2009, respectively. The consolidated net assets include unrestricted support, provided by Riley Children's Foundation, of $5,000 for the years ended December 31, 2010 and 2009, respectively, for the Riley Simon Family Tower. Other changes in the net assets of these foundations are generally reflected with temporarily and permanently restricted net assets.

Other Equity Interest Ventures

Indiana University Health holds a 51% ownership interest in Indiana University Health Physicians. Due to Indiana University Health funding all operating losses of Indiana University Health Physicians, Indiana University Health recorded 100% of Indiana University Health Physicians' net losses.

Indiana University Health holds a 94% ownership interest in The HealthCare Group, LLC (THCG). THCG's wholly owned subsidiary, The M●Plan, formerly was a licensed health maintenance organization (HMO) that provided coverage to enrolled members throughout the state of Indiana. The M●Plan exited the business of providing commercial health care coverage effective as of the year ended December 31, 2007 and wound down the business through 2010. As a result of the exit activities of The M●Plan, distributions of $4,824 and $4,385 were made to Indiana University Health during 2010 and 2009, respectively.

(Thousands of Dollars)

14. Related Party Transactions (continued)

Indiana University Health has a 50% membership interest in MDWise, Inc., a tax-exempt organization under Section 501(c)(4) of the Internal Revenue Code, which holds an HMO license and manages a network of health care providers serving Indiana Medicaid patients throughout the state of Indiana. Included in prepaid expenses at December 31, 2010 and 2009 is $262 and $1,402, respectively, representing prepayments to MDWise, Inc. of future administrative fees. MDWise, Inc. provides administrative and health claims payment processing for these networks, including Carewise, a division of the Indiana University Health System.

The Indiana University Health System also has joint venture arrangements for the operation of ambulatory surgery centers, a long-term rehabilitative care hospital, and cancer treatment and diagnostic clinics.

Summarized financial information for THCG, MDWise, Inc., Indiana University Health Physicians, the ambulatory surgery centers, rehabilitative hospital, and cancer treatment and diagnostic clinics as of and for the years ended December 31 as reported by the respective entities is as follows:

	2010	**2009**
	(Unaudited)	
Net assets	**$ 39,043**	$ 76,168
Total revenues	**850,121**	827,537
Excess of revenues over expenses	**5,109**	36,634

In the accompanying consolidated financial statements, the Indiana University Health System has recorded its equity in the income (loss) of its unconsolidated subsidiaries that provide health care-related services with other operating revenue, totaling ($15,478) and $21,811 for the years ended December 31, 2010 and 2009, respectively.

Cash and cash equivalents held and managed by Indiana University Health on behalf of organizations that are not consolidated aggregated $9,698 and $13,556 at December 31, 2010 and 2009, respectively, and are included with accounts payable and accrued expenses in the consolidated balance sheets.

15. 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

15. Health Care Legislation and Regulation (continued)

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.

In March 2010, Congress adopted comprehensive health care insurance legislation, *Patient Care Protection and Affordable Care Act* and *Health Care and Education Reconciliation Act*. The legislation, among other matters, is designed to expand access to coverage to substantively all citizens by 2019 through a combination of public program expansion and private industry health insurance. Changes to existing Medicare and Medicaid coverage and payments are also expected to occur as a result of this legislation. Implementing regulations are generally required for these legislative acts, which are to be adopted over a period of years and, accordingly, the specific impact of any future regulations is not determinable.

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