Consolidated Financial Statements

Indiana University Health Ball Memorial Hospital and subsidiaries
(formerly known as Ball Memorial Hospital, Inc. and subsidiaries)
(A subsidiary of Indiana University Health)
Years Ended December 31, 2010 and 2009
With Report of Independent Auditors

Ernst & Young LLP

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Consolidated Financial Statements

Years Ended December 31, 2010 and 2009

Contents

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Report of Independent Auditors

The Board of Directors
Indiana University Health Ball Memorial Hospital and subsidiaries

We have audited the accompanying consolidated balance sheets of Indiana University Health Ball Memorial Hospital (formerly known as Ball Memorial Hospital, 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 consolidated financial statements are the responsibility of the management of Indiana University Health Ball Memorial Hospital and subsidiaries. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. We were not engaged to perform an audit of Indiana University Health Ball Memorial Hospital's internal control over financial reporting. Our audits 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 Ball Memorial Hospital'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 consolidated 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 Ball Memorial Hospital 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 18, 2011

Indiana University Health Ball Memorial Hospital and subsidiaries
(A subsidiary of Indiana University Health)

Consolidated Balance Sheets

(Thousands of Dollars)

	December 31	
	2010	**2009**
Assets		
Current assets:		
Cash and cash equivalents	**$ 35,760**	$ 13,552
Patient accounts receivable, less allowance for uncollectible accounts of $30,430 and $19,052 at 2010 and 2009, respectively	**35,801**	37,504
Prepaid expenses	**1,089**	2,923
Inventories	**6,549**	7,012
Other current assets	**3,347**	6,604
Total current assets	**82,546**	67,595
Assets limited as to use:		
Board-designated investment funds	**47,279**	38,415
Donor-restricted investment funds	**31,309**	32,323
Trustee-held funds for debt service	**13,723**	12,376
Total assets limited as to use	**92,311**	83,114
Property and equipment:		
Cost of property and equipment in service	**464,006**	461,311
Less accumulated depreciation	**(251,300)**	(230,867)
	212,706	230,444
Construction-in-progress	**2,152**	37
Total property and equipment, net	**214,858**	230,481
Other assets:		
Equity interest in unconsolidated subsidiaries	**7,360**	8,853
Other	**5,315**	4,599
Total other assets	**12,675**	13,452
Total assets	**$ 402,390**	$ 394,642

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	December 31	
	2010	**2009**
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 27,788**	$ 19,758
Accrued salaries, wages, and related liabilities	**19,127**	19,623
Deferred state disproportionate share revenue	**2,966**	–
Estimated third-party payor allowances	**5,747**	1,871
Current portion of long-term debt	**5,623**	6,142
Total current liabilities	**61,251**	47,394
Noncurrent liabilities:		
Long-term debt, less current portion	**110,686**	115,198
Interest rate swap	**186**	266
Accrued pension obligations	**50,817**	52,961
Accrued medical malpractice claims	**386**	836
Other	**598**	788
Total noncurrent liabilities	**162,673**	170,049
Total liabilities	**223,924**	217,443
Net assets:		
Indiana University Health Ball Memorial Hospital	**144,262**	142,741
Noncontrolling interest in subsidiaries	**2,895**	2,135
Total unrestricted	**147,157**	144,876
Temporarily restricted	**16,917**	17,922
Permanently restricted	**14,392**	14,401
Total net assets	**178,466**	177,199
Total liabilities and net assets	**$ 402,390**	$ 394,642

See accompanying notes.

Indiana University Health Ball Memorial Hospital and subsidiaries
(A subsidiary of Indiana University Health)

Consolidated Statements of Operations and Changes in Net Assets

(Thousands of Dollars)

	Year Ended December 31	
	2010	**2009**
Revenues:		
Net patient service revenue	**$ 352,327**	$ 336,251
Other revenue	**15,370**	19,423
Net assets released from restrictions	**2,186**	704
Total operating revenues	**369,883**	356,378
Expenses:		
Salaries, wages, and benefits	**155,179**	152,463
Supplies, drugs, purchased services, and other	**146,854**	170,391
Depreciation and amortization	**22,794**	22,529
Provision for uncollected patient accounts	**34,974**	24,599
Interest	**6,520**	6,550
Total operating expenses	**366,321**	376,532
Operating income (loss)	**3,562**	(20,154)
Nonoperating income:		
Investment income, net	**6,839**	8,127
Income on interest rate swap, net	**80**	167
Total nonoperating income	**6,919**	8,294
Consolidated excess (deficiency) of revenues over expenses	**10,481**	(11,860)
Less amounts attributable to noncontrolling interest in subsidiaries	**2,279**	397
Excess (deficiency) of revenues over expenses attributable to Indiana University Health Ball Memorial Hospital and subsidiaries	**8,202**	(12,257)

Continued on next page.

Indiana University Health Ball Memorial Hospital and subsidiaries
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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 (deficiency) of revenues over expenses	**$ 10,481**	**$ 8,202**	**$ 2,279**	$ (11,860)	$ (12,257)	$ 397
Change in pension obligation	**(6,901)**	**(6,901)**	**–**	15,497	15,497	–
Contributions for capital expenditures	**579**	**579**	**–**	–	–	–
Distributions to noncontrolling interests	**(1,519)**	**–**	**(1,519)**	(570)	–	(570)
Restriction reclassification	**(334)**	**(334)**	**–**	–	–	–
Investments from noncontrolling interests	**–**	–	–	1,440	–	1,440
Other	**(25)**	**(25)**	**–**	334	334	–
	2,281	**1,521**	**760**	4,841	3,574	1,267
Temporarily restricted net assets:						
Contributions	**1,302**	**1,302**	**–**	1,497	1,497	–
Investment return	**5**	**5**	**–**	595	595	–
Net assets released from restrictions	**(2,700)**	**(2,700)**	**–**	(704)	(704)	–
Restriction reclassification	**334**	**334**	**–**	–	–	–
Assets transferred by related entity	**–**	**–**	**–**	15,000	15,000	–
Other	**54**	**54**	**–**	–	–	–
	(1,005)	**(1,005)**	**–**	16,388	16,388	–
Permanently restricted net assets:						
Other	**(9)**	**(9)**	**–**	–	–	–
	(9)	**(9)**	**–**	–	–	–
Increase in net assets	**1,267**	**507**	**760**	21,229	19,962	1,267
Net assets at beginning of year, as reclassified *(Note 3)*	**177,199**	**175,064**	**2,135**	155,970	155,102	868
Net assets at end of year	**$ 178,466**	**$ 175,571**	**$ 2,895**	$ 177,199	$ 175,064	$ 2,135

See accompanying notes.

Indiana University Health Ball Memorial Hospital and subsidiaries
(A subsidiary of Indiana University Health)

Consolidated Statements of Cash Flows
(Thousands of Dollars)

	Year Ended December 31	
	2010	**2009**
Operating activities		
Increase in net assets	**$ 1,267**	$ 21,229
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Investments from and distributions to noncontrolling interests	**1,519**	(870)
Loss on disposals and dissolutions	**–**	1,989
Assets transferred by related entity	**–**	(15,000)
Change in fair value of interest rate swap	**(80)**	(158)
Income in unconsolidated subsidiaries	**(550)**	(838)
Loss on extinguishment of debt	**–**	279
Change in pension liability	**(2,144)**	(10,467)
Provision for uncollected patient accounts	**34,974**	24,599
Depreciation and amortization	**22,794**	22,529
Impairment of goodwill	**–**	1,100
Temporarily restricted contributions	**(1,302)**	(1,497)
Trading securities	**(9,197)**	(12,317)
Distributions from unconsolidated subsidiaries	**1,641**	1,412
Net changes in operating assets and liabilities:		
Patient accounts receivable, net	**(33,271)**	(20,830)
Prepaid expenses and other current assets	**1,834**	1,760
Inventories	**463**	76
Other assets	**2,541**	(4,212)
Accounts payable and accrued liabilities	**8,030**	(8,312)
Salaries, wages, and related liabilities	**(496)**	2,935
Estimated third-party payor allowances	**3,876**	584
Deferred state disproportionate share revenue	**2,966**	–
Other	**(640)**	227
Net cash provided by operating activities	**34,225**	4,218

Continued on next page.

Indiana University Health Ball Memorial Hospital and subsidiaries
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Consolidated Statements of Cash Flows (continued)
(Thousands of Dollars)

	Year Ended December 31	
	2010	**2009**
Investing activities		
Purchase of property and equipment, net of disposals	**$ (6,118)**	$ (15,791)
Net cash transferred in conjunction with the transfer of the Cardinal Select Risk Retention Group Inc. and Health Choice Insurance Co. SPC Ltd. to affiliate	**–**	(909)
Cash received from dissolution of Midwest Health Strategies, LLC	**–**	450
Investment in Cardinal Health Alliance	**(53)**	(43)
Liquidating distributions from unconsolidated affiliates	**455**	6,400
Net cash used in investing activities	**(5,716)**	(9,893)
Financing activities		
Increase in restricted net assets	**1,302**	1,497
Proceeds from issuance of long-term debt, net of discount	**–**	23,610
Repayments of long-term debt	**(6,084)**	(34,046)
Transfer of assets from related entity	**–**	15,000
Investments from noncontrolling interests	**–**	1,440
Distributions to noncontrolling interests	**(1,519)**	(570)
Net cash (used in) provided by financing activities	**(6,301)**	6,931
Increase in cash and cash equivalents	**22,208**	1,256
Cash and cash equivalents at beginning of year	**13,552**	12,296
Cash and cash equivalents at end of year	**$ 35,760**	$ 13,552

See accompanying notes.

Mission Statement

The mission of Indiana University Health Ball Memorial Hospital is to promote wellness and improve the health status of the people of East Central Indiana and surrounding areas through patient care, health education and medical research.

1. Organization and Nature of Operations

Name Change

During 2010, Ball Memorial Hospital, Inc. 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. No change in the corporate structure, management, or governance was made as a result of this name change.

These 2010 financial statements reflect the name change for Indiana University Health Ball Memorial Hospital and the following subsidiaries:

Previously Known As	Doing Business As
Blackford Community Hospital, Inc.	Indiana University Health Blackford Hospital
The BMH Foundation, Inc.	Indiana University Health Ball Memorial Hospital Foundation
Health Care Connections, Inc.	IU Health Ball Memorial Physicians

History and Organization

Indiana University Health Ball Memorial Hospital (Ball Memorial) is an Indiana nonprofit corporation, recognized as exempt from taxation under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the Code), and classified as a public charity under Section 509(a) of the Code. Ball Memorial operates a general acute care community hospital in Muncie, Indiana, with a capacity of 328 patient care beds and 43 newborn bassinets.

1. Organization and Nature of Operations (continued)

Ball Memorial is the sole member of Indiana University Health Blackford Hospital (Blackford), which is an Indiana nonprofit corporation recognized as exempt from taxation under Section 501(c)(3) of the Code. Ball Memorial provides overall management, planning, and marketing support functions for Blackford and other related entities (Ball Memorial, and Blackford, and the other related entities are hereinafter referred to collectively as the Ball Memorial System).

On November 19, 2008, Cardinal Health System, Inc. (Cardinal) and its subsidiaries entered into an Integration Agreement (the Integration Agreement) with Indiana University Health (previously known as Clarian Health Partners, Inc.). Effective January 1, 2009, Cardinal merged into its wholly owned subsidiary, Ball Memorial, and Indiana University Health replaced Cardinal as the sole corporate member of Ball Memorial. The 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.

Nature of Operations

The principal operating activities of the Ball Memorial System are conducted at owned facilities or majority-owned or controlled subsidiaries and consist of the following:

Hospital Facilities – Consist of Indiana University Health Ball Memorial Hospital located in Muncie, Indiana, and is the only hospital in Delaware County. It operates as a regional referral center and teaching hospital providing tertiary services such as cardiology, neonatology, neurology, oncology, orthopedics, perinatology, and physical rehabilitation. Indiana University Health Blackford Hospital is a 15-bed critical access hospital located in Hartford City, Indiana.

Ambulatory Care – Consists of physician offices, physician-group practices, clinics, pharmacies, and an ambulatory surgery center, which are located in Muncie, Indiana, and the surrounding East Central Indiana area. Principal subsidiaries include Cardinal Health Ventures, Inc., IU Health Ball Memorial Physicians, and Ball Outpatient Surgery Center, LLC.

1. Organization and Nature of Operations (continued)

Other – Consists of a not-for-profit foundation, Indiana University Health Ball Memorial Hospital Foundation, and a group purchasing organization, Cardinal Health Initiatives, LLC.

Ball Memorial is the sole corporate member of Indiana University Health Ball Memorial Hospital Foundation (the Foundation), a tax-exempt 509(a)(3) supporting organization that operates for the benefit of Ball Memorial and related organizations to receive contributions, hold and manage assets, and make distributions to invest in services that improve the health of the residents of the communities served by Ball Memorial.

Certain other health care services are provided through partnerships and other joint venture arrangements, income of which is recognized using the equity method of accounting, where applicable.

2. Community Benefit and Charity Care

The Ball Memorial 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. In addition, the Ball Memorial 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 Ball Memorial System's benefit provided to the community since a substantial portion of such services are reimbursed at amounts less than cost.

The Ball Memorial System's financial assistance policy is 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), or who meet criteria to be part of the Ball Memorial 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 Ball Memorial System policies in which services are to be provided at discounted rates, generally determined based on federal poverty income guidelines.

2. Community Benefit and Charity Care (continued)

The amount of charity care provided is determined based on the qualifying criteria, as defined in the financial assistance policy, 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. Charity care, measured by the difference between standard charges for services rendered and the amount, if any, ultimately received, was $48,691 and $41,605 in 2010 and 2009, respectively. In addition, the Ball Memorial 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. Both hospital organizations of the Ball Memorial System have adopted a written 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 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 community served by the organization. Additionally, all of the Ball Memorial System's hospital organizations have adopted written 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, both hospital organizations have adopted policies to forgo extraordinary collection actions against an individual before the organization has made reasonable efforts to determine whether the individual is eligible for assistance under the Ball Memorial System'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 Ball Memorial System for the year ended December 31, 2010.

2. Community Benefit and Charity Care (continued)

Reimbursements are received by the Ball Memorial System for Medicare and Medicaid beneficiaries in accordance with reimbursement agreements and related regulatory rules and regulations. Also, Ball Memorial 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.

3. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Ball Memorial 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 and other accounts receivable, assets limited as to use, accounts payable and accrued expenses, estimated third-party payor allowances, notes payable to bank, long-term debt, derivative financial instruments, and certain other current assets and liabilities.

3. Summary of Significant Accounting Policies (continued)

The fair values for cash and cash equivalents, patient and other accounts receivable, accounts payable and accrued expenses, estimated third-party payor allowances, note payable to bank, 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 Ball Memorial 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 measurement reconciliation. The Ball Memorial System adopted this guidance effective January 1, 2010.

Derivative Financial Instruments

Blackford has entered into a fixed payer swap transaction. As of and for the years ended December 31, 2010 and 2009, this fixed payer swap did not qualify for hedge accounting. Therefore, the changes in fair value of this swap agreement during these years are reported with nonoperating income in the consolidated statements of operations and changes in net assets.

3. Summary of Significant Accounting Policies (continued)

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 approximated 42% (41% in 2009). A managed care provider represented 21% of net patient service revenue in 2010 and 19% 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.

In 2010, Ball Memorial qualified as a Medicaid DSH provider under Indiana law (IC 12-15-16(1-3)) and, as such, was eligible to receive state DSH payments for the most recently determined state fiscal year (2010). 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 year ended December 31, 2010, state DSH payments were 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 30 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 Ball Memorial amounted to $4,746 and were included in operating revenue in the accompanying consolidated statements of operations and changes in net assets. Additionally, Ball Memorial received $2,966 of 2011 state DSH payments in December 2010, which was recorded as deferred state DSH revenue in the accompanying consolidated balance sheets.

3. Summary of Significant Accounting Policies (continued)

Laws and regulations governing Medicare, Medicaid, and other governmental 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 Ball Memorial System received favorable Medicare, Medicaid, and Champus settlements and resolutions on prior year filed and appealed cost reports and other matters, which increased excess (deficiency) of revenues over expenses by $617 in 2010 and $1,602 in 2009.

Cash and Cash Equivalents

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

The Ball Memorial 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 Ball Memorial 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 Ball Memorial 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 Muncie, Indiana, and the surrounding communities. 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.

(Thousands of Dollars)

3. Summary of Significant Accounting Policies (continued)

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 Ball Memorial 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 Ball Memorial System and, in certain cases, are reclassified to charity care if deemed to otherwise meet financial assistance policies of the Ball Memorial System.

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

	2010	**2009**
Managed care and other third-party payors	**58%**	54%
Medicare	**36**	35
Medicaid	**5**	8
Patients	**1**	3
	100%	100%

A managed care payor represented 26% and 20% 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.

3. Summary of Significant Accounting Policies (continued)

Assets Limited as to Use

Assets limited as to use include: (i) cash and cash equivalents and designated investment assets set aside by the Board of Directors (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 held by the Foundation in which their use has been specified by the donor; and (iii) assets held by trustees under bond or trust indenture agreements for debt service. 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 in the accompanying consolidated statements of operations and changes in net assets.

The Ball Memorial 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.

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.

3. Summary of Significant Accounting Policies (continued)

The Ball Memorial 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 are amortized using the effective interest rate method. Amortization is included in interest expense in the accompanying consolidated statements of operations and changes in net assets.

Contributions

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is 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 (deficiency) of revenues over expenses in the consolidated statements of operations and changes in net assets. The Ball Memorial System adopted the

3. Summary of Significant Accounting Policies (continued)

guidance on January 1, 2010, and reclassified amounts from other liabilities to unrestricted net assets, which results in the presentation of $2,135 of noncontrolling interests at December 31, 2009. This accounting guidance also stated that a portion of the excess (deficiency) 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 Ball Memorial System attributed income of $2,279 and $397 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 Ball Memorial System's consolidated subsidiaries. These amounts are reflected in unrestricted net assets in the consolidated balance sheets, net of distributions.

Distributions

Certain consolidated subsidiaries of Ball Memorial 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 Ball Memorial and the noncontrolling members ratably in accordance with the members' respective membership interests. Distributions to non-controlling members totaled $1,519 and $57, for the years ended December 31, 2010 and 2009, respectively.

Temporarily and Permanently Restricted Net Assets

Interests in net assets of the Foundation are accounted for in accordance with the applicable accounting guidance, which addresses the accounting for funds solicited, received, and distributed through an intermediary organization such as the Foundation.

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.

3. Summary of Significant Accounting Policies (continued)

Operating and Performance Indicators

The activities of the Ball Memorial 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 (Loss)) – 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 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.

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 Ball Memorial and certain of its affiliated entities are tax-exempt organizations as defined in Section 501(c)(3) of the Code. Certain subsidiaries of Ball Memorial are taxable entities, which are subsidiaries of Cardinal Health Ventures (CHV), a wholly owned subsidiary of Ball Memorial. At December 31, 2009, CHV recorded state and federal tax refunds receivable of $3,724 in other current assets related to carryback of a 2009 taxable operating loss. As of December 31, 2010, CHV had $455 of state tax refunds receivable related to the 2009 carryback remaining in other current assets.

3. Summary of Significant Accounting Policies (continued)

Deferred income taxes are provided by the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the future tax consequences of temporary differences between tax basis and financial reporting basis of other assets and liabilities. At December 31, 2010, Ball Memorial recorded deferred tax assets of $913, which was net of a $600 valuation allowance.

The Ball Memorial System’s other tax benefit, expense, and related assets and liabilities are not material to the consolidated financial statements.

Reclassifications

Certain prior year amounts have been reclassified to agree to current year’s presentation.

Subsequent Events

For the consolidated financial statements as of and for the year ended December 31, 2010, management has evaluated subsequent events through March 18, 2011, the date that these financial statements were available to be issued.

New Accounting Guidance Not Yet Applicable

In August 2010, new accounting guidance was issued that requires cost to 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 Ball Memorial System’s consolidated financial condition or results of operations.

3. Summary of Significant Accounting Policies (continued)

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 Ball Memorial System is currently evaluating the impact of adoption of this guidance on January 1, 2011, on its consolidated financial condition and results of operations, but the impact, if any, is not expected to be material.

4. Business Combinations

On November 19, 2008, Cardinal and its subsidiaries entered the Integration Agreement with Indiana University Health. Effective January 1, 2009, Cardinal merged into its wholly owned subsidiary, Ball Memorial, and Indiana University Health replaced Cardinal as the sole corporate member of Ball Memorial. The 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.

Pursuant to the Integration Agreement, on January 2, 2009, Indiana University Health funded $15,000 to the Foundation. This contribution is subject to a donor-imposed time restriction, may not be used by the Foundation prior to January 1, 2014, and is included in temporarily restricted net assets at December 31, 2010 and 2009. Income earned on this contribution is not subject to either time or purpose restrictions, and therefore it is recognized in investment income.

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. Debt obligations, issued pursuant to its Master Trust Indenture (MTI), remain the obligations of the Ball Memorial Obligated Group, as defined in the MTI. The obligated group is comprised of Ball Memorial and Blackford (the Obligated Group).

4. Business Combinations (continued)

As the sole corporate member of the Ball Memorial System, Indiana University Health has control of the Ball Memorial System through appointment of the majority of the Ball Memorial Board of Directors. Indiana University Health accounted for the transaction with the Ball Memorial System in a manner similar to the pooling of interests method. The financial position and financial results of the Ball Memorial System were consolidated with Indiana University Health effective January 1, 2009. Also effective that day, the Ball Memorial System changed its fiscal year-end from June 30 to December 31.

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 as follows: 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.

The Ball Memorial System is a limited partner in funds that focus on absolute return investment strategies. Although execution could be limited, absolute return strategies are designed to reduce overall portfolio risk while producing positive investment returns regardless of market direction; however, investment returns are not guaranteed. Generally, redemption may be made with written notice ranging from 60 to 90 days; however, some funds have redemption charges of 3%

5. Assets Limited as to Use (continued)

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 Ball Memorial System, in consultation with Indiana University Health and 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 one fund manager is $9,800 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	December 31 2009
Cash and cash equivalents	**$ 25,898**	$ 21,342
Marketable securities:		
U.S. government and agency obligations	**8,507**	6,739
U.S. corporate obligations	**11,280**	13,475
U.S. equity securities	**17,692**	17,437
Non-U.S. equity securities	**12,533**	10,527
Total marketable securities	**50,012**	48,178
Other investments:		
Alternative investments:		
Absolute return strategy (fund of funds)	**6,400**	5,426
Absolute return strategy (direct investment)	**9,800**	7,961
Real estate investment trusts and other	**201**	207
Total other investments	**16,401**	13,594
Total assets limited as to use	**$ 92,311**	$ 83,114

The fair value of assets limited as to use held by the Foundation as of December 31, 2010 aggregated $67,068, of which $35,759 is considered board-designated investment funds and $31,309 is considered donor-restricted investment funds.

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	Year Ended December 31 2009
Investment income (losses):		
Interest and dividend income	**$ 1,847**	$ 2,042
Realized gains (losses) on sales of investments, net	**1,444**	(5,561)
Unrealized gains on investments	**2,535**	10,775
Equity gains of absolute return strategy investments	**1,013**	871
	$ 6,839	$ 8,127

(Thousands of Dollars)

5. Assets Limited as to Use (continued)

Investment management and administration fees amounted to $236 and $196 for the years ended December 31, 2010 and 2009, respectively, and were included in the supplies, drugs, purchased services, and other in the accompanying consolidated statements of operations and changes in net assets.

6. Property and Equipment

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

	December 31	
	2010	**2009**
Land and improvements	**$ 11,809**	$ 11,809
Buildings and improvements	**292,215**	291,446
Equipment	**159,982**	158,056
	$ 464,006	$ 461,311

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.

Construction-in-progress for assets currently under development is anticipated to extend through 2011 and includes commitments for construction and refurbishment. Construction-in-progress aggregated to $2,152 and $37 at December 31, 2010 and 2009, respectively.

Firm commitments for construction-in-progress totaled $1,688 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 $3,177.

(Thousands of Dollars)

6. Property and Equipment (continued)

Certain medical equipment and software are accounted for as capital leases expiring in various years through 2015 and are included in property and equipment. Amortization of assets under capital leases is included in depreciation expense. The following is a summary of the value of property held under capital leases included within property and equipment in the consolidated balance sheets:

	December 31	
	2010	**2009**
Software	**$ –**	$ 253
Medical equipment	**1,383**	2,121
	1,383	2,374
Less accumulated amortization	**(277)**	(1,567)
	$ 1,106	$ 807

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 Group

The Obligated Group operates under the MTI (see Note 4). The MTI provides for the issuance of long-term debt under the Ball Memorial obligated group structure. The Obligated Group is required to meet certain covenants, and their members are jointly and severally liable for the obligations under the MTI. The group is also subject to financial performance covenants that, among other compliance requirements, require the maintenance of debt service ratios and limit the Obligated Group's ability to encumber certain of its respective assets.

As of December 31, 2010 and 2009, the Obligated Group was in compliance with all financial covenants.

7. Debt (continued)

Issuance and Extinguishment of Debt

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 expense 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." These transactions resulted in an extinguishment of debt loss of $279 for the write-off of unamortized bond issuance costs for the year ended December 31, 2009.

During 2009, it was determined that the Obligated Group was not in compliance with a debt service coverage ratio covenant stipulated in the loan agreement related to the Series 1997 bonds with the Hospital Authority of Delaware County. As a remedy, the loan agreement called for the establishment of a debt service reserve fund, which was funded in October 2009 by depositing $1,900 with the trustee, which is included with assets limited as to use as of December 31, 2010 and 2009.

On October 1, 2009, the Obligated Group formed a joint venture with qualified physicians to operate an ambulatory surgery center in a medical pavilion, which had previously been constructed with the proceeds of tax-exempt bonds. Because the joint venture constitutes a private use of proceeds, $1,155 of the 1997 Series Bonds were redeemed in December 2009.

Substantially all of the Obligated Group's revenues and assets are pledged as collateral for borrowings under the MTI or for the Obligated Group's mortgage obligations.

(Thousands of Dollars)

7. Debt (continued)

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

	2010	2009
Ball Memorial Hospital Obligated Group		
Hospital Authority of Delaware County, Indiana:		
Fixed Rate, Tax-Exempt Revenue Refunding Bonds, Series 2009A Term Bonds, payable in varying annual principal installments from 2010 through 2018, with interest rates ranging from 5.00% to 5.63%	**$ 22,070**	$ 24,700
Fixed Rate, Tax-Exempt Revenue Bonds, Series 2006 Term Bonds, payable in varying annual principal installments from 2019 through 2036, with interest rates ranging from 5.00% to 5.25%	**78,565**	78,565
Fixed Rate, Tax-Exempt Revenue Refunding Bonds, Series 1997 Term Bonds, payable in varying annual principal installments through 2016, with an interest rate of 5.00%	**8,350**	9,650
Other Obligated Group long-term debt:		
Fixed Rate Promissory Note, payable in monthly installments from 2010 to 2013, with an interest rate of 6.00%	**4,000**	5,600
Mortgage obligation, payable in various monthly installments through 2030, with an interest rate of 6.24%, secured by real estate with a book value of $3,466	**1,517**	1,554
Capital lease obligations (interest rates ranging from 5.8% to 9.1% at December 31, 2010)	**1,006**	526
Non-Obligated Group long-term debt		
Mortgage obligation, payable in various monthly installments through 2026, with an interest rate of 6.13%, secured by real estate with a book value of $2,142	**1,730**	1,793
Other	**100**	106
Total long-term debt	**117,338**	122,494
Less unamortized discount	**(1,029)**	(1,154)
Less current portion	**(5,623)**	(6,142)
Long-term portion, less current portion	**$ 110,686**	$ 115,198

(Thousands of Dollars)

7. Debt (continued)

The scheduled maturities and mandatory redemptions of long-term debt are as follows:

Year ending December 31:	
2011	$ 5,623
2012	3,906
2013	5,241
2014	4,666
2015	4,817
Thereafter	93,085
	$ 117,338

The estimated fair value of the revenue bonds at December 31, 2010 and 2009 amounted to $89,382 and $90,393, 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 $108,985 and $112,915, respectively. The recorded value of all debt obligations not traded in the secondary credit markets approximated fair value at December 31, 2010 and 2009.

Total interest paid on long-term debt for the years ended December 31, 2010 and 2009 aggregated $5,816 and $6,050, respectively. Total interest capitalized during the years ended December 31, 2010 and 2009 amounted to $0 and $604, respectively.

8. Derivative Financial Instrument

Blackford has entered into a long-term fixed payor swap arrangement with the primary objective being to mitigate interest rate risk. The following fixed payor swap, stated at current notional amounts, remains in place as of December 31, 2010:

Notional Amount	Effective Date	Maturity Date	Underlying Debt	Rate Received	Rate Paid
$4,000	6/30/2008	6/30/2013	Mortgage	one-month LIBOR plus 1.75%	6.00%

8. Derivative Financial Instrument (continued)

Guidance on fair value accounting stipulates that a credit valuation adjustment (CVA) should be applied to the mark-to-market valuation position of Blackford's interest rate swap to more closely capture the fair value of such instrument. As of December 31, 2010, the fair value of its interest rate swap was $186, which is net of a CVA of $3. As of December 31, 2009, the fair value of its interest rate swap was $266, which is net of a CVA of $9. The decrease in value of the swap for the year ended December 31, 2010 and 2009 amounted to $80 and $167, respectively, and was recorded as a nonoperating income.

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.

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.

(Thousands of Dollars)

9. Fair Value Measurements (continued)

- Level 3 – Pricing inputs include those that are significant to the fair value of the financial asset or liability and are not observable from objective sources. In evaluating the significance of inputs, the Ball Memorial 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 Ball Memorial 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 these assets and liabilities and their classification within the fair value hierarchy levels.

December 31, 2010	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Cash and cash equivalents	**$ 25,898**	**$ –**	**$ –**	**$ 25,898**
Trading securities:				
U.S. government and agency	**3,964**	**4,543**	**–**	**8,507**
U.S. corporate obligations	**651**	**10,629**	**–**	**11,280**
U.S. equity securities	**17,555**	**137**	**–**	**17,692**
Non-U.S. securities	**9,247**	**3,286**	**–**	**12,533**
Real estate investment trusts and other	**201**	**–**	**–**	**201**
Total assets measured at fair value on a recurring basis	**$ 57,516**	**$ 18,595**	**$ –**	**$ 76,111**
Liabilities				
Interest rate swap	**$ –**	**$ 186**	**$ –**	**$ 186**
Total liabilities measured at fair value on a recurring basis	**$ –**	**$ 186**	**$ –**	**$ 186**

(Thousands of Dollars)

9. Fair Value Measurements (continued)

December 31, 2009	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 21,342	$ –	$ –	$ 21,342
Trading securities:				
U.S. government and agency	3,280	3,459	–	6,739
U.S. corporate obligations	1,847	11,628	–	13,475
U.S. equity securities	17,213	224	–	17,437
Non-U.S. securities	7,747	2,780	–	10,527
Real estate investment trusts and other	207	–	–	207
Total assets measured at fair value on a recurring basis	$ 51,636	$ 18,091	$ –	$ 69,727
Liabilities				
Interest rate swap	$ –	$ 266	$ –	$ 266
Total liabilities measured at fair value on a recurring basis	$ –	$ 266	$ –	$ 266

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 the interest rate swap is based upon forward interest rate curves, as adjusted for CVA (see Note 8).

The Ball Memorial System's cash and cash equivalents of $35,760 and $13,552, as of December 31, 2010 and 2009, respectively, are not included in the table because they are not held in money market accounts. At December 31, 2010 and 2009, the Ball Memorial System held $16,200 and $13,387, respectively, of absolute return strategy investments, which are not included in the trading securities total in the above table because they are accounted for under the equity method of accounting (see Note 5).

(Thousands of Dollars)

10. Commitments and Contingencies

Leases

Rent and lease expense amounted to $5,693 and $5,410 for the years ended December 31, 2010 and 2009, respectively.

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

	Operating Leases	Capital Leases
Year ending December 31:		
2011	$ 5,086	$ 261
2012	3,074	240
2013	1,422	240
2014	1,220	240
2015	806	160
Thereafter	1,668	–
Total minimum lease payments	$ 13,276	1,141
Less amount representing interest		(135)
Present value of net minimum lease payments		$ 1,006

Litigation

Ball Memorial had $2,018 accrued at December 31, 2009, for the settlement related to an August 2008 investigation by the U.S. Attorney General's office, along with the Department of Health and Human Services, into the billing of kyphoplasty procedures at Ball Memorial. This amount was included with current liabilities in the accompanying consolidated balance sheets. During 2010, Ball Memorial completed the $2,018 installment payments related to this settlement with the last installment paid in October 2010.

11. Medical Malpractice

The Ball Memorial System's medical malpractice coverage is provided through a program of commercial insurance for claims made prior to December 1, 2003, and coverage through captive or risk retention group insurance companies effective December 1, 2003. From January 1 to June 30, 2009, the Ball Memorial System's medical malpractice coverage was provided by a subsidiary, Cardinal Select Risk Retention Group, Inc. Effective July 1, 2009, the Ball Memorial System began participating in the Indiana University Health medical malpractice program, including coverage provided by CH Risk Retention Group, Inc. (the Group), a South Carolina based risk retention group that is virtually wholly owned by Indiana University Health. The Group's liabilities are ceded to the reinsurer, CH Assurance LTD, a captive insurance company wholly owned by Indiana University Health. 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 Ball Memorial 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 Ball Memorial System has met these requirements and is a qualified provider under the Act, retaining risk of $250 per occurrence and up to $7,500 in the annual aggregate.

Contributions to the risk retention group/captive program are expensed as incurred. The Ball Memorial System incurred expenses of $1,210 and $2,712 for this coverage for the years ended December 31, 2010 and 2009, respectively. Loss reserves are established for incurred but not yet reported claims. The Ball Memorial System estimates and records liabilities related to malpractice insurance claims incurred but not reported as of the fiscal year-end, as a provision for additional claims. The consolidated total of the accruals for such claims was $386 and $836 at December 31, 2010 and 2009, respectively. The accrued liability is carried on the consolidated balance sheets as a noncurrent liability. Loss reserves are discounted using an annual discount rate of 4.0%.

12. Retirement Plans

Pension benefits are provided to substantially all employees of the Ball Memorial System primarily through defined contribution plans, through nonqualified pension plans, and through a defined benefit pension plan.

12. Retirement Plans (continued)

Defined Contribution Plans

The Ball Memorial System sponsors various defined contribution plans. Benefits under the defined contribution plans vary, are generally based on employee contributions and a predetermined employer match, and amounted to $4,436 and $2,495 in 2010 and 2009, respectively.

Defined Benefit Pension Plan

Benefits under the defined benefit pension plan are based upon compensation of employees (as defined) and years of participation and are actuarially determined. The funding policy is to annually contribute the contribution required to comply with applicable legislation and IRS regulations.

Pension benefits provided through the noncontributory, defined benefit pension plan are principally limited to current and former employees of Ball Memorial who were participants in Ball Memorial's defined benefit pension plan as of December 31, 2006. Effective December 31, 2006, the defined benefit pension plan was curtailed (such that no new participants are permitted to the plan) and replaced by defined contribution plans serving as the principal retirement benefit provided to employees. In addition, defined benefit pension plan accrued benefits for participants were frozen as of July 31, 2009, and all active employees' future benefits converted to a defined contribution plan. The curtailment of the defined benefit pension plan resulted in a gain of $21,917 for the year ended December 31, 2009.

Adjustments to the pension liability to reflect funded status are charged or credited to unrestricted net assets.

(Thousands of Dollars)

12. Retirement Plans (continued)

The following table sets forth the funded status of the defined benefit pension plan and amounts recognized in the consolidated financial statements as of and for the years ended December 31, 2010 and 2009.

	2010	2009
Change in benefit obligation of the plan:		
Benefit obligation at beginning of the year	**$ 183,280**	$ 181,566
Service cost and other	**–**	3,775
Interest cost	**10,952**	11,269
Actuarial loss	**11,920**	14,467
Benefits paid	**(6,201)**	(5,880)
Gain due to curtailment	**–**	(21,917)
Benefit obligation at end of year	**$ 199,951**	$ 183,280
Change in assets of the plan:		
Fair value of assets at beginning of year	**$ 130,319**	$ 118,138
Actual return on assets	**13,281**	14,307
Employer contributions	**11,735**	3,754
Benefits paid	**(6,201)**	(5,880)
Fair value of assets at end of year	**$ 149,134**	$ 130,319
Funded deficiency at December 31	**$ (50,817)**	$ (52,961)
Items not yet recognized as a component of net periodic pension cost:		
Net actuarial loss	**$ 49,240**	$ 42,339

(Thousands of Dollars)

12. Retirement Plans (continued)

	2010	2009
Components of net pension benefit cost:		
Service cost	**$ –**	$ 3,775
Interest cost	**10,952**	11,269
Expected return on assets	**(10,457)**	(9,577)
Amortization of unrecognized net loss	**2,195**	3,317
Net periodic pension cost	**$ 2,690**	$ 8,784
Weighted-average actuarial assumptions to determine benefit cost were:		
Discount rate for net periodic pension cost (January 1 – July 31, 2009)		6.25%
Discount rate for net periodic pension cost (August 1 – December 31, 2009)		6.10
Discount rate for net period pension cost for the year ended December 31, 2010	**6.00**	
Discount rate for benefit obligations	**5.65**	6.00
Expected rate of return on plan assets	**8.00**	8.00
Rate of compensation increase cost (January 1 – July 31, 2009)		3.00
Rate of compensation increase cost (August 1 – December 31, 2009)		0.00
Accumulated benefit obligation	**$ 199,951**	$ 183,280
Fair value of assets at end of year	**149,134**	130,319
Accumulated benefit obligation exceeding fair value of plan assets	**$ 50,817**	$ 52,961
Expected future benefit payments:		
2011	$ 7,059	
2012	7,928	
2013	8,542	
2014	9,285	
2015	10,064	
2016 – 2020	60,796	

(Thousands of Dollars)

12. Retirement Plans (continued)

Ball Memorial expects to contribute $6,960 to the defined benefit pension plan 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 will increase net periodic pension costs by $2,539 during the year ended December 31, 2011.

The principal long-term determinant of a plan's investment return is its asset allocation. The plan's allocations are heavily weighted toward 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 the additional return expected through active management. These assumptions are periodically benchmarked against peer plans.

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

	2010	2009
Asset category		
Equity and equity-like securities	**48%**	48%
Fixed income securities	**26**	29
Absolute return strategy (direct investment)	**14**	13
Absolute return strategy (fund of funds)	**9**	9
Cash and cash equivalents	**3**	1
	100%	100%

The allocation strategy for the plan currently comprises approximately 50% to 85% of equity investments and 15% to 50% of fixed income investments. The largest components of these equity and equity-like instruments are in the financial and information technology sectors. No individual investment comprised more than 14% of the plan's assets as of December 31, 2010.

(Thousands of Dollars)

12. Retirement Plans (continued)

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

December 31, 2010	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Cash and cash equivalents	**$ 4,443**	**$ –**	**$ –**	**$ 4,443**
Fixed income securities	**10,375**	**28,355**	**–**	**38,730**
Equity and equity-like securities	**58,331**	**12,382**	**–**	**70,713**
Absolute return strategy (fund of funds)	**–**	**13,994**	**–**	**13,994**
Absolute return strategy (direct investment)	**–**	**21,254**	**–**	**21,254**
Total assets measured at fair value on a recurring basis	**$ 73,149**	**$ 75,985**	**$ –**	**$ 149,134**

December 31, 2009	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Cash and cash equivalents	$ 1,680	$ –	$ –	$ 1,680
Fixed income securities	38,132	–	–	38,132
Equity and equity-like securities	61,948	–	–	61,948
Absolute return strategy (fund of funds)	–	11,506	–	11,506
Absolute return strategy (direct investment)	–	17,053	–	17,053
Total assets measured at fair value on a recurring basis	$ 101,760	$ 28,559	$ –	$ 130,319

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 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.

13. Endowments

Endowment funds of the Foundation consist of donor-restricted endowment funds and 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.

13. Endowments (continued)

The Board of Directors of the Foundation has interpreted, for accounting purposes, the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the Foundation, absent any explicit donor stipulations to the contrary, to refrain from spending any of the initial principal of any donor-restricted endowment fund and to require the Foundation, when considering expending any appreciation on the initial principal of the endowment fund, to consider the factors expressed herein. As a result of the interpretation, the Foundation classifies as permanently restricted net assets: (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts donated to the permanent endowment, and (c) accumulation 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 Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers 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 Foundation and the 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 Foundation, and the Foundation’s investment policies.

(Thousands of Dollars)

13. Endowments (continued)

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

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at January 1, 2010	**$ 540**	**$ 14,401**	**$ 14,941**
Contributions	**36**	**–**	**36**
Investment return	**11**	**–**	**11**
Appropriation of endowment assets for expenditures	**(136)**	**–**	**(136)**
Other	**–**	**(9)**	**(9)**
Endowment net assets at December 31, 2010	**$ 451**	**$ 14,392**	**$ 14,843**

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at January 1, 2009	$ 453	$ 14,401	$ 14,854
Contributions	1	–	1
Investment return	589	403	992
Reclassification	(443)	(403)	(846)
Appropriation of endowment assets for expenditures	5	–	5
Other	(65)	–	(65)
Endowment net assets at December 31, 2009	$ 540	$ 14,401	$ 14,941

In 2010, a total of $515 was transferred 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, a total of $846 was transferred 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.

13. Endowments (continued)

Accounting guidance requires entities to record all investments in equity securities with readily determinable fair values and all debt securities at fair value in the balance sheets. From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain.

The investment horizon for the Foundation can best be described as primarily very long term. Thus, the primary investment objective of the Foundation is to obtain the maximum possible total return, taking into account both appreciation and income, at an acceptable level of risk. Under the investment strategy, as approved by the Board of Directors, the Foundation strives to preserve principal in terms of real purchasing power and to earn a long-term total return exceeding the rate of inflation, as measured by the Consumer Price Index, plus a return to support the mission of the Foundation and administrative costs.

To satisfy its investment objectives, the Foundation relies on a total return strategy in which investment returns are defined to include interest, dividends, and both realized and unrealized capital appreciation. The Foundation places a greater emphasis on equity investments to achieve its objectives. In addition, as part of its mission, the Foundation holds real estate as a significant part of its assets. The rent paying real estate holdings are deemed to be long-term strategic properties for the support of the Ball Memorial System and related organizations.

The Foundation's investment objectives strive to provide sufficient income to support the mission of the Foundation for its current operations on a timely basis. Distribution decisions are made in support of the Foundation's mission to hold and manage assets and to make distributions to promote excellence in wellness and health care services for the people of East Central Indiana. In determining annual distributions, the Foundation considers its investment horizon and objectives.

Included in the Foundation's endowment is the Hospital Endowment Trust (the Endowment Trust). The Endowment Trust was transferred to the Foundation by settlement agreement and approved by court order. As required by the terms of the settlement agreement, the Foundation distributes the Endowment Trust's investment gains and earnings up to 5% of the Endowment Trust's average earnings. Investment earnings in excess of 5% and all investment losses remain part of the endowment.

14. Related Party Transactions

Indiana University Health

Certain administrative, support, and clinical services are provided by Indiana University Health and subsidiaries under terms of Support Services Agreements. Primary services include administrative support (information technology, financial, human resources), laboratory, revenue cycle, employee health services, and participation in the Indiana University medical malpractice program (see Note 11). Depending on the personnel and services involved, fees for these services are either: (i) on an "as-incurred" basis based upon the time spent by each individual, or (ii) at a fixed monthly fee. These services aggregated $10,162 and $4,399 in 2010 and 2009, respectively, and are included in purchased services in the accompanying consolidated statements of operations and changes in net assets. Additionally, the Ball Memorial System's payable to Indiana University Health and subsidiaries for these services and their share of a certain legal settlement payment aggregated $3,629 and $2,110 at December 31, 2010 and 2009, respectively. Such amounts are included in accounts payable and accrued expenses in the accompanying consolidated balance sheets.

Investment in Joint Ventures

Ball Memorial has recorded its equity and cost basis investments in and related income from its unconsolidated subsidiaries that provide health-related services. Equity method and cost basis investments totaled $4,860 and $2,500, respectively, at December 31, 2010, and $6,353 and $2,500, respectively, at December 31, 2009.

Until September 30, 2009, Ball Memorial had a joint venture arrangement with BMH Outpatient Surgery Services, LLC (BOSS) for the management of its ambulatory surgery centers. Ball Memorial held a 51% ownership interest in BOSS; however, Ball Memorial accounted for BOSS under the equity method due to participatory rights held by the noncontrolling members. Effective September 30, 2009, the services of BOSS were terminated and BOSS started to wind down and liquidate. At December 31, 2009, Ball Memorial had an investment value of $382 in BOSS and received a final liquidating distribution of $455 in January 2010.

14. Related Party Transactions (continued)

In the place of BOSS, Ball Outpatient Surgery Center, LLC (BOSC), a new joint venture limited liability corporation, was formed for the ownership and operation of the Ball Memorial System's ambulatory surgery center locations. Through the issuance of private placement memorandums, membership interests were sold to individual physicians and physician-group practices meeting certain eligibility requirements. The terms of the offering stipulate that Ball Memorial will not hold less than 51% of the membership interests. The operations of BOSC started on October 1, 2009, as an ambulatory surgery center, and its results of operations have been included in the consolidated statements of operations and changes in net assets.

Ball Memorial has a 50% ownership interest in Cardinal Health Alliance, LLC (CHA), a physician hospital organization that offers managed care services to enrolled members throughout East Central Indiana through provider network arrangements. Physician owners account for the other 50% ownership and have equal participatory rights; accordingly, Ball Memorial accounts for its investment in CHA using the equity method of accounting. Payments to CHA for the health care benefits relating to Ball Memorial employees were $2,133 and $1,931 for the years ended December 31, 2010 and 2009, respectively. Member premium payments to Ball Memorial from CHA amounted to $4,300 and $4,547 for the years ended December 31, 2010 and 2009, respectively. Additionally, Ball Memorial had receivables of $412 and $47 from CHA as of December 31, 2010 and 2009, respectively.

The Ball Memorial System had a 50% investment in Lab Holdings, LLC (LH), a limited liability corporation that provided clinical laboratory services. During 2008, LH ceased operations and began a process of dissolution. In conjunction with the dissolution, the Ball Memorial System received liquidating dividends totaling $2,485 and had a remaining investment of $2,003 at December 31, 2009. LH plans to make final liquidating distributions subsequent to the sale of its building and land. The Ball Memorial System had a remaining investment of $1,553 at December 31, 2010.

Ball Memorial had a joint venture arrangement with Midwest HealthStrategies, Inc. (MHS) for the operations of physical/occupational rehabilitation locations and services. Ball Memorial held a 67% ownership interest in MHS; however, Ball Memorial accounted for MHS under the equity method due to equal control rights held by the four ownership hospitals. Ball Memorial

(Thousands of Dollars)

14. Related Party Transactions (continued)

purchased certain services from MHS. These expenses, principally for rehabilitation therapy services for its inpatient rehabilitation unit and outpatient pediatric rehabilitation clinic, totaled $5,118 for the year ended December 31, 2009, and were reported with supplies, drugs, purchased services, and other expenses in the accompanying consolidated statements of operations and changes in net assets. MHS leased space in facilities owned by the Foundation. Rental income from MHS totaled $261 for the year ended December 31, 2009, and was included in other revenue in the accompanying consolidated statements of operations and changes in net assets.

Effective December 31, 2009, MHS ceased the active conduct of its business and was dissolved. In conjunction with the dissolution, Ball Memorial assumed liabilities of MHS in excess of its assets and recognized a loss of $1,893 in supplies, drugs, purchased services, and other expenses in the accompanying consolidated statements of operations and changes in net assets for the year ended December 31, 2009. Effective January 1, 2010, the services and locations previously operated by MHS are now operated by Ball Memorial, and the related outpatient rehabilitation locations have been added to the hospital license.

Following is a summary of the Ball Memorial System's equity method investments in joint ventures for the years ended December 31, 2010 and 2009:

	BOSS	CHA	LH	Other	Total
Balance at January 1, 2010	$ 382	$ 3,075	$ 2,003	$ 893	$ 6,353
Capitalization	–	53	–	–-	53
Income	73	796	(450)	131	550
Distributions	(455)	(1,484)	–	(157)	(2,096)
Balance at December 31, 2010	$ –	$ 2,440	$ 1,553	$ 867	$ 4,860

(Thousands of Dollars)

14. Related Party Transactions (continued)

	BOSS	CHA	LH	MHS and Other	Total
Balance at January 1, 2009	$ 3,713	$ 3,616	$ 4,488	$ 1,504	$ 13,321
Capitalization	–	43	–	(627)	(584)
Income	840	392	–	193	1,425
Distributions	(4,171)	(976)	(2,485)	(177)	(7,809)
Balance at December 31, 2009	$ 382	$ 3,075	$ 2,003	$ 893	$ 6,353

Ball Memorial's cost basis investment at December 31, 2010 and 2009, consisted of a $2,500 investment in St. Vincent Randolph Hospital.

Summarized and aggregated financial information for significant equity method joint ventures as of and for the years ended December 31, 2010 and 2009, is as follows:

	2010	**2009**
Current assets	**$ 10,252**	$ 11,623
Noncurrent assets	**3,298**	3,485
Total assets	**$ 13,550**	$ 15,108
Current liabilities	**$ 4,263**	$ 3,831
Total liabilities	**4,263**	3,831
Net assets	**9,287**	11,277
Total liabilities and net assets	**$ 13,550**	$ 15,108
Revenues	**$ 17,270**	$ 30,302
Operating expenses	**15,817**	24,503
Operating income	**1,453**	5,799
Nonoperating income (loss)	**168**	(2,888)
Net income	**$ 1,621**	$ 2,911

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 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 Ball Memorial 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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