Consolidated Financial Statements

Indiana University Health, Inc. and subsidiaries
Years Ended December 31, 2012 and 2011
With Report of Independent Auditors

Ernst & Young LLP

ERNST & YOUNG

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Consolidated Financial Statements

Years Ended December 31, 2012 and 2011

Contents

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Report of Independent Auditors

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

We have audited the accompanying consolidated financial statements of Indiana University Health, Inc. and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these 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.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Indiana University Health, Inc. and subsidiaries at December 31, 2012 and 2011, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Emphasis Matter

As discussed in Note 3 to the consolidated financial statements, Indiana University Health, Inc. and subsidiaries changed its presentation of the provision for uncollectible accounts as a result of the adoption of Accounting Standards Update (ASU) 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*, effective January 1, 2012.

Ernst + Young LLP

March 28, 2013

Indiana University Health, Inc. and subsidiaries

Consolidated Balance Sheets

(Thousands of Dollars)

	December 31 2012	December 31 2011
Assets		
Current assets:		
Cash and cash equivalents	**$ 611,630**	$ 403,086
Patient accounts receivable, less allowance for uncollectible accounts of $250,604 and $197,025 at 2012 and 2011, respectively	**617,548**	550,933
Other receivables	**161,947**	87,807
Prepaid expenses	**39,741**	34,726
Inventories	**84,341**	82,884
Current portion of trustee-held funds	**501**	54,430
Total current assets	**1,515,708**	1,213,866
Assets limited as to use:		
Board-designated investment funds and other investments	**1,967,308**	1,528,549
Donor-restricted investment funds	**94,975**	88,107
Trustee-held funds for construction and debt service, less current portion	**13,769**	12,929
Total assets limited as to use, less current portion	**2,076,052**	1,629,585
Property and equipment:		
Cost of property and equipment in service	**5,573,770**	5,353,044
Less accumulated depreciation	**(2,836,763)**	(2,738,368)
	2,737,007	2,614,676
Construction-in-progress	**44,467**	90,384
Total property and equipment, net	**2,781,474**	2,705,060
Other assets:		
Equity interest in unconsolidated subsidiaries	**57,819**	72,254
Interest in net assets of foundations	**12,898**	12,251
Unamortized bond issuance costs	**7,197**	7,558
Goodwill, intangibles, and other assets	**224,717**	194,163
Total other assets	**302,631**	286,226
Total assets	**$ 6,675,865**	$ 5,834,737

	December 31	
	2012	**2011**
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 380,336**	$ 347,133
Accrued salaries, wages, and related liabilities	**278,052**	199,184
Accrued health claims	**55,593**	40,860
Estimated third-party payor allowances	**107,552**	86,754
Current portion of notes payable to banks	**–**	24,721
Current portion of long-term debt	**60,853**	101,131
Total current liabilities	**882,386**	799,783
Noncurrent liabilities:		
Long-term debt, less current portion	**1,824,831**	1,730,290
Interest rate swaps	**165,923**	196,627
Accrued pension obligations	**154,480**	139,002
Accrued medical malpractice claims	**64,642**	57,287
Other	**53,955**	52,689
Total noncurrent liabilities	**2,263,831**	2,175,895
Total liabilities	**3,146,217**	2,975,678
Net assets:		
Indiana University Health	**3,257,945**	2,619,481
Noncontrolling interest in subsidiaries	**168,890**	138,628
Total unrestricted	**3,426,835**	2,758,109
Temporarily restricted	**36,549**	34,761
Permanently restricted	**66,264**	66,189
Total net assets	**3,529,648**	2,859,059
Total liabilities and net assets	**$ 6,675,865**	$ 5,834,737

See accompanying notes.

Indiana University Health, Inc. and subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

(Thousands of Dollars)

	Year Ended December 31 2012	2011
Revenues:		
Patient service revenue (net of contractuals and discounts)	**$ 5,449,405**	$ 4,326,593
Provision for uncollectible accounts	**(284,883)**	(255,554)
Net patient service revenue	**5,164,522**	4,071,039
Member premium revenue	**150,646**	135,692
Other revenue	**263,108**	115,861
Total operating revenues	**5,578,276**	4,322,592
Expenses:		
Salaries, wages, and benefits	**2,596,349**	2,043,849
Supplies, drugs, purchased services, and other	**1,773,395**	1,596,664
Hospital assessment fee	**179,834**	–
Health claims to providers	**96,132**	94,059
Depreciation and amortization	**266,941**	252,293
Interest	**64,358**	51,178
Total operating expenses	**4,977,009**	4,038,043
Operating income before educational and research support	**601,267**	284,549
Educational and research support to Indiana University	**(52,610)**	(98,505)
Total operating income	**548,657**	186,044
Nonoperating income (losses):		
Investment income, net	**147,902**	2,727
Gains (losses) on interest rate swaps, net	**17,054**	(73,441)
Inherent contribution of acquired entities	**3,062**	48,714
Gain on acquisition and other	**2,200**	52,906
Total nonoperating income	**170,218**	30,906
Consolidated excess of revenues over expenses	**718,875**	216,950
Less amounts attributable to noncontrolling interest in subsidiaries	**67,377**	44,556
Excess of revenues over expenses attributable to Indiana University Health and subsidiaries	**651,498**	172,394

Continued on next page.

Indiana University Health, Inc. and subsidiaries

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

(Thousands of Dollars)

	December 31, 2012			December 31, 2011		
	Total	Controlling	Noncontrolling	Total	Controlling	Noncontrolling
Unrestricted net assets:						
Excess of revenues over expenses	$ 718,875	$ 651,498	$ 67,377	$ 216,950	$ 172,394	$ 44,556
Change in pension obligations	(28,226)	(28,226)	–	(49,887)	(49,887)	–
Contributions for capital expenditures	14,690	14,690	–	8,568	8,568	–
Distributions to noncontrolling interests	(56,663)	–	(56,663)	(27,480)	–	(27,480)
Issuance of noncontrolling interests related to acquisition	13,556	–	13,556	–	–	–
Contributions from noncontrolling interests	2,940	–	2,940	–	–	–
Purchase of noncontrolling interests	–	–	–	(39,294)	(26,993)	(12,301)
Fair value of initial noncontrolling interests in acquired entities	3,601	–	3,601	74,197	–	74,197
Sale of member interest to noncontrolling member	–	–	–	123,090	82,726	40,364
Other	(47)	502	(549)	(554)	(5,330)	4,776
	668,726	638,464	30,262	305,590	181,478	124,112
Temporarily restricted net assets:						
Change in beneficial interest in net assets of foundations	568	568	–	(1,012)	(1,012)	–
Contributions	11,275	11,275	–	1,468	1,468	–
Investment return	2,921	2,921	–	222	222	–
Net assets released from restrictions	(13,220)	(13,220)	–	(3,096)	(3,096)	–
	1,544	1,544	–	(2,418)	(2,418)	–
Permanently restricted net assets:						
Change in beneficial interest in net assets of foundations	68	68	–	12	12	–
Contributions and other	354	354	–	502	502	–
Investment return	(347)	(347)	–	–	–	–
	75	75	–	514	514	–
Increase in net assets before contributions of net assets of acquired organizations	670,345	640,083	30,262	303,686	179,574	124,112
Contributions of net assets of acquired organizations at April 1, 2012:						
Temporarily restricted net assets of RHI	244	244	–	–	–	–
Contributions of net assets of acquired organizations at July 1, 2011:						
Temporarily restricted net assets of White	–	–	–	53	53	–
Permanently restricted net assets of Morgan	–	–	–	560	560	–
Permanently restricted net assets of White	–	–	–	238	238	–
	–	–	–	851	851	–
Increase in net assets	670,589	640,327	30,262	304,537	180,425	124,112
Net assets at beginning of year	2,859,059	2,720,431	138,628	2,554,522	2,540,006	14,516
Net assets at end of year	$ 3,529,648	$ 3,360,758	$ 168,890	$ 2,859,059	$ 2,720,431	$ 138,628

See accompanying notes.

Indiana University Health, Inc. and subsidiaries

Consolidated Statements of Cash Flows
(Thousands of Dollars)

	Year Ended December 31	
	2012	**2011**
Operating activities		
Increase in net assets	**$ 670,345**	$ 303,686
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Change in fair value of interest rate swaps	**(32,294)**	55,712
Change in pension liability	**28,226**	49,887
(Income) loss in unconsolidated subsidiaries	**(3,603)**	51,767
Provision for uncollected patient accounts	**284,883**	255,554
Issuance of noncontrolling interests and step up to fair value related to acquisitions	**(17,157)**	(74,197)
Contributions from noncontrolling interests	**(2,940)**	–
Inherent contribution of acquired entities	**(3,062)**	(48,714)
Fair value of initial noncontrolling interests in acquired entities		
Gain on consolidation of acquired entities	**(2,200)**	(61,411)
Depreciation and amortization	**266,941**	252,293
Amortization of deferred gain on sale of medical office buildings	**(2,279)**	(2,275)
Loss on extinguishment of debt	**–**	8,491
Restricted contributions and investment return	**(14,839)**	(2,043)
Purchase of noncontrolling interests	**–**	39,294
Proceeds from the sale of member interest to noncontrolling member	**–**	(123,090)
Distributions to noncontrolling interests	**56,663**	27,480
Trading securities	**(388,975)**	(280,457)
Net changes in operating assets and liabilities:		
Patient accounts receivable	**(325,917)**	(303,551)
Other assets	**(52,772)**	(42,666)
Accounts payable and accrued liabilities and other liabilities	**18,219**	6,708
Salaries, wages, and related liabilities	**51,797**	3,864
Deferred state disproportionate share revenue	**–**	(119,781)
Estimated third-party payor allowances	**20,407**	36,931
Net cash provided by operating activities	**551,443**	33,482

Indiana University Health, Inc. and subsidiaries

Consolidated Statements of Cash Flows (continued)

(Thousands of Dollars)

	Year Ended December 31	
	2012	**2011**
Investing activities		
Acquisition of subsidiaries, net of cash received	**$ 5,509**	$ (20,991)
Purchase of property and equipment, net of disposals	**(218,107)**	(335,183)
Net cash used in investing activities	**(212,598)**	(356,174)
Financing activities		
Increase in restricted net assets	**14,839**	2,043
Proceeds from tax incremental financing contribution	–	9,240
Repayments on long-term debt	**(66,696)**	(815,457)
Proceeds from issuance of long-term debt	–	1,014,054
Repayments on notes payable under line of credit, net of proceeds	**(24,721)**	(45,445)
Contributions from noncontrolling interests	**2,940**	–
Purchase of noncontrolling interests	–	(39,294)
Proceeds from the sale of members' interest to noncontrolling member	–	123,090
Distributions to noncontrolling interests	**(56,663)**	(27,480)
Net cash (used in) provided by financing activities	**(130,301)**	220,751
Increase (decrease) in cash and cash equivalents	**208,544**	(101,941)
Cash and cash equivalents at beginning of year	**403,086**	505,027
Cash and cash equivalents at end of year	**$ 611,630**	$ 403,086

See accompanying notes.

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

History and Organization

Indiana University Health, Inc. (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. (successor to Methodist Hospital). The facilities and operations of Indiana University Health University Hospital (University Hospital), Riley Hospital for Children of Indiana University Health (Riley Hospital), and Indiana University Health Methodist Hospital (Methodist Hospital) (collectively, the Downtown Hospitals of the Academic Health Center) were merged and consolidated to form a single corporate entity, which was then licensed as a single acute care hospital and operating as an academic health center. Members of the Board of Directors (the Board) of Indiana University Health are selected by its two classes of members: the Methodist Class (members of which are members of Methodist Health Group, Inc.) and the University Class (members of which are the individuals who are the Trustees of Indiana University).

The Consolidation Agreement requires that the salaries and related employee benefit costs be funded for medical doctor interns and residents of the Indiana University School of Medicine (the 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.

Nature of Operations

The Indiana University Health System operates as an integrated health care delivery system comprising nonprofit and for-profit entities, with coordinated activities and policies designed to meet the mission of the Indiana University Health System. The principal operating activities of the Indiana University Health System are conducted at owned facilities or majority-owned or controlled subsidiaries and consist of the following.

1. Organization and Nature of Operations (continued)

Downtown Hospitals of the Academic Health Center (Hospital Campuses) – Consist of three acute, 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, Methodist Hospital, University Hospital, and Riley Hospital are located on or near the campus of Indiana University-Purdue University in Indianapolis and the School of Medicine.

Suburban Facilities (Indiana University Health West Hospital (West), Indiana University Health North Hospital (North) including Indiana University Health Tipton Hospital (Tipton), Indiana University Health Saxony Hospital (Saxony), and Rehabilitation Hospital of Indiana (RHI)) – Consist of three acute care hospitals, a critical access hospital, and an acute care rehabilitation hospital located in the western and northern suburban areas of metropolitan Indianapolis, Indiana. Saxony opened on December 1, 2011. Saxony operates as a division of the academic health center. RHI was consolidated into operations effective April 9, 2012 (see Note 4).

Statewide Facilities – Consist of acute care hospitals and health care systems located in Bedford, Bloomington, Goshen, Hartford City, Knox, Lafayette, LaPorte, Martinsville, Monticello, Muncie, and Paoli, Indiana. Principal hospital subsidiaries include Indiana University Health Bedford Hospital (Bedford), Indiana University Health Arnett Hospital (Arnett), Indiana University Health LaPorte Hospital and subsidiaries (LaPorte) including Indiana University Health Starke (Starke), Indiana University Health Goshen and subsidiaries (Goshen), Indiana University Health Ball Memorial Hospital and subsidiaries (Ball Memorial) including Indiana University Health Blackford (Blackford), Indiana University Health Bloomington Hospital and subsidiaries (Bloomington) including Indiana University Health Paoli (Paoli), Indiana University Health Morgan Hospital (Morgan), and Indiana University Health White Memorial Hospital (White). Morgan and White were consolidated into operations effective July 1, 2011 (see Note 4).

Physician Operations – Consist 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

1. Organization and Nature of Operations (continued)

University Health Goshen Physicians, Indiana University Health Radiology Partners, Inc., Indiana University Health Transplant Institute, and Heart Partners of Indiana, LLC.

Additionally, physician operations include Indiana University Health Physicians (IUHP), a nonprofit organization with locations primarily in Indianapolis, Indiana. IUHP was developed by integrating Indiana University Health owned or operated physician practices with newly acquired privately owned physician practices and practice plans of the School of Medicine. IUHP employs all of its physicians and operates as a delivery model that facilitates access, coordinates care, and improves quality, all designed to provide a better health care experience for patients. IUHP was consolidated into operations effective January 1, 2012 (see Note 4).

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

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. Morgan is the sole corporate member of Indiana University Health Morgan Hospital Foundation (Morgan Foundation), which aids and supports Morgan. Arnett is the sole corporate member of Indiana University Health Arnett Hospital Foundation (Arnett Foundation), which aids and supports Arnett. RHI is the sole corporate member of Rehabilitation Hospital of Indiana Foundation (RHI Foundation), which aids and supports RHI.

1. Organization and Nature of Operations (continued)

Indiana University Health or its subsidiaries have also entered into certain limited liability company agreements with physicians and other third parties 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, South Bend, and Terre Haute, 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 in Indiana University Health Proton Therapy Center, LLC, a nonprofit entity owned with Indiana University Research and Technology Corporation, in a specialized cancer treatment and diagnostic clinic (located in Bloomington, Indiana). 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 those who 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, and all uninsured patients are eligible for discounts from established charges. Patients who meet certain criteria (generally based on up to 400% of federal poverty income guidelines, other patients who are victims of certain catastrophic events, or those 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.

Patient service revenue is reported at estimated net realizable amounts for services rendered. The Indiana University Health System recognizes patient service revenue associated with patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, revenue is recognized on the basis of discounted rates in accordance with the financial assistance policy.

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 whose income is equal to or less than 200% of federal poverty income guidelines and meet certain other criteria. The cost to provide charity care using the consolidated cost to charge ratio was $204,420 and $148,995 for 2012 and 2011, 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 (the Affordable Care Act) required, 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 that 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 regard to actions that may be taken in the case of nonpayment, as well as measures to widely publicize the policy within the communities served. 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

2. Community Benefit and Charity Care (continued)

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 organizations' financial assistance policy to not more than the amounts generally billed to individuals who have insurance covering such care.

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 and payments under the Medicaid Assessment Fee program from the state of Indiana (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 obesity prevention programs such as Garden on the Go and Indy Urban Acres, other medical research, and support to the Children's Values Fund; and fosters an internal community of trust, respect, and empowerment. 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 partnerships and companies where control is participatory or less than 50%. All significant intercompany balances and transactions have been eliminated in consolidation.

3. Summary of Significant Accounting Policies (continued)

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.

Reclassification

The Indiana University Health System has reclassified the 2011 provision for uncollectible accounts to conform with the current year's presentation, as Accounting Standards Update (ASU) 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*, has been adopted as of January 1, 2012. The reclassification had no effect on operating income or excess of revenues over expenses as previously reported.

Fair Values of Financial Instruments

Financial instruments include cash and cash equivalents, patient, 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.

The fair values for cash and cash equivalents, patient, 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.

Derivative Financial Instruments

The Indiana University Health System has entered into certain interest rate swap transactions (fixed-pay swaps and basis swaps). As of and for the years ended December 31, 2012 and 2011, the Indiana University Health System's fixed-pay swap and basis swap agreements did not

3. Summary of Significant Accounting Policies (continued)

qualify for hedge accounting. Therefore, the changes in fair value of these interest rate swaps during these years are reported with nonoperating income 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, 2012, the percentage of net patient service revenue derived under Medicare, Medicaid, and managed care programs approximated 23%, 7%, and 55%, respectively (24%, 7%, and 59%, respectively, in 2011). A managed care provider represented 26% and 30% of net patient service revenue in 2012 and 2011, respectively. 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 is a Medicaid DSH provider under Indiana law (IC 12-15-16(1-3)) and, as such, is eligible to receive state DSH payments. 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, 2012 and 2011, 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 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 through 2012 state DSH payments of $110,334 recognized by Indiana University Health and certain subsidiaries during 2012 were recorded in net patient service revenue in the accompanying consolidated statements of operations and changes in net assets for the year ended December 31, 2012. The 2011 state DSH payments of $221,623 recognized by Indiana University Health and

3. Summary of Significant Accounting Policies (continued)

certain subsidiaries during 2011 were recorded in net patient service revenue in the accompanying consolidated statements of operations and changes in net assets for the year ended December 31, 2011.

During April 2012, the Indiana General Assembly approved a hospital assessment fee program. Under this program, the Office of Medicaid Policy and Planning (OMPP) collects an assessment fee from eligible hospitals. The fee will then be used in part to increase reimbursement to eligible hospitals for services provided in both fee-for-service and managed care programs and as the state share of DSH payments. This program is effective retroactively from July 1, 2011, and will continue through June 30, 2013. During the year ended December 31, 2012, the Indiana University Health System recognized increased reimbursement of $474,235, of which $161,802 related to 2011. This increased reimbursement was recorded within net patient service revenue on the consolidated statements of operations and changes in net assets. The Indiana University Health System also recognized an assessment fee of $179,834, of which $59,936 related to 2011. This fee was recorded within hospital assessment fee on the consolidated statements of operations and changes in net assets.

Laws and regulations governing Medicare, Medicaid, and other governmental programs are extremely complex, subject to interpretation, and sometimes provide for retroactive adjustments. 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 believes it is in compliance with applicable laws and regulations governing Medicare, Medicaid, and other governmental programs and that adequate provisions have been recorded for any adjustments that may result from final settlements. However, any adjustments to the currently estimated settlements are recorded in future periods.

During 2012, the Indiana University Health System received a settlement from the United States Department of Health & Human Services and Centers for Medicare & Medicaid Services related to underpayments for Medicare services dating back several years in the amount of $22,570. The settlement was recorded within net patient service revenue on the consolidated statements of operations and changes in net assets.

(Thousands of Dollars)

3. Summary of Significant Accounting Policies (continued)

Patient service revenue, net of contractual allowances and discounts and before the provision for bad debts, recognized in the year from major payor sources is as follows:

	Year Ended December 31 2012
Third-party payors	$ 5,294,741
Self-pay patients	154,664
Total payors	$ 5,449,405

Member Premium Revenue and Health Claims

The Indiana University Health System has agreements to provide medical services to subscribing participants or members that generally provide for predefined payments (on a per member/per month basis) regardless of services actually performed. The cost to provide health care services under these agreements, 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 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.

Meaningful Use Revenue

The American Recovery and Reinvestment Act of 2009 established incentive payments under Medicare and Medicaid programs for certain eligible professionals, hospitals, and critical access hospitals (Providers). Providers can receive incentive payments by adopting, implementing, and upgrading electronic health records (EHR) technology. Providers can also receive incentive payments for demonstrating meaningful use of EHR technology. Upon satisfaction of the meaningful use criteria, using a grant accounting model, the Indiana University Health System recognized $24,133 and $23,957 of these incentive payments within other revenue on the consolidated statements of operations and changes in net assets for the years ended December 31, 2012 and 2011, respectively. If specified meaningful use criteria are met in future periods, the Indiana University Health System may qualify for additional incentive payments.

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, including both treasury and agency money market funds and prime money market funds. Such instruments, as well as bank deposits, are potentially subject to concentrations of credit risk. In order to mitigate such risk, the Indiana University Health System generally places its cash and cash equivalents with institutions of high credit quality and/or positions them such that they are insured by the Federal Deposit Insurance Corporation.

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, for all payors, is recognized when services are provided based upon management's assessment of historical and expected net collections, taking into consideration 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 Policies (continued)

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

	2012	2011
Managed care	**51%**	49%
Medicare	**21**	22
Medicaid	**7**	8
Other third-party payors	**12**	12
Patients	**9**	9
	100%	100%

A managed care payor represented 24% and 25% of net patient accounts receivables at December 31, 2012 and 2011, respectively.

The allowance for uncollectible accounts for self-pay patients, including self-pay discounts and charity care, was 86% and 85% of self-pay accounts receivable as of December 31, 2012 and 2011, respectively. Effective January 1, 2011, Indiana University Health adopted a financial assistance policy as required by the Affordable Care Act. The Affordable Care Act has resulted in an increase in self-pay discounts, which are a reduction of patient service revenue, and a corresponding decrease in self-pay write-offs that are included in the provision for bad debts. Overall, the net of self-pay discounts and write-offs has not changed significantly for the years ended December 31, 2012 and 2011. The Indiana University Health System has not experienced significant changes in write-off trends and has not changed its financial assistance policy during the year ended December 31, 2012.

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 the following: (i) cash and cash equivalents and designated investment assets, including those funds held by the consolidated foundations, set aside by the Board for future capital improvements and for other purposes, over which the Board retains control and may, in certain circumstances, use for other purposes; (ii) donor-restricted investment assets, the use of which has been specified by the donor; (iii) assets held by trustees under bond or trust indenture agreements for construction and debt service; and (iv) cash and equivalents and designated investment assets set aside for near-term capital improvements and other purposes, over which management retains control and may use for other purposes and which are classified as other investments. 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 within 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 employ hedged 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.

Property and equipment under capital lease obligations are amortized on the straight-line method over the lease term or the estimated useful life of the equipment, whichever period is shorter. Such amortization is included with depreciation 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 Polices (continued)

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 are included in interest expense in the accompanying consolidated statements of operations and changes in net assets (see Note 7).

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

The Indiana University Health System attributed income of $67,377 and $44,556 for the years ended December 31, 2012 and 2011, 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 unrestricted net assets in the consolidated balance sheets.

3. Summary of Significant Accounting Polices (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 medical education and research programs, medical supplies and equipment, and patient care services.

Interests in net assets of unconsolidated foundations are included in other assets 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

The Indiana University Health System allocates the purchase price of an acquisition to the various components of the acquisition based upon the fair value of each component, which may be derived from various observable or unobservable inputs and assumptions. Also, the Indiana University Health System may utilize third-party valuation specialists. These components typically include buildings, land, and equipment and may also include intangibles related to noncompete agreements or other specifically identified intangible assets. The excess of the fair value of assets acquired over liabilities assumed and the fair value of any noncontrolling interest is recorded as an inherent contribution within the performance indicator. Goodwill is recorded to the extent that liabilities assumed and noncontrolling interests exceed the fair value of assets acquired.

3. Summary of Significant Accounting Policies (continued)

Goodwill and Intangible Assets

In connection with business combinations, the Indiana University Health System has recorded goodwill and definite-lived intangible assets on the accompanying consolidated balance sheets. The Indiana University Health System evaluates goodwill for impairment annually, or more frequently if events or changes in circumstances suggest that the carrying value of an asset may not be recoverable. The goodwill impairment analysis, performed at the reporting unit level, generally includes estimating the fair value and comparing that to the carrying value. If fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered to be impaired. These valuation methods require the Indiana University Health System to make estimates and assumptions regarding future operating results, cash flows, changes in working capital, capital expenditures, profitability, and the cost of capital. The Indiana University Health System also reviews if events or changes in circumstances suggest impairment may have occurred related to the carrying value of the definite-lived intangible assets, which are amortized over periods of 5 to 35 years. It has been determined that there was no impairment to goodwill or definite-lived intangible assets during 2012 and 2011. Intangible assets included in other assets on the accompanying consolidated balance sheets as of December 31, 2012 and 2011, were $184,145 and $166,300, respectively, which include goodwill of $166,801 and $147,395, respectively. The increase in goodwill during 2012 primarily relates to a surgery center acquisition.

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, donor contributions to offset operating expenses, other support, equity income or loss of unconsolidated health care subsidiaries, and expenses directly related to the recurring and ongoing health care operations during the reporting period. 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-pay and basis swaps, gain

3. Summary of Significant Accounting Policies (continued)

or loss on the extinguishment of debt, inherent contribution of acquired entities, noncontrolling interest, and gains and losses deemed by management not to be directly related to providing health care services.

Performance Indicator (Excess 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.

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

Subsequent Events

For the consolidated financial statements as of and for the year ended December 31, 2012, management has evaluated subsequent events through March 28, 2013, the date that these consolidated financial statements were issued.

4. Business Combinations and Other Strategic Transactions

Indiana University Health Physicians

Effective January 1, 2012, the bylaws of IUHP were amended and restated to, among other items, eliminate certain participatory rights of the noncontrolling members. With this change to the bylaws, Indiana University Health is deemed to control IUHP. The transaction was accounted for as an acquisition, and acquired assets and liabilities were recorded at fair value. At January 1, 2012, Indiana University Health recorded the value of working capital of $7,460, property and equipment of $10,947, and other long-term assets of $9,081, net of pension liabilities assumed of $8,691. No material debt was assumed. Indiana University Health also adjusted its preexisting equity interest in IUHP of $15,349. This transaction resulted in a contribution of $3,062, which was recorded within nonoperating income in the consolidated statements of operations and changes in net assets. There was no material remeasurement gain recorded upon obtaining control of this investee. The financial position of IUHP was consolidated with Indiana University Health effective January 1, 2012, and the financial results of IUHP have been consolidated beginning on that date. The consolidation of IUHP had no impact on revenues in excess of expenses because Indiana University Health had been recognizing 100% of IUHP's net loss due to funding all of its operating losses in prior periods.

Rehabilitation Hospital of Indiana

Effective April 9, 2012, the bylaws of RHI were amended to provide Indiana University Health with a 51% voting interest in participatory matters, so that Indiana University Health became the controlling member in RHI. Purchase accounting was applied to this transaction as Indiana University Health obtained control of the entity, which was previously accounted for under the equity method. As such, the assets, liabilities, and noncontrolling interests of RHI were recorded at fair value. Indiana University Health recorded the value of working capital and assets limited to use of $14,613, property and equipment and other assets of $13,713, and ownership interests of $7,593. Long-term debt and other liabilities of $20,733 were assumed. Indiana University Health remeasured its previous equity method investment upon the change in control, which resulted in a gain of $2,200 recorded within other nonoperating income on the consolidated statements of operations and changes in net assets, representing the fair value of Indiana University Health's equity interest in RHI in excess of its previous carrying value. The financial position of RHI was consolidated with Indiana University Health effective with the amendment, and the financial results of RHI were consolidated beginning on that date. The recorded amounts

4. Business Combinations and Other Strategic Transactions (continued)

for assets and liabilities are provisional and subject to change pending the finalization of purchase price allocation. However, Indiana University Health does not expect any future adjustments will be material.

White Hospital

On April 26, 2011, Indiana University Health entered into an Affiliation and Asset Purchase Agreement (the White Agreement) with White County Memorial Hospital, a 25-bed critical access hospital located in Monticello, Indiana, whereby effective July 1, 2011, White County Memorial Hospital transferred certain of its assets and liabilities to Indiana University Health White Memorial Hospital (White), a newly created nonprofit organization, and Indiana University Health is the sole corporate member of White. White has obtained tax-exempt status. The purchase price was $955, payable over ten years, plus the assumption of liabilities. The White Agreement was designed to enable both organizations to better position themselves to serve patients and the community and to provide White with certain support services.

As the sole corporate member of White, Indiana University Health has control of White through appointment of the majority of the Board of Directors. The transaction was accounted for as an acquisition, and acquired assets and liabilities were recorded at fair value. At July 1, 2011, Indiana University Health recorded the value of working capital and assets limited to use of $8,202 and property and equipment of $34,975, net of long-term debt assumed of $37,304, resulting in a contribution of $4,627, which was recorded within nonoperating income on the consolidated statement of operations and changes in net assets. On July 1, 2011, Indiana University Health extinguished long-term debt of $24,901 assumed in the transaction and replaced it with an intercompany note that is eliminated in consolidation. Indiana University Health also recorded restricted net assets of $291 as part of the acquisition. The financial position of White was consolidated with Indiana University Health effective July 1, 2011, and the financial results of White have been consolidated beginning on that date.

Morgan Hospital

On June 28, 2011, Indiana University Health entered into an Affiliation and Asset Purchase Agreement (the Morgan Agreement) with Morgan Hospital and Medical Center, a 106-bed not-for-profit hospital located in Martinsville, Indiana, whereby effective July 1, 2011, Morgan Hospital and Medical Center transferred certain of its assets and liabilities to Indiana University Health Morgan Hospital (Morgan), a newly created tax-exempt nonprofit organization. Indiana

4. Business Combinations and Other Strategic Transactions (continued)

University Health is the sole corporate member of Morgan. In connection with the transaction, Morgan became the sole corporate member of Indiana University Health Morgan Hospital Foundation (formerly Morgan County Hospital Foundation). The Morgan Agreement was designed to enable both organizations to better position themselves to serve patients and the community, promote economic development and job preservation in Morgan County, and to provide Morgan with certain support services.

As the sole corporate member of Morgan, Indiana University Health has control of Morgan through appointment of the majority of the Board of Directors. The transaction was accounted for as an acquisition, and acquired assets and liabilities were recorded at fair value. At July 1, 2011, Indiana University Health recorded the value of working capital and assets limited to use of $12,416 and property and equipment of $32,977, net of long-term debt assumed of $746, resulting in a contribution of $44,087, which was recorded within nonoperating income on the consolidated statement of operations and changes in net assets. Indiana University Health also recorded restricted net assets of $560 as part of the acquisition. The financial position of Morgan was consolidated with Indiana University Health effective July 1, 2011, and the financial results of Morgan have been consolidated beginning on that date.

Indiana University Health Saxony Hospital

Saxony, located in Fishers, Indiana, opened on December 1, 2011. The hospital's focus is surgical services for cardiovascular, orthopedic, and spine. The hospital construction was completed during November 2011 at an aggregate cost of approximately $224,242, which was recorded as property and equipment at December, 31, 2012. In addition, start-up, organization, and development costs aggregated $5,740 for the year ended December 31, 2011, and were charged to operations. Saxony operates as a division of the academic health center. An adjacent ambulatory surgery center, Indiana University Health Saxony Surgery Center, LLC, opened during the first quarter of 2012.

Purchase of Noncontrolling Interests in West

Effective April 29, 2011, West redeemed 100% of its physician-owned membership interests for $9,430. Prior to this redemption, Indiana University Health held a 76.9% membership interest in West. Upon the purchase, Indiana University Health became the sole corporate member of West. West became a separate tax-exempt organization in 2012. The purchase price paid to physicians in excess of the carrying amount of noncontrolling interest was recorded to unrestricted net assets.

4. Business Combinations and Other Strategic Transactions (continued)

Purchase of Noncontrolling Interests in North

Effective November 1, 2011, 100% of North's physician-owned membership interests were purchased by Indiana University Health for $29,864. Prior to this purchase, Indiana University Health held a 63.8% membership interest in North. Upon the purchase, Indiana University Health became the sole corporate member of North. North became a separate tax-exempt organization in 2012. The purchase price paid to physicians in excess of the carrying amount of noncontrolling interest was recorded to unrestricted net assets.

Central Indiana Cancer Centers

Effective June 1, 2011, Indiana University Health purchased the business operations of Central Indiana Cancer Centers (CICC) for $12,000. CICC operates community-based cancer centers providing comprehensive cancer care services and treatments. The transaction was accounted for as a purchase with assets acquired of $3,263, which includes property and equipment of $2,495 and a definite-lived intangible asset related to noncompete agreements recognized for $3,510. The purchase resulted in goodwill of $5,227 recorded in other assets on the accompanying consolidated balance sheets.

Surgery Centers

Effective July 1, 2011, Indiana University Health purchased one additional membership unit in Beltway Surgery Center (BSC) and Eagle Highlands Surgery Center (EHSC) and, as a result, Indiana University Health became the controlling member in these surgery centers. Purchase accounting was applied to this transaction, as these surgery centers were previously accounted for under the equity method. As such, the assets, liabilities, and ownership interests of these two entities were recorded at fair value, resulting in goodwill of $122,799, which is classified in other long-term assets. At July 1, 2011, Indiana University Health recorded the value of working capital of $16,927, property and equipment of $6,931, and ownership interests (controlling and noncontrolling) of $146,383. No material debt was assumed. Indiana University Health recorded its controlling investment in BSC and EHSC at fair value, which resulted in a gain of $61,411 recorded within other nonoperating income, representing the fair value of Indiana University Health's preexisting equity interests in BSC and EHSC in excess of the carrying values.

4. Business Combinations and Other Strategic Transactions (continued)

Also effective July 1, 2011, Indiana University Health entered into a Membership Interest Purchase Agreement with Surgical Care Affiliates, LLC (SCA) whereby SCA purchased a noncontrolling 49% ownership interest in six holding companies, controlled subsidiaries that own and control BSC, EHSC, and four other surgery centers, for $123,090. SCA, under very limited circumstances, can put its interests to Indiana University Health; however, because of the contingent nature of these rights and, in management's view, the remote possibility of such contingencies occurring, the SCA noncontrolling interests are reflected within unrestricted net assets.

The sale of 49% of the interests in the holding companies to SCA did not result in a change of control and therefore was accounted for as an equity transaction. The difference between the fair value of the consideration received from SCA and the amount by which the noncontrolling interest is adjusted was recognized in equity attributable to the parent. As reflected in the consolidated statement of operations and changes in net assets, $40,364 of the $123,090 consideration received was reflected as SCA's noncontrolling interest in the holding companies, and the remaining $82,726 was recorded as an increase to unrestricted net assets.

Neuroscience Center of Excellence (NCOE)

In June 2012, construction was completed on the NCOE medical office building, and it opened to patients in August 2012. Upon completion, Indiana University Health entered into a 25-year lease with the NCOE developer. Because Indiana University Health obtains ownership of the medical office building at the end of the lease term, this is recorded as a capital lease. 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. At December 31, 2012, the value of the asset was $91,705 and the capital lease obligation was $93,153, which were recorded within property and equipment and long-term debt, respectively on the consolidated balance sheets.

5. Assets Limited as to Use

Board-designated and donor-restricted investment funds are invested in accordance with Board-approved policies. Trustee-held funds are generally invested in cash equivalents (including money market funds) 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, quoted market prices of comparable instruments and other observable inputs; and other investments, including alternative investments (such as hedge funds and private equity investments) are accounted for using the equity method of accounting based upon the net asset values as determined by third-party administrators of each 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 employ hedged investment strategies, which are designed to reduce overall portfolio volatility. Generally, redemptions may be made quarterly with written notice ranging from 30 to 95 days; however, some funds employ lock-up periods that restrict redemptions or charge a redemption fee during the lock-up period. Lock-up periods range from one to three years with redemption charges of up to 5% of net asset value for redemptions made on or before the anniversary date of the initial investment or additional contribution. Upon complete redemption, many of the funds have "hold-back" provisions that allow the fund to retain up to 10% of the assets until the fund completes its audited financial statements for the redemption period. 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 utilizing various financial instruments, including futures contracts, foreign currency contracts, structured notes, and interest rate, total return, and credit default swaps. Additionally, alternative investments may provide limited information on a fund's underlying assets and have restrictive liquidity provisions. Management believes that the Indiana University Health System, in consultation with its investment consultants, has the capacity to analyze and interpret the risks associated with alternative investments and with this understanding, has determined that these investments represent a prudent approach for use in its portfolio management.

The largest fund allocation to any fund manager, which is an alternative fund of funds investment, is $157,048 at December 31, 2012, and there are no investments in any individual fund greater than 13.5% of that fund's net assets. As of December 31, 2012, there are no material 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	
	2012	**2011**
Board-designated investments and trustee-held funds:		
Cash and cash equivalents	**$ 58,634**	$ 183,065
Marketable securities:		
U.S. government and agency obligations	**111,826**	99,952
U.S. corporate obligations	**354,825**	315,815
U.S. equity securities	**351,908**	260,438
Non-U.S. securities	**272,789**	173,537
Total marketable securities	**1,091,348**	849,742
Other Board-designated investments:		
Alternative investments:		
Hedged strategy (fund of funds)	**423,480**	312,294
Hedged strategy (direct)	**118,168**	70,871
Real estate investment trusts and other	**7,799**	7,638
Total other Board-designated investments	**549,447**	390,803
Total Board-designated investments and trustee-held funds	**1,699,429**	1,423,610
Other investments:		
Cash and cash equivalents	**8,539**	6,672
U.S. government and agency obligations	**184,216**	153,449
U.S. corporate obligations	**162,252**	88,107
Non-U.S. securities	**22,117**	12,177
Total other investments	**377,124**	260,405
Total assets limited to use	**2,076,553**	1,684,015
Less current portion	**(501)**	(54,430)
Total assets limited to use, less current portion	**$ 2,076,052**	$ 1,629,585

(Thousands of Dollars)

5. Assets Limited as to Use (continued)

Assets limited as to use include funds held by the Foundations whose fair values as of December 31, 2012, aggregated $179,963, of which $84,988 is considered Board-designated investment funds and $94,975 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	
	2012	**2011**
Investment income:		
Interest and dividend income	**$ 31,649**	$ 23,601
Investment management and administration fees	**(3,063)**	(2,141)
Realized gains on sales of investments, net	**35,086**	9,867
Unrealized gains (losses) on investments	**62,358**	(27,377)
Equity gains (losses) of hedged strategy funds	**21,872**	(1,223)
	$ 147,902	$ 2,727

6. Property and Equipment

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

	December 31	
	2012	**2011**
Land and improvements	**$ 260,329**	$ 230,192
Buildings and improvements	**3,241,646**	3,001,364
Equipment (including software developed for internal use of $221,309 in 2012 and $219,842 in 2011)	**2,071,795**	2,121,488
	$ 5,573,770	$ 5,353,044

(Thousands of Dollars)

6. Property and Equipment (continued)

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.

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	
	2012	**2011**
Software developed for internal use	**$ 13,772**	$ 7,842
NCOE	–	21,220
Riley Simon Family Tower	**13,294**	16,242
Other facilities and equipment	**17,401**	45,080
	$ 44,467	$ 90,384

Firm commitments for construction-in-progress totaled $103,616 at December 31, 2012. However, other amounts aggregating approximately $163,459 are anticipated to be incurred but are not legally required or committed and are subject to change or authorization by the Board.

(Thousands of Dollars)

6. Property and Equipment (continued)

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 2012	December 31 2011
Software	**$ 1,985**	$ 22,870
Computer and office equipment	**11,485**	7,472
Medical equipment	**28,542**	24,931
Buildings	**119,258**	13,281
	161,270	68,554
Less accumulated amortization	**(26,940)**	(34,672)
	$ 134,330	$ 33,882

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 four separate Master Trust Indentures (MTIs). Each indenture provides for the issuance of long-term debt under various obligated group structures. The obligated groups and their respective members consist 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 Hospitals of the Academic Health Center, LaPorte, and Saxony (a division of Indiana University Health) as members; (2) the Ball Memorial Obligated Group, including Ball Memorial and Blackford as members; (3) the Bloomington Obligated Group, which includes Bloomington as the sole member; and (4) the Rehabilitation Hospital of Indiana Obligated Group, which includes RHI 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

7. Debt (continued)

the maintenance of debt service ratios and limit each obligated group's ability to encumber certain of its respective assets. As of December 31, 2012, the Indiana University Health System was in compliance with all financial covenants.

Issuance and Extinguishment of Debt

Indiana University Health Obligated Group

On May 26, 2011, a direct bank loan (which was used to redeem Series 2003F bonds) was amended to defer the maturity date to June 30, 2012, with an interest rate based on one-month London Interbank Offered Rate (LIBOR). On June 29, 2012, the loan was further amended to defer the maturity date to June 30, 2014. As of December 31, 2012, the amount outstanding for this loan was $40,900.

On April 19, 2011, Indiana University Health issued at par $228,195 of Series 2011A, B, C, D, and E tax-exempt variable-rate bonds. Proceeds were used to currently refund the Series 2008A, C, and D tax-exempt variable-rate bonds outstanding in the amount of $110,475; to repay a $46,980 line-of-credit draw that had been used to refinance the Series 2008B bonds; to repay a $21,947 line-of-credit draw that had been used to refinance the Tipton Adjustable Rate Demand Economic Development Revenue Bonds, Series 2006A; to pay expenses related to the issuance; and to fund project costs (including costs related to Saxony) of $48,513.

On May 5, 2011, Indiana University Health issued at par $274,815 of Series 2011F, G, H, and I tax-exempt variable-rate bonds. Proceeds were used to currently refund the Series 2005A, B, C, and D tax-exempt variable-rate bonds outstanding in the amount of $273,925 and to pay certain expenses related to the issuance. On May 5, 2011, Indiana University Health issued at par $166,660 of Series 2011J and K taxable variable-rate bonds. Proceeds were used to currently refund the Series 2003E and G taxable variable-rate bonds outstanding in the amount of $166,125 and to pay certain expenses related to the issuance.

7. Debt (continued)

On May 25, 2011, Indiana University Health issued at par $111,435 of Series 2011L and M tax-exempt variable-rate bonds to fund project costs (including costs related to Saxony) in the amount of $111,071 and to pay certain expenses related to the issuance.

On December 7, 2011, Indiana University Health issued at par $209,980 of Series 2011N tax-exempt fixed rate bonds at a premium of $11,637. Proceeds were used to currently refund the Series 2011F and G tax-exempt variable-rate bonds outstanding in the amount of $128,395; to currently refund a portion ($21,496) of the Series 2011E tax-exempt variable-rate bonds outstanding; to repay a portion of the line of credit in the amount of $34,012; to refund the Hospital Authority of Monroe County Hospital Revenue Bonds, Series 1999B (Bloomington Hospital Obligated Group) outstanding in the amount of $35,565; and to pay certain expenses related to the issuance. As of December 31, 2012, $386 of proceeds from this bond issuance remained in current portion of trustee-held funds.

The refinancings during 2011 were accounted for as debt extinguishments, which resulted in a loss for the write-off of unamortized bond costs and expenses of the refunded bonds of $8,491. This loss is shown with other nonoperating income on the consolidated statements of operations and changes in net assets.

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-rate bond series. None of these agreements expires during 2013.

(Thousands of Dollars)

7. Debt (continued)

Long-term debt as of December 31, 2012 and 2011, consists of the following:

	2012	2011
Indiana University Health Obligated Group		
Indiana Finance Authority:		
Fixed Rate, Tax-Exempt Hospital Revenue Refunding Bonds, Series 2011N Serial and Term Bonds, payable in varying principal installments through 2038, with interest rates ranging from 2.00% to 5.13% at December 31, 2012	**$ 197,960**	$ 209,980
Variable-Rate Demand Notes, Tax-Exempt Revenue Refunding Bonds, Series 2011A, B, C, D, E, H, I, L, and M, payable in varying installments through 2036, with variable interest rates ranging between 0.10% and 0.91% at December 31, 2012	**457,320**	464,550
Variable-Rate Demand Notes, Taxable Hospital Revenue Bonds, Series 2011J and K, payable in varying principal installments through 2033, with an interest rate of 0.21% at December 31, 2012	**163,245**	166,660
Indiana Health and Educational Facility Financing Authority:		
Fixed Rate, Tax-Exempt Hospital Revenue Bonds, Series 2006A and 2006B Serial and Term Bonds, payable in varying principal installments through 2040, with interest rates ranging from 4.75% to 5.25% at December 31, 2012	**672,285**	677,650
Variable-Rate Commercial Bank Loans, payable in varying principal installments through 2038, with an interest rate of 0.71% at December 31, 2012	**40,900**	66,471
Fixed Rate Commercial Bank Loan, payable in varying principal installments through 2016, with an interest rate of 4.75% at December 31, 2012	**26,526**	35,192

(Thousands of Dollars)

7. Debt (continued)

	2012	2011
Ball Memorial Obligated Group		
Hospital Authority of Delaware County, Indiana:		
Fixed Rate, Tax-Exempt Revenue Refunding Bonds, Series 2009A, 2006, and 1997 Serial and Term Bonds, payable in varying principal installments through 2040, with interest rates ranging from 5.00% to 5.63% at December 31, 2012	**$ 91,840**	$ 93,820
Bloomington Obligated Group		
Hospital Authority of Monroe County, Indiana:		
Variable-Rate, Tax-Exempt Equipment Financing Agreements, payable in varying installments through 2016, with interest rates ranging from 1.22% to 1.34% at December 31, 2012	**5,526**	7,172
Rehabilitation Hospital of Indiana Obligated Group		
Indiana Finance Authority:		
Variable-Rate Demand Notes, Tax-Exempt Hospital Revenue Bonds, Series 2011A, payable in varying principal installments through 2031, with an interest rate of 0.15% at December 31, 2012	**16,070**	–
Variable-Rate, Subordinated Promissory Note, principal payable in full at maturity in 2017, with an interest rate of 0.13% at December 31, 2012	**1,500**	–

(Thousands of Dollars)

7. Debt (continued)

	2012	2011
Other Nonobligated Group Debt		
Bloomington, Variable-Rate, Taxable Revenue Bonds, Series 2008 Private Placement Bonds, payable in quarterly installments through 2019, variable interest rate of 0.77% at December 31, 2012	**$ 2,736**	$ 3,175
Stonehenge Community Development VII, LLC, Fixed Rate, Unsecured New Market Tax Credit Notes A and B, due in 2014 at an interest rate of 3.29%	**25,000**	25,000
Mortgage obligations (interest rates ranging from 1.46% to 6.24%)	**9,497**	12,375
Capital lease obligations	**125,861**	38,302
Other	**33,789**	39,173
Total long-term debt	**1,870,055**	1,839,520
Unamortized premium	**15,629**	16,622
Less current portion	**(60,853)**	(125,852)
Long-term debt, less current portion	**$ 1,824,831**	$ 1,730,290

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	RHI Obligated Group	Other	Total
Year ending December 31:						
2013	$ 40,657	$ 4,095	$ 1,670	$ 348	$ 14,083	$ 60,853
2014	42,143	4,300	1,513	572	38,501	87,029
2015	42,151	4,510	1,397	615	10,369	59,042
2016	41,110	3,570	946	650	8,953	55,229
2017	43,000	3,110	–	2,195	6,717	55,022
Thereafter	1,349,175	72,255	–	13,190	118,260	1,552,880
	$ 1,558,236	$ 91,840	$ 5,526	$ 17,570	$ 196,883	$ 1,870,055

7. Debt (continued)

The estimated valuation of the revenue bonds is obtained from a third-party pricing service and is derived by utilizing well-priced, liquid bonds with similar characteristics such as currency, market type, industry, and credit rating. Pricing data for these reference bonds incorporates simple averages of indicative and executable price quotes obtained from various contributors, including brokers and other market makers, over a specified time window. These prices are used to construct a fair value curve, which in turn is used to discount the future cash flows of the revenue bonds. Based on the inputs used in determining the estimated fair value of these securities, this liability would be classified as Level 2 in the fair value hierarchy.

The estimated fair value of the revenue bonds at December 31, 2012 and 2011, amounted to $1,669,299 (which includes Ball Memorial – $98,736 and RHI – $16,070) and $1,624,299, respectively. The carrying value of the revenue bonds at December 31, 2012 and 2011, amounted to $1,598,720 and $1,612,660, respectively. The recorded value of all debt obligations not traded in the secondary credit markets approximated fair value at December 31, 2012 and 2011.

During 2012, Indiana University Health renewed its $86,000 secured line of credit, which is secured under the terms of its Obligated Group MTI, bears interest on a variable rate based on LIBOR, and matures June 30, 2015. As of December 31, 2012 and 2011, the Indiana University Health System maintained several lines of credit totaling $91,000 and $97,000, respectively. There was no balance drawn on the lines of credit as of December 31, 2012. A balance of $24,721 was drawn and outstanding and included within notes payable to bank in the consolidated balance sheets at December 31, 2011.

Total interest paid on long-term debt for the years ended December 31, 2012 and 2011, aggregated $81,342 and $79,031, respectively. Total interest capitalized during the years ended December 31, 2012 and 2011, amounted to $3,862 and $9,744, respectively.

(Thousands of Dollars)

8. Derivative Financial Instruments

During 2011, Indiana University Health amended its interest rate swap arrangements to allow transfers of swaps to other counterparties and to limit the posting of collateral, and several interest rate swaps were transferred to other counterparties.

Long-term interest rate swap arrangements have been entered into with the primary objective being to mitigate interest rate risk. The following fixed-pay swaps, stated at current notional amounts, remain in place as of December 31, 2012:

Notional Amount	Effective Date	Maturity Date	Rate Received	Rate Paid
$ 58,075	11/15/2005	2/16/2021	62.30% LIBOR plus 0.24%	3.19%
60,195	6/23/2011	3/01/2036	62.30% LIBOR plus 0.24%	2.68%
71,650	11/15/2005	2/15/2030	62.30% LIBOR plus 0.24%	3.35%
71,950	6/20/2011	2/15/2030	62.30% LIBOR plus 0.24%	3.35%
61,025	6/26/2003	3/01/2033	LIBOR	4.92%
101,700	6/16/2011	3/01/2033	LIBOR	4.92%
40,675	6/26/2003	3/01/2033	LIBOR	4.92%
10,900	1/27/2006	11/02/2020	Securities Industry and Financial Markets Association (SIFMA)	3.98%
800	6/30/2008	6/30/2013	LIBOR plus 1.75%	6.00%
2,091	6/01/2004	6/01/2024	LIBOR plus 1.50%	7.05%
1,519	6/01/2006	6/01/2026	LIBOR plus 1.25%	7.15%
182	10/01/1999	10/01/2019	Prime minus 1.86%	7.72%

After giving effect to the above derivative transactions, the Indiana University Health System's variable-rate debt was approximately 11.1% and 12.2% of total debt outstanding as of December 31, 2012 and 2011, respectively.

(Thousands of Dollars)

8. Derivative Financial Instruments (continued)

In addition, long-term basis swap arrangements were entered into for the purpose of managing the effect of interest rates on cash flows and were in place as of December 31, 2012, 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	75.00% three-month LIBOR minus 0.05%	SIFMA
178,449	1/04/2008	2/15/2033	Basis	75.00% one-month LIBOR	SIFMA
178,449	2/15/2009	2/15/2021	Basis	72.00% three-month LIBOR minus 0.13%	SIFMA
309,200	3/10/2021	1/07/2033	Forward Starting Basis	75.00% three-month LIBOR minus 0.04%	SIFMA
309,200	3/07/2009	3/07/2021	Basis	72.00% three-month LIBOR minus 0.12%	SIFMA
309,200	6/07/2011	1/07/2033	Basis	75.00% one-month LIBOR	SIFMA
250,000	3/01/2009	9/30/2038	Basis	77.00% three-month LIBOR minus 0.11%	SIFMA
250,000	3/01/2009	9/30/2038	Basis	77.00% three-month LIBOR minus 0.11%	SIFMA

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, 2012, the fair value of interest rate swaps was a liability of $165,923, which is net of CVA of $33,378. As of December 31, 2011, the fair value of interest rate swaps was a liability of $196,627, which is net of CVA of $32,639. The fair values of the swaps have been included with noncurrent liabilities in the accompanying consolidated balance sheets.

(Thousands of Dollars)

8. Derivative Financial Instruments (continued)

As of December 31, 2012, interest rate swaps had a total notional amount of $1,956,060, including $480,762 of fixed-pay swaps and $1,475,298 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 exceeds certain thresholds. The aggregate fair value of all derivative instruments, consisting of fixed-pay and basis swaps, with credit-risk-related contingent features that are in a liability position on December 31, 2012 and 2011 was $169,006 and $198,179, respectively. No collateral was posted as of December 31, 2012 and 2011.

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

	Year Ended December 31 2012	2011
Gains (losses) on interest rate swaps, net:		
Unrealized gains (losses) on interest rate swaps	**$ 32,294**	$ (55,712)
Realized losses on interest rate swaps	**(15,240)**	(17,729)
	$ 17,054	$ (73,441)

9. Fair Value Measurements

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 2 – Pricing inputs other than quoted prices included in Level 1 that are either directly observable or that can be derived or supported from observable data as of the reporting date.

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

The following tables set forth by level within the fair value hierarchy the Indiana University Health System's financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2012 and 2011. 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)

	Level 1	Level 2	Level 3	Total
December 31, 2012				
Assets				
Cash and cash equivalents	**$ 543,923**	**$ –**	**$ –**	**$ 543,923**
Trading securities:				
U.S. government and agency	**252,632**	**43,410**	**–**	**296,042**
U.S. corporate obligations	**161,651**	**355,426**	**–**	**517,077**
U.S. equity securities	**346,610**	**5,298**	**–**	**351,908**
Non-U.S. securities	**89,116**	**205,790**	**–**	**294,906**
Real estate investment trusts and other	**3,264**	**4,535**	**–**	**7,799**
Beneficial interests in charitable remainder and perpetual trusts	**–**	**9,192**	**–**	**9,192**
Total assets measured at fair value on a recurring basis	**$ 1,397,196**	**$ 623,651**	**$ –**	**$ 2,020,847**
Liabilities				
Interest rate swaps	**$ –**	**$ –**	**$ 165,923**	**$ 165,923**
Total liabilities measured at fair value on a recurring basis	**$ –**	**$ –**	**$ 165,923**	**$ 165,923**

	Level 1	Level 2	Level 3	Total
December 31, 2011				
Assets				
Cash and cash equivalents	$ 189,737	$ –	$ –	$ 189,737
Trading securities:				
U.S. government and agency	220,666	32,735	–	253,401
U.S. corporate obligations	251,907	152,015	–	403,922
U.S. equity securities	260,102	336	–	260,438
Non-U.S. securities	84,992	100,722	–	185,714
Real estate investment trusts and other	3,949	3,689	–	7,638
Beneficial interests in charitable remainder and perpetual trusts	–	8,668	–	8,668
Total assets measured at fair value on a recurring basis	$ 1,011,353	$ 298,165	$ –	$ 1,309,518
Liabilities				
Interest rate swaps	$ –	$ –	$ 196,627	$ 196,627
Total liabilities measured at fair value on a recurring basis	$ –	$ –	$ 196,627	$ 196,627

(Thousands of Dollars)

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 market quotes for 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).

Cash and cash equivalents not held in money market accounts aggregated $134,880 and $403,086 as of December 31, 2012 and 2011, respectively, and are not included in the tables. The Indiana University Health System's $541,648 and $383,165 of alternative investments as of December 31, 2012 and 2011, respectively, are not included in the tables 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 sheets.

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

	Financial Liabilities for Derivative Financial Instruments
Fair value at January 1, 2012	$ 196,627
Transfers into Level 3	1,590
Unrealized gains	(32,294)
Fair value at December 31, 2012	$ 165,923

9. Fair Value Measurements (continued)

Due to the significance of the CVA relative to the fair value of the swaps, whose inputs are not observable from objective sources, interest rate swaps are classified as Level 3 instruments. The Indiana University Health System engages a third party to assist in valuing the CVA. The CVA adjusts the fair value of each swap based on the credit risk of the party holding the swap in a liability position at that point in time. This credit risk is measured by taking the spread between the AAA-rated Muni GO curve and the A-rated Muni Healthcare curve (or the AA+ rated Muni GO curve for the swaps insured by Assured Guaranty Municipal Corporation) and adjusting that spread to a taxable basis using the relevant SIFMA/LIBOR ratio. A credit risk adjusted mark-to-market is then calculated by adding the relevant taxable spread to the LIBOR swap curve and revaluing the swap using the adjusted curve.

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

- whether the Indiana University Health System is required to post collateral under the swap agreements,
- to the extent that the credit rating of the Indiana University Health System increases or decreases, in which case the CVA would decrease and increase, respectively (assuming the swaps are in a liability position), or
- to the extent that the spread between the swap curves discussed above expands or compresses.

Generally, swaps are transferred between Level 2 and Level 3 when the CVA exceeds 10% of the gross valuation of the swap. Transfers are generally recorded at the end of the reporting period. There were no transfers between Level 1 and Level 2.

(Thousands of Dollars)

10. Commitments and Contingencies

Leases

Buildings and medical and office equipment are leased under noncancelable operating and capital leases. Future minimum lease payments as of December 31, 2012, are as follows:

	Operating Leases	Capital Leases
Year ending December 31:		
2013	$ 58,253	$ 19,936
2014	45,356	16,113
2015	35,349	14,427
2016	28,761	11,501
2017	23,376	10,124
Thereafter	74,343	192,031
Total minimum lease payments	$ 265,438	264,132
Less amount representing interest		138,271
Present value of net minimum lease payments		$ 125,861

Rent and lease expense, included in supplies, drugs, purchased services, and other expenses, amounted to $89,478 and $78,505 for the years ended December 31, 2012 and 2011, respectively.

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. 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 jurisdictions in which the captive insurance companies are domiciled require, among other matters, that certain capital and funding requirements be met. The actuarially determined amount of accrued medical malpractice claims is included in noncurrent liabilities in the accompanying consolidated balance sheets.

12. Retirement Plans

Defined Contribution Plans

Retirement benefits are provided to substantially all employees of the Indiana University Health System, primarily through defined contribution plans. Contributions, which are included in benefits expense, to the defined contribution plans are based on compensation of qualified employees and amounted to $89,833 in 2012 and $79,871 in 2011 (net of forfeitures of $2,547 and $2,650 in 2012 and 2011, 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, or 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.

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. An increase to the pension liability of $15,478 has been recorded in 2012 due primarily to the consolidation of IUHP and lower discount rates assumed for net periodic pension costs and benefit obligation.

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, 2012 and 2011. The discount rates used vary with each plan based on plan characteristics such as the average age of participants. The amounts in the following table for 2012 include the pension plan sponsored by IUHP, which was consolidated as of January 1, 2012.

(Thousands of Dollars)

12. Retirement Plans (continued)

	2012	2011
Changes in benefit obligation of the plans:		
Benefit obligation at beginning of year	**$ 438,884**	$ 404,445
Benefit obligation as of January 1, 2012, IUHP	**8,691**	–
Benefit obligation at the beginning of the year, as adjusted	**447,575**	404,445
Service cost and other	**2,191**	2,420
Interest cost	**21,601**	21,646
Actuarial loss	**51,738**	26,757
Benefits paid	**(24,991)**	(16,384)
Benefit obligation at end of year	**$ 498,114**	$ 438,884
Changes in assets of the plans:		
Fair value of assets at beginning of year	**$ 299,882**	$ 309,865
Actual return on assets	**30,992**	(3,480)
Employer contributions	**37,751**	9,882
Benefits paid	**(24,991)**	(16,385)
Fair value of assets at end of year	**$ 343,634**	$ 299,882
Funded deficiency at December 31	**$ (154,480)**	$ (139,002)
Items not yet recognized as a component of net periodic pension cost:		
Net actuarial loss	**$ 166,217**	$ 136,365
Prior service cost	**(314)**	(597)
	$ 165,903	$ 135,768

(Thousands of Dollars)

12. Retirement Plans (continued)

	2012	2011
Components of net pension benefit cost:		
Service cost	**$ 2,191**	$ 2,420
Interest cost	**21,601**	21,646
Expected return on assets	**(22,927)**	(24,811)
Amortization of unrecognized prior service cost	**(283)**	(283)
Amortization of unrecognized net loss	**14,837**	5,444
Amortization of transition obligation	**80**	–
Termination benefit and settlement expense	**886**	–
Net periodic pension cost	**$ 16,385**	$ 4,416
Weighted-average actuarial assumptions to determine benefit cost:		
Discount rate for net periodic pension cost	**4.90%**	5.50%
Discount rate for benefit obligations	**4.10**	4.95
Expected rate of return on plan assets	**6.83**	7.55
Rate of compensation increase	**2.50**	2.50
Accumulated benefit obligation	**$ 488,188**	$ 437,710
Fair value of assets at end of year	**343,634**	299,882
Accumulated benefit obligation exceeding fair value of plan assets	**$ 144,554**	$ 137,828

Expected future benefit payments:	
2013	$ 28,627
2014	23,325
2015	24,777
2016	26,613
2017	27,909
2018–2022	149,247

(Thousands of Dollars)

12. Retirement Plans (continued)

Accumulated adjustments to unrestricted net assets at December 31, 2012, include amounts related to net actuarial loss and prior service costs that have not yet been recognized in net pension benefit cost. Expected amortization of amounts in unrestricted net assets is expected to increase net periodic pension costs by $18,437 during the year ending December 31, 2013. Contributions are expected to aggregate $34,771 to the defined benefit pension plans during 2013.

The principal long-term determinant of a plan's investment return is its asset allocation. The plans' 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 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:

	2012	**2011**
Asset category		
U.S. equity securities	**29%**	29%
Hedged strategy (fund of funds)	**20**	21
Non-U.S. securities	**20**	20
U.S. corporate obligations	**18**	18
U.S. government obligations	**9**	9
Cash and cash equivalents	**3**	2
Real estate investment trusts and other	**1**	1
	100%	100%

The allocation strategy for the plans is currently composed 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 tables present the plans' financial instruments as of December 31, 2012 and 2011, measured at fair value on a recurring basis within the fair value hierarchy as disclosed in Note 9:

	Level 1	Level 2	Level 3	Total
December 31, 2012				
Assets				
Cash and cash equivalents	**$ 12,375**	**$ –**	**$ –**	**$ 12,375**
U.S. government and agency	**18,364**	**12,709**	**–**	**31,073**
U.S. corporate obligations	**33,415**	**29,881**	**–**	**63,296**
U.S. equity securities	**97,806**	**686**	**–**	**98,492**
Non-U.S. securities	**50,885**	**18,424**	**–**	**69,309**
Hedged strategy (fund of funds)	**–**	**67,192**	**–**	**67,192**
Real estate investment trusts and other	**1,897**	**–**	**–**	**1,897**
Total assets measured at fair value on a recurring basis	**$ 214,742**	**$ 128,892**	**$ –**	**$ 343,634**

	Level 1	Level 2	Level 3	Total
December 31, 2011				
Assets				
Cash and cash equivalents	$ 4,614	$ –	$ –	$ 4,614
U.S. government and agency	13,766	12,291	–	26,057
U.S. corporate obligations	32,746	21,520	–	54,266
U.S. equity securities	89,552	386	–	89,938
Non-U.S. securities	41,864	17,334	–	59,198
Hedged strategy (fund of funds)	–	63,695	–	63,695
Real estate investment trusts and other	2,114	–	–	2,114
Total assets measured at fair value on a recurring basis	$ 184,656	$ 115,226	$ –	$ 299,882

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.

The plans invest in alternative investments for which the net asset value per share represents the fair value of the investment held. Risks and redemption restrictions for these investments are similar to the alternative investments described in Note 5.

(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 the following: (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.

Changes in and composition of donor-restricted endowment net assets for both foundations for the years ended December 31, 2012 and 2011, were as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at January 1, 2011	$ 10,470	$ 44,349	$ 54,819
Investment return	(171)	330	159
Appropriation of endowment assets for expenditures	(1,011)	–	(1,011)
Endowment net assets at December 31, 2011	9,288	44,679	53,967
Investment return	**5,031**	**227**	**5,258**
Appropriation of endowment assets for expenditures	**(3,379)**	–	**(3,379)**
Endowment net assets at December 31, 2012	**$ 10,940**	**$ 44,906**	**$ 55,846**

13. Endowments (continued)

In 2011, Methodist Health Foundation and BMH Foundation transferred $709 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 2012, Methodist Health Foundation and BMH Foundation transferred a total of $600 from temporarily and permanently restricted net assets back to unrestricted net assets as a result of a 2011 transfer from unrestricted net assets 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 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 $41,307 and $38,987 in 2012 and 2011, 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 2012 and 2011, Indiana University Health expensed $52,610 and $98,505, respectively, related to educational and research support provided 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.

14. Related-Party Transactions (continued)

The Indiana University Health System purchases certain services from the School of Medicine. These expenses, principally for medical care case management services, utilities, laboratory services, and other services, totaled $21,981 and $21,269 for the years ended December 31, 2012 and 2011, 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.

In 2012, Indiana University Health committed to support ratably for a five-year period ending December 31, 2016, certain basic, clinical, and translational research programs of the School of Medicine. The total commitment aggregates $75,000, subject to Board approval annually, and will be used to reimburse expenses incurred by the School of Medicine. For the year ended December 31, 2012, the Indiana University Health System expensed $15,000 under this agreement within supplies, drugs, purchased services, and other expenses in the accompanying consolidated statement of operations and changes in net assets, of which $13,981 was accrued within accounts payable and accrued expenses at December 31, 2012. Additionally, in 2012 and 2011, the Board approved research grants in the amount of $5,000 and $3,000, respectively, which were expensed through purchased services in the accompanying consolidated statements of operations and changes in net assets.

During 2012, IUHP received a grant from Indiana University Medical Group Foundation in the amount of $45,000 to be used toward physician recruitment and transition for the purpose of expanding access to care to Medicaid and other underserved patient populations. As the grant restrictions have been met as of December 31, 2012, the $45,000 has been recorded as other operating revenue on the consolidated statements of operations and changes in net assets.

Other Foundations

Bloomington Hospital Foundation, Tipton County Foundation, Indiana University Health White Memorial Hospital Foundation, and White County Community Foundation are tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code; these foundations hold funds solely on behalf of Bloomington, Tipton, and White, respectively. The financial statements of these foundations are not included in the consolidated financial statements. The interests in net assets of these other foundations, which totaled $12,898 and $12,251 at December 31, 2012 and 2011, respectively, are included with other assets and net assets in the accompanying consolidated balance sheets and principally represent donor-restricted funds. These foundations also hold other net assets that are subject to the direction of their respective Boards of Directors.

(Thousands of Dollars)

14. Related-Party Transactions (continued)

Other changes in the net assets of these foundations are generally reflected within temporarily and permanently restricted net assets.

Other Equity Interest Ventures

Prior to consolidation effective January 1, 2012, Indiana University Health held a 51% ownership interest in IUHP but did not control IUHP. Due to Indiana University Health funding all operating losses of IUHP, Indiana University Health recorded 100% of IUHP's net losses in 2011 (see Note 4).

The Indiana University Health System also has arrangements with other entities for the operation of cancer treatment and diagnostic clinics. The Indiana University Health System has an investment in the operation of a long-term rehabilitative care hospital, which was consolidated when Indiana University Health became the controlling member in 2012 with 51% voting interest (see Note 4).

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. MDWise, Inc. provides administrative and health claims payment processing for these networks, including Carewise, a division of the Indiana University Health System.

Summarized financial information for 2012 and 2011 is presented below. For 2012, the information includes MDWise, Inc. and the cancer treatment and diagnostic clinics. For 2011, the information includes MDWise, Inc., IUHP, which was consolidated as of January 1, 2012, the rehabilitative hospital, which was consolidated as of April 1, 2012, and the cancer treatment and diagnostic clinics.

	2012	2011
	(Unaudited)	
Net assets	**$ 43,728**	$ 66,945
Total revenues	**466,079**	811,361
Excess (deficit) of revenues over expenses	**391**	(62,008)

14. Related-Party Transactions (continued)

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 within other operating revenue, totaling $3,603 and $(51,767) for the years ended December 31, 2012 and 2011, respectively.

Cash and cash equivalents held and managed by Indiana University Health on behalf of organizations that are not consolidated aggregated $1,211 and $1,384 at December 31, 2012 and 2011, respectively, and are included within 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 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.

The Affordable Care Act and the Health Care and Education Reconciliation Act 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 future regulations is not determinable.

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