Consolidated Financial Statements

Indiana University Health, Inc. and subsidiaries
Years Ended December 31, 2011 and 2010
With Report of Independent Auditors

Ernst & Young LLP

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Years Ended December 31, 2011 and 2010

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Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of Indiana University Health, Inc. (formerly known as Clarian Health Partners, Inc.) and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the management of Indiana University Health, Inc. and subsidiaries. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Indiana University Health, Inc. and subsidiaries at December 31, 2011 and 2010, and the consolidated results of their operations and changes in their net assets and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

March 22, 2012

Indiana University Health, Inc. and subsidiaries

Consolidated Balance Sheets

(Thousands of Dollars)

	December 31	
	2011	**2010**
Assets		
Current assets:		
Cash and cash equivalents	**$ 403,086**	$ 505,027
Patient accounts receivable, less allowance for uncollectible accounts of $197,025 and $193,284 at 2011 and 2010, respectively	**550,933**	484,398
Other receivables	**87,807**	58,312
Prepaid expenses (including educational and research support to Indiana University of $49,882 in 2010)	**34,726**	82,088
Inventories	**82,884**	76,292
Current portion of trustee-held funds	**54,430**	4,428
Total current assets	**1,213,866**	1,210,545
Assets limited as to use:		
Board-designated investment funds and other investments	**1,528,549**	1,265,790
Donor-restricted investment funds	**88,107**	89,308
Funds held under swap credit annex agreements	**–**	26,847
Trustee-held funds for construction and debt service, less current portion	**12,929**	13,723
Total assets limited as to use, less current portion	**1,629,585**	1,395,668
Property and equipment:		
Cost of property and equipment in service	**5,353,044**	4,842,881
Less accumulated depreciation	**(2,738,368)**	(2,496,108)
	2,614,676	2,346,773
Construction-in-progress	**90,384**	195,579
Total property and equipment, net	**2,705,060**	2,542,352
Other assets:		
Equity interest in unconsolidated subsidiaries	**72,254**	74,668
Interest in net assets of foundations	**12,251**	12,959
Unamortized bond issuance costs	**7,558**	13,134
Goodwill, intangibles, and other assets	**194,163**	64,004
Total other assets	**286,226**	164,765
Total assets	**$ 5,834,737**	$ 5,313,330

	December 31	
	2011	2010
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 347,133**	$ 331,597
Accrued salaries, wages, and related liabilities	**199,184**	191,017
Deferred state disproportionate share revenue	**–**	119,781
Accrued health claims	**40,860**	37,628
Estimated third-party payor allowances	**86,754**	50,901
Current portion of notes payable to banks	**24,721**	–
Current portion of long-term debt	**101,131**	82,965
Total current liabilities	**799,783**	813,889
Noncurrent liabilities:		
Long-term debt, less current portion	**1,730,290**	1,607,139
Interest rate swaps	**196,627**	140,916
Accrued pension obligations	**139,002**	94,846
Accrued medical malpractice claims	**57,287**	58,535
Other	**52,689**	43,483
Total noncurrent liabilities	**2,175,895**	1,944,919
Total liabilities	**2,975,678**	2,758,808
Net assets:		
Indiana University Health	**2,619,481**	2,438,003
Noncontrolling interest in subsidiaries	**138,628**	14,516
Total unrestricted	**2,758,109**	2,452,519
Temporarily restricted	**34,761**	37,126
Permanently restricted	**66,189**	64,877
Total net assets	**2,859,059**	2,554,522
Total liabilities and net assets	**$ 5,834,737**	$ 5,313,330

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	
	2011	**2010**
Revenues:		
Net patient service revenue	**$ 4,326,593**	$ 4,058,796
Member premium revenue	**135,692**	133,443
Other revenue	**115,861**	136,520
Total operating revenues	**4,578,146**	4,328,759
Expenses:		
Salaries, wages, and benefits	**2,043,849**	1,895,423
Supplies, drugs, purchased services, and other	**1,596,664**	1,498,788
Health claims to providers	**94,059**	81,822
Depreciation and amortization	**252,293**	244,358
Provision for uncollected patient accounts	**255,554**	281,645
Interest	**51,178**	53,244
Total operating expenses	**4,293,597**	4,055,280
Operating income before educational and research support	**284,549**	273,479
Educational and research support to Indiana University	**(98,505)**	(71,353)
Total operating income	**186,044**	202,126
Nonoperating income (losses):		
Investment income, net	**2,727**	126,884
Losses on interest rate swaps, net	**(73,441)**	(94,094)
Inherent contribution of acquired entities	**48,714**	–
Gain on acquisition and other	**52,906**	–
Total nonoperating income	**30,906**	32,790
Consolidated excess of revenues over expenses	**216,950**	234,916
Less amounts attributable to noncontrolling interest in subsidiaries	**44,556**	22,746
Excess of revenues over expenses attributable to Indiana University Health and subsidiaries	**172,394**	212,170

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 2011			December 31 2010		
	Total	**Controlling**	**Noncontrolling**	**Total**	**Controlling**	**Noncontrolling**
Unrestricted net assets:						
Excess of revenues over expenses	**$ 216,950**	**$ 172,394**	**$ 44,556**	$ 234,916	$ 212,170	$ 22,746
Change in pension obligations	**(49,887)**	**(49,887)**	**–**	(380)	(380)	–
Contributions for capital expenditures	**8,568**	**8,568**	**–**	6,427	6,427	–
Distributions to noncontrolling interests	**(27,480)**	**–**	**(27,480)**	(11,977)	–	(11,977)
Purchase of noncontrolling interests	**(39,294)**	**(26,993)**	**(12,301)**	–	–	–
Fair value of initial noncontrolling interests in acquired entities	**74,197**	**–**	**74,197**	–	–	–
Sale of member interest to noncontrolling member	**123,090**	**82,726**	**40,364**	–	–	–
Other	**(554)**	**(5,330)**	**4,776**	1,066	1,370	(304)
	305,590	**181,478**	**124,112**	230,052	219,587	10,465
Temporarily restricted net assets:						
Change in beneficial interest in net assets of foundations	**(1,012)**	**(1,012)**	**–**	2,722	2,722	–
Contributions	**1,468**	**1,468**	**–**	4,324	4,324	–
Investment return	**222**	**222**	**–**	(466)	(466)	–
Net assets released from restrictions	**(3,096)**	**(3,096)**	**–**	(4,369)	(4,369)	–
Other	**–**	**–**	**–**	(553)	(553)	–
	(2,418)	**(2,418)**	**–**	1,658	1,658	–
Permanently restricted net assets:						
Change in beneficial interest in net assets of foundations	**12**	**12**	**–**	5,807	5,807	–
Contributions and other	**502**	**502**	**–**	2,680	2,680	–
	514	**514**	**–**	8,487	8,487	–
Increase in net assets before contributions of net assets of acquired organizations	**303,686**	**179,574**	**124,112**	240,197	229,732	10,465
Contributions of net assets of acquired organizations at July 1, 2012:						
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	**304,537**	**180,425**	**124,112**	240,197	229,732	10,465
Net assets at beginning of year	**2,554,522**	**2,540,006**	**14,516**	2,314,325	2,310,274	4,051
Net assets at end of year	**$ 2,859,059**	**$ 2,720,431**	**$ 138,628**	$ 2,554,522	$ 2,540,006	$ 14,516

See accompanying notes.

Indiana University Health, Inc. and subsidiaries

Consolidated Statements of Cash Flows
(Thousands of Dollars)

	Year Ended December 31	
	2011	**2010**
Operating activities		
Increase in net assets	**$ 303,686**	$ 240,197
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Change in fair value of interest rate swaps	**55,712**	74,230
Change in pension liability	**49,887**	380
Loss in unconsolidated subsidiaries	**51,767**	15,478
Provision for uncollected patient accounts	**255,554**	281,645
Inherent contribution of acquired entities	**(48,714)**	–
Fair value of initial noncontrolling interests in acquired entities	**(74,197)**	–
Gain on consolidation of acquired entities	**(61,411)**	–
Depreciation and amortization	**252,293**	244,358
Amortization of deferred gain on sale of medical office buildings	**(2,275)**	(3,787)
Loss on extinguishment of debt	**8,491**	–
Restricted contributions	**(2,043)**	(14,514)
Purchase of noncontrolling interests	**39,294**	–
Proceeds from the sale of member interest to noncontrolling member	**(123,090)**	–
Distributions to noncontrolling interests	**27,480**	11,977
Trading securities	**(280,457)**	(114,842)
Net changes in operating assets and liabilities:		
Patient accounts receivable	**(303,551)**	(278,629)
Inventories and other assets	**(42,666)**	(91,652)
Accounts payable and accrued liabilities	**6,708**	73,591
Salaries, wages, and related liabilities	**3,864**	1,891
Deferred state disproportionate share revenue	**(119,781)**	119,781
Estimated third-party payor allowances	**36,931**	12,012
Net cash provided by operating activities	**33,482**	572,116
Investing activities		
Proceeds on sale of medical office buildings, net	**–**	22,816
Acquisition of subsidiary, net of cash received	**(20,991)**	(10,506)
Distributions received from managed care organization	**–**	4,824
Purchase of property and equipment, net of disposals	**(335,183)**	(342,023)
Net cash used in investing activities	**(356,174)**	(324,889)
Financing activities		
Increase in restricted net assets	**2,043**	14,514
Proceeds from tax incremental financing contribution	**9,240**	–
Repayments on long-term debt	**(815,457)**	(185,545)
Proceeds from issuance of long-term debt	**1,014,054**	121,218
Repayments on notes payable under line of credit, net of proceeds	**(45,445)**	22,832
Purchase of noncontrolling interests	**(39,294)**	–
Proceeds from the sale of members interest to noncontrolling member	**123,090**	–
Distributions to noncontrolling interests	**(27,480)**	(11,977)
Net cash provided by (used in) financing activities	**220,751**	(38,958)
(Decrease) increase in cash and cash equivalents	**(101,941)**	208,269
Cash and cash equivalents at beginning of year	**505,027**	296,758
Cash and cash equivalents at end of year	**$ 403,086**	$ 505,027

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

Name Change

On January 6, 2011, Clarian Health Partners, Inc. (Clarian) filed a Certificate of Amendment with the Office of the Secretary of the State of Indiana to legally change its name to Indiana University Health, Inc. (Indiana University Health). The change became legally effective on April 1, 2011. No change in the corporate structure, management, or governance was made as a result of this name change.

History and Organization

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

1. Organization and Nature of Operations (continued)

Indiana University Health was formed as an Indiana nonprofit corporation through a consolidation, as of January 1, 1997, under the terms of a Definitive Health Care Resources Consolidation Agreement, as amended (the Consolidation Agreement), and certain other related agreements by and between the Trustees of Indiana University and Methodist Health Group, Inc. (successor to Methodist Hospital). The facilities and operations of Indiana University Hospital and Outpatient Center (University Hospital), James Whitcomb Riley Hospital for Children (Riley Hospital), and Methodist Hospital of Indiana (Methodist Hospital) (collectively, the Downtown 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.

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

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

1. Organization and Nature of Operations (continued)

Nature of Operations

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

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

Suburban Facilities (Indiana University Health West Hospital (West), Indiana University Health North Hospital (North), and Indiana University Health Saxony Hospital (Saxony)) – Consist of three acute care hospitals located in the western and northern suburban areas of metropolitan Indianapolis, Indiana. Saxony opened on December 1, 2011 (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, Paoli, and Tipton, Indiana. Principal hospital subsidiaries include Indiana University Health Bedford Hospital (Bedford), Indiana University Health Arnett Hospital (Arnett), Indiana University Health LaPorte Hospital 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 Tipton Hospital (Tipton), 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).

1. Organization and Nature of Operations (continued)

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 University Health Goshen Physicians, Indiana University Health Cardiovascular Surgeons Group, LLC, 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, a nonprofit organization with locations primarily in Indianapolis, Indiana, designed to integrate Indiana University Health owned or operated physician practices, privately owned practices, and the practice plans of the School of Medicine into a delivery model that facilitates access, coordinates care, and improves quality, all designed to provide a better health care experience for patients. Certain physician groups of Indiana University Health and the School of Medicine joined Indiana University Health Physicians in 2011 and 2010.

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

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.

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 joint venture arrangement with another Indianapolis, Indiana, hospital for the operation of a long-term rehabilitative care hospital (also located in Indianapolis, Indiana); a 50% membership interest with a county governmental institution (located in Indianapolis, Indiana) in a nonprofit corporation that holds a health maintenance organization license and manages networks serving Medicaid patients; and a 50% membership interest with Indiana University Emerging Technology Corp., a nonprofit corporation owned by Indiana University, in a specialized cancer treatment and diagnostic clinic (located in Bloomington, Indiana). In addition, due to the existence of certain participatory rights by the minority ownership members, Indiana University Health does not meet the conditions of control of Indiana University Health Physicians for purposes of consolidation, which will change in 2012. Where applicable, these arrangements are accounted for using the equity method of accounting.

Effective January 1, 2012, the by-laws of Indiana University Health Physicians have been amended and restated to, among other items, eliminate certain participatory rights of the minority membership members. With this change to the by-laws, Indiana University Health will be deemed to control Indiana University Health Physicians. The financial position and financial results of Indiana University Health Physicians will be consolidated with Indiana University Health effective January 1, 2012. The effects of this consolidation are not expected to be material.

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.

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 $148,995 and $131,711 for 2011 and 2010, respectively. In addition, the Indiana University Health System provides a significant amount of uncompensated care to other uninsured and underinsured patients, which is included in the provision for uncollected patient accounts.

Enacted March 23, 2010, the *Patient Protection and Affordable Care Act* (Affordable Care Act) requires, among other things, that hospital organizations establish a financial assistance policy and a policy relating to emergency medical care. The hospital organizations of the Indiana University Health System have adopted a financial assistance policy 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 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.

2. Community Benefit and Charity Care (continued)

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

The Indiana University Health System also provides education for health care providers, including support to the School of Medicine; counseling centers and chaplaincy programs that support patients' medical, spiritual, and emotional needs; programs to enhance quality of and respect for life, including neighborhood revitalization, community health clinics, and school-based health programs; charity, equality, and justice programs, including education programs available to independent health providers, and 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 joint ventures, 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.

Fair Values of Financial Instruments

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

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

Derivative Financial Instruments

The Indiana University Health System has entered into fixed payor swap and basis swap transactions. As of and for the years ended December 31, 2011 and 2010, the Indiana University Health System's fixed payor swap and basis swap agreements did not qualify for hedge accounting. Therefore, the changes in fair value of these interest rate swaps during these years are reported with nonoperating income (losses) in the consolidated statements of operations and changes in net assets.

3. Summary of Significant Accounting Policies (continued)

Net Patient Service Revenue

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

For the year ended December 31, 2011, the percentage of net patient service revenue derived under Medicare, Medicaid, and managed care programs approximated 24%, 7%, and 59%, respectively (25%, 7%, and 55%, respectively, in 2010). A managed care provider represented 30% and 33% of net patient service revenue in 2011 and 2010, 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. For the most recently determined fiscal year (2011) of the state of Indiana, certain subsidiaries of Indiana University Health qualified as state DSH providers. The amount of these additional state DSH funds is dependent on regulatory approval by agencies of the federal and state governments, and is determined by the level, extent, and cost of uncompensated care (as defined) and various other factors. For the years ended December 31, 2011 and 2010, 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 2011 state DSH payments of $221,623 recognized by Indiana University Health and 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. The 2010 state DSH payments of $169,032 recognized by Indiana University Health and certain subsidiaries during 2010 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, 2010.

3. Summary of Significant Accounting Policies (continued)

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 estimated settlements recorded are adjusted in future periods.

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.

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.

In 2010, the Indiana University Health System had invested in money market funds. These funds generally invest in prime funds. Financial instruments that are potentially subject to concentrations of credit risk include cash and cash equivalents. The Indiana University Health System places its cash and cash equivalents with institutions with high credit quality, since, at certain times, such cash and cash equivalents may be in excess of government-provided insurance limits.

(Thousands of Dollars)

3. Summary of Significant Accounting Policies (continued)

Accounts Receivable and Allowance for Uncollectible Accounts

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

The provision for uncollected patient accounts is based upon management's assessment of historical and expected net collections, 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.

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

	2011	**2010**
Managed care	**49%**	49%
Medicare	**22**	22
Medicaid	**8**	8
Other third-party payors	**12**	12
Patients	**9**	9
	100%	100%

A managed care payor represented 25% and 26% of net patient accounts receivables at December 31, 2011 and 2010, respectively.

3. Summary of Significant Accounting Policies (continued)

Inventories

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

Assets Limited as to Use

Assets limited as to use include: (i) cash and cash equivalents and designated investment assets, including those funds held by the consolidated foundations, set aside by the Board for future capital improvements and for other purposes, over which the Board retains control and may, 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; (iv) funds held under swap credit annex agreements that serve as collateral provided to swap counterparties; and (v) beginning in 2011, 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 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 (absolute return) investment strategies. These investments are accounted for using the equity method of accounting, based on the fund's financial information.

Property and Equipment

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

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

3. Summary of Significant Accounting Polices (continued)

component of the cost of constructing the assets. In addition, interest earnings on unexpended borrowed funds related to tax-exempt financings offset capitalized tax-exempt interest. Repair and maintenance costs are expensed when incurred.

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

Unamortized Bond Issuance Costs and Bond Discount or Premium

Costs incurred in connection with the issuance of long-term debt and bond discounts or premiums are amortized or accreted using the effective interest rate method. Amortization and accretion 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 $44,556 and $22,746 for the years ended December 31, 2011 and 2010, 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.

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, includes estimating the fair market 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

3. Summary of Significant Accounting Policies (continued)

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 significant impairment to goodwill during 2011 and 2010. Intangible assets included in other assets on the accompanying consolidated balance sheets as of December 31, 2011 and 2010, were $166,300 and $31,756, respectively, which includes goodwill of $147,395 and $17,154, respectively. See Note 4 for further details on goodwill recorded in 2011.

Operating and Performance Indicators

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

Operating Indicator (Operating Income) – Includes all unrestricted revenue, gains, and other support, equity income or loss of unconsolidated health care subsidiaries, and expenses directly related to the recurring and ongoing health care operations during the reporting period. The operating indicator excludes investment income or losses on assets limited as to use (including changes in unrealized gains and losses on investments), changes in the fair value of fixed payor and basis swaps, gain or loss on the extinguishment of debt, 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 (Deficiency) of Revenues Over Expenses) – Includes operating income and nonoperating income (losses). The performance indicator excludes certain changes in pension obligations and contributions for capital expenditures, distributions, and net assets released from restricted funds.

Income Taxes

The Internal Revenue Service (IRS) has determined that Indiana University Health and certain of its affiliated entities are tax-exempt organizations as defined in Section 501(c)(3) of the Internal Revenue Code.

3. Summary of Significant Accounting Policies (continued)

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, 2011, management has evaluated subsequent events through March 22, 2012, the date that these financial statements were issued.

New Accounting Guidance Not Yet Applicable

In May 2011, accounting guidance was issued that specified the valuation concept of highest and best use is applicable to nonfinancial assets and liabilities only. The guidance also permits the measurement of financial instruments managed in a portfolio to be measured at the price that would be received to sell or transfer between market participants at the measurement date. Additionally, the guidance allows for the use of premiums and discounts in measuring an asset or liability in the absence of a Level 1 input. This guidance also requires additional disclosures for Level 3 measurements, including the valuation process used and the use of a nonfinancial asset in a way that differs from the asset's highest and best use. This guidance becomes effective during interim and annual periods beginning after December 15, 2011. Adoption of this guidance will not have an impact on the Indiana University Health System's financial condition or results of operations, as it only requires additional disclosures.

In July 2011, guidance was issued that requires health care entities to reflect bad debt expense as a reduction to net patient revenue (net of contractual allowances and discounts) on the statement of operations and changes in net assets. Additionally, the following disclosures are required for interim and annual reporting: the policy for considering collectibility in the timing and amount of revenue and bad debt recognized, patient service revenue by payor source, and qualitative and quantitative information about changes in the allowance for doubtful accounts. This guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2011. Early adoption is permitted. Adoption of this guidance will require changes to the presentation of the results of operations as well as additional disclosures. However, it will not have an impact on the Indiana University Health System's financial condition or net results of operations. The Indiana University Health System will adopt this guidance as of January 1, 2012.

3. Summary of Significant Accounting Policies (continued)

In August 2011, accounting guidance was issued related to goodwill that gives entities the option to first assess qualitative factors in determining whether the existence of events or circumstances leads to a determination that is it more likely than not that the fair value of a reporting unit is more than its carrying amount. If this qualitative assessment determines that it is likely that the fair value is more than the carrying amount, then performance of the two-step impairment test is unnecessary. However, if concluded otherwise, then the first step of the two-step impairment test must be completed. If the carrying amount exceeds fair value, then the second step is required to measure the amount of the impairment loss. This guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. Adoption of this guidance is not expected to have a material impact on the Indiana University Health System's financial condition or results of operations. The Indiana University Health System will adopt this guidance as of January 1, 2012.

4. Business Combinations and Other Strategic Transactions

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 applied for 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.

4. Business Combinations and Other Strategic Transactions (continued)

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

(Thousands of Dollars)

4. Business Combinations and Other Strategic Transactions (continued)

The following table summarizes abbreviated unaudited financial statement information of the newly acquired hospitals (White and Morgan) prior to Indiana University Health obtaining control.

	Fiscal Year 2010 White	Fiscal Year 2010 Morgan
	(Unaudited)	
Operating revenues	$ 26,529	$ 51,753
Operating expenses	26,066	50,142
Operating income	463	1,611
Nonoperating income (loss)	(1,922)	279
(Deficiency) excess of revenues over expenses	$ (1,459)	$ 1,890

	Fiscal Year 2010 White	Fiscal Year 2010 Morgan
	(Unaudited)	
Current assets	$ 10,029	$ 18,515
Assets limited as to use	2,184	15,139
Property and equipment	34,154	18,951
Other assets	1,309	351
Total assets	$ 47,676	$ 52,956
Current liabilities	$ 4,867	$ 5,783
Long-term debt	32,301	14,030
Other long-term liabilities	2,861	2,568
Net assets	7,647	30,575
Total liabilities and net assets	$ 47,676	$ 52,956

4. Business Combinations and Other Strategic Transactions (continued)

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, 2011. In addition, start-up, organization, and development costs aggregated $5,740 and $742 during the years ended December 31, 2011 and 2010, respectively, and have been 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, is expected to open 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 on February 29, 2012. The purchase price paid to physicians in excess of the carrying amount of noncontrolling interest was recorded to unrestricted net assets.

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 is expected to become 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.

CNI Surgicare

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

4. Business Combinations and Other Strategic Transactions (continued)

resulted in goodwill of $4,646 recorded in other assets on the accompanying consolidated balance sheets.

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.

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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 equity interests in BSC and EHSC in excess of the carrying values. The recorded amounts for assets and liabilities are provisional and subject to change pending finalization of the purchase price allocation. However, Indiana University Health does not expect any future adjustments to be material.

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

4. Business Combinations and Other Strategic Transactions (continued)

contingent nature of these rights, and, in management's view, the remote possibility of such contingencies occurring, the SCA noncontrolling interests are not considered to be participatory, thus precluding consolidation.

The sale of the 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.

Administrative Building

On December 17, 2010, Indiana University Health entered into a Purchase and Sale Agreement to purchase a 280,000 square foot building located in Indianapolis, Indiana, for $8,200. Indiana University Health System previously leased space in the building under operating leases for administrative and support services. In connection with this agreement, Indiana University Health also entered into an agreement to purchase certain parking lot space related to the building for approximately $4,521. These agreements became effective March 15, 2011.

Neuroscience Center of Excellence (NCOE)

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

The project is being financed through a 25-year capital lease with the NCOE developer, as well as $18,800 in financing from Indiana University Health, of which $14,000 is expected to be reimbursed through a city of Indianapolis tax-increment financing (TIF) contribution. Of this TIF contribution, $9,240 is to be used toward capital expenditures. Under the lease, Indiana

4. Business Combinations and Other Strategic Transactions (continued)

University Health obtains ownership of the medical office building at the end of the lease term. Additionally, Indiana University Health has a call option in year five of the lease to acquire the project for the then-current balance of amounts owed under the capital lease. As of December 31, 2011, $21,220 had been capitalized as construction-in-progress related to preplanning and project development costs, and $14,000 of TIF contribution has been received and is recorded within other noncurrent liabilities. The TIF contribution will remain in other noncurrent liabilities until certain contingencies are met. Upon occupancy of the building, Indiana University Health will record an estimated $92,000 capitalized lease asset and corresponding debt under the capital lease.

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 $23,957 of these incentive payments within other operating revenue on the consolidated statement of operations and changes in net assets for the year ended December 31, 2011. If specified meaningful use criteria are met in future periods, the Indiana University Health System may qualify for additional incentive payments.

5. Assets Limited as to Use

Board-designated and donor-restricted investment funds are invested in accordance with Board-approved policies, which include, among other matters, targeted investment returns balanced by diversification of the investment portfolio, establishment of credit risk parameters, and limitation in the amount of investment in any single organization. Trustee-held funds are generally invested in cash equivalents (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: cash and cash equivalents — the carrying amounts reported in the consolidated balance sheets approximate fair value; marketable securities — the

5. Assets Limited as to Use (continued)

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

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

Alternative investments include certain other risks that may not exist with other investments that are more widely traded. These include reliance on the skill of the fund managers, who often employ complex strategies with various financial instruments, including futures contracts, foreign currency contracts, structured notes, and interest rate, total return, and credit default swaps. Additionally, alternative investments may have limited information on a fund's underlying assets and valuation, and limited redemption or redemption-penalty provisions. Management believes that the Indiana University Health System, in consultation with its investment advisor, has the capacity to analyze and interpret the risks associated with alternative investments, and with this understanding, has determined that investing in these investments creates a balanced approach to its portfolio management.

The largest fund allocation to any fund manager, which is an alternative fund of funds investment, is $148,047 at December 31, 2011, and there are no investments in any individual fund greater than 13% of that fund's net assets. As of December 31, 2011, 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	
	2011	**2010**
Board-designated investments and trustee-held funds:		
Cash and cash equivalents	**$ 183,065**	$ 159,742
Marketable securities:		
U.S. government and agency obligations	**99,952**	85,167
U.S. corporate obligations	**315,815**	318,770
U.S. equity securities	**260,438**	254,066
Non-U.S. securities	**173,537**	188,737
Total marketable securities	**849,742**	846,740
Other Board-designated investments:		
Alternative investments:		
Hedged strategy (fund of funds)	**312,294**	310,284
Hedged strategy (direct)	**70,871**	74,268
Real estate investment trusts and other	**7,638**	9,062
Total other Board-designated investments	**390,803**	393,614
Total Board-designated investments and trustee-held funds	**1,423,610**	1,400,096
Other investments:		
Cash and cash equivalents	**6,672**	–
U.S. government and agency obligations	**153,449**	–
U.S. corporate obligations	**88,107**	–
Non-U.S. securities	**12,177**	–
Total other investments	**260,405**	–
Total assets limited to use	**1,684,015**	1,400,096
Less current portion	**(54,430)**	(4,428)
Total assets limited to use, less current portion	**$ 1,629,585**	$ 1,395,668

(Thousands of Dollars)

5. Assets Limited as to Use (continued)

As of December 31, 2011, the current portion of assets limited as to use represents construction draws to be used within the next year and funds held to pay off the line of credit during 2012.

Assets limited as to use include funds held by the Foundations whose fair values as of December 31, 2011, aggregated $165,349, of which $77,242 is considered Board-designated investment funds and $88,107 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	
	2011	**2010**
Investment income (losses):		
Interest and dividend income	**$ 23,601**	$ 24,722
Investment management and administration fees	**(2,141)**	(1,664)
Realized gains on sales of investments, net	**9,867**	41,978
Unrealized (losses) gains on investments	**(27,377)**	37,831
Equity (losses) gains of hedged strategy funds	**(1,223)**	24,017
	$ 2,727	$ 126,884

6. Property and Equipment

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

	December 31	
	2011	**2010**
Land and improvements	**$ 230,192**	$ 216,639
Buildings and improvements	**3,001,364**	2,678,067
Equipment (including software developed for internal use of $219,842 in 2011 and $201,004 in 2010)	**2,121,488**	1,948,175
	$ 5,353,044	$ 4,842,881

(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	
	2011	**2010**
Software developed for internal use	**$ 7,842**	$ 19,021
Saxony development	**–**	117,835
NCOE	**21,220**	19,735
Riley Simon Family Tower	**16,242**	–
Other facilities and equipment	**45,080**	38,988
	$ 90,384	$ 195,579

Firm commitments for construction-in-progress totaled $104,894 at December 31, 2011. However, other amounts aggregating approximately $279,001 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	
	2011	**2010**
Software	**$ 22,870**	$ 20,885
Computer and office equipment	**7,472**	2,272
Medical equipment	**24,931**	22,054
Buildings	**13,281**	16,108
	68,554	61,319
Less accumulated amortization	**(34,672)**	(27,467)
	$ 33,882	$ 33,852

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

7. Debt

Obligated Groups

The Indiana University Health System operates under three separate 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 Academic Health Center, LaPorte and Saxony (a division of Indiana University Health) as members; (2) the Ball Memorial Obligated Group, including Ball Memorial and Indiana University Health Blackford Hospital as members, and (3) the Bloomington Obligated Group, which includes Bloomington as the sole member. These groups are required to meet certain covenants, and their members are jointly and severally liable for the obligations under their respective MTIs. The obligated groups are also subject to financial performance covenants that, among other compliance requirements, require the maintenance of debt service ratios and limit each obligated group's ability to encumber certain of its respective assets.

7. Debt (continued)

As of December 31, 2011, the Indiana University Health System was in compliance with all financial covenants.

Issuance and Extinguishment of Debt

Indiana University Health Obligated Group

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

On December 17, 2010, a direct bank loan of $42,550 (which was used to redeem Series 2003F bonds) was amended to include a maturity date of January 31, 2012, with an interest rate based on one-month London Interbank Offered Rate (LIBOR). On May 26, 2011, the bank loan was further amended to defer the maturity date to June 30, 2012. As of December 31, 2011, the amount outstanding for this loan, $41,750, was recorded within the current portion of long-term debt.

On April 19, 2011, Indiana University Health issued at par $228,195 of Series 2011 A, B, C, D, and E tax-exempt variable-rate bonds. Proceeds were used to currently refund the Series 2008 A, 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 2008 B bonds, to pay expenses related to the issuance, and to fund project costs (including costs related to Saxony) of $70,000. As of December 31, 2011, $20,016 of proceeds from this bond issuance remained in current portion of trustee-held funds.

On May 5, 2011, Indiana University Health issued at par $274,815 of Series 2011 F, G, H, and I tax-exempt variable-rate bonds. Proceeds were used to currently refund the Series 2005 A, 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 2011 J and K taxable variable-rate bonds. Proceeds were used to currently refund the Series 2003 E 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 2011 L 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. As of December 31, 2011, $9,062 of proceeds from this bond issuance remained in current portion of trustee-held funds.

On December 7, 2011, Indiana University Health issued $209,980 in par value of Series 2011N tax-exempt fixed-rate bonds at a premium of $11,637. Proceeds are to be 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, 2011, $25,352 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 (losses) on the consolidated statement of operations and changes in net assets.

On March 18, 2010, Indiana University Health executed a $45,000 loan agreement to finance information technology property and services. Under the agreement, periodic advances are to be amortized and paid over five years at an annual interest rate of 4.75%. The loan agreement is secured under the provisions of Indiana University Health Obligated Group’s MTI, and as of December 31, 2011, $35,192 remains outstanding under the loan agreement.

Other

In December 2010, Tipton refunded its Adjustable Rate Demand Economic Development Revenue Bonds, Series 2006A and Series 2006B, in the aggregate principal amount of $24,670 and terminated the related interest rate swap for a one-time cash expenditure of $760. Proceeds for the transaction were acquired by liquidating $9,000 from Tipton’s investments, with the remaining proceeds borrowed under the Indiana University Health line of credit. The related portion of the line of credit was paid off during 2011 with the issuance of Series 2011E, which was later refunded by Series 2011N as referred to above.

7. Debt (continued)

On April 9, 2010, Indiana University Health entered into a $25,332 fixed-rate, fully amortizing, and privately placed tax-exempt lease purchase agreement to finance four helicopters. Pursuant to the terms of the agreement, principal and interest are payable using a ten-year amortization at a fixed rate of 4.09% per annum. The financing agreement is secured with a lien on the helicopters. As of December 31, 2011, $22,701 remains outstanding under the agreement.

(Thousands of Dollars)

7. Debt (continued)

Long-term debt as of December 31, 2011 and 2010, consists of the following:

	2011	2010
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 2.0% to 5.13% at December 31, 2011	**$ 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 0.05% and 0.89% at December 31, 2011	**464,550**	–
Variable Rate Demand Notes, Taxable Hospital Revenue Bonds, Series 2011J and K, payable in varying principal installments through 2033, with variable interest rates of 0.09% and 0.14%, respectively, at December 31, 2011	**166,660**	–
Variable Rate Demand Notes, Tax-Exempt Revenue Refunding Bonds, Series 2008A, B, C, and D, and Series 2005 A, B, C, and D, payable in varying installments through 2033	–	401,405
Variable Rate Demand Notes, Taxable Hospital Revenue Bonds, Series 2003E and G Serial Bonds, payable in varying principal installments through 2033	–	169,275
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, 2011	**677,650**	682,835
Variable Rate Commercial Bank Loans, payable in varying principal installments through 2038, with interest rates ranging from 0.69% to 0.75% at December 31, 2011	**66,471**	112,716
Fixed Rate Commercial Bank Loan, payable in varying principal installments through 2016, with an interest rate of 4.75% at December 31, 2011	**35,192**	43,325
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, 2011	**93,820**	108,985
Bloomington Obligated Group		
Hospital Authority of Monroe County, Indiana:		
Fixed Rate, Tax-Exempt Revenue Bonds, Series 1999B and 1997 Serial and Term Bonds, payable in varying principal installments through 2029	–	39,360
Variable Rate, Tax-Exempt Equipment Financing Agreements, payable in varying installments through 2016, with interest rates ranging from 1.08% to 1.31% at December 31, 2011	**7,172**	9,183
Fixed Rate, Commercial Bank Loan, payable in annual principal installments through 2011	–	3,165
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 0.79% at December 31, 2011	**3,175**	3,612
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 4.10% to 7.05 %)	**12,375**	14,710
Capital lease obligations	**38,302**	40,290
Other	**39,173**	32,823
Total long-term debt	**1,839,520**	1,686,684
Unamortized premium	**16,622**	3,420
Less current portion	**(125,852)**	(82,965)
Long-term debt, less current portion	**$ 1,730,290**	$ 1,607,139

(Thousands of Dollars)

7. Debt (continued)

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

	Indiana University Health Obligated Group	Ball Memorial Obligated Group	Bloomington Obligated Group	Other	Total
Year ending December 31:					
2012	$ 103,167	$ 1,980	$ 1,697	$ 19,008	$ 125,852
2013	39,758	4,095	1,622	11,664	57,139
2014	41,168	4,300	1,514	36,558	83,540
2015	41,100	4,510	1,396	8,819	55,825
2016	40,010	3,570	943	7,222	51,745
Thereafter	1,355,300	75,365	–	34,754	1,465,419
	$ 1,620,503	$ 93,820	$ 7,172	$ 118,025	$ 1,839,520

The estimated fair value of the revenue bonds at December 31, 2011 and 2010, amounted to $1,624,299 (which includes Ball Memorial – $93,647) and $1,321,198, respectively, based on market interest rates and conditions for similar issues as of those dates. The carrying value of the revenue bonds at December 31, 2011 and 2010, amounted to $1,612,660 and $1,401,860, respectively. The recorded value of all debt obligations not traded in the secondary credit markets approximated fair value at December 31, 2011 and 2010.

During 2011, Indiana University Health renewed its $86,000 secured line of credit, which is secured under the terms of its Obligated Group MTI and bears interest on a variable rate based on LIBOR and matures June 30, 2012. As of December 31, 2011 and 2010, the Indiana University Health System maintained several lines of credit totaling $97,000 and $90,000, respectively, of which $24,721 and $70,166, respectively, was drawn and outstanding and included within long-term debt in the consolidated balance sheets.

Total interest paid on long-term debt for the years ended December 31, 2011 and 2010, aggregated $79,031 and $68,789, respectively. Total interest capitalized during the years ended December 31, 2011 and 2010, amounted to $9,744 and $8,393, respectively, which was offset by interest income of $9 and $8, respectively, on nontaxable, unexpended borrowed funds.

7. Debt (continued)

Guarantees

Indiana University Health has guaranteed with its joint venture partner the long-term debt of a rehabilitative care hospital. Indiana University Health's portion of its guarantee aggregated approximately $8,210 and $6,400 as of December 31, 2011 and 2010, respectively. In addition to this guarantee, Indiana University Health has also loaned the rehabilitative care hospital $1,500 during 2010, which matures during 2017.

Indiana University Health and certain of its subsidiaries also have agreements with physician groups and others that guarantee minimum revenue totals. Accruals are made periodically for any minimum revenue guarantee; such accruals aggregated $1,678 at December 31, 2011, and $1,900 at December 31, 2010.

8. Derivative Financial Instruments

During June 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. Several interest rate swaps were transferred to other counterparties. As a result of these transfers, no collateral is currently required to be posted.

(Thousands of Dollars)

8. Derivative Financial Instruments (continued)

Long-term interest rate swap arrangements have been entered into with the primary objective being to mitigate interest rate risk. The following fixed payor swaps, stated at current notional amounts, remain in place as of December 31, 2011:

Notional Amount	Effective Date	Maturity Date	Rate Received	Rate Paid
$63,975	11/15/2005	2/16/2021	62.30% LIBOR plus 0.24%	3.19%
64,000	6/23/2011	2/15/2021	62.30% LIBOR plus 0.24%	3.19%
72,825	11/15/2005	2/15/2030	62.30% LIBOR plus 0.24%	3.35%
73,125	6/20/2011	2/15/2030	62.30% LIBOR plus 0.24%	3.35%
62,300	6/26/2003	3/01/2033	LIBOR	4.92%
103,825	6/16/2011	3/01/2033	LIBOR	4.92%
41,525	6/26/2003	3/01/2033	LIBOR	4.92%
2,400	6/30/2008	6/30/2013	LIBOR plus 1.75%	6.00%
2,205	6/01/2004	6/01/2024	LIBOR plus 1.50%	7.05%
1,631	6/01/2006	6/01/2026	LIBOR plus 1.25%	7.15%
202	10/1/1999	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 12.2% and 11.7% of total debt outstanding as of December 31, 2011 and 2010, 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, 2011, 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%	Securities Industry and Financial Markets Association (SIFMA)
181,257	1/02/2008	2/15/2033	Basis	75.00% one-month LIBOR	SIFMA
181,257	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, 2011, the fair value of interest rate swaps was $196,627, which is net of CVA of $32,639. As of December 31, 2010, the fair value of interest rate swaps was $140,916, which is net of CVA of $15,219. The fair values of the swaps have been included with noncurrent liabilities in the accompanying consolidated balance sheets.

As of December 31, 2011, interest rate swaps had a total notional amount of $1,968,927, including $488,013 of fixed payor swaps and $1,480,914 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 payor and basis swaps, with credit-risk-related contingent features that are in a liability position on December 31, 2011 and 2010, respectively, was $198,179 and $124,141, respectively, for which collateral of $26,847 had been posted as of December 31, 2010. This collateral amount is shown as funds held under swap credit annex agreements in the consolidated balance sheet at December 31, 2010.

8. Derivative Financial Instruments (continued)

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 2011	2010
Losses on interest rate swaps, net:		
Unrealized losses on interest rate swaps	**$ (55,712)**	$ (74,229)
Realized losses on interest rate swaps	**(17,729)**	(19,865)
	$ (73,441)	$ (94,094)

9. Fair Value Measurements

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

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

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities as of the reporting date. Level 1 primarily consists of financial instruments such as money market securities and listed equities.

- Level 2 – Pricing inputs other than quoted prices included in Level 1 that are either directly observable or that can be derived or supported from observable data as of the reporting date. Instruments in this category include certain U.S. government agency and sponsored entity debt securities.

(Thousands of Dollars)

9. Fair Value Measurements (continued)

- Level 3 – Pricing inputs include those that are significant to the fair value of the financial asset or 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. Instruments in this category include interest rate swaps.

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, 2011 and 2010. 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.

	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)

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

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 $403,086 and $113,005 as of December 31, 2011 and 2010, respectively, and are not included in the table. The Indiana University Health System's $383,165 and $384,552 of alternative investments as of December 31, 2011 and 2010, respectively, are not included in the table because they are accounted for using the equity method of accounting (see Note 5). The beneficial interests in charitable remainder and perpetual trusts are shown within other long-term assets on the accompanying consolidated balance sheets.

(Thousands of Dollars)

9. Fair Value Measurements (continued)

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, 2011	$ –
Transfers into Level 3	196,627
Fair value at December 31, 2011	$ 196,627

Transfers of assets and liabilities in or out of Level 3 are reflected when significant inputs used for the fair value measurement become observable or unobservable. Due to the increasing significance of the CVA relative to the fair value of the swaps, whose inputs are not observable from objective sources, transfers of such amounts were made into Level 3 during the year ended December 31, 2011.

10. Commitments and Contingencies

Leases

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

(Thousands of Dollars)

10. Commitments and Contingencies (continued)

Other buildings and medical and office equipment are leased under noncancelable operating and capital leases. Future minimum lease payments as of December 31, 2011, are as follows:

	Operating Leases	Capital Leases
Year ending December 31:		
2012	$ 47,413	$ 12,621
2013	39,240	9,491
2014	28,411	7,249
2015	22,885	5,968
2016	19,325	3,794
Thereafter	43,026	8,818
Total minimum lease payments	$ 200,300	47,941
Less amount representing interest		(9,639)
Present value of net minimum lease payments		$ 38,302

Rent and lease expense amounted to $78,505 and $68,967 for the years ended December 31, 2011 and 2010, 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.

11. Medical Malpractice (continued)

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

Contributions for coverage provided by the captive insurance companies are expensed as incurred, and loss reserves are established for incurred but not yet reported claims. Laws in the 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 to the defined contribution plans are based on compensation of qualified employees and amounted to $79,871 in 2011 and $71,627 in 2010 (net of forfeitures of $2,650 and $1,519 in 2011 and 2010, respectively).

Defined Benefit Plans

Defined benefit pension plans sponsored by Indiana University Health, LaPorte, Ball Memorial, and Bloomington have been curtailed, with benefits generally frozen or limited, and no new participants are allowed. The defined benefit pension plans applicable to Indiana University Health were principally limited to current and former employees who elected not to participate in the defined contribution plan established at the time of Indiana University Health's formation and current and former executives who participated in a supplemental employee retirement plan of Indiana University Health.

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.

(Thousands of Dollars)

12. Retirement Plans (continued)

Adjustments to pension liabilities to reflect funded status are charged or credited to unrestricted net assets. An increase to the pension liability of $44,156 has been recorded in 2011 due primarily to declines in the fair value of plan assets in 2011 and employer contributions made to the plans in 2011.

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, 2011 and 2010. The date of data collection was January 1 for 2011 and 2010 (rolled forward to year-end and adjusted for changes in employment status). The discount rates used vary with each plan based on plan characteristics such as the average age of participants.

	2011	2010
Changes in benefit obligation of the plans:		
Benefit obligation at beginning of the year	**$ 404,445**	$ 385,382
Transfer of benefit obligation to Indiana University Health Physicians	**–**	(7,469)
Benefit obligation at the beginning of the year, as adjusted	**404,445**	377,913
Service cost and other	**2,420**	2,737
Interest cost	**21,646**	21,848
Actuarial loss	**26,757**	16,695
Benefits paid	**(16,384)**	(14,748)
Benefit obligation at end of year	**$ 438,884**	$ 404,445
Changes in assets of the plans:		
Fair value of assets at beginning of year	**$ 309,865**	$ 273,199
Actual return on assets	**(3,480)**	30,551
Employer contributions	**9,882**	20,863
Benefits paid	**(16,385)**	(14,748)
Fair value of assets at end of year	**$ 299,882**	$ 309,865
Funded deficiency at December 31	**$(139,002)**	$ (94,580)
Items not yet recognized as a component of net periodic pension cost:		
Net actuarial loss	**$ 136,365**	$ 86,761
Prior service cost	**(597)**	(880)
	$ 135,768	$ 85,881

(Thousands of Dollars)

12. Retirement Plans (continued)

	2011	2010
Components of net pension benefit cost:		
Service cost	**$ 2,420**	$ 2,737
Interest cost	**21,646**	21,848
Expected return on assets	**(24,811)**	(22,132)
Amortization of unrecognized prior service cost	**(283)**	(283)
Amortization of unrecognized net loss	**5,444**	8,941
Net periodic pension cost	**$ 4,416**	$ 11,111
Weighted-average actuarial assumptions to determine benefit cost:		
Discount rate for net periodic pension cost	**5.50%**	5.90%
Discount rate for benefit obligations	**4.95**	5.56
Expected rate of return on plan assets	**7.55**	8.00
Rate of compensation increase	**2.50**	3.00
Accumulated benefit obligation	**$ 437,710**	$ 402,361
Fair value of assets at end of year	**299,882**	309,865
Accumulated benefit obligation exceeding fair value of plan assets	**$ 137,828**	$ 92,496
Expected future benefit payments:		
2012	**$ 19,580**	$ 14,587
2013	**27,742**	16,242
2014	**28,640**	18,747
2015	**23,980**	24,840
2016	**26,239**	20,660
2017–2020	**143,390**	134,483

Accumulated adjustments to unrestricted net assets at December 31, 2011 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 $14,087 during the year ending December 31, 2012.

Contributions are expected to aggregate $22,352 to the defined benefit pension plans during 2012.

(Thousands of Dollars)

12. Retirement Plans (continued)

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:

	2011	2010
Asset category		
U.S. equity securities	**29%**	31%
Hedged strategy (fund of funds)	**21**	20
Non-U.S. securities	**20**	22
U.S. corporate obligations	**18**	17
U.S. government obligations	**9**	7
Cash and cash equivalents	**2**	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 table presents the plans' financial instruments as of December 31, 2011 and 2010, 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, 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**
December 31, 2010				
Assets				
Cash and cash equivalents	$ 7,420	$ –	$ –	$ 7,420
U.S. government and agency	11,238	10,848	–	22,086
U.S. corporate obligations	34,597	19,347	–	53,944
U.S. equity securities	89,117	2,748	–	91,865
Non-U.S. securities	55,029	13,938	–	68,967
Hedged strategy (fund of funds)	–	63,359	–	63,359
Real estate investment trusts and other	2,224	–	–	2,224
Total assets measured at fair value on a recurring basis	$ 199,625	$ 110,240	$ –	$ 309,865

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: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the foundations in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the foundations consider the various factors in making a determination to appropriate or accumulate donor-restricted endowment funds, such as the duration and preservation of the fund, the purposes of the foundations and the donor-restricted endowment fund, general economic conditions, the possible effect of inflation and deflation, the expected total return from income and the appreciation of investments, other resources of the organization, and the investment policies of the foundations.

The endowment net asset composition by type of fund for both foundations as of December 31, 2011 and 2010, was as follows:

	Temporarily Restricted	Permanently Restricted	Total
December 31, 2011			
Donor-restricted endowment funds	**$ 9,288**	**$ 44,679**	**$ 53,967**
December 31, 2010			
Donor-restricted endowment funds	$ 10,470	$ 44,349	$ 54,819

(Thousands of Dollars)

13. Endowments (continued)

Changes in endowment net assets for both foundations for the years ended December 31, 2011 and 2010, 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**
Endowment net assets at January 1, 2010	$ 12,104	$ 43,150	$ 55,254
Contributions	36	–	36
Investment return	(368)	1,199	831
Appropriation of endowment assets for expenditures	(1,302)	–	(1,302)
Endowment net assets at December 31, 2010	$ 10,470	$ 44,349	$ 54,819

In 2011 and 2010, Methodist Health Foundation and BMH Foundation transferred a total of $709 and $869, respectively, 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.

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 $38,987 and $37,453 in 2011 and 2010, 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 2011 and 2010, Indiana University Health paid and expensed $98,505 and $71,353, respectively, related to educational and research support provided to the School of Medicine. As of December 31, 2010, Indiana University Health had prepaid $49,882 of education and research support to the School of Medicine. The School of Medicine rents space at Indiana University Health's Fairbanks Hall, an educational and resource center, under a 34-year lease agreement with Indiana University Health. The School of Medicine prepaid the rent, totaling $4,887 under the agreement, and the income is being recognized over the term of the lease.

Indiana University Health purchases certain services from the School of Medicine. These expenses, principally for medical care case management services, utilities, laboratory services, and other services, totaled $21,269 and $18,898 for the years ended December 31, 2011 and 2010, 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 addition, Indiana University Health has committed to support 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 and will be used to reimburse expenses incurred by the School of Medicine.

14. Related-Party Transactions (continued)

Other Foundations

Bloomington Hospital Foundation, Riley Children's 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, Riley, 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 $12,251 and $12,959 at December 31, 2011 and 2010, 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 which are subject to the direction of their respective Boards of Directors. The Riley Children's Foundation provided a $5,000 contribution for each of the years ended December 31, 2011 and 2010, to support the Riley Simon Family Tower. Other changes in the net assets of these foundations are generally reflected within temporarily and permanently restricted net assets.

Other Equity Interest Ventures

Indiana University Health holds a 51% ownership interest in Indiana University Health Physicians, but does not control Indiana University Health Physicians. Due to Indiana University Health funding all operating losses of Indiana University Health Physicians, Indiana University Health recorded 100% of Indiana University Health Physicians' net losses in 2011 and 2010.

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.

(Thousands of Dollars)

14. Related-Party Transactions (continued)

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

Summarized financial information for MDWise, Inc., Indiana University Health Physicians, rehabilitative hospital, cancer treatment and diagnostic clinics, and ambulatory surgery centers, including BSC and EHSC, that were consolidated as of July 1, 2011 (see Note 4), as of and for the years ended December 31 as reported by the respective entities is as follows:

	2011	2010
	(Unaudited)	
Net assets	**$ 66,945**	$ 39,043
Total revenues	**811,361**	850,121
(Deficit) excess of revenues over expenses	**(62,008)**	5,109

In the accompanying consolidated financial statements, the Indiana University Health System has recorded its equity in the loss of its unconsolidated subsidiaries that provide health care-related services with other operating revenue, totaling $(51,767) and $(15,478) for the years ended December 31, 2011 and 2010, respectively.

Cash and cash equivalents held and managed by Indiana University Health on behalf of organizations that are not consolidated aggregated $1,384 and $9,698 at December 31, 2011 and 2010, 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.

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

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