

Iowa Health System and Subsidiaries

Accountants' Report and Consolidated Financial Statements

December 31, 2011 and 2010



Iowa Health System and Subsidiaries

December 31, 2011 and 2010

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Directors
Iowa Health System and Subsidiaries

We have audited the accompanying consolidated balance sheets of Iowa Health System and Subsidiaries (the Health System) as of December 31, 2011 and 2010 and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Health System's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Iowa Health System and Subsidiaries as of December 31, 2011 and 2010 and the results of their operations, changes in net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, in 2011 the Health System changed its method of presentation and disclosure of patient service revenue and provision for uncollectible accounts in accordance with Accounting Standards Update 2011-07.

Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules of the Health System and the statement of operations for the Methodist College of Nursing listed in the table of contents are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

BKD, LLP

April 19, 2012

Iowa Health System and Subsidiaries
Consolidated Balance Sheets
December 31, 2011 and 2010

Assets

	<u>2011</u>	<u>2010</u>
	<i>(in thousands)</i>	
Current Assets		
Cash and cash equivalents	\$ 96,536	\$ 80,121
Short-term investments	183,951	230,061
Assets limited as to use – required for current liabilities	11,914	11,443
Patient accounts receivable, less estimated uncollectibles; 2011 – \$62,455, 2010 – \$43,507	344,880	255,702
Other receivables	43,277	20,271
Inventories	49,109	45,460
Prepaid expenses	<u>30,409</u>	<u>21,005</u>
Total current assets	<u>760,076</u>	<u>664,063</u>
Assets Limited As to Use, Noncurrent		
Held by trustee under bond indenture agreements	2,924	2,924
Internally designated	<u>783,197</u>	<u>771,232</u>
Total assets limited as to use, noncurrent	786,121	774,156
Property, Plant and Equipment, Net	1,257,472	943,349
Other Long-term Investments	348,581	205,434
Investments in Joint Ventures and Other Investments	54,665	36,264
Contributions Receivable, Net	61,189	54,141
Other	<u>30,332</u>	<u>25,420</u>
Total assets	<u><u>\$ 3,298,436</u></u>	<u><u>\$ 2,702,827</u></u>

Liabilities and Net Assets

	<u>2011</u>	<u>2010</u>
	<i>(in thousands)</i>	
Current Liabilities		
Current maturities of long-term debt	\$ 73,258	\$ 33,552
Accounts payable	128,153	72,266
Accrued payroll	127,908	111,608
Accrued interest	9,685	9,629
Estimated settlements due to third-party payers	67,348	39,024
Other current liabilities	<u>55,284</u>	<u>38,681</u>
Total current liabilities	461,636	304,760
Long-term Debt, Net	720,837	657,979
Other Long-term Liabilities	<u>383,859</u>	<u>167,184</u>
Total liabilities	<u>1,566,332</u>	<u>1,129,923</u>
Net Assets		
Unrestricted	1,627,211	1,484,242
Temporarily restricted	57,824	45,494
Permanently restricted	<u>47,069</u>	<u>43,168</u>
Total net assets	<u>1,732,104</u>	<u>1,572,904</u>
Total liabilities and net assets	<u>\$ 3,298,436</u>	<u>\$ 2,702,827</u>

Iowa Health System and Subsidiaries
Consolidated Statements of Operations
Years Ended December 31, 2011 and 2010

	2011	2010
	<i>(in thousands)</i>	
Unrestricted Revenues		
Patient service revenue (net of contractual allowances)	\$ 2,327,416	\$ 2,126,978
Provision for patient uncollectible accounts	(93,586)	(96,333)
Net patient service revenue	2,233,830	2,030,645
Other operating revenue	140,273	105,565
Net assets released from restrictions used for operations	6,064	8,376
Total unrestricted revenues	2,380,167	2,144,586
Expenses		
Salaries and wages	867,878	790,573
Physician compensation and services	263,883	222,940
Employee benefits	230,462	216,145
Supplies	407,434	375,614
Other expenses	377,559	324,686
Depreciation and amortization	131,439	124,127
Interest	30,936	32,239
Provision for uncollectible accounts	818	632
Total expenses	2,310,409	2,086,956
Operating Income	69,758	57,630
Nonoperating Gains (Losses)		
Investment income	(1,094)	117,427
Contribution received in affiliation with Methodist Peoria	180,325	-
Other, net	(37,068)	(9,587)
Total nonoperating gains (losses), net	142,163	107,840
Excess of Revenues Over Expenses	211,921	165,470
Change in the fair value of interest rate swaps	(20,281)	(7,294)
Net assets released from restrictions used for capital expenditures	5,705	4,948
Change in defined benefit pension plan gains (losses) and prior costs (credits)	(53,479)	(1,987)
Contributions of or for acquisition of property and equipment	245	1,061
Other, net	(1,142)	1,163
Increase in Unrestricted Net Assets	\$ 142,969	\$ 163,361

Iowa Health System and Subsidiaries
Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2011 and 2010

	2011	2010
	<i>(in thousands)</i>	
Unrestricted Net Assets		
Excess of revenues over expenses	\$ 211,921	\$ 165,470
Change in the fair value of interest rate swaps	(20,281)	(7,294)
Net assets released from restrictions used for capital expenditures	5,705	4,948
Change in defined benefit pension plan gains (losses) and prior costs (credits)	(53,479)	(1,987)
Contributions of or for acquisition of property and equipment	245	1,061
Other, net	(1,142)	1,163
	<u>142,969</u>	<u>163,361</u>
Increase in unrestricted net assets	<u>142,969</u>	<u>163,361</u>
Temporarily Restricted Net Assets		
Contribution received in affiliation with Methodist Peoria	8,635	-
Contributions	12,734	3,908
Investment income	1,549	1,546
Government grants	3,674	723
Net assets released from restrictions used for operations	(6,064)	(8,376)
Net assets released from restrictions used for capital expenditures	(5,705)	(4,948)
Change in net unrealized gains (losses) on investments	(411)	192
Change in beneficial interest in net assets of affiliates	1,695	7,578
Other, net	(3,777)	(138)
	<u>12,330</u>	<u>485</u>
Increase in temporarily restricted net assets	<u>12,330</u>	<u>485</u>
Permanently Restricted Net Assets		
Contribution received in affiliation with Methodist Peoria	3,897	-
Contributions	384	250
Investment income (loss)	(357)	1,213
Change in net unrealized gains (losses) on investments	(31)	163
Change in beneficial interest in net assets of affiliates	7	139
Other, net	1	32
	<u>3,901</u>	<u>1,797</u>
Increase in permanently restricted net assets	<u>3,901</u>	<u>1,797</u>
Increase in Net Assets	<u>159,200</u>	<u>165,643</u>
Net Assets, Beginning of Year	<u>1,572,904</u>	<u>1,407,261</u>
Net Assets, End of Year	<u><u>\$ 1,732,104</u></u>	<u><u>\$ 1,572,904</u></u>

Iowa Health System and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	2011	2010
	<i>(in thousands)</i>	
Operating Activities		
Increase in net assets	\$ 159,200	\$ 165,643
Items not requiring (providing) operating cash		
Net (gains) losses on investments	17,912	(103,686)
Net unrealized losses on swaps	51,482	17,254
Restricted contributions, investment income and government grants received	(17,984)	(7,640)
Contributions of or for acquisition of property and equipment	(245)	(1,061)
Depreciation and amortization	131,439	124,127
Change in defined pension plans' liability	53,479	1,987
Contribution received in affiliation with Methodist Peoria	(192,857)	-
Amortization of debt issuance costs	430	375
(Gain) loss on disposition of assets	1,494	(968)
Equity in earnings of joint ventures	(18,635)	(16,795)
Change in beneficial interest in net assets of affiliates	(1,702)	(7,717)
Changes in		
Receivables	(44,478)	(13,101)
Inventories and prepaid expenses	(12,727)	(4,103)
Accounts payable, accrued liabilities and other liabilities	9,981	11,998
Due to third-party payers	580	(5,932)
Net cash provided by operating activities	<u>137,369</u>	<u>160,381</u>
Investing Activities		
Capital expenditures	(174,356)	(98,457)
Proceeds from sale of assets	2,536	3,281
Increase in assets limited as to use, net	(15,224)	(5,794)
Acquisition of Des Moines Parking Associates, less cash acquired	-	(2,550)
Cash acquired in affiliation with Methodist Peoria	27,082	-
(Increase) decrease in short-term investments	46,110	(62,655)
Increase in other long-term investments	(17,048)	(12,250)
Investments in joint ventures	(2,613)	(343)
Distributions received from joint ventures	18,985	15,807
Net cash used in investing activities	<u>(114,528)</u>	<u>(162,961)</u>
Financing Activities		
Proceeds from issuance of long-term debt	-	441
Payments of long-term debt	(24,655)	(18,478)
Proceeds from restricted contributions, investment income and government grants	17,984	7,640
Proceeds from contributions for acquisition of property and equipment	245	1,061
Net cash used in financing activities	<u>(6,426)</u>	<u>(9,336)</u>
Increase (Decrease) in Cash and Cash Equivalents	16,415	(11,916)
Cash and Cash Equivalents, Beginning of Year	<u>80,121</u>	<u>92,037</u>
Cash and Cash Equivalents, End of Year	<u>\$ 96,536</u>	<u>\$ 80,121</u>

Iowa Health System and Subsidiaries
Consolidated Statements of Cash Flows (Continued)
Years Ended December 31, 2011 and 2010

	2011	2010
	<i>(in thousands)</i>	
Supplemental Cash Flows Information		
Interest paid (net of amount capitalized)	\$ 32,307	\$ 34,477
Capital lease obligations incurred for property and equipment	10,974	2,829
Property and equipment purchases in accounts payable	27,614	7,407
Acquisition of Des Moines Parking Associates		
Assets acquired	-	5,262
Liabilities assumed	-	2,725
Affiliation with Methodist Peoria		
Assets acquired	514,903	-
Liabilities assumed	322,046	-

Iowa Health System and Subsidiaries
Notes to Consolidated Financial Statements
(Dollars in Thousands)
December 31, 2011 and 2010

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Organization

Iowa Health System is an Iowa nonprofit corporation formed in December 1994. Iowa Health System and its subsidiaries (the Health System) provide inpatient and outpatient care and physician services from fifteen hospital facilities and various ambulatory service and clinic locations in Iowa and Illinois. Primary, secondary and tertiary care services are provided to residents of Iowa, Illinois and adjacent states.

Basis of Presentation

The consolidated financial statements include the accounts of Iowa Health System and its subsidiaries listed below:

- Central Iowa Health System and Subsidiaries (d/b/a Iowa Health - Des Moines) (Des Moines)
- Trinity Regional Health System and Subsidiaries (Rock Island)
- Methodist Health Services Corporation and Subsidiaries (Peoria)
- St. Luke's Healthcare and Subsidiaries (Cedar Rapids)
- Allen Health Systems, Inc. and Subsidiaries (Waterloo)
- Trinity Health Systems, Inc. and Subsidiaries (Fort Dodge)
- St. Luke's Health System, Inc. (Sioux City)
- Finley Tri-States Health Group, Inc. and Subsidiaries (Dubuque)
- Iowa Physicians Clinic Medical Foundation (d/b/a Iowa Health Physicians)
- Intrust (d/b/a Iowa Health Home Care)

Effective October 1, 2011, the Health System entered into an Affiliation agreement with Methodist Health Services Corporation (MHSC) under which MHSC became an affiliate of the Health System. At December 31, 2011, \$513,021 of total assets and net revenues of \$89,832 for the three months ended December 31, 2011 have been recorded in the consolidated financial statements.

All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Iowa Health System and Subsidiaries

Notes to Consolidated Financial Statements

(Dollars in Thousands)

December 31, 2011 and 2010

Cash Equivalents and Short-term Investments

Cash equivalents consist of demand deposits, repurchase agreements, money market funds and other debt securities with original maturities of three months or less at the date of purchase, other than those included in assets limited as to use. Short-term investments consist of debt securities with maturities between 91 and 365 days of the balance sheet date.

At times, the Health System's cash accounts exceeded federally insured limits. Management believes that these institutions are financially stable and that the credit risk related to deposits is minimal.

Assets Limited as to Use

Assets limited as to use include amounts held by trustees under bond indenture agreements and related documents and assets internally designated by the Board of Directors for identified purposes and over which the Board of Directors retains control and may, at its discretion, subsequently use for other purposes. Amounts required to meet current liabilities are classified as current assets.

Inventories

Inventories consist of supplies and are stated at the lower of cost or market.

Investments and Investment Income

Investments in equity securities with readily determinable fair values and all investments in fixed income securities are measured at fair value in the consolidated balance sheets. The fair values are based on quoted market prices or dealer quotes.

Investments in joint ventures and other affiliates, which are more than 20% and not more than 50% owned, are recorded using the equity method. Other investments are reported at cost, as adjusted for permanent impairment in value, if any.

Realized gains and losses from the sale of investments, interest and dividends, except those earned as a function of operations, and unrealized gains and losses on investments classified as trading securities and those carried at fair value pursuant to ASC Topic 825, are reported as non-operating gains (losses) unless restricted by a donor. Unrealized and realized gains and losses and investment income on investments restricted by donors are included as a component of the change in net assets.

The Health System elected the fair value option for its private investment funds (PIF) that are primarily limited liability corporations and partnerships. Management has elected the fair value option for the PIFs because it more accurately reflects the portfolio returns and financial position of the Health System. Gains and losses on investments subject to the fair value option are reported in investment income in non-operating gains (losses) on the accompanying consolidated statements of operations.

Refer to *Notes 5 and 13* for additional disclosures regarding balance sheet line items and fair value of those investments carried under Topic 825.

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the actual transfer date.

Iowa Health System and Subsidiaries

Notes to Consolidated Financial Statements

(Dollars in Thousands)

December 31, 2011 and 2010

Property, Plant and Equipment

Property, plant and equipment acquisitions are recorded at cost less accumulated depreciation. Depreciation is provided primarily using the straight-line method over the estimated useful lives of the assets. Depreciation of assets under capital lease is provided using the straight-line method over the shorter of the lease term or the estimated useful life of the assets. Donated property, plant and equipment are recorded at fair market value at the date of donation.

The Health System capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for a project, net of interest earned on investments acquired with the proceeds of the borrowing. During 2011 and 2010, the Health System capitalized \$1,067 and \$242 of interest expense, respectively.

Long-lived Asset Impairment

The Health System evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimate future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended December 31, 2011 and 2010.

Other Assets

Other assets include certain patient records and other intangible assets that are stated at cost less accumulated amortization. In addition, other assets include goodwill. Annually, the Health System performs an impairment test of all goodwill and any identified impairment loss is recognized as expense. Other assets also include deferred financing costs, which are amortized over the period the obligation is expected to be outstanding. The Health System has \$3,804 and \$3,446 of goodwill at December 31, 2011 and 2010, respectively. Other intangible assets at December 31, 2011 and 2010 were \$18,710 and \$12,346, respectively, which are subject to amortization.

Net Assets

Net assets are classified into three mutually exclusive classes: unrestricted, temporarily restricted and permanently restricted. The three classes are based on the presence or absence of donor-imposed restrictions. Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors in perpetuity. The expiration of donor restrictions is recorded in the period in which the restrictions expire.

Temporarily restricted net assets are generally restricted for capital expenditures, passage of time or other donor specified restrictions.

Iowa Health System and Subsidiaries

Notes to Consolidated Financial Statements

(Dollars in Thousands)

December 31, 2011 and 2010

Excess of Revenues Over Expenses

Excess of revenues over expense transactions affecting unrestricted net assets are reflected in the consolidated statements of operations. Consistent with industry practice, the effective portion of derivative instruments qualifying for hedge accounting carried at fair value, change in defined benefit plans and contributions of long-lived assets (including assets acquired with donor-restricted cash contributions) are excluded from determination of the excess of revenues over expenses. Transactions related to temporarily or permanently restricted net assets are recorded as additions or deductions to net assets and reflected in the consolidated statements of changes in net assets. Non-controlling interest included as part of excess of revenues over expenses was \$1,058 and \$1,142 as of December 31, 2011 and 2010, respectively.

Change in Accounting Principle

In 2011, the Health System changed its method of presentation and disclosure of patient service revenue, provision for uncollectible accounts and the allowance for uncollectible accounts in accordance with Accounting Standards Update (ASU) 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts and Allowance for Doubtful Accounts for Certain Health Care Entities*. The major changes associated with ASU 2011-07 are to reclassify the provision for uncollectible accounts related to patient service revenue to a deduction from patient service revenue and to provide enhanced disclosures around the Health System's policies related to uncollectible accounts. The provision for uncollectible accounts related to certain physician and home health services will continue to be presented in operating expenses for purposes of consolidation because the patient's ability to pay is assessed as part of initial revenue recognition. As a result of adopting ASU 2011-07, total net patient service revenue, total revenues and total expenses decreased by \$93,586 and \$96,333 for the years ended December 31, 2011 and 2010, respectively. The change had no effect on operating income or on prior year change in net assets.

Net Patient Service Revenue and Accounts Receivable

Net patient service revenue is reported at the estimated net realizable amount primarily from patients and third-party payers for services provided, including retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period in which the related services are provided, and adjusted in future periods as final settlements are determined.

The Health System recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Health System recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Health System's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Health System records a significant provision for uncollectible accounts related to uninsured patients in the period the services are provided. This provision for uncollectible accounts is presented on the accompanying statements of operations as a component of net patient service revenue.

Iowa Health System and Subsidiaries
Notes to Consolidated Financial Statements
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December 31, 2011 and 2010

As a service to the patient, the Health System bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectability of accounts receivable, the Health System analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for uncollectible accounts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts.

For receivables associated with services provided to patients who have third-party coverage, the Health System analyzes contractually due amounts and provides contractual allowances based on these amounts. Additionally, an allowance for uncollectible accounts is provided for expected uncollectible deductibles and copayments on accounts for which the patient is responsible. For receivables associated with self-pay patients, the Health System records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

The Health System's allowance for uncollectible accounts increased from \$43,507 at December 31, 2010 to \$62,455 at December 31, 2011. Allowances associated with MHSC accounted for \$17,054 of the increase. The Health System's allowance for uncollectible accounts for self-pay patients was approximately 92% of self-pay accounts receivable at December 31, 2011 and 2010. The provision for patient uncollectible accounts for the year ended December 31, 2011 was \$93,586 (\$90,933 when excluding MHSC) compared to \$96,333 for the year ended December 31, 2010. The decrease in expense was a result of improved collection and recovery experiences in 2011.

Patient service revenue at established rates less third-party payer contractual adjustments (but before the provision for uncollectible accounts), recognized in the year ended December 31, 2011, was approximately:

Third-party payers	\$ 2,113,093
Self-pay	<u>214,323</u>
Total	<u><u>\$ 2,327,416</u></u>

Charity Care

The Health System provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Amounts determined to be charity care are not reported as revenue.

Iowa Health System and Subsidiaries
Notes to Consolidated Financial Statements
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Functional Expenses

The Health System provides general health care services, including acute inpatient, outpatient, physician, ambulatory, long-term and home health care, and incurs related general and administrative expenses. Expenses related to providing these services for the years ended December 31 were as follows:

	2011	2010
General health care services	\$ 1,908,342	\$ 1,752,338
Management, general and administrative	399,386	331,733
Research	2,681	2,885
	\$ 2,310,409	\$ 2,086,956

Contributions and Beneficial Interest in Net Assets

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Donor-imposed restrictions are considered fulfilled as soon as the stipulated time has expired or the qualifying expenditure has been made. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions.

Contributions not expected to be collected within a year are recorded at the present value of expected future cash flows using a risk-free interest rate over the term of the contribution. Contributions of property are recorded at fair value when received.

Interest in charitable trusts and perpetual trusts is carried at the present value of expected future cash flows. The Health System's interest in the net assets (the Interest) of certain foundations that raise and hold assets on behalf of the Health System is accounted for in a manner similar to the equity method. The Interest is stated at fair value, and changes in the Interest are included in the change in net assets. Transfers of assets between these foundations and the Health System are recognized as increases or decreases in the Interest.

Estimated Malpractice Costs, Health Insurance and Workers' Compensation

An annual estimated provision is accrued for the self-insured portion of medical malpractice, health insurance and workers' compensation claims and includes an estimate of the ultimate costs for both reported claims and claims incurred but not reported.

Iowa Health System and Subsidiaries
Notes to Consolidated Financial Statements
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In 2011, the Health System adopted the provisions of Accounting Standards Update (ASU) 2010-24, *Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries*, which eliminates the practice of netting claim liabilities with expected insurance recoveries for balance sheet presentation. Claim liabilities are to be determined without consideration of insurance recoveries. Expected recoveries are presented separately. Prior to the adoption of ASU 2010-24, accounting principles generally accepted in the United States of America required a health care provider to accrue only an estimate of the malpractice claims cost for both reported claims and claims incurred but not reported where the risk of loss had not been transferred to a financially viable insurer. There was no material impact of the ASU adoption to the Health System's financial statements.

Interest Rate Swap Agreements

The Health System has entered into various interest rate swap agreements (the Swaps) to reduce the effect of changes in cash flows primarily related to interest rate fluctuations on the Health System's various variable rate demand bond issues. The Swaps were entered into for the risk management purpose of reducing the variability in cash flows related to the Health System's variable rate debt.

As described in *Note 8*, the Health System has designated certain swaps as hedges, while other swaps have not been designated as hedging instruments. The effective portion of changes in the fair value of swaps designated as hedges is recognized as a component of other changes in net assets, while the ineffective portion of these swaps changes in fair value, and all changes in fair value of swaps not designated as hedges, is recorded as a component of nonoperating gains (losses) in excess of revenues over expenses.

The Swaps are recognized on the consolidated balance sheets at fair value. The net cash payments or receipts under the Swaps designated as hedging instruments are recorded as an increase or decrease to interest expense. The net cash payments or receipts under the Swaps not designated as hedges are recorded as an increase or decrease to other nonoperating income (loss).

Income Taxes

Iowa Health System and most of its subsidiaries are classified as tax-exempt organizations as described in Sections 501(c)(3) and 501(c)(2) of the Internal Revenue Code (the Code). Tax-exempt organizations are not subject to federal and state income taxes on related income, pursuant to Section 501(a) of the Code. These organizations are subject to federal and state income taxes to the extent they have unrelated business income as described under provisions of Section 511 of the Code.

The Health System files Form 990 for substantially all of its operating entities in the U.S. federal jurisdiction and is no longer subject to examination by tax authorities for the years before 2008. The Health System has no material uncertain tax positions.

Certain subsidiaries are subject to federal and state income taxes. Some of these corporations have accumulated net operating loss carryforwards that are available to offset future taxable income during the carryforward period. No income tax benefit has been recognized for the net operating loss carryforwards or other potential deferred tax assets in the consolidated financial statements because the Health System believes realization of these benefits is unlikely.

Iowa Health System and Subsidiaries
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(Dollars in Thousands)
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Retirement Plans

Substantially all employees meeting age and length of service requirements participate in defined contribution plans. Certain subsidiaries also have defined benefit plans, most of which have been substantially frozen. Pension costs for the defined benefit plans, which are composed of normal costs and amortization of prior service costs related to defined benefit plans, are funded currently.

Reclassifications

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 financial statement presentation. These reclassifications had no effect on the change in net assets.

Note 2: Affiliation with Methodist Peoria

On October 1, 2011, the Health System executed an affiliation agreement with MHSC, a not-for-profit health care organization operating as The Methodist Medical Center of Illinois, located in Peoria, Illinois. The results of MHSC's operations have been included in the consolidated financial statements since that date. As a result of the affiliation, the Health System will have an opportunity to expand its service area into Central Illinois and further the mission and strategic goals of the Health System in the ever changing health care provider landscape. The Health System also expects that the affiliation will allow it to achieve cost savings through elimination of certain duplicative administrative and other functions. The affiliation was accomplished by the Health System becoming the sole member of MHSC and having the ability to appoint the board members of MHSC. No consideration was transferred for the net assets of MHSC, thus the fair value of unrestricted net assets received by the Health System is shown as contribution revenue in the consolidated statements of operations.

The Health System incurred \$787 of costs in connection with this affiliation. These costs are included in other expenses in the consolidated statements of operations.

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The following table summarizes the fair value of the assets acquired and liabilities assumed recognized at the affiliation date:

Recognized fair value of identifiable assets acquired and liabilities assumed

Current assets	\$ 104,780
Property, plant and equipment	244,919
Noncurrent assets	<u>165,203</u>
Total assets	<u>514,902</u>
Current liabilities	89,268
Long-term debt	109,891
Long-term liabilities	<u>122,886</u>
Total liabilities	<u>322,045</u>
Total contribution received	<u>\$ 192,857</u>

Summary of contribution received by net asset classification

Unrestricted contribution received	\$ 180,325
Temporarily restricted contribution received	8,635
Permanently restricted contribution received	<u>3,897</u>
Total contribution received	<u>\$ 192,857</u>

The affiliation resulted in an inherent contribution received of \$192,857, which represents the net recognized amount of the identifiable assets acquired over the liabilities assumed. Acquisition of the unrestricted net assets has been included in contribution revenue in the consolidated statements of operations. The temporarily and permanently restricted net assets have been included as increases to those classes of net assets in the amounts of \$8,635 and \$3,897, respectively.

MHSC contributed revenues of \$89,832, excess revenues over expenses of \$8,646, and changes in unrestricted, temporarily restricted, and permanently restricted net assets of \$3,177, \$356 and \$23 to the Health System for the period from the affiliation date through December 31, 2011. The following unaudited pro forma summary presents consolidated information of the Health System as if the affiliation had occurred on January 1, 2010:

	Pro Forma Year Ended December 31, 2011	Pro Forma Year Ended December 31, 2010
Revenue	\$ 2,647,365	\$ 2,488,989
Excess of revenues over expenses	20,192	388,261
Change in		
Unrestricted net assets	(72,740)	383,070
Temporarily restricted net assets	2,807	10,009
Permanently restricted net assets	(6)	5,704

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Supplemental pro forma earnings for the year ended December 31, 2011 were adjusted to exclude \$3,719 of affiliation-related costs incurred by both the Health System and MHSC in 2011, \$2,467 of nonrecurring expense related to an adjustment to self-insurance liabilities, and \$4,000 of additional contribution revenue related to the fair value adjustment to joint ventures at the affiliation date. The 2010 supplemental pro forma earnings were adjusted to include these adjustments. The unaudited pro forma amounts are not indicative of what actual consolidated results of operations might have been if the affiliation had been effective at the beginning of 2010.

Note 3: Charity Care

The Health System provides charity care and financial assistance discounts for medically necessary health care services provided to persons who meet the Health System's policy. The policy provides a percentage discount to the patient that decreases at gradually higher income levels or higher levels of household net assets. The benchmark upon which the income level is compared to is the Federal Poverty Income Guideline and is updated annually. Patients who are already receiving benefits from certain identified government programs qualify for presumptive eligibility.

The availability of charity care is widely communicated to all patients and patients are notified prior to receiving services if their treatment does not fall within the guidelines of the policy. Amounts charged for care that is provided to individuals eligible for charity may not be more than the amounts generally billed to individuals who have insurance covering such care. Amounts billed are based on either the best, or an average of the three best, negotiated commercial rates, or Medicare rates.

Accounts that are classified by the Health System as charity care are not reported as net patient service revenue. In some cases, the charity care is subsidized by contributions from volunteer organizations or other donors. Charity care subsidies are not material to the consolidated financial statements.

Cost of charity care is calculated by applying hospital specific cost to charge ratios to the total amount of charity care deductions from gross revenue. The cost-to-charge ratio is calculated by taking the hospital total expenses and gross charges and applying adjustments to remove the cost of non-patient care activity, Medicaid provider taxes paid, identifiable community benefit expenses, as well as gross patient charges that are generated for identifiable community benefit services.

The amount of charity care provided at cost was \$39,045 and \$33,969 for the years ended December 31, 2011 and 2010, respectively. The portion of the increase related to the addition of MHSC was \$1,795 for the year ended December 31, 2011.

Community benefit is also provided through reduced price services and free programs offered throughout the year. The Health System provides an array of uncompensated activities and services intended to meet the community health needs. These activities include wellness programs, community education programs and various health screening programs. The cost of providing these community benefit services is reported on Schedule H of the Health System's IRS Form 990.

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Note 4: Third-Party Reimbursement

As a provider of health care services, the Health System generally grants credit to patients without requiring collateral or other security. The Health System routinely obtains assignments of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans or policies. These health insurance programs or providers are commonly referred to as third-party payers and include the Medicare and Medicaid programs, Wellmark and various health maintenance and preferred provider organizations.

A major portion of the Health System's revenues is derived from these third-party payers. Significant changes have been made, and may be made, in certain of these programs, which could have a material, adverse impact on the financial condition of the Health System. These changes include federal and state laws and regulations, particularly those pertaining to Medicare and Medicaid.

The Health System has agreements with certain third-party payers that provide for payment of services at amounts different from established rates. Third-party payer payment rates vary by payer and include established charges; contracted rates less than established charges; prospectively determined rates per discharge, per procedure, or per diem; retroactively determined cost-based rates.

Gross patient service revenue (based on established rates) by payer for the years ended December 31 was as follows:

	<u>2011</u>	<u>2010</u>
Medicare	43%	43%
Medicaid	12	11
Wellmark	21	21
Commercial and other	19	19
Self-pay	5	6
	<u>100%</u>	<u>100%</u>

Gross patient accounts receivable (based on established rates) by payer at December 31 was as follows:

	<u>2011</u>	<u>2010</u>
Medicare	29%	32%
Medicaid	15	10
Wellmark	17	17
Commercial and other	26	27
Self-pay	13	14
	<u>100%</u>	<u>100%</u>

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Iowa Medicaid State Plan

In 2011, the state of Iowa enacted a Medicaid State Plan in which an annual tax assessment is levied on certain hospital providers in order to provide funding for Medicaid to obtain federal matching funds. A portion of these additional federal funds are then redistributed to participating Iowa hospitals through increased Medicaid payments in order to help bring Medicaid reimbursement closer to the cost of providing care. The allocation of these funds to specific health care providers is based primarily on the amount of care provided to Medicaid recipients.

The Health System's tax assessment and contribution during 2011 was \$16,566 and is included in operating expenses in the consolidated statements of operations. Additional Medicaid reimbursement in the same period was approximately \$28,738 and is included in net patient service revenue in the consolidated statements of operations, resulting in a net increase in operating income of \$12,172.

Illinois Medicaid State Plan

The Illinois Medicaid State Plan serves a similar purpose as the Iowa plan but has been in place since 2006. Under the amended Illinois Medicaid State Plan, proceeds from the tax assessment are used to obtain federal matching funds, all of which must be distributed to Illinois hospitals and physicians to help bring Medicaid reimbursement closer to the cost of providing care. The allocation of these funds to specific health care providers is based primarily on the amount of care provided to Medicaid recipients. The Health System's tax assessment and contribution in 2011 relate to Trinity Regional Health System and MHSC while in 2010 related to Trinity Regional Health System only.

In 2011 and 2010, the Health System's tax assessment and contribution was \$10,632 and \$8,312, respectively, and is included in operating expenses in the consolidated statements of operations. Additional Medicaid reimbursement in the same periods was approximately \$19,577 and \$14,375 and is included in net patient service revenue in the consolidated statements of operations, resulting in a net increase in operating income of \$8,945 and \$6,063 in 2011 and 2010, respectively.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible health systems that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under both the Medicare and Medicaid program are generally made for up to four years based on a statutory formula. The Medicaid programs are determined on a state by state basis, which are approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the Health System initially attesting to being a meaningful user of EHR technology and then continuing to meet escalating criteria, including other specific requirements that are applicable, for consecutive reporting periods. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

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The Health System recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

In 2011, several of the Health System's affiliates completed the first-year requirements under the Medicaid program and the Health System has recorded revenue of \$9,789, which is included in other operating revenue in the consolidated statements of operations. The Medicaid program EHR funds are related to the implementation of EHR technology for the hospitals and physician groups. One affiliate completed the first-year requirements under the Medicare program during 2011 and has recorded revenue of \$1,362 in the same manner. The remaining affiliates of the Health System have not completed the initial attestation under the Medicare program and have not recorded any revenue pertaining to this program.

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Note 5: Investments

Investment Summary

Short-term investments consist of debt securities, primarily bonds, and totaled \$183,951 and \$230,061 at December 31, 2011 and 2010, respectively.

A summary of investments reported as assets limited as to use at December 31 is as follows:

	2011	2010
Held by trustees under bond indenture agreements		
Cash and short-term investments	\$ 2,887	\$ 2,874
Mortgage-backed securities	37	50
	<u>2,924</u>	<u>2,924</u>
Internally designated		
Cash and short-term investments	13,686	12,085
U.S. Treasury obligations	18,658	30,826
U.S. Government agency obligations	6,625	15,168
Asset-backed securities		
Home equity	14,398	9,507
Other	5,455	2,117
Mortgage-backed securities		
Government	48,191	26,199
Non-government	33,280	31,548
Certificates of deposit	474	474
Corporate bonds	44,451	38,169
Corporate bonds - PIF	155,250	139,008
Equity securities		
Domestic	95,087	92,407
International	34	-
Equity securities - PIF		
Domestic	121,574	121,367
International	59,729	69,351
Mutual funds		
International	58,595	61,142
Emerging markets	47,582	68,293
Index	975	-
Equity	665	-
Fixed income	2,801	-
Other	283	-
Hedge fund of funds	66,189	63,607
Interest receivable	1,129	1,407
	<u>795,111</u>	<u>782,675</u>
Total assets limited as to use	798,035	785,599
Less amount required to meet current obligations	<u>11,914</u>	<u>11,443</u>
Noncurrent portion of assets limited as to use	<u>\$ 786,121</u>	<u>\$ 774,156</u>

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Assets held by trustee under bond indenture agreements are required to be held in separate trust accounts. A summary of these trust accounts aggregated by their required use at December 31 is as follows:

	2011	2010
Collateral and other accounts	\$ 2,924	\$ 2,924

Internally designated assets are summarized below based on their designation at December 31:

	2011	2010
Capital improvements	\$ 758,060	\$ 749,503
Self-insured reserves	37,049	32,803
Bond interest account	2	369
	\$ 795,111	\$ 782,675

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Investments presented as other long-term investments at December 31 are summarized as follows:

	2011	2010
Restricted cash and short-term investments	\$ 5,116	\$ 3,106
U.S. Treasury obligations	4,591	7,422
U.S. Government agency obligations	1,593	3,403
Asset-backed securities		
Home equity	3,293	2,084
Other	1,248	464
Mortgage-backed securities		
Government	11,024	5,841
Non-government	7,613	7,033
Corporate bonds	9,648	8,261
Corporate bonds - PIF	35,513	30,471
Equity securities		
Domestic	25,956	32,654
International	179	-
Equity securities - PIF		
Domestic	27,809	26,604
International	13,663	15,202
Mutual funds		
Domestic	19,659	15,419
International	26,878	14,547
Emerging markets	11,375	14,655
Index	2,217	-
Equity	29,718	-
Fixed income	65,126	-
Other	4,482	-
Hedge fund of funds	35,256	13,943
Notes receivable	15	-
Interest receivable	422	299
Insurance policies	4,199	4,026
Real estate	1,050	-
Interest rate swaps (<i>see Note 8</i>)	938	-
	\$ 348,581	\$ 205,434

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The following schedule summarizes the investment return and its classification in the consolidated statements of operations and changes in net assets for the years ended December 31:

	2011	2010
Investment return		
Interest and dividends	\$ 18,859	\$ 18,802
Realized gains on sales of investments	31,383	53,890
Unrealized gains (losses) on trading investments	(55,890)	11,918
Unrealized gains (losses) on other than trading investments	(442)	355
Equity in earnings of joint ventures	18,635	16,795
Change in fair value of investments accounted for under the fair value option of FASB ASC Topic 825	7,037	37,523
	\$ 19,582	\$ 139,283
Investment return classification		
Unrestricted net assets		
Other operating revenue	\$ 19,926	\$ 18,742
Nonoperating gains (losses) – investment income	(1,094)	117,427
Temporarily restricted net assets	1,138	1,738
Permanently restricted net assets	(388)	1,376
	\$ 19,582	\$ 139,283

Private Investment Funds

At December 31, 2011 and 2010, 45% and 48%, respectively, of the Health System's investments were invested in PIFs whose portfolios are primarily invested in debt and marketable equity securities. These investments are included in either internally designated or other long-term investments in the investment summary tables (previously presented) based on the underlying investments. The amounts included in the investment summary tables at December 31 are as follows:

	2011	2010
Corporate bonds	\$ 190,763	\$ 169,479
Equity securities	222,775	232,524
Hedge fund of funds	101,445	77,550
	\$ 514,983	\$ 479,553

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The PIFs are primarily limited partnerships and limited liability companies, including three hedge fund-of-funds and one private equity fund. The underlying investments of these funds are primarily debt and marketable equity securities. The investment strategies for each fund vary but include low return volatility through tactical investment strategies, investing in growth or value securities for long-term growth and to earn a total rate of return in excess of rates of return compared to a standard index. The private equity fund has a strategy of investing in early-stage companies and entrepreneurs within the healthcare industry. There is no public market for shares in the private investment funds. The value of the investments in the PIFs is determined based on the fair values of the underlying securities.

In situations when investments do not have readily determinable fair values (private investment funds), the fund managers provide the net asset value (NAV) per share, or its equivalent, to the Health System. The NAV provided by the fund managers is supported by underlying audit reports of the private investment funds. The Health System previously adopted ASU 2009-12, which provided a practical expedient for certain investments to use net asset value per share to measure fair value. Accordingly, the Health System uses the NAV as a practical expedient for fair value for each of its PIFs.

The PIFs generally have certain limits regarding advance notice and timing of withdrawals. They generally require advance notice of at least two days prior to a month end to withdraw funds. One fund that represents about 16% of the private investment funds requires a 95-day notice to withdraw funds either quarterly or semiannually based on the initial purchase date of the investments. In addition, withdrawals may be limited by the PIFs underlying investment funds ability to liquidate their holdings.

During 2011, the Health System committed to investing \$10,000 in a PIF with a lock-up period of ten years. The Health System's interest is nonredeemable and the Health System has contributed a nominal amount to this investment as of December 31, 2011.

Investments in Joint Ventures

At December 31, 2011 and 2010, investments in joint ventures amounted to \$42,710 and \$26,327, respectively. The new joint ventures added in the affiliation with MHSC were \$14,107. Other investments consist primarily of cash surrender value of life insurance policies and real estate held for investment.

The joint ventures consist of 39 privately held health care organizations in which the Health System's ownership interest ranges from 18% to 50%. The joint ventures had the following financial information as of and for the years ended December 31:

	2011	2010
Total assets	\$ 160,253	\$ 137,522
Net revenues	151,325	139,626
Net income	43,065	39,971

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The Health System's share of earnings on the investments in joint ventures is included in other operating revenue in the consolidated statements of operations. The Health System recorded activity related to joint ventures for the years ended December 31 as follows:

	<u>2011</u>	<u>2010</u>
Earnings on investments in joint ventures	\$ 18,635	\$ 16,795
New investments in joint ventures	2,613	343
Distributions received from joint ventures	18,668	15,807

The Health System both purchases services and sells services and supplies to several joint ventures. In 2011 and 2010, services purchased from joint ventures totaled \$11,016 and \$10,370, respectively. Services and supplies sold to joint ventures in 2011 and 2010 were \$9,105 and \$7,261, respectively.

Note 6: Property, Plant and Equipment

Property, plant and equipment are stated at cost and are summarized at December 31 as follows:

	<u>2011</u>	<u>2010</u>
Land	\$ 95,753	\$ 52,940
Land improvements	64,770	43,758
Buildings, improvements and fixed equipment	1,547,915	1,362,863
Moveable equipment	1,007,797	864,826
	<u>2,716,235</u>	<u>2,324,387</u>
Less accumulated depreciation and amortization	1,504,900	1,413,950
	1,211,335	910,437
Construction/information systems installation in progress	<u>46,137</u>	<u>32,912</u>
Net property, plant and equipment	<u>\$ 1,257,472</u>	<u>\$ 943,349</u>

As of December 31, 2011 and 2010, the Health System has committed approximately \$123,272 and \$96,223, respectively, for costs related to various hospital construction and information systems projects. The Health System plans to fund the projects through internal funds.

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Note 7: Long-term Debt

Long-term debt at December 31, 2011 and 2010 is summarized as follows:

	Payable Through	Issuance Type	Interest Rate (1)	2011	2010
Hospital Facility Revenue Bonds					
Series 2011A	2021	Fixed	3.29%	\$ 57,960	\$ -
Series 2011B	2041	Variable	0.10%	51,220	-
Series 2009A	2035	Variable	0.06%, 0.28%	52,860	54,375
Series 2009B	2035	Variable	0.06%, 0.28%	52,860	54,375
Series 2009C	2035	Variable	1.16%, 1.16%	30,375	31,245
Series 2009D	2035	Variable	0.16%, 0.36%	56,445	58,065
Series 2009E	2039	Variable	0.16%, 0.36%	43,000	43,000
Series 2009F	2039	Fixed	5.00%	50,000	50,000
Series 2008A	2037	Fixed	2.5% - 5.625%	146,040	148,050
Series 2008	2028	Variable	13.45%, 13.16%	4,528	4,528
Series 2006	2031	Variable	0.25%, 1.34%	13,110	13,485
Series 2005	2031	Fixed	4.50%	3,622	3,722
Series 2005A	2035	Fixed	2.5% - 5.625%	192,540	198,060
Series 1985	2015	Fixed	4.40%	-	1,980
Series 1985B	2015	Variable	0.14%, 0.27%	23,000	23,000
Total hospital facility revenue bonds				777,560	683,885
Capital lease obligations, due through 2015			0% - 10.16%	14,669	4,328
Other notes and mortgages			Various	775	2,194
				<u>793,004</u>	<u>690,407</u>
Current maturities				(73,258)	(33,552)
Unamortized bond discount				<u>1,091</u>	<u>1,124</u>
Long-term portion				<u>\$ 720,837</u>	<u>\$ 657,979</u>

(1) Variable rates shown represent rates as of December 31, 2011 and 2010, respectively.

The Series 2011 Bonds are obligations of MHSC that were issued prior to their affiliation with the Health System. The Methodist Medical Center of Illinois, a subsidiary of MHSC, is the sole obligor under the bond indenture, which requires the maintenance of certain financial ratios through the master trust indenture and letter of credit agreement (related to the variable rate demand bonds).

The Series 2009, 2008, and 2005 Bonds (collectively "the Bonds") are general obligations of the Health System and its affiliates. The Health System is required to meet certain operating and financial ratios contained in the master bond trust indenture, bond insurance agreements and bank letter of credit agreements (related to the variable rate demand bonds). The Bonds are subject to the provisions of amended and restated master trust indentures, which generally require monthly or quarterly deposits for principal and interest payments be made, and certain funds be maintained by the trustee for interest payment and bond retirement purposes.

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The variable interest rates on substantially all of the bonds are adjusted daily or weekly by remarketing agents. The bonds may be tendered by the bond holders each interest rate period. The Health System maintains a combination of letters of credit and standby purchase agreements that can be drawn on should the bonds not be remarketed. The agreements will expire beginning in 2014 through 2016. The agreements are renewable, subject to trustee approval and at the option of the agreement providers, throughout the term of the bonds. Outstanding amounts under the agreements are due at the earlier of expiration of the agreements or over a period of three years commencing after an initial outstanding period of 366 days or more.

In December 2010, the Health System completed an interest rate mode conversion for the 2009C bonds converting the interest rate from a daily rate to an index rate. The interest rate modification was not considered a significant modification of terms; thus, all costs incurred from the mode conversion were expensed during the year. In 2010, a Direct Note Obligation for the 2009C bonds was issued to a financial institution, eliminating the supporting letter of credit requirement.

The \$50,000 of 2009F bonds outstanding are subject to a mandatory tender on August 14, 2012 and therefore are classified as current maturities within the consolidated balance sheet at December 31, 2011. The Health System is in the preliminary stages of developing a financing plan to cover any redemption required on bonds put to the Health System under exercise of the tender agreement.

Aggregate annual maturities of long-term debt during the years ending December 31 are as follows:

	Accelerated Maturities with Letter of Credit Terms	Scheduled Maturities Based on Loan Agreements
2012	\$ 73,258	\$ 73,258
2013	186,875	21,666
2014	157,924	21,665
2015	11,116	42,671
2016	16,364	23,394
Thereafter	347,467	610,350
	<u>\$ 793,004</u>	<u>\$ 793,004</u>

At December 31, 2011 and 2010, the Health System has included \$0 and \$17,097, respectively, in current maturities of long-term debt related to letters of credit and standby purchase agreements for related bonds that if not remarketed would require a payment within the next year.

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Note 8: Interest Rate Swaps

Swaps Designated as Hedging Instruments

As a risk management strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the Health System entered into the following interest rate swap agreements:

Trade Date	Maturity Date	Current Notional Amount	Health System Pays	Health System Receives	Accounting Treatment	Fair Value	
						2011	2010
2005	2035	\$ 192,540	3.5%	62.4% of LIBOR + 29 bps	Cash Flow Hedge	\$ (37,026)	\$ (16,684)

In 2005, the Health System entered into three interest rate swap agreements, which effectively converted the Series 2005B variable rate bonds into fixed rate debt at a rate of 3.5% (4.1% including transaction costs). During 2009, these swaps were redesignated to hedge the Series 2009 A-D Bonds. The swap agreements have an aggregate notional amount of \$192,540 at December 31, 2011.

Management has designated the above interest rate swap agreements as cash flow hedging instruments, and has determined that these agreements are highly effective. The aggregate fair value of the swap agreements is recorded as a long-term liability of \$(37,026) at December 31, 2011 and \$(16,684) at December 31, 2010. The change in fair value of \$(20,342) and \$(6,819) for the years ended December 31, 2011 and 2010, respectively, is reported as part of the change in unrealized gains and losses on swaps. Interest, the net of what the Health System pays and receives under the two legs of the swaps, is settled monthly on each swap agreement and is reported as interest expense.

The Health System has provisions within certain interest rate swap agreements that would require it to post collateral should the negative fair value of the agreements exceed \$25,000 individually, the Health System's credit rating fall below Aa3 by Moody's or AA- by S&P, or the bond insurers rating fall below A- by S&P. As of December 31, 2011, the Health System has not been requested to post collateral under these agreements.

The table below presents certain information regarding the Health System's interest rate swap agreements designated as cash flow hedges. The Health System has additional derivative instruments at December 31, 2011 and 2010 that are no longer designated as hedging instruments under ASC 815 (*Derivatives and Hedging*), as shown below:

	2011	2010
Other Long-term Liabilities		
Fair value of interest rate swap agreements	\$ (37,026)	\$ (16,684)
Unrestricted Net Assets		
Loss recognized in changes in unrealized gains and losses on investments (effective portion)	(20,342)	(6,819)

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Other Swap Agreements

The Health System has also entered into the following interest rate swap agreements which are not designated as hedging instruments. The Health System has elected to carry these swaps as an investing activity, until such time that satisfactory termination value can be obtained, or their respective maturity date.

Trade Date	Maturity Date	Notional Amount	Health System Pays	Health System Receives	Fair Value	
					2011	2010
2006	2030	\$ 60,000	100% of SIFMA*	68.0% of LIBOR + 59.2 bps*	\$ 938	\$ -
2006	2037	143,000	3.8%	61.9% of LIBOR + 31 bps	(42,529)	(20,531)
2006	2023	42,700	3.5	61.9% of LIBOR + 31 bps	(7,593)	(4,251)
2005	2035	64,180	3.3	62.4% of LIBOR + 29 bps	(11,312)	(4,758)
					\$ (60,496)	\$ (29,540)

*Rate represents the terms of the swap agreement, as originated. The agreement has been amended for the period until November 15, 2014. Until that date, MHSC will not make a quarterly payment and will receive fixed quarterly payments of \$188,250. After that date, the terms revert back to the original contracted terms, which are as stated in the table above.

The aggregate fair value of the unhedged swap agreements are recorded as long-term investments of \$938 and \$0 and long-term liabilities of \$(61,434) and \$(29,540), as of December 31, 2011 and 2010, respectively. The change in fair value of \$(31,141) and \$(7,640) are included as a component of other income (loss) as of December 31, 2011 and 2010, respectively. Interest, the net of what the Health System pays and receives, is settled monthly or quarterly on each swap agreement and is reported as other income (loss).

In prior years, certain swap agreements previously designated as hedges by the Health System were deemed to be ineffective. The effective portion of these changes in fair value, previously deemed effective, is being amortized into other income (loss) over the remaining life of the swap. As of December 31, 2011 and 2010, \$(699) and \$(760) of net unrealized losses remain in net assets to be amortized and \$(61) and \$475 was amortized into other income (loss), respectively.

In January 2010, the Health System terminated a swap agreement with a notional value of \$67,090, at a cost of \$(2,795). The Health System's counterparty also called swap agreements with a notional amount of \$80,760, in accordance with the agreement, in February 2010.

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Other Swaps:

	2011	2010
Other Long-term Investments		
Fair value of interest rate swap agreement	\$ 938	\$ -
Other Long-term Liabilities		
Fair value of interest rate swap agreements	(61,434)	(29,540)
Unrestricted Net Assets		
Change in unrestricted net assets amortizing into		
Other, net	61	(475)
Nonoperating Other, Net		
Loss recognized in income from changes in		
fair value of interest rate swaps	(31,141)	(7,640)
Gain (loss) recognized in income from amortization of		
unrecognized gains (losses) in unrestricted net assets	(61)	475
Loss recognized in income from termination of		
interest rate swap	-	(2,795)

Note 9: Related-Party Transactions

The Health System leases real estate from certain companies controlled by members of the Board of Directors of the Health System or its subsidiaries. Minimum payments under these operating leases are \$4,842 per year. The leases expire in various periods through 2021. Rent expense under these leases, including a pro rata portion of certain operating expenses of the facilities, was \$4,915 and \$7,107 for 2011 and 2010, respectively. At December 31, 2011 and 2010, the Health System also had outstanding debt related to real estate capital lease obligations of \$10,963 and \$1,503, respectively. The Health System also leases real estate to physicians who may serve the Health System through board of director or medical director roles.

The Health System purchases a variety of services and products from companies affiliated with members of the Boards of Directors of the Health System and/or its subsidiaries. Services and products purchased from these affiliated companies during 2011 and 2010 totaled \$13,693 and \$13,382, respectively, of which \$4,902 and \$7,526, respectively, were related to construction project costs. In addition, the Health System purchases services from several joint ventures and sells services and supplies to several joint ventures in which the Health System is also an investor. The Health System believes these transactions are consummated under commercially reasonable business arrangements.

The Health System has recorded receivables for amounts held by nonconsolidated foundations on behalf of the Health System of \$41,527 and \$40,594 as of December 31, 2011 and 2010, respectively. Contributions received from nonconsolidated foundations and other related parties were \$2,326 and \$3,562 in 2011 and 2010, respectively.

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Note 10: Retirement Benefit Plans

Defined Contribution Retirement Plans

The Health System has several defined contribution benefit plans, which are available to substantially all employees meeting age and length of service requirements. Participating employers annually determine the amount, if any, of the Health System's contributions to the plan. Total benefit expenses under the defined contribution plans were approximately \$46,250 and \$44,537 for 2011 and 2010, respectively. The Health System also has deferred compensation plans for certain employees. Total expenses under the deferred compensation plans were \$2,394 and \$2,534 for 2011 and 2010, respectively.

Defined Benefit Plans

Prior to 2001, substantially all employees of four of the Health System's subsidiaries were covered by noncontributory defined benefit pension plans, all of which have subsequently been frozen to new participants or terminated. The Health System's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the Health System may determine to be appropriate from time to time.

Upon the affiliation with MHSC (Peoria) during the year, the Health System inherited their noncontributory defined benefit pension plan, which has been frozen to new participants since 2007. Pension benefits are based on compensation of employees and years of service and are actuarially determined. As part of the accounting for the affiliation transaction, unrecognized pension benefit costs in unrestricted net assets were eliminated as they will not be recognized through earnings on the Health System's financial statements.

The Health System expects to contribute \$15,592 to the plans in 2012.

In 2010, the Sioux City affiliate completed its plan for termination and distribution of the assets in its defined benefit pension plan. The plan was terminated effective January 31, 2008. In December 2009, a determination letter was received from the IRS approving the termination.

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The following tables set forth information about each defined benefit plan:

	As of December 31, 2011			
	Des Moines	Cedar Rapids	Waterloo	Peoria
Change in benefit obligation				
Benefit obligation, beginning of year	\$ 175,394	\$ 106,552	\$ 53,275	\$ 219,916 *
Service cost	3,941	116	353	1,320
Interest cost	10,313	6,271	3,126	2,870
Actuarial loss	20,639	15,580	6,111	8,417
Benefits paid	(8,682)	(3,956)	(1,849)	(1,464)
Benefit obligation, end of year	<u>201,605</u>	<u>124,563</u>	<u>61,016</u>	<u>231,059</u>
Change in fair value of plan assets				
Fair value of plan assets, beginning of year	181,094	89,605	50,064	118,836 *
Actual return on plan assets	9,639	3,730	3,951	5,441
Employer contributions	7,275	4,939	3,300	1,582
Benefits paid	(8,682)	(3,956)	(1,850)	(1,464)
Fair value of plan assets, end of year	<u>189,326</u>	<u>94,318</u>	<u>55,465</u>	<u>124,395</u>
Funded status, end of year	<u>\$ (12,279)</u>	<u>\$ (30,245)</u>	<u>\$ (5,551)</u>	<u>\$ (106,664)</u>
Accumulated benefit obligation	<u>\$ 201,605</u>	<u>\$ 124,349</u>	<u>\$ 61,016</u>	<u>\$ 206,435</u>
*As of October 1, 2011.				
Liabilities recognized in the balance sheets				
Noncurrent liabilities	<u>\$ (12,279)</u>	<u>\$ (30,245)</u>	<u>\$ (5,551)</u>	<u>\$ (106,664)</u>
Amounts recognized in unrestricted net assets but not yet recognized as components of net periodic benefit cost				
Net loss	\$ 36,115	\$ 47,394	\$ 18,205	\$ 5,569
Net prior service cost (credit)	42	-	(4,476)	-
	<u>\$ 36,157</u>	<u>\$ 47,394</u>	<u>\$ 13,729</u>	<u>\$ 5,569</u>
Amounts expected to be recognized within one year				
Net loss	\$ 1,994	\$ 3,882	\$ 1,567	\$ -
Net prior service cost (credit)	42	-	(651)	-
	<u>\$ 2,036</u>	<u>\$ 3,882</u>	<u>\$ 916</u>	<u>\$ -</u>
Other changes in plan assets recognized in changes in net assets				
Net loss	\$ 25,240	\$ 18,976	\$ 6,087	\$ 5,569
Amortization of				
Net loss	-	(2,166)	(859)	-
Prior service (cost) credit	(46)	-	651	-
Total recognized in changes in net assets	<u>\$ 25,194</u>	<u>\$ 16,810</u>	<u>\$ 5,879</u>	<u>\$ 5,569</u>

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	As of December 31, 2011			
	Des Moines	Cedar Rapids	Waterloo	Peoria
Weighted-average assumptions used to determine benefit obligations for the year ended December 31, 2011				
Discount rate	5.00%	5.00%	5.00%	5.00%
Rate of compensation increase	4.00%	5.00%	N/A	3.25%
Weighted-average assumptions used to determine benefit costs for the year ended December 31, 2011				
Discount rate	6.00%	6.00%	6.00%	5.25%
Expected return on plan assets	8.00%	8.00%	8.00%	8.50%
Rate of compensation increase	4.00%	N/A	N/A	3.25%
Components of net periodic benefit cost				
Service cost	\$ 3,941	\$ 116	\$ 353	\$ 1,320
Interest cost	10,313	6,271	3,126	2,870
Expected return on plan assets	(14,239)	(7,126)	(3,928)	(2,594)
Amortization of prior service cost (credit)	46	-	(651)	-
Recognized net actuarial loss	-	2,166	859	-
Net periodic benefit cost (benefit)	<u>\$ 61</u>	<u>\$ 1,427</u>	<u>\$ (241)</u>	<u>\$ 1,596</u>
	As of December 31, 2010			
	Des Moines	Cedar Rapids	Waterloo	Sioux City
Change in benefit obligation				
Benefit obligation, beginning of year	\$ 158,490	\$ 97,288	\$ 48,520	\$ 13,422
Service cost	3,530	122	489	-
Interest cost	9,966	6,203	3,104	-
Actuarial loss	10,442	6,607	2,793	-
Benefits paid	(7,034)	(3,668)	(1,680)	(13,422)
Curtailement gain from freezing benefits	-	-	49	-
Benefit obligation, end of year	<u>175,394</u>	<u>106,552</u>	<u>53,275</u>	<u>-</u>
Change in fair value of plan assets				
Fair value of plan assets, beginning of year	166,024	79,108	44,017	14,740
Actual return on plan assets	21,104	10,532	4,427	-
Employer contributions	1,000	3,633	3,300	-
Benefits paid	(7,034)	(3,668)	(1,680)	(13,473)
Settlement	-	-	-	(1,267)
Fair value of plan assets, end of year	<u>181,094</u>	<u>89,605</u>	<u>50,064</u>	<u>-</u>
Funded status, end of year	<u>\$ 5,700</u>	<u>\$ (16,947)</u>	<u>\$ (3,211)</u>	<u>\$ -</u>
Accumulated benefit obligation	<u>\$ 172,110</u>	<u>\$ 106,045</u>	<u>\$ 53,275</u>	<u>\$ -</u>
Assets and liabilities recognized in the balance sheets				
Noncurrent assets	<u>\$ 5,700</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Noncurrent liabilities	<u>\$ -</u>	<u>\$ (16,947)</u>	<u>\$ (3,211)</u>	<u>\$ -</u>

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	As of December 31, 2010			
	Des Moines	Cedar Rapids	Waterloo	Sioux City
Amounts recognized in unrestricted net assets but not yet recognized as components of net periodic benefit cost				
Net loss	\$ 10,875	\$ 30,584	\$ 12,977	\$ -
Net prior service cost (credit)	88	-	(5,127)	-
	<u>\$ 10,963</u>	<u>\$ 30,584</u>	<u>\$ 7,850</u>	<u>\$ -</u>
Amounts expected to be recognized within one year				
Net loss	\$ -	\$ 2,166	\$ 859	\$ -
Net prior service cost (credit)	46	-	(651)	-
	<u>\$ 46</u>	<u>\$ 2,166</u>	<u>\$ 208</u>	<u>\$ -</u>
Other changes in plan assets recognized in changes in net assets				
Net loss	\$ 2,543	\$ 2,375	\$ 1,886	\$ -
Prior service cost	-	-	49	-
Amortization of				
Net loss	-	(2,174)	(590)	(2,995)
Prior service (cost) credit	(46)	-	642	-
	<u>\$ 2,497</u>	<u>\$ 201</u>	<u>\$ 1,987</u>	<u>\$ (2,995)</u>
Total recognized in changes in net assets				
	<u>\$ 2,497</u>	<u>\$ 201</u>	<u>\$ 1,987</u>	<u>\$ (2,995)</u>
Weighted-average assumptions used to determine benefit obligations for the year ended December 31, 2010				
Discount rate	6.00%	6.00%	6.00%	N/A
Rate of compensation increase	4.00%	5.00%	N/A	N/A
Weighted-average assumptions used to determine benefit costs for the year ended December 31, 2010				
Discount rate	6.50%	6.50%	6.50%	N/A
Expected return on plan assets	8.00%	8.00%	8.00%	N/A
Rate of compensation increase	4.00%	5.00%	N/A	N/A
Components of net periodic benefit cost				
Service cost	\$ 3,530	\$ 122	\$ 489	\$ -
Interest cost	9,966	6,203	3,104	-
Expected return on plan assets	(13,204)	(6,300)	(3,519)	-
Amortization of prior service cost (credit)	46	-	(642)	-
Recognized net actuarial loss	-	2,174	590	2,995
	<u>\$ 338</u>	<u>\$ 2,199</u>	<u>\$ 22</u>	<u>\$ 2,995</u>
Net periodic benefit cost	<u>\$ 338</u>	<u>\$ 2,199</u>	<u>\$ 22</u>	<u>\$ 2,995</u>

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The Health System has estimated the long-term rate of return on plan assets based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information.

Plan assets are held by a bank-administered trust fund, which invests the plan assets in accordance with the provisions of the plan agreement. The plan agreements permit investment in common stocks, corporate bonds and debentures, U.S. Government securities and other specified investments, based on certain target allocation percentages.

Asset allocation is primarily based on a strategy to provide stable earnings while still permitting the plans to recognize potentially higher returns through a limited investment in equity securities. The target asset allocation percentages for 2011 and 2010 are as follows:

		2011			
		Des Moines	Cedar Rapids	Waterloo	Peoria
Equity securities	Not to exceed	20%	50%	25%	60%
Fixed income	Not to exceed	80	50	75	25
Private investment funds	Not to exceed	–	–	–	15

		2010		
		Des Moines	Cedar Rapids	Waterloo
Equity securities	Not to exceed	20%	35%	35%
Fixed income	Not to exceed	50	35	35
Private investment funds	Not to exceed	30	30	30

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Plan assets are re-balanced quarterly. At December 31, 2011 and 2010, plan asset allocations are as follows:

	2011				2010	
	Des	Cedar	Waterloo	Peoria	Des	Cedar
	Moines	Rapids			Moines	Rapids
Cash and short term investments	-	2%	3%	-	4%	4%
U.S. Treasury obligations	-	8	10	-	13	12
U.S. Government agency obligations	-	10	12	-	2	2
Asset-backed securities						
Home equity	-	1	1	-	1	1
Other	-	2	2	-	-	-
Mortgage-backed securities						
Government	-	2	2	-	1	1
Non-government	-	3	4	-	4	3
Corporate bonds	11%	27	34	-	25	12
Corporate bonds - PIF	69	-	6	-	-	1
Equity securities						
Domestic	3	7	3	-	2	3
Equity securities - PIF						
Domestic	8	17	10	-	8	17
International	3	6	3	-	3	6
Mutual funds						
Domestic	1	3	2	-	1	2
International	3	6	4	13 %	4	6
Emerging markets	2	5	3	-	3	5
Equity	-	-	-	30	-	-
Other	-	-	-	4	-	-
Fixed Income	-	-	-	27	-	-
Hedge fund of funds	-	-	1	26	-	-
Interest receivable	-	1	-	-	29	25
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Defined Benefit Plan Assets

Following is a description of the valuation methodologies used for pension plan assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of pension plan assets pursuant to the valuation hierarchy.

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Where quoted market prices are available in an active market, plan assets are classified within Level 1 of the valuation hierarchy. Level 1 plan assets include highly liquid U.S. Treasuries and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of plan assets with similar characteristics or discounted cash flows. Level 2 plan assets include U.S. Government agency obligations, collateralized mortgage obligations, corporate bonds and PIFs. For these investments, the inputs used by the pricing service to determine the fair value include one or a combination of observable inputs, such as broker/dealer quotes, issuer spreads, benchmark securities, bid offers and reference data market research publications. In certain cases where Level 1 and Level 2 inputs are not available, plan assets are classified within Level 3 hierarchy. The plans have no Level 3 investments.

PIFs include interest in fixed income and equity security investment portfolios as well as alternative asset partnerships. PIFs are valued based on the Health System's proportionate interest in the fair value of the underlying investment assets held by the fund, adjusted to reflect risk associated with liquidity of their investment in the partnership, restrictions on transfer and other matters, if any. Interest in funds that consist of underlying securities with observable inputs, such as quoted market prices or quoted prices of securities with similar characteristics, are categorized as Level 2 of the fair value hierarchy.

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The fair values of the Health System's pension plans' assets at December 31, 2011 and 2010, by asset category are as follows:

	2011			
	Fair Value Measurements Using			
	Quoted Prices	in Active	Significant	Significant
	Fair Value	Markets for	Other	Unobservable
		Identical	Observable	Inputs
		Assets	Inputs	Inputs
		(Level 1)	(Level 2)	(Level 3)
Cash and short-term investments	\$ 3,830	\$ 457	\$ 3,373	\$ -
U.S. Treasury obligations	12,717	-	12,717	-
U.S. Government agency obligations	15,490	-	15,490	-
Asset-backed securities				
Home equity	1,122	-	1,122	-
Other	2,707	-	2,707	-
Mortgage-backed securities				
Government	3,323	-	3,323	-
Non-government	5,158	-	5,158	-
Corporate bonds	64,543	46	64,497	-
Corporate bonds - PIF	134,808	-	134,808	-
Equity securities				
Domestic	13,457	13,457	-	-
Equity securities - PIF				
Domestic	35,814	-	35,814	-
International	12,796	-	12,796	-
Mutual funds				
Domestic	6,639	6,639	-	-
International	29,358	29,358	-	-
Emerging markets	11,034	11,034	-	-
Equity	36,856	36,856	-	-
Other	5,415	5,415	-	-
Fixed income	34,277	34,277	-	-
Hedge fund of funds - PIF	33,124	-	33,124	-
	<u>\$ 462,468</u>	<u>\$ 137,539</u>	<u>\$ 324,929</u>	<u>\$ -</u>

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	2010			
	Fair Value Measurements Using			
	Fair Value	Quoted Prices		
		in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and short-term investments	\$ 11,706	\$ -	\$ 11,706	\$ -
U.S. Treasury obligations	39,674	-	39,674	-
U.S. Government agency obligations	7,841	-	7,841	-
Asset-backed securities				
Home equity	2,953	-	2,953	-
Other	1,276	-	1,276	-
Mortgage-backed securities				
Government	3,388	-	3,388	-
Non-government	11,643	-	11,643	-
Corporate bonds	62,775	235	62,540	-
Corporate bonds - PIF	2,866	-	2,866	-
Equity securities				
Domestic	7,940	7,940	-	-
Equity securities - PIF				
Domestic	35,714	-	35,714	-
International	14,978	-	14,978	-
Mutual funds				
Domestic	5,940	5,940	-	-
International	15,509	15,509	-	-
Emerging markets	13,354	13,354	-	-
Hedge fund of funds - PIF	81,586	-	81,586	-
	<u>\$ 319,143</u>	<u>\$ 42,978</u>	<u>\$ 276,165</u>	<u>\$ -</u>

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of December 31, 2011:

2012	\$ 21,046
2013	22,372
2014	24,667
2015	26,733
2016	28,371
2017 - 2021	182,412

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Note 11: Risk Management

The Health System's hospitals are primarily self-insured for professional and general liability for amounts of \$5,000 per claim and \$25,000 in the aggregate annually. Professional and general liability insurance coverage is maintained on a claims-made basis, with a liability limit of \$25,000. Other entities of the Health System maintain their professional and general liability coverage on a claims-made basis with no significant deductibles.

The Health System is primarily self-insured for workers' compensation and employee health care claims. Workers' compensation claims individually and in the aggregate that exceed certain amounts are covered by insurance.

Property insurance is maintained with at least 90% replacement value coverage and minimal deductibles. Business interruption insurance coverage is also maintained by the Health System.

The Health System has accrued as other liabilities \$72,724 and \$50,241 for self-insured losses at December 31, 2011 and 2010, respectively. As the Health System adopted ASU 2010-24 in 2011 (*see Note 1*), the liabilities are presented on a gross basis as of December 31, 2011 and the Health System has recorded the expected offsetting insurance recoveries as a receivable. The accrued liabilities are based on management's evaluation of the merits of various claims, historical experience and consultation with external insurance consultants and actuaries, and include estimates for incurred but not reported claims. There can be no assurance that the accrued liabilities will be sufficient for the ultimate amounts that will be paid for claims and settlements. Also, in the ordinary course of business, the Health System is involved in other litigation and claims, none of which management believes will ultimately result in losses that will adversely affect the Health System's consolidated net assets or results of operations to a material degree.

Cash and investments have been internally designated to be held for payments of claims, if any, which may result from the self-insured or uninsured portion of liability insurance and workers' compensation claims. At December 31, 2011 and 2010, the cash and investments amounted to \$37,049 and \$32,803, respectively.

Note 12: Lease Commitments

Certain property and equipment is being leased under long-term noncancelable operating leases. In most cases, management expects that, in the normal course of operations, the leases will be renewed or replaced by other leases. The total rent expense under operating leases during 2011 and 2010 was \$46,499 and \$41,629, respectively.

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The following is a schedule by year of future minimum rental payments required under noncancelable operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2011.

2012	\$ 33,980
2013	25,436
2014	16,967
2015	12,046
2016	8,874
Thereafter	<u>40,846</u>
Total minimum payments required	<u><u>\$ 138,149</u></u>

Note 13: Disclosures About Fair Value of Financial Instruments

ASC Topic 820, *Fair Value Measurements*, 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. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Financial Instruments Measured at Fair Value on a Recurring Basis

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such instruments pursuant to the valuation hierarchy.

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Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid U.S. Treasuries, exchange traded equities and mutual funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include U.S. government agency obligations, collateralized mortgage obligations, corporate debt obligations and PIFs. For these investments, the inputs used by the pricing service to determine the fair value include one or a combination of observable inputs, such as broker/dealer quotes, issuer spreads, benchmark securities, bid offers and reference data market research publications. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy and include certain less liquid securities. The Health System has no Level 3 investments.

PIFs include interests in fixed income and equity security investment portfolios as well as alternative asset partnerships. PIFs are valued based on the Health System's proportionate interest in the fair value of the underlying investment assets held by the fund, adjusted to reflect risk associated with liquidity of their investment in the partnership, restrictions on transfer and other matters, if any. Interest in funds that consist of underlying securities with observable inputs, such as quoted market prices or quoted prices of securities with similar characteristics, are categorized as Level 2 of the fair value hierarchy.

Quoted market prices were used to determine the fair value of Level 1 items. For Level 2 investments, inputs include: maturity and coupon rates and/or closing prices of similar securities from comparable industry financial data, as well as private investment fund's net asset values.

Interest Rate Swap Agreements

The fair value of interest rate swap agreements are estimated by a third party using inputs that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

Beneficial Interests in Trusts

The fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement. Due to the nature of the valuation inputs, the interest is classified within Level 2 of the hierarchy.

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Fair Value Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2011 and 2010:

	Fair Value	2011 Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets				
Cash and short-term investments	\$ 205,626	\$ 17,410	\$ 188,216	\$ -
U.S. Treasury obligations	23,249	-	23,249	-
U.S. Government agency obligations	8,140	-	8,140	-
Asset-backed securities				
Home equity	17,691	-	17,691	-
Other	6,703	-	6,703	-
Mortgage-backed securities				
Government	59,252	-	59,252	-
Non-government	40,893	-	40,893	-
Certificates of deposit	474	474	-	-
Corporate bonds	53,718	-	53,718	-
Corporate bonds - PIF	190,763	-	190,763	-
Equity securities				
Domestic	120,855	120,855	-	-
International	135	135	-	-
Equity securities - PIF				
Domestic	149,383	-	149,383	-
International	73,392	-	73,392	-
Mutual funds				
Domestic	19,659	19,659	-	-
International	85,031	85,031	-	-
Emerging markets	58,811	58,811	-	-
Index	3,192	3,192	-	-
Equity	30,383	30,383	-	-
Fixed Income	67,927	67,927	-	-
Other	4,780	4,780	-	-
Hedge fund of funds - PIF	101,444	-	101,444	-
Insurance policies	4,199	-	4,199	-
Beneficial interests in trusts	11,521	-	11,521	-
Financial Liabilities				
Interest rate swap agreements (net)	(97,522)	-	(97,522)	-
	<u>\$ 1,239,699</u>	<u>\$ 408,657</u>	<u>\$ 831,042</u>	<u>\$ -</u>

Iowa Health System and Subsidiaries

Notes to Consolidated Financial Statements

(Dollars in Thousands)

December 31, 2011 and 2010

	2010			
	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets				
Cash and short-term investments	\$ 247,437	\$ 6,987	\$ 240,450	\$ -
U.S. Treasury obligations	38,742	-	38,742	-
U.S. Government agency obligations	18,587	-	18,587	-
Asset-backed securities				
Home equity	11,728	-	11,728	-
Other	2,626	-	2,626	-
Mortgage-backed securities				
Government	32,509	-	32,509	-
Non-government	39,140	-	39,140	-
Certificates of deposit	474	474	-	-
Corporate bonds	46,631	-	46,631	-
Corporate bonds - PIF	171,449	-	171,449	-
Equity securities				
Domestic	124,520	124,520	-	-
Equity securities - PIF				
Domestic	147,252	-	147,252	-
International	84,292	-	84,292	-
Mutual funds				
Domestic	15,419	15,419	-	-
International	75,241	75,241	-	-
Emerging markets	82,498	82,498	-	-
Hedge fund of funds - PIFs	78,627	-	78,627	-
Insurance policies	4,026	-	4,026	-
Beneficial interests in trusts	5,487	-	5,487	-
Financial Liabilities				
Interest rate swap agreements (net)	(46,224)	-	(46,224)	-
	<u>\$ 1,180,461</u>	<u>\$ 305,139</u>	<u>\$ 875,322</u>	<u>\$ -</u>

Iowa Health System and Subsidiaries

Notes to Consolidated Financial Statements

(Dollars in Thousands)

December 31, 2011 and 2010

Financial Instruments Not Measured at Fair Value

The fair value for certain financial instruments approximates the carrying value because of the short-term maturity of these instruments, which include cash and cash equivalents, short-term investments, receivables, accounts payable, accrued liabilities, estimated settlements due to third-party payers and other current liabilities.

The carrying amount of the variable rate bonds and notes is assumed to approximate fair value. For the fixed-rate bonds, the estimated fair value is based on quoted prices for similar liabilities and is obtained from a financial institution that deals in these types of instruments. Other debt obligations are insignificant, and the carrying amounts are assumed to approximate fair value.

Estimates of fair values are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could affect the estimates. The fair market value of the Health System's financial instruments at December 31 approximates the carrying value except as follows:

	2011		2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt, excluding capital leases	\$ 779,426	\$ 803,109	\$ 687,203	\$ 674,486

Note 14: Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods as of December 31:

	2011	2010
Purchase of equipment	\$ 7,555	\$ 6,257
Indigent care/operations	12,278	6,308
Health education	5,670	5,791
For use in future periods	3,433	6,629
Other	28,888	20,509
Total temporarily restricted net assets	\$ 57,824	\$ 45,494

Iowa Health System and Subsidiaries
Notes to Consolidated Financial Statements
(Dollars in Thousands)
December 31, 2011 and 2010

Permanently restricted net assets are restricted to the following as of December 31:

	<u>2011</u>	<u>2010</u>
Investments (generally including net investment appreciation and depreciation) to be held in perpetuity (income is restricted)	\$ 24,875	\$ 24,904
Investments (generally including net investment appreciation and depreciation) to be held in perpetuity (income is restricted for various purposes as directed by the donors)	12,810	13,001
Other	<u>9,384</u>	<u>5,263</u>
Total permanently restricted net assets	<u>\$ 47,069</u>	<u>\$ 43,168</u>

Note 15: Asset Retirement Obligation

Accounting principles generally accepted in the United States of America require that an asset retirement obligation (ARO) associated with the retirement of a tangible long-lived asset be recognized as a liability in the period in which it is incurred or becomes determinable (as defined by the standard) even when the timing and/or method of settlement may be conditional on a future event. The Health System's conditional asset retirement obligations primarily relate to asbestos contained in various buildings. Environmental regulations in many of the states where the Health System operates require the Health System to handle and dispose of asbestos in a special manner if a building undergoes major renovations or is demolished.

A summary of changes in asset retirement obligations, which is included on the accompanying consolidated balance sheets in other long-term liabilities, during 2011 and 2010 is included in the table below.

	<u>2011</u>	<u>2010</u>
Liability, beginning of year	\$ 12,108	\$ 11,910
Liabilities settled	(1,052)	(501)
Accretion expense	718	700
Liabilities assumed in affiliation with MHSC	1,024	-
Changes in estimates, including timing	<u>-</u>	<u>(1)</u>
Liability, end of year	<u>\$ 12,798</u>	<u>\$ 12,108</u>

Iowa Health System and Subsidiaries

Notes to Consolidated Financial Statements

(Dollars in Thousands)

December 31, 2011 and 2010

Note 16: Commitments and Contingencies

The health care industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Government activity has increased with respect to investigations and allegations concerning possible violations of regulations by health care providers, which could result in the imposition of significant fines and penalties as well as significant repayments of previously billed and collected revenues for patient services. The Health System has a corporate compliance plan intended to meet federal guidelines. As a part of this plan, the Health System performs periodic internal reviews of its compliance with laws and regulations. As part of the Health System's compliance efforts, the Health System investigates and attempts to resolve and remedy all reported or suspected incidents of material noncompliance with applicable laws, regulations or policies on a timely basis. The Health System believes that these compliance programs and procedures lead to substantial compliance with current laws and regulations.

The Health System is in various stages of responding to inquiries and investigations. These various inquiries and investigations could result in fines and/or financial penalties, which could be material. At this time, the Health System is unable to estimate the possible liability, if any, that may be incurred as a result of these inquiries and investigations, but the Health System does not believe it would materially affect the financial position of the Health System.

Guarantees

The Health System has guaranteed approximately \$13,236 and \$7,302 at December 31, 2011 and 2010, respectively, relating to long-term debt for the construction of two cancer centers, an endoscopy center, a medical office building that includes clinic and office space, and debt related to joint ventures.

Employment Contracts

The Health System is committed for noncancelable physician employment contracts in the following amounts, prior to inflationary adjustments and bonuses based on future events:

2012	\$	12,726
2013		980
2014		429

Current Economic Conditions

The current protracted economic decline continues to present healthcare organizations with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair value of investments and other assets, large declines in contributions and constraints on liquidity. The financial statements have been prepared using values and information currently available to the Health System.

Iowa Health System and Subsidiaries
Notes to Consolidated Financial Statements
(Dollars in Thousands)
December 31, 2011 and 2010

Some of the Health System's patients are covered by government sponsored Medicare or Medicaid programs. The effect of the current economic conditions on government budgets may have an adverse effect on the cash flow from these programs.

Further, current economic conditions have made it difficult for certain of the Health System's other patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Health System's future operating results.

Note 17: Subsequent Events

Subsequent events have been evaluated through April 19, 2012, which is the date the financial statements were issued.

On January 6, 2012, the Health System entered into a revolving line of credit facility (Revolver) that provides for an aggregate principal amount of \$50,000 in borrowings and bears an interest rate of LIBOR plus 60 basis points for funds drawn against the facility. Additionally, a facility fee of 10 basis points is required on the undrawn portion of the Revolver. The maturity date of this facility is January 5, 2014.

Iowa Health System and Subsidiaries
Consolidating Schedule - Balance Sheet Information
(In Thousands)
December 31, 2011

Assets

	IHDM	TRHS	MHSC	SLHC	AHS	THS	SLHS	TRI-ST	IHP	IHHC	IHS & Other	Eliminations	Consolidated
Current Assets													
Cash and cash equivalents	\$ 1,356	\$ 16,693	\$ 20,517	\$ 17,790	\$ 4,114	\$ 11,557	\$ 7,899	\$ 4,949	\$ 3,505	\$ 297	\$ 7,859	\$ -	\$ 96,536
Short-term investments	8,663	43,276		40,711	12,248	9,685	12,229	9,481	12,112	2,082	33,464		183,951
Assets limited as to use - required for current liabilities	2,631	3,320		2,638	1,222	712	1,391						11,914
Patient accounts receivable, less estimated uncollectibles	88,475	51,490	56,747	48,186	23,136	16,968	20,428	12,880	10,997	15,573			344,880
Other receivables	11,891	2,628	8,138	4,980	4,490	1,439	2,827	2,205	713	1,591	2,375		43,277
Inventories	10,917	9,205	3,668	7,778	6,011	2,946	3,388	2,132	1,963	1,031	70		49,109
Prepaid expenses	2,341	1,679	7,034	1,872	866	496	781	512	609	39	14,180		30,409
Due from affiliates	765	343	2	556	400	(237)	156	47	13,800	233	40,623	56,688	-
Total current assets	127,039	128,634	96,106	124,511	52,487	43,566	49,099	32,206	43,699	20,846	98,571	56,688	760,076
Assets Limited As to Use, noncurrent													
Held by trustee under bond indenture agreements	2,924												2,924
Internally designated	449,315	116,797	6,956	80,736	1,457	39,301	41,796	46,664			175		783,197
Total assets limited as to use, noncurrent	452,239	116,797	6,956	80,736	1,457	39,301	41,796	46,664	-	-	175	-	786,121
Property, Plant and Equipment, net	280,258	143,837	248,920	164,013	100,498	71,457	66,862	47,887	6,813	6,307	120,620		1,257,472
Other Long-term Investments	42,271	1,815	139,806	19,576	84,826	12,895	1,105	197	23,328	16,183	6,579		348,581
Investments in Joint Ventures and Other Investments	28,728	5,887	13,777	15,523	7,171	3,122	11,458	4,325		556	32,615	68,497	54,665
Contributions Receivable, net	6,786	1,749	5,497	31,396	3,105	1,937	3,874	6,845					61,189
Other	3,147	2,796	1,959	2,004	3,823	849	744	851	769	13	13,377		30,332
Due From Affiliates					150			90			475,948	476,188	-
Total assets	\$ 940,468	\$ 401,515	\$ 513,021	\$ 437,759	\$ 253,517	\$ 173,127	\$ 174,938	\$ 139,065	\$ 74,609	\$ 43,905	\$ 747,885	\$ 601,373	\$ 3,298,436

Liabilities and Net Assets

Current Liabilities													
Current maturities of long-term debt	\$ 514	\$ 2,012	\$ 5,702	\$ 296	\$ 48	\$ 355					\$ 64,331		\$ 73,258
Accounts payable	23,637	16,826	24,630	12,855	8,040	3,813	\$ 6,383	\$ 3,601	\$ 3,604	\$ 2,681	22,083		128,153
Accrued payroll	30,911	16,539	9,279	21,834	10,978	6,812	5,812	4,180	8,484	5,306	7,774	\$ 1	127,908
Accrued interest	12		276			419					8,978		9,685
Estimated settlements due to third-party payers	12,664	7,696	27,934	5,739	5,895	1,521	2,602	2,545		752			67,348
Due to affiliates	19,603	8,616	-	9,576	6,919	1,486	5,923	1,276	428	1,096	1,764	56,687	-
Other current liabilities	7,452	7,074	13,041	5,583	4,791	2,543	2,690	2,206	8,011	823	1,070		55,284
Total current liabilities	94,793	58,763	80,862	55,883	36,671	16,949	23,410	13,808	20,527	10,658	106,000	56,688	461,636
Long-term Debt, net	33,978	14,720	104,375	3	43	5,027							720,837
Other Long-term Liabilities	39,592	12,030	131,371	39,196	14,042	11,096	6,489	1,498	18,909	860	108,776		383,859
Due to Affiliates	136,336	126,100		76,316	59,080	16,540	53,875	7,626		315		476,188	-
Total liabilities	304,699	211,613	316,608	171,398	109,836	49,612	83,774	22,932	39,436	11,833	777,467	532,876	1,566,332
Net Assets													
Unrestricted	611,873	183,991	183,502	231,304	133,990	117,547	87,005	109,288	35,173	31,720	(29,685)	68,497	1,627,211
Temporarily restricted	9,140	4,329	8,991	17,040	6,099	4,124	2,603	5,043		352	103		57,824
Permanently restricted	14,756	1,582	3,920	18,017	3,592	1,844	1,556	1,802					47,069
Total net assets	635,769	189,902	196,413	266,361	143,681	123,515	91,164	116,133	35,173	32,072	(29,582)	68,497	1,732,104
Total liabilities and net assets	\$ 940,468	\$ 401,515	\$ 513,021	\$ 437,759	\$ 253,517	\$ 173,127	\$ 174,938	\$ 139,065	\$ 74,609	\$ 43,905	\$ 747,885	\$ 601,373	\$ 3,298,436

Definitions

IHDM - Iowa Health - Des Moines and Subsidiaries (Des Moines)	SLHS - St. Luke's Health System, Inc. (Sioux City)
TRHS - Trinity Regional Health System and Subsidiaries (Rock Island)	TRI-ST - Finley Tri-States Health Group, Inc. and Subsidiaries (Dubuque)
MHSC - Methodist Health Services Corp. and Subsidiaries (Peoria)	IHP - Iowa Health Physician
SLHC - St. Luke's Healthcare and Subsidiaries (Cedar Rapids)	IHHC - Iowa Health Home Care
AHS - Allen Health Systems, Inc. and Subsidiaries (Waterloo)	IHS & Other - Iowa Health System and other Subsidiarie
THS - Trinity Health Systems, Inc. and Subsidiaries (Fort Dodge)	

Iowa Health System and Subsidiaries
Consolidating Schedule - Revenue and Gains, Expenses and Losses Information
(In Thousands)
Year Ended December 31, 2011

	IHDM	TRHS	MHSC	SLHC	AHS	THS	SLHS	TRI-ST	IHP	IHHC	IHS & Other	Eliminations	Consolidated
Revenue													
Patient service revenue (net of contractual allowances)	\$ 654,123	\$ 417,621	\$ 86,987	\$ 349,182	\$ 205,954	\$ 139,791	\$ 152,295	\$ 93,213	\$ 143,231	\$ 86,004	\$ -	\$ 985	\$ 2,327,416
Provision for patient uncollectible accounts	(22,119)	(27,904)	(2,653)	(12,553)	(6,214)	(6,392)	(9,919)	(2,630)	(3,202)				(93,586)
Net patient service revenue	632,004	389,717	84,334	336,629	199,740	133,399	142,376	90,583	140,029	86,004	-	985	2,233,830
Other operating revenue	42,881	17,575	5,184	19,675	10,574	10,332	7,366	5,739	15,471	2,407	170,120	167,051	140,273
Net assets released from restrictions used for operations	2,750	613	314	1,000	474	249				568	96		6,064
Total revenue	677,635	407,905	89,832	357,304	210,788	143,980	149,742	96,322	155,500	88,979	170,216	168,036	2,380,167
Expenses													
Salaries and wages	241,455	132,403	28,848	129,763	70,098	49,853	51,175	34,142	42,586	47,300	40,289	34	867,878
Physician compensation and services	77,183	32,958	11,333	24,153	15,642	27,989	11,910	5,010	60,573	117		2,985	263,883
Employee benefits	60,758	40,087	9,006	35,757	16,507	12,145	12,710	9,458	11,189	12,912	9,933		230,462
Supplies	118,719	85,844	12,985	55,744	47,661	20,539	25,493	13,530	13,309	12,850	760		407,434
Other expenses	115,085	84,602	17,642	68,694	35,832	28,457	31,776	23,271	32,637	13,230	71,990	145,657	377,559
Depreciation and amortization	34,568	16,590	6,611	17,584	12,392	6,447	7,262	5,782	2,033	1,893	20,277		131,439
Interest	8,192	7,213	664	3,971	3,239	1,515	3,048	534		87	28,501	26,028	30,936
Provision for uncollectible accounts	145			151	13		46	33		430			818
Total expenses	656,105	399,697	87,089	335,817	201,384	146,945	143,420	91,760	162,327	88,819	171,750	174,704	2,310,409
Operating Income (Loss)	21,530	8,208	2,743	21,487	9,404	(2,965)	6,322	4,562	(6,827)	160	(1,534)	(6,668)	69,758
Nonoperating Gains (Losses)													
Investment income (loss)	(1,833)	(431)	4,910	(719)	(1,148)	(885)	(371)	(491)	(365)	(117)	(75)	(431)	(1,094)
Contribution received in affiliation with Methodist Peoria			180,325										180,325
Other, net	437	402	993	31	30	171	108	519	51		(39,810)		(37,068)
Total nonoperating gains (losses), net	(1,396)	(29)	186,228	(688)	(1,118)	(714)	(263)	28	(314)	(117)	(39,885)	(431)	142,163
Revenue Over (Under) Expenses	\$ 20,134	\$ 8,179	\$ 188,971	\$ 20,799	\$ 8,286	\$ (3,679)	\$ 6,059	\$ 4,590	\$ (7,141)	\$ 43	\$ (41,419)	\$ (7,099)	\$ 211,921

Definitions

IHDM - Iowa Health - Des Moines and Subsidiaries (Des Moines)
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SLHS - St. Luke's Health System, Inc. (Sioux City)
TRI-ST - Finley Tri-States Health Group, Inc. and Subsidiaries (Dubuque)
IHP - Iowa Health Physicians
IHHC - Iowa Health Home Care
IHS & Other - Iowa Health System and other Subsidiaries

Iowa Health System and Subsidiaries
Iowa Health - Des Moines and Subsidiaries (Des Moines)
Consolidating Schedule - Balance Sheet Information
(In Thousands)
December 31, 2011

Assets	IHDM	CIHC	IHF	CIHP	IHP	Eliminations	Consolidated
Current Assets							
Cash and cash equivalents	\$ -	\$ 31	\$ 747	\$ 578	\$ -	\$ -	\$ 1,356
Short-term investments		8,663					8,663
Assets limited as to use - required for current liabilities		2,631					2,631
Patient accounts receivable, less estimated uncollectibles		88,475					88,475
Other receivables		11,861	14	16			11,891
Inventories		10,811	106				10,917
Prepaid expenses		2,286	38	17			2,341
Due from affiliates		3,116		5,125		7,476	765
Total current assets		<u>127,874</u>	<u>905</u>	<u>5,736</u>		<u>7,476</u>	<u>127,039</u>
Assets Limited As to Use, noncurrent							
Held by trustee under bond indenture agreements		2,924					2,924
Internally designated		387,737	61,578				449,315
Total assets limited as to use, noncurrent		<u>390,661</u>	<u>61,578</u>				<u>452,239</u>
Property, Plant and Equipment, net		253,877	13	26,368			280,258
Other Long-term Investments		9,084	33,187				42,271
Investments in Joint Ventures and Other Investments		29,475	54	4,758	17,428	22,987	28,728
Contributions Receivable, net			6,786				6,786
Other		2,954		193			3,147
Due From Affiliates		<u>2,725</u>				<u>2,725</u>	<u>-</u>
Total assets	<u>\$ -</u>	<u>\$ 816,650</u>	<u>\$ 102,523</u>	<u>\$ 37,055</u>	<u>\$ 17,428</u>	<u>\$ 33,188</u>	<u>\$ 940,468</u>
Liabilities and Net Assets							
Current Liabilities							
Current maturities of long-term debt		\$ 514					\$ 514
Accounts payable		22,783	\$ 1	\$ 853			23,637
Accrued payroll		30,679	232				30,911
Accrued interest		12					12
Estimated settlements due to third-party payers		12,664					12,664
Due to affiliates		24,482	95	2,502		\$ 7,476	19,603
Other current liabilities	\$ -	7,227	35	190	\$ -		7,452
Total current liabilities		<u>98,361</u>	<u>363</u>	<u>3,545</u>		<u>7,476</u>	<u>94,793</u>
Long-term Debt, net		33,978					33,978
Other Long-term Liabilities		38,650	942				39,592
Due to Affiliates		<u>135,316</u>		<u>3,745</u>		<u>2,725</u>	<u>136,336</u>
Total liabilities		<u>306,305</u>	<u>1,305</u>	<u>7,290</u>		<u>10,201</u>	<u>304,699</u>
Net Assets							
Unrestricted		487,000	77,680	29,765	17,428		611,873
Temporarily restricted		8,946	8,782			8,588	9,140
Permanently restricted		14,399	14,756			14,399	14,756
Total net assets		<u>510,345</u>	<u>101,218</u>	<u>29,765</u>	<u>17,428</u>	<u>22,987</u>	<u>635,769</u>
Total liabilities and net assets	<u>\$ -</u>	<u>\$ 816,650</u>	<u>\$ 102,523</u>	<u>\$ 37,055</u>	<u>\$ 17,428</u>	<u>\$ 33,188</u>	<u>\$ 940,468</u>

Definitions

IHDM - Iowa Health - Des Moines
CIHC - Central Iowa Hospital Corporation
IHF - Iowa Health Foundation

CIHP - Central Iowa Health Properties Corporation
IHP - Iowa Health Physicians, IHDM portion

Iowa Health System and Subsidiaries
Iowa Health - Des Moines and Subsidiaries (Des Moines)
Consolidating Schedule - Revenue and Gains, Expenses and Losses Information
(In Thousands)
Year Ended December 31, 2011

	IHDM	CIHC	IHF	CIHP	IHP	Eliminations	Consolidated
Revenue							
Patient service revenue (net of contractual allowances)	\$ -	\$ 654,517	\$ -	\$ -	\$ -	\$ 394	\$ 654,123
Provision for patient uncollectible accounts		(22,119)					(22,119)
Net patient service revenue		632,398				394	632,004
Other operating revenue		43,383		5,867	(225)	6,144	42,881
Net assets released from restrictions used for operations		2,739	11				2,750
Total revenue		678,520	11	5,867	(225)	6,538	677,635
Expenses							
Salaries and wages		240,279	1,114	62			241,455
Physician compensation and services		79,310				2,127	77,183
Employee benefits		60,454	281	23			60,758
Supplies		118,708	5	6			118,719
Other expenses	93	115,551	561	3,291		4,411	115,085
Depreciation and amortization		33,172	26	1,370			34,568
Interest		7,985		207			8,192
Provision for uncollectible accounts		145					145
Total expenses	93	655,604	1,987	4,959	-	6,538	656,105
Operating Income (Loss)	(93)	22,916	(1,976)	908	(225)	-	21,530
Nonoperating Gains (Losses)							
Investment income (loss)		(2,860)	1,166	1	(140)		(1,833)
Other, net			437				437
Total nonoperating gains (losses), net		(2,860)	1,603	1	(140)		(1,396)
Revenue Over (Under) Expenses	\$ (93)	\$ 20,056	\$ (373)	\$ 909	\$ (365)	\$ -	\$ 20,134

Definitions

IHDM - Iowa Health - Des Moines
CIHC - Central Iowa Hospital Corporation
IHF - Iowa Health Foundation
CIHP - Central Iowa Health Properties Corporation
IHP - Iowa Health Physicians, IHDM portion

Iowa Health System and Subsidiaries
Trinity Regional Health System and Subsidiaries (Rock Island)
Consolidating Schedule - Balance Sheet Information
(In Thousands)
December 31, 2011

Assets

	TRHS	TMC	VNHA	THF	THE	TM	IHP	Eliminations	Consolidated
Current Assets									
Cash and cash equivalents	\$ 516	\$ 13,789	\$ -	\$ 757	\$ 1,106	\$ 525	\$ -	\$ -	\$ 16,693
Short-term investments		42,454		7		816		1	43,276
Assets limited as to use - required for current liabilities		3,320							3,320
Patient accounts receivable, less estimated uncollectibles		43,576			445	7,477		8	51,490
Other receivables		2,476		1		151			2,628
Inventories		7,655			604	946			9,205
Prepaid expenses	2	1,402		11	41	223			1,679
Due from affiliates	(15)	9,968			81	(32)		9,659	343
Total current assets	503	124,640		776	2,277	10,106		9,668	128,634
Assets Limited As to Use, noncurrent									
Internally designated	12,407	97,038		2,242		5,110			116,797
Property, Plant and Equipment, net		129,819			497	13,521			143,837
Other Long-term Investments		1,723		92					1,815
Investments in Joint Ventures and Other Investments	2,721	8,700	(673)		183		1,500	6,544	5,887
Contributions Receivable, net				32		1,717			1,749
Other		2,323				473			2,796
Total assets	\$ 15,631	\$ 364,243	\$ (673)	\$ 3,142	\$ 2,957	\$ 30,927	\$ 1,500	\$ 16,212	\$ 401,515

Liabilities and Net Assets

Current Liabilities									
Current maturities of long-term debt						\$ 2,012			\$ 2,012
Accounts payable	\$ 49	\$ 15,729	\$ -	\$ 5	\$ 56	995	\$ -	\$ 8	16,826
Accrued payroll	648	13,359		23	100	2,409			16,539
Estimated settlements due to third-party payers		7,286				410			7,696
Due to affiliates	4,111	8,589		301	219	5,056		9,660	8,616
Other current liabilities	35	6,129		16	(134)	1,028			7,074
Total current liabilities	4,843	51,092		345	241	11,910		9,668	58,763
Long-term Debt, net						14,720			14,720
Other Long-term Liabilities		11,365		73		592			12,030
Due to Affiliates		126,100							126,100
Total liabilities	4,843	188,557		418	241	27,222		9,668	211,613
Net Assets									
Unrestricted	10,788	172,006	(673)	(1,385)	2,716	1,988	1,500	2,949	183,991
Temporarily restricted		2,324		2,527		1,717		2,239	4,329
Permanently restricted		1,356		1,582				1,356	1,582
Total net assets	10,788	175,686	(673)	2,724	2,716	3,705	1,500	6,544	189,902
Total liabilities and net assets	\$ 15,631	\$ 364,243	\$ (673)	\$ 3,142	\$ 2,957	\$ 30,927	\$ 1,500	\$ 16,212	\$ 401,515

Definitions

TRHS - Trinity Regional Health System
TMC - Trinity Medical Center
VNHA - Trinity Visiting Nurses and Homemakers Association
THF - Trinity Health Foundation

THE - Trinity Health Enterprises, Inc.
TM - Trinity Muscatine
IHP - Iowa Health Physicians, TRHS portion

Iowa Health System and Subsidiaries
Trinity Regional Health System and Subsidiaries (Rock Island)
Consolidating Schedule - Revenue and Gains, Expenses and Losses Information
(In Thousands)
Year Ended December 31, 2011

	TRHS	TMC	VNHA	THF	THE	TM	IHP	Eliminations	Consolidated
Revenue									
Patient service revenue (net of contractual allowances)	\$ -	\$ 354,277	\$ -	\$ -	\$ 6,739	\$ 56,615	\$ -	\$ 10	\$ 417,621
Provision for patient uncollectible accounts		(23,195)			(126)	(4,583)			(27,904)
Net patient service revenue		331,082			6,613	52,032		10	389,717
Other operating revenue	353	18,065	(651)	20	34	3,009	(1,795)	1,460	17,575
Net assets released from restrictions used for operations		3	-	610					613
Total revenue	353	349,150	(651)	630	6,647	55,041	(1,795)	1,470	407,905
Expenses									
Salaries and wages	372	111,431		345	1,550	18,705			132,403
Physician compensation and services		24,825				8,138		5	32,958
Employee benefits	70	33,906		81	443	5,677		90	40,087
Supplies	30	75,293		9	3,567	6,907		(38)	85,844
Other expenses	1,049	71,069		954	758	12,021		1,249	84,602
Depreciation and amortization		14,846			111	1,633			16,590
Interest		6,969				344		100	7,213
Total expenses	1,521	338,339	-	1,389	6,429	53,425	-	1,406	399,697
Operating Income (Loss)	(1,168)	10,811	(651)	(759)	218	1,616	(1,795)	64	8,208
Nonoperating Gains (Losses)									
Investment income (loss)	(220)	(82)	(22)	73		(55)	(20)	105	(431)
Other, net				279	(49)	172			402
Total nonoperating gains (losses), net	(220)	(82)	(22)	352	(49)	117	(20)	105	(29)
Revenue Over (Under) Expenses	\$ (1,388)	\$ 10,729	\$ (673)	\$ (407)	\$ 169	\$ 1,733	\$ (1,815)	\$ 169	\$ 8,179

Definitions

TRHS - Trinity Regional Health System

TMC - Trinity Medical Center

VNHA - Trinity Visiting Nurses and Homemakers Association

THF - Trinity Health Foundation

THE - Trinity Health Enterprises, Inc.

TM - Trinity Muscatine

IHP - Iowa Health Physicians, TRHS portion

Iowa Health System and Subsidiaries
Methodist Health Services Corporation and Subsidiaries (Peoria)
Consolidating Schedule - Balance Sheet Information
(In Thousands)
December 31, 2011

Assets	MHSC	MMCI	MSI	MMCF	Eliminations	Consolidated
Current Assets						
Cash and cash equivalents	\$ 2,441	\$ 17,420	\$ 63	\$ 593	\$ -	\$ 20,517
Patient accounts receivable, less estimated uncollectibles	85	56,662				56,747
Other receivables	200	7,204	734			8,138
Inventories	502	3,166				3,668
Prepaid expenses	20	7,010		4		7,034
Due from affiliates	47	2,592			2,637	2
Total current assets	<u>3,295</u>	<u>94,054</u>	<u>797</u>	<u>597</u>	<u>2,637</u>	<u>96,106</u>
Assets Limited As to Use, noncurrent						
Internally designated		6,956				6,956
Property, Plant and Equipment, net	161	172,144	76,615			248,920
Other Long-term Investments		124,427		15,379		139,806
Investments in Joint Ventures and Other Investments	344	29,069		139	15,775	13,777
Contributions Receivable, net		5,497				5,497
Other	122	1,837				1,959
Total assets	<u>\$ 3,922</u>	<u>\$ 433,984</u>	<u>\$ 77,412</u>	<u>\$ 16,115</u>	<u>\$ 18,412</u>	<u>\$ 513,021</u>
Liabilities and Net Assets						
Current Liabilities						
Current maturities of long-term debt		\$ 5,702				\$ 5,702
Accounts payable	\$ 143	24,320	\$ 167			24,630
Accrued payroll	476	8,803				9,279
Accrued interest		276				276
Estimated settlements due to third-party payers		27,934				27,934
Due to affiliates	776	47	1,814		\$ 2,637	-
Other current liabilities		12,318	659	\$ 64		13,041
Total current liabilities	<u>1,395</u>	<u>79,400</u>	<u>2,640</u>	<u>64</u>	<u>2,637</u>	<u>80,862</u>
Long-term Debt, net		104,375				104,375
Other Long-term Liabilities		131,095		276		131,371
Total liabilities	<u>1,395</u>	<u>314,870</u>	<u>2,640</u>	<u>340</u>	<u>2,637</u>	<u>316,608</u>
Net Assets						
Unrestricted	2,527	106,203	74,772	8,419	8,419	183,502
Temporarily restricted		8,991		3,456	3,456	8,991
Permanently restricted		3,920		3,900	3,900	3,920
Total net assets	<u>2,527</u>	<u>119,114</u>	<u>74,772</u>	<u>15,775</u>	<u>15,775</u>	<u>196,413</u>
Total liabilities and net assets	<u>\$ 3,922</u>	<u>\$ 433,984</u>	<u>\$ 77,412</u>	<u>\$ 16,115</u>	<u>\$ 18,412</u>	<u>\$ 513,021</u>

Definitions
 MHSC - Methodist Health Services Corporation
 MMCI - Methodist Medical Center of Illinois
 MSI - Methodist Services, Inc.
 MMCF - Methodist Medical Center Foundation

Iowa Health System and Subsidiaries
Methodist Health Services Corporation and Subsidiaries (Peoria)
Consolidating Schedule - Revenue and Gains, Expenses and Losses Information
(In Thousands)
Three Months Ended December 31, 2011

	MHSC	MMCI	MSI	MMCF	Eliminations	Consolidated
Revenue						
Patient service revenue (net of contractual allowances)	\$ 219	\$ 87,233	\$ -	\$ -	\$ 465	\$ 86,987
Provision for patient uncollectible accounts		(2,653)				(2,653)
Net patient service revenue	219	84,580			465	84,334
Other operating revenue	3,047	5,107	1,763	73	4,806	5,184
Net assets released from restrictions used for operations		90		224		314
Total revenue	<u>3,266</u>	<u>89,777</u>	<u>1,763</u>	<u>297</u>	<u>5,271</u>	<u>89,832</u>
Expenses						
Salaries and wages	2,530	26,275		43		28,848
Physician compensation and services		11,333				11,333
Employee benefits	650	8,447	5	11	107	9,006
Supplies	2	12,981	2			12,985
Other expenses	148	20,901	1,409	348	5,164	17,642
Depreciation and amortization	7	5,919	685			6,611
Interest		678	(14)			664
Total expenses	<u>3,337</u>	<u>86,534</u>	<u>2,087</u>	<u>402</u>	<u>5,271</u>	<u>87,089</u>
Operating Income (Loss)	<u>(71)</u>	<u>3,243</u>	<u>(324)</u>	<u>(105)</u>	<u>-</u>	<u>2,743</u>
Nonoperating Gains						
Investment income	1	4,560		349		4,910
Contribution received in affiliation with Methodist Peoria	2,597	102,632	75,096	8,114	8,114	180,325
Other, net		941		52		993
Total nonoperating gains, net	<u>2,598</u>	<u>108,133</u>	<u>75,096</u>	<u>8,515</u>	<u>8,114</u>	<u>186,228</u>
Revenue Over Expenses	<u>\$ 2,527</u>	<u>\$ 111,376</u>	<u>\$ 74,772</u>	<u>\$ 8,410</u>	<u>\$ 8,114</u>	<u>\$ 188,971</u>

Definitions

MHSC - Methodist Health Services Corporation

MMCI - Methodist Medical Center of Illinois

MSI - Methodist Services, Inc.

MMCF - Methodist Medical Center Foundation

Iowa Health System and Subsidiaries
St. Luke's Healthcare and Subsidiaries (Cedar Rapids)
Consolidating Schedule - Balance Sheet Information
(In Thousands)
December 31, 2011

Assets

	SLMH	CARE	CC-STL	STL-HR	JONES	CARDIO LC	STEAM, INC.	IHP	Eliminations	Consolidated
Current Assets										
Cash and cash equivalents	\$ 10,990	\$ 1,418	\$ 331	\$ 459	\$ 4,583	\$ 9	\$ -	\$ -	\$ -	\$ 17,790
Short-term investments	37,227				3,484					40,711
Assets limited as to use - required for current liabilities	2,638									2,638
Patient accounts receivable, less estimated uncollectibles	42,330	1,145	1,186		2,526	999				48,186
Other receivables	4,793			29	5	84	69			4,980
Inventories	7,478		68		232					7,778
Prepaid expenses	1,496	57	15		69	205	30			1,872
Due from affiliates	1,187			1,498		3	182		2,314	556
Total current assets	108,139	2,620	1,600	1,986	10,899	1,300	281		2,314	124,511
Assets Limited As to Use, noncurrent										
Internally designated	74,613				6,123					80,736
Property, Plant and Equipment, net	137,034	4,361	372	1,877	13,920	958	4,818		(673)	164,013
Other Long-term Investments	19,024			92		460				19,576
Investments in Joint Ventures and Other Investments	11,647							9,704	5,828	15,523
Contributions Receivable	30,563				833					31,396
Other	1,039			202		763				2,004
Due From Affiliates	11,680			1,421					13,101	-
Total assets	\$ 393,739	\$ 6,981	\$ 1,972	\$ 5,578	\$ 31,775	\$ 3,481	\$ 5,099	\$ 9,704	\$ 20,570	\$ 437,759

Liabilities and Net Assets

Current Liabilities										
Current maturities of long-term debt		\$ 247	\$ 2		\$ 47					\$ 296
Accounts payable	\$ 11,425	323	249	\$ 4	305	\$ 291	\$ 258			12,855
Accrued payroll	18,715	308	287		801	1,723				21,834
Estimated settlements due to third-party payers	4,331		11		1,397					5,739
Due to affiliates	11,253	75	55		507				\$ 2,314	9,576
Other current liabilities	5,027	111		335		110		\$ -		5,583
Total current liabilities	50,751	1,064	604	339	3,057	2,124	258		2,314	55,883
Long-term Debt, net			3							3
Other Long-term Liabilities	38,095			641		460				39,196
Due to Affiliates	77,736	340	4,681		6,660				13,101	76,316
Total liabilities	166,582	1,404	5,288	980	9,717	2,584	258		15,415	171,398
Net Assets										
Unrestricted	197,297	5,577	(3,316)	4,598	21,225	897	477	9,704	5,155	231,304
Temporarily restricted	11,843				833		4,364			17,040
Permanently restricted	18,017									18,017
Total net assets	227,157	5,577	(3,316)	4,598	22,058	897	4,841	9,704	5,155	266,361
Total liabilities and net assets	\$ 393,739	\$ 6,981	\$ 1,972	\$ 5,578	\$ 31,775	\$ 3,481	\$ 5,099	\$ 9,704	\$ 20,570	\$ 437,759

Definitions

SLMH - St. Luke's Methodist Hospital
CARE - STL Care Company
CC-STL - Continuing Care Hospital, STL
STL-HR - STL Health Resources

JONES - Jones Regional Medical Center
CARDIO LC - Cardiologists, L.C.
STEAM, INC. - St. Luke's Coe Steam, Inc.
IHP - Iowa Health Physicians, SLHC portion

Iowa Health System and Subsidiaries
St. Luke's Healthcare and Subsidiaries (Cedar Rapids)
Consolidating Schedule - Revenue and Gains, Expenses and Losses Information
(In Thousands)
Year Ended December 31, 2011

	SLMH	CARE	CC-STL	STL-HR	JONES	CARDIO LC	STEAM, INC.	IHP	Eliminations	Consolidated
Revenue										
Patient service revenue (net of contractual allowances)	\$ 296,802	\$ 11,210	\$ 7,032	\$ -	\$ 20,494	\$ 14,566	\$ -	\$ -	\$ 922	\$ 349,182
Provision for patient uncollectible accounts	(11,435)		(36)		(575)	(507)				(12,553)
Net patient service revenue	285,367	11,210	6,996		19,919	14,059			922	336,629
Other operating revenue	22,156	244	2	(424)	239	372	1,505	(540)	3,879	19,675
Net assets released from restrictions used for operations	1,000									1,000
Total revenue	308,523	11,454	6,998	(424)	20,158	14,431	1,505	(540)	4,801	357,304
Expenses										
Salaries and wages	111,697	5,447	2,729		5,651	4,069			(170)	129,763
Physician compensation and services	12,539	26	13		1,444	10,364			233	24,153
Employee benefits	32,093	792	484		1,502	858			(28)	35,757
Supplies	51,766	1,087	355		1,383	1,157	65		69	55,744
Other expenses	60,157	2,808	3,024	23	4,128	1,865	1,424		4,735	68,694
Depreciation and amortization	14,703	279	93	96	1,150	1,031	232			17,584
Interest	3,967	55	183		355	48			637	3,971
Provision for uncollectible accounts	151									151
Total expenses	287,073	10,494	6,881	119	15,613	19,392	1,721		5,476	335,817
Operating Income (Loss)	21,450	960	117	(543)	4,545	(4,961)	(216)	(540)	(675)	21,487
Nonoperating Gains (Losses)										
Investment income (loss)	(624)	3			(19)			(79)		(719)
Other, net					31					31
Total nonoperating gains (losses), net	(624)	3	-	-	12	-	-	(79)	-	(688)
Revenue Over (Under) Expenses	\$ 20,826	\$ 963	\$ 117	\$ (543)	\$ 4,557	\$ (4,961)	\$ (216)	\$ (619)	\$ (675)	\$ 20,799

Definitions

SLMH - St. Luke's Methodist Hospital
CARE - STL Care Company
CC-STL - Continuing Care Hospital, STL
STL-HR - STL Health Resources

JONES - Jones Regional Medical Center
CARDIO LC - Cardiologists, L.C.
STEAM, INC. - St. Luke's Coe Steam, Inc.
IHP - Iowa Health Physicians, SLHC portion

Iowa Health System and Subsidiaries
Allen Health Systems, Inc. and Subsidiaries (Waterloo)
Consolidating Schedule - Balance Sheet Information
(In Thousands)
December 31, 2011

Assets

	AHS	AMH	MFAH	ACN	IHP	IHHC	Eliminations	Consolidated
Current Assets								
Cash and cash equivalents	\$ -	\$ 3,432	\$ 682	\$ -	\$ -	\$ -	\$ -	\$ 4,114
Short-term investments		12,245	3					12,248
Assets limited as to use - required for current liabilities		1,222						1,222
Patient accounts receivable, less estimated uncollectibles		23,136						23,136
Other receivables		4,066		424				4,490
Inventories		6,011						6,011
Prepaid expenses		766	1	99				866
Due from affiliates		580					180	400
Total current assets		51,458	686	523			180	52,487
Assets Limited As to Use, noncurrent								
Internally designated		1,381	76					1,457
Property, Plant and Equipment, net		100,498						100,498
Other Long-term Investments		77,388	6,634	804				84,826
Investments in Joint Ventures and Other Investments		4,204	1,038	3,741	6,541	(652)	7,701	7,171
Contributions Receivable		1,786	1,319					3,105
Other		3,823						3,823
Due From Affiliates		150						150
Total assets	\$ -	\$ 240,688	\$ 9,753	\$ 5,068	\$ 6,541	\$ (652)	\$ 7,881	\$ 253,517

Liabilities and Net Assets

Current Liabilities								
Current maturities of long-term debt		\$ 48						\$ 48
Accounts payable		8,002		\$ 38				8,040
Accrued payroll		10,978						10,978
Estimated settlements due to third-party payers		5,895						5,895
Due to affiliates	\$ 2	6,920	\$ 3,156	(2,979)			\$ 180	6,919
Other current liabilities		4,771	12	8	\$ -	\$ -		4,791
Total current liabilities	2	36,614	3,168	(2,933)			180	36,671
Long-term Debt, net		43						43
Other Long-term Liabilities		13,481	58	503				14,042
Due to Affiliates		59,080						59,080
Total liabilities	2	109,218	3,226	(2,430)			180	109,836
Net Assets								
Unrestricted	(2)	125,520	(1,174)	3,757	6,541	(652)		133,990
Temporarily restricted		4,164	5,895	1,935			5,895	6,099
Permanently restricted		1,786	1,806	1,806			1,806	3,592
Total net assets	(2)	131,470	6,527	7,498	6,541	(652)	7,701	143,681
Total liabilities and net assets	\$ -	\$ 240,688	\$ 9,753	\$ 5,068	\$ 6,541	\$ (652)	\$ 7,881	\$ 253,517

Definitions

AHS - Allen Health System
AMH - Allen Memorial Hospital Corporation
MFAH - Memorial Foundation of Allen Hospital

ACN - Allen College of Nursing
IHP - Iowa Health Physicians, AHS portion
IHHC - Iowa Health Home Care, AHS portion

Iowa Health System and Subsidiaries
Allen Health Systems, Inc. and Subsidiaries (Waterloo)
Consolidating Schedule - Revenue and Gains, Expenses and Losses Information
(In Thousands)
Year Ended December 31, 2011

	AHS	AMH	MFAH	ACN	IHP	IHHC	Eliminations	Consolidated
Revenue								
Patient service revenue (net of contractual allowances)	\$ -	\$ 205,954	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 205,954
Provision for patient uncollectible accounts		(6,214)						(6,214)
Net patient service revenue		199,740						199,740
Other operating revenue		7,938	38	7,532	(4,267)	(640)	27	10,574
Net assets released from restrictions used for operations		281		193				474
Total revenue		207,959	38	7,725	(4,267)	(640)	27	210,788
Expenses								
Salaries and wages		65,721	265	4,112				70,098
Physician compensation and services		15,642						15,642
Employee benefits		15,349	80	1,105			27	16,507
Supplies		47,486	8	167				47,661
Other expenses	38	34,447	197	1,150				35,832
Depreciation and amortization		12,392						12,392
Interest		3,230	9					3,239
Provision for uncollectible accounts		-		13				13
Total expenses	38	194,267	559	6,547			27	201,384
Operating Income (Loss)	(38)	13,692	(521)	1,178	(4,267)	(640)		9,404
Nonoperating Gains (Losses)								
Investment income (loss)		(966)	(95)		(75)	(12)		(1,148)
Other, net		30						30
Total nonoperating gains (losses), net		(936)	(95)		(75)	(12)		(1,118)
Revenue Over (Under) Expenses	\$ (38)	\$ 12,756	\$ (616)	\$ 1,178	\$ (4,342)	\$ (652)	\$ -	\$ 8,286

Definitions

AHS - Allen Health System
AMH - Allen Memorial Hospital Corporation
MFAH - Memorial Foundation of Allen Hospital

ACN - Allen College of Nursing
IHP - Iowa Health Physicians, AHS portion
IHHC - Iowa Health Home Care, AHS portion

Iowa Health System and Subsidiaries
Trinity Health Systems, Inc. and Subsidiaries (Fort Dodge)
Consolidating Schedule - Balance Sheet Information
(In Thousands)
December 31, 2011

Assets

	THS	TRMC	BMHC	THF	TBC	TRIMARK	IHHC	Eliminations	Consolidated
Current Assets									
Cash and cash equivalents	\$ 185	\$ 6,492	\$ 173	\$ 946	\$ 1,365	\$ 2,396	\$ -	\$ -	\$ 11,557
Short-term investments		9,685							9,685
Assets limited as to use - required for current liabilities		712							712
Patient accounts receivable, less estimated uncollectibles		13,169	188			3,611			16,968
Other receivables	230	825			(8)	392			1,439
Inventories		2,436				510			2,946
Prepaid expenses	6	420	2		6	62			496
Due from affiliates	(71)	1,853	11	24	8			2,062	(237)
Total current assets	350	35,592	374	970	1,371	6,971		2,062	43,566
Assets Limited As to Use, noncurrent									
Internally designated		29,153		10,148					39,301
Property, Plant and Equipment, net	499	56,107	932	4	12,757	1,158			71,457
Other Long-term Investments	544			3,609		8,742			12,895
Investments in Joint Ventures and Other Investments	38,248	16,530					632	52,288	3,122
Contributions Receivable				1,937					1,937
Other	23	656				170			849
Due From Affiliates		96		220	12			328	-
Total assets	\$ 39,664	\$ 138,134	\$ 1,306	\$ 16,888	\$ 14,140	\$ 17,041	\$ 632	\$ 54,678	\$ 173,127

Liabilities and Net Assets

Current Liabilities									
Current maturities of long-term debt		\$ 355							\$ 355
Accounts payable	\$ 8	3,172	\$ 6	\$ 10	\$ 20	\$ 597			3,813
Accrued payroll	348	3,633	48	12	8	2,763			6,812
Accrued interest		419							419
Estimated settlements due to third-party payers		1,887	(366)						1,521
Due to affiliates	1,099	1,497	386	436	43	87		\$ 2,062	1,486
Other current liabilities	26	1,865	133	4	423	92	\$ -		2,543
Total current liabilities	1,481	12,828	207	462	494	3,539		2,062	16,949
Long-term Debt, net		5,027							5,027
Other Long-term Liabilities	632	1,688	34			8,742			11,096
Due to Affiliates		16,772	96					328	16,540
Total liabilities	2,113	36,315	337	462	494	12,281		2,390	49,612
Net Assets									
Unrestricted	37,551	96,073	969	10,151	13,646	4,760	632	46,235	117,547
Temporarily restricted		3,866		4,431				4,173	4,124
Permanently restricted		1,880		1,844				1,880	1,844
Total net assets	37,551	101,819	969	16,426	13,646	4,760	632	52,288	123,515
Total liabilities and net assets	\$ 39,664	\$ 138,134	\$ 1,306	\$ 16,888	\$ 14,140	\$ 17,041	\$ 632	\$ 54,678	\$ 173,127

Definitions

THS - Trinity Health Systems
TRMC - Trinity Regional Medical Center
BMHC - Berryhill Mental Health Center
THF - Trinity Health Foundation

TBC - Trinity Building Corporation
TRIMARK - Trimark Physicians Group
IHHC - Iowa Health Home Care, THS portion

Iowa Health System and Subsidiaries
Trinity Health Systems, Inc. and Subsidiaries (Fort Dodge)
Consolidating Schedule - Revenue and Gains, Expenses and Losses Information
(In Thousands)
Year Ended December 31, 2011

	THS	TRMC	BMHC	THF	TBC	TRIMARK	IHHC	Eliminations	Consolidated
Revenue									
Patient service revenue (net of contractual allowances)	\$ -	\$ 95,319	\$ 2,236	\$ -	\$ -	\$ 42,236	\$ -	\$ -	\$ 139,791
Provision for patient uncollectible accounts		(5,305)	(20)			(1,067)			(6,392)
Net patient service revenue		90,014	2,216			41,169			133,399
Other operating revenue	3,072	6,567	77	26	2,123	4,507	(281)	5,759	10,332
Net assets released from restrictions used for operations		215		34					249
Total revenue	3,072	96,796	2,293	60	2,123	45,676	(281)	5,759	143,980
Expenses									
Salaries and wages	1,968	36,349	1,168	119	202	10,047			49,853
Physician compensation and services		7,720	362			19,907			27,989
Employee benefits	483	8,391	267	29	55	2,920			12,145
Supplies	7	17,344	23	5	5	3,155			20,539
Other expenses	167	22,669	429	525	1,140	9,422		5,895	28,457
Depreciation and amortization	60	5,205	89	2	729	362			6,447
Interest		1,510	5						1,515
Total expenses	2,685	99,188	2,343	680	2,131	45,813		5,895	146,945
Operating Income (Loss)	387	(2,392)	(50)	(620)	(8)	(137)	(281)	(136)	(2,965)
Nonoperating Gains (Losses)									
Investment income (loss)	2	(129)		(757)	3	6	(10)		(885)
Other, net				171					171
Total nonoperating gains (losses), net	2	(129)		(586)	3	6	(10)		(714)
Revenue Over (Under) Expenses	\$ 389	\$ (2,521)	\$ (50)	\$ (1,206)	\$ (5)	\$ (131)	\$ (291)	\$ (136)	\$ (3,679)

Definitions

THS - Trinity Health Systems
TRMC - Trinity Regional Medical Center
BMHC - Berryhill Mental Health Center
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TRIMARK - Trimark Physicians Group
IHHC - Iowa Health Home Care, THS portion

Iowa Health System and Subsidiaries
St. Luke's Health System, Inc. (Sioux City)
Consolidating Schedule - Balance Sheet Information
(In Thousands)
December 31, 2011

Assets

	SLHS	SLRMC	SLHR	PACE	Eliminations	Consolidated
Current Assets						
Cash and cash equivalents	\$ 31	\$ 7,197	\$ 638	\$ 33	\$ -	\$ 7,899
Short-term investments		12,229				12,229
Assets limited as to use - required for current liabilities		1,391				1,391
Patient accounts receivable, less estimated uncollectibles		19,165	1,085	212	34	20,428
Other receivables	28	2,749	37	13		2,827
Inventories		3,346	42			3,388
Prepaid expenses	15	708	31	27		781
Due from affiliates	36	41,046			40,926	156
Total current assets	110	87,831	1,833	285	40,960	49,099
Assets Limited As to Use, noncurrent						
Internally designated		41,796				41,796
Property, Plant and Equipment, net	14,789	49,849	2,134	90		66,862
Other Long-term Investments		1,105				1,105
Investments in Joint Ventures and Other Investments	10,667	791				11,458
Contributions Receivable		3,874				3,874
Other		726	18			744
Total assets	\$ 25,566	\$ 185,972	\$ 3,985	\$ 375	\$ 40,960	\$ 174,938

Liabilities and Net Assets (Deficit)

Current Liabilities						
Accounts payable	\$ 528	\$ 4,939	\$ 324	\$ 626	\$ 34	\$ 6,383
Accrued payroll		5,701	77	34		5,812
Estimated settlements due to third-party payers		2,589		13		2,602
Due to affiliates	2,243	5,243	39,036	327	40,926	5,923
Other current liabilities	398	1,999	293			2,690
Total current liabilities	3,169	20,471	39,730	1,000	40,960	23,410
Other Long-term Liabilities						
		6,247	242			6,489
Due to Affiliates	10,660	43,215				53,875
Total liabilities	13,829	69,933	39,972	1,000	40,960	83,774
Net Assets (Deficit)						
Unrestricted	11,737	111,880	(35,987)	(625)		87,005
Temporarily restricted		2,603				2,603
Permanently restricted		1,556				1,556
Total net assets (deficit)	11,737	116,039	(35,987)	(625)		91,164
Total liabilities and net assets (deficit)	\$ 25,566	\$ 185,972	\$ 3,985	\$ 375	\$ 40,960	\$ 174,938

Definitions

SLHS - St. Luke's Health System
SLRMC - St. Luke's Regional Medical Center
SLHR - St. Luke's Health Resources
PACE - Souixland PACE

Iowa Health System and Subsidiaries
St. Luke's Health System, Inc. (Sioux City)
Consolidating Schedule - Revenue and Gains, Expenses and Losses Information
(In Thousands)
Year Ended December 31, 2011

	SLHS	SLRMC	SLHR	PACE	Eliminations	Consolidated
Revenue						
Patient service revenue (net of contractual allowances)	\$ -	\$ 136,793	\$ 12,319	\$ 3,720	\$ 537	\$ 152,295
Provision for patient uncollectible accounts		(9,255)	(664)			(9,919)
Net patient service revenue		127,538	11,655	3,720	537	142,376
Other operating revenue	3,443	4,460	65		602	7,366
Total revenue	3,443	131,998	11,720	3,720	1,139	149,742
Expenses						
Salaries and wages	10	46,761	3,743	661		51,175
Physician compensation and services		7,064	4,725	121		11,910
Employee benefits		11,656	931	123		12,710
Supplies	7	24,277	590	619		25,493
Other expenses	1,698	25,446	2,987	2,784	1,139	31,776
Depreciation and amortization	981	5,898	346	37		7,262
Interest	579	2,469				3,048
Provision for uncollectible accounts		46				46
Total expenses	3,275	123,617	13,322	4,345	1,139	143,420
Operating Income (Loss)	168	8,381	(1,602)	(625)	-	6,322
Nonoperating Gains (Losses)						
Investment income (loss)	(8)	(363)				(371)
Other, net	(18)		126			108
Total nonoperating gains (losses), net	(26)	(363)	126			(263)
Revenue Over (Under) Expenses	\$ 142	\$ 8,018	\$ (1,476)	\$ (625)	\$ -	\$ 6,059

Definitions

SLHS - St. Luke's Health System
SLRMC - St. Luke's Regional Medical Center
SLHR - St. Luke's Health Resources
PACE - Souixland PACE

Iowa Health System and Subsidiaries
Finley Tri-States Health Group, Inc. and Subsidiaries (Dubuque)
Consolidating Schedule - Balance Sheet Information
(In Thousands)
December 31, 2011

Assets

	TRI-ST	Finley	VNA	Eliminations	Consolidated
Current Assets					
Cash and cash equivalents	\$ -	\$ 4,595	\$ 354	\$ -	\$ 4,949
Short-term investments		9,481			9,481
Patient accounts receivable, less estimated uncollectibles		12,603	277		12,880
Other receivables		2,197	8		2,205
Inventories		2,132			2,132
Prepaid expenses		511	1		512
Due from affiliates		110	4	67	47
Total current assets		31,629	644	67	32,206
Assets Limited As to Use, noncurrent					
Internally designated		46,664			46,664
Property, Plant and Equipment, net					
		47,746	141		47,887
Other Long-term Investments					
		197			197
Investments in Joint Ventures and Other Investments					
	14	4,311			4,325
Contributions Receivable					
		5,228	1,617		6,845
Other					
		845	6		851
Due From Affiliates					
		90			90
Total assets	\$ 14	\$ 136,710	\$ 2,408	\$ 67	\$ 139,065

Liabilities and Net Assets

Current Liabilities					
Accounts payable	\$ -	\$ 3,596	\$ 5	\$ -	\$ 3,601
Accrued payroll		3,999	181		4,180
Estimated settlements due to third-party payers		2,516	29		2,545
Due to affiliates		1,281	62	67	1,276
Other current liabilities		2,036	170		2,206
Total current liabilities		13,428	447	67	13,808
Other Long-term Liabilities					
		1,485	13		1,498
Due to Affiliates					
		7,626			7,626
Total liabilities		22,539	460	67	22,932
Net Assets					
Unrestricted	14	108,943	331		109,288
Temporarily restricted		3,426	1,617		5,043
Permanently restricted		1,802			1,802
Total net assets	14	114,171	1,948		116,133
Total liabilities and net assets	\$ 14	\$ 136,710	\$ 2,408	\$ 67	\$ 139,065

Definitions

TRI-ST - Finley Tri-States Health Group, Inc.
 Finley - The Finley Hospital
 VNA - Visiting Nurse Association

Iowa Health System and Subsidiaries
Finley Tri-States Health Group, Inc. and Subsidiaries (Dubuque)
Consolidating Schedule - Revenue and Gains, Expenses and Losses Information
(In Thousands)
Year Ended December 31, 2011

	TRI-ST	Finley	VNA	Eliminations	Consolidated
Revenue					
Patient service revenue (net of contractual allowances)	\$ -	\$ 92,643	\$ 570	\$ -	\$ 93,213
Provision for patient uncollectible accounts		(2,630)			(2,630)
Net patient service revenue		90,013	570		90,583
Other operating revenue		3,609	2,130		5,739
Total revenue		93,622	2,700		96,322
Expenses					
Salaries and wages		32,205	1,937		34,142
Physician compensation and services		5,010			5,010
Employee benefits		8,890	568		9,458
Supplies		13,484	46		13,530
Other expenses		23,050	221		23,271
Depreciation and amortization		5,760	22		5,782
Interest		534			534
Provision for uncollectible accounts		26	7		33
Total expenses		88,959	2,801		91,760
Operating Income (Loss)		4,663	(101)		4,562
Nonoperating Gains (Losses)					
Investment income (loss)		(497)	6		(491)
Other, net		444	75		519
Total nonoperating gains (losses), net		(53)	81		28
Revenue Over (Under) Expenses	\$ -	\$ 4,610	\$ (20)	\$ -	\$ 4,590

Definitions

TRI-ST - Finley Tri-States Health Group, Inc.
 Finley - The Finley Hospital
 VNA - Visiting Nurse Association

Iowa Health System and Subsidiaries
The Methodist Medical Center of Illinois
Statement of Operations for the Methodist College of Nursing
Three-Month Period Ended December 31, 2011

Unrestricted Revenues, Gains and Other Support	
Student revenue	\$ 194,178
Tuition	1,834,988
Foundation grants	<u>11,294</u>
Total operating revenue	<u>2,040,460</u>
Expenses	
Salaries and benefits	1,085,604
Supplies and other expenses	320,232
Depreciation and amortization	<u>48,280</u>
Total operating expenses	<u>1,454,116</u>
Revenues in Excess of Expenses	<u>\$ 586,344</u>