Iowa Health System and Subsidiaries

Auditor’s Report and Consolidated Financial Statements

December 31, 2012 and 2011

BKD LLP
CPAs & Advisors

Iowa Health System and Subsidiaries

December 31, 2012 and 2011

Contents

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Independent Auditor's Report

Board of Directors
Iowa Health System and Subsidiaries

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Health System as of December 31, 2012 and 2011, and the results of its operations, the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules of the Health System and the balance sheets and statements of operations for the Colleges of Nursing within the Health System listed in the table of contents are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements, rather than to present the financial position, changes in net assets and cash flows of the individual entities. 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 audits 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

Kansas City, Missouri
April 25, 2013

Iowa Health System and Subsidiaries

Consolidated Balance Sheets

December 31, 2012 and 2011

Assets

	2012	2011
	(in thousands)	
Current Assets		
Cash and cash equivalents	$ 140,990	$ 96,536
Short-term investments	64,408	183,951
Assets limited as to use – required for current liabilities	14,405	11,914
Patient accounts receivable, less estimated uncollectibles; 2012 – $54,909, 2011 – $55,774	378,555	344,880
Other receivables	43,318	43,277
Inventories	50,910	49,109
Prepaid expenses	26,111	30,409
Total current assets	718,697	760,076
Assets Limited As to Use, Noncurrent		
Held by trustee under bond indenture agreements	2,925	2,924
Internally designated	882,472	783,197
Total assets limited as to use, noncurrent	885,397	786,121
Property, Plant and Equipment, Net	1,324,488	1,257,472
Other Long-term Investments	413,049	348,581
Investments in Joint Ventures and Other Investments	74,608	54,665
Contributions Receivable, Net	65,179	61,189
Other	23,941	30,332
Total assets	$ 3,505,359	$ 3,298,436

Liabilities and Net Assets

	2012	2011
	(in thousands)	
Current Liabilities		
Current maturities of long-term debt	$ 73,022	$ 73,258
Accounts payable	122,637	128,153
Accrued payroll	144,046	127,908
Accrued interest	8,209	9,685
Estimated settlements due to third-party payers	58,006	67,348
Other current liabilities	60,297	55,284
Total current liabilities	466,217	461,636
Long-term Debt, Net	727,585	720,837
Other Long-term Liabilities	358,835	383,859
Total liabilities	1,552,637	1,566,332
Net Assets		
Unrestricted	1,838,514	1,627,211
Temporarily restricted	64,935	57,824
Permanently restricted	49,273	47,069
Total net assets	1,952,722	1,732,104
Total liabilities and net assets	$ 3,505,359	$ 3,298,436

Iowa Health System and Subsidiaries

Consolidated Statements of Operations

Years Ended December 31, 2012 and 2011

	2012	2011
	(in thousands)	
Unrestricted Revenue		
Patient service revenue (net of contractual allowances)	$ 2,686,008	$ 2,327,416
Provision for patient uncollectible accounts	(131,413)	(93,586)
Net patient service revenue	2,554,595	2,233,830
Other operating revenue	171,263	140,273
Net assets released from restrictions used for operations	6,686	6,064
Total unrestricted revenue	2,732,544	2,380,167
Expenses		
Salaries and wages	1,004,380	867,878
Physician compensation and services	324,361	263,883
Employee benefits	240,868	230,462
Supplies	445,913	407,434
Other expenses	458,941	377,559
Depreciation and amortization	163,895	131,439
Interest	31,734	30,936
Provision for uncollectible accounts	1,054	818
Total expenses	2,671,146	2,310,409
Operating Income	61,398	69,758
Nonoperating Gains (Losses)		
Investment income	134,815	(1,094)
Contribution received in affiliation with Methodist Peoria	-	180,325
Other, net	1,382	(37,068)
Total nonoperating gains (losses), net	136,197	142,163
Excess of Revenues Over Expenses	197,595	211,921
Change in the fair value of interest rate swaps	1,065	(20,281)
Net assets released from restrictions used for capital expenditures	7,140	5,705
Change in defined benefit pension plan gains (losses) and prior costs (credits)	2,805	(53,479)
Contributions of or for acquisition of property and equipment	962	245
Other, net	1,736	(1,142)
Increase in Unrestricted Net Assets	$ 211,303	$ 142,969

Iowa Health System and Subsidiaries
Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2012 and 2011

	2012	2011
	(in thousands)	
Unrestricted Net Assets		
Excess of revenues over expenses	$ 197,595	$ 211,921
Change in the fair value of interest rate swaps	1,065	(20,281)
Net assets released from restrictions used for capital expenditures	7,140	5,705
Change in defined benefit pension plan gains (losses) and prior costs (credits)	2,805	(53,479)
Contributions of or for acquisition of property and equipment	962	245
Other, net	1,736	(1,142)
Increase in unrestricted net assets	211,303	142,969
Temporarily Restricted Net Assets		
Contribution received in affiliation with Methodist Peoria	-	8,635
Contributions	15,309	12,734
Investment income	2,350	1,549
Government grants	871	3,674
Net assets released from restrictions used for operations	(6,686)	(6,064)
Net assets released from restrictions used for capital expenditures	(7,140)	(5,705)
Change in net unrealized gains (losses) on investments	429	(411)
Change in beneficial interest in net assets of affiliate	3,932	1,695
Other, net	(1,954)	(3,777)
Increase in temporarily restricted net assets	7,111	12,330
Permanently Restricted Net Assets		
Contribution received in affiliation with Methodist Peoria	-	3,897
Contributions	510	384
Investment income (loss)	1,032	(357)
Change in net unrealized gains (losses) on investments	169	(31)
Change in beneficial interest in net assets of affiliate	493	7
Other, net	-	1
Increase in permanently restricted net assets	2,204	3,901
Increase in Net Assets	220,618	159,200
Net Assets, Beginning of Year	1,732,104	1,572,904
Net Assets, End of Year	$ 1,952,722	$ 1,732,104

Iowa Health System and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2012 and 2011

	2012	2011
	(in thousands)	
Operating Activities		
Increase in net assets	$ 220,618	$ 159,200
Items not requiring (providing) operating cash		
Net (gains) losses on investments	(113,539)	17,912
Net unrealized (gains) losses on swaps	(5,469)	51,482
Restricted contributions, investment income and government grants received	(13,984)	(17,984)
Contributions of or for acquisition of property and equipment	(962)	(245)
Depreciation and amortization	163,895	131,439
Change in defined pension plans' liability	(2,805)	53,479
Contribution received in affiliation with Methodist Peoria	-	(192,857)
Amortization of debt issuance costs	773	430
Loss on disposition of assets	1,127	1,494
Gain on bond extinguishment	(1,856)	-
Equity in earnings of joint ventures	(23,468)	(18,635)
Change in beneficial interest in net assets of affiliate	(4,425)	(1,702)
Changes in		
Receivables	(33,716)	(44,478)
Inventories, prepaid expenses, and other assets	5,903	(12,727)
Accounts payable, accrued liabilities and other liabilities	(7,194)	9,981
Due to third-party payers	(9,342)	580
Net cash provided by operating activities	175,556	137,369
Investing Activities		
Capital expenditures	(227,323)	(174,356)
Proceeds from sale of assets	2,328	2,536
Increase in assets limited as to use, net	(25,937)	(15,224)
Cash acquired in affiliation with Methodist Peoria	-	27,082
Decrease in short-term investments	122,329	46,110
Increase in other long-term investments	(29,002)	(17,048)
Investments in joint ventures	(19,011)	(2,613)
Distributions received from joint ventures	25,135	18,985
Net cash used in investing activities	(151,481)	(114,528)
Financing Activities		
Proceeds from issuance of long-term debt and lines of credit	81,993	-
Payments of debt	(22,032)	(24,655)
Payments on early extinguishment of debt	(54,528)	-
Proceeds from restricted contributions, investment income and government grants	13,984	17,984
Proceeds from contributions for acquisition of property and equipment	962	245
Net cash provided by (used in) financing activities	20,379	(6,426)
Increase in Cash and Cash Equivalents	44,454	16,415
Cash and Cash Equivalents, Beginning of Year	96,536	80,121
Cash and Cash Equivalents, End of Year	$ 140,990	$ 96,536

Iowa Health System and Subsidiaries

Consolidated Statements of Cash Flows (Continued)

Years Ended December 31, 2012 and 2011

	2012	2011
	(in thousands)	
Supplemental Cash Flows Information		
Interest paid (net of amount capitalized)	$ 33,210	$ 32,307
Capital lease obligations incurred for property and equipment	3,869	10,974
Property and equipment purchases in accounts payable	28,854	27,614
Affiliation with Methodist Peoria		
Assets acquired	-	514,902
Liabilities assumed	-	322,045

Iowa Health System and Subsidiaries

Notes to Consolidated Financial Statements

(Dollars in Thousands)

December 31, 2012 and 2011

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)
- Methodist Health Services Corporation and Subsidiaries (Peoria)
- Trinity Regional Health System and Subsidiaries (Rock Island)
- St. Luke's Healthcare and Subsidiaries (Cedar Rapids)
- Allen Health Systems, Inc. and Subsidiaries (Waterloo)
- St. Luke's Health System, Inc. (Sioux City)
- Trinity Health Systems, Inc. and Subsidiaries (Fort Dodge)
- Finley Tri-States Health Group, Inc. and Subsidiaries (Dubuque)
- Iowa Physicians Clinic Medical Foundation (d/b/a Iowa Health Physicians & Clinics)
- 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. For the year ended December 31, 2012 and the three months ended December 31, 2011, net revenues of $362,273 and $89,832, respectively, were 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.

Cash, 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. Pursuant to legislation enacted in 2010, the FDIC fully insured all noninterest-bearing transaction accounts, beginning December 31, 2010, at all FDIC insured institutions. This legislation expired on December 31, 2012. Beginning January 1, 2013, noninterest-bearing transaction accounts are subject to the $250 limit on FDIC insurance per covered institution. Management believes that the institutions where cash accounts are maintained 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 nonoperating gains (losses) in 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.

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 2012 and 2011, the Health System capitalized $950 and $1,067 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, 2012 and 2011.

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 $3,509 and $3,804 of goodwill at December 31, 2012 and 2011, respectively. Other intangible assets at December 31, 2012 and 2011 were $9,075 and $11,264, 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.

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 $768 and $1,058 as of December 31, 2012 and 2011, respectively.

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 consolidated statements of operations as a component of net patient service revenue.

(Dollars in Thousands)

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 at December 31, 2012 and 2011 was $54,909 and $55,774, respectively. The allowance for uncollectible accounts (including a portion allowed for financial assistance) for self-pay patients was approximately 93% and 92% of self-pay accounts receivable at December 31, 2012 and 2011, respectively. The provision for patient uncollectible accounts for the year ended December 31, 2012 was $131,413 compared to $93,586 for the year ended December 31, 2011. The increase in expense was a result of modifications to collection policies that include accelerated write-offs as well as a full year of operations of MHSC during 2012 compared to only three months in 2011.

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

	2012	2011
Medicare	$ 936,419	$ 821,743
Medicaid	266,881	230,718
Wellmark	660,354	600,442
Commercial and other	692,515	563,135
Self-pay	129,839	111,378
	$ 2,686,008	$ 2,327,416

(Dollars in Thousands)

Patient accounts receivable at established rates, less contractual allowances and the provision for uncollectible accounts, by payer class at December 31 were as follows:

	2012	2011
Medicare	$ 101,560	$ 92,493
Medicaid	45,366	42,565
Wellmark	64,972	61,664
Commercial and other	124,416	109,795
Self-pay	42,241	38,363
	$ 378,555	$ 344,880

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.

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:

	2012	2011
General health care services	$ 2,176,883	$ 1,908,342
Management, general and administrative	491,349	399,386
Research	2,914	2,681
	$ 2,671,146	$ 2,310,409

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.

Interests in charitable trusts and perpetual trusts are carried at the present value of expected future cash flows, which approximates fair value. 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.

Claims liabilities are recorded at the gross amount, without consideration of insurance recoveries. Expected recoveries are presented separately as receivables in the consolidated balance sheets.

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 2009. 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.

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.

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 has expanded its service area into Central Illinois and continues to further its mission and strategic goals in the ever changing health care provider landscape. The Health System continues to incorporate MHSC into its infrastructure as a way of achieving cost savings through the 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 statement of operations for the year ended December 31, 2011.

The Health System incurred $787 of costs in connection with this affiliation. These costs are included in other expenses in the consolidated statement of operations for the year ended December 31, 2011.

(Dollars in Thousands)

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		165,203
Total assets		514,902
Current liabilities		89,268
Long-term debt		109,891
Long-term liabilities		122,886
Total liabilities		322,045
Total contribution received	$	192,857

Summary of contribution received by net asset classification

Unrestricted contribution received	$	180,325
Temporarily restricted contribution received		8,635
Permanently restricted contribution received		3,897
Total contribution received	$	192,857

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 is included in contribution revenue in the consolidated statement of operations for the year ended December 31, 2011. The temporarily and permanently restricted net assets are included as increases to those classes of net assets in the amounts of $8,635 and $3,897, respectively, for the year ended December 31, 2011.

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, respectively, to the Health System for the period from the affiliation date through December 31, 2011.

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 $49,752 and $39,045 for the years ended December 31, 2012 and 2011, respectively.

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.

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 revenue 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 that differ 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.

The impact of current economic conditions on government budgets may have an adverse effect on the cash flow from government-sponsored Medicare or Medicaid programs. The State of Illinois has experienced significant financial difficulties as a result of the downturn in the economy, which has caused significant payment delays for services that have been rendered under the Medicaid program. As of December 31, 2012 and 2011, the Health System has net accounts receivable of $21,205 and $20,915, respectively, which are owed from the State of Illinois. Management believes that these receivables are fully collectible for historical services rendered, however, the State of Illinois will be evaluating the need to reduce Medicaid expenditures going forward. Any changes to reimbursement rates in the future could have a negative impact on cash flow for services rendered in the future.

Value Based Contracting

Trimark Physicians Group, a 54 member multi-specialty physician group employed by Trimark, a wholly owned subsidiary of the Health System's Trinity Health Systems, Inc. subsidiary, and Trinity Regional Medical Center of Fort Dodge were selected to participate in the Pioneer Accountable Care Organization (ACO) Model, a transformative new initiative sponsored by the Centers for Medicare and Medicaid Services Innovation Center (CMMI). The Pioneer ACO (Trinity Pioneer ACO, L.C.) began operations on January 1, 2012 as the only physician group and hospital in Iowa participating in the model program. Through the Pioneer ACO Model, Trimark and Trinity will work with CMMI to provide Medicare beneficiaries with higher quality care, while reducing growth in Medicare expenditures through enhanced care coordination.

Effective April 1, 2012, the Health System's wholly owned subsidiary, Iowa Health Accountable Care, L.C., which is included in the consolidated financial statements, and Wellmark, Inc., doing business as Wellmark Blue Cross and Blue Shield, entered into an agreement to create Iowa's first commercial health plan ACO. The new ACO focuses on coordinating care to improve quality, provide greater value, and slow increases in health care costs. This agreement covers approximately 50,000 lives, whereby Health System providers will be rewarded for lowering cost per attributed member below a target level, and covers approximately 140,000 lives, whereby Health System providers will be rewarded for their ability to meet measures regarding patient experience, chronic and follow-up care, and primary prevention.

Effective July 1, 2012, the Health System again through its wholly owned subsidiary, Iowa Health Accountable Care, L.C., was accepted by the Centers for Medicare and Medicaid Services (CMS) as a Medicare Shared Savings Program ACO. This ACO covers approximately 74,000 lives and will allow the Health System to work with CMS to provide Medicare fee-for-service beneficiaries with high quality service and care, while reducing the growth in Medicare expenditures through enhanced care coordination.

Incentives earned under these ACO contracts will be recorded as additional reimbursement and included in net patient service revenue in the consolidated statements of operations. During the year ended December 31, 2012, $2,293 was recognized related to these contracts.

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 during 2012 and 2011 was $12,157 and $16,566, respectively, and is included in operating expenses in the consolidated statements of operations. Additional Medicaid reimbursement in the same periods was approximately $19,304 and $28,738, respectively, and is included in net patient service revenue in the consolidated statements of operations, resulting in a net increase in operating income of $7,147 and $12,172, respectively.

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 in 2012 and 2011 relate to Trinity Regional Health System and MHSC. The 2011 amounts related to MHSC are only from the date of affiliation with MHSC.

In 2012 and 2011, the Health System's tax assessment was $17,483 and $10,632, respectively, and is included in operating expenses in the consolidated statements of operations. Additional Medicaid reimbursement in the same periods was approximately $34,316 and $19,577, respectively, and is included in net patient service revenue in the consolidated statements of operations, resulting in a net increase in operating income of $16,833 and $8,945 in 2012 and 2011, 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 administrative contractor. Events could occur that would cause final amounts to differ materially from initial payments under the program.

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.

Several of the Health System's affiliates have completed the first-year requirements under the Medicare program and the Health System has recorded revenue of $17,452 and $1,362 during 2012 and 2011, respectively, which is included in other operating revenue in the consolidated statements of operations. This revenue also includes portions accrued related to the second-year of the program to the extent management is reasonably assured the applicable objectives are being met during the reporting period.

For the Medicaid program, the majority of the Health System's affiliates completed the first-year requirements during 2011 and $9,789 of revenue is included in other operating revenue in the consolidated statements of operations for the year ended December 31, 2011. An additional $7,235 was recognized during 2012, in the same manner, related mostly to the second-year of the program.

Revenue recorded for both the Medicare and Medicaid program EHR funds relate to the implementation of EHR technology within the Health System's hospitals as well as affiliated physician group practices.

(Dollars in Thousands)

Note 5: Investments

Investment Summary

Short-term investments consist of debt securities, primarily U.S. Government agency obligations and corporate bonds, and totaled $64,408 and $183,951 at December 31, 2012 and 2011, respectively.

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

	2012	2011
Held by trustees under bond indenture agreements		
Cash equivalents and short-term investments	$ 2,897	$ 2,887
Mortgage-backed securities	28	37
	2,925	2,924
Internally designated		
Cash equivalents and short-term investments	134,714	13,686
U.S. Treasury obligations	5,071	18,658
U.S. Government agency obligations	2,515	6,625
Asset-backed securities		
Home equity	590	14,398
Other	57	5,455
Mortgage-backed securities		
Government	1,708	48,191
Non-government	546	33,280
Certificates of deposit	379	474
Corporate bonds	5,351	44,451
Corporate bonds - PIF	-	155,250
Equity securities		
Domestic	8,613	95,087
International	147	34
Equity securities - PIF		
Domestic	-	121,574
International	-	59,729
Mutual funds		
Domestic	1,050	-
International	112,669	58,595
Emerging markets	17,417	47,582
Index	470	975
Equity	268,496	665
Fixed income	316,490	2,801
Other	143	283
Hedge fund-of-funds	20,336	66,189
Interest receivable	115	1,129
	896,877	795,111
Total assets limited as to use	899,802	798,035
Less amount required to meet current obligations	14,405	11,914
Noncurrent portion of assets limited as to use	$ 885,397	$ 786,121

(Dollars in Thousands)

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:

	2012	2011
Collateral and other accounts	$ 2,925	$ 2,924

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

	2012	2011
Capital improvements	$ 861,101	$ 757,670
Self-insured reserves	35,383	37,049
Bond interest account	393	392
	$ 896,877	$ 795,111

(Dollars in Thousands)

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

	2012	2011
Restricted cash equivalents and short-term investments	$ 33,822	$ 5,116
U.S. Treasury obligations	1,203	4,591
U.S. Government agency obligations	661	1,593
Asset-backed securities		
Home equity	155	3,293
Other	14	1,248
Mortgage-backed securities		
Government	434	11,024
Non-government	132	7,613
Corporate bonds	861	9,648
Corporate bonds - PIF	-	35,513
Equity securities		
Domestic	5,805	25,956
International	407	179
Equity securities - PIF		
Domestic	-	27,809
International	-	13,663
Mutual funds		
Domestic	1,273	19,659
International	48,722	26,878
Emerging markets	5,438	11,375
Index	3,936	2,217
Equity	111,008	29,718
Fixed income	152,030	65,126
Other	14,732	4,482
Hedge fund-of-funds	23,332	35,256
Notes receivable	15	15
Interest receivable	159	422
Insurance policies	4,419	4,199
Real estate	1,255	1,050
Interest rate swaps *(see Note 8)*	3,236	938
Total other long-term investments	$ 413,049	$ 348,581

(Dollars in Thousands)

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:

	2012	2011
Investment return		
Interest and dividends	$ 28,415	$ 18,859
Realized gains on sales of investments	143,430	31,383
Unrealized losses on trading investments	(82,144)	(55,890)
Unrealized gains (losses) on other-than-trading investments	598	(442)
Equity in earnings of joint ventures	23,468	18,635
Change in fair value of investments accounted for under the fair value option of FASB ASC Topic 825	51,655	7,037
	$ 165,422	$ 19,582
Investment return classification		
Unrestricted net assets		
Other operating revenue	$ 26,627	$ 19,926
Nonoperating gains (losses) – investment income	134,815	(1,094)
Temporarily restricted net assets	2,779	1,138
Permanently restricted net assets	1,201	(388)
	$ 165,422	$ 19,582

Private Investment Funds

At December 31, 2012 and 2011, 3% and 45%, 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:

	2012	2011
Corporate bonds	$ -	$ 190,763
Equity securities	-	222,775
Hedge fund-of-funds	43,668	101,445
	$ 43,668	$ 514,983

The large decline in PIFs from December 31, 2011 is due to a change in investment strategy within the Health System. In June 2012, the Health System's Investment Committee replaced the former investment advisor, who was engaged to provide guidance and recommendations regarding selection of individual investment managers utilized in the investment portfolio, with a new advisor who utilizes a manager-of-managers approach through the use of proprietary registered mutual funds. Through this transition, a large portion of the Health System's investments in PIFs have been liquidated.

As of December 31, 2012, the remaining PIFs consist of an alternative fund, two hedge fund-of-funds and one private equity fund. The investment strategy of the alternative fund is to invest in income producing real estate properties utilizing a low level of leverage. The hedge fund-of-funds utilize strategies aiming to provide low return volatility through tactical investment strategies while earning a total rate of return in excess of rates achieved from a standard index. The private equity fund has a strategy of investing in early-stage companies and entrepreneurs within the health care industry. There is no public market for shares in the PIFs. The value of the investments in the PIFs is determined based on the fair values of the underlying securities. These four funds are collectively referred to as hedge fund-of-funds within the Investments and Fair Value tables included within Note 5 and Note 13, respectively, of the notes to these consolidated financial statements.

In situations when investments do not have readily determinable fair values (PIFs), 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 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, which represents approximately 55% of the PIF funds at December 31, 2012, 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 the private equity PIF with a lock-up period of ten years. The Health System's interest is nonredeemable and the Health System has contributed $1,505 to this investment as of December 31, 2012.

Investments in Joint Ventures

At December 31, 2012 and 2011, investments in joint ventures amounted to $60,054 and $42,710, respectively. Other investments also included in this line in the consolidated balance sheets consist primarily of the cash surrender value of life insurance policies and real estate held for investment.

(Dollars in Thousands)

On June 22, 2012, the Health System purchased a 45% interest in Quincy Physicians & Surgeons Clinic, S.C., doing business as Quincy Medical Group (QMG), of Quincy, Illinois for $18,743. QMG is a multi-specialty physician practice group with over 120 physicians practicing 27 specialties. The physician relationships gained through this investment will enable strong collaboration and clinical innovation between QMG and the Health System's affiliated physicians. As of December 31, 2012, the carrying value of the Health System's investment in QMG is $18,972.

The joint ventures consist of 43 privately held health care organizations in which the Health System's ownership interest ranges from 20% to 50%. The joint ventures had the following financial information as of and for the years ended December 31:

	2012	2011
Total assets	$ 247,699	$ 160,253
Net revenues	354,057	151,325
Net income	58,992	43,065

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:

	2012	2011
Earnings on investments in joint ventures	$ 23,468	$ 18,635
New investments in joint ventures	19,011	2,613
Distributions received from joint ventures	25,135	18,985

The Health System both purchases services and sells services and supplies to several joint ventures. In 2012 and 2011, services purchased from joint ventures totaled $15,540 and $11,016, respectively. Services and supplies sold to joint ventures in 2012 and 2011 were $7,438 and $9,105, respectively.

(Dollars in Thousands)

Note 6: Property, Plant and Equipment

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

	2012	2011
Land	$ 97,434	$ 95,753
Land improvements	52,868	64,770
Buildings, improvements and fixed equipment	1,606,253	1,547,915
Moveable equipment	1,147,808	1,007,797
	2,904,363	2,716,235
Less accumulated depreciation and amortization	1,644,431	1,504,900
	1,259,932	1,211,335
Construction/information systems installation in progress	64,556	46,137
Net property, plant and equipment	$ 1,324,488	$ 1,257,472

As of December 31, 2012 and 2011, the Health System has committed approximately $133,904 and $123,272, respectively, for costs related to various hospital construction and information systems projects. The Health System plans to fund the majority of these projects through internal funds, with supplemental debt financing for certain projects.

(Dollars in Thousands)

Note 7: Long-term Debt

Long-term debt at December 31, 2012 and 2011 is summarized as follows:

	Payable Through	Issuance Type (1)	Interest Rate (2)	2012	2011
Hospital Facility Revenue Bonds					
Series 2011A	2021	Fixed	3.29%	$ 52,960	$ 57,960
Series 2011B	2041	VRDB	0.14%, 0.10%	51,220	51,220
Series 2009A	2035	VRDB	0.13%, 0.06%	51,255	52,860
Series 2009B	2035	VRDB	0.13%, 0.06%	51,255	52,860
Series 2009C	2035	Variable	1.11%, 1.16%	29,450	30,375
Series 2009D	2035	Variable	0.78%, 0.16%	54,730	56,445
Series 2009E	2039	Variable	0.95%, 0.16%	43,000	43,000
Series 2009F	2039	Fixed	5.00%	-	50,000
Series 2008A	2037	Fixed	2.50% - 5.625%	143,910	146,040
Series 2008	2028	Variable	N/A, 13.45%	-	4,528
Series 2006	2031	VRDB	0.25%, 0.25%	12,715	13,110
Series 2005	2031	Fixed	4.00% - 4.50%	3,517	3,622
Series 2005A	2035	Fixed	2.50% - 5.625%	186,690	192,540
Series 1985B	2015	VRDB	0.15%, 0.14%	23,000	23,000
Total hospital facility revenue bonds				703,702	777,560
Capital lease obligations	2026	Fixed	0% - 5.92%	16,117	14,669
Revolving lines of credit	2014	Variable	0.75% - 1.00%	81,993	-
Other notes and mortgages	2021	Fixed	8.00%	493	775
				802,305	793,004
Current maturities				(73,022)	(73,258)
Unamortized bond premium (discount)				(1,698)	1,091
Long-term portion				$ 727,585	$ 720,837

(1) Fixed rate, variable rate, or variable rate demand bonds (VRDB)
(2) Variable rates shown as of December 31, 2012 and 2011, 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.

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 letters of credit that can be drawn on should the bonds not be remarketed. These letters of credit expire beginning in 2013 through 2016 and are renewable, subject to trustee approval and at the option of the providers, throughout the term of the bonds. Outstanding amounts under the letters of credit are due at the earlier of expiration of the agreement or over a period of three years, commencing after an initial outstanding period of 366 days or more.

The 2009C bonds have a mandatory tender date of December 1, 2013; however, if the Health System continues to be in compliance with the representations included within the master bond trust indenture, they can defer tendering for 366 days at December 31, 2012. The Health System is currently in compliance with all representations and, therefore, the date of mandatory tender is in excess of one year as of December 31, 2012.

The $50,000 of 2009F bonds were subject to mandatory tender on August 14, 2012. On that date, the Health System repurchased the full amount outstanding and surrendered them to the trustee for cancellation.

In September 2012, the Health System completed an interest rate mode conversion for the 2009D and 2009E 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. As part of this conversion, a Direct Note Obligation for the 2009D and 2009E bonds was issued to a financial institution, eliminating the supporting letter of credit requirement.

On January 6, 2012 and August 1, 2012, the Health System entered into two separate revolving line of credit facilities that provide for revolving credit in an aggregate principal amount of up to $50,000 each. The interest rates applicable to loans under the new credit agreements are based on LIBOR plus applicable margins, either 0.45% or 0.60%, as defined in the agreements. Additionally, a commitment fee of 0.10% to 0.125% is required on the average daily undrawn portion of the facilities. These credit facilities mature on August 9, 2013 and January 5, 2014. These agreements contain various financial covenants that mirror those in the Health System's master bond trust indenture.

(Dollars in Thousands)

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

	Accelerated Maturities with Letter of Credit Expirations	Scheduled Maturities Based on Loan Agreements
2013	$ 73,022	$ 73,022
2014	168,930	54,141
2015	107,365	43,123
2016	21,580	23,576
2017	19,036	24,406
Thereafter	412,372	584,037
	$ 802,305	$ 802,305

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 2012	Fair Value 2011
2005	2035	$ 186,690	3.5%	62.4% of LIBOR + 29 bps	Cash Flow Hedge	$ (36,024)	$ (37,026)

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 $186,690 at December 31, 2012.

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 $(36,022) at December 31, 2012 and $(37,026) at December 31, 2011. The change in fair value of $1,004 and $(20,342) for the years ended December 31, 2012 and 2011, 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.

(Dollars in Thousands)

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 certain thresholds, which are between $25,000 and $55,000 depending on the agreement, or the Health System's credit rating fall below Aa3 by Moody's or AA- by S&P. As of December 31, 2012, 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 a cash flow hedge. The Health System has additional derivative instruments at December 31, 2012 and 2011 that are no longer designated as hedging instruments under ASC 815 *(Derivatives and Hedging)*, as shown below:

	2012	2011
Long-term Liability		
Fair value of interest rate swap agreement	$ (36,022)	$ (37,026)
Unrestricted Net Assets		
Gain (loss) recognized in changes in unrealized gains and losses on investments (effective portion)	1,004	(20,342)

Other Swap Agreements

The Health System has also entered into the following interest rate swap agreements which are no longer designated as hedging instruments. The Health System has elected to carry these swaps as an investing activity, until such time that satisfactory termination values can be obtained, or their respective maturity date.

Trade Date	Maturity Date	Notional Amount	Health System Pays	Health System Receives	Fair Value 2012	Fair Value 2011
2006	2030	$ 60,000	100% of SIFMA*	68.0% of LIBOR + 59.2 bps*	$ 3,236	$ 938
2006	2037	141,200	3.8%	61.9% of LIBOR + 31 bps	(40,491)	(42,529)
2006	2023	42,700	3.5%	61.9% of LIBOR + 31 bps	(7,689)	(7,593)
2005	2035	62,230	3.3%	62.4% of LIBOR + 29 bps	(11,087)	(11,312)
					$ (56,031)	$ (60,496)

* 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. After that date, the terms revert back to the original contracted terms, which are as stated in the table above.

(Dollars in Thousands)

The aggregate fair value of the unhedged swap agreements are recorded as long-term investments of $3,236 and $938 and long-term liabilities of $(59,267) and $(61,434), as of December 31, 2012 and 2011, respectively. The change in fair value of $4,465 and $(31,141) is included as a component of other income (loss) as of December 31, 2012 and 2011, 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, 2012 and 2011, $(638) and $(699) of net unrealized losses remain in net assets to be amortized and $(61) was amortized into other loss in both 2012 and 2011.

Other Swaps:

	2012	2011
Other Long-term Investments		
Fair value of interest rate swap agreement	$ 3,236	$ 938
Other Long-term Liabilities		
Fair value of interest rate swap agreement	(59,267)	(61,434)
Unrestricted Net Assets		
Change in unrestricted net assets amortizing into Other, net	61	61
Other, Net		
Gain (loss) recognized in income from changes in fair value of interest rate swap	4,465	(31,141)
Gain recognized in income from amortization of unrecognized gains (losses) in unrestricted net assets	(61)	(61)

During 2012, the Health System novated several interest rate swap agreements, which were not designated as hedges, to new counterparties to alleviate the underlying insurance and collateral exposure. This novation did not modify any of the terms of the original swap agreements. Management determined that these did not constitute new hedging instruments, and therefore the accounting for the agreements has not changed.

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 $5,305 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 $5,567 and $4,915 for 2012 and 2011, respectively. At December 31, 2012 and 2011, the Health System also had outstanding debt with such parties related to real estate capital lease obligations of $10,486 and $10,963, 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 2012 and 2011 totaled $16,187 and $13,693, respectively, of which $8,131 and $4,902, 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 has recorded receivables for amounts held by nonconsolidated foundations on behalf of the Health System of $44,142 and $41,527 as of December 31, 2012 and 2011, respectively. Contributions received from nonconsolidated foundations and other related parties were $2,925 and $2,326 in 2012 and 2011, respectively.

The Health System believes these transactions are consummated under commercially reasonable business arrangements.

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 $53,790 and $46,250 for 2012 and 2011, respectively. The Health System also has deferred compensation plans for certain employees. Total expenses under the deferred compensation plans were $1,521 and $2,394 for 2012 and 2011, 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.

(Dollars in Thousands)

Upon the affiliation with MHSC (Peoria) during 2011, 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.

As of December 31, 2012, MHSC froze its defined benefit pension plan. Subsequent to this date, no additional benefits will be accrued by participants in the plan. There is currently no arrangement to terminate the plan and contributions will continue to the extent the plan remains underfunded. As a result of this plan freeze, a curtailment gain of $8,914 was recognized in the consolidated statements of operations.

The Health System expects to contribute $11,525 to the plans in 2013.

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

	As of December 31, 2012			
	Des Moines	Peoria	Cedar Rapids	Waterloo
Change in benefit obligation				
Benefit obligation, beginning of year	$ 201,605	$ 231,059	$ 124,563	$ 61,016
Service cost	-	5,046	105	459
Interest cost	9,878	11,251	6,115	3,052
Amendments	-	-	-	65
Actuarial loss	9,826	14,298	6,835	5,205
Benefits paid	(7,751)	(6,049)	(3,925)	(2,558)
Curtailment gain from freezing benefits	-	(24,337)	-	-
Benefit obligation, end of year	213,558	231,268	133,693	67,239
Change in fair value of plan assets				
Fair value of plan assets, beginning of year	189,326	124,395	94,318	55,465
Actual return on plan assets	22,897	15,342	9,863	4,351
Employer contributions	5,150	10,155	4,894	4,300
Benefits paid	(7,751)	(6,049)	(3,925)	(2,558)
Fair value of plan assets, end of year	209,622	143,843	105,150	61,558
Funded status, end of year	$ (3,936)	$ (87,425)	$ (28,543)	$ (5,681)
Accumulated benefit obligation	$ 213,558	$ 231,268	$ 133,599	$ 67,239

Iowa Health System and Subsidiaries

Notes to Consolidated Financial Statements

(Dollars in Thousands)

December 31, 2012 and 2011

	As of December 31, 2012			
	Des Moines	Peoria	Cedar Rapids	Waterloo
Liabilities recognized in the balance sheets sheets				
Current liabilities	$ -	$ (568)	$ -	$ -
Noncurrent liabilities	(3,936)	(86,857)	(28,543)	(5,681)
	$ (3,936)	$ (87,425)	$ (28,543)	$ (5,681)
Amounts recognized in unrestricted net assets but not yet recognized as components of net periodic benefit cost				
Net loss	$ 32,864	$ 583	$ 48,285	$ 21,608
Net prior service credit	-	-	-	(3,760)
	$ 32,864	$ 583	$ 48,285	$ 17,848
Amounts expected to be recognized within one year				
Net loss	$ 1,514	$ -	$ 3,923	$ 1,825
Net prior service credit	-	-	-	(278)
	$ 1,514	$ -	$ 3,923	$ 1,547
Other changes in plan assets recognized in changes in net assets				
Net (gain) loss	$ (1,257)	$ 9,687	$ 4,773	$ 4,970
Prior service cost	-	-	-	65
Curtailment gain from freezing benefits	-	(15,423)	-	-
Amortization of				
Net loss	(1,994)	-	(3,882)	(1,567)
Prior service (cost) credit	(42)	26	-	651
Total recognized in changes in net assets	$ (3,293)	$ (5,710)	$ 891	$ 4,119

(Dollars in Thousands)

	As of December 31, 2012			
	Des Moines	Peoria	Cedar Rapids	Waterloo
Weighted-average assumptions used to determine benefit obligations for the year ended December 31, 2012				
Discount rate	4.55%	4.55%	4.55%	4.55%
Rate of compensation increase	N/A	N/A	5.00%	N/A
Weighted-average assumptions used to determine benefit costs for the year ended December 31, 2012				
Discount rate	5.00%	5.00%	5.00%	5.00%
Expected return on plan assets	6.30%	8.50%	8.25%	7.50%
Rate of compensation increase	N/A	3.25%	N/A	N/A
Components of net periodic benefit cost				
Service cost	$ -	$ 5,046	$ 105	$ 459
Interest cost	9,878	11,251	6,115	3,052
Expected return on plan assets	(11,814)	(10,730)	(7,801)	(4,115)
Amortization of prior service cost (credit)	42	(26)	-	(651)
Recognized net actuarial loss	1,994	-	3,882	1,567
Curtailment gain from freezing benefits	-	(8,914)	-	-
Net periodic benefit cost (benefit)	$ 100	$ (3,373)	$ 2,301	$ 312

Iowa Health System and Subsidiaries

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(Dollars in Thousands)

December 31, 2012 and 2011

	As of December 31, 2011			
	Des Moines	Peoria	Cedar Rapids	Waterloo
Change in benefit obligation				
Benefit obligation, beginning of year	$ 175,394	$ 219,916 *	$ 106,552	$ 53,276
Service cost	3,941	1,320	116	353
Interest cost	10,313	2,870	6,271	3,126
Actuarial loss	20,639	8,417	15,580	6,111
Benefits paid	(8,682)	(1,464)	(3,956)	(1,850)
Benefit obligation, end of year	201,605	231,059	124,563	61,016
Change in fair value of plan assets				
Fair value of plan assets, beginning of year	181,094	118,836 *	89,605	50,064
Actual return on plan assets	9,639	5,441	3,730	3,951
Employer contributions	7,275	1,582	4,939	3,300
Benefits paid	(8,682)	(1,464)	(3,956)	(1,850)
Fair value of plan assets, end of year	189,326	124,395	94,318	55,465
Funded status, end of year	$ (12,279)	$ (106,664)	$ (30,245)	$ (5,551)
Accumulated benefit obligation	$ 201,605	$ 206,435	$ 124,349	$ 61,016

* As of October 1, 2011

(Dollars in Thousands)

	As of December 31, 2011			
	Des Moines	Peoria	Cedar Rapids	Waterloo
Liabilities recognized in the balance sheets				
Noncurrent liabilities	$ (12,279)	$ (106,664)	$ (30,245)	$ (5,551)
Amounts recognized in unrestricted net assets but not yet recognized as components of net periodic benefit cost				
Net loss	$ 36,115	$ 5,569	$ 47,394	$ 18,205
Net prior service cost (credit)	42	-	-	(4,476)
	$ 36,157	$ 5,569	$ 47,394	$ 13,729
Amounts expected to be recognized within one year				
Net loss	$ 1,994	$ -	$ 3,882	$ 1,567
Net prior service cost (credit)	42	-	-	(651)
	$ 2,036	$ -	$ 3,882	$ 916
Other changes in plan assets recognized in changes in net assets				
Net loss	$ 25,240	$ 5,569	$ 18,976	$ 6,087
Amortization of				
Net loss	-	-	(2,166)	(859)
Prior service (cost) credit	(46)	-	-	651
Total recognized in changes in net assets	$ 25,194	$ 5,569	$ 16,810	$ 5,879

(Dollars in Thousands)

	As of December 31, 2011			
	Des Moines	Peoria	Cedar Rapids	Waterloo
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%	3.25%	5.00%	N/A
Weighted-average assumptions used to determine benefit costs for the year ended December 31, 2011				
Discount rate	6.00%	5.25%	6.00%	6.00%
Expected return on plan assets	8.00%	8.50%	8.00%	8.00%
Rate of compensation increase	4.00%	3.25%	N/A	N/A
Components of Net Periodic Benefit Cost				
Service cost	$ 3,941	$ 1,320	$ 116	$ 353
Interest cost	10,313	2,870	6,271	3,126
Expected return on plan assets	(14,239)	(2,594)	(7,126)	(3,928)
Amortization of prior service cost (credit)	46	-	-	(651)
Recognized net actuarial loss	-	-	2,166	859
Net periodic benefit cost (benefit)	$ 61	$ 1,596	$ 1,427	$ (241)

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.

(Dollars in Thousands)

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. Target asset allocation percentages for 2012 and 2011 were as follows:

		2012			
		Des Moines	**Peoria**	**Cedar Rapids**	**Waterloo**
Equity securities	Not to exceed	20%	50%	45%	25%
Fixed income	Not to exceed	80	30	55	75
Private investment funds	Not to exceed	-	20	-	-

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

(Dollars in Thousands)

Plan assets are re-balanced quarterly. At December 31, 2012 and 2011, plan asset allocations are as follows:

	2012				2011			
	Des Moines	Peoria	Cedar Rapids	Waterloo	Des Moines	Peoria	Cedar Rapids	Waterloo
Cash equivalents and short-term investments	7 %	-	1 %	5 %	-	-	3 %	3 %
U.S. Treasury obligations	-	-	-	-	-	-	8	10
U.S. Government agency obligations	-	-	-	-	-	-	10	12
Asset-backed securities								
Home equity	-	-	-	-	-	-	1	1
Other	-	-	-	-	-	-	2	2
Mortgage-backed securities								
Government	-	-	-	-	-	-	2	2
Non-government	-	-	-	-	-	-	3	4
Corporate bonds	9	-	-	-	11 %	-	27	34
Corporate bonds - PIF	-	-	-	-	69	-	-	6
Equity securities								
Domestic	-	-	-	-	3	-	7	3
Equity securities - PIF								
Domestic	-	-	-	-	8	-	17	10
International	-	-	-	-	3	-	6	3
Mutual funds								
Domestic	-	-	-	-	1	-	3	2
International	8	17 %	18	10	3	13 %	6	4
Emerging markets	7	-	-	1	2	-	5	3
Equity	13	33	27	15	-	30	-	-
Fixed income	56	30	54	69	-	27	-	-
Other	-	4	-	-	-	4	-	-
Hedge fund-of-funds - PIF	-	16	-	-	-	26	-	1
	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %

Defined Benefit Plan Assets

The valuation methodologies and inputs used for pension plan assets measured at fair value on a recurring basis, as well as the general classification of pension plan assets pursuant to the valuation hierarchy, are described below. There have been no significant changes in the valuation techniques during the year ended December 31, 2012.

(Dollars in Thousands)

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 exchange traded equities and mutual funds. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections, and cash flows. Such securities are classified within Level 2 of the valuation hierarchy. Level 2 plan assets include U.S. Treasury obligations, U.S. Government obligations, collateralized mortgage and other collateralized asset obligations, corporate debt and PIFs. In certain cases where Level 1 or Level 2 inputs are not available, plan assets are classified within Level 3 of the hierarchy. The plans have no Level 3 investments.

The value of certain investments classified as PIFs is determined using net asset value (or its equivalent) as a practical expedient. Investments for which the Health System expects to have the ability to redeem with the investee within 12 months after the reporting date are categorized as Level 2.

The following tables present the fair value measurements of the Health System's pension plans' assets 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, 2012 and 2011:

		2012 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 equivalents and short-term investments	$ 18,891	$ 18,891	$ -	$ -
Corporate bonds	18,273	-	18,273	-
Mutual funds				
International	66,021	66,021	-	-
Emerging markets	15,533	15,533	-	-
Equity	112,235	112,235	-	-
Fixed income	259,698	259,698	-	-
Other	6,016	6,016	-	-
Hedge fund-of-funds - PIF	23,506	-	23,506	-
	$ 520,173	$ 478,394	$ 41,779	$ -

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(Dollars in Thousands)

December 31, 2012 and 2011

		2011		
		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 equivalents 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	-	-
Fixed income	34,277	34,277	-	-
Other	5,415	5,415	-	-
Hedge fund-of-funds - PIF	33,124	-	33,124	-
	$ 462,468	$ 137,539	$ 324,929	$ -

(Dollars in Thousands)

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of December 31, 2012:

2013	$ 23,943
2014	25,531
2015	27,383
2016	30,645
2017	31,525
2018 - 2022	183,513

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 ($3,000 per claim for MHSC) and $30,000 in the aggregate annually. Professional and general liability insurance coverage is maintained on a claims-made basis, with a liability limit of $35,000. 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 of $71,118 and $72,724 for self-insured losses at December 31, 2012 and 2011, respectively. These liabilities are presented on a gross basis and any expected offsetting insurance recoveries are reported 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, 2012 and 2011, the cash and investments amounted to $35,383 and $37,049, respectively.

(Dollars in Thousands)

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 for 2012 and 2011 was $50,919 and $46,499, respectively.

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, 2012:

2013	$ 33,368
2014	25,534
2015	18,742
2016	14,828
2017	12,163
Thereafter	48,375
Total minimum payments required	$ 153,010

Note 13: Disclosures About Fair Value of Assets and Liabilities

Fair value is defined 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. An entity must maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There is a hierarchy of 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

The valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy, are described below. There have been no significant changes in the valuation techniques during the years ended December 31, 2012 or 2011. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

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 exchange traded equities and mutual funds. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections, and cash flows. Such securities are classified within Level 2 of the valuation hierarchy. Level 2 securities include U.S. Treasury obligations, U.S. Government agency obligations, collateralized mortgage and other collateralized asset obligations, corporate debt, and PIFs. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The only financial instruments with Level 3 measurements that the Health System holds are beneficial interests in trusts, which are discussed below. Inputs and valuation techniques used for these Level 3 interests are described below.

The value of certain investments classified as PIFs is determined using net asset value (or its equivalent) as a practical expedient. Investments for which the Health System expects to have the ability to redeem with the investee within 12 months after the reporting date are categorized as Level 2.

Fair value determinations for Level 3 measurements of securities are the responsibility of management. Management contracts with a pricing specialist to generate fair value estimates on a monthly or quarterly basis. Management challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States.

Interest Rate Swap Agreements

The fair value is estimated using forward-looking interest rate curves and discounted cash flows that are observable or 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. Trusts that have a definite duration based on the terms of the trust document, and where the Health System has the ability to redeem the investment for the underlying assets at some future point, are classified within Level 2 of the valuation hierarchy due to the nature of the valuation inputs. For trusts that are perpetual in nature, in which the underlying assets will never be available to the Health System, the interest is classified within Level 3 of the hierarchy.

(Dollars in Thousands)

Fair Value Measurements

The following tables present 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, 2012 and 2011:

		2012 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 equivalents and short-term investments	$ 73,379	$ 13,301	$ 60,078	$ -
U.S. Treasury obligations	6,274	-	6,274	-
U.S. Government agency obligations	3,123	-	3,123	-
Asset-backed securities				
Home equity	745	-	745	-
Other	71	-	71	-
Mortgage-backed securities				
Government	2,149	-	2,149	-
Non-government	678	-	678	-
Certificates of deposit	379	379	-	-
Corporate bonds	5,933	-	5,933	-
Equity securities				
Domestic	14,201	14,201	-	-
International	501	501	-	-
Mutual funds				
Domestic	2,093	2,093	-	-
International	161,291	161,291	-	-
Emerging markets	22,842	22,842	-	-
Index	4,240	4,240	-	-
Equity	379,504	379,504	-	-
Fixed income	468,494	468,494	-	-
Other	14,711	14,711	-	-
Hedge fund-of-funds - PIF	43,668	-	43,668	-
Insurance policies	4,419	-	4,419	-
Beneficial interest in trusts	12,390	-	5,787	6,603
Financial Liabilities				
Interest rate swap agreements (net)	(92,053)	-	(92,053)	-
	$ 1,129,032	$ 1,081,557	$ 40,872	$ 6,603

(Dollars in Thousands)

		2011 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 equivalents 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 interest in trusts	11,521	-	5,497	6,024
Financial Liabilities				
Interest rate swap agreements (net)	(97,522)	-	(97,522)	-
	$ 1,239,699	$ 408,657	$ 825,018	$ 6,024

(Dollars in Thousands)

Level 3 Reconciliation

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying consolidated balance sheets using significant unobservable (Level 3) inputs:

	2012	2011
Balance, beginning of year	$ 6,024	$ 5,487
Gain on beneficial interests in perpetual trusts	579	537
Balance, end of year	$ 6,603	$ 6,024

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:

		Fair Value Measurements Using		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2012				
Financial Liabilities				
Long-term debt, excluding capital leases and interest rate swaps	$ 784,490		$ 825,639	
December 31, 2011				
Financial Liabilities				
Long-term debt, excluding capital leases and interest rate swaps	$ 779,426		$ 803,109	

(Dollars in Thousands)

Note 14: Temporarily and Permanently Restricted Net Assets

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

	2012	2011
Purchase of equipment	$ 18,235	$ 13,594
Indigent care/operations	27,139	29,121
Health education	8,182	6,217
For use in future periods	10,220	5,071
Other	1,159	3,821
Total temporarily restricted net assets	$ 64,935	$ 57,824

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

	2012	2011
Investments (generally including net investment appreciation and depreciation) to be held in perpetuity (income is restricted)	$ 25,150	$ 24,291
Investments (generally including net investment appreciation and depreciation) to be held in perpetuity (income is restricted for various purposes as directed by the donors)	24,123	22,778
Total permanently restricted net assets	$ 49,273	$ 47,069

(Dollars in Thousands)

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 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 are included on the accompanying consolidated balance sheets in other long-term liabilities, during 2012 and 2011 is included in the table below.

	2012	2011
Liability, beginning of year	$ 12,798	$ 12,108
Liabilities incurred	14	-
Liabilities settled	(494)	(1,052)
Accretion expense	1,066	718
Liabilities assumed in affiliation with MHSC	-	1,024
Changes in estimates, including timing	414	-
Liability, end of year	$ 13,798	$ 12,798

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.

(Dollars in Thousands)

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 $23,040 and $24,747 at December 31, 2012 and 2011, respectively, relating to long-term debt for the construction of a cancer center, a medical office building that includes clinic and office space, a family practice residency program education facility, 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:

2013	$ 1,914
2014	845
2015	24

Patient Protection and Affordable Care Act

The Patient Protection and Affordable Care Act (PPACA) will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid, and insurance companies. Starting in 2014, the legislation requires the establishment of health insurance exchanges, which will provide individuals without employer provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible that the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

The state of Iowa has not indicated whether it will participate in the expansion of the Medicaid program. The ultimate impact on the overall reimbursement to the Health System of any decision to be made cannot be quantified at this point. The state of Illinois has currently indicated it will participate in the Medicaid expansion program.

The PPACA is extremely complex and may be difficult for the federal government and each state to implement. While the overall impact of the PPACA cannot currently be estimated, it is possible that it will have a negative impact on the Health System's net patient service revenue. Additionally, it is possible the Health System will experience payment delays and other operational challenges during PPACA's implementation.

Note 17: Subsequent Events

Subsequent events have been evaluated through April 25, 2013, which is the date the financial statements were issued.

Certain provisions of the Federal Government's *Budget Control Act of 2011* went into effect on January 1, 2013. Among these are mandatory payment reductions under the Medicare Fee-for-Service program, known as sequestration. The *American Taxpayer Relief Act of 2012* postponed sequestration for two months, but the order was issued by President Obama on March 1, 2013. Under these provisions, Medicare reimbursement was reduced by two percent on all claims with dates-of-service or dates-of-discharge on or after April 1, 2013. Under current law, sequestration is scheduled to last through 2021. The continuation of these payment cuts for an extended period of time will have an adverse effect on operating results of the Health System.

On April 16, 2013, the Health System began being publically known as UnityPoint Health. This name change reflects the transformation of clinical processes underway within the Health System and the adaptation to better address the health care needs of communities, including building a model of delivering health care that coordinates care around the patient while focusing on improving the quality of care and reducing costs. The legal name of the parent will remain Iowa Health System, with the UnityPoint Health name reflecting a doing business as (d/b/a). This name change impacts the subsidiary entities as well. As part of this transition, some of the Health System's subsidiaries will be changing their legal names, but most will just be changes in the d/b/a.

Iowa Health System and Subsidiaries

Schedule 1

Consolidating Schedule - Balance Sheet Information
(In Thousands)
December 31, 2012

Assets

	IHDM	MHSC	TRHS	SLHC	AHS	SLHS	THS	TRI-ST	IHP	IHHC	IHS & Other	Eliminations	Consolidated
Current Assets													
Cash and cash equivalents	$ 29,769	$ 30,535	$ 17,534	$ 17,255	$ 6,857	$ 8,549	$ 9,533	$ 5,130	$ 3,138	$ 3,297	$ 9,393	$	$ 140,990
Short-term investments	20,697	410	7,227	9,043	4,384	2,811	449	1,205	5,635	2,523	10,024		64,408
Assets limited as to use - required for current liabilities	5,822		3,312	2,734	957	1,042	538						14,405
Patient accounts receivable, less estimated uncollectibles	94,160	55,941	56,400	52,424	25,842	23,500	17,746	15,804	19,068	17,670			378,555
Other receivables	8,884	5,050	1,638	5,912	2,905	2,358	2,043	3,172	1,813	2,057	7,486		43,318
Inventories	11,261	4,154	9,231	7,771	5,675	3,587	3,065	2,258	2,584	1,255	69		50,910
Prepaid expenses	2,486	2,953	1,426	1,536	1,109	697	568	579	474	101	14,182		26,111
Due from affiliates	403		(122)	433	69	83	107	273	17,656	191	39,476	(58,569)	-
Total current assets	173,482	99,043	96,646	97,108	47,798	42,627	34,049	28,421	50,368	27,094	80,630	(58,569)	718,697
Assets Limited As to Use, noncurrent													
Held by trustee under bond indenture agreements	2,925												2,925
Internally designated	461,123	3,701	152,308	110,703	1,228	49,796	45,022	58,065			526		882,472
Total assets limited as to use, noncurrent	464,048	3,701	152,308	110,703	1,228	49,796	45,022	58,065			526		885,397
Property, Plant and Equipment, net	260,842	244,543	152,067	166,730	104,992	76,105	78,743	50,476	22,621	6,520	160,849		1,324,488
Other Long-term Investments	47,013	165,196	2,368	22,210	99,988	1,298	13,817	299	34,568	18,103	8,189		413,049
Investments in Joint Ventures and Other Investments	69,628	13,009	7,709	15,513	7,565	12,325	4,653	4,586		517	22,292	(83,189)	74,608
Contributions Receivable, net	6,846	5,787	3,455	35,311	2,821	3,464	1,324	6,171					65,179
Other	882	1,440	1,588	1,666	3,551	385	1,370	57	745		12,257		23,941
Due From Affiliates					150			90			465,545	(465,785)	-
Total assets	$ 1,022,741	$ 532,719	$ 416,141	$ 449,241	$ 268,093	$ 186,000	$ 178,978	$ 148,165	$ 108,302	$ 52,234	$ 750,288	$ (607,543)	$ 3,505,359

Liabilities and Net Assets

	IHDM	MHSC	TRHS	SLHC	AHS	SLHS	THS	TRI-ST	IHP	IHHC	IHS & Other	Eliminations	Consolidated
Current Liabilities													
Current maturities of long-term debt	$ 206	$ 5,365	$ 1,512	$	$ 20	$ 11	$ 366	$	$ 472	$ 191	$ 64,879	$	$ 73,022
Accounts payable	22,999	23,830	16,796	12,028	8,731	9,131	4,689	5,148	4,567	3,869	10,849		122,637
Accrued payroll	31,089	11,801	14,717	20,180	11,793	6,511	7,360	5,467	19,907	5,648	9,573		144,046
Accrued interest	12	220									7,977		8,209
Estimated settlements due to third-party payers	3,863	31,368	8,360	4,091	6,214	1,798	802	814		696			58,006
Due to affiliates	18,253	571	8,788	10,035	7,472	6,686	1,559	1,386	40	1,002	2,607	(58,399)	-
Other current liabilities	12,646	8,113	7,309	6,788	4,838	2,471	2,317	2,832	6,065	952	6,140	(174)	60,297
Total current liabilities	89,068	81,268	57,482	53,122	39,068	26,608	17,093	15,647	31,051	12,358	102,025	(58,573)	466,217
Long-term Debt, net	26,539	99,010	14,720	3	30	34			9,443	360	577,446		727,585
Other Long-term Liabilities	29,278	108,086	12,151	38,418	13,811	6,213	11,170	808	23,067	1,022	114,811		358,835
Due to Affiliates	128,798		124,400	71,782	58,900	54,607	20,440	6,753		105		(465,785)	-
Total liabilities	273,683	288,364	208,753	163,325	111,809	87,462	48,703	23,208	63,561	13,845	794,282	(524,358)	1,552,637
Net Assets													
Unrestricted	722,694	230,238	196,655	247,479	148,307	94,758	124,038	118,786	44,741	38,056	(44,053)	(83,185)	1,838,514
Temporarily restricted	10,222	10,133	9,126	20,325	4,149	2,211	4,393	3,984		333	59		64,935
Permanently restricted	16,142	3,984	1,607	18,112	3,828	1,569	1,844	2,187					49,273
Total net assets	749,058	244,355	207,388	285,916	156,284	98,538	130,275	124,957	44,741	38,389	(43,994)	(83,185)	1,952,722
Total liabilities and net assets	$ 1,022,741	$ 532,719	$ 416,141	$ 449,241	$ 268,093	$ 186,000	$ 178,978	$ 148,165	$ 108,302	$ 52,234	$ 750,288	$ (607,543)	$ 3,505,359

Definitions

IHDM - Iowa Health - Des Moines and Subsidiaries (Des Moines)
MHSC - Methodist Health Services Corp. and Subsidiaries (Peoria)
TRHS - Trinity Regional Health System and Subsidiaries (Rock Island)
SLHC - St. Luke's Healthcare and Subsidiaries (Cedar Rapids)
AHS - Allen Health Systems, Inc. and Subsidiaries (Waterloo)
SLHS - St. Luke's Health System, Inc. (Sioux City)

THS - Trinity Health Systems, Inc. and Subsidiaries (Fort Dodge)
TRI-ST - Finley Tri-States Health Group, Inc. and Subsidiaries (Dubuque)
IHP - Iowa Health Physicians & Clinics
IHHC - Iowa Health Home Care
IHS & Other - Iowa Health System and other Subsidiaries

Iowa Health System and Subsidiaries

Schedule 2

Consolidating Schedule - Revenue and Gains, Expenses and Losses Information
(In Thousands)
Year Ended December 31, 2012

	IHDM	MHSC	TRHS	SLHC	AHS	SLHS	THS	TRI-ST	IHP	IHHC	IHS & Other	Eliminations	Consolidated
Revenue													
Patient service revenue (net of contractual allowances)	$ 636,100	$ 354,890	$ 404,027	$ 365,557	$ 213,882	$ 163,234	$ 136,264	$ 97,229	$ 223,420	$ 92,608	$	$ (1,203)	$ 2,686,008
Provision for patient uncollectible accounts	(31,751)	(19,009)	(29,743)	(14,902)	(7,933)	(13,513)	(6,025)	(3,929)	(4,608)				(131,413)
Net patient service revenue	604,349	335,881	374,284	350,655	205,949	149,721	130,239	93,300	218,812	92,608		(1,203)	2,554,595
Other operating revenue	27,783	25,749	12,864	21,474	11,031	6,557	12,593	5,684	23,823	2,635	196,481	(175,411)	171,263
Net assets released from restrictions used for operations	2,947	643	702	736	511		145	101		773	128		6,686
Total revenue	635,079	362,273	387,850	372,865	217,491	156,278	142,977	99,085	242,635	96,016	196,609	(176,614)	2,732,544
Expenses													
Salaries and wages	227,171	118,821	129,779	142,206	71,621	52,728	48,159	35,333	76,312	49,888	52,362		1,004,380
Physician compensation and services	53,906	46,119	32,308	30,855	16,234	13,490	27,253	4,908	104,119	227	16	(5,074)	324,361
Employee benefits	58,788	22,992	32,158	37,119	18,537	13,750	11,925	8,054	17,452	11,334	10,770	(2,011)	240,868
Supplies	117,057	50,956	76,185	59,181	47,377	27,620	20,043	14,596	18,874	13,424	600		445,913
Other expenses	114,140	73,353	91,731	74,298	38,365	33,798	26,563	25,738	50,836	14,328	86,438	(170,647)	458,941
Depreciation and amortization	33,370	24,676	17,424	17,843	12,690	7,155	6,424	5,911	4,400	2,026	31,976		163,895
Interest	7,669	2,476	6,837	3,865	3,043	2,743	1,165	477	508	44	27,590	(24,683)	31,734
Provision for uncollectible accounts	85		122	115	22	32				678			1,054
Total expenses	612,186	339,393	386,544	365,482	207,889	151,316	141,532	95,017	272,501	91,949	209,752	(202,415)	2,671,146
Operating Income (Loss)	22,893	22,880	1,306	7,383	9,602	4,962	1,445	4,068	(29,866)	4,067	(13,143)	25,801	61,398
Nonoperating Gains (Losses)													
Investment income	58,458	13,975	16,977	14,101	10,652	5,706	5,930	6,455	3,304	2,017	2,567	(5,327)	134,815
Other, net	372	3,978	272	8	61	(10)	(113)	128	6		(3,320)		1,382
Total nonoperating gains (losses), net	58,830	17,953	17,249	14,109	10,713	5,696	5,817	6,583	3,310	2,017	(753)	(5,327)	136,197
Revenue Over (Under) Expenses	$ 81,723	$ 40,833	$ 18,555	$ 21,492	$ 20,315	$ 10,658	$ 7,262	$ 10,651	$ (26,556)	$ 6,084	$ (13,896)	$ 20,474	$ 197,595

Definitions

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MHSC - Methodist Health Services Corp. and Subsidiaries (Peoria)
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AHS - Allen Health Systems, Inc. and Subsidiaries (Waterloo)
SLHS - St. Luke's Health System, Inc. (Sioux City)
THS - Trinity Health Systems, Inc. and Subsidiaries (Fort Dodge)
TRI-ST - Finley Tri-States Health Group, Inc. and Subsidiaries (Dubuque)
IHP - Iowa Health Physicians & Clinics
IHHC - Iowa Health Home Care
IHS & Other - Iowa Health System and other Subsidiaries

Iowa Health System and Subsidiaries

Schedule 3

Iowa Health - Des Moines and Subsidiaries (Des Moines)
Consolidating Schedule - Balance Sheet Information
(In Thousands)
December 31, 2012

Assets

	IHDM	CIHC	IHF	CIHP	IHHC	IHP	Eliminations	Consolidated
Current Assets								
Cash and cash equivalents	$	$ 28,674	$ 520	$ 575	$	$	$	$ 29,769
Short-term investments		20,697						20,697
Assets limited as to use - required for current liabilities		5,822						5,822
Patient accounts receivable, less estimated uncollectibles		94,160						94,160
Other receivables		8,878	5	1				8,884
Inventories		11,159	102					11,261
Prepaid expenses		2,414	30	42				2,486
Due from affiliates		2,227		5,823			(7,647)	403
Total current assets		174,031	657	6,441			(7,647)	173,482
Assets Limited As to Use, noncurrent								
Held by trustee under bond indenture agreements		2,925						2,925
Internally designated		392,480	68,643					461,123
Total assets limited as to use, noncurrent		395,405	68,643					464,048
Property, Plant and Equipment, net		234,555	74	26,213				260,842
Other Long-term Investments		9,330	37,683					47,013
Investments in Joint Ventures and Other Investments		29,126	22	4,543	33,476	25,615	(23,154)	69,628
Contributions Receivable, net			6,846					6,846
Other		838		44				882
Due From Affiliates		2,548					(2,548)	-
Total assets	$ -	$ 845,833	$ 113,925	$ 37,241	$ 33,476	$ 25,615	$ (33,349)	$ 1,022,741

Liabilities and Net Assets

	IHDM	CIHC	IHF	CIHP	IHHC	IHP	Eliminations	Consolidated
Current Liabilities								
Current maturities of long-term debt	$	$ 206	$	$	$	$	$	$ 206
Accounts payable		22,298	1	700				22,999
Accrued payroll		30,903	186					31,089
Accrued interest		12						12
Estimated settlements due to third-party payers		3,863						3,863
Due to affiliates		23,808	365	1,727			(7,647)	18,253
Other current liabilities		12,517		129				12,646
Total current liabilities		93,607	552	2,556			(7,647)	89,068
Long-term Debt, net		26,539						26,539
Other Long-term Liabilities		28,157	1,121					29,278
Due to Affiliates		128,018		3,328			(2,548)	128,798
Total liabilities		276,321	1,673	5,884			(10,195)	273,683
Net Assets								
Unrestricted		545,999	86,247	31,357	33,476	25,615		722,694
Temporarily restricted		7,319	9,863				(6,960)	10,222
Permanently restricted		16,194	16,142				(16,194)	16,142
Total net assets		569,512	112,252	31,357	33,476	25,615	(23,154)	749,058
Total liabilities and net assets	$ -	$ 845,833	$ 113,925	$ 37,241	$ 33,476	$ 25,615	$ (33,349)	$ 1,022,741

Definitions

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

IHHC - Iowa Health Home Care, IHDM portion
IHP - Iowa Health Physicians & Clinics, IHDM portion

Iowa Health System and Subsidiaries

Schedule 4

Iowa Health - Des Moines and Subsidiaries (Des Moines)
Consolidating Schedule - Revenue and Gains, Expenses and Losses Information
(In Thousands)
Year Ended December 31, 2012

	IHDM	CIHC	IHF	CIHP	IHHC	IHP	Eliminations	Consolidated
Revenue								
Patient service revenue (net of contractual allowances)	$	$ 636,630	$	$	$	$	$ (530)	$ 636,100
Provision for patient uncollectible accounts		(31,751)						(31,751)
Net patient service revenue		604,879					(530)	604,349
Other operating revenue		46,718		5,344	2,264	(17,508)	(9,035)	27,783
Net assets released from restrictions used for operations		2,924	23					2,947
Total revenue		654,521	23	5,344	2,264	(17,508)	(9,565)	635,079
Expenses								
Salaries and wages		226,026	1,087	58				227,171
Physician compensation and services		57,976					(4,070)	53,906
Employee benefits		58,488	276	24				58,788
Supplies		117,048	6	3				117,057
Other expenses	78	116,777	612	2,168			(5,495)	114,140
Depreciation and amortization		31,960	16	1,394				33,370
Interest		7,465		204				7,669
Provision for uncollectible accounts		85						85
Total expenses	78	615,825	1,997	3,851			(9,565)	612,186
Operating Income (Loss)	(78)	38,696	(1,974)	1,493	2,264	(17,508)		22,893
Nonoperating Gains								
Investment income		44,336	11,023		1,009	2,090		58,458
Other, net			372					372
Total nonoperating gains, net		44,336	11,395		1,009	2,090		58,830
Revenue Over (Under) Expenses	$ (78)	$ 83,032	$ 9,421	$ 1,493	$ 3,273	$ (15,418)	$ -	$ 81,723

Definitions

IHDM - Iowa Health - Des Moines
CIHC - Central Iowa Hospital Corporation
IHF - Iowa Health Foundation
CIHP - Central Iowa Health Properties Corporation
IHHC - Iowa Health Home Care, IHDM portion
IHP - Iowa Health Physicians & Clinics, IHDM portion

Iowa Health System and Subsidiaries

Schedule 5

Methodist Health Services Corporation and Subsidiaries (Peoria)
Consolidating Schedule - Balance Sheet Information
(In Thousands)
December 31, 2012

Assets

	MHSC	MMCI	MSI	MMCF	Eliminations	Consolidated
Current Assets						
Cash and cash equivalents	$ 2,761	$ 27,285	$ 199	$ 290	$	$ 30,535
Short-term investments		410				410
Patient accounts receivable, less estimated uncollectibles	66	55,875				55,941
Other receivables	180	4,696	174			5,050
Inventories	346	3,808				4,154
Prepaid expenses	10	2,938		5		2,953
Due from affiliates	128	4,483			(4,611)	-
Total current assets	3,491	99,495	373	295	(4,611)	99,043
Assets Limited As to Use, noncurrent						
Internally designated		3,701				3,701
Property, Plant and Equipment, net	27	166,669	77,847			244,543
Other Long-term Investments		147,250		17,946		165,196
Investments in Joint Ventures and Other Investments	359	30,745		142	(18,237)	13,009
Contributions Receivable, net		5,787				5,787
Other	122	1,318				1,440
Total assets	$ 3,999	$ 454,965	$ 78,220	$ 18,383	$ (22,848)	$ 532,719

Liabilities and Net Assets

	MHSC	MMCI	MSI	MMCF	Eliminations	Consolidated
Current Liabilities						
Current maturities of long-term debt	$	$ 5,365	$	$	$	$ 5,365
Accounts payable	97	23,494	239			23,830
Accrued payroll	526	11,275				11,801
Accrued interest		220				220
Estimated settlements due to third-party payers		31,368				31,368
Due to affiliates	1,186	700	3,296		(4,611)	571
Other current liabilities		7,173	905	35		8,113
Total current liabilities	1,809	79,595	4,440	35	(4,611)	81,268
Long-term Debt, net		99,010				99,010
Other Long-term Liabilities		107,975		111		108,086
Total liabilities	1,809	286,580	4,440	146	(4,611)	288,364
Net Assets						
Unrestricted	2,190	154,268	73,780	10,096	(10,096)	230,238
Temporarily restricted		10,133		4,177	(4,177)	10,133
Permanently restricted		3,984		3,964	(3,964)	3,984
Total net assets	2,190	168,385	73,780	18,237	(18,237)	244,355
Total liabilities and net assets	$ 3,999	$ 454,965	$ 78,220	$ 18,383	$ (22,848)	$ 532,719

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

Schedule 6

Methodist Health Services Corporation and Subsidiaries (Peoria)
Consolidating Schedule - Revenue and Gains, Expenses and Losses Information
(In Thousands)
Year Ended December 31, 2012

	MHSC	MMCI	MSI	MMCF	Eliminations	Consolidated
Revenue						
Patient service revenue (net of contractual allowances)	$ 574	$ 355,978	$	$	$ (1,662)	$ 354,890
Provision for patient uncollectible accounts		(19,009)				(19,009)
Net patient service revenue	574	336,969			(1,662)	335,881
Other operating revenue	12,190	25,069	7,578	211	(19,299)	25,749
Net assets released from restrictions used for operations		202		441		643
Total revenue	12,764	362,240	7,578	652	(20,961)	362,273
Expenses						
Salaries and wages	10,059	108,588		174		118,821
Physician compensation and services		46,119				46,119
Employee benefits	2,662	20,580	20	45	(315)	22,992
Supplies	9	50,934	11	2		50,956
Other expenses	366	87,337	5,670	626	(20,646)	73,353
Depreciation and amortization	17	21,790	2,869			24,676
Interest		2,476				2,476
Total expenses	13,113	337,824	8,570	847	(20,961)	339,393
Operating Income (Loss)	(349)	24,416	(992)	(195)		22,880
Nonoperating Gains						
Investment income	12	12,909		1,054		13,975
Other, net		3,061		917		3,978
Total nonoperating gains, net	12	15,970		1,971		17,953
Revenue Over (Under) Expenses	$ (337)	$ 40,386	$ (992)	$ 1,776	$ -	$ 40,833

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

Schedule 7

Trinity Regional Health System and Subsidiaries (Rock Island)
Consolidating Schedule - Balance Sheet Information
(In Thousands)
December 31, 2012

Assets

	TRHS	TMC	VNHA	THF	THE	TM	IHP	Eliminations	Consolidated
Current Assets									
Cash and cash equivalents	$ 372	$ 12,107	$	$ 300	$ 1,509	$ 3,246	$	$	$ 17,534
Short-term investments		2,687		7		4,533			7,227
Assets limited as to use - required for current liabilities		3,312							3,312
Patient accounts receivable, less estimated uncollectibles		48,528			463	7,409			56,400
Other receivables		76				1,562			1,638
Inventories		7,436			316	1,479			9,231
Prepaid expenses		1,130		38	33	225			1,426
Due from affiliates	3	8,246			14	6		(8,391)	(122)
Total current assets	375	83,522		345	2,335	18,460		(8,391)	96,646
Assets Limited As to Use, noncurrent									
Internally designated	13,859	128,402		4,253		5,794			152,308
Property, Plant and Equipment, net		133,519			480	18,068			152,067
Other Long-term Investments		2,134		234					2,368
Investments in Joint Ventures and Other Investments	2,749	7,391	(567)		116		3,613	(5,593)	7,709
Contributions Receivable, net						3,455			3,455
Other		1,225				363			1,588
Due from Affiliates		5,700						(5,700)	-
Total assets	$ 16,983	$ 361,893	$ (567)	$ 4,832	$ 2,931	$ 46,140	$ 3,613	$ (19,684)	$ 416,141

Liabilities and Net Assets

	TRHS	TMC	VNHA	THF	THE	TM	IHP	Eliminations	Consolidated
Current Liabilities									
Current maturities of long-term debt	$	$	$	$	$	$ 1,512	$	$	$ 1,512
Accounts payable	60	14,899		10	40	1,787			16,796
Accrued payroll	661	12,081		6	69	1,900			14,717
Estimated settlements due to third-party payers		7,731				629			8,360
Due to affiliates	4,613	8,738		630	222	2,976		(8,391)	8,788
Other current liabilities	29	6,664		16	(143)	743			7,309
Total current liabilities	5,363	50,113		662	188	9,547		(8,391)	57,482
Long-term Debt, net						14,720			14,720
Other Long-term Liabilities		11,170		68		913			12,151
Due to Affiliates		124,400				5,700		(5,700)	124,400
Total liabilities	5,363	185,683		730	188	30,880		(14,091)	208,753
Net Assets (Deficit)									
Unrestricted	11,620	173,523	(567)	32	2,743	8,683	3,613	(2,992)	196,655
Temporarily restricted		1,320		2,463		6,577		(1,234)	9,126
Permanently restricted		1,367		1,607				(1,367)	1,607
Total net assets (deficit)	11,620	176,210	(567)	4,102	2,743	15,260	3,613	(5,593)	207,388
Total liabilities and net assets (deficit)	$ 16,983	$ 361,893	$ (567)	$ 4,832	$ 2,931	$ 46,140	$ 3,613	$ (19,684)	$ 416,141

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 & Clinics, TRHS portion

Iowa Health System and Subsidiaries

Schedule 8

Trinity Regional Health System and Subsidiaries (Rock Island)
Consolidating Schedule - Revenue and Gains, Expenses and Losses Information
(In Thousands)
Year Ended December 31, 2012

	TRHS	TMC	VNHA	THF	THE	TM	IHP	Eliminations	Consolidated
Revenue									
Patient service revenue (net of contractual allowances)	$	$ 341,105	$	$	$ 4,865	$ 58,057	$	$	$ 404,027
Provision for patient uncollectible accounts		(25,807)			(50)	(3,886)			(29,743)
Net patient service revenue		315,298			4,815	54,171			374,284
Other operating revenue	393	16,782	(309)		50	3,533	(6,505)	(1,080)	12,864
Net assets released from restrictions used for operations				702					702
Total revenue	393	332,080	(309)	702	4,865	57,704	(6,505)	(1,080)	387,850
Expenses									
Salaries and wages	330	110,198		388	1,335	17,528			129,779
Physician compensation and services		23,934				8,376		(2)	32,308
Employee benefits	72	25,700		92	332	6,052		(90)	32,158
Supplies	17	67,696		7	2,346	6,073		46	76,185
Other expenses	594	77,938		1,337	691	12,180		(1,009)	91,731
Depreciation and amortization		15,381			134	1,909			17,424
Interest		6,673				319		(155)	6,837
Provision for uncollectible accounts		122							122
Total expenses	1,013	327,642		1,824	4,838	52,437		(1,210)	386,544
Operating Income (Loss)	(620)	4,438	(309)	(1,122)	27	5,267	(6,505)	130	1,306
Nonoperating Gains									
Investment income	1,594	14,126	416	25		714	259	(157)	16,977
Other, net				139		133			272
Total nonoperating gains, net	1,594	14,126	416	164		847	259	(157)	17,249
Revenue Over (Under) Expenses	$ 974	$ 18,564	$ 107	$ (958)	$ 27	$ 6,114	$ (6,246)	$ (27)	$ 18,555

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 & Clinics, TRHS portion

Iowa Health System and Subsidiaries

Schedule 9

St. Luke's Healthcare and Subsidiaries (Cedar Rapids)
Consolidating Schedule - Balance Sheet Information
(In Thousands)
December 31, 2012

Assets

	SLMH	CARE	CC-STL	STL-HR	JONES	CARDIO LC	STEAM, INC.	IHP	Eliminations	Consolidated
Current Assets										
Cash and cash equivalents	$ 8,427	$ 1,348	$ 929	$ 770	$ 5,736	$ 45	$	$	$	$ 17,255
Short-term investments	7,159				1,884					9,043
Assets limited as to use - required for current liabilities	2,734									2,734
Patient accounts receivable, less estimated uncollectibles	46,148	1,148	931		3,143	1,054				52,424
Other receivables	5,291			6	467	69	79			5,912
Inventories	7,500		58		213					7,771
Prepaid expenses	1,341	42	10		34	78	31			1,536
Due from affiliates	1,434			1,498	(3)	150	60		(2,706)	433
Total current assets	80,034	2,538	1,928	2,274	11,474	1,396	170		(2,706)	97,108
Assets Limited As to Use, noncurrent										
Internally designated	100,710				9,993					110,703
Property, Plant and Equipment, net	141,464	4,308	279	1,668	13,343	395	4,600		673	166,730
Other Long-term Investments	21,463					747				22,210
Investments in Joint Ventures and Other Investments	12,450							9,426	(6,363)	15,513
Contributions Receivable	34,351				960					35,311
Other	1,107					559				1,666
Due From Affiliates	11,635			1,349					(12,984)	-
Total assets	$ 403,214	$ 6,846	$ 2,207	$ 5,291	$ 35,770	$ 3,097	$ 4,770	$ 9,426	$ (21,380)	$ 449,241

Liabilities and Net Assets

	SLMH	CARE	CC-STL	STL-HR	JONES	CARDIO LC	STEAM, INC.	IHP	Eliminations	Consolidated
Current Liabilities										
Current maturities of long-term debt										
Accounts payable	$ 10,406	$ 452	$ 404	$	$ 498	$ 121	$ 147	$	$	$ 12,028
Accrued payroll	18,200	331	127		826	696				20,180
Estimated settlements due to third-party payers	3,784		7		300					4,091
Due to affiliates	11,598	96	398		648	1			(2,706)	10,035
Other current liabilities	6,407	106	10	140		125				6,788
Total current liabilities	50,395	985	946	140	2,272	943	147		(2,706)	53,122
Long-term Debt, net			3							3
Other Long-term Liabilities	37,143			528		747				38,418
Due to Affiliates	73,131	261	4,864		6,510				(12,984)	71,782
Total liabilities	160,669	1,246	5,813	668	8,782	1,690	147		(15,690)	163,325
Net Assets (Deficit)										
Unrestricted	209,229	5,600	(3,606)	4,623	26,028	1,407	462	9,426	(5,690)	247,479
Temporarily restricted	15,204				960		4,161			20,325
Permanently restricted	18,112									18,112
Total net assets (deficit)	242,545	5,600	(3,606)	4,623	26,988	1,407	4,623	9,426	(5,690)	285,916
Total liabilities and net assets	$ 403,214	$ 6,846	$ 2,207	$ 5,291	$ 35,770	$ 3,097	$ 4,770	$ 9,426	$ (21,380)	$ 449,241

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 & Clinics, SLHC portion

Schedule 10

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, 2012

	SLMH	CARE	CC-STL	STL-HR	JONES	CARDIO LC	STEAM, INC.	IHP	Eliminations	Consolidated
Revenue										
Patient service revenue (net of contractual allowances)	$ 313,215	$ 11,488	$ 7,020	$	$ 21,211	$ 13,713	$	$	$ (1,090)	$ 365,557
Provision for patient uncollectible accounts	(13,774)		(49)		(790)	(289)				(14,902)
Net patient service revenue	299,441	11,488	6,971		20,421	13,424			(1,090)	350,655
Other operating revenue	24,348	259	2	228	590	850	1,311	(1,620)	(4,494)	21,474
Net assets released from restrictions used for operations	736									736
Total revenue	324,525	11,747	6,973	228	21,011	14,274	1,311	(1,620)	(5,584)	372,865
Expenses										
Salaries and wages	122,908	5,897	2,931		6,147	4,103			220	142,206
Physician compensation and services	19,209	26	12		1,702	10,250			(344)	30,855
Employee benefits	32,968	782	466	5	1,920	932			46	37,119
Supplies	54,941	1,220	467		1,448	1,084	84		(63)	59,181
Other expenses	65,264	2,767	3,111	91	4,620	1,997	1,211		(4,763)	74,298
Depreciation and amortization	15,125	292	93	108	1,222	770	233			17,843
Interest	3,875	42	183		340	104			(679)	3,865
Provision for uncollectible accounts	115									115
Total expenses	314,405	11,026	7,263	204	17,399	19,240	1,528		(5,583)	365,482
Operating Income (Loss)	10,120	721	(290)	24	3,612	(4,966)	(217)	(1,620)	(1)	7,383
Nonoperating Gains										
Investment income	12,370				1,176			555		14,101
Other, net					8					8
Total nonoperating gains, net	12,370				1,184			555		14,109
Revenue Over (Under) Expenses	$ 22,490	$ 721	$ (290)	$ 24	$ 4,796	$ (4,966)	$ (217)	$ (1,065)	$ (1)	$ 21,492

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 & Clinics, SLHC portion

Iowa Health System and Subsidiaries

Schedule 11

Allen Health Systems, Inc. and Subsidiaries (Waterloo)
Consolidating Schedule - Balance Sheet Information
(In Thousands)
December 31, 2012

Assets

	AHS	AMH	MFAH	AC	IHP	IHHC	Eliminations	Consolidated
Current Assets								
Cash and cash equivalents	$	$ 6,145	$ 712	$	$	$	$	$ 6,857
Short-term investments		4,381	3					4,384
Assets limited as to use - required for current liabilities		957						957
Patient accounts receivable, less estimated uncollectibles		25,842						25,842
Other receivables		2,556		349				2,905
Inventories		5,675						5,675
Prepaid expenses		999		110				1,109
Due from affiliates		80					(11)	69
Total current assets		46,635	715	459			(11)	47,798
Assets Limited As to Use, noncurrent								
Internally designated		1,152	76					1,228
Property, Plant and Equipment, net		104,992						104,992
Other Long-term Investments		94,444	5,166	378				99,988
Investments in Joint Ventures and Other Investments		1,866	1,036	4,221	6,087	164	(5,809)	7,565
Contributions Receivable		1,955	866					2,821
Other		3,551						3,551
Due From Affiliates		150						150
Total assets	$ -	$ 254,745	$ 7,859	$ 5,058	$ 6,087	$ 164	$ (5,820)	$ 268,093

Liabilities and Net Assets

	AHS	AMH	MFAH	AC	IHP	IHHC	Eliminations	Consolidated
Current Liabilities								
Current maturities of long-term debt	$	$ 20	$	$	$	$	$	$ 20
Accounts payable		8,683	4	44				8,731
Accrued payroll		11,793						11,793
Estimated settlements due to third-party payers		6,214						6,214
Due to affiliates	3	7,472	8				(11)	7,472
Other current liabilities		4,814	12	12				4,838
Total current liabilities	3	38,996	24	56			(11)	39,068
Long-term Debt, net		30						30
Other Long-term Liabilities		13,277	46	488				13,811
Due to Affiliates		58,900						58,900
Total liabilities	3	111,203	70	544			(11)	111,809
Net Assets (Deficit)								
Unrestricted	(3)	139,789	1,977	293	6,087	164		148,307
Temporarily restricted		1,798	3,939	2,348			(3,936)	4,149
Permanently restricted		1,955	1,873	1,873			(1,873)	3,828
Total net assets (deficit)	(3)	143,542	7,789	4,514	6,087	164	(5,809)	156,284
Total liabilities and net assets	$ -	$ 254,745	$ 7,859	$ 5,058	$ 6,087	$ 164	$ (5,820)	$ 268,093

Definitions

AHS - Allen Health System
AMH - Allen Memorial Hospital Corporation
MFAH - Memorial Foundation of Allen Hospital
AC - Allen College
IHP - Iowa Health Physicians & Clinics, AHS portion
IHHC - Iowa Health Home Care, AHS portion

Schedule 12

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, 2012

	AHS	AMH	MFAH	AC	IHP	IHHC	Eliminations	Consolidated
Revenue								
Patient service revenue (net of contractual allowances)	$	$ 213,882	$	$	$	$	$	$ 213,882
Provision for patient uncollectible accounts		(7,933)						(7,933)
Net patient service revenue		205,949						205,949
Other operating revenue		6,396	39	8,225	(4,233)	581	23	11,031
Net assets released from restrictions used for operations		126	9	376				511
Total revenue		212,471	48	8,601	(4,233)	581	23	217,491
Expenses								
Salaries and wages		67,062	295	4,264				71,621
Physician compensation and services		16,234						16,234
Employee benefits		17,462	74	978			23	18,537
Supplies		47,178	5	194				47,377
Other expenses	23	36,464	161	1,717				38,365
Depreciation and amortization		12,690						12,690
Interest		3,034	9					3,043
Provision for uncollectible accounts		1		21				22
Total expenses	23	200,125	544	7,174			23	207,889
Operating Income (Loss)	(23)	12,346	(496)	1,427	(4,233)	581		9,602
Nonoperating Gains								
Investment income		9,450	560		407	235		10,652
Other, net		63	(2)					61
Total nonoperating gains, net		9,513	558		407	235		10,713
Revenue Over (Under) Expenses	$ (23)	$ 21,859	$ 62	$ 1,427	$ (3,826)	$ 816	$ -	$ 20,315

Definitions

AHS - Allen Health System
AMH - Allen Memorial Hospital Corporation
MFAH - Memorial Foundation of Allen Hospital
AC - Allen College
IHP - Iowa Health Physicians & Clinics, AHS portion
IHHC - Iowa Health Home Care, AHS portion

Schedule 13

Iowa Health System and Subsidiaries
St. Luke's Health System, Inc. (Sioux City)
Consolidating Schedule - Balance Sheet Information
(In Thousands)
December 31, 2012

Assets

	SLHS	SLRMC	SLHR	PACE	Eliminations	Consolidated
Current Assets						
Cash and cash equivalents	$ 187	$ 6,970	$ 993	$ 399	$	$ 8,549
Short-term investments		2,811				2,811
Assets limited as to use - required for current liabilities		1,042				1,042
Patient accounts receivable, less estimated uncollectibles		22,286	941	311	(38)	23,500
Other receivables	26	2,226	99	7		2,358
Inventories		3,550	37			3,587
Prepaid expenses	25	617	32	23		697
Due from affiliates	40	43,853			(43,810)	83
Total current assets	278	83,355	2,102	740	(43,848)	42,627
Assets Limited As to Use, noncurrent						
Internally designated		49,796				49,796
Property, Plant and Equipment, net	14,450	59,029	2,574	52		76,105
Other Long-term Investments		1,298				1,298
Investments in Joint Ventures and Other Investments	11,499	826				12,325
Contributions Receivable		3,464				3,464
Other		385				385
Total assets	$ 26,227	$ 198,153	$ 4,676	$ 792	$ (43,848)	$ 186,000
Liabilities and Net Assets (Deficit)						
Current Liabilities						
Current maturities of long-term debt	$	$ 11	$	$	$	$ 11
Accounts payable	7	8,304	190	668	(38)	9,131
Accrued payroll		6,284	197	30		6,511
Estimated settlements due to third-party payers		1,657		141		1,798
Due to affiliates	2,622	5,987	41,826	61	(43,810)	6,686
Other current liabilities	389	1,923	159			2,471
Total current liabilities	3,018	24,166	42,372	900	(43,848)	26,608
Long-term Debt, net		34				34
Other Long-term Liabilities		6,025	188			6,213
Due to Affiliates	9,960	44,647				54,607
Total liabilities	12,978	74,872	42,560	900	(43,848)	87,462
Net Assets (Deficit)						
Unrestricted	13,249	119,501	(37,884)	(108)		94,758
Temporarily restricted		2,211				2,211
Permanently restricted		1,569				1,569
Total net assets (deficit)	13,249	123,281	(37,884)	(108)		98,538
Total liabilities and net assets	$ 26,227	$ 198,153	$ 4,676	$ 792	$ (43,848)	$ 186,000

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

Schedule 14

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, 2012

	SLHS	SLRMC	SLHR	PACE	Eliminations	Consolidated
Revenue						
Patient service revenue (net of contractual allowances)	$	$ 143,390	$ 11,998	$ 8,631	$ (785)	$ 163,234
Provision for patient uncollectible accounts		(12,708)	(805)			(13,513)
Net patient service revenue		130,682	11,193	8,631	(785)	149,721
Other operating revenue	4,109	3,056	259	4	(871)	6,557
Total revenue	4,109	133,738	11,452	8,635	(1,656)	156,278
Expenses						
Salaries and wages	9	47,323	3,926	1,470		52,728
Physician compensation and services		8,306	4,915	269		13,490
Employee benefits		12,406	1,003	341		13,750
Supplies	3	25,848	494	1,275		27,620
Other expenses	936	26,724	3,069	4,725	(1,656)	33,798
Depreciation and amortization	1,030	5,827	260	38		7,155
Interest	557	2,186				2,743
Provision for uncollectible accounts		32				32
Total expenses	2,535	128,652	13,667	8,118	(1,656)	151,316
Operating Income (Loss)	1,574	5,086	(2,215)	517		4,962
Nonoperating Gains (Losses)						
Investment income	152	5,554				5,706
Other, net	(10)					(10)
Total nonoperating gains (losses), net	142	5,554				5,696
Revenue Over (Under) Expenses	$ 1,716	$ 10,640	$ (2,215)	$ 517	$ -	$ 10,658

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

Schedule 15

Trinity Health Systems, Inc. and Subsidiaries (Fort Dodge)
Consolidating Schedule - Balance Sheet Information
(In Thousands)
December 31, 2012

Assets

	THS	TRMC	BMHC	THF	TBC	TPG	TP ACO	IHHC	Eliminations	Consolidated
Current Assets										
Cash and cash equivalents	$ 442	$ 2,086	$ 989	$ 1,228	$ 1,884	$ 2,904	$	$	$	$ 9,533
Short-term investments		449								449
Assets limited as to use - required for current liabilities		538								538
Patient accounts receivable, less estimated uncollectibles		12,897	183			4,666				17,746
Other receivables	220	1,370			14	439				2,043
Inventories		2,582				483				3,065
Prepaid expenses	4	391	1		6	138	28			568
Due from affiliates	34	6,365	5		28	382			(6,707)	107
Total current assets	700	26,678	1,178	1,228	1,932	9,012	28		(6,707)	34,049
Assets Limited As to Use, noncurrent										
Internally designated		32,929		12,093						45,022
Property, Plant and Equipment, net	438	64,209	897	1	12,333	865				78,743
Other Long-term Investments	671			4,046		9,100				13,817
Investments in Joint Ventures and Other Investments	38,201	17,785						2,130	(53,463)	4,653
Contributions Receivable				1,324						1,324
Other	23	1,231				116				1,370
Due From Affiliates		74							(74)	-
Total assets	$ 40,033	$ 142,906	$ 2,075	$ 18,692	$ 14,265	$ 19,093	$ 28	$ 2,130	$ (60,244)	$ 178,978

Liabilities and Net Assets

	THS	TRMC	BMHC	THF	TBC	TPG	TP ACO	IHHC	Eliminations	Consolidated
Current Liabilities										
Current maturities of long-term debt	$	$ 366	$	$	$	$	$	$	$	$ 366
Accounts payable	2	3,702	4	7	61	913				4,689
Accrued payroll	512	4,552	49	13	9	2,225				7,360
Estimated settlements due to third-party payers		1,012	(210)							802
Due to affiliates	894	1,529	1,172	1,544	112	2,865	150		(6,707)	1,559
Other current liabilities	23	1,786	29	4	412	63				2,317
Total current liabilities	1,431	12,947	1,044	1,568	594	6,066	150		(6,707)	17,093
Other Long-term Liabilities	769	1,268	34			9,099				11,170
Due to Affiliates		20,440	74						(74)	20,440
Total liabilities	2,200	34,655	1,152	1,568	594	15,165	150		(6,781)	48,703
Net Assets (Deficit)										
Unrestricted	37,833	101,754	923	12,115	13,671	3,928	(122)	2,130	(48,194)	124,038
Temporarily restricted		4,653		3,146					(3,406)	4,393
Permanently restricted		1,844		1,863					(1,863)	1,844
Total net assets (deficit)	37,833	108,251	923	17,124	13,671	3,928	(122)	2,130	(53,463)	130,275
Total liabilities and net assets	$ 40,033	$ 142,906	$ 2,075	$ 18,692	$ 14,265	$ 19,093	$ 28	$ 2,130	$ (60,244)	$ 178,978

Definitions

THS - Trinity Health Systems
TRMC - Trinity Regional Medical Center
BMHC - Berryhill Mental Health Clinic
THF - Trinity Health Foundation
TBC - Trinity Building Corporation
TPG - Trimark Physicians Group
TP ACO - Trinity Pioneer ACO
IHHC - Iowa Health Home Care, THS portion

Schedule 16

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, 2012

	THS	TRMC	BMHC	THF	TBC	TPG	TP ACO	IHHC	Eliminations	Consolidated
Revenue										
Patient service revenue (net of contractual allowances)	$	$ 93,426	$ 2,172	$	$	$ 40,666	$	$	$	$ 136,264
Provision for patient uncollectible accounts		(4,991)	(47)			(987)				(6,025)
Net patient service revenue		88,435	2,125			39,679				130,239
Other operating revenue	3,223	7,589	106	26	2,105	3,793		1,293	(5,542)	12,593
Net assets released from restrictions used for operations		107		38						145
Total revenue	3,223	96,131	2,231	64	2,105	43,472		1,293	(5,542)	142,977
Expenses										
Salaries and wages	2,355	34,197	1,016	137	131	10,240	83			48,159
Physician compensation and services		7,869	499			18,883	2			27,253
Employee benefits	454	8,239	242	45	33	2,894	18			11,925
Supplies	5	16,972	21	2	13	3,030				20,043
Other expenses	66	21,201	400	318	1,155	8,946	19		(5,542)	26,563
Depreciation and amortization	60	5,197	96	2	753	316				6,424
Interest		1,161	4							1,165
Total expenses	2,940	94,836	2,278	504	2,085	44,309	122		(5,542)	141,532
Operating Income (Loss)	283	1,295	(47)	(440)	20	(837)	(122)	1,293		1,445
Nonoperating Gains (Losses)										
Investment income	1	3,612		2,104	3	5		205		5,930
Other, net		(413)		300						(113)
Total nonoperating gains (losses), net	1	3,199		2,404	3	5		205		5,817
Revenue Over (Under) Expenses	$ 284	$ 4,494	$ (47)	$ 1,964	$ 23	$ (832)	$ (122)	$ 1,498	$ -	$ 7,262

Definitions

THS - Trinity Health Systems
TRMC - Trinity Regional Medical Center
BMHC - Berryhill Mental Health Clinic
THF - Trinity Health Foundation
TBC - Trinity Building Corporation
TPG - Trimark Physicians Group
TP ACO - Trinity Pioneer ACO
IHHC - Iowa Health Home Care, THS portion

Iowa Health System and Subsidiaries

Schedule 17

Finley Tri-States Health Group, Inc. and Subsidiaries (Dubuque)
Consolidating Schedule - Balance Sheet Information
(In Thousands)
December 31, 2012

Assets

	TRI-ST	Finley	VNA	Eliminations	Consolidated
Current Assets					
Cash and cash equivalents	$	$ 4,813	$ 317	$	$ 5,130
Short-term investments		1,205			1,205
Patient accounts receivable, less estimated uncollectibles		15,438	366		15,804
Other receivables		3,149	23		3,172
Inventories		2,258			2,258
Prepaid expenses		578	1		579
Due from affiliates		330	3	(60)	273
Total current assets		27,771	710	(60)	28,421
Assets Limited As to Use, noncurrent					
Internally designated		58,065			58,065
Property, Plant and Equipment, net		50,369	107		50,476
Other Long-term Investments		299			299
Investments in Joint Ventures and Other Investments	14	4,572			4,586
Contributions Receivable		4,543	1,628		6,171
Other		55	2		57
Due From Affiliates		90			90
Total assets	$ 14	$ 145,764	$ 2,447	$ (60)	$ 148,165

Liabilities and Net Assets

	TRI-ST	Finley	VNA	Eliminations	Consolidated
Current Liabilities					
Accounts payable	$	$ 5,137	$ 11	$	$ 5,148
Accrued payroll		5,222	245		5,467
Estimated settlements due to third-party payers		790	24		814
Due to affiliates		1,389	57	(60)	1,386
Other current liabilities		2,701	131		2,832
Total current liabilities		15,239	468	(60)	15,647
Other Long-term Liabilities		806	2		808
Due to Affiliates		6,753			6,753
Total liabilities		22,798	470	(60)	23,208
Net Assets					
Unrestricted	14	118,423	349		118,786
Temporarily restricted		2,356	1,628		3,984
Permanently restricted		2,187			2,187
Total net assets	14	122,966	1,977		124,957
Total liabilities and net assets	$ 14	$ 145,764	$ 2,447	$ (60)	$ 148,165

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

Schedule 18

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, 2012

	TRI-ST	Finley	VNA	Eliminations	Consolidated
Revenue					
Patient service revenue (net of contractual allowances)	$	$ 96,721	$ 508	$	$ 97,229
Provision for patient uncollectible accounts		(3,929)			(3,929)
Net patient service revenue		92,792	508		93,300
Other operating revenue		3,507	2,177		5,684
Net assets released from restrictions used for operations		93	8		101
Total revenue		96,392	2,693		99,085
Expenses					
Salaries and wages		33,486	1,847		35,333
Physician compensation and services		4,908			4,908
Employee benefits		7,479	575		8,054
Supplies		14,555	41		14,596
Other expenses		25,497	241		25,738
Depreciation and amortization		5,880	31		5,911
Interest		477			477
Total expenses		92,282	2,735		95,017
Operating Income (Loss)		4,110	(42)		4,068
Nonoperating Gains					
Investment income		6,454	1		6,455
Other, net		69	59		128
Total nonoperating gains, net		6,523	60		6,583
Revenue Over Expenses	$ -	$ 10,633	$ 18	$ -	$ 10,651

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

Iowa Health System and Subsidiaries

Schedule 19

Affiliated Colleges
Balance Sheet Information
(In Thousands)
December 31, 2012

Assets

	MC	TCN	AC	SLC
Current Assets				
Cash and cash equivalents	$ 2,195	$ 107	$	$ 195
Student loan and other receivables	275	112	349	53
Inventories	8			
Prepaid expenses	90	6	110	4
Total current assets	2,568	225	459	252
Property, Plant and Equipment, net	972	1,436		105
Other Long-term Investments			378	
Interest in Net Assets of Foundation	1,242	2,087	4,221	1,619
Other				248
Total assets	$ 4,782	$ 3,748	$ 5,058	$ 2,224

Liabilities and Net Assets

	MC	TCN	AC	SLC
Current Liabilities				
Current maturities of long-term debt	$	$ 69	$	$
Accounts payable	51	11	44	100
Accrued payroll	91	84		242
Other current liabilities	182	259	12	110
Total current liabilities	324	423	56	452
Long-term Debt, net		1,457		
Other Long-term Liabilities		4	488	6
Total liabilities	324	1,884	544	458
Net Assets				
Unrestricted	3,216	(309)	293	(169)
Temporarily restricted	526	883	2,348	852
Permanently restricted	716	1,290	1,873	1,083
Total net assets	4,458	1,864	4,514	1,766
Total liabilities and net assets	$ 4,782	$ 3,748	$ 5,058	$ 2,224

Definitions
MC - Methodist College (Peoria)
TCN - Trinity College of Nursing & Health Sciences (Quad Cities)
AC - Allen College (Waterloo)
SLC - St. Luke's College (Sioux City)

Note 1: Fixed assets utilized by AC belong to their parent hospital corporation, Allen Memorial Hospital Corporation (AMH), and thus are not reflected in the balance sheet of the College. AC receives the benefit of using certain space within AMH's facilities, but donated revenue and donated expense is not reflected within the income statement of AC (located in
Note 2: Certain assets and liabilities, such as cash and accrued liabilities, are also not shown separately on the AC balance sheet, but rather included in AMH.

Iowa Health System and Subsidiaries

Schedule 20

Affiliated Colleges
Revenue and Gains, Expenses and Losses Information
(In Thousands)
Year Ended December 31, 2012

	MC	TCN	AC	SLC
Revenue				
Tuition and student revenue	$ 10,068	$ 3,009	$ 7,737	$ 2,450
Governmental pass-thru		15		876
Grant revenue		76	465	9
Other revenue		34	23	185
Net assets released from restrictions used for operations			376	
Total revenue	10,068	3,134	8,601	3,520
Expenses				
Salaries and wages	4,476	1,853	4,264	2,071
Employee benefits	1,111	452	978	572
Supplies	228	66	194	169
Other expenses	2,303	468	1,717	855
Depreciation and amortization	525	120		2
Interest		60		
Provision for uncollectible accounts		122	21	20
Total expenses	8,643	3,141	7,174	3,689
Operating Income (Loss)	1,425	(7)	1,427	(169)
Revenue Over (Under) Expenses	$ 1,425	$ (7)	$ 1,427	$ (169)

Definitions

MC - Methodist College (Peoria)
TCN - Trinity College of Nursing & Health Sciences (Quad Cities)
AC - Allen College (Waterloo)
SLC - St. Luke's College (Sioux City)