

Iowa Health System and Subsidiaries

Accountants' Report and Consolidated Financial Statements

December 31, 2009 and 2008



Iowa Health System and Subsidiaries

December 31, 2009 and 2008

Contents

Independent Accountants' Report	1
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Consolidated Financial Statements

Balance Sheets	2
Statements of Operations	3
Statements of Changes in Net Assets	4
Statements of Cash Flows.....	5
Notes to Financial Statements	7

Supplementary Information

Iowa Health System and Subsidiaries	47
Iowa Health - Des Moines and Subsidiaries (Des Moines)	49
Trinity Regional Health System and Subsidiaries (Rock Island)	51
St. Luke's Healthcare and Subsidiaries (Cedar Rapids).....	53
Allen Health Systems, Inc. and Subsidiaries (Waterloo)	55
Trinity Health Systems, Inc. and Subsidiaries (Fort Dodge).....	57
St. Luke's Health System, Inc. (Sioux City)	59
Finley Tri-States Health Group, Inc. and Subsidiaries (Dubuque).....	61

Independent Accountants' Report

Board of Directors
Iowa Health System and Subsidiaries

We have audited the accompanying consolidated balance sheets of Iowa Health System and Subsidiaries (the Health System) as of December 31, 2009 and 2008, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Health System's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Iowa Health System and Subsidiaries as of December 31, 2009 and 2008 and the results of their operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying supplementary consolidating information included on pages 47-62 is presented for purposes of additional analysis of the 2009 basic consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual companies, and is not a required part of the 2009 basic consolidated financial statements. This additional information is the responsibility of the Health System's management. The consolidating information has been subjected to the procedures applied in the audit of the 2009 basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the 2009 basic consolidated financial statements taken as a whole.

BKD, LLP

April 14, 2010

Iowa Health System and Subsidiaries
Consolidated Balance Sheets
December 31, 2009 and 2008

Assets

	<u>2009</u>	<u>2008</u>
	(In Thousands)	
Current Assets		
Cash and cash equivalents	\$ 92,037	\$ 170,976
Short-term investments	167,406	46,971
Assets limited as to use – required for current liabilities	17,307	19,401
Patient accounts receivable, less estimated uncollectibles; 2009 – \$47,860, 2008 – \$51,911	243,610	258,025
Other receivables	18,700	29,301
Inventories	41,922	37,789
Prepaid expenses	<u>16,538</u>	<u>15,741</u>
Total current assets	<u>597,520</u>	<u>578,204</u>
Assets Limited As to Use, noncurrent		
Held by trustee under bond indenture agreements	17,838	35,238
Internally designated	<u>662,780</u>	<u>505,491</u>
Total assets limited as to use, non-current	680,618	540,729
Property, Plant and Equipment, net	969,508	895,243
Other Long-term Investments	167,003	107,597
Investments in Joint Ventures and Other Investments	39,176	57,278
Contributions Receivable, net	52,355	40,470
Other	<u>28,452</u>	<u>26,124</u>
Total assets	<u>\$ 2,534,632</u>	<u>\$ 2,245,645</u>

Liabilities and Net Assets

	2009	2008
	(In Thousands)	
Current Liabilities		
Current maturities of long-term debt	\$ 36,812	\$ 55,958
Accounts payable	70,640	75,779
Accrued payroll	100,927	107,667
Accrued interest	11,565	4,441
Estimated settlements due to third-party payers	45,109	44,556
Other current liabilities	43,611	47,358
	<hr/>	<hr/>
Total current liabilities	308,664	335,759
Long-term Debt, net	667,779	588,179
Other Long-term Liabilities	150,928	255,042
	<hr/>	<hr/>
Total liabilities	1,127,371	1,178,980
Net Assets		
Unrestricted	1,320,881	995,382
Temporarily restricted	45,009	32,670
Permanently restricted	41,371	38,613
	<hr/>	<hr/>
Total net assets	1,407,261	1,066,665
	<hr/>	<hr/>
Total liabilities and net assets	\$ 2,534,632	\$ 2,245,645
	<hr/>	<hr/>

Iowa Health System and Subsidiaries
Consolidated Statements of Operations
Years Ended December 31, 2009 and 2008

	2009	2008
	(In Thousands)	
Unrestricted Revenue		
Net patient service revenue	\$ 1,967,219	\$ 1,876,298
Other operating revenue	106,187	114,695
Net assets released from restrictions used for operations	7,694	5,253
Total unrestricted revenue	2,081,100	1,996,246
Expenses		
Salaries and wages	740,360	729,556
Physician compensation and services	188,671	163,320
Employee benefits	209,453	197,045
Supplies	353,567	335,150
Other expenses	315,727	325,294
Depreciation and amortization	119,173	109,166
Interest	26,007	23,472
Provision for uncollectible accounts	68,346	64,558
Total expenses	2,021,304	1,947,561
Operating Income	59,796	48,685
Nonoperating Gains (Losses)		
Investment income	138,510	(85,839)
Other, net	(20,918)	(4,432)
Total nonoperating gains (losses), net	117,592	(90,271)
Revenue Over Expenses Before Loss on Revenue Bond Refinancing Transactions	177,388	(41,586)
Loss on revenue bond refinancing transactions	(9,390)	(3,871)
Revenue Over (Under) Expenses	167,998	(45,457)
Change in net unrealized gains and losses on investments	27,595	(138,512)
Change in net unrealized gains and losses on swaps	93,207	(101,178)
Net assets released from restrictions used for capital expenditures	7,505	12,640
Change in defined benefit pension plan gains and losses and prior costs or credits	28,451	(53,236)
Contributions of or for acquisition of property and equipment	770	480
Other, net	(27)	(336)
Increase (Decrease) in Unrestricted Net Assets	\$ 325,499	\$ (325,599)

Iowa Health System and Subsidiaries
Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
	<u>(In Thousands)</u>	
Unrestricted Net Assets		
Revenue over (under) expenses	\$ 167,998	\$ (45,457)
Change in net unrealized gains and losses on investments	27,595	(138,512)
Change in net unrealized gains and losses on swaps	93,207	(101,178)
Net assets released from restrictions used for capital expenditures	7,505	12,640
Change in defined benefit pension plan gains and losses, prior costs or credits	28,451	(53,236)
Contributions of or for acquisition of property and equipment	770	480
Other, net	<u>(27)</u>	<u>(336)</u>
Increase (decrease) in unrestricted net assets	<u>325,499</u>	<u>(325,599)</u>
Temporarily Restricted Net Assets		
Contributions	13,342	9,653
Investment income	803	(510)
Government grants	1,145	249
Scholarships, loan cancellations and receivable payments	(10)	(73)
Net assets released from restrictions used for operations	(7,694)	(5,253)
Net assets released from restrictions used for capital expenditures	(7,505)	(12,640)
Change in net unrealized gains and losses on investments	1,470	(3,762)
Change in beneficial interest in net assets of affiliate	10,052	(7,317)
Other, net	<u>736</u>	<u>(191)</u>
Increase (decrease) in temporarily restricted net assets	<u>12,339</u>	<u>(19,844)</u>
Permanently Restricted Net Assets		
Contributions	361	976
Investment income	1,878	(1,818)
Change in net unrealized gains and losses on investments	441	(3,236)
Change in beneficial interest in net assets of affiliate	(205)	433
Other, net	<u>283</u>	<u>(1)</u>
Increase (decrease) in permanently restricted net assets	<u>2,758</u>	<u>(3,646)</u>
Increase (Decrease) in Net Assets	340,596	(349,089)
Net Assets, Beginning of Year	<u>1,066,665</u>	<u>1,415,754</u>
Net Assets, End of Year	<u>\$ 1,407,261</u>	<u>\$ 1,066,665</u>

Iowa Health System and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2009 and 2008

	2009	2008
	(In Thousands)	
Operating Activities		
Increase (decrease) in net assets	\$ 340,596	\$ (349,089)
Items not requiring (providing) operating cash		
Net (gains) losses on investments	(152,512)	199,597
Net unrealized (gains) losses on swaps	(75,150)	101,178
Charge for impairment of investments	-	46,042
Restricted contributions, investment income and government grants received	(17,529)	(8,550)
Contributions of or for acquisition of property and equipment	(770)	(480)
Depreciation and amortization	119,173	109,166
Change in defined benefit pension plans' liability	(28,451)	53,236
Transfer of Trinity Muscatine net assets	(1,020)	-
Amortization of debt issuance costs	445	639
(Gain) loss on disposition of assets	2,193	(1,672)
Loss on revenue bond refinancing transactions	9,390	3,871
Equity in earnings of joint ventures	(16,969)	(18,906)
Change in beneficial interest in net assets of affiliate	(9,847)	6,884
Changes in		
Receivables	30,985	(12,740)
Inventories and prepaid expenses	(5,041)	(7,011)
Accounts payable, accrued liabilities and other liabilities	(19,052)	(20,937)
Due to third-party payers	602	2,976
Net cash provided by operating activities	177,043	104,204
Investing Activities		
Capital expenditures	(183,047)	(223,029)
Proceeds from sale of assets	1,574	4,716
Change in assets limited as to use, net	14,924	(39,137)
Decrease (increase) in short-term investments	(119,306)	25,653
Decrease (increase) in other long-term investments	(39,291)	21,322
Investments in joint ventures	(373)	(2,188)
Distributions received from joint ventures	21,534	17,456
Net cash used in investing activities	(303,985)	(195,207)
Financing Activities		
Proceeds from issuance of debt	646,934	486,209
Payments of debt	(606,197)	(352,041)
Payments of financing costs	(8,554)	(6,155)
Proceeds from restricted contributions, investment income and government grants	15,050	20,013
Proceeds from contributions for acquisition of property and equipment	770	480
Net cash provided by financing activities	48,003	148,506
Increase (Decrease) in Cash and Cash Equivalents	(78,939)	57,503
Cash and Cash Equivalents, Beginning of Year	170,976	113,473
Cash and Cash Equivalents, End of Year	\$ 92,037	\$ 170,976

Iowa Health System and Subsidiaries
Consolidated Statements of Cash Flows (Continued)
Years Ended December 31, 2009 and 2008

	2009	2008
	(In Thousands)	
Supplemental Cash Flows Information		
Interest paid (net of amount capitalized)	\$ 22,526	\$ 26,512
Capital lease obligations incurred for property and equipment	60	1,396
Property and equipment purchases in accounts payable	15,004	14,462
Affiliation with Trinity Muscatine		
Assets acquired	24,479	-
Liabilities assumed	24,792	-

Iowa Health System and Subsidiaries
Notes to Consolidated Financial Statements
(Dollars in thousands)
December 31, 2009 and 2008

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 fourteen 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 and adjacent states.

Basis of Presentation

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

Central Iowa Health System and subsidiaries (d/b/a Iowa Health - Des Moines)
(Des Moines)

Trinity Regional Health System and subsidiaries (Rock Island)

St. Luke's Healthcare and subsidiaries (Cedar Rapids)

Allen Health Systems, Inc. and subsidiaries (Waterloo)

Trinity Health Systems, Inc. and subsidiaries (Fort Dodge)

St. Luke's Health System, Inc. (Sioux City)

Finley Tri-States Health Group, Inc. and subsidiaries (Dubuque)

Iowa Physicians Clinic Medical Foundation (d/b/a Iowa Health Physicians)

Intrust (d/b/a Iowa Health Home Care)

On July 1, 2009, Trinity Regional Health System (TRHS) and Trinity Muscatine (formerly Unity HealthCare) entered into an Affiliation agreement under which Trinity Muscatine became a controlled affiliate of TRHS on that date. At December 31, 2009, TRHS has recorded \$25,370 of total assets and net revenues of \$23,806 for the six months ended December 31, 2009. The Health System guaranteed debt as part of the affiliation, which currently has a balance of \$13,845 as of December 31, 2009. Unity HealthCare officially adopted the d/b/a Trinity Muscatine on April 1, 2010.

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

Iowa Health System and Subsidiaries

Notes to Consolidated Financial Statements

(Dollars in thousands)

December 31, 2009 and 2008

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 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.

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. The Health System monitors the difference between the cost and fair value of its available-for-sale investments and recognizes a nonoperating loss for any decline in an investment's value that the Health System believes is other than temporary.

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.

Iowa Health System and Subsidiaries
Notes to Consolidated Financial Statements
(Dollars in thousands)
December 31, 2009 and 2008

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 or losses unless restricted by a donor. Unrealized gains and losses on those investments accounted for at fair value and realized gains and losses and investment income on investments restricted by donors are included as a component of the change in net assets.

During 2009, the System changed its investment strategy and investment portfolio from available-for-sale securities to trading securities. Effective January 1, 2009, unrealized gains and losses are now recorded in earnings as a component of revenues over (under) expenses. These investments were previously held as available-for-sale securities with unrealized gains and losses excluded from earnings until realized. The change also required unrealized gains and losses not previously recognized in earnings to be recognized immediately. This resulted in net unrealized losses of \$28,289 being recorded in revenues over (under) expenses for the year ended December 31, 2009.

During the year ended December 31, 2008, the Health System adopted Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115* (FAS 159), which was subsequently incorporated into the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 825. Topic 825 permits entities to choose to measure many financial instruments and certain other items at fair value. The Health System elected the fair value option for its private investment funds that are primarily limited liability corporations and partnerships existing at January 1, 2008. The adoption did not have a material effect on the financial statements. Management has elected the fair value option for the private investment funds 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 on the statement of operations.

Refer to *Notes 4 and 12* for additional disclosures regarding balance sheet line items and fair value of those investments carried under Topic 825.

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 2009 and 2008, the Health System capitalized \$3,680 and \$5,213 of interest expense, offset by \$806 and \$2,181 of interest income, respectively.

Iowa Health System and Subsidiaries

Notes to Consolidated Financial Statements

(Dollars in thousands)

December 31, 2009 and 2008

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, 2009 and 2008.

Other Assets

Other assets include certain patient records, goodwill and other intangible assets that are stated at cost less accumulated amortization. Goodwill is amortized using the straight-line method over 5 to 20 years. 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 \$2,107 of goodwill and \$12,107 of other intangible assets at December 31, 2009 (\$3,331 and \$12,480, respectively, at December 31, 2008) that 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. Absent specific donor instructions, the income from permanently restricted net assets is available for unrestricted purposes.

Revenues and Expenses

Revenues and expense transactions affecting unrestricted net assets are reflected in the consolidated statements of operations. Consistent with industry practice, unrealized gains and losses on investments other than trading securities (excluding impairment that is other than temporary), the effective portion of derivative instruments qualifying for hedge accounting carried at fair value 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.

Iowa Health System and Subsidiaries
Notes to Consolidated Financial Statements
(Dollars in thousands)
December 31, 2009 and 2008

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 provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. 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 are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

Patient service revenue at established rates less third-party payer contractual adjustments and charity care consisted of the following for the years ended December 31:

	<u>2009</u>	<u>2008</u>
Patient service revenue	\$ 4,393,741	\$ 4,049,808
Allowances for contractual adjustments and charity care	<u>(2,426,522)</u>	<u>(2,173,510)</u>
Net patient service revenue	<u>\$ 1,967,219</u>	<u>\$ 1,876,298</u>

Uncompensated Care

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

Iowa Health System and Subsidiaries

Notes to Consolidated Financial Statements

(Dollars in thousands)

December 31, 2009 and 2008

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 were as follows:

	<u>2009</u>	<u>2008</u>
General health care services	\$ 1,567,365	\$ 1,543,600
Management, general and administrative	451,432	401,504
Research	<u>2,507</u>	<u>2,457</u>
	<u>\$ 2,021,304</u>	<u>\$ 1,947,561</u>

Contributions and 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.

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

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

Estimated Malpractice Costs, Health Insurance and Workers' Compensation

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

Iowa Health System and Subsidiaries
Notes to Consolidated Financial Statements
(Dollars in thousands)
December 31, 2009 and 2008

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 7*, 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 revenues over (under) 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 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.

Certain subsidiaries are subject to federal and state income taxes. 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.

Uncertain Tax Positions

The Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109* (No. 48), which clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken, or expected to be taken in a tax return. 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 2006. The Health System has no material uncertain tax positions.

Iowa Health System and Subsidiaries

Notes to Consolidated Financial Statements

(Dollars in thousands)

December 31, 2009 and 2008

Retirement Plans

Substantially all employees meeting age and length of service requirements participate in defined contribution plans. Certain subsidiaries have prior defined benefit plans that 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.

During 2008, the Health System adopted the change in measurement date portion of Statement of Financial Accounting Standards (“SFAS”) No. 158, *Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans*, which was subsequently incorporated into the FASB ASC Topic 715, so that all plans are now measured at December 31. The change did not have a material effect on the financial statements.

Subsequent Events

Subsequent events have been evaluated through April 14, 2010, which is the date the financial statements were issued.

Note 2: Uncompensated Care

The Health System provides service to eligible patients at reduced or no cost based upon the individual patient’s financial situation. During the collection process, certain accounts are classified by the Health System as charity care and, therefore, not reported as revenue. In some cases, the charity care is subsidized by contributions from volunteer organizations or other donors.

Uncompensated care 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 community health needs. These activities include wellness programs, community education programs, and various health screening programs.

The Health System has calculated the costs for providing uncompensated care related to the following:

	<u>2009</u>	<u>2008</u>
Charity care	\$ 38,525	\$ 35,061
Medicaid	48,164	61,809
Other activities	41,771	39,725

Iowa Health System and Subsidiaries

Notes to Consolidated Financial Statements

(Dollars in thousands)

December 31, 2009 and 2008

Note 3: Third-Party Reimbursement

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

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

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

Gross patient service revenue (based on established rates) by payer for 2009 and 2008 were as follows:

	<u>2009</u>	<u>2008</u>
Medicare	43%	44%
Medicaid	11	10
Wellmark	21	21
Commercial	20	20
Self-pay and other	<u>5</u>	<u>5</u>
	<u>100%</u>	<u>100%</u>

Iowa Health System and Subsidiaries
Notes to Consolidated Financial Statements
(Dollars in thousands)
December 31, 2009 and 2008

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

	2009	2008
Medicare	31%	30%
Medicaid	11	14
Wellmark	14	11
Commercial	29	34
Self-pay and other	15	11
	100%	100%

Illinois Medicaid State Plan

The Illinois Medicaid State Plan has an annual tax assessment on certain hospital providers. Under the amended Illinois Medicaid State Plan, proceeds from the tax assessment are used to obtain federal matching funds, all of which must be distributed to Illinois hospitals and physicians to help bring Medicaid reimbursement closer to the cost of providing care. The allocation of these funds to specific health care providers is based primarily on the amount of care provided to Medicaid recipients. The Health System's tax assessment and contribution all relate to Trinity Regional Health System.

In 2009 and 2008, the Health System's tax assessment and contribution was \$8,386 and \$7,986, respectively, and is included in operating expenses in the 2009 and 2008 consolidated statements of operations. Additional Medicaid reimbursement in the same periods is approximately \$14,375 and \$14,796 and is included in net patient service revenue in the 2009 and 2008 consolidated statements of operations, respectively, resulting in a net increase in 2009 and 2008 operating income of \$5,989 and \$6,810, respectively.

Note 4: Investments

Investment Summary

Short-term investments consist of debt securities and totaled \$167,406 and \$46,971 at December 31, 2009 and 2008, respectively.

Iowa Health System and Subsidiaries

Notes to Consolidated Financial Statements

(Dollars in thousands)

December 31, 2009 and 2008

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

	2009	2008
Held by trustees under bond indenture agreements		
Cash and short-term investments	\$ 17,773	\$ 35,160
Mortgage-backed securities	65	78
	17,838	35,238
Internally designated		
Cash and short-term investments	19,099	19,835
U.S. Treasury obligations	28,507	10,864
U.S. Government agency obligations	7,558	9,859
Mortgage-backed securities	45,571	63,696
Certificates of deposit	474	771
Corporate bonds	183,629	143,805
Equity securities	345,181	248,127
Mutual funds	49,097	26,682
Interest receivable	971	1,253
	680,087	524,892
Total assets limited as to use	697,925	560,130
Less amount required to meet current obligations	17,307	19,401
Noncurrent portion of assets limited as to use	\$ 680,618	\$ 540,729

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:

	2009	2008
Construction accounts	\$ 14,913	\$ 32,304
Collateral and other accounts	2,925	2,934
	\$ 17,838	\$ 35,238

Iowa Health System and Subsidiaries

Notes to Consolidated Financial Statements

(Dollars in thousands)

December 31, 2009 and 2008

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

	2009	2008
Capital improvements	\$ 641,926	\$ 471,339
Self-insured reserves	37,878	52,884
Bond interest account	283	669
	<u>\$ 680,087</u>	<u>\$ 524,892</u>

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

	2009	2008
Restricted cash and short-term investments	\$ 3,443	\$ 4,185
U.S. Treasury obligations	6,527	2,982
U.S. Government agency obligations	1,665	2,076
Mortgage-backed securities	9,631	13,126
Corporate bonds	37,374	26,938
Equity securities	73,809	49,583
Mutual funds	29,628	4,592
Notes receivable	-	589
Interest receivable	186	215
Insurance policies	4,363	-
Interest rate swaps (<i>see Note 7</i>)	377	3,311
	<u>\$ 167,003</u>	<u>\$ 107,597</u>

Iowa Health System and Subsidiaries
Notes to Consolidated Financial Statements
(Dollars in thousands)
December 31, 2009 and 2008

The following schedule summarizes the investment return and its classification in the consolidated financial statements for the year ended December 31:

	<u>2009</u>	<u>2008</u>
Investment return		
Interest and dividends	\$ 18,748	\$ 8,912
Realized gains and losses on sales of investments	(1,623)	35,681
Unrealized gains and losses on trading investments	30,345	-
Unrealized gains and losses on other than trading investments	29,506	(71,823)
Change in fair value of investments accounted for under the fair value option of FASB ASC Topic 825	98,056	(156,378)
Charge for impairment of investments	-	(46,042)
Equity method earnings	16,969	18,906
	<u>\$ 192,001</u>	<u>\$ (210,744)</u>
Investment return classification		
Unrestricted net assets		
Other operating revenue	\$ 21,304	\$ 22,933
Nonoperating gains and losses – investment income	138,510	(85,839)
Change in net unrealized gains and losses on investments	27,595	(138,512)
Temporarily restricted net assets	2,273	(4,272)
Permanently restricted net assets	2,319	(5,054)
	<u>\$ 192,001</u>	<u>\$ (210,744)</u>

Temporarily Impaired Securities

Prior to the conversion of investments to trading securities, the Health System analyzed investments for other-than-temporary impairment. Certain investments in marketable fixed income and equity securities are reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2008 was \$339,175. These declines in the value of securities resulted from a variety of economic factors including: changes in market interest rates, uncertainty of earnings, slowing of growth, reaction to negative news and profit taking by investors, all of which could cause a decline in an investment. Other-than-temporary investment impairments recognized during 2008 was \$46,042.

Iowa Health System and Subsidiaries
Notes to Consolidated Financial Statements
(Dollars in thousands)
December 31, 2009 and 2008

The following table shows the Health System's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2008:

Description of Securities	2008					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Direct Investments						
Fixed income securities	\$ 47,000	\$ 9,956	\$ 22,971	\$ 9,147	\$ 69,971	\$ 19,103
Equity securities	40,264	13,692	369	222	40,633	13,914
Private Investment Funds						
Fixed income securities	124,843	11,755	-	-	124,843	11,755
Equity securities	103,728	23,369	-	-	103,728	23,369
Total temporarily impaired securities	<u>\$ 315,835</u>	<u>\$ 58,772</u>	<u>\$ 23,340</u>	<u>\$ 9,369</u>	<u>\$ 339,175</u>	<u>\$ 68,141</u>

Private Investment Funds

At December 31, 2009 and 2008, 52.6% and 50.2%, respectively, of the Health System's investments are invested in private investment funds whose portfolios are primarily invested in debt and marketable equity securities. These investments are included in internally designated and other long-term investments in the investment summary tables (previously presented) based on the underlying investments. The amounts included in the investment summary tables are as follows:

	2009	2008
Corporate bonds	\$ 161,059	\$ 124,843
Equity securities	<u>294,060</u>	<u>210,220</u>
	<u>\$ 455,119</u>	<u>\$ 335,063</u>

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

Iowa Health System and Subsidiaries
Notes to Consolidated Financial Statements
(Dollars in thousands)
December 31, 2009 and 2008

The private investment funds generally have certain limits regarding advance notice and timing of withdrawals. They generally require advance notice of at least two days prior to a month end to withdraw funds. One fund representing about 32% of the total private investment funds allows for up to four contributions and four withdrawals per year for any amount in excess of \$5 million per transaction. One fund that represents about 15% of the private investment funds requires a 95-day notice to withdraw funds either quarterly or semiannually based on the initial purchase date of the investments. In addition, withdrawals may be limited by the private investment funds underlying investment funds ability to liquidate their holdings.

Investments in Joint Ventures

At December 31, 2009 and 2008, investments in joint ventures amounted to \$28,161 and \$32,926, respectively. Other investments consist primarily of cash surrender value of life insurance policies and real estate held for investment.

The joint ventures consist of 38 privately held health care organizations in which the Health System's ownership interest ranges from 4% to 50% interest. The joint ventures at December 31, 2009 and 2008 had total assets aggregating \$154,626 and \$154,873, respectively. Net revenues of the joint ventures totaled \$148,819 in 2009 and \$168,190 in 2008. The excess of revenues over expenses for the joint ventures, in the aggregate, were \$38,823 in 2009 and \$42,284 in 2008. 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 and totaled \$16,969 in 2009 and \$18,906 in 2008. The Health System made new investments in joint ventures of \$373 in 2009 and \$2,188 in 2008 and received distributions from joint ventures of \$21,534 in 2009 and \$17,456 in 2008.

The Health System both purchases services and sells services and supplies to several joint ventures. In 2009 and 2008, services purchased from joint ventures totaled \$28,407 and \$39,172, respectively. Services and supplies sold to joint ventures in 2009 and 2008 were \$8,740 and \$22,450, respectively.

Iowa Health System and Subsidiaries

Notes to Consolidated Financial Statements

(Dollars in thousands)

December 31, 2009 and 2008

Note 5: Property, Plant and Equipment

Property, plant and equipment are stated at cost and are summarized at December 31, 2009 and 2008 as follows:

	<u>2009</u>	<u>2008</u>
Land	\$ 49,176	\$ 48,447
Land improvements	44,096	36,434
Buildings, improvements and fixed equipment	1,310,467	1,133,878
Moveable equipment	850,380	785,864
	<u>2,254,119</u>	<u>2,004,623</u>
Less accumulated depreciation and amortization	1,325,911	1,228,211
	<u>928,208</u>	<u>776,412</u>
Construction/information systems installation in progress	41,300	118,831
	<u>41,300</u>	<u>118,831</u>
Net property, plant and equipment	<u>\$ 969,508</u>	<u>\$ 895,243</u>

As of December 31, 2009 and 2008, the Health System has committed approximately \$62,887 and \$262,965, respectively, for costs related to various hospital construction projects. The Health System will fund the projects through proceeds from bond offerings and internal funds.

Iowa Health System and Subsidiaries
Notes to Consolidated Financial Statements
(Dollars in thousands)
December 31, 2009 and 2008

Note 6: Long-term Debt

Long-term debt at December 31, 2009 and 2008 is summarized as follows:

	Payable Through	Issuance Type	Interest Rate (1)	2009	2008
Hospital Facility Revenue Bonds					
Series 2009A	2035	Variable	0.20%	\$ 55,260	\$ -
Series 2009B	2035	Variable	0.20%	55,260	-
Series 2009C	2035	Variable	0.21%	31,750	-
Series 2009D	2035	Variable	0.23%	59,000	-
Series 2009E	2039	Variable	0.23%	43,000	-
Series 2009F	2039	Fixed	5%	50,000	-
Series 2008A	2037	Fixed	2.5% - 5.625%	150,000	-
Series 2008A-1	2037	Variable	0.95%	-	75,000
Series 2008A-2	2037	Variable	2.00%	-	75,000
Series 2008	2028	Fixed	11.60%	4,528	4,760
Series 2006	2031	Variable	0.24%	13,845	-
Series 2005	2031	Fixed	4.0% - 4.5%	3,820	-
Series 2005A	2035	Variable	0.95%	-	204,375
Series 2005A	2035	Fixed	2.5% - 5.625%	201,270	-
Series 2005B	2035	Variable	2.50%	-	204,375
Series 2000	2010	Fixed	6.50%	4,420	8,560
Series 1998B	2028	Variable	9.50%	-	2,390
Series 1985B	2015	Variable	0.25%, 3.5%	23,000	23,000
				<u>695,153</u>	<u>597,460</u>
Total hospital facility revenue bonds				695,153	597,460
Capital lease obligations, due through 2015				3,551	7,703
Other notes and mortgages		Various		4,733	39,002
				<u>703,437</u>	<u>644,165</u>
Current maturities				(36,812)	(55,958)
Unamortized bond premiums (discount)				1,154	(28)
Long-term portion				<u>\$ 667,779</u>	<u>\$ 588,179</u>

(1) Variable rates shown as of year-end for 2009, 2008, respectively.

The Series 2009, 2008, 2005, 2000 and 1998 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

Iowa Health System and Subsidiaries
Notes to Consolidated Financial Statements
(Dollars in thousands)
December 31, 2009 and 2008

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 a combination of letters of credit and standby purchase agreements that can be drawn on should the bonds not be remarketed. Agreements totaling \$23,000 expire in 2011 and \$258,115 in 2012. The agreements are renewable, subject to trustee approval and at the option of the agreement providers, throughout the term of the bonds. Outstanding amounts under the agreements are due at the earlier of expiration of the agreements or over a period of three years commencing after an initial outstanding period generally ranging from 60 to 366 days. During 2008, some of the Health System's variable rate bonds did not remarket for a period of time and the various supporting agreements were used to repay bond holders. As of December 31, 2008, \$23,000 of 1985B bonds had not been remarketed. These bonds were successfully remarketed in January 2009.

In March 2009, the Health System issued \$244,270 of Variable Rate Demand Health Facilities Revenue Bonds. The proceeds from the bonds were used to redeem the Series 2005B bonds and provide funding for several capital projects. The bonds are payable in varying amounts through 2039. The Health System also redeemed the Series 1998B bonds and the related line of credit of \$37,280 during March 2009 using internal funds. In March 2009, the Health System recognized a loss on revenue bond refinancing of \$3,520 for the unamortized debt issue costs of the bond issuances that were refinanced through this transaction.

In August 2009, the Health System completed an interest rate mode conversion for the 2005A and 2008 bonds converting from a variable rate to fixed. The interest rate modification was considered a significant modification of terms, thus losses on extinguishment of the original bonds of \$5,870 were incurred from recognition of their respective debt issue costs. Costs associated with the mode conversion were then capitalized to be amortized over the remainder of the life of the bonds. In addition, the 2009F bonds were issued in the amount of \$50,000. The proceeds provided the Health System with funds for several capital projects throughout the Health System.

The Health System obtained financing in 2008 through issuance of the Series 2008A-1 and 2008A-2 bonds in the amount of \$75,000 each. The proceeds provided the Health System with the funds necessary for several capital projects throughout the Health System.

Iowa Health System and Subsidiaries
Notes to Consolidated Financial Statements
(Dollars in thousands)
December 31, 2009 and 2008

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
2010	\$ 36,812	\$ 36,812
2011	116,894	14,509
2012	94,136	15,101
2013	73,054	15,191
2014	9,101	15,776
Thereafter	<u>373,440</u>	<u>606,048</u>
	<u>\$ 703,437</u>	<u>\$ 703,437</u>

The Health System has included \$18,948 in current maturities of long-term debt related to letters of credit and standby purchase agreements for related bonds that if not remarketed would require a payment within 2010.

Note 7: 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	
							2009	2008
(A)	2006	2037	\$ 146,350	3.8%	61.9% of LIBOR + 31 bps	Cash Flow Hedge	\$ (1)	\$ (40,181)
(B)	2005	2035	201,270	3.5	62.4% of LIBOR + 29 bps	Cash Flow Hedge	(9,865)	(31,586)
(C)	2005	2035	134,180	3.3	62.4% of LIBOR + 29 bps	Cash Flow Hedge	-(1)	(32,331)
(D)	2005	2009	-	3.1	BMA	Cash Flow Hedge	-	(198)
							<u>\$ (9,865)</u>	<u>\$ (104,296)</u>

(1) Not treated as a hedging instrument in 2009.

- (A) In 2006, the Health system entered into forward interest rate swap agreements that beginning in 2009, will effectively convert future variable rate debt into synthetic fixed rate debt at a rate of 3.8% (4.3% including transition costs). The swap agreements have an aggregate notional amount of \$150,000 at December 31, 2008 and mature in 2037. During 2009, due

Iowa Health System and Subsidiaries
Notes to Consolidated Financial Statements
(Dollars in thousands)
December 31, 2009 and 2008

to the interest rate mode conversion of related debt, hedge accounting ceased because the forecasted variable interest payments would no longer occur.

- (B) In 2005, the Health System entered into interest rate swap agreements effectively converting 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 \$201,270 at December 31, 2009 and mature in 2035.
- (C) In 2005, the Health System entered into interest rate swap agreements effectively converting the Series 2005A variable rate bonds into fixed rate debt at a rate of 3.3% (3.9% including transaction costs). The swap agreements have an aggregate notional amount of \$204,375 at December 31, 2009 and mature in 2035. During 2009, due to the interest rate mode conversion of related debt, hedge accounting ceased because the forecasted variable interest payments would no longer occur.
- (D) In 2005, the Health System entered into an interest rate swap agreement effectively converting \$23,000 of the Series 1985B variable rate bonds into fixed rate debt at a rate of 3.1%. The swap agreement has a notional amount of \$23,000 at December 31, 2008 and matured in 2009.

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 \$(9,865) at December 31, 2009 and \$(104,296) at December 31, 2008. The change in fair value of \$94,431 and \$(99,924) as of December 31, 2009 and 2008, respectively, is reported as part of the change in unrealized gains and losses on swaps. In 2008, the change in fair value includes \$(911) of cumulative changes in fair value of swaps that became ineffective during 2008. Interest, the net of what the Health System pays and receives under the two legs of the swaps, is settled monthly or semiannually on each swap agreement and is reported as interest expense.

The Health System has provisions within certain interest rate swap agreements that would require it to post collateral should the negative fair value of the agreements exceed \$25,000, the Health System's credit rating fall below Aa3 by Moody's AA- by S&P or the bond insurers rating fall below A- by S&P. As of December 31, 2009, the Health System has not been requested to post collateral under these agreements.

Iowa Health System and Subsidiaries

Notes to Consolidated Financial Statements

(Dollars in thousands)

December 31, 2009 and 2008

The table below presents certain information regarding the Health System's interest rate swap agreement designated as a cash flow hedge. The Health System has additional derivative instruments at December 31, 2009 and 2008 that are no longer designated as hedging instruments under FAS 133 as shown below:

	<u>2009</u>	<u>2008</u>
Long-term Liability		
Fair value of interest rate swap agreement	\$ (9,865)	\$ (104,296)
Unrestricted Net Assets		
Gain (loss) recognized in changes in unrealized gains and losses on investments (effective portion)	63,052	(99,924)
Change in unrestricted net assets reclassified into Other, net (effective portion)	31,379	—
Other, net		
Loss recognized in income (ineffective portion)	(31,379)	—

Other Swap Agreements

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

Trade Date	Call Date	Maturity Date	Current Notional Amount	Health System Pays	Health System Receives	Fair Value	
						2009	2008
2006		2037	\$ 146,350	3.8%	61.9% of LIBOR + 31 bps	\$ (14,346)	\$ -
2006		2023	42,700	3.5	61.9% of LIBOR + 31 bps	(2,725)	(6,971)
2006		2010	48,456	3.6	61.9% of LIBOR + 31 bps	(147)	(1,412)
2005		2035	134,180	3.3	62.4% of LIBOR + 29 bps	(4,964)	-
2004		2010	32,304	3.2	BMA	(95)	(688)
2004		2009	23,000	3.0	BMA	-	(58)
2000	2010	2030	80,760	BMA	5.4%	377	3,311
						<u>\$ (21,900)</u>	<u>\$ (5,818)</u>

The aggregate fair value of the unhedged swap agreements are recorded as long-term investments of \$377 and \$3,311 and long-term liability of \$(22,277) and \$(9,129), as of December 31, 2009 and 2008, respectively. The change in fair value of \$(18,057) and \$(6,560) are included as a component of other income (loss) as of December 31, 2009 and 2008, respectively. Interest, the net of what the Health System pays and receives, is settled monthly or semi-monthly on each swap agreement and is reported as other income (loss).

Iowa Health System and Subsidiaries

Notes to Consolidated Financial Statements

(Dollars in thousands)

December 31, 2009 and 2008

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, 2009 and 2008, \$(285) and \$939 of net unrealized gains (losses) remain in net assets to be amortized and \$1,224 and \$1,254 was amortized into other income (loss), respectively.

As of August 2009, hedge accounting ceased for the swap agreements associated with the 2005A and 2008 bonds due to interest rate mode conversion to a fixed interest rate. All changes in fair value prior to that date, previously recorded as a component of the change in unrealized gains and losses on swaps and excluded from revenues over (under) expenses in the amount of \$(31,379) were immediately recognized as a component of other income (loss). Subsequent to this date, the remaining changes in fair values are reported as a component of other income (loss).

During December 2009, and subsequent to year end in January 2010, the Health System terminated two swaps agreements, each with a notional value of \$67,090, at a cost of \$(3,199) and \$(2,795), respectively. The Health System's counterparty also called swap agreements with a notional amount of \$80,760 in accordance with the agreement subsequent to year end in February 2010.

Other Swaps:

	<u>2009</u>	<u>2008</u>
Long-term Liability		
Fair value of interest rate swap agreement	\$ (21,900)	\$ (5,818)
Unrestricted Net Assets		
Change in unrestricted net assets amortizing into Other, net	(1,224)	(1,254)
Other, net		
Gain (loss) recognized in income from changes in fair value of interest rate swap	15,297	(7,814)
Gain recognized in income from amortization of unrecognized gains (losses) in unrestricted net assets	1,224	1,254
Loss recognized in income from termination of interest rate swap	(3,199)	—

Note 8: 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 \$7,093 per year. The leases expire in various periods through 2015. Rent expense under these leases, including a pro rata portion of certain operating expenses of the facilities, was \$7,598 and \$6,995 for 2009 and 2008, respectively. At December 31, 2009 and 2008, the Health System also had outstanding debt related to real estate capital lease obligations of \$1,957 and \$2,377,

Iowa Health System and Subsidiaries

Notes to Consolidated Financial Statements

(Dollars in thousands)

December 31, 2009 and 2008

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 2009 and 2008 totaled \$20,347 and \$10,111, respectively, of which \$12,095 and \$2,530, respectively, were related to construction project costs. In addition, the Health System purchases services from several joint ventures and sells services and supplies to several joint ventures in which the Health System is also an investor. The Health System believes these transactions are consummated under commercially reasonable business arrangements.

The Health System has recorded receivables for amounts held by nonconsolidated foundations on behalf of the Health System of \$30,822 and \$29,340 as of December 31, 2009 and 2008, respectively. Contributions received from nonconsolidated foundations and other related parties were \$8,740 and \$6,789 in 2009 and 2008, respectively.

Note 9: 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 \$41,458 and \$42,592 for 2009 and 2008, respectively. The Health System also has deferred compensation plans for certain employees. Total expenses under the deferred compensation plans were \$1,889 and \$1,115 for 2009 and 2008, 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. The plans have been substantially frozen. 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. The Health System expects to contribute \$8,080 to the plans in 2010.

Subsequent to December 31, 2009, the Sioux City Affiliate began executing its plan for distribution of the assets in its defined benefit pension plan. The plan was terminated effective January 31, 2008. In December 2009, a determination letter was received from the IRS approving the termination. The termination and asset distribution is expected to be completed by May 2010.

Iowa Health System and Subsidiaries
Notes to Consolidated Financial Statements
(Dollars in thousands)
December 31, 2009 and 2008

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

	As of December 31, 2009			
	Des Moines	Cedar Rapids	Waterloo	Sioux City
Change in Benefit Obligation				
Benefit obligation, beginning of year	\$ 153,829	\$ 93,235	\$ 51,881	\$ 13,347
Service cost	3,527	149	358	-
Interest cost	9,799	5,946	3,325	850
Actuarial loss (gain)	1,662	1,400	648	(260)
Benefits paid	(10,327)	(3,442)	(1,625)	(515)
Curtailment gain from freezing benefits	-	-	(6,067)	-
Benefit obligation, end of year	<u>158,490</u>	<u>97,288</u>	<u>48,520</u>	<u>13,422</u>
Change in Fair Value of Plan Assets				
Fair value of plan assets, beginning of year	148,241	63,721	35,681	15,665
Actual return on plan assets	17,660	15,663	7,636	(410)
Employer contributions	10,450	3,166	2,325	-
Benefits paid	(10,327)	(3,442)	(1,625)	(515)
Fair value of plan assets, end of year	<u>166,024</u>	<u>79,108</u>	<u>44,017</u>	<u>14,740</u>
Funded status, end of year	<u>\$ 7,534</u>	<u>\$ (18,180)</u>	<u>\$ (4,503)</u>	<u>\$ 1,318</u>
Accumulated benefit obligation	<u>\$ 154,239</u>	<u>\$ 96,771</u>	<u>\$ 48,520</u>	<u>\$ 13,422</u>

Iowa Health System and Subsidiaries

Notes to Consolidated Financial Statements

(Dollars in thousands)

December 31, 2009 and 2008

	As of December 31, 2009			
	Des Moines	Cedar Rapids	Waterloo	Sioux City
Assets and liabilities recognized in the balance sheets:				
Noncurrent assets	\$ 7,534	\$ -	\$ -	\$ 1,318
Noncurrent liabilities	\$ -	\$ (18,180)	\$ (4,503)	\$ -
Amounts recognized in unrestricted net assets but not yet recognized as components of net periodic benefit cost				
Net loss	\$ 8,332	\$ 30,383	\$ 11,681	\$ 2,995
Net prior service cost	134	-	(5,818)	-
	<u>\$ 8,466</u>	<u>\$ 30,383</u>	<u>\$ 5,863</u>	<u>\$ 2,995</u>
Amounts expected to be recognized within one year				
Net loss	\$ -	\$ 2,174	\$ 782	\$ 148
Net prior service cost	46	-	(642)	-
	<u>\$ 46</u>	<u>\$ 2,174</u>	<u>\$ 140</u>	<u>\$ 148</u>
Other changes in plan assets recognized in changes in net assets				
Net loss	\$ (4,684)	\$ (9,450)	\$ (4,220)	\$ 1,001
Prior service cost	-	-	(6,068)	-
Amortization of				
Net loss	-	(3,548)	(1,539)	(168)
Prior service cost	(46)	-	(58)	-
	<u>(4,730)</u>	<u>(12,998)</u>	<u>(11,885)</u>	<u>833</u>
Total recognized in changes in net assets	<u>\$ (4,730)</u>	<u>\$ (12,998)</u>	<u>\$ (11,885)</u>	<u>\$ 833</u>

Iowa Health System and Subsidiaries

Notes to Consolidated Financial Statements

(Dollars in thousands)

December 31, 2009 and 2008

	As of December 31, 2009			
	Des Moines	Cedar Rapids	Waterloo	Sioux City
Weighted-Average Assumptions Used to Determine Benefit Obligations for the Year Ended December 31, 2009				
Discount rate	6.50%	6.50%	6.50%	6.50%
Rate of compensation increase	4.00%	5.00%	4.66%	N/A
Weighted-Average Assumptions Used to Determine Benefit Costs for the Year Ended December 31, 2009				
Discount rate	6.50%	6.50%	6.50%	6.50%
Expected return on plan assets	8.00%	8.00%	8.00%	5.50%
Rate of compensation increase	4.00%	5.00%	4.66%	N/A
Components of Net Periodic Benefit Cost				
Service cost	\$ 3,527	\$ 149	\$ 358	\$ -
Interest cost	9,799	5,946	3,325	850
Expected return on plan assets	(11,316)	(4,812)	(2,768)	(850)
Amortization of prior service cost	46	-	58	-
Recognized net actuarial loss	-	3,548	1,539	168
Net periodic benefit cost (benefit)	<u>\$ 2,056</u>	<u>\$ 4,831</u>	<u>\$ 2,512</u>	<u>\$ 168</u>

Iowa Health System and Subsidiaries

Notes to Consolidated Financial Statements

(Dollars in thousands)

December 31, 2009 and 2008

	As of December 31, 2008			
	Des Moines	Cedar Rapids	Waterloo	Sioux City
Change in Benefit Obligation				
Benefit obligation, beginning of year	\$ 156,494	\$ 97,216	\$ 52,078	\$ 16,325
Service cost	3,695	196	493	-
Interest cost	9,212	5,747	3,861	930
Actuarial loss (gain)	(8,620)	(6,640)	(2,781)	1,042
Benefits paid	(6,952)	(3,284)	(1,770)	(4,930)
Curtailement gain from freezing benefits	-	-	-	(20)
Benefit obligation, end of year	<u>153,829</u>	<u>93,235</u>	<u>51,881</u>	<u>13,347</u>
Change in Fair Value of Plan Assets				
Fair value of plan assets, beginning of year	165,772	89,566	47,463	19,232
Actual return on plan assets	(15,204)	(22,561)	(11,324)	1,363
Employer contributions	4,625	-	1,312	-
Benefits paid	(6,952)	(3,284)	(1,770)	(4,930)
Fair value of plan assets, end of year	<u>148,241</u>	<u>63,721</u>	<u>35,681</u>	<u>15,665</u>
Funded status, end of year	<u>\$ (5,588)</u>	<u>\$ (29,514)</u>	<u>\$ (16,200)</u>	<u>\$ 2,318</u>
Accumulated benefit obligation	<u>\$ 147,568</u>	<u>\$ 92,535</u>	<u>\$ 45,629</u>	<u>\$ 13,347</u>
Assets and liabilities recognized in the balance sheets:				
Noncurrent assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,318</u>
Noncurrent liabilities	<u>\$ (5,588)</u>	<u>\$ (29,514)</u>	<u>\$ (16,200)</u>	<u>\$ -</u>
Amounts recognized in unrestricted net assets but not yet recognized as components of net periodic benefit cost				
Net (gain) loss	\$ 13,017	\$ 43,381	\$ 17,440	\$ 2,162
Net prior service cost	179	-	308	-
	<u>\$ 13,196</u>	<u>\$ 43,381</u>	<u>\$ 17,748</u>	<u>\$ 2,162</u>
Amounts expected to be recognized within one year				
Net loss	\$ -	\$ 3,548	\$ 1,347	\$ 53
Net prior service cost	46	-	58	-
	<u>\$ 46</u>	<u>\$ 3,548</u>	<u>\$ 1,405</u>	<u>\$ 53</u>

Iowa Health System and Subsidiaries

Notes to Consolidated Financial Statements

(Dollars in thousands)

December 31, 2009 and 2008

	As of December 31, 2008			
	Des Moines	Cedar Rapids	Waterloo	Sioux City
Other changes in plan assets recognized in changes in net assets				
Net loss (gain)	\$ 18,795	\$ 22,540	\$ 12,936	\$ 684
Prior service cost	-	-	-	-
Amortization of Net loss	-	(1,249)	-	(778)
Prior service cost	(46)	-	(73)	-
	<u>\$ 18,749</u>	<u>\$ 21,291</u>	<u>\$ 12,863</u>	<u>\$ (94)</u>
Total recognized in changes in net assets	<u>\$ 18,749</u>	<u>\$ 21,291</u>	<u>\$ 12,863</u>	<u>\$ (94)</u>

	As of December 31, 2008			
	Des Moines	Cedar Rapids	Waterloo	Sioux City
Weighted-Average Assumptions Used to Determine Benefit Obligations for the Year Ended December 31, 2008				
Discount rate	6.50%	6.50%	6.50%	6.50%
Rate of compensation increase	4.00%	5.00%	4.66%	N/A

	As of December 31, 2008			
	Des Moines	Cedar Rapids	Waterloo	Sioux City
Weighted-Average Assumptions Used to Determine Benefit Costs for the Year Ended December 31, 2008				
Discount rate	6.50%	6.50%	6.50%	6.00%
Expected return on plan assets	7.75%	7.75%	7.75%	5.50%
Rate of compensation increase	4.00%	5.00%	4.66%	N/A

	As of December 31, 2008			
	Des Moines	Cedar Rapids	Waterloo	Sioux City
Components of Net Periodic Benefit Cost				
Service cost	\$ 3,695	\$ 196	\$ 493	\$ -
Interest cost	9,212	5,747	3,861	930
Expected return on plan assets	(12,211)	(6,619)	(4,393)	(1,012)
Amortization of prior service cost	46	-	73	-
Recognized net actuarial loss	-	1,249	-	778
	<u>\$ 742</u>	<u>\$ 573</u>	<u>\$ 34</u>	<u>\$ 696</u>
Net periodic benefit cost (benefit)	<u>\$ 742</u>	<u>\$ 573</u>	<u>\$ 34</u>	<u>\$ 696</u>

Iowa Health System and Subsidiaries

Notes to Consolidated Financial Statements

(Dollars in thousands)

December 31, 2009 and 2008

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

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

Asset allocation is primarily based on a strategy to provide stable earnings while still permitting the plans to recognize potentially higher returns through a limited investment in equity securities. The target asset allocation percentages for 2009 and 2008 are as follows:

		2009			
		Des Moines	Cedar Rapids	Waterloo	Sioux City
Equity securities	Not to exceed	35%	35%	30%	
Fixed income	Not to exceed	35%	35%	40%	100%
Hedge funds	Not to exceed	30%	30%	30%	

		2008			
		Des Moines	Cedar Rapids	Waterloo	Sioux City
Equity securities	Not to exceed	35%	35%	35%	
Fixed income	Not to exceed	35%	35%	35%	100%
Hedge funds	Not to exceed	30%	30%	30%	

Iowa Health System and Subsidiaries
Notes to Consolidated Financial Statements
(Dollars in thousands)
December 31, 2009 and 2008

Plan assets are re-balanced quarterly. At December 31, 2009 and 2008, plan assets by category are as follows:

	2009			
	Des Moines	Cedar Rapids	Waterloo	Sioux City
Equity securities	13%	30%	27%	0%
Hedge funds	29	26	29	0
Corporate fixed income securities	37	23	24	4
U.S. Government fixed income securities	7	2	2	0
U.S. Government agency obligations	3	1	1	12
Mortgage-backed securities	7	8	8	0
Mutual funds	3	7	7	0
Cash and short-term investments	1	3	2	84
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

	2008			
	Des Moines	Cedar Rapids	Waterloo	Sioux City
Equity securities	13%	36%	27%	0%
Hedge funds	26	18	29	0
Corporate fixed income securities	32	26	26	13
U.S. Government fixed income securities	9	1	1	0
U.S. Government agency obligations	9	1	1	73
Mortgage-backed securities	10	17	15	0
Cash and short-term investments	1	1	1	14
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Defined Benefit Plan Assets

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

Where quoted market prices are available in an active market, plan assets are classified within Level 1 of the valuation hierarchy. Level 1 plan assets include highly liquid U.S. treasuries and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of plan assets with similar characteristics or discounted cash flows. Level 2 plan assets include U.S. government agency obligations, collateralized mortgage

Iowa Health System and Subsidiaries

Notes to Consolidated Financial Statements

(Dollars in thousands)

December 31, 2009 and 2008

obligations, corporate bonds and private investment funds. In certain cases where Level 1 and Level 2 inputs are not available, plan assets are classified within Level 3 hierarchy. The plans have no Level 3 investments.

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

The fair values of the Health System's pension plans' assets at December 31, 2009, by asset category are as follows:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and short-term investments	\$ 19,513	\$ 16,676	\$ 2,837	\$ -
U.S. Treasury obligations	13,494	13,494	-	-
U.S. Government agency obligations	7,105	-	7,105	-
Mortgage-backed securities	20,315	-	20,315	-
Corporate bonds	90,802	457	90,345	-
Equity securities	137,807	9,057	128,750	-
Mutual funds	13,906	13,906	-	-
	<u>\$ 302,942</u>	<u>\$ 53,590</u>	<u>\$ 249,352</u>	<u>\$ -</u>

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of December 31, 2009:

2010	\$ 25,704
2011	13,133
2012	14,862
2013	15,954
2014	17,519
2015 - 2018	<u>108,639</u>
	<u>\$ 195,811</u>

Iowa Health System and Subsidiaries

Notes to Consolidated Financial Statements

(Dollars in thousands)

December 31, 2009 and 2008

Other Retirement Plan

One subsidiary of the Health System sponsors an unfunded defined benefit plan that provides postretirement medical and dental benefits to certain retirees and their dependent spouses of a predecessor hospital. The plan is not available to current employees. The total accrued postretirement benefit obligation is \$345 and \$363 as of December 31, 2009 and 2008, respectively. Benefit cost was \$(304) and \$(343) for 2009 and 2008, respectively. Benefits paid were \$44 and \$41 for 2009 and 2008, respectively. The assumed discount rate used in determining the accumulated postretirement benefit obligation was 6.5% and 7.0% at December 31, 2009 and 2008, respectively.

Note 10: Risk Management

The Health System's hospitals are primarily self-insured for professional and general liability for amounts of \$3,000 per claim and \$25,000 in the aggregate annually, with a \$6,000 inter-aggregate for maternity claims and general liability claims and \$4,000 inter-aggregate for non-maternity claims. Thereafter, professional and general liability insurance coverage is maintained on a claims-made basis, with a liability limit of \$25,000. Other entities of the Health System maintain their professional and general liability coverage on a claims-made basis with no significant deductibles.

The Health System is primarily self-insured for workers' compensation and employee health care claims. 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 \$61,009 and \$67,812 for self-insured losses at December 31, 2009 and 2008, respectively. 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. The liability for professional and general liability has been discounted at 5%. 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, 2009 and 2008, the cash and investments amounted to \$37,878 and \$52,884, respectively.

Iowa Health System and Subsidiaries
Notes to Consolidated Financial Statements
(Dollars in thousands)
December 31, 2009 and 2008

Note 11: 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 2009 and 2008 was \$36,446 and \$32,262, 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, 2009.

2010	\$ 31,336
2011	25,994
2012	20,860
2013	12,466
2014	10,650
Thereafter	<u>40,721</u>
Total minimum payments required	<u><u>\$ 142,027</u></u>

Note 12: Disclosures About Fair Value of Financial Instruments

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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

Iowa Health System and Subsidiaries
Notes to Consolidated Financial Statements
(Dollars in thousands)
December 31, 2009 and 2008

Financial Instruments Measured at Fair Value on a Recurring Basis

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

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid U.S. treasuries, exchange traded equities and mutual funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include U.S. government agency obligations, collateralized mortgage obligations, corporate debt obligations and private investment funds. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy and include certain less liquid securities. The Health System has no Level 3 investments.

Private investment funds include interests in fixed income and equity security investment portfolios as well as alternative asset partnerships. Private investment funds are valued based on the net asset values reported by investment managers.

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

Interest Rate Swaps

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

Beneficial Interests in Trusts

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

Iowa Health System and Subsidiaries

Notes to Consolidated Financial Statements

(Dollars in thousands)

December 31, 2009 and 2008

Fair Value Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statement of financial position 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, 2009 and 2008:

	Fair Value	2009 Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets				
Cash and short-term investments	\$ 39,865	\$ 22,342	\$ 17,523	\$ -
U.S. Treasury obligations	35,141	35,141	-	-
U.S. Government agency obligations	9,128	51	9,077	-
Mortgage-backed securities	55,510	-	55,510	-
Certificates of deposit	474	474	-	-
Corporate bonds	221,663	7,848	213,815	-
Equity securities	420,243	126,183	294,060	-
Mutual funds	78,691	78,691	-	-
Insurance policies	4,363	-	4,363	-
Beneficial interest in trust	5,284	-	5,284	-
Financial Liabilities				
Interest rate swaps (net)	(31,765)	-	(31,765)	-
	<u>\$ 838,597</u>	<u>\$ 270,730</u>	<u>\$ 567,867</u>	<u>\$ -</u>

Iowa Health System and Subsidiaries

Notes to Consolidated Financial Statements

(Dollars in thousands)

December 31, 2009 and 2008

	2008			
	<u>Fair Value Measurements Using</u>			
	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Financial Assets				
Cash and short-term investments	\$ 60,691	\$ 40,625	\$ 20,066	\$ -
U.S. Treasury obligations	13,807	13,807	-	-
U.S. Government agency obligations	11,704	44	11,660	-
Mortgage-backed securities	76,186	-	76,186	-
Certificates of deposit	771	771	-	-
Corporate bonds	170,453	5,443	165,010	-
Equity securities	297,259	87,040	210,219	-
Mutual funds	31,060	31,060	-	-
Beneficial interest in trust	4,998	-	4,998	-
Financial Liabilities				
Interest rate swaps (net)	<u>(110,114)</u>	<u>-</u>	<u>(110,114)</u>	<u>-</u>
	<u>\$ 556,815</u>	<u>\$ 178,790</u>	<u>\$ 378,025</u>	<u>\$ -</u>

Iowa Health System and Subsidiaries

Notes to Consolidated Financial Statements

(Dollars in thousands)

December 31, 2009 and 2008

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:

	2009		2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt, excluding capital leases and interest rate swaps	\$ 701,040	\$ 714,103	\$ 636,434	\$ 636,615

Note 13: Temporarily and Permanently Restricted Net Assets

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

	2009	2008
Purchase of equipment	\$ 8,047	\$ 10,178
Indigent care/operations	7,887	4,870
Health education	5,529	4,520
For use in future periods	6,612	1,431
Other	16,934	11,671
Total temporarily restricted net assets	\$ 45,009	\$ 32,670

Iowa Health System and Subsidiaries

Notes to Consolidated Financial Statements

(Dollars in thousands)

December 31, 2009 and 2008

Permanently restricted net assets are restricted to:

	<u>2009</u>	<u>2008</u>
Investments (generally including net investment appreciation and depreciation) to be held in perpetuity (income is restricted)	\$ 24,540	\$ 24,421
Investments (generally including net investment appreciation and depreciation) to be held in perpetuity (income is restricted for various purposes as directed by the donors)	11,720	9,331
Other	<u>5,111</u>	<u>4,861</u>
Total permanently restricted net assets	<u>\$ 41,371</u>	<u>\$ 38,613</u>

Note 14: Asset Retirement Obligation

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

A summary of changes in asset retirement obligations during 2009 and 2008 is included in the table below.

	<u>2009</u>	<u>2008</u>
Liability, beginning of year	\$ 11,847	\$ 11,224
Liabilities incurred	-	4
Liabilities settled	(535)	(120)
Accretion expense	589	739
Changes in estimates, including timing	<u>9</u>	<u>-</u>
Liability, end of year	<u>\$ 11,910</u>	<u>\$ 11,847</u>

Iowa Health System and Subsidiaries

Notes to Consolidated Financial Statements

(Dollars in thousands)

December 31, 2009 and 2008

Note 15: Commitments and Contingencies

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

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

Guarantees

The Health System has guaranteed approximately \$13,140 and \$8,886 at December 31, 2009 and 2008, respectively, relating to long-term debt for the construction of a cancer center, a data center, a medical office building that includes clinic and office space, purchase of equipment and a line of credit for a joint venture.

The Health System has agreed to pay annually an amount, as defined in the agreement, to an unaffiliated partnership to enable the partnership to maintain a debt service coverage ratio of 1.3, relating to the partnership's outstanding debt incurred to finance a parking ramp on the Iowa Methodist Medical Center campus. The Health System did not make any payments related to this guarantee during 2009 or 2008.

Iowa Health System and Subsidiaries

Notes to Consolidated Financial Statements

(Dollars in thousands)

December 31, 2009 and 2008

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:

2010	\$	13,858
2011		13,530
2012		12,000
2013		140
2014		47
Thereafter		47

Current Economic Conditions

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

Current economic and financial market conditions, including the rising unemployment rate, have made it difficult for certain of the Health System's patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Health System's future operating results. Further, the effect of economic conditions on the states of Iowa and Illinois may have an adverse effect on cash flows related to the Medicaid programs.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values (including defined benefit pension plan investments) and allowances for accounts and contributions receivable that could negatively impact the Health System.

Iowa Health System and Subsidiaries
Consolidating Schedule - Balance Sheet Information
(In Thousands)
December 31, 2009

Assets

	IHDM	TRHS	SLHC	AHS	THS	SLHS	TRI-ST	IHP	IHHC
Current Assets									
Cash and cash equivalents	\$ 3,761	\$ 13,397	\$ 14,752	\$ 6,160	\$ 5,946	\$ 6,352	\$ 5,321	\$ 3,110	\$ 1,579
Short-term investments	12,232	16,951	32,157	16,992	3,223	4,752	4,678	10,373	4,634
Assets limited as to use - required for current liabilities	7,356	2,607	2,323	1,856	763	2,119			
Patient accounts receivable, less estimated uncollectibles	76,215	45,316	39,708	21,452	16,107	17,650	11,754	8,541	6,867
Other receivables	3,504	1,794	1,691	2,430	1,524	1,369	830	810	23
Inventories	10,388	9,222	5,482	5,355	3,327	3,270	2,140	1,852	733
Prepaid expenses	2,596	1,532	1,426	584	386	961	789	430	16
Due from affiliates	351	234	2	310	(98)	65	117	10,396	117
Total current assets	<u>116,403</u>	<u>91,053</u>	<u>97,541</u>	<u>55,139</u>	<u>31,178</u>	<u>36,538</u>	<u>25,629</u>	<u>35,512</u>	<u>13,969</u>
Assets Limited As to Use, noncurrent									
Held by trustee under bond indenture agreements	2,925								
Internally designated	378,949	99,664	69,319	1,886	35,833	36,707	40,387		
Total assets limited as to use, noncurrent	381,874	99,664	69,319	1,886	35,833	36,707	40,387	-	-
Property, Plant and Equipment, net	282,676	151,017	158,752	108,812	79,663	57,130	49,918	5,950	6,496
Other Long-term Investments	37,064	6,454	16,544	60,413	13,022	733	763	19,369	11,625
Investments in Joint Ventures and Other Investments	23,524	6,086	11,889	6,095	3,042	9,404	4,331		638
Contributions Receivable, net	12,357	34	27,803	2,757	872	3,154	5,378		
Other	12,404	1,868	1,719	686	907	1,843	57	54	
Due From Affiliates				150			90		
Total assets	<u>\$ 866,302</u>	<u>\$ 356,176</u>	<u>\$ 383,567</u>	<u>\$ 235,938</u>	<u>\$ 164,517</u>	<u>\$ 145,509</u>	<u>\$ 126,553</u>	<u>\$ 60,885</u>	<u>\$ 32,728</u>

Liabilities and Net Assets

Current Liabilities									
Current maturities of long-term debt	\$ 487	\$ 4,355	\$ 150	\$ 75	\$ 147		\$ 506		
Accounts payable	20,710	11,931	9,215	8,275	3,283	3,840	2,923	3,059	1,287
Accrued payroll	25,560	13,011	19,848	9,119	7,183	5,085	4,882	6,219	2,635
Accrued interest	18				242				
Estimated settlements due to third-party payers	14,230	7,907	8,937	6,225	1,418	2,963	2,730		699
Due to affiliates	13,830	4,591	7,770	5,877	1,301	3,394	2,110	147	581
Other current liabilities	10,482	5,248	6,098	3,046	2,355	4,512	1,662	8,948	506
Total current liabilities	85,317	47,043	52,018	32,617	15,929	19,794	14,813	18,373	5,708
Long-term Debt, net	25,065	15,290	456		4,756		888		
Other Long-term Liabilities	26,038	8,383	25,505	13,178	11,399	10,343	1,129	17,581	333
Due to Affiliates	154,710	125,100	80,574	67,340	18,540	41,400	10,870		1,015
Total liabilities	<u>291,130</u>	<u>195,816</u>	<u>158,553</u>	<u>113,135</u>	<u>50,624</u>	<u>71,537</u>	<u>27,700</u>	<u>35,954</u>	<u>7,056</u>
Net Assets									
Unrestricted	545,027	153,817	197,141	113,847	109,953	70,539	93,476	24,931	25,601
Temporarily restricted	16,765	5,057	10,073	5,537	2,083	1,806	3,575		71
Permanently restricted	13,380	1,486	17,800	3,419	1,857	1,627	1,802		
Total net assets	<u>575,172</u>	<u>160,360</u>	<u>225,014</u>	<u>122,803</u>	<u>113,893</u>	<u>73,972</u>	<u>98,853</u>	<u>24,931</u>	<u>25,672</u>
Total liabilities and net assets	<u>\$ 866,302</u>	<u>\$ 356,176</u>	<u>\$ 383,567</u>	<u>\$ 235,938</u>	<u>\$ 164,517</u>	<u>\$ 145,509</u>	<u>\$ 126,553</u>	<u>\$ 60,885</u>	<u>\$ 32,728</u>

Definitions

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

Iowa Health System and Subsidiaries
Consolidating Schedule - Revenue and Gains, Expenses and Losses Information
(In Thousands)
Year Ended December 31, 2009

	IHDM	TRHS	SLHC	AHS	THS	SLHS	TRI-ST	IHP	IHHC	IHS & Other
Revenue										
Net patient service revenue	\$ 577,040	\$ 343,417	\$ 305,109	\$ 196,646	\$ 142,092	\$ 139,720	\$ 88,875	\$ 125,216	\$ 49,581	
Other operating revenue	37,955	14,031	14,068	10,123	10,856	9,039	3,238	11,919	1,556	\$ 142,757
Net assets released from restrictions used for operations	3,571	512	2,135	767	500	24			134	51
Total revenue	618,566	357,960	321,312	207,536	153,448	148,783	92,113	137,135	51,271	142,808
Expenses										
Salaries and wages	215,918	113,171	113,788	71,974	50,650	45,096	33,328	36,518	23,200	36,459
Physician compensation and services	57,182	21,198	10,716	12,662	19,879	12,941	3,259	53,222		
Employee benefits	57,183	34,182	39,688	20,704	13,822	12,197	8,510	9,965	5,729	7,406
Supplies	105,611	74,210	50,050	44,076	21,521	21,117	14,989	11,806	9,414	773
Other expenses	109,175	75,680	59,309	31,435	29,517	30,286	19,934	28,561	7,614	49,937
Depreciation and amortization	30,295	15,770	15,946	12,004	7,607	6,518	5,801	1,589	1,365	22,278
Interest	4,012	6,015	3,358	2,444	1,614	1,747	416		69	26,956
Provision for uncollectible accounts	12,431	14,221	14,917	6,404	6,224	9,304	1,592	2,915	338	
Total expenses	591,807	354,447	307,772	201,703	150,834	139,206	87,829	144,576	47,729	143,809
Operating Income (Loss)	26,759	3,513	13,540	5,833	2,614	9,577	4,284	(7,441)	3,542	(1,001)
Nonoperating Gains (Losses)										
Investment income	69,690	17,988	16,700	9,362	6,785	5,398	6,175	3,283	2,057	1,072
Other, net	848	70	-	65	220	(28)	(44)	(18)		(22,031)
Total nonoperating gains (losses), net	70,538	18,058	16,700	9,427	7,005	5,370	6,131	3,265	2,057	(20,959)
Revenue Over (Under) Expenses Before Loss on Revenue Bond Refinancing Transactions	97,297	21,571	30,240	15,260	9,619	14,947	10,415	(4,176)	5,599	(21,960)
Loss on revenue bond refinancing transactions	-	-	-	-	-	-	-	-	-	(9,390)
Revenue Over (Under) Expenses	\$ 97,297	\$ 21,571	\$ 30,240	\$ 15,260	\$ 9,619	\$ 14,947	\$ 10,415	\$ (4,176)	\$ 5,599	\$ (31,350)

Definitions

IHDM – Iowa Health - Des Moines and Subsidiaries (Des Moines)
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SLHS - St. Luke's Health System, Inc. (Sioux City)
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IHP - Iowa Health Physicians
IHHC - Iowa Health Home Care
IHS & Other - Iowa Health System and other Subsidiaries

Iowa Health System and Subsidiaries
Iowa Health - Des Moines and Subsidiaries (Des Moines)
Consolidating Schedule - Balance Sheet Information
(In Thousands)
December 31, 2009

Assets

	IHDM	CIHC	IHF	CIHP	IHP	Eliminations	Consolidated
Current Assets							
Cash and cash equivalents		\$ 3,628	\$ 121	\$ 12			\$
Short-term investments		12,232					
Assets limited as to use - required for current liabilities		7,356					
Patient accounts receivable, less estimated uncollectibles		76,215					
Other receivables		3,476	9	19			
Inventories		10,388					
Prepaid expenses		2,435	76	85			
Due from affiliates		749		6,087		\$ 6,485	
Total current assets		<u>116,479</u>	<u>206</u>	<u>6,203</u>		<u>6,485</u>	<u>11</u>
Assets Limited As to Use, noncurrent							
Held by trustee under bond indenture agreements		2,925					
Internally designated		<u>325,686</u>	<u>53,263</u>				<u>37</u>
Total assets limited as to use, noncurrent		328,611	53,263				38
Property, Plant and Equipment, net		260,840	238	21,598			28
Other Long-term Investments		7,905	29,159				3
Investments in Joint Ventures and Other Investments		34,173	75	5,119	\$ 11,863	27,706	2
Contributions Receivable, net			12,357				1
Other		12,254		150			1
Due From Affiliates		<u>2,986</u>				<u>2,986</u>	
Total assets	\$ -	<u>\$ 763,248</u>	<u>\$ 95,298</u>	<u>\$ 33,070</u>	<u>\$ 11,863</u>	<u>\$ 37,177</u>	<u>\$ 86</u>

Liabilities and Net Assets

Current Liabilities							
Current maturities of long-term debt		\$ 487					\$
Accounts payable		19,847	\$ 3	\$ 860			2
Accrued payroll		25,353	207				2
Accrued interest		18					
Estimated settlements due to third-party payers		14,230					1
Due to affiliates		19,690	221	404		\$ 6,485	1
Other current liabilities		<u>10,458</u>	<u>14</u>	<u>10</u>			<u>1</u>
Total current liabilities		90,083	445	1,274		6,485	8
Long-term Debt, net		25,065					2
Other Long-term Liabilities		25,004	1,034				2
Due to Affiliates		<u>153,230</u>		<u>4,466</u>		<u>2,986</u>	<u>15</u>
Total liabilities		<u>293,382</u>	<u>1,479</u>	<u>5,740</u>		<u>9,471</u>	<u>29</u>
Net Assets							
Unrestricted		440,336	65,498	27,330	\$ 11,863		54
Temporarily restricted		16,479	14,941			14,655	1
Permanently restricted		<u>13,051</u>	<u>13,380</u>			<u>13,051</u>	<u>1</u>
Total net assets		<u>469,866</u>	<u>93,819</u>	<u>27,330</u>	<u>11,863</u>	<u>27,706</u>	<u>57</u>
Total liabilities and net assets	\$ -	<u>\$ 763,248</u>	<u>\$ 95,298</u>	<u>\$ 33,070</u>	<u>\$ 11,863</u>	<u>\$ 37,177</u>	<u>\$ 86</u>

Definitions

IHDM – Iowa Health - Des Moines and Subsidiaries (Des Moines)
CIHC – Central Iowa Hospital Corporation
IHF – Iowa Health Foundation

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

Iowa Health System and Subsidiaries
Iowa Health - Des Moines and Subsidiaries (Des Moines)
Consolidating Schedule - Revenue and Gains, Expenses and Losses Information
(In Thousands)
Year Ended December 31, 2009

	IHDM	CIHC	IHF	CIHP	IHP
Revenue					
Net patient service revenue		\$ 577,434			
Other operating revenue		36,020		\$ 4,634	\$ 1,798
Net assets released from restrictions used for operations		3,067	\$ 504		
Total revenue		<u>616,521</u>	<u>504</u>	<u>4,634</u>	<u>1,798</u>
Expenses					
Salaries and wages		214,804	1,055	59	
Physician compensation and services		58,713			
Employee benefits		56,916	244	23	
Supplies		105,605	3	3	
Other expenses	\$ 21	109,266	436	2,812	
Depreciation and amortization		29,219	29	1,047	
Interest		3,937		75	
Provision for uncollectible accounts		12,431			
Total expenses	<u>21</u>	<u>590,891</u>	<u>1,767</u>	<u>4,019</u>	<u>-</u>
Operating Income (Loss)	<u>(21)</u>	<u>25,630</u>	<u>(1,263)</u>	<u>615</u>	<u>1,798</u>
Nonoperating Gains					
Investment income		55,770	13,920		
Other, net		6	842		
Total nonoperating gains, net		<u>55,776</u>	<u>14,762</u>		
Revenue Over (Under) Expenses	<u>\$ (21)</u>	<u>\$ 81,406</u>	<u>\$ 13,499</u>	<u>\$ 615</u>	<u>\$ 1,798</u>

Definitions

IHDM – Iowa Health - Des Moines and Subsidiaries (Des Moines)

CIHC – Central Iowa Hospital Corporation

IHF – Iowa Health Foundation

CIHP – Central Iowa Health Properties Corporation

IHP – Iowa Health Physicians, IHDM portion

Iowa Health System and Subsidiaries
Trinity Regional Health System and Subsidiaries (Rock Island)
Consolidating Schedule - Balance Sheet Information
(In Thousands)
December 31, 2009

Assets

	TRHS	TMC	VNHA	THF	THE	TM	IHP	Other
Current Assets								
Cash and cash equivalents	\$ 178	\$ 8,368	\$ 560	\$ 781	\$ 3,421	\$ 89		
Short-term investments	156	7,560	4,574	7		4,816		\$
Assets limited as to use - required for current liabilities		2,607						
Patient accounts receivable, less estimated uncollectibles		36,383	2,119		932	5,886		
Other receivables	8	1,667	95	24				
Inventories		7,873			830	519		
Prepaid expenses	1	1,187	21	9	23	291		
Due from affiliates	542	11,462			373			
Total current assets	885	77,107	7,369	821	5,579	11,601		
Assets Limited As to Use, noncurrent								
Internally designated		92,041	3,141		2,210	2,272		
Property, Plant and Equipment, net								
		138,809	243		468	11,497		
Other Long-term Investments								
		436		6,018				
Investments in Joint Ventures and Other Investments								
	7,601	8,787	1,680		159		\$ 1,166	
Contributions Receivable, net								
				34				
Other								
		1,868						
Total assets	\$ 8,486	\$ 319,048	\$ 12,433	\$ 6,873	\$ 8,416	\$ 25,370	\$ 1,166	\$

Liabilities and Net Assets

Current Liabilities								
Current maturities of long-term debt						\$ 4,355		
Accounts payable	\$ 11	\$ 9,847	\$ 369	\$ 171	\$ 84	1,616		\$
Accrued payroll	449	9,727	558	10	85	2,182		
Estimated settlements due to third-party payers		7,870	37					
Due to affiliates	8,165	4,594	640	926	590	1,819		
Other current liabilities	32	4,937	126	25	61	67		
Total current liabilities	8,657	36,975	1,730	1,132	820	10,039		
Long-term Debt, net								
						15,290		
Other Long-term Liabilities								
		8,263		120				
Due to Affiliates								
Total liabilities	8,657	170,338	1,730	1,252	820	25,329		
Net Assets								
Unrestricted	(334)	144,782	9,911	435	7,596	(1,063)	\$ 1,166	
Temporarily restricted	163	2,633	792	3,700		1,104		
Permanently restricted		1,295		1,486				
Total net assets	(171)	148,710	10,703	5,621	7,596	41	1,166	
Total liabilities and net assets	\$ 8,486	\$ 319,048	\$ 12,433	\$ 6,873	\$ 8,416	\$ 25,370	\$ 1,166	\$

Definitions

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

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

Iowa Health System and Subsidiaries
Trinity Regional Health System and Subsidiaries (Rock Island)
Consolidating Schedule - Revenue and Gains, Expenses and Losses Information
(In Thousands)
Year Ended December 31, 2009

	TRHS	TMC	VNHA	THF	THE	TM	IHP
Revenue							
Net patient service revenue		\$ 298,254	\$ 13,067		\$ 9,130	\$ 23,148	
Other operating revenue	\$ 1,133	15,519	253	\$ 369	41	658	\$ (1,402)
Net assets released from restrictions used for operations	1		5	506			
Total revenue	<u>1,134</u>	<u>313,773</u>	<u>13,325</u>	<u>875</u>	<u>9,171</u>	<u>23,806</u>	<u>(1,402)</u>
Expenses							
Salaries and wages	525	94,725	7,353	230	1,396	8,942	
Physician compensation and services		17,962	44			3,202	
Employee benefits	190	29,659	1,967	73	405	1,977	
Supplies	(79)	65,724	656	6	5,283	2,803	
Other expenses	538	66,794	2,146	837	1,419	5,557	
Depreciation and amortization		15,147	62		138	423	
Interest		5,818				280	
Provision for uncollectible accounts		12,219	51		161	1,790	
Total expenses	<u>1,174</u>	<u>308,048</u>	<u>12,279</u>	<u>1,146</u>	<u>8,802</u>	<u>24,974</u>	<u>-</u>
Operating Income (Loss)	<u>(40)</u>	<u>5,725</u>	<u>1,046</u>	<u>(271)</u>	<u>369</u>	<u>(1,168)</u>	<u>(1,402)</u>
Nonoperating Gains							
Investment income		16,750	642	214	472	4	
Other, net		13			(1)	58	
Total nonoperating gains, net	<u>-</u>	<u>16,763</u>	<u>642</u>	<u>214</u>	<u>471</u>	<u>62</u>	<u>-</u>
Revenue Over (Under) Expenses	<u>\$ (40)</u>	<u>\$ 22,488</u>	<u>\$ 1,688</u>	<u>\$ (57)</u>	<u>\$ 840</u>	<u>\$ (1,106)</u>	<u>\$ (1,402)</u>

Definitions

TRHS - Trinity Regional Health System
TMC - Trinity Medical Center
VNHA - Trinity Visiting Nurses and Homemakers Association
THF - Trinity Health Foundation
THE - Trinity Health Enterprises, Inc.
TM - Trinity Muscatine
IHP - Iowa Health Physicians, TRHS portion

Iowa Health System and Subsidiaries
St. Luke's Healthcare and Subsidiaries (Cedar Rapids)
Consolidating Schedule - Balance Sheet Information
(In Thousands)
December 31, 2009

Assets

	SLMH	CARE	CC-STL	STL-HR	JONES	CARDIO LC	IHP	
Current Assets								
Cash and cash equivalents	\$ 12,808	\$ 1,124	\$ 465	\$ 212	\$ 143			
Short-term investments	31,496				661			
Assets limited as to use - required for current liabilities	2,323							
Patient accounts receivable, less estimated uncollectibles	35,507	1,317	828		2,056			
Other receivables	1,653			2	23	\$ 13		
Inventories	5,247		58		177			
Prepaid expenses	1,187	44			20		175	
Due from affiliates	1,658	14		71	1	150		
Total current assets	91,879	2,499	1,351	285	3,081	338		
Assets Limited As to Use, noncurrent								
Internally designated	66,251				3,068			
Property, Plant and Equipment, net	132,599	4,691	560	4,156	15,103	1,643		
Other Long-term Investments	16,462			82				
Investments in Joint Ventures and Other Investments	12,369			539			\$ 7,074	
Contributions Receivable	27,803							
Other	130	134		183		1,272		
Due From Affiliates	10,894			1,562				
Total assets	\$ 358,387	\$ 7,324	\$ 1,911	\$ 6,807	\$ 21,252	\$ 3,253	\$ 7,074	\$

Liabilities and Net Assets

Current Liabilities								
Current maturities of long-term debt		\$ 69			\$ 81			
Accounts payable	\$ 7,682	320	\$ 139	\$ 4	989	\$ 81		
Accrued payroll	18,409	275	214		653	297		
Estimated settlements due to third-party payers	8,207				730			
Due to affiliates	7,991	62	196	934	479			
Other current liabilities	5,589	119		390				
Total current liabilities	47,878	845	549	1,328	2,932	378		
Long-term Debt, net		320			136			
Other Long-term Liabilities	25,071			434				
Due to Affiliates	82,137	480	4,514		5,900			
Total liabilities	155,086	1,645	5,063	1,762	8,968	378		
Net Assets								
Unrestricted	175,428	5,679	(3,152)	5,045	12,284	2,875	\$ 7,074	
Temporarily restricted	10,073							
Permanently restricted	17,800							
Total net assets	203,301	5,679	(3,152)	5,045	12,284	2,875	7,074	
Total liabilities and net assets	\$ 358,387	\$ 7,324	\$ 1,911	\$ 6,807	\$ 21,252	\$ 3,253	\$ 7,074	\$

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.
IHP - Iowa Physicians, Cedar Rapids portion

Iowa Health System and Subsidiaries
St. Luke's Healthcare and Subsidiaries (Cedar Rapids)
Consolidating Schedule - Revenue and Gains, Expenses and Losses Information
(In Thousands)
Year Ended December 31, 2009

	SLMH	CARE	CC-STL	STL-HR	JONES	CARDIO LC	IHP
Revenue							
Net patient service revenue	\$ 279,889	\$ 9,983	\$ 3,488	\$ 2	\$ 12,516		
Other operating revenue	16,986	301		261	126		\$ (1,142)
Net assets released from restrictions used for operations	<u>2,135</u>						
Total revenue	<u>299,010</u>	<u>10,284</u>	<u>3,488</u>	<u>263</u>	<u>12,642</u>		<u>(1,142)</u>
Expenses							
Salaries and wages	102,522	5,306	2,258		3,663		
Physician compensation and services	9,345	22	10		1,339		
Employee benefits	37,603	776	268		1,037		
Supplies	47,690	1,090	394	(22)	927		
Other expenses	52,444	2,412	2,400	236	4,806		
Depreciation and amortization	15,305	270	88	125	387		
Interest	3,556	74	143		(35)		
Provision for uncollectible accounts	<u>14,470</u>				<u>447</u>		
Total expenses	<u>282,935</u>	<u>9,950</u>	<u>5,561</u>	<u>339</u>	<u>12,571</u>		<u>-</u>
Operating Income (Loss)	<u>16,075</u>	<u>334</u>	<u>(2,073)</u>	<u>(76)</u>	<u>71</u>		<u>(1,142)</u>
Nonoperating Gains							
Investment income	16,161			26	585		
Other, net							
Total nonoperating gains, net	<u>16,161</u>		<u>-</u>	<u>26</u>	<u>585</u>		<u>-</u>
Revenue Over (Under) Expenses	<u>\$ 32,236</u>	<u>\$ 334</u>	<u>\$ (2,073)</u>	<u>\$ (50)</u>	<u>\$ 656</u>	<u>\$ -</u>	<u>\$ (1,142)</u>

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.
IHP - Iowa Health Physicians, SLMH portion

Iowa Health System and Subsidiaries
Allen Health Systems, Inc. and Subsidiaries (Waterloo)
Consolidating Schedule - Balance Sheet Information
(In Thousands)
December 31, 2009

Assets

	AMH	MFAH	ACN	IHP	Eliminations	Co
Current Assets						
Cash and cash equivalents	\$ 5,474	\$ 686				\$
Short-term investments	16,989	3				
Assets limited as to use - required for current liabilities	1,856					
Patient accounts receivable, less estimated uncollectibles	21,452					
Other receivables	2,046		\$ 384			
Inventories	5,355					
Prepaid expenses	500		84			
Due from affiliates	1,843		1,453		\$ 2,986	
Total current assets	<u>55,515</u>	<u>689</u>	<u>1,921</u>		<u>2,986</u>	
Assets Limited As to Use, noncurrent						
Internally designated	1,816	70				
Property, Plant and Equipment, net	108,812					
Other Long-term Investments	54,715	5,552	146			
Investments in Joint Ventures and Other Investments	4,207	983	3,191	\$ 4,828	7,114	
Contributions Receivable	1,654	1,103				
Other	686					
Due From Affiliates	150					
Total assets	<u>\$ 227,555</u>	<u>\$ 8,397</u>	<u>\$ 5,258</u>	<u>\$ 4,828</u>	<u>\$ 10,100</u>	<u>\$</u>

Liabilities and Net Assets

Current Liabilities						
Current maturities of long-term debt	\$ 75					\$
Accounts payable	8,244	\$ 3	\$ 28			
Accrued payroll	9,119					
Estimated settlements due to third-party payers	6,225					
Due to affiliates	7,330	1,533			\$ 2,986	
Other current liabilities	3,024	15	7			
Total current liabilities	<u>34,017</u>	<u>1,551</u>	<u>35</u>		<u>2,986</u>	
Other Long-term Liabilities	12,698	82	398			
Due to Affiliates	67,340					
Total liabilities	<u>114,055</u>	<u>1,633</u>	<u>433</u>		<u>2,986</u>	
Net Assets						
Unrestricted	107,733	(348)	1,634	\$ 4,828		
Temporarily restricted	4,113	5,347	1,426		5,349	
Permanently restricted	1,654	1,765	1,765		1,765	
Total net assets	<u>113,500</u>	<u>6,764</u>	<u>4,825</u>	<u>4,828</u>	<u>7,114</u>	
Total liabilities and net assets	<u>\$ 227,555</u>	<u>\$ 8,397</u>	<u>\$ 5,258</u>	<u>\$ 4,828</u>	<u>\$ 10,100</u>	<u>\$</u>

Definitions

AMH - Allen Memorial Hospital Corporation
MFAH - Memorial Foundation of Allen Hospital

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

Iowa Health System and Subsidiaries
Allen Health Systems, Inc. and Subsidiaries (Waterloo)
Consolidating Schedule - Revenue and Gains, Expenses and Losses Information
(In Thousands)
Year Ended December 31, 2009

	<u>AHS</u>	<u>AMH</u>	<u>MFAH</u>	<u>ACN</u>	<u>IHP</u>	<u>E</u>
Revenue						
Net patient service revenue		\$ 196,646				
Other operating revenue		8,234	\$ 37	\$ 5,483	\$ (3,429)	\$
Net assets released from restrictions used for operations		<u>464</u>	<u>5</u>	<u>298</u>	<u></u>	<u></u>
Total revenue		<u>205,344</u>	<u>42</u>	<u>5,781</u>	<u>(3,429)</u>	<u></u>
Expenses						
Salaries and wages		68,151	309	3,514		
Physician compensation and services		12,662				
Employee benefits		19,828	81	997		
Supplies		43,974	7	95		
Other expenses	\$ 8	30,489	191	747		
Depreciation and amortization		12,004				
Interest		2,438	6			
Provision for uncollectible accounts		6,389		15		
Total expenses	<u>8</u>	<u>195,935</u>	<u>594</u>	<u>5,368</u>	<u>-</u>	<u></u>
Operating Income (Loss)	<u>(8)</u>	<u>9,409</u>	<u>(552)</u>	<u>413</u>	<u>(3,429)</u>	<u></u>
Nonoperating Gains						
Investment income		8,709	653			
Other, net		44	21			
Total nonoperating gains, net		<u>8,753</u>	<u>674</u>			
Revenue Over (Under) Expenses	<u>\$ (8)</u>	<u>\$ 18,162</u>	<u>\$ 122</u>	<u>\$ 413</u>	<u>\$ (3,429)</u>	<u>\$</u>

Definitions

AHS - Allen Health System
AMH - Allen Memorial Hospital Corporation
MFAH - Memorial Foundation of Allen Hospital
ACN - Allen College of Nursing
IHP - Iowa Health Physicians, AHS portion

Iowa Health System and Subsidiaries
Trinity Health Systems, Inc. and Subsidiaries (Fort Dodge)
Consolidating Schedule - Balance Sheet Information
(In Thousands)
December 31, 2009

Assets

	Trinity Health Systems	Trinity Regional Medical Center	Berryhill Mental Health	Trinity Health Foundation	Trinity Building Corporation	Northwoods Living	Trimark	IH
Current Assets								
Cash and cash equivalents	\$ 242	\$ 2,740	\$ 393	\$ 428	\$ 107	\$ 13	\$ 2,023	
Short-term investments		3,223						
Assets limited as to use - required for current liabilities		732				31		
Patient accounts receivable, less estimated uncollectibles		12,091	187			350	3,479	
Other receivables	106	1,204	133	12	1	43	25	
Inventories		2,890					437	
Prepaid expenses	10	201	1		7	1	166	
Due from affiliates	(47)	4,257						
Total current assets	<u>311</u>	<u>27,338</u>	<u>714</u>	<u>440</u>	<u>115</u>	<u>438</u>	<u>6,130</u>	
Assets Limited As to Use, noncurrent								
Internally designated		25,761		10,072				
Property, Plant and Equipment, net	619	60,928	1,013	8	14,075	1,308	1,712	
Other Long-term Investments	2,419			3,290			7,313	
Investments in Joint Ventures and Other Investments	38,582	14,975		220	12			\$
Contributions Receivable				872				
Other	65	657	15			8	319	
Total assets	<u>\$ 41,996</u>	<u>\$ 129,659</u>	<u>\$ 1,742</u>	<u>\$ 14,902</u>	<u>\$ 14,202</u>	<u>\$ 1,754</u>	<u>\$ 15,474</u>	<u>\$</u>

Liabilities and Net Assets

Current Liabilities								
Current maturities of long-term debt						\$ 147		
Accounts payable	\$ 1	\$ 2,792	\$ 7	\$ 5	\$ 49	47	\$ 382	
Accrued payroll	458	3,858	103	21	30	226	2,487	
Accrued interest		242						
Estimated settlements due to third-party payers		1,418						
Due to affiliates	3,512	1,047	151	555	106	153	85	
Other current liabilities	23	1,580	225		395	1	131	
Total current liabilities	<u>3,994</u>	<u>10,937</u>	<u>486</u>	<u>581</u>	<u>580</u>	<u>574</u>	<u>3,085</u>	
Long-term Debt, net		4,528				228		
Other Long-term Liabilities	2,552	1,520	14				7,313	
Due to Affiliates		18,772	157					
Total liabilities	<u>6,546</u>	<u>35,757</u>	<u>657</u>	<u>581</u>	<u>580</u>	<u>802</u>	<u>10,398</u>	
Net Assets								
Unrestricted	35,450	89,966	1,085	10,494	13,622	948	5,076	\$
Temporarily restricted		2,079		1,970		4		
Permanently restricted		1,857		1,857				
Total net assets	<u>35,450</u>	<u>93,902</u>	<u>1,085</u>	<u>14,321</u>	<u>13,622</u>	<u>952</u>	<u>5,076</u>	
Total liabilities and net assets	<u>\$ 41,996</u>	<u>\$ 129,659</u>	<u>\$ 1,742</u>	<u>\$ 14,902</u>	<u>\$ 14,202</u>	<u>\$ 1,754</u>	<u>\$ 15,474</u>	<u>\$</u>

Definitions

IHHC - Iowa Health Home Care, Trinity portion

Iowa Health System and Subsidiaries
Trinity Health Systems, Inc. and Subsidiaries (Fort Dodge)
Consolidating Schedule - Revenue and Gains, Expenses and Losses Information
(In Thousands)
Year Ended December 31, 2009

	Trinity Health Systems	Trinity Regional Medical Center	Berryhill Mental Health	Trinity Health Foundation	Trinity Building Corporation	Northwoods Living	Trimark	IHH
Revenue								
Net patient service revenue		\$ 101,158	\$ 1,975			\$ (21)	\$ 38,980	
Other operating revenue	\$ 2,922	3,775	239	\$ 1	\$ 2,038	3,983	1,971	\$ 2
Net assets released from restrictions used for operations		432		301		34		
Total revenue	<u>2,922</u>	<u>105,365</u>	<u>2,214</u>	<u>302</u>	<u>2,038</u>	<u>3,996</u>	<u>40,951</u>	<u>2</u>
Expenses								
Salaries and wages	1,998	35,883	1,305	112		2,490	8,862	
Physician compensation and services		941	97				18,841	
Employee benefits	529	9,871	242	21		685	2,474	
Supplies	2	18,246	20	5	8	166	3,074	
Other expenses	353	23,883	383	683	1,298	513	6,961	
Depreciation and amortization	60	6,179	68	2	730	119	449	
Interest		1,584	2			28		
Provision for uncollectible accounts		5,590	98				536	
Total expenses	<u>2,942</u>	<u>102,177</u>	<u>2,215</u>	<u>823</u>	<u>2,036</u>	<u>4,001</u>	<u>41,197</u>	<u>2</u>
Operating Income (Loss)	<u>(20)</u>	<u>3,188</u>	<u>(1)</u>	<u>(521)</u>	<u>2</u>	<u>(5)</u>	<u>(246)</u>	<u>2</u>
Nonoperating Gains (Losses)								
Investment income		4,717		2,067	1			
Other, net		1		221		(2)		
Total nonoperating gains (losses), net		<u>4,718</u>		<u>2,288</u>	<u>1</u>	<u>(2)</u>		
Revenue Over (Under) Expenses	<u>\$ (20)</u>	<u>\$ 7,906</u>	<u>\$ (1)</u>	<u>\$ 1,767</u>	<u>\$ 3</u>	<u>\$ (7)</u>	<u>\$ (246)</u>	<u>\$ 2</u>

Definitions

IHHC - Iowa Health Home Care, Trinity portion

Iowa Health System and Subsidiaries
St. Luke's Health System, Inc. (Sioux City)
Consolidating Schedule - Balance Sheet Information
(In Thousands)
December 31, 2009

Assets

	SLHS	SLRMC	SLHR	Eliminations
Current Assets				
Cash and cash equivalents	\$ 61	\$ 5,667	\$ 624	
Short-term investments		4,752		
Assets limited as to use - required for current liabilities		2,119		
Patient accounts receivable, less estimated uncollectibles		16,215	1,435	
Other receivables	(4)	1,159	214	
Inventories		3,229	41	
Prepaid expenses	29	893	39	
Due from affiliates	5	36,886		\$ 36,826
Total current assets	<u>91</u>	<u>70,920</u>	<u>2,353</u>	<u>36,826</u>
Assets Limited As to Use, noncurrent				
Internally designated		36,707		
Property, Plant and Equipment, net	2,878	51,054	3,198	
Other Long-term Investments		733		
Investments in Joint Ventures and Other Investments	8,524	858	22	
Contributions Receivable		3,154		
Other		1,684	159	
Total assets	<u>\$ 11,493</u>	<u>\$ 165,110</u>	<u>\$ 5,732</u>	<u>\$ 36,826</u>

Liabilities and Net Assets (Deficit)

Current Liabilities				
Accounts payable	\$ 13	\$ 3,661	\$ 166	
Accrued payroll		4,829	256	
Estimated settlements due to third-party payers		2,963		
Due to affiliates	(3)	3,394	36,829	\$ 36,826
Other current liabilities	285	3,795	432	
Total current liabilities	<u>295</u>	<u>18,642</u>	<u>37,683</u>	<u>36,826</u>
Other Long-term Liabilities				
		10,011	332	
Due to Affiliates				
Total liabilities	<u>295</u>	<u>70,053</u>	<u>38,015</u>	<u>36,826</u>
Net Assets (Deficit)				
Unrestricted	11,198	91,624	(32,283)	
Temporarily restricted		1,806		
Permanently restricted		1,627		
Total net assets (deficit)	<u>11,198</u>	<u>95,057</u>	<u>(32,283)</u>	
Total liabilities and net assets (deficit)	<u>\$ 11,493</u>	<u>\$ 165,110</u>	<u>\$ 5,732</u>	<u>\$ 36,826</u>

Definitions

SLHS - St. Luke's Health System

SLRMC - St. Luke's Regional Medical Center

SLHR - St. Luke's Health Resources

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, 2009

	SLHS	SLRMC	SLHR	Eliminations
Revenue				
Net patient service revenue		\$ 125,811	\$ 13,909	
Other operating revenue	\$ 2,779	4,363	1,897	
Net assets released from restrictions used for operations		24		
Total revenue	<u>2,779</u>	<u>130,198</u>	<u>15,806</u>	
Expenses				
Salaries and wages	10	40,393	4,693	
Physician compensation and services		6,237	6,704	
Employee benefits		10,873	1,324	
Supplies		20,492	625	
Other expenses	880	24,979	4,427	
Depreciation and amortization	498	5,417	603	
Interest		1,747		
Provision for uncollectible accounts		8,565	739	
Total expenses	<u>1,388</u>	<u>118,703</u>	<u>19,115</u>	
Operating Income (Loss)	<u>1,391</u>	<u>11,495</u>	<u>(3,309)</u>	
Nonoperating Gains (Losses)				
Investment income		5,396	2	
Other, net	(28)			
Total nonoperating gains (losses), net	<u>(28)</u>	<u>5,396</u>	<u>2</u>	
Revenue Over (Under) Expenses	<u>\$ 1,363</u>	<u>\$ 16,891</u>	<u>\$ (3,307)</u>	<u>\$</u>

Definitions

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

Iowa Health System and Subsidiaries
Finley Tri-States Health Group, Inc. and Subsidiaries (Dubuque)
Consolidating Schedule - Balance Sheet Information
(In Thousands)
December 31, 2009

Assets

	TRI-ST	Finley	VNA	Eliminations	Consolidated
Current Assets					
Cash and cash equivalents		\$ 4,984	\$ 337		\$ 5,321
Short-term investments		4,678			4,678
Patient accounts receivable, less estimated uncollectibles		11,265	489		11,754
Other receivables		830			830
Inventories		2,140			2,140
Prepaid expenses		789			789
Due from affiliates		326	24	\$ 233	117
Total current assets		25,012	850	233	25,629
Assets Limited As to Use, noncurrent					
Internally designated		40,387			40,387
Property, Plant and Equipment, net					
		49,734	184		49,918
Other Long-term Investments					
		763			763
Investments in Joint Ventures and Other Investments					
	\$ 14	4,317			4,331
Contributions Receivable					
		3,780	1,598		5,378
Other					
		52	5		57
Due From Affiliates					
		90			90
Total assets	\$ 14	\$ 124,135	\$ 2,637	\$ 233	\$ 126,553

Liabilities and Net Assets

Current Liabilities					
Current maturities of long-term debt		\$ 506			\$ 506
Accounts payable		2,914	\$ 9		2,923
Accrued payroll		4,636	246		4,882
Estimated settlements due to third-party payers		2,686	44		2,730
Due to affiliates	\$ 8	2,134	201	\$ 233	2,110
Other current liabilities		1,455	207		1,662
Total current liabilities	8	14,331	707	233	14,813
Long-term Debt, net					
		888			888
Other Long-term Liabilities					
		1,116	13		1,129
Due to Affiliates					
		10,870			10,870
Total liabilities	8	27,205	720	233	27,700
Net Assets					
Unrestricted	6	93,150	320		93,476
Temporarily restricted		1,978	1,597		3,575
Permanently restricted		1,802			1,802
Total net assets	6	96,930	1,917		98,853
Total liabilities and net assets	\$ 14	\$ 124,135	\$ 2,637	\$ 233	\$ 126,553

Definitions

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

Iowa Health System and Subsidiaries
Finley Tri-States Health Group, Inc. and Subsidiaries (Dubuque)
Consolidating Schedule - Revenue and Gains, Expenses and Losses Information
(In Thousands)
Year Ended December 31, 2009

	TRI-ST	Finley	VNA	Eliminations
Revenue				
Net patient service revenue		\$ 85,834	\$ 3,041	
Other operating revenue		<u>3,238</u>		
Total revenue		<u>89,072</u>	<u>3,041</u>	
Expenses				
Salaries and wages		31,318	2,010	
Physician compensation and services		3,259		
Employee benefits		7,970	540	
Supplies		14,887	102	
Other expenses	\$ 9	19,482	443	
Depreciation and amortization		5,764	37	
Interest		416		
Provision for uncollectible accounts		<u>1,592</u>		
Total expenses	<u>9</u>	<u>84,688</u>	<u>3,132</u>	
Operating Income (Loss)	<u>(9)</u>	<u>4,384</u>	<u>(91)</u>	
Nonoperating Gains				
Investment income		6,174	1	
Other, net		<u>(120)</u>	<u>76</u>	
Total nonoperating gains, net		<u>6,054</u>	<u>77</u>	
Revenue Over (Under) Expenses	<u>\$ (9)</u>	<u>\$ 10,438</u>	<u>\$ (14)</u>	<u>\$ -</u>

Definitions

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

Audit and Compliance Committee, Board of Directors and Management
Iowa Health System and Subsidiaries
Des Moines, Iowa

During our audit of the consolidated financial statements of Iowa Health System and Subsidiaries (the Health System) as of and for the year ended December 31, 2009, we observed the following matters that may affect the Health System in the near future and offer these comments and suggestions. The matters discussed herein are not considered to be material weaknesses, significant deficiencies or other control deficiencies in internal control over financial reporting.

Accounting for Leases – Proposed Accounting Standard

During 2009, the FASB and IASB issued a Discussion Paper, *Leases: Preliminary Views, for Public Comment*. This is the first step in a process that could lead to a new accounting standard.

The two accounting boards took on a project to address lease accounting for many reasons and the expectation is that the final product will lead to further convergence of International Financial Reporting Standards (IFRS) and U.S. GAAP.

The boards tentatively agreed to adopt an approach to lessee accounting that would require the lessee to recognize an asset representing its right to use the leased item and a liability for its obligation to pay rentals. Essentially, this would mean all leases would be capitalized. This treatment differs from current U.S. GAAP, which separates leases into capital leases and operating leases.

For lessors, similar treatment will be required. A receivable will be recorded for the future lease payments and a liability will be recorded for the obligation to provide the use of the leased asset.

If adopted, this new treatment will require more monitoring and record keeping, particularly for leases currently classified as operating leases. This situation should be monitored with an eye towards the potential impact on your financial statements. Accounting for all leases as capital leases will impact several financial ratios used in debt covenants. Common ratios such as debt-to-capitalization, debt service coverage and day's cash on hand may be affected. These changes may also result in the need to revise debt covenants.

A final standard on this topic is currently expected to be issued in June 2011 with an effective date to be determined. However, if the final standard corresponds with the preliminary views document, it would impact all leases in existence at the effective date.

Emerging Issues Task Force 09-H – Selected Healthcare Organization Issues

Revenue Recognition for Uninsured Self Pay Patients

The Task Force has been discussing the revenue recognition model used by health care organizations for patients who are uninsured and do not qualify for charity care. Currently, revenue and the related patient receivables are recorded along with an allowance for bad debts. They have tentatively agreed that collectibility should be considered in the initial assessment of revenue. However, they have not agreed if this should be done in aggregate or on a patient-by-patient basis. They are considering an interim approach that would include netting revenue and

bad debt expense in the statement of operations. The Health System should continue to monitor the developments in this area and evaluate the potential impact to operations and reporting.

Insurance Claims and Recoveries

Health care organizations generally use a “transfer of risk” model when recording exposure to loss from malpractice and other types of claims reflecting only the expected amount of loss not transferred to an insurer. This, in essence, reports the liability for such claims on a “net” basis. The Task Force has recommended that health care organizations change to a “gross” basis for reporting the estimated liabilities and related insurance recoveries related to malpractice and other claims. This treatment is similar to other industries. We recommend the Health System evaluate recording insurance claims and recoveries on a “gross” basis.

Charity Care

Health care organizations currently report services to qualified charity patients in the notes to the financial statements. The disclosures generally report the amount of charity based on charges or the cost of providing the services. The Task Force has recommended that all disclosures for charity care be based on the Health System’s cost of providing those services. The Health System is currently using this approach.

Medical Malpractice Liabilities

The Health System currently evaluates and records liabilities for medical malpractice claims based on information provided from its counsel and actuary. Health care organizations have not been consistent in the level that these reserves are recorded across the industry. As part of the project to improve the Health Care Audit Guide, we understand that clarification may be provided as to proper levels at which to record such liabilities based on the actuarial evaluation. We recommend the Health System continue to monitor this development and evaluate any impact related to the recorded liabilities.

Not-For-Profit Mergers and Acquisitions and Goodwill

The Financial Accounting Standards Board issued FASB Statement No. 164, *Not-for-Profit Entities: Mergers and Acquisitions*, in 2009 which is effective for the Health System’s year beginning January 1, 2010. The standard could effect how transactions are recorded for future combinations with nonprofit organizations. The Standard, as codified in ASC Topic 805, distinguishes between a merger and acquisition, including the unique features that should be considered in recording such transactions.

The Standard also codified in ASC Topic 350 that nonprofits’ accounting for goodwill will conform to the accounting used by for-profit entities. Currently, nonprofits generally amortize goodwill over a period of years that corresponds with the utility of the asset or business entity purchased. The new Standard will require that goodwill not be amortized but instead be evaluated each year for impairment and reduced if an impairment in the value of the underlying asset is determined. The Health System currently has about \$2.1 million of unamortized goodwill. We recommend the Health System review its approach for handling goodwill with the new Standard.

Accounting for Non-Controlling Interests

In 2009, FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements An Amendment of ARB No. 51*, was amended for the reporting by nonprofits related to minority interest. The amendment requires that non-controlling (or minority) interests be included as a separate line item in net assets, that minority owners share of earnings not be reported as an expense or deducted in arriving at net income and adds several disclosures. The Health System should consider the impact on the accounting for current joint ventures as well as joint ventures that are being considered. The Health System should evaluate the materiality surrounding these transactions as it considers the appropriate reporting.

Third-Party Reserves

In 2005, Congress authorized a demonstration project for use of Recovery Audit Contractors (RAC) in Section 306 of the *Medicare Prescription Drug, Improvement and Modernization Act of 2003*. In general, the Department of Health and Human Services (HHS) was directed to demonstrate the use of RACs in identifying and correcting overpayments and underpayments under the Medicare program. The project was to cover at least two states with three contractors and last for no longer than three years. The project initially covered three states – Florida, New York and California and was eventually expanded to also include Massachusetts, South Carolina and Arizona. RACs are paid on a contingent basis for detecting and correcting improper payments. Correcting includes both collecting overpayments from providers and refunding underpayments to providers.

There has been considerable discussion as to whether providers who have not been located in one of the demonstration states should establish reserves related to a RAC audit. AICPA Statement of Position 00-1 (SOP 00-1), *Auditing Health Care Third-Party Revenues and Related Receivables*, is the primary source of authoritative auditing literature in this area.

The consensus has been that management may estimate an allowance for a potential RAC audit to avoid recording revenue that is not reasonably assured of being realized. The bottom line is an accrual based on an estimated percentage of Medicare revenues consistent with the results of the demonstration project is not sufficient evidence. Instead, a provider's estimates must be based on its own experience and assumptions, such as:

- The results of an internal billing/coding, medical records or other review

- The results of external billing/coding, medical records or other review

- The results of other internal analysis

The Health System's management has completed internal analysis to estimate and record reserves related to RAC audits. It will be important for management to monitor these reserves during 2010 to ensure they continue to be reasonable based on actual results. It is anticipated that the RAC auditors will be actively working in Iowa during 2010.

While most industry discussion regarding third-party reserves currently relate to RAC accruals, it is important to remember that the same accounting principles apply to any third-party reserves. Management should continue to monitor other third-party reserves, including those related to previously filed cost reports. As Medicare's interpretation of regulations change or are clarified, certain reserves may be required and other reserves should be relieved. Because Iowa has converted to a new Medicare Administrative Contractor (MAC), the rate at which cost reports are being settled has increased and certain new positions may be taken that differ from the prior contractor. As with RAC reserves, management should adjust these estimates as new information is developed and areas of exposure change.

Health Care Reform

While the impact of the health care legislation enacted in late March is impossible to determine at this time, it is clear there will be increasing pressure on hospitals to achieve quality outcomes or suffer financial penalties from the Medicare and/or Medicaid programs.

Provisions of the legislation will redistribute Medicare reimbursement from hospitals with poor outcomes to those with better outcomes. Additional reductions will be implemented for hospitals with high rates of certain clinical conditions that occur after a patient's admission to a hospital. Finally, across-the-board reductions in Medicare reimbursement will occur on an annual basis for perceived productivity gains hospitals should be achieving.

Many of these changes will not begin for several years. On a positive note, if incentives for individuals to obtain medical coverage are successful, the Health System may see an improvement in its payer mix. However, as the rate of uninsured decreases, Medicare disproportionate share payments will also decrease. The Health System should monitor these various issues as it develops operating budgets and strategic plans for the future. We also recommend that you remain aware of the ongoing changes related to health care reform and consider what action, if any, would be appropriate for the Health System in response to legislative activity.

Current Economic Conditions

The current protracted economic decline continues to present difficult circumstances and challenges for the health care industry. As a result, health systems are facing declines in the fair values of investments and other assets, declines in contributions, constraints on liquidity and difficulty obtaining financing. The values of the assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments to asset values, the allowance for accounts and contributions receivable, etc. that could negatively impact the Health System's ability to meet debt covenants or maintain sufficient liquidity.

Now, more than ever, we recommend that management and the Board of Directors vigilantly monitor and aggressively manage all of these matters, including:

- Challenge the quality and values of investments, especially hard-to-value investments
- Review and monitor allowances for uncollectible accounts
- Evaluate assumptions regarding defined benefit pension plan obligations
- Evaluate financing needs and liquidity plans

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We appreciate the opportunity to present these comments and suggestions. We can discuss these matters further at your convenience and may provide implementation assistance for changes or improvements if you require.

This communication is intended solely for the information and use of Management, the Audit and Compliance Committee, the Board of Directors and others within the Health System and is not intended to be and should not be used by anyone other than these specified parties.

/s/ **BKD, LLP**

Kansas City, Missouri
April 14, 2010