St. Luke's Health System, Ltd. and Subsidiaries

Consolidated Financial Statements as of and for the Years Ended September 30, 2013 and 2012, and Independent Auditors' Report

ST. LUKE'S HEALTH SYSTEM, LTD. AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
St. Luke's Health System, Ltd.
Boise, Idaho

We have audited the accompanying consolidated financial statements of St. Luke's Health System, Ltd. and its subsidiaries (the "Health System"), which comprise the consolidated balance sheets as of September 30, 2013 and 2012, and the related consolidated statements of operations and changes in net assets, and of cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of St. Luke's Health System, Ltd. and its subsidiaries as of September 30, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on Charity Care Schedule

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The charity care schedule summarized in Note 1 is presented for the purpose of additional analysis and is not a required part of the basic consolidated financial statements. This additional information is the responsibility of the Health System's management. Such information has not been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements and, accordingly it is inappropriate to and we do not express an opinion on the additional information referred to above.

Deloitte & Touche LLP

January 27, 2014

ST. LUKE'S HEALTH SYSTEM, LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2013 AND 2012
(In thousands)

	2013	2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 153,303	$ 116,467
Receivables — net	254,138	230,666
Inventories	28,709	26,629
Prepaid expenses	12,703	11,270
Current portion of assets whose use is limited	37,510	36,599
Total current assets	486,363	421,631
ASSETS WHOSE USE IS LIMITED:		
Board designated funds	263,145	269,540
Restricted funds	61,223	97,248
Permanent endowment funds	10,151	8,666
Donor restricted plant replacement and expansion funds and other specific purpose funds	22,159	18,476
Total assets whose use is limited	356,678	393,930
PROPERTY, PLANT, AND EQUIPMENT — Net	901,363	851,167
GOODWILL	37,693	31,864
OTHER ASSETS:		
Land and buildings held for investment or future expansion — at cost	45,642	28,541
Equity interest in joint ventures	5,494	5,230
Deferred financing costs — net	7,967	8,150
Other	28,293	27,823
Total other assets	87,396	69,744
TOTAL	$ 1,869,493	$ 1,768,336

See notes to consolidated financial statements.

	2013	2012
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 93,667	$ 83,112
Accrued salaries and related liabilities	56,326	49,061
Employee benefit liabilities	43,123	50,409
Estimated payable to Medicare and Medicaid programs	100,670	61,474
Current portion of long-term debt and capital leases	18,260	14,842
Total current liabilities	312,046	258,898
NONCURRENT LIABILITIES:		
Long-term debt and capital leases	641,677	622,218
Liability for pension benefits	54,210	99,273
Other liabilities	3,555	4,937
Total noncurrent liabilities	699,442	726,428
NET ASSETS:		
Unrestricted:		
The Health System	822,320	751,623
Noncontrolling interests	3,347	4,749
Total unrestricted net assets	825,667	756,372
Temporarily restricted	22,187	17,972
Permanently restricted	10,151	8,666
Total net assets	858,005	783,010
TOTAL	$ 1,869,493	$ 1,768,336

ST. LUKE'S HEALTH SYSTEM, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012 (In thousands)

	2013	2012
UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT:		
Patient service revenue (net of contractual allowances and discounts)	$ 1,516,406	$ 1,396,644
Less provision for bad debts	(83,472)	(67,298)
Net patient service revenue (net of bad debts)	1,432,934	1,329,346
Other revenue (including rental income)	38,209	33,976
Excess of assets obtained over liabilities assumed in acquisitions	20,646	7,253
Net assets released from restrictions — operating	914	84
Loss on equity interest in joint ventures	308	(651)
Total unrestricted revenues, gains, and other support	1,493,011	1,370,008
EXPENSES:		
Salaries and benefits	802,054	714,343
Supplies and drugs	240,487	216,565
Depreciation and amortization	101,955	89,516
Contract services	74,810	73,125
Purchased services	116,943	86,793
Interest expense	24,954	20,801
Other expenses	116,618	101,742
Total expenses	1,477,821	1,302,885
INCOME FROM OPERATIONS	15,190	67,123
INVESTMENT INCOME	4,204	5,575
REVENUE IN EXCESS OF EXPENSES	19,394	72,698
ADJUSTMENT FOR INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	168	(421)
REVENUE IN EXCESS OF EXPENSES ATTRIBUTABLE TO THE HEALTH SYSTEM	$ 19,562	$ 72,277

See notes to consolidated financial statements.

	2013	2012
UNRESTRICTED NET ASSETS:		
Revenue in excess of expenses	$ 19,394	$ 72,698
Change in noncontrolling interests	(1,234)	(1,666)
Change in net unrealized gains on investments	(2,029)	(127)
Net assets released from restrictions — capital acquisitions	3,624	2,997
Change in funded status of pension plan	49,540	(12,845)
Increase in unrestricted net assets	69,295	61,057
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	5,537	8,525
Investment income	572	412
Change in net unrealized gains on investments	816	640
Net assets released from restrictions	(2,710)	(2,913)
Increase in temporarily restricted net assets	4,215	6,664
PERMANENTLY RESTRICTED NET ASSETS — Contributions for endowment funds	1,485	3,275
INCREASE IN NET ASSETS	74,995	70,996
NET ASSETS — Beginning of year	783,010	712,014
NET ASSETS — End of year	$ 858,005	$ 783,010

ST. LUKE'S HEALTH SYSTEM, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
AS OF SEPTEMBER 30, 2013 AND 2012
(In thousands)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	$ 74,995	$ 70,996
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	101,955	89,516
Net realized loss on investments	2,689	1,020
Excess of assets obtained over liabilities assumed in acquisitions	(20,646)	(7,253)
Unrealized gain (loss) on investments	1,213	(513)
Distributions received from joint ventures	40	191
Amortization of deferred financing fees	591	563
Restricted contributions received	(7,022)	(11,801)
Loss on disposition of equipment and other assets	31	2,643
(Gain) loss on equity interest in joint ventures	(308)	651
Change in funded status of pension plans	(49,540)	12,845
Changes in assets and liabilities — net of acquisitions of medical practices:		
Net change in receivables	(20,010)	(37,522)
Net change in inventories	(1,465)	(1,668)
Net change in prepaid expenses and other current assets	(1,114)	(2,578)
Net change in other assets	(5,407)	(6,258)
Net change in accounts payable and accrued liabilities	4,785	(2,661)
Net change in accrued salaries and related liabilities	6,831	5,088
Net change in employee benefit liabilities	(7,359)	11,039
Net change in payable to Medicare and Medicaid programs	39,196	(8,743)
Net change in other liabilities	4,039	(230)
Net cash provided by operating activities	123,494	115,325

See notes to consolidated financial statements.

	2013	2012
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions of property, plant, and equipment and land and buildings held for investment or future expansion	$ (141,463)	$ (137,587)
Proceeds from disposition of equipment and other assets	320	254
Purchase of investments (includes purchases with restricted funds)	(666,996)	(419,692)
Change in restricted funds	5,836	(75,497)
Proceeds from sales of investments	703,323	416,120
Payments on acquisition of medical practices	(17,612)	(5,518)
Cash received from acquisition transactions	1,343	390
Contributions to unconsolidated joint ventures		(233)
Net cash used in investing activities	(115,249)	(221,763)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of long-term debt	(10,968)	(8,035)
Advances on lines of credit	40,239	39,036
Repayments on lines of credit	(38,169)	(38,782)
Proceeds from contributions for temporarily restricted net assets	5,537	6,084
Proceeds from contributions for endowment funds	1,485	101
Proceeds from bonds	30,212	119,788
Proceeds from bond premium		896
Cost of issuance fees from bonds	(408)	(968)
Proceeds from notes payable	2,414	1,191
Payments on notes payable	(1,751)	(1,545)
Net cash provided by financing activities	28,591	117,766
NET INCREASE IN CASH	36,836	11,328
CASH — Beginning of year	116,467	105,139
CASH — End of year	$ 153,303	$ 116,467

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization — St. Luke's Health System, Ltd. and subsidiaries (the "Health System") is an Idaho-based not-for-profit organization providing a comprehensive health care delivery system to the communities served. The Health System's general offices are located in Boise, Idaho. The Health System is governed by volunteer boards made up of local citizens.

The Health System's primary hospitals and service areas are located within the State of Idaho in Boise, Meridian, Twin Falls, Elmore, McCall, Nampa, Jerome, and Ketchum and have other facilities and operations throughout Southern Idaho and Eastern Oregon.

Basis of Presentation — The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Intercompany transactions have been eliminated.

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. Such estimates include the useful lives of depreciable assets, liabilities associated with employee benefit programs, self-insured professional liability risks not covered by insurance and potential settlements with the Medicare and Medicaid programs. In addition, valuation reserve estimates are made regarding the collectability of outstanding patient and other receivables.

The Health System utilizes independent third parties to assist in determining reserve estimates associated with self-insured employee benefit programs and professional liability risks, including incurred but not reported claims. Changes in estimates are included in results of operations in the period when such amounts are determined and actual amounts could differ from such estimates.

Statements of Operations — Transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as unrestricted revenues, gains and other support and expenses.

Changes in Net Assets — Changes in net assets include contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets), changes in pension liabilities, change in noncontrolling interests, and the net change in unrealized gains and losses on investments.

Temporarily and Permanently Restricted Net Assets — Temporarily restricted net assets are those whose use by the Health System is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Health System pursuant to those stipulations. Permanently restricted net assets are assets whose use by the Health System is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed.

Donor Restricted Gifts — Unconditional promises to give cash (pledges receivable) and other assets are recorded at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations as net assets released from restrictions. Total pledges receivable, net of allowances, as of September 30 are as follows:

	2013	2012
Less than one year	$ 227	$ 573
One to five years	2,648	3,668
More than five years	43	234
	2,918	4,475
Less allowance for estimated uncollectible accounts	226	220
Total pledges receivable	$2,692	$4,255

Cash and Cash Equivalents — Cash represents cash on hand and cash in banks, excluding amounts whose use is limited and consists primarily of cash and highly liquid investments with original maturities of three months or less. As of September 30, 2013 and 2012, the Health System had book overdrafts of $9,901 and $14,254, respectively, at one institution that is included in accounts payable and accrued liabilities.

Inventories — Inventories consist primarily of medical and surgical supplies and are stated at the lower of cost (on a moving-average basis) or market.

Investments and Investment Income — The Health System's long-term and short term investment portfolios are managed according to investment policies adopted by the Health System and based on overall investment objectives. Board designated funds are investments established by the Board for strategic future capital or operating expenditures intended to expand or preserve services provided to the communities it serves. All investments are recorded using settlement date accounting. Investment income and gains (losses) on investments whose use has not been restricted by the donor, including unrestricted income from endowment funds, are reported as part of investment income. Investment income and gains (losses) on investments whose income has been restricted by the donor are recorded as increases (decreases) to temporarily or permanently restricted net assets.

The Health System's investments primarily include mutual funds and debt securities that are carried at fair value. The Health System evaluates whether securities are other-than-temporarily impaired (OTTI) based on criteria that include the extent to which cost exceeds market value, the duration of the market decline, the credit rating of the issuer or security, the failure of the issuer to make scheduled principal or interest payments and the financial health and prospects of the issuer or security. Any declines in the value of investment securities determined to be OTTI are recognized in earnings and reported as other-than-temporary impairment losses. The Health System determined that no securities were other than temporarily impaired as of September 30, 2013 and 2012.

Assets Whose Use is Limited — Assets whose use is limited include assets set aside by the Board of Directors for future capital purposes over which the Board retains control and may, at its discretion, subsequently be used for debt retirement or other purposes. It also includes assets held by trustee under indenture agreements, assets restricted by donors for specific purposes and permanent endowment funds.

Property, Plant, and Equipment — Property, plant, and equipment are recorded at cost except donated assets, which are recorded at fair value at the date of donation. Property and equipment donated for Health System operations are recorded as additions to property, plant, and equipment when the assets are placed in service. Depreciation is computed using the straight-line method over the estimated useful lives of the depreciable assets with depreciation taken in both the year placed in service and the year of disposition.

The estimated useful lives of each asset ranges are as follows:

Buildings	15–40 years
Fixed and major movable equipment	2–20 years
Leasehold improvements	5–15 years

Expenditures for maintenance and repairs are charged to expense as incurred and expenditures for renewals and betterments are capitalized. Upon sale or retirement of depreciable assets, the related cost and accumulated depreciation are removed from the records and any gain or loss is reflected in the statement of operations. Periodically, the Health System evaluates the carrying value of property, plant, and equipment for impairment based on undiscounted operating cash flows whenever significant events or changes occur which might impact recovery of recorded assets.

Goodwill — Goodwill represents the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill is not amortized, but is subject to annual impairment testing at the reporting unit level. A reporting unit is defined as a component of an organization that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed for decision making purposes and for which discrete financial information is available.

The quantitative impairment testing for goodwill includes a two-step process consisting of identifying a potential impairment loss by comparing the fair value of the reporting unit to its carrying amount, including goodwill and then measuring the impairment loss by comparing the implied fair value of the goodwill for a reporting unit to its carrying value. The fair value is estimated based upon internal evaluations of the related long-lived assets for each reporting unit and can include comparable market prices, quantitative analyses of revenues and estimated future net cash flows. If the fair value of the reporting unit assets is less than their carrying value including goodwill, an impairment loss is recognized.

In addition to annual impairment review, impairment reviews are performed whenever circumstances indicate a possible impairment may exist.

Meaningful Use — The Health System accounts for Electronic Health Records (EHR) incentive payments in accordance with ASC 450-30, *Gain Contingencies* ("ASC 450-30"). In accordance with ASC 450-30, the Health System recognizes a gain for EHR incentive payments when its eligible hospitals and physician practices have demonstrated meaningful use of certified EHR technology for the applicable period and when the final calculation of the EHR incentive payment is available. The demonstration of meaningful use is based on meeting a series of objectives and varies among hospitals and physician practices, between the Medicare and Medicaid programs and within the Medicaid program from state to state. Additionally, meeting the series of objectives in order to demonstrate meaningful use becomes progressively more stringent as its implementation is phased in through stages as outlined by the Centers for Medicare and Medicaid Services.

For the years ended September 30, 2013 and 2012 respectively, the Health System recognized $8,362 and $3,785 in EHR incentive payments were recognized in accordance with the HITECH Act under the Medicaid program. These payments are included in other revenue.

The Health System incurs both capital expenditures and operating expenses in connection with the implementation of its various EHR initiatives. The amount and timing of these expenditures does not directly correlate with the timing of the Health System's receipt or recognition of the EHR incentive payments.

Land and Buildings Held for Future Investment or Future Expansion — Land and buildings held for investment or future expansion represents land and buildings purchased or donated to the Health System for future operations and are not included in the Health System operations.

Costs of Borrowing — Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Financing costs are deferred and amortized over the life of the bonds.

Investment in Affiliates — The Health System has entered into certain joint ventures and affiliations with other health care providers. The Health System accounts for the joint ventures and affiliations based on the equity method of accounting when it has significant influence. The Health System's share of income or loss is reported as increases or decreases in the respective investment with a corresponding amount reported in income or loss on equity interest in joint ventures.

As of September 30, 2013, significant joint ventures and affiliations include the following:

- St. Luke's Idaho Elks Rehabilitation Services, an equally owned joint venture with Idaho Elks Rehabilitation Hospital, Inc. to provide outpatient rehabilitation services

- Idaho Cytogenetics Diagnostic Laboratory, LLC, an equally owned joint venture with Saint Alphonsus Diversified Care, Inc. to promote general health and cytogenetic diagnostic services

- Idaho Community Health Network, an equally owned joint venture with Kootenai Medical Center, Magic Valley, and Portneuf to provide an organized system for the coordination, delivery and provisions for certain health care services

- Idaho GYN/Oncology Services, LLC, an equally owned joint venture with Saint Alphonsus Regional Medical Center, Inc., to provide gynecological oncology healthcare services. This joint venture was dissolved as of September 30, 2013.

Net Patient Service Revenue — Net patient service revenue before provision for bad debts is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care — The Health System provides services to all patients regardless of their ability to pay in accordance with its charity care policy. The estimated cost of providing these services was \$23,997 and \$22,377 in 2013 and 2012, respectively, calculated by multiplying the ratio of cost to gross charges for the Health System by the gross compensated charges associated with providing care to charity patients.

In addition to charity care services, the Health System provides services to patients who are deemed indigent under state Medicaid and county indigency program guidelines. In most cases, the cost of services provided to these patients exceeds the amounts received as compensation from the respective programs. In addition, in response to broader community needs, the Health System also provides many programs such as health screening, patient and health education programs, clinical and biomedical services to outlying hospitals, and serves as a clinical teaching site for higher education programs of health professionals. The following unaudited schedule summarizes the charges forgone in accordance with the Health System's charity care policy, the unpaid costs associated with services provided under Medicare, Medicaid, and county indigency programs, and the benefit of services provided to support broader community needs:

	Unaudited	
	2013	2012
Estimated unpaid costs of services provided under Medicare, Medicaid, and county indigency programs	\$ 190,778	\$ 148,608
Estimated benefit of services to support broader community needs	29,431	22,912

Income Taxes — The Health System is a not-for-profit corporation and is recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code.

Unrelated Business Income — The Health System is subject to federal excise tax on its unrelated business taxable income (UBTI). As of September 30, 2013, the Company had approximately \$3,947 of UBTI Net Operating Losses from operating losses incurred from 1999 to 2013 which expire in years 2014 to 2028. The Health System does not believe that it is more likely than not they will utilize these losses prior to their expiration and as such has provided a full valuation allowance against these losses.

Recently Issued and New Accounting Pronouncements — In December 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update ("ASU") No. 2011-11, *"Balance Sheet (Topic 210) — Disclosures about Offsetting Assets and Liabilities."* ASU No. 2011-11, as amended by ASU 2013-01, *"Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities,"* requires disclosure of the effect or potential effect of offsetting arrangements on the Health System's financial position as well as enhanced disclosure of the rights of setoff associated with derivative instruments, resale and repurchase agreements, and securities borrowing and lending transactions. The disclosure requirements, which are to be applied retrospectively, are effective for fiscal years beginning on or after January 1, 2013. The adoption of ASU 2011-11 and ASU 2013-01 is not expected to have a material impact on the Health System's financial position, results of operations or cash flows.

In July 2011, the FASB issued ASU No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* ("ASU 2011-07") which amended ASC No. 954, *Health Care Entities* ("ASC 954") to provide greater transparency regarding a health care entity's net patient revenue and the related allowances for doubtful accounts. ASU 2011-07 requires certain health care entities to change the presentation of the provision for bad debts associated with patient service revenue by reclassifying the provision from operating expenses to a deduction from net patient revenue and requires enhanced disclosures about net patient revenue and the policies for recognizing revenue and assessing bad debts. The provisions of ASU 2011-07 which are to be applied retroactively were adopted by the Health System on October 1, 2012. As such, the provision for bad debts associated with patient care has been reclassified for all periods presented in accordance with the provisions of this pronouncement. See Note 4.

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 820), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* ("ASU 2011-04"), which amended ASC No. 820, *Fair Value Measurement* ("ASC 820") to change the wording used to describe many of the requirements in U.S. GAAP for measuring the fair value and for disclosing information about fair value measurements. The Health System adopted the provisions of ASU 2011-04 for the current fiscal year ended September 30, 2013, and it did not have a material impact on the Health System's financial position, results of operations or cash flows.

Subsequent Events — The Health System has evaluated subsequent events through January 27, 2014. This is the date the financial statements were available to be issued.

2. BUSINESS TRANSACTIONS

Medical Practices — In 2013 and 2012, the Health System acquired various family health and specialty medical practices located throughout its service area. As a result of the transactions, the Health System acquired receivables, inventory, fixed assets, non-compete agreements, goodwill, or other assets. Non-compete agreements are amortized on a straight-line basis over their expected lives of five to seven years.

In accordance with the purchase method of accounting, the acquired net assets were recorded at fair value as of the dates of the acquisition. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed from the acquisitions during the years ended September 30:

	2013	2012
Accounts receivable	$ 142	$ -
Inventory	305	69
Property	3,846	555
Goodwill and other intangible assets	13,151	4,990
Other assets	168	
Accrued liabilities		(96)
Purchase price	$17,612	$5,518

Transaction with Elmore — On April 1, 2013, The Health System completed a transaction with Elmore Medical Center. The transaction expanded the Health System's presence into Mountain Home, Idaho. As a result of the transaction, the name of the hospital was changed to St. Luke's Elmore. Prior to the transaction, Elmore Medical Center was wholly owned by the Elmore Medical Center Hospital District.

The determination of the estimated fair market value of the assets obtained and liabilities assumed required management to make certain estimates and assumptions. The transaction with Elmore Medical Center resulted in the assets obtained and liabilities assumed being recorded based on their estimated fair values on the transaction date. In 2013, an excess of assets obtained over liabilities assumed in the amount of $20,646 was recorded in the consolidated statement of operations and changes in net assets representing the excess of the fair value of tangible and identifiable intangible assets obtained over liabilities assumed or other financial consideration given.

The results of operations are included in the Health System's consolidated financial statements beginning April 1, 2013. The following table presents the allocation of consideration given for the assets obtained and liabilities assumed:

Cash	$ 1,343
Investments	6,162
Accounts receivable	3,316
Inventory	310
Prepaids	151
Property	10,865
Total assets obtained	22,147
Accounts payable and other accrued liabilities	(1,501)
Total liabilities assumed	(1,501)
Excess of assets obtained over liabilities assumed in transaction	$ 20,646

Transaction with Jerome — On October 1, 2011, The Health System completed a transaction with St. Benedict's Family Medical Center, Inc ("St. Benedicts"). The transaction expanded the Health System's presence into Jerome, Idaho. As a result of the transaction, the name of the hospital was changed to St. Luke's Jerome, Ltd. Prior to the transaction, St. Benedicts was wholly owned by Critical Access Group, Inc., headquartered in Duluth, Minnesota.

The determination of the estimated fair market value of the assets obtained and liabilities assumed required management to make certain estimates and assumptions. The transaction with St. Benedicts resulted in the assets obtained and liabilities assumed being recorded based on their estimated fair values on the transaction date. In 2012, an excess of assets obtained over liabilities assumed in the amount of $6,950 was recorded in the consolidated statement of operations and changes in net assets representing the excess of the fair value of tangible and identifiable intangible assets obtained over liabilities assumed or other financial consideration given.

The results of operations are included in the Health System's consolidated financial statements beginning October 1, 2011. The following table presents the allocation of consideration given for the assets obtained and the liabilities assumed:

Cash	$ 95
Accounts receivable	2,491
Inventory	294
Prepaids	91
Other assets	122
Property	5,494
Total assets obtained	8,587
Accounts payable and other accrued liabilities	(1,637)
Total liabilities assumed	(1,637)
Excess of assets obtained over liabilities assumed in transaction	$ 6,950

Transaction with Magic Valley Health Foundation — In May 2012, the Health System acquired the financial position, results of operations and cash flows of St. Luke's Magic Valley Health Foundation, Ltd (the "Foundation"). The Foundation modified their bylaws to effectively allow the Foundation to become a consolidated subsidiary of the Health System.

The determination of the estimated fair market value of the assets obtained and liabilities assumed required management to make certain estimates and assumptions. The transaction with the Foundation resulted in the assets obtained and liabilities assumed being recorded based on their estimated fair values on the transaction date. In 2012, an excess of assets obtained over liabilities assumed in the amount of $303 was recorded in the consolidated statement of operations and changes in net assets representing the excess of the fair value of tangible and identifiable intangible assets obtained over liabilities assumed.

The results of operations are included in the Health System's consolidated financial statements as of May 2012. The following table presents the allocation of consideration given for the assets obtained and the liabilities assumed:

Cash	$ 295
Cash — donor restricted	4,890
Pledges receivable	1,227
Accounts receivable	18
Prepaids	14
Property	320
Total assets obtained	6,764
Accounts payable and accrued liabilities	(846)
Total liabilities assumed	(846)
Temporarily restricted net assets	(2,440)
Permanently restricted net assets	(3,175)
Total liabilities and net assets assumed	(6,461)
Excess of assets obtained over liabilities assumed in transaction	$ 303

3. JOINT VENTURES

Combined financial information of the Health System's joint ventures as of and for the year ended September 30 are as follows:

	2013	2012
Total assets	$ 9,852	$ 11,302
Total liabilities	3,644	2,459
Total equity	6,208	8,843
Total revenues	15,522	17,510
Total income (loss)	(1)	888

4. NET PATIENT SERVICE REVENUE

The Health System has agreements with third-party payors that provide for payments to the Health System at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare — Inpatient acute and certain outpatient care services rendered to Medicare program beneficiaries are paid at prospectively determined rates based upon the service provided. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services, certain other outpatient services, and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology.

The Health System is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Health System and audits thereof by the Medicare fiscal intermediary. The Health System's classification of patients under the Medicare program and the appropriateness of their admission are subject to a review by a peer review organization under contract with the fiscal intermediary.

Medicaid — Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Health System is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Health System and audits thereof by the Medicaid fiscal intermediary.

Changes in estimates are included in results of operations in the period when such amounts are determined. The Health System has an opportunity to amend previously settled cost reports. With regard to the amended cost reports, the Health System accrues settlements when amounts are probable and estimable.

Changes in prior year estimates decreased net patient service revenue by $1,973 for fiscal year ended September 30, 2013 and increased net patient service revenue by $9,161 for fiscal year ended September 30, 2012.

Other — The Health System has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Health System under these agreements includes prospectively determined rates per patient day, per discharge and discounts from established charges.

The System records a provision for bad debts related to uninsured accounts to record the net self pay accounts receivable at the estimated amounts the System expects to collect.

Patient service revenue (including patient co-pays and deductibles), net of contractual allowances and discounts (but before provision for uncollectible accounts) by primary payor source, for the year ended September 30 are as follows:

	2013	2012
Commercial payors, patients, and other	$ 880,004	$ 696.135
Medicare program	478,832	506,246
Medicaid program	157,570	194,263
	1,516,406	1,396,644
Less total allowance	83,472	67,298
	$ 1,432,934	$ 1,329,346

5. ACCOUNTS RECEIVABLE AND CONCENTRATION OF CREDIT RISK

The Health System grants credit without collateral to its patients, most of whom are local residents and many of whom are insured under third-party payor agreements. Accounts receivable, reflected net of any contractual arrangements, as of September 30 are as follows:

	2013	2012
Commercial payors, patients, and other	$ 197,670	$ 191,083
Medicare program	45,881	41,667
Medicaid program	17,304	22,211
Non-patient	39,442	17,138
	300,297	272,099
Less total allowance	46,159	41,433
	$ 254,138	$ 230,666

The allowance for estimated uncollectible accounts is determined by analyzing both historical information (write-offs by payor classification), as well as current economic conditions.

6. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment as of September 30 are as follows:

	2013	2012
Land	$ 47,720	$ 43,878
Buildings, land improvements, and fixed equipment	818,396	759,724
Major movable equipment	710,412	632,795
	1,576,528	1,436,397
Less accumulated depreciation:		
Buildings, land improvements, and fixed equipment	278,835	249,479
Major movable equipment	442,180	375,521
	721,015	625,000
	855,513	811,397
Construction in process	45,850	39,770
	$ 901,363	$ 851,167

As of September 30, 2013 and 2012, the Health System had $10,013 and $5,281, respectively, of property, plant, and equipment purchases included in accounts payable and accrued liabilities.

Depreciation expense was $93,423 and $81,921 for the years ended September 30, 2013 and 2012, respectively.

7. ASSETS WHOSE USE IS LIMITED

Assets whose use is limited that will be used for obligations classified as current liabilities and the current portion of pledges receivable are reported in current assets. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value, based on quoted market prices of identical or similar assets. The majority of the Health System's investments are managed by independent investment managers. The following table sets forth the composition of assets whose use is limited as of September 30:

	2013	2012
Board designated funds:		
Cash and cash equivalents	$ 17,872	$ 28,350
Certificates of deposit and commercial paper	350	
Mutual funds	34,913	29,473
Corporate bonds and notes	91,357	51,447
Government and agency securities	184,582	218,486
Interest receivable	1,199	1,270
Due to donor restricted and permanent endowment funds	(29,618)	(22,887)
	300,655	306,139
Less amounts classified as current assets	(37,510)	(36,599)
	$263,145	$269,540
Restricted funds:		
Cash and cash equivalents	$ 24,456	$ 62,001
Certificates of deposit and commercial paper	6,024	
Government and agency securities	30,743	35,247
	$ 61,223	$ 97,248
Permanent endowment funds -- due from board designated funds	$ 10,151	$ 8,666
Donor restricted plant replacement and expansion funds and other specific purpose funds:		
Due from board designated funds	$ 19,467	$ 14,221
Pledges receivable	2,692	4,255
	$ 22,159	$ 18,476

Investment income for assets limited as to use, cash equivalents, and other investments for the years ended September 30 are comprised of the following:

	2013	2012
Investment income:		
Interest income	$ 6,893	$ 6,595
Realized loss on sales of securities	(2,689)	(1,020)
	$ 4,204	$ 5,575
Change in net unrealized gain on investments	$ (2,029)	$ (127)

In connection with the issuance of the certain bond obligations, the Health System is required to maintain a debt reserve fund. The debt reserve fund is to be used for the payment of principal and interest at maturity. The amount held in the debt reserve fund as of September 30, 2013, related to the Series 2008A Bonds, is $16,368 (which includes $3,088 to be paid over the next 12 months). This amount is included in restricted funds. Amounts held in custody, to be paid over the next 12 months, for the Series 2000 and 2005 Bonds are $1,721 and $1,956 respectively. These amounts are also included in restricted funds.

Proceeds received from the Series 2012A Bonds are restricted to qualified expenditures related to a facility project of the Health System and are held by the Series 2012A Bond Trustee in a Construction Fund. Initial deposits into the Construction Fund were $75,521. As of September 30, 2013, the balance remaining in the fund was $35,849.

8. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Restricted net assets as of September 30 consist of donor restricted contributions and grants, which are to be used as follows:

	2013	2012
Equipment and expansion	$ 13,050	$ 11,617
Research and education	2,174	1,648
Charity and other	6,963	4,707
Total temporarily restricted net assets	22,187	17,972
Permanently restricted net assets	10,151	8,666
Total restricted net assets	$ 32,338	$ 26,638

The composition of endowment net assets by type of fund as of September 30 is as follows:

	September 30, 2013		
	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment net assets	$ -	$ 10,151	$ 10,151
Board-designated endowment net assets	1,618		1,618
Total endowment net assets	$ 1,618	$ 10,151	$ 11,769

	September 30, 2012		
	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment net assets	$ -	$ 8,666	$ 8,666
Board-designated endowment net assets	1,079		1,079
Total endowment net assets	$ 1,079	$ 8,666	$ 9,745

Changes in endowment net assets during 2013 and 2012 are as follows:

	September 30, 2013		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets — beginning of period	$ 1,079	$ 8,666	$ 9,745
Investment returns	192		192
Unrealized gains	627		627
Contributions	28	1,216	1,244
Appropriation of endowment net assets for expenditure	(4)	(21)	(25)
Transfers to remove or add to board-designated endowment funds	(304)	290	(14)
Endowment net assets — end of period	$ 1,618	$ 10,151	$ 11,769

	September 30, 2012		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets — beginning of period	$ 437	$ 5,390	$ 5,827
Investment returns	176		176
Unrealized gains	226		226
Contributions	36	91	127
Magic Valley Health Foundation transaction	349	3,175	3,524
Appropriation of endowment net assets for expenditure	(145)		(145)
Transfers to remove or add to board-designated endowment funds		10	10
Endowment net assets — end of period	$ 1,079	$ 8,666	$ 9,745

9. DEBT

Long-term debt as of September 30 consists of the following:

	2013	2012
Obligations to Idaho Health Facilities Authority — Series 2012A Fixed Rate Bonds	$ 75,000	$ 75,000
Obligations to Idaho Health Facilities Authority — Series 2012A Fixed Rate Bond Premium	839	885
Obligations to Idaho Health Facilities Authority — Series 2012B Variable Rate Direct Purchase	73,300	44,788
Obligations to Idaho Health Facilities Authority — Series 2012CD Variable Rate Revenue Bonds	150,000	150,000
Obligations to Idaho Health Facilities Authority — Series 2008A Fixed Rate Bonds	125,160	126,460
Obligations to Idaho Health Facilities Authority — Series 2008A Fixed Rate Bond Discount	(3,206)	(3,293)
Obligations to Idaho Health Facilities Authority — Series 2005 Fixed Rate Bonds	108,990	111,770
Obligations to Idaho Health Facilities Authority — Series 2000 Fixed Rate Bonds	79,000	82,100
Obligations to Idaho Health Facilities Authority — Series 2000 and Series 2005 Fixed Rate Bond Premium	4,719	4,936
Capital leases	2,518	2,041
Notes payable	38,728	39,552
Line of credit	4,889	2,821
Total debt	659,937	637,060
Less current portion	18,260	14,842
Total long-term debt	$641,677	$622,218

As of September 30, 2013, the maturity schedule of long-term debt is as follows:

Years Ending September 30	Long-Term Debt	Capital Lease	Total
2014	$ 17,485	$ 888	$ 18,373
2015	11,436	450	11,886
2016	11,860	287	12,147
2017	12,310	184	12,494
2018	10,418	189	10,607
Thereafter	593,910	869	594,779
	$657,419	2,867	660,286
Less amount representing interest		(349)	(349)
		$2,518	$659,937

Obligations to Idaho Health Facility Authority

Series 2000 — Represents Fixed Rate Revenue Bonds, payable in annual payments ranging from $2,800 to $29,700, beginning July 2011 through July 2030. The Series 2000 bonds bear interest at a fixed rate ranging from 2.00% to 5.00% per annum calculated on the basis of a 360 day year comprised on 12 30-day months and are payable on July 1 and January 1 of each year. The average interest rate (which includes amortization of costs of issuance) during 2013 was 4.80%.

The Series 2000 bonds maturing on or after July 1, 2021, are subject to redemption prior to maturity at the option of the Health System.

The Series 2000 Bonds are secured with a mortgage on the Health System's hospital located in Boise, Idaho.

Series 2005 — Represents Fixed Rate Revenue Bonds, payable in annual payments ranging from $2,690 to $51,710, beginning July 2011 through July 2035. The Series 2005 bonds bear interest at a fixed rate ranging from 2.00% to 5.00% per annum calculated on the basis of a 360 day year comprised on 12 30-day months and are payable on July 1 and January 1 of each year. The average interest rate (which includes amortization of costs of issuance) during 2013 was 4.62%.

The Series 2005 bonds maturing on or after July 1, 2021, are subject to redemption prior to maturity at the option of the Health System. In addition, Series 2005 bonds maturing on or after July 1, 2025, are subject to redemption prior to maturity at the option of the Health System on or after July 1, 2015.

The Series 2005 Bonds are secured with a mortgage on the Health System's hospital located in Boise, Idaho.

Series 2008A — Represents Fixed Rate Revenue Bonds, payable in annual payments ranging from $1,130 to $21,655 beginning November 2009 through 2037. The Series 2008A bonds bear interest at a fixed rate ranging from 4.00% to 6.75% per annum calculated on the basis of a 360 day year comprised of 12 30-day months and are payable on May 1 and November 1 of each year. The average interest rate (which includes amortization of costs of issuance) during 2013 was 6.84%.

The Series 2008A bonds maturing on or after November 1, 2019, are subject to redemption prior to maturity at the option of the Health System, on or after November 1, 2018.

Series 2012A — Represents Fixed Rate Revenue Bonds payable in annual payments ranging from $23,780 to $26,220, beginning March 2045 through March 2047. The Series 2012A Bonds bear interest at a fixed rate ranging from 4.50% to 5.00% per annum calculated based on a 360 day calendar year comprised of 12 30-day months and are payable on March 1 and September 1 of each year. The average interest rate (which includes amortization of costs of issuance) during 2013 was 4.84%.

The Series 2012A bonds are subject to redemption prior to maturity at the option of the Health System, on or after March 1, 2022.

Series 2012B — Represents Variable Rate Direct Purchases with Union Bank, N.A. in a privately placed transaction. The principal of the Series 2012B Bonds is payable in annual installments ranging from $2,160 to $5,160 between March 2013 and March 2032. The interest on the Series 2012B Bonds is currently payable monthly, as the Series 2012B Bonds are currently held in the Index Rate Mode (and the Health System has currently elected to use the one-month LIBOR Index Interest Period in connection with such Index Rate Mode). At the conclusion of the initial Index Rate Mode (i.e. July 30, 2019), and at the option of the Health System, the Series 2012B Bonds may be converted to the Daily Mode, the Weekly Mode, the Adjustable Long Mode, the Commercial Paper Mode, another Index Rate Mode, or the Fixed Mode upon compliance with certain conditions set forth in the bond documents. The interest payment dates, interest calculation methods, and terms, if any, upon which each Series 2012B Bond may or must be tendered for purchase in each Mode, are more fully set forth in the bond documents. The average interest rate (which includes amortization of costs of issuance) during 2013 was 1.20%.

The Series 2012B Bonds are subject to redemption prior to maturity at the option of the Health System in accordance with the terms set forth in the bond documents. During the initial Index Rate Mode, the Series 2012B Bonds are subject to optional redemption by the Health System on any business day upon payment of all fees required by the Index Rate Agreement.

Series 2012C — Represents Variable Rate Direct Purchases with Wells Fargo, N.A. in a privately placed transaction. The Series 2012C Bonds principal is payable in annual payments ranging from $11,820 to $13,195, beginning November 2038 through November 2043. The Series 2012C Bonds interest is payable monthly, as the Series 2012C Bonds are currently held in the Index Rate Mode (with interest being calculated using the SIFMA Index Rate). At the conclusion of the initial Index Rate Mode (i.e. October 24, 2015), and at the option of the Health System, the Series 2012C Bonds may be converted to the Daily Mode, the Weekly Mode, the Adjustable Long Mode, the Commercial Paper Mode, another Index Rate Mode, or the Fixed Mode upon compliance with certain conditions set forth in the bond documents. The interest payments, interest calculations methods, and terms, if any, upon which each Series 2012C Bond may or must be tendered for purchase in each Mode are more fully set forth in the bond documents. The average interest rate (which includes amortization of costs of issuance) during 2013 was .74%.

The Series 2012C Bonds are subject to redemption prior to maturity at the option of the Health System in accordance with the terms set forth in the bond documents. During the initial Index Rate Mode, the Series 2012C Bonds are subject to optional redemption on any business day upon payment of the principle amount thereof, accrued interest thereon, and all fees required by the Index Rate Agreement.

Series 2012D — Represents Variable Rate Direct Purchases with Wells Fargo Municipal Capital Strategies, LLC in a privately placed transaction. The Series 2012D Bonds principal is payable in annual payments ranging from $11,810 to $13,220, beginning November 2038 through November 2043. The Series 2012D Bonds interest is payable monthly, as the Series 2012D Bonds are currently held in the Index Rate Mode (with interest being calculated using the LIBOR Index Rate). At the conclusion of the initial Index Rate Mode (i.e. October 24, 2017), and at the option of the Health System, the Series 2012D Bonds may be converted to the Daily Mode, the Weekly Mode, the Adjustable Long Mode, the Commercial Paper Mode, another Index Rate Mode, or the Fixed Mode upon compliance with certain conditions set forth in the bond documents. The interest payments, interest calculations methods, and terms, if any, upon which each Series 2012D Bond may or must be tendered for purchase in each Mode are more fully set forth in the bond documents. The average interest rate (which includes amortization of costs of issuance) during 2013 was .92%.

The Series 2012D Bonds are subject to redemption prior to maturity at the option of the Health System in accordance with the terms set forth in the bond documents. During the initial Index Rate Mode, the Series 2012D Bonds are subject to optional redemption on any business day upon payment of the principle amount thereof, accrued interest thereon, and all fees required by the Index Rate Agreement.

The Series 2000, Series 2005, Series 2008A, Series 2012A, Series 2012B and Series 2012CD bonds provide, among other things, restrictions on annual debt additions that the Health System may incur. The agreements also require that sufficient fees and rates be charged so as to provide net income available for debt service, as defined, in an amount not less than 125% of the annual principal and interest due on the Bonds. For the years ended September 30, 2013 and 2012, net income available for debt service, as defined, exceeded the minimum coverage required.

Notes Payable — These notes are secured by medical office buildings and guaranteed by a third party. Principal and interest are payable on a monthly basis. Per the agreements, the notes mature in 2023. Interest is fixed at 4.25%.

In July 2011, the Health System entered into an unsecured note payable agreement with an unrelated third party for the purchase of land. The amount of the note is for $350 payable over three years. Interest is fixed at 5.0%.

In December 2010, the Health System entered into an unsecured note payable for the acquisition of the remaining membership interest in a joint venture. The amount of the principal balance of the note was $3,563 with annual principal and interest payments payable over three years. The interest rate is fixed at 3.25% based on a published prime rate reported in the Wall Street Journal as of November 1, 2010.

Line of Credit — In September 2011, the Health System entered into an unsecured credit agreement with Key Bank, N.A. The agreement allows for borrowings up to $60,000 and has a maturity date of September 15, 2016. In the event that principal amounts are outstanding, interest is incurred at a rate that is variable at the Prime Rate. The line of credit, among other things, contains an annual commitment fee of $30 as well as a non-usage fee on the actual daily un-borrowed portion of the principal amount available at the rate of one-fifth of 1% per annum. As of September 30, 2013, there was no outstanding balance on the line of credit.

In January 2010, the Health System entered into an unsecured credit agreement with Wells Fargo Bank, N.A. The agreement allows for borrowings up to $7,000 and has a maturity date of August 1, 2014. The line of credit is to be utilized for working capital payments related to a cash payment program the Health System operates in connection with payments to vendors. Principal amounts are advanced as vendor payments are made, and are required to be repaid on a monthly basis. As principal is paid in full on a monthly basis, no interest costs have been incurred. In the event that principal is outstanding in excess of 30 days, interest is variable at daily three month LIBOR plus 1.75%. The outstanding balance as of September 30, 2013 and 2012 was $4,889 and $2,821, respectively.

Interest Costs — During the years ended September 30, 2013 and 2012 the Health System incurred total interest costs of $25,923 and $23,034, respectively. During 2013 and 2012, $969 and $2,233, respectively, has been capitalized and is reflected as a component of property, plant, and equipment. During the years ended September 30, 2013 and 2012, the Health System made cash payments for interest of $26,077 and $22,047, respectively, and cash payments for bond fees of $700 and $1,071, respectively.

10. NONCONTROLLING INTEREST

The following table shows the allocation of controlling and noncontrolling interest within net assets as of September 30:

	Total Net Assets	Controlling Interest	Noncontrolling Interest
Net assets — September 30, 2011	$712,014	$706,020	$ 5,994
Unrestricted net assets:			
Revenue in excess of expenses	72,698	72,277	421
Change in noncontrolling interests	(1,666)		(1,666)
Change in net unrealized gains on investments	(127)	(127)	
Net assets released from restrictions — capital acquisitions	2,997	2,997	
Change in funded status of pension plan	(12,845)	(12,845)	
Increase in unrestricted net assets	61,057	62,302	(1,245)
Temporarily restricted net assets	6,664	6,664	
Permanently restricted net assets	3,275	3,275	
Increase in net assets	70,996	72,241	(1,245)
Net assets — September 30, 2012	783,010	778,261	4,749
Unrestricted net assets:			
Revenue in excess of expenses	19,394	19,562	(168)
Change in noncontrolling interests	(1,234)		(1,234)
Change in net unrealized gains on investments	(2,029)	(2,029)	
Net assets released from restrictions — capital acquisitions	3,624	3,624	
Change in funded status of pension plan	49,540	49,540	
Increase in unrestricted net assets	69,295	70,697	(1,402)
Temporarily restricted net assets	4,215	4,215	
Permanently restricted net assets	1,485	1,485	
Increase in net assets	74,995	76,397	(1,402)
Net assets — September 30, 2013	$858,005	$854,658	$ 3,347

11. EMPLOYEE RETIREMENT PLANS

Defined Benefit Plans — The St. Luke's Regional Medical, Ltd. Basic Pension Plan (the "SLRMC Plan") covers substantially all eligible employees employed by the Health System (with the exception of St. Luke's Magic Valley, Ltd. employees) on or before December 31, 1994. The SLRMC Plan was amended and restated effective January 1, 1995, to exclude employees hired on or after that date from participation in the SLRMC Plan; however, the SLRMC Plan remains in effect for those participants who qualify and were hired prior to January 1, 1995. Employees eligible for the SLRMC Plan with five or more years of service are entitled to annual pension benefits beginning at normal retirement age (65), or after obtaining age 62 with 25 years of service, equal to a percentage of their highest five-year average annual compensation, not to exceed a certain maximum. The Health System makes annual contributions to the SLRMC Plan as necessary.

The St. Luke's Magic Valley Regional Medical Center, Ltd. Plan (the "SLMVRMC Plan") covers substantially all eligible St. Luke's Magic Valley Regional Medical Center, Ltd. (SLMVRMC) employees employed by SLMVRMC on or before April 1, 2005. The SLMVRMC Plan was amended and restated effective April 1, 2005, to exclude employees hired on or after that date from participation in the SLMVRMC Plan; however, the SLMVRMC Plan remains in effect for those participants whose sum of their age plus years of credited service exceed 65 or who exceeded 10 years of service as of April 1, 2005. Participants are entitled to annual pension benefits beginning at normal retirement age (65), or after obtaining age 60 with 30 years of service, equal to a calculation based on either average annual compensation or credited service. The Health System makes annual contributions to the SLMVRMC Plan as necessary.

The following table sets forth the SLRMC Plan and the SLMVRMC Plan (collectively the "Plans") funded status, amounts recognized in the Health System's consolidated financial statements and other related financial information:

	SLRMC	SLMVRMC	Total 2013	Total 2012
Projected benefit obligation for service rendered to date	$ 142,760	$ 43,215	$ 185,975	$ 216,644
Plan assets — at fair value	112,100	35,217	147,317	132,044
Funded status	$ (30,660)	$ (7,998)	$ (38,658)	$ (84,600)
Employer contributions	$ 8,000	$ 2,250	$ 10,250	$ 13,298
Accrued pension liability (all noncurrent)	30,660	7,998	38,658	84,600
Change in funded status	35,354	10,588	45,942	(9,734)
Amortization of prior service cost	13		13	13
Amortization of net loss	7,112	591	7,703	6,606
Net periodic benefit cost	12,545	690	13,235	12,392
Benefits paid	10,152	2,571	12,723	9,488
Accumulated benefit obligation	129,192	43,215	172,407	197,272

Amounts recognized in unrestricted net assets related to the Plans at September 30, consist of:

	SLRMC	SLMVRMC	2013	2012
Prior service cost	$ (29)	$ -	$ (29)	$ (42)
Net actuarial loss	(30,956)	(11,753)	(42,709)	(91,595)

The measurement date used to determine pension benefits is September 30. Contributions to the Plans for the year ending September 30, 2014, are expected to be approximately $3,650.

Investments in the pension trusts are overseen by an Investment Management Subcommittee, which is made up of officers and directors of the Health System and outside experts. The overall investment strategy and policy has been developed based on the need to satisfy the long-term liabilities of the Plans. Risk management is accomplished through diversification across asset classes, multiple investment manager portfolios, and both general and portfolio-specific investment guidelines. The asset allocation guidelines for the Plans are as follows:

	Target SLRMC	**Target SLMVRMC**
Investments:		
Large-cap funds	20 %	20 %
Mid-cap funds	10	10
Small-cap funds	10	10
Non-U.S. funds	20	20
Fixed income	29	38
Other	11	2

Managers are expected to generate a total return consistent with their philosophy and outperform both their respective peer group medians and an appropriate benchmark, net of expenses, over a one-, three-, and five-year period. The investment guidelines contain categorical restrictions such as no commodities, short-sales and margin purchases; and asset class restrictions that address such things as single security or sector concentration, capitalization limits and minimum quality standards.

Expected long-term returns on the Plans' assets are estimated by asset classes, and are generally based on historical returns, volatilities and risk premiums. Based upon the Plans' asset allocation, composite return percentiles are developed upon which the Plans' expected long-term return is determined. As of September 30, 2013, the amounts and percentages of the fair value of Plans' assets are as follows:

	SLRMC		**SLMVRMC**	
Domestic equity	$ 46,510	42 %	$ 16,145	46 %
International equity	22,410	20	6,140	17
Fixed income	31,544	28	12,615	36
Other	11,636	10	317	1
Total	$ 112,100	100 %	$ 35,217	100 %

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid from the Plans:

	SLRMC	**SLMVRMC**	**Total**
2014	$ 11,574	$ 2,270	$ 13,844
2015	11,507	2,349	13,856
2016	11,168	2,399	13,567
2017	11,345	2,587	13,932
2018	11,685	2,717	14,402
2019–2023	56,860	11,952	68,812
	$ 114,139	$ 24,274	$ 138,413

Assumptions used in determining the actuarial present value of net periodic benefit cost of the Plans were as follows:

	2013	2012
Weighted average discount rate	3.75 %	4.75 %
Rate of increase in future compensation levels	2.5–4.00	2.50–4.00
Expected long-term rate of return on assets	6.50	7.00

Assumptions used in determining the actuarial present value of projected benefit obligation of the Plans were as follows:

	2013	2012
Weighted average discount rate	4.90 %	3.75 %
Rate of increase in future compensation levels	4.00	2.5–4.00

The principal cause of the change in the unfunded pension liability is the change in the discount rate at September 30, 2013 and 2012.

Supplemental Retirement Plan for Executives — The Supplemental Retirement Plan for Executives (SERP) is an unfunded retirement plan for certain executives of the Health System. The following table sets forth the funded status, amounts recognized in the Health System's consolidated financial statements, and other SERP financial information:

	2013	2012
Projected benefit obligation for service rendered to date	$ 16,375	$ 15,444
Plan assets — at fair value		
Funded status	$ (16,375)	$ (15,444)
Employer Contributions	$ 588	$ -
Accrued pension liability (noncurrent)	15,552	14,672
Accrued pension liability (current)	823	772
Change in funded status	(931)	(3,220)
Amortization of prior service cost	8	8
Amortization of net loss	732	439
Net periodic benefit cost	2,075	2,075
Accumulated benefit obligation	14,784	14,153

The measurement dates used to determine pension benefits is September 30. Expected contributions to the Plan for the year ending September 30, 2014, are expected to be approximately $823.

Amounts recognized in unrestricted net assets related to the SERP at September 30, consist of:

	2013	2012
Prior service cost	$ (2)	$ (9)
Net actuarial loss	(6,974)	(7,523)

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid from the SERP:

	Benefit Payments
2014	$ 824
2015	842
2016	845
2017	841
2018	835
2019–2023	5,101
	$ 9,288

As of September 30, 2013 and 2012, the accrued pension liability is included in benefit plan liabilities.

Assumptions used in determining the actuarial present value of net periodic benefit cost were as follows:

	2013	2012
Weighted average discount rate	3.60 %	4.75 %
Rate of increase in future compensation levels	4.00	4.00

Assumptions used in determining the actuarial present value of projected benefit obligation were as follows:

	2013	2012
Weighted average discount rate	4.90 %	3.60 %
Rate of increase in future compensation levels	4.00	4.00

Defined Contribution Plan — The Health System sponsors two defined contribution plans (the "contribution plans") that cover substantially all of its employees. The Health System's contributions to these contribution plans are at the discretion of the Health System's Board of Directors. Amounts contributed are allocated to participants based on individual compensation amounts, years of service, and the participant's level of participation in tax deferred annuity programs. During 2013 and 2012, contributions to these plans were $30,768 and $17,542, respectively.

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of ASC 825, *Financial Instruments*. The Health System accounts for certain assets and liabilities at fair value or on a basis that is approximate to fair value. The estimated fair value amounts have been determined by the Health System using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Health System could realize in a current market exchange.

Level 1 inputs are unadjusted quoted prices for identical assets or liabilities in active markets that the Health System has the ability to access. The level 2 inputs of the Health System include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified or contractual term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs are unobservable inputs for the asset or liability. The determination to measure the asset or liability as a level 3 depends on the significance of the input to the fair value measurement.

The asset or liabilities fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. There were no transfers of assets between any levels during the fiscal year.

Following is a description of the valuation methodologies used for the Health System's assets or liabilities measured at fair value.

Cash, Receivables, Accounts Payable, Accrued Liabilities, and Estimated Payable to Medicare and Medicaid Programs — The carrying amounts reported in the balance sheet for cash, receivables, accounts payable, accrued liabilities, and estimated payable to Medicare and Medicaid programs are a reasonable estimate of their fair value.

Assets Whose Use is Limited — These assets consist primarily of cash and cash equivalents, mutual funds, debt and equity securities, and pledges receivable. For cash and cash equivalents, pledges receivable and interest receivable, the carrying amount reported in the balance sheet approximates fair value.

For mutual funds the fair value is based on the value of the daily closing price as reported by the fund. Mutual funds held by the System are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the System are deemed to be actively traded.

For equities (common stock), the fair value is based on the value of the closing price reported on the active market on which the individual securities are traded.

For government obligations, the fair value is measured using pricing models maximizing the use of observable inputs for similar securities.

The following tables set forth by level within the fair value hierarchy a summary of the Health System's investments measured at fair value on a recurring basis as of September 30:

	Fair Value Measurements as of September 30, 2013, Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments:				
Cash and cash equivalents	$ 39,203	$ -	$ -	$ 39,203
Certificates of deposit and commercial paper	6,374			6,374
Mutual funds	34,913			34,913
Government and agency securities	103,590	111,735		215,325
Corporate bonds, notes, mortgages and asset-backed securities		65,901		65,901
Foreign government bonds		25,456		25,456
Total	$ 184,080	$ 203,092	$ -	$ 387,172

	Fair Value Measurements as of September 30, 2012, Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments:				
Cash and cash equivalents	$ 90,807	$ -	$ -	$ 90,807
Mutual funds	28,464			28,464
Government and agency securities	130,286	110,711		240,997
Corporate bonds and notes		52,938		52,938
Foreign government bonds		11,797		11,797
Total	$ 249,557	$ 175,446	$ -	$ 425,003

Fair Value of Pension Plan Assets — In addition to the types of assets listed above as held by the System, the pension plans also hold assets within limited partnerships, limited liability companies, and common collective trusts.

Limited partnerships and limited liability companies are valued at fair value based on the audited financial statements of the partnerships and the percentage ownership in the partnership. This method is an accepted practical expedient that is considered equivalent to NAV. The assets held were further considered for level of inputs used. When quoted prices are not available for identical or similar assets, real estate assets are valued under a discounted cash flow or lender survey approach that maximizes observable inputs, but includes adjustments for certain risks that may not be observable, such as such as cap & discount rates, maturities and loan to value ratios.

Common collective trusts are valued at the NAV of units of a bank collective trust. The NAV, as provided by the trustee, is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities. This practical expedient is not used when it is determined to be probable that the fund will sell the investment for an amount different than the reported NAV. Were the Plan to initiate a full redemption of the collective trust, the investment advisor reserves the right to temporarily delay withdrawal from the trust in order to ensure that securities liquidations will be carried out in an orderly business manner.

The following table sets forth by level, based on the hierarchy requirements for fair value guidance outlined previously, a summary of the assets of the Health System's Plans measured at fair value on a recurring basis as of September 30:

	Fair Value Measurements as of September 30, 2013, Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Pension assets:				
Cash and cash equivalents	$ 1,758	$ -	$ -	$ 1,758
Domestic mutual funds	98,176			98,176
International mutual funds	5,745			5,745
Government & agency securities		15,983		15,983
Common collective trusts	5,733	9,727		15,460
Limited partnerships & liability companies		4,506	5,689	10,195
Total	$ 111,412	$ 30,216	$ 5,689	$ 147,317

	Fair Value Measurements as of September 30, 2012, Using			
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Pension assets:				
Cash and cash equivalents	$ 2,297	$ -	$ -	$ 2,297
Domestic mutual funds	94,862			94,862
International mutual funds	15,505			15,505
Collective investment funds		19,380		19,380
Total	$ 112,664	$ 19,380	$ -	$ 132,044

Long-Term Debt — The interest rate on the Health System's Variable Rate Demand Revenue Bonds is reset daily to reflect current market rates. Consequently, the carrying value approximates fair value. The carrying amount reported in the balance sheet for capital leased assets approximates its fair value.

The estimated fair value of the Fixed Rate Revenue Bonds as of September 30, 2013 and 2012 was $404,704 and $442,974, respectively. The fair value of debt was estimated by discounting the future cash flows using rates currently available for debt of similar terms and maturity.

The estimated fair value of the notes payable as of September 30, 2013 and 2012, was $40,349 and $43,045, respectively. The fair value was estimated by discounting the future cash flows using rates currently available for debt of similar terms and maturity.

The fair value estimates presented herein are based on pertinent information available to management as of September 30, 2013. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date, and current estimates of fair value may differ significantly from the amounts presented herein.

13. COMMITMENTS AND CONTINGENCIES

The Health System leases office space under operating leases, some of which contain renewal options. Rental expense on these during 2013 and 2012 were $15,579 and $11,320, respectively. The Health System also leases out space in medical office buildings under non-cancelable operating leases. Rental income on these leases during 2013 and 2012 were $2,501 and $2,594, respectively.

As of September 30, 2013, future minimum rental income and payments on these operating leases are as follows:

Years Ending September 30	Minimum Rental Revenue	Minimum Rental Payments
2014	$ 1,346	$ 16,777
2015	1,053	15,300
2016	319	13,721
2017	194	12,868
2018	158	9,187
Thereafter	164	20,102
	$ 3,234	$ 87,955

As of September 30, 2013 and 2012, the Health System had commitments on construction contracts and equipment purchases totaling $8,605 and $5,495, respectively.

The Health System maintains professional liability coverage through a "claims made" insurance policy. The policy provides coverage for claims filed within the period of the policy term. The current policy period ends December 31, 2013, and includes provisions for purchase of tail coverage in the event a new carrier is selected. The Health System also maintains reserves based on actuarial estimates provided by an independent third party for the portion of its professional liability risks, including incurred but not reported claims, for which it does not have insurance coverage. Reserves for losses and related expenses are estimated using expected loss reporting patterns and are discounted to their present value using a discount rate of 3.0%. There can be no assurance that the ultimate liability will not exceed such estimates. Adjustments to the reserves are included in results of operations in the periods when such amounts are determined.

The Health System is routinely involved in litigation matters and regulatory investigations arising in the normal course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material effect on the Health System's future financial position, results of operations, or cash flows.

On November 12, 2012, a complaint was filed against the Health System in Idaho federal district court asserting that a planned business transaction between the Health System and an independent medical practice violated state and federal antitrust law. The suit sought money damages, attorney fees, and a preliminary and permanent injunction against the transaction. The court denied the request for a preliminary injunction, allowing the transaction to close in December of 2012, but set a trial on plaintiffs' request for an order unwinding the transaction. On March 26, 2013, the Federal Trade Commission and the State of Idaho filed a separate complaint for a permanent injunction requiring the Health System to unwind the transaction and for attorney fees incurred by the Office of the Idaho Attorney General. The public plaintiffs asserted that the transaction violated state and federal antitrust law. The court consolidated the actions of the private and public plaintiffs.

By order dated September 24, 2013, the court dismissed the private plaintiffs' claim for money damages. The consolidated actions were tried without a jury in September and October of 2013.

On January 24, 2014, the Idaho federal district court issued a Memorandum Decision and Order (the "Order") finding for the plaintiffs and ordered the Health System to unwind the business transaction. The order denied all other request of the plaintiffs. The Health System is evaluating the result of the Order including the rights to appeal or other legal alternatives. As a result, the Health System is unable to reasonably estimate the possible loss or range of losses, if any, arising from the litigation.

14. FUNCTIONAL EXPENSES

The Health System provides medical and healthcare services to residents within its geographic location. Expenses related to providing these services for the years ended September 30 are allocated as follows:

	2013	2012
Professional, nursing, and other patient care services	$ 1,209,867	$ 1,121,539
Fiscal and administrative support services	267,954	248,644
	$ 1,477,821	$ 1,370,183

15. GOODWILL AND OTHER INTANGIBLES

The Health System considered various events and circumstances when it evaluated whether its reporting unit fair values were less than their carrying value. Based on the Health System's assessment of relevant events and circumstances, the Health System has concluded that there was no impairment of goodwill for the fiscal years ended September 30, 2013 and 2012.

As of September 30, 2013 and 2012, the Health System had $37,693 and $31,864, respectively, of goodwill recorded on the consolidated balance sheet. The change in goodwill of $5,829 and $1,632 for the years ended September 30, 2013 and 2012, respectively, is from acquisitions occurring during these fiscal years.

Other intangible assets of the Health System include covenants not to compete related to the acquisition of medical practices and are amortized over their useful lives, which typically range from five to seven years. Other intangible assets as of September 30 consist of:

	2013	2012
Covenants not to compete	$ 46,427	$ 39,199
Less accumulated amortization	(26,999)	(18,653)
Total other intangible assets	$ 19,428	$ 20,546

We recorded amortization expense of $8,345 and $7,278 for the years ending September 30, 2013 and 2012, respectively. Expected future amortization expense related to intangible assets as of September 30 is as follows:

Years Ending September 30	Amount
2014	$ 7,793
2015	6,665
2016	3,008
2017	1,612
2018	350
Thereafter	
	$ 19,428

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