

# **Sisters of St. Francis Health Services, Inc. and Affiliates**

**Consolidated Financial Statements with  
Supplemental Financial Information  
December 31, 2008 and 2007**

# Sisters of St. Francis Health Services, Inc. and Affiliates

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December 31, 2008 and 2007

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**Report of Independent Auditors**

Board of Trustees  
Sisters of St. Francis Health Services, Inc.  
Mishawaka, Indiana

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and changes in net assets, and of cash flows, present fairly, in all material respects, the financial position of Sisters of St. Francis Health Services, Inc. and Affiliates (collectively referred to as the "Corporation") at December 31, 2008 and 2007, and the results of their operations, changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 8, the Corporation adopted the provisions of SFAS No. 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Benefit Plans" at December 31, 2007 and changed the method of accounting for pension and other postretirement benefit obligations.

*PricewaterhouseCoopers LLP*

April 21, 2009

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Consolidated Balance Sheets**  
**December 31, 2008 and 2007**  
(In thousands)

	2008	2007		2008	2007
<b>Assets</b>			<b>Liabilities and Net Assets</b>		
Current assets			Current liabilities		
Cash and cash equivalents	\$ 224,681	\$ 141,083	Current portion of long-term debt	\$ 15,179	\$ 13,447
Short-term investments	21,930	18,969	Accounts payable and accrued expenses	181,681	157,892
Patient accounts receivable, net of allowance for doubtful accounts of \$37,525 in 2008 and \$41,234 in 2007	300,382	308,501	Accrued payroll and related expenses	83,026	82,246
Inventories of supplies	35,916	34,395	Estimated third-party payor settlements	<u>19,531</u>	<u>8,353</u>
Other current assets	<u>72,713</u>	<u>73,011</u>	Total current liabilities	299,417	261,938
Total current assets	655,622	575,959	Long-term debt, net of current portion	950,296	822,282
Investments and assets limited as to use	1,024,975	1,344,460	Fair value of interest rate swap contracts	102,173	19,686
Property, plant, and equipment, net	1,271,072	1,121,872	Accrued pension liability	181,007	132,494
Investments in unconsolidated affiliates	36,942	45,869	Estimated insurance liabilities	89,437	82,979
Intangible assets, net of accumulated amortization of \$35,112 in 2008 and \$31,529 in 2007	59,363	50,461	Other liabilities	<u>24,832</u>	<u>23,885</u>
Other assets	61,791	83,320	Total liabilities	<u>1,647,162</u>	<u>1,343,264</u>
			Minority interest in consolidated affiliates	38,162	34,413
			Net assets		
			Unrestricted	1,389,058	1,802,093
			Temporarily restricted	18,523	25,389
			Permanently restricted	<u>16,860</u>	<u>16,782</u>
			Total net assets	<u>1,424,441</u>	<u>1,844,264</u>
<b>Total assets</b>	<b><u>\$ 3,109,765</u></b>	<b><u>\$ 3,221,941</u></b>	<b>Total liabilities and net assets</b>	<b><u>\$ 3,109,765</u></b>	<b><u>\$ 3,221,941</u></b>

The accompanying notes are an integral part of the consolidated financial statements.

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Consolidated Statements of Operations and Changes in Net Assets**  
**Years Ended December 31, 2008 and 2007**  
(In thousands)

	2008	2007
<b>Unrestricted revenues, gains, and other support</b>		
Net patient service revenue	\$ 1,952,060	\$ 1,789,904
Premium revenue	108,728	134,618
Other operating revenue	146,147	125,643
Equity in earnings of investments in unconsolidated affiliates	13,733	13,023
Unrealized (losses) gains on investments	(14,374)	176
Net assets released from restrictions used for operations	1,874	2,150
Total unrestricted revenues, gains, and other support	<u>2,208,168</u>	<u>2,065,514</u>
<b>Operating expenses</b>		
Salaries	787,126	745,896
Employee benefits	201,836	205,648
Physicians' fees	40,300	35,742
Utilities	41,245	34,125
Repairs and maintenance	36,174	33,491
Drugs and pharmaceuticals	90,362	83,794
Medical supplies	197,264	182,015
Insurance	40,523	38,574
Purchased services	187,133	152,816
Other supplies and expenses	261,834	265,732
Provision for doubtful accounts	59,625	58,372
Interest	37,476	33,068
Depreciation and amortization	126,488	130,273
Total operating expenses	<u>2,107,386</u>	<u>1,999,546</u>
Operating income	<u>100,782</u>	<u>65,968</u>
<b>Other income (expense)</b>		
Investment (loss) income	(90,080)	91,379
Net unrealized investment losses on trading securities	(223,364)	-
Net cumulative unrealized gains transferred to trading securities (see Note 2)	-	51,256
Net unrealized loss and periodic settlements on interest rate swap contracts	(108,727)	-
Gain on sale of investments in unconsolidated affiliates	1,017	9,891
Gain on sale/disposal of assets	5,877	7,512
Loss on refunding and conversion of long-term debt (see Note 6)	(15,906)	-
Net assets released from restrictions	2,025	2,140
Contributions	549	679
Other, net	(10,982)	(3,666)
Total other income (expense), net	<u>(439,591)</u>	<u>159,191</u>
Minority interest in consolidated affiliates	<u>(21,519)</u>	<u>(20,459)</u>
(Deficiency) excess of revenues over expenses	<u>\$ (360,328)</u>	<u>\$ 204,700</u>

The accompanying notes are an integral part of the consolidated financial statements.

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Consolidated Statements of Operations and Changes in Net Assets**  
**Years Ended December 31, 2008 and 2007**  
(In thousands)

	2008	2007
<b>Unrestricted net assets</b>		
(Deficiency) excess of revenues over expenses	\$ (360,328)	\$ 204,700
Net cumulative unrealized gains transferred to trading securities (see Note 2)	-	(51,432)
Net unrealized investment (losses) gains on other than trading securities	(680)	99
Unrealized loss on interest rate swap contracts	-	(12,836)
Unrealized losses transferred to other income (expense) (see Note 7)	19,686	-
Cumulative effect of change in accounting principle (see Note 8)	-	(69,329)
Change in pension and postretirement benefits other than net periodic pension costs included in accrued pension liability	(78,130)	32,611
Other	108	(488)
Net assets released from restrictions used for purchase of property, plant, and equipment	6,309	817
(Decrease) increase in unrestricted net assets	<u>(413,035)</u>	<u>104,142</u>
<b>Temporarily restricted net assets</b>		
Contributions	7,523	7,080
Investment (loss) income	(902)	936
Net assets released from restrictions	(10,208)	(5,107)
Net unrealized investment (losses) gains	(924)	12
Other	(2,355)	(948)
(Decrease) increase in temporarily restricted net assets	<u>(6,866)</u>	<u>1,973</u>
<b>Permanently restricted net assets</b>		
Contributions	32	1
Investment (loss) income	(688)	665
Net unrealized investment losses	(927)	(53)
Other	1,661	(421)
Increase in permanently restricted net assets	<u>78</u>	<u>192</u>
(Decrease) increase in net assets	(419,823)	106,307
Net assets, beginning of the year	<u>1,844,264</u>	<u>1,737,957</u>
Net assets, end of the year	<u>\$ 1,424,441</u>	<u>\$ 1,844,264</u>

The accompanying notes are an integral part of the consolidated financial statements.

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2008 and 2007**  
(In thousands)

	2008	2007
<b>Cash flows from operating activities</b>		
(Decrease) increase in net assets	\$ (419,823)	\$ 106,307
Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities		
Depreciation of property, plant, and equipment	122,526	125,542
Amortization of bond discounts, deferred financing costs, and other intangible assets	3,962	4,731
Provision for doubtful accounts	59,625	58,372
Gain on sale of investments in unconsolidated affiliates	(1,017)	(9,891)
Gain on sale/disposal of assets	(5,877)	(7,512)
Loss on refunding and conversion of long-term debt (see Note 6)	15,906	-
Net investment losses (gains)	328,498	(91,654)
Net unrealized loss on interest rate swap contracts	82,487	12,484
Minority interest in consolidated affiliates	21,519	20,459
Equity in earnings in unconsolidated affiliates	(13,733)	(13,023)
Change in deferred tax asset	(4,484)	(769)
Restricted contributions and investment income	(5,965)	(8,682)
Change in pension and postretirement benefits other than net periodic pension costs included in accrued pension liability	78,130	(32,611)
Cumulative effect of change in accounting principle (see Note 8)	-	69,329
Changes in operating assets and liabilities		
Patient accounts receivable	(51,506)	(63,142)
Inventories of supplies	(1,521)	(3,198)
Other assets	2,023	(5,854)
Accounts payable and accrued expenses	18,874	17,086
Accrued payroll and related expenses	780	8,252
Estimated third-party payor settlements	11,178	7,099
Estimated insurance liabilities	6,458	7,351
Accrued pension liability	(29,617)	(25,965)
Other liabilities	947	(2,279)
Total adjustments	<u>639,193</u>	<u>66,125</u>
Net cash provided by operating activities	<u>219,370</u>	<u>172,432</u>
<b>Cash flows from investing activities</b>		
Purchase of property, plant, and equipment	(267,909)	(201,751)
(Increase) decrease in investments and assets limited as to use	(11,974)	38,721
Proceeds from sale of property, plant, and equipment	8,115	3,046
Proceeds from sale of investments in unconsolidated affiliates	1,017	14,375
Insurance proceeds	9,700	7,734
(Distributions to) receipt of minority interest in consolidated affiliates	(17,770)	8,199
Distributions from unconsolidated affiliates, net	21,126	15,840
Acquisition of investment in consolidated affiliates	(12,521)	(2,244)
Net cash used in investing activities	<u>(270,216)</u>	<u>(116,080)</u>
<b>Cash flows from financing activities</b>		
Proceeds from issuance of long-term debt (see Note 6)	917,851	9,471
Refunding and conversion of long-term debt (see Note 6)	(768,066)	-
Payments of bond costs	(5,362)	-
Principal payments on long-term debt	(15,944)	(18,387)
Restricted contributions and investment income	5,965	8,682
Net cash provided by (used in) financing activities	<u>134,444</u>	<u>(234)</u>
Net increase in cash and cash equivalents	83,598	56,118
Cash and cash equivalents, beginning of year	<u>141,083</u>	<u>84,965</u>
Cash and cash equivalents, end of year	<u>\$ 224,681</u>	<u>\$ 141,083</u>

The accompanying notes are an integral part of the consolidated financial statements.

# **Sisters of St. Francis Health Services, Inc. and Affiliates**

## **Notes to Consolidated Financial Statements**

### **December 31, 2008 and 2007**

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#### **1. Description of Organization and Mission**

##### **Organization**

The Sisters of St. Francis Health Services, Inc. and Affiliates (collectively referred to as the "Corporation"), under the sponsorship of the Sisters of St. Francis of Perpetual Adoration, Inc., provides health care and related services to the communities in which it operates. The Corporation is incorporated as a not-for-profit corporation under the laws of Indiana and is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code. The Corporation consists of four geographic regions comprised of twelve health centers (the "Health Centers") and other related divisions and affiliates. The other related divisions and affiliates include the corporate office, an information services organization, management services organizations, a construction company, onshore and offshore captive insurance companies, nonprofit foundations and a taxable nonprofit physician hospital organization. The Corporation also has various investments in consolidated and unconsolidated affiliates (see Note 10).

##### **Mission**

The mission statement for Sisters of St. Francis Health Services, Inc. is as follows:

*Continuing Christ's Ministry in Our Franciscan Tradition*

Consistent with its mission, the Corporation provides medical care to all patients regardless of their ability to pay. In addition, the Corporation provides services intended to benefit the poor and underserved and to enhance the health status of the communities in which it operates.

The following summary has been prepared in accordance with the Catholic Health Association of the United States' policy document, *Guide for Planning and Reporting Community Benefit*, 2008 edition. The benefits provided are measured at total cost, net of any offsetting revenues, donations or other funds used to defray cost.

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**December 31, 2008 and 2007**

The following amounts reflect the Corporation's quantifiable community benefits for the years ended December 31, 2008 and 2007:

	(unaudited)	
	2008	2007
	(in thousands)	
<b>Benefits for the poor and underserved</b>		
Cost of charity care provided	\$ 73,170	\$ 63,231
Unpaid costs of Medicaid and other indigent care programs	82,666	79,427
Other benefits for the poor and underserved		
Subsidized health services	1,610	763
Community health improvement services	871	787
Financial and in kind contributions	217	318
Community building activities	5	90
Community benefit operations	3	1
Health professions education	4	9
	<u>2,710</u>	<u>1,968</u>
Total benefits for the poor and underserved	<u>158,546</u>	<u>144,626</u>
<b>Benefits for the broader community</b>		
Health professions education	10,193	9,875
Subsidized health services	13,121	8,608
Community health improvement services	3,922	3,260
Community building activities	1,167	1,155
Financial and in kind contributions	556	723
Research	530	443
Community benefit operations	144	11
	<u>29,633</u>	<u>24,075</u>
Total benefits for the broader community	<u>29,633</u>	<u>24,075</u>
Total quantifiable community benefits	<u>188,179</u>	<u>168,701</u>
<b>Unpaid costs of Medicare</b>	<u>176,767</u>	<u>161,061</u>
<b>Total quantifiable community benefits including unpaid costs of Medicare</b>	<u>\$ 364,946</u>	<u>\$ 329,762</u>

Total quantifiable community benefits including unpaid costs of Medicare were approximately 17% and 16% of total operating expenses in 2008 and 2007, respectively.

The Corporation also provides a significant amount of uncompensated care to patients which is reported as provision for doubtful accounts in the consolidated statements of operations and changes in net assets and is not reported in the summary of quantifiable community benefits. During the years ended December 31, 2008 and 2007, the Corporation reported approximately \$60 million and \$58 million, respectively, as provisions for doubtful accounts.

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Notes to Consolidated Financial Statements

### December 31, 2008 and 2007

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**Benefits for the poor and underserved** include the cost of providing programs and services to persons who are economically poor or are medically indigent and cannot afford to pay for health care services because they have inadequate resources and/or are uninsured or underinsured.

**Benefits for the broader community** include the costs of providing programs and services aimed at persons and groups for reasons other than poverty. These persons and groups may include needy populations that may not qualify as poor but need special services and support or broader populations who benefit from healthy community initiatives.

**Charity care** represents the cost (determined using a cost to charge ratio) of healthcare services, provided in accordance with the Corporation's charity care policy, for which no or partial reimbursement will be received because of the recipient's inability to pay for those services.

**Unpaid costs of Medicaid and other indigent care programs** represents the cost (determined using a cost to charge ratio) of providing services to beneficiaries of public programs including State Medicaid and indigent care programs in excess of any payments received.

**Subsidized health services** are net costs for billed services that are subsidized by the Corporation. These include services offered despite a financial loss because they are needed in the community and either other providers are unwilling to provide the services or the services would otherwise not be available in sufficient amount. Examples of services include emergency services, free standing community clinics, hospice care, behavioral health services, prenatal services, women's and children's services, palliative care, and parish nurse programs.

**Community health improvement services** are activities and services for which no patient bill exists. These services are not expected to be financially self-supporting, although some may be supported by outside grants or funding. Amounts reported are net of any outside funding. Some examples include community health education, free health screenings, health fairs, free immunization services, free or low cost prescription medications, and outreach programs. The Corporation actively collaborates with community groups and agencies to assist those in need in providing such services.

**Financial and in kind contributions** are made by the Corporation on behalf of the poor and underserved to community agencies. These amounts include funds used for charitable activities as well as resources contributed directly to programs, organizations, and foundations for efforts on behalf of the poor and underserved. In kind services include hours donated by staff to the community while on work time, overhead expenses of space donated to community groups, and donations of food, equipment and supplies.

**Community building activities** include the costs of programs that improve the physical environment, promote economic development, enhance other community support systems, develop leadership skills training and build community coalitions.

**Community benefit operations** include costs associated with dedicated staff, community health needs and/or assets assessments, and other costs associated with community benefit strategy and operations.

**Health professions education** includes the unreimbursed cost of training health professionals such as medical residents, nursing students, technicians and students in allied health professions.

# **Sisters of St. Francis Health Services, Inc. and Affiliates**

## **Notes to Consolidated Financial Statements**

### **December 31, 2008 and 2007**

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**Research** includes the unreimbursed cost of clinical and community health research and studies on health care delivery.

**Unpaid costs of Medicare** represents the cost (determined using a cost to charge ratio) of providing services primarily to elderly beneficiaries of the Medicare program in excess of any payments received.

## **2. Summary of Significant Accounting Policies**

### **Principles of Consolidation**

All affiliates for which operating control is exercised by the Corporation, or by one of its affiliates, are consolidated with all significant transactions and accounts between affiliates eliminated in consolidation. Investments in affiliates where the Corporation controls 50% or less of the affiliate's operations and does not have operational control are recorded under the equity method of accounting unless the Corporation's control or investment percentage is insignificant in which case the Corporation uses the cost method.

### **Use of Estimates**

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **Cash and Cash Equivalents**

For purposes of the consolidated financial statements, cash and cash equivalents consist primarily of cash and highly liquid marketable securities, including a pooled account with original maturities of three months or less. Funds whose use is limited by Board designation or other restrictions are excluded. The carrying amount of cash and cash equivalents approximates fair value because of the short maturities of these instruments.

### **Inventories of Supplies**

Inventories, consisting primarily of medical and surgical supplies and pharmaceuticals, are stated at the lower of cost (first-in, first out method) or market value.

### **Investments and Assets Limited As to Use**

Investments and assets limited as to use include assets set aside by the Corporation for future capital expansion and improvements and for services for the poor, over which the Board retains control and may at its discretion subsequently use for other purposes. In addition, investments and assets limited as to use includes assets held by the bond trustee under bond indenture agreements, assets held for estimated insurance liabilities and investments restricted by donors.

# **Sisters of St. Francis Health Services, Inc. and Affiliates**

## **Notes to Consolidated Financial Statements**

### **December 31, 2008 and 2007**

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At December 31, 2008 and 2007, approximately 96% and 98%, respectively, of the Corporation's investments are invested in a pooled account coordinated through Ascension Health's Health System Depository (the "HSD") under an investment management agreement. The Corporation treats the application of its investment in the HSD as a mutual fund with shares as the common unit of measure. The custodian-held assets in the HSD are managed by professional investment firms with an asset allocation of 31% equities, 39% fixed income, 24% alternative investments, and 6% cash and cash equivalents at December 31, 2008 and 39% equities, 38% fixed income, 19% alternative investments, and 4% cash and cash equivalents at December 31, 2007. The HSD's alternative investments are comprised of derivative contracts, private equity investments, real estate investments and hedge funds.

The HSD operates the investment pool using the market value method. Under this method, net earnings of the HSD are allocated to investing participants on a pro-rata basis. The Corporation's interest in the pooled account is included in the consolidated financial statements at the fair value of its portion in the HSD. The fair value of the HSD's underlying investments in equities, fixed income securities and commodities are based on quoted market prices, if available, or estimated using quoted market prices for similar securities. The HSD accounts for its ownership interest in certain alternative investments under the equity method.

Effective December 31, 2007, the Corporation elected to transfer the majority of its investments and assets limited as to use from nontrading to trading securities. The transfer had the effect of the Corporation recording \$176,000 in other operating revenue and \$51,256,000 in other income with a corresponding change in net cumulative unrealized gains transferred to trading securities within the consolidated statements of operations and changes in net assets at December 31, 2007.

In accordance with industry practice, investment earnings on assets held by bond trustee under bond indenture agreements and assets held for estimated insurance liabilities are included in other operating revenue in the consolidated statements of operations and changes in net assets. Investment earnings from all other unrestricted investments and Board designated funds are included in other income (expense) in the consolidated statements of operations and changes in net assets. Investment income restricted for specified purposes by donor or legal requirements is recorded as temporarily or permanently restricted in the consolidated statements of changes in net assets.

Investments and assets limited as to use are exposed to various risks, such as interest rate, market, liquidity, performance, and credit risks. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term may affect the amounts reported in the consolidated balance sheets and the consolidated statements of operations and changes in net assets.

#### **Property, Plant, and Equipment**

Property, plant, and equipment are stated at cost or, if donated, at the fair value at the date of donation. Expenditures that materially increase values, change capacities, or extend useful lives are capitalized. Routine maintenance, repairs, and minor equipment replacement costs are charged to expense when incurred. Upon sale or retirement of property, plant, and equipment, the cost and related accumulated depreciation are eliminated from the respective accounts, and the resulting gain or loss is included in the consolidated statements of operations and changes in

# **Sisters of St. Francis Health Services, Inc. and Affiliates**

## **Notes to Consolidated Financial Statements**

### **December 31, 2008 and 2007**

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net assets. Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring the assets. Depreciation is provided over the estimated useful lives of the assets utilizing the straight-line method. Assets under capital lease obligations are amortized on the straight-line method over the shorter of the lease term or estimated useful life of the asset.

A conditional asset retirement obligation is recorded for any legal obligation associated with the retirement of long-lived assets resulting from the acquisition, construction, development and/or normal use of the underlying assets. The associated asset retirement costs are capitalized as part of the carrying amount of the underlying asset and depreciated over the asset's estimated useful life. The liability is accreted through charges to operating expense. If the conditional asset retirement obligation is settled for other than the carrying amount of the liability, it is recognized as a gain (loss) on sale of asset. As of December 31, 2008 and 2007, conditional asset retirement obligations of approximately \$14,216,000 and \$12,961,000, respectively, are included within other liabilities in the consolidated balance sheets.

#### **Intangible Assets**

The excess of acquisition cost over fair value of acquired assets, covenants not to compete, and other intangible assets are amortized on a straight-line basis over periods ranging from 2 to 30 years.

#### **Asset Impairment**

On an ongoing basis, the Corporation evaluates its intangible assets for impairment. In completing this evaluation, the Corporation compares estimated future cash flow to the carrying value of the intangible assets. An impairment loss would be recorded in the period such determination is made.

#### **Deferred Financing Costs**

Deferred financing costs incurred with the Hospital and Health System Revenue Bonds and Refunding Bonds are amortized using the bonds outstanding method. Deferred financing costs are included in other assets in the consolidated balance sheets.

#### **Estimated Insurance Liabilities**

The provision for estimated insurance liability includes actuarial estimates of the ultimate costs for both reported claims and claims incurred but not reported for professional liability, general liability, long-term disability insurance, excess workers' compensation and amounts self-insured for allocated loss adjustment expenses.

#### **Net Assets**

Temporarily restricted net assets are those whose use by the Corporation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Corporation in perpetuity.

Unconditional promises to give cash and other assets to the Corporation are reported at fair value at the date the promise is received. 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 a purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the consolidated financial statements.

# **Sisters of St. Francis Health Services, Inc. and Affiliates**

## **Notes to Consolidated Financial Statements**

### **December 31, 2008 and 2007**

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During 2008 and 2007, net assets of \$10,208,000 and \$5,107,000, respectively, were released from donor restrictions by incurring expenses or capital expenditures satisfying the restricted purposes or by the passage of time.

#### **Performance Indicator**

The performance indicator is (deficiency) excess of revenues over expenses, which includes all changes in unrestricted net assets other than unrealized gains and losses on other than trading securities; unrealized loss on interest rate swap contracts; change in pension and postretirement benefits other than net periodic pension costs included in accrued pension liability; cumulative effect of change in accounting principle and 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).

#### **Net Patient Service Revenue**

The Corporation has agreements with third-party payors that provide for payments to the Corporation at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursable costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive revenue 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. Net patient service revenues in 2008 and 2007 have been increased by approximately \$8,967,000 and \$8,299,000, respectively, due to favorable changes in estimates related to adjustments to final settlements. These amounts do not include net patient service revenue recognized during 2008 or 2007 related to the State of Indiana Medicaid Acute Disproportionate Share and Medicaid Safety Net Hospitals ("DSH") Program (see Note 14).

#### **Allowance for Doubtful Accounts**

The Corporation's patient accounts receivable is reduced by an allowance for amounts that could become uncollectible in the future. Adjustments to the allowance for doubtful accounts are made after the Corporation has analyzed historical cash collections. Uncollectible accounts are written off against the allowance for doubtful accounts after exhausting collection efforts. Any subsequent recoveries are recorded against the provision for doubtful accounts.

#### **Charity Care**

The Corporation provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The Corporation maintains records to identify and monitor the level of charity care it provides.

#### **Premium Revenue**

The Corporation has agreements with various Health Maintenance Organizations ("HMO's") to provide medical services to subscribing participants. Under these agreements, the Corporation receives monthly capitation payments based on the number of each HMO's participants regardless of services actually performed by the Corporation. Costs of providing these services, including services provided by other healthcare providers, are included as operating expenses in the consolidated statements of operations and changes in net assets.

# **Sisters of St. Francis Health Services, Inc. and Affiliates**

## **Notes to Consolidated Financial Statements**

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#### **Income Taxes**

The Corporation has established its status as an organization exempt from income taxes under the Internal Revenue Code (the "Code") Section 501(c)(3) and the laws of the states in which it operates. Certain divisions and affiliates are subject to federal and state income taxes; however, such amounts are not significant to the consolidated financial statements.

The Corporation accounts for and discloses income tax liabilities and expenses under Statement of Financial Accounting Standards ("SFAS") No. 109, or SFAS 109, "Accounting for Income Taxes." Effective for fiscal years beginning after December 15, 2006, the Financial Accounting Standards Board ("FASB") issued Financial Interpretation No. 48, or FIN 48, "Accounting for Uncertainty in Income Taxes," which clarifies the accounting for the uncertainty in income taxes recognized in an organization's financial statements. FIN 48 prescribes a more-likely-than-not recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken. In addition, FIN 48 provides guidance on derecognition, classification, disclosure and transition using a consistent criteria and the disclosure provision requires more information to be disclosed about the uncertainty of income taxes and liabilities. The Corporation adopted the provisions of FIN 48 in 2007; however, the impact was not significant.

#### **Derivative Financial Instruments**

The Corporation accounts for derivatives under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 requires that all derivative financial instruments that qualify for hedge accounting be recognized in the financial statements and measured at fair value regardless of the purpose or intent for holding them. Changes in fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in excess of revenues over expenses within unrestricted net assets in the consolidated statements of operations and changes in net assets. The Corporation has reflected the fair market value of its swap contracts as a long-term liability on the consolidated balance sheet (see Note 7).

#### **Consolidated Statements of Cash Flows**

Supplemental disclosure of cash flow information and noncash investing and financing activities are summarized as follows:

Cash paid during the year for interest and amounts paid on interest rate swap contracts, net of amounts capitalized, amounted to \$47,312,000 and \$37,342,000 for the years ended December 31, 2008 and 2007, respectively.

Cash paid for income taxes approximated \$3,850,000 and \$150,000 for the years ended December 31, 2008 and 2007, respectively.

Included in accounts payable and other liabilities at December 31, 2008 and 2007 are \$19,758,000 and \$14,452,000, respectively, of costs related to construction in progress and for the acquisition of property, plant, and equipment.

#### **Adoption of Accounting Pronouncements**

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R)." SFAS No. 158 requires plan sponsors of defined benefit pension and other postretirement benefit plans to recognize the funded status (the difference between the fair value of the plan assets and the projected benefit obligations) of their postretirement benefit plans in the statement of financial position, measure the fair value of plan assets and benefit obligations as of the date of

# **Sisters of St. Francis Health Services, Inc. and Affiliates**

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the fiscal year end statement of financial position and provide additional disclosures. On December 31, 2007, the Corporation adopted the recognition and disclosure provisions of SFAS 158 and had previously measured the fair value of plan assets and benefit obligations as of its fiscal year end. The effect of adopting SFAS No. 158 approximated \$69,329,000, which was recognized as a cumulative effect of change in accounting principle within unrestricted net assets in the consolidated statements of operations and changes in net assets as of December 31, 2007. See Note 8 for further discussion on the effect of adopting SFAS No. 158.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" that defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 discusses valuation techniques, such as the market approach, the income approach, and the cost approach. The Statement utilizes a fair value hierarchy that prioritize the inputs to valuation techniques used to measure fair value into three broad levels, as follows:

Level 1 – Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities. Note that the Corporation considers securities that trade at least weekly to have an active market.

Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3 – Unobservable inputs that reflect the reporting entity's own assumptions.

The adoption of SFAS No. 157 did not materially impact the Corporation's consolidated balance sheets, consolidated statements of operations and changes in net assets or consolidated statements of cash flows for 2008.

In accordance with the provisions of FASB Staff Position (FSP) 157-2, "Effective Date of FASB Statement No. 157," the Corporation has elected to defer implementation of SFAS No. 157 until 2009 as it relates to its non-financial assets and non-financial liabilities that are not permitted or required to be measured at fair value on a recurring basis. The Corporation is currently assessing the impact of the adoption of this portion of this Statement on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115." SFAS No. 159 permits entities to choose to measure many financial assets and liabilities at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. Non-profit entities that elect the fair value option will report unrealized gains and losses in excess of revenues over expenses at each subsequent reporting date. The fair value option may be elected on an instrument-by-instrument basis, with few exceptions. SFAS No. 159 amends previous guidance to extend the fair value option to available-for-sale and held-to-maturity securities. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Corporation adopted this Statement effective January 1, 2008, however, no fair value election has been made under this standard, and therefore the adoption has had no impact on the consolidated balance sheets or consolidated statements of operations and changes in net assets.

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Notes to Consolidated Financial Statements

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In March 2008, the FASB Issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an Amendment of FASB Statement No. 133." SFAS No. 161 expands the disclosure requirements of FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 161 requires additional disclosures regarding: (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affects an entity's financial position, financial performance, and cash flows. In addition, SFAS No. 161 requires that objectives for using derivative instruments be disclosed in terms of underlying risks and accounting designation, the purpose of derivative use in terms of the risks that the entity is intending to manage, quantitative disclosures about the fair values of derivative instruments and their gains and losses and disclosures about credit-risk-related contingent features. SFAS No. 161 is effective for years beginning after November 15, 2008. The Corporation is currently assessing the impact of the adoption of this Statement on its consolidated financial statements.

In August 2008, the FASB issued FASB Staff Position (FSP) 117-1, "Endowments for Not-for-Profit Organizations; Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"), and Enhanced Disclosures for All Endowment Funds" ("FSP 117-1"). FSP 117-1 is intended to improve the quality and consistency of financial reporting of endowments held by not-for-profit organizations. FSP 117-1 provides guidance on classifying the assets associated with donor-restricted endowment funds held by organizations subject to an enacted version of UPMIFA, which serves as a model act for states to modernize their laws governing donor-restricted endowment funds. FSP 117-1 also requires additional disclosures about endowments (both donor-restricted funds and board-designated funds) for all organizations, including those not yet subject to an enacted version of UPMIFA. The Corporation has adopted FSP 117-1 as of December 31, 2008; however the Corporation has determined that the adoption did not have a material impact on its consolidated financial statements.

#### **Reclassifications**

Certain reclassifications were made to prior year balances to conform to current year presentation.

### **3. Net Patient Service Revenue, Patient Accounts Receivable, and Concentration of Credit Risk**

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

**Medicare** – Acute inpatient and outpatient services rendered to Medicare program beneficiaries are paid primarily at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain services are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediaries.

**Medicaid** – Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services are reimbursed on a fee for service basis from predetermined fee schedules.

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**Other** – The Corporation has also entered into payment agreements with certain commercial insurance carriers, HMO's, and preferred provider organizations. The basis of payment to the Corporation under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined per diem rates.

Provisions have been made in the consolidated financial statements for estimated contractual adjustments, representing the difference between the established charges for services and estimated total payments to be received from third-party payors. For the years ended December 31, 2008 and 2007, approximately 93% and 92%, respectively, of net patient service revenue is subject to the provisions of Medicare and Medicaid programs and other third-party payor contracts.

The Corporation grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at December 31, 2008 and 2007, is as follows:

	<b>2008</b>	<b>2007</b>
Medicare	23 %	20 %
Medicaid	16	13
Other third-party payors	43	48
Patients	<u>18</u>	<u>19</u>
	<u>100 %</u>	<u>100 %</u>

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory action including fines, penalties and/or exclusion from the Medicare and Medicaid programs.

**4. Investments and Assets Limited As to Use**

The composition of investments and assets limited as to use, at December 31, 2008 and 2007, is as follows:

	<b>2008</b>	<b>2007</b>
	<b>(in thousands)</b>	
Assets held by bond trustees	\$ 2,218	\$ 197
Assets held for estimated insurance liabilities	80,240	77,419
Board designated for services for the poor	2,840	3,768
Board designated funded depreciation and other Board projects	921,724	1,242,121
Other restricted assets	<u>39,883</u>	<u>39,924</u>
	1,046,905	1,363,429
Less short-term investments	<u>21,930</u>	<u>18,969</u>
Investments, classified as noncurrent	<u>\$ 1,024,975</u>	<u>\$ 1,344,460</u>

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Investments and assets limited as to use, at December 31, 2008 and 2007, consist of the following:

	<b>2008</b>	<b>2007</b>
	<b>(in thousands)</b>	
Pooled funds	\$ 1,003,188	\$ 1,329,914
Other	<u>43,717</u>	<u>33,515</u>
Totals	<u>\$ 1,046,905</u>	<u>\$ 1,363,429</u>

Investment returns including net unrealized gains and losses included in the consolidated statements of operations and changes in net assets for the years ended December 31, 2008 and 2007, are as follows:

	<b>2008</b>	<b>2007</b>
	<b>(in thousands)</b>	
<b>Unrestricted revenues, gains, and other support</b>		
Investment (loss) income	\$ (790)	\$ 8,383
Unrealized (losses) gains on investments	<u>(14,374)</u>	<u>176</u>
	<u>(15,164)</u>	<u>8,559</u>
<b>Other income (expense), net</b>		
Investment (loss) income	(90,080)	91,379
Net unrealized investment losses on trading securities	(223,364)	-
Net cumulative unrealized gains transferred to trading securities	<u>-</u>	<u>51,256</u>
	<u>(313,444)</u>	<u>142,635</u>
<b>Other changes in unrestricted net assets</b>		
Net cumulative unrealized gains transferred to trading securities	-	(51,432)
Net unrealized investment (losses) gains on other than trading securities	<u>(680)</u>	<u>99</u>
	<u>(680)</u>	<u>(51,333)</u>
<b>Temporarily restricted net assets</b>		
Investment (loss) income	(902)	936
Net unrealized investment (losses) gains	<u>(924)</u>	<u>12</u>
	<u>(1,826)</u>	<u>948</u>
<b>Permanently restricted net assets</b>		
Investment (loss) income	(688)	665
Net unrealized investment (losses) gains	<u>(927)</u>	<u>(53)</u>
	<u>(1,615)</u>	<u>612</u>
	<u>\$ (332,729)</u>	<u>\$ 101,421</u>

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While the adoption of SFAS No. 157 did not materially impact the Corporation's consolidated balance sheets, consolidated statements of operations and changes in net assets, or consolidated statements of cash flows for 2008, additional disclosures are now required. The following table presents information about the Corporation's financial assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2008, and indicate the fair value hierarchy of the valuation techniques utilized to determine such fair value.

	<b>Balance as of December 31, 2008</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1) (in thousands)</b>	<b>Significant Other Observable Inputs (Level 2)</b>
<b>Investments</b>			
Pooled funds	\$ 1,003,188	\$ -	\$ 1,003,188
Other	43,717	43,717	-
	<u>\$ 1,046,905</u>	<u>\$ 43,717</u>	<u>\$ 1,003,188</u>
<b>Liabilities</b>			
Interest rate swap contracts	\$ (102,173)	\$ -	\$ (102,173)

**5. Property, Plant, and Equipment**

A summary of property, plant, and equipment at December 31, 2008 and 2007, is as follows:

	<b>2008</b>	<b>2007</b>
	<b>(in thousands)</b>	
Land and land improvements	\$ 117,281	\$ 94,199
Buildings and building equipment	988,941	942,973
Departmental equipment	990,675	940,316
Construction in progress	246,358	125,277
	<u>2,343,255</u>	<u>2,102,765</u>
Less accumulated depreciation	1,072,183	980,893
	<u>\$ 1,271,072</u>	<u>\$ 1,121,872</u>

The Corporation has several capital projects with remaining construction commitments approximating \$69 million at December 31, 2008. Cost of these commitments are expected to be financed by proceeds from a future bond issuance, investments and assets limited as to use by the Corporation for future capital expansion and improvements and future operations of the Corporation.

Certain office space and medical equipment is accounted for as capital leases under SFAS No. 13. These leases expire in various years through 2011 and are included in property, plant, and equipment on the consolidated balance sheets. The amortization of assets under capital leases is included in depreciation expense in the consolidated statements of operations and changes in net assets.

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**6. Long-Term Debt**

Long-term debt at December 31, 2008 and 2007, consists of the following:

	2008	2007
	(in thousands)	
Tax Exempt Hospital and Health System Revenue Bonds and Refunding Bonds		
Series 2008 A and Series 2008 B, variable rate demand bonds, subject to a seven-day put provision supported by a direct pay bank letter of credit, payable through November 2014; interest ranging from 0.55% to 8.75% in 2008	\$ 162,960	\$ -
Series 2008 C, fixed rate term and serial bonds payable through November 2032; interest ranging from 4.0% to 5.5% over the life of the bonds	292,930	-
Series 2008 D and Series 2008 E, variable rate demand bonds, subject to a seven-day put provision supported by a direct pay bank letter of credit, payable through November 2048; interest from 0.55% to 4.50% in 2008	125,000	-
Series 2008 F through Series 2008 H, variable rate demand bonds, subject to a seven-day put provision supported by a direct pay bank letter of credit, payable through November 2048; interest ranging from 0.40% to 3.50% in 2008	154,345	-
Series 2008 I and Series 2008 J, variable rate demand bonds, subject to a seven-day put provision supported by a direct pay bank letter of credit, payable through November 2037; interest from 0.40% to 1.05% in 2008	81,850	-
Series 2006 A and Series 2006 B, insured variable rate demand bonds, refunded to fixed rate term and serial bonds in September 2008		288,500
Series 2006 C, insured auction rate bonds, converted to insured variable rate demand bonds in May and refunded to uninsured variable rate demand bonds in November 2008	-	80,500
Series 2006 D and Series 2006 F, insured auction rate bonds, refunded to variable rate demand bonds in May 2008	-	160,950
Series 2006 E, insured auction rate bonds converted to insured fixed rate term and serial bonds in April 2008, payable through May 2041; interest ranging from 5.125% to 5.25% over the life of the bonds following conversion	84,675	84,675
Series 2003 A through Series 2003 D, insured auction rate bonds, refunded to variable rate demand bonds in October 2008	-	152,475
Series 2001, fixed rate insured serial bonds, payable through November 2015; interest rates ranging from 4.75% to 5.50% over the remaining life of the bonds	12,435	13,880
Series 1999, fixed rate insured serial bonds, payable through November 2012; interest rates ranging from 4.125% to 5.25% over the remaining life of the bonds	15,155	18,535
Series 1997 A and Series 1997 B, fixed rate insured serial bonds, payable through November 2010; interest rates ranging from 5.0% to 5.75% over the remaining life of the bonds	8,130	12,690
Other	29,082	24,120
Total long-term debt	<u>966,562</u>	<u>836,325</u>
Less bond discounts on Hospital and Health System Revenue Bonds and Refunding Bonds	<u>(1,087)</u>	<u>(596)</u>
Total long-term debt	965,475	835,729
Less current portion of long-term debt	15,179	13,447
Long-term debt and bond discounts	<u>\$ 950,296</u>	<u>\$ 822,282</u>

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Scheduled principal payments on long-term debt are as follows:

Years ending December 31	(in thousands)
2009	\$ 15,179
2010	17,163
2011	16,035
2012	14,132
2013	14,074
Thereafter	<u>889,979</u>
Total	<u>\$ 966,562</u>

Total interest costs incurred on the long-term debt less capitalized interest is as follows:

	2008	2007
	(in thousands)	
Interest costs incurred	\$ 45,122	\$ 36,140
Less: capitalized interest	<u>7,646</u>	<u>3,072</u>
Interest expense included in operating income	<u>\$ 37,476</u>	<u>\$ 33,068</u>

The fair value of the Corporation's long-term debt at December 31, 2008 and 2007, approximates \$941,036,000 and \$857,434,000, respectively. The fair values of the Corporation's underlying tax exempt Hospital and Health System Revenue Bonds and Refunding Bonds are based on current traded values for similar types of borrowings.

**Obligated Group and Designated Group Affiliates and Other Requirements** - The Corporation has long-term debt outstanding under a Master Trust Indenture dated November 1, 1997, as amended and supplemented ("MTI"). The MTI permits the Corporation to issue obligations to finance certain activities. Obligations issued under the MTI are general, unsecured, direct obligations of the Corporation and any future members of the Sisters of St. Francis Health Services, Inc. Obligated Group. All members of the Obligated Group are joint and severally liable with respect to the payment of each obligation issued under the MTI. The MTI provides that certain affiliates of the Corporation may be designated as Designated Group Affiliates from time to time. The Designated Group Affiliates are not members of the Obligated Group and are not directly liable for payments on the obligations. The Corporation has also granted a security interest in its gross revenues for the benefit of the owners of the obligations upon the occurrence of certain events. The MTI includes covenants which require the Corporation to maintain a minimum debt service coverage ratio of 1.15 and limit the Corporation's ability to encumber certain of its assets. In determining whether the Corporation has satisfied such covenants, the MTI requires the Corporation to include the Corporation and the Designated Group Affiliates together in calculating the related ratios and in testing for compliance even though the Designated Group Affiliates are not directly obligated on the obligations issued under the MTI. The Corporation was in compliance with the terms of the MTI as of December 31, 2008.

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Notes to Consolidated Financial Statements

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**Issuance, Refunding and Conversion of Long-Term Debt** – During April 2008, the Corporation converted its Series 2006E insured auction rate bonds to insured fixed rate term and serial bonds. The transaction resulted in a loss from the conversion of debt of \$0.5 million, which has been reflected as a loss on refunding and conversion of long-term debt in the consolidated statements of operations and changes in net assets. In addition, the Corporation refunded its Series 2006D and Series 2006F insured auction rate bonds with a taxable bridge loan provided by JP Morgan Chase Bank, N.A. The taxable bridge loan was subsequently paid in May 2008 with the proceeds of the Series 2008A and Series 2008B variable rate demand bonds supported by a direct pay letter of credit provided by JP Morgan Chase Bank, N.A. that expires in May 2013. The transaction resulted in a loss from refunding of debt of \$3.7 million, which has been reflected as a loss on refunding and conversion of long-term debt in the consolidated statements of operations and changes in net assets.

In September 2008, the Corporation refunded its Series 2006A and Series 2006B insured variable rate demand bonds with the issuance of the Series 2008C fixed rate term and serial bonds. The transaction resulted in a loss from refunding of debt of \$5.3 million, which has been reflected as a loss on refunding and conversion of long-term debt in the consolidated statements of operations and changes in net assets.

In October 2008, the Corporation issued \$125 million of its Series 2008D and Series 2008E variable rate demand bonds supported by a direct pay letter of credit provided by Bank of America, N.A. that expires in October 2011. The proceeds were used to finance and reimburse a portion of the costs of acquisition, construction, renovation and equipping certain of the Corporation's Health Centers and to pay related cost of issuance. In addition, the Corporation refunded its Series 2003A through Series 2003D insured auction rate bonds with the issuance of its Series 2008F through Series 2008H variable rate demand bonds supported by direct pay letters of credit from the Bank of New York Mellon, N.A. and JP Morgan Chase, N.A., respectively, that expire in October 2011. The transaction resulted in a loss from refunding of debt of \$4.6 million, which has been reflected as a loss on refunding and conversion of long-term debt in the consolidated statements of operations and changes in net assets.

In November 2008, the Corporation refunded its Series 2006C insured auction rate bonds with the issuance of its Series 2008I and Series 2008J variable rate demand bonds supported by a direct pay letter of credit provided by Wells Fargo Bank, N.A. that expires in November 2011. The transaction resulted in a loss from refunding of debt of \$1.9 million, which has been reflected as a loss on refunding and conversion of long-term debt in the consolidated statements of operations and changes in net assets.

**Liquidity Facilities** – The Corporation entered into separate direct pay letters of credit totaling \$531.4 million to fully support its Series 2008A, Series 2008B and Series 2008D through Series 2008J variable rate demand bonds. These liquidity facilities are available to the Corporation should the holders of the obligations present such obligations for redemption and the obligations are not remarketed. The termination dates for the various liquidity facility agreements range from October 2011 through May 2013. Since the liquidity facilities expire beyond one year from the Corporation's balance sheet date, the variable rate demand bonds are classified as long-term debt.

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**7. Other Liabilities and Commitments**

**Interest Rate Swap Contracts** – In March 2006, the Corporation entered into four forward starting interest rate swap contracts which were designed to effectively convert the Series 2006A through Series 2006D variable rate bonds to synthetic fixed rate bonds over the life of the bonds. The interest rate swap contracts had been designated as cash flow hedges and the Corporation applied hedge accounting under SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activity.” Effective April 1, 2008, the Corporation de-designated all its previous hedging relationships on the bonds due to the refunding and conversion of its Series 2006A through Series 2006D variable rate bonds. Accordingly, all historical mark-to-market gains and losses, totaling a loss of \$19,686,000 which was previously classified as a component of unrestricted net assets have been recognized in other income (expense) in the consolidated statements of operations and changes in net assets. Subsequent to April 1, 2008, all mark-to-market gains and losses and the difference between the actual amount paid and the actual amount it received on the interest rate swap agreements is recognized in other income (expense) in the consolidated statements of operations and changes in net assets. At December 31, 2008 and 2007, the interest rate swap contracts have a negative fair value of \$102,173,000 and \$19,686,000, respectively.

The Corporation’s interest rate swap agreements include certain collateral funding requirements based on the market value of these contracts. At December 31, 2008, the Corporation had posted \$11,180,000 to satisfy its collateral funding obligations on these contracts. The Corporation had no collateral funding obligations in 2007. Subsequent to year end, the level of the Corporation’s collateral funding requirement has decreased by \$30 million, which would increase the amount to be funded on these contracts.

**Operating Leases** – The Corporation has operating leases for medical and office equipment, office space and software. Total rent expense under operating leases was \$21,419,000 and \$21,840,000 at December 31, 2008 and 2007, respectively. Future minimum lease payments under operating leases as of December 31, 2008, that have initial or remaining lease terms in excess of one year are as follows:

<b>Years ending December 31</b>	<b>Cancelable</b>	<b>Non-Cancelable</b>
	<b>(in thousands)</b>	
2009	\$ 10,793	\$ 8,174
2010	10,412	8,090
2011	10,507	7,768
2012	9,576	5,671
2013	9,408	4,901
Thereafter	777	3,591
Total	<u>\$ 51,473</u>	<u>\$ 38,195</u>

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**8. Pension Plan and Postretirement Benefits**

The Corporation has qualified, noncontributory defined benefit pension plans that cover substantially all of its employees. The plans provide defined benefits based on years of service and final average salary. Certain nonqualified, supplemental plan arrangements also provide retirement benefits to specified groups of participants. Because the pension plans have church plan status as defined in the Employee Retirement Income Security Act of 1974 ("ERISA"), funding in accordance with ERISA is not required. The Corporation's funding policy for the qualified plans, which is reviewed annually and may be adjusted as needed, is to fund the current normal cost based on the accumulated benefit obligation for the plan's year and amortize any under or over funding over a ten year period. To supplement this funding policy, the Corporation had established a four year program to contribute an additional \$100 million into the qualified plans which, through December 31, 2008, the Corporation had funded \$75 million with the remaining \$25 million expected to be funded in 2009.

The Corporation's measurement date for all calculations is December 31.

On December 31, 2007, the Corporation adopted the recognition provisions of SFAS No. 158. The incremental effects of the accounting change in the Corporation's consolidated balance sheets at December 31, 2007 are present in the following tables:

	<b>At December 31, 2007</b>		
	<b>(in thousands)</b>		
	<b>Prior to Adopting SFAS 158</b>	<b>Effect of Adopting SFAS 158</b>	<b>As Reported at December 31</b>
Accrued pension liability	\$ 59,241	\$ 69,329	\$ 128,570
Unrestricted net assets	(3,285)	(69,329)	(72,613)

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**December 31, 2008 and 2007**

The change in benefit obligation, change in plan assets, and funded status of the Corporation's pension plans as of December 31, 2008 and 2007, are as follows:

	<b>2008</b>	<b>2007</b>
	<b>(in thousands)</b>	
<b>Change in benefit obligation</b>		
Benefit obligation, beginning of year	\$ 686,164	\$ 680,618
Service cost	29,750	31,096
Interest cost	43,521	40,570
Plan amendments	(471)	-
Actuarial loss (gain)	22,885	(48,831)
Benefits paid	<u>(19,436)</u>	<u>(17,289)</u>
Benefit obligation, end of year	<u>762,413</u>	<u>686,164</u>
<b>Change in plan assets</b>		
Fair value of plan assets, beginning of year	557,594	463,766
Actual (loss) return on plan assets	(14,786)	46,565
Employer contributions	57,996	64,552
Benefits paid	<u>(19,436)</u>	<u>(17,289)</u>
Fair value of plan assets, end of year	<u>581,368</u>	<u>557,594</u>
Funded status	<u>\$ (181,045)</u>	<u>\$ (128,570)</u>
<b>Amounts recognized in the consolidated balance sheets</b>		
Noncurrent assets	\$ 103	\$ 4,039
Other current liabilities	(141)	(115)
Noncurrent liabilities	<u>(181,007)</u>	<u>(132,494)</u>
Total amount recognized	<u>\$ (181,045)</u>	<u>\$ (128,570)</u>

The amounts in unrestricted net assets, including amounts arising during the year and amounts reclassified into net periodic benefit cost, are as follows:

	<b>Net</b>	<b>Prior</b>	
	<b>(Gain) Loss</b>	<b>Service</b>	<b>Total</b>
	<b>(in thousands)</b>		
December 31, 2007	\$ (59,787)	\$ (12,826)	\$ (72,613)
Amounts reclassified into net periodic benefit cost	343	2,666	3,009
Amounts arising during the year	<u>(81,610)</u>	<u>471</u>	<u>(81,139)</u>
December 31, 2008	<u>\$ (141,054)</u>	<u>\$ (9,689)</u>	<u>\$ (150,743)</u>

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**December 31, 2008 and 2007**

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The following are estimated amounts to be amortized from unrestricted net assets into net periodic pension cost in the next fiscal year:

	<b>2008</b>	<b>2007</b>
	<b>(in thousands)</b>	
Unrecognized prior service cost	\$ (2,666)	\$ (2,773)
Unrecognized loss	<u>(6,617)</u>	<u>(104)</u>
	<u>\$ (9,283)</u>	<u>\$ (2,877)</u>

The accumulated benefit obligation ("ABO") at December 31, 2008 and 2007 was \$657,699,000 and \$600,165,000, respectively. The following information is provided for plans with an ABO in excess of plan assets at December 31, 2008 and 2007:

	<b>2008</b>	<b>2007</b>
	<b>(in thousands)</b>	
Projected benefit obligation	\$ 758,901	\$ 654,296
ABO	654,186	568,297
Fair value of plan assets	577,753	521,687

Components of net periodic pension cost for the years ended December 31, 2008 and 2007, are as follows:

	<b>2008</b>	<b>2007</b>
	<b>(in thousands)</b>	
Service cost	\$ 29,750	\$ 31,096
Interest cost	43,521	40,570
Expected return on plan assets	(43,939)	(36,035)
Amortization of prior service cost	2,666	2,773
Amortization of net loss	<u>343</u>	<u>6,887</u>
Net periodic pension cost	<u>\$ 32,341</u>	<u>\$ 45,291</u>

The following weighted-average assumptions were used to determine the Corporation's benefit obligations and net periodic pension cost for the years ended December 31:

	<b>2008</b>	<b>2007</b>
<b>Benefit obligation</b>		
Discount rate	6.25 %	6.50 %
Rate of compensation increase	4.50 %	4.50 %
<b>Net periodic pension cost</b>		
Discount rate	6.50 %	6.00 %
Expected rate of return on plan assets	7.75 %	7.75 %
Rate of compensation increase	4.50 %	4.50 %

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**December 31, 2008 and 2007**

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In developing the expected rate of return on plan assets assumption, the Corporation considered the historical returns and the expectation for future returns on each asset class, as well as the target asset allocation of the pension investment portfolio. The rate of return on plan assets assumption also considers investment and administrative expenses.

The Corporation's weighted average asset allocation by asset category at December 31, 2008 and 2007, is as follows:

	<b>2008</b>	<b>2007</b>
Equity securities	30 %	58 %
Fixed income securities	67 %	36 %
Hedge funds	3 %	6 %

The investment policy reflects the long-term nature of the pension plans' funding obligations. Assets are invested to achieve a rate of return consistent with policy allocation targets, which significantly contributes to meeting the current and future obligations of the plans and helps to ensure solvency of the plans over time. It is expected that this objective can be achieved through a well-diversified asset portfolio and an emphasis on long-term capital appreciation as a primary source of return. The plan utilizes a multi-manager structure of complementary investment styles and classes. Manager performance is judged over an investment market cycle which is generally 3 to 5 years.

Plan assets are exposed to risk and fluctuations in market value from year to year. To minimize risk, each manager is required to maintain adequate portfolio diversification to insulate the plan assets from substantial loss in any single security or market sector. Asset allocation is reviewed monthly for deviations in the allowable range and is rebalanced as necessary. The target mix of plan assets is as follows:

<b>Asset class</b>	<b>Range</b>	<b>Target</b>
Domestic large capitalization securities	21% - 39%	26 %
Domestic small capitalization securities	7% - 13%	9 %
Domestic mid capitalization securities	2% - 6%	3 %
International equity securities	16% - 22%	19 %
Fixed income securities	33% - 39%	36 %
Hedge funds	4% - 10%	7 %
		<u>100 %</u>

**Cash flows**

The Corporation anticipates making contributions of approximately \$54,462,000 in 2009.

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Notes to Consolidated Financial Statements

### December 31, 2008 and 2007

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

	<b>(in thousands)</b>
2009	\$ 22,512
2010	24,580
2011	27,230
2012	30,299
2013	33,727
Years 2014-2018	237,874

The Corporation has various 403(b) tax sheltered annuity and 401(k) profit sharing plans covering eligible employees. These employees may contribute a portion of their pre-tax and/or after-tax compensation to the plans, in accordance with specified guidelines. In addition to any discretionary contributions, these plans match a percentage of the employee contributions up to certain limits. Matching and discretionary contributions for the years ended December 31, 2008 and 2007, aggregated \$11,280,000 and \$10,571,000, respectively.

#### **9. Estimated Insurance Liabilities**

Hills Insurance Company, Inc. ("Hills Inc."), the wholly owned captive insurance subsidiary of the Corporation, provides certain professional and general liability coverage for the Health Centers and other corporate entities. In addition, the Corporation has self-insured programs to provide long-term disability and excess workers' compensation coverage for its employees.

Hills Inc. and the self-insured programs have provided for reported losses and for losses incurred but not reported based on projections by independent actuaries from information provided by the Corporation's management and insurance consultants. The estimated insurance liabilities, which consist of professional liability, general liability, long-term disability insurance, excess workers' compensation, and amounts self-insured for allocated loss adjustment expenses, approximated \$89 million and \$83 million on an undiscounted basis at December 31, 2008 and 2007, respectively.

Hills Inc. purchases reinsurance coverage which limits the Corporation's exposure on individual claims. In addition, the Corporation has obtained excess insurance coverage from several commercial insurance companies. In the unlikely event that any or all of the insurance or reinsurance companies might be unable to meet their obligations under the existing agreements, the Corporation would be liable for such defaulted amounts.

Claims have been asserted against the Corporation by various claimants. These claims are in various stages of processing and some may ultimately be brought to trial. Counsel is unable to conclude as to the ultimate outcome of the actions. There are known incidents occurring through December 31, 2008 that may result in the assertion of additional claims and other claims may be asserted arising from services provided to patients in the past. While it is possible that settlement of asserted claims and claims which may be asserted in the future could result in liabilities in excess of amounts provided by the Corporation, management believes that the excess liability, if any, would not materially affect the consolidated financial position of the Corporation at December 31, 2008.

# **Sisters of St. Francis Health Services, Inc. and Affiliates**

## **Notes to Consolidated Financial Statements**

### **December 31, 2008 and 2007**

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#### **10. Investments in Affiliates**

The Corporation is involved in several joint ventures whose operations have been included in the consolidated financial statements.

##### **Investments in Consolidated Affiliates**

Prior to November 2007, the Corporation was the sole owner of all the membership interests in Physicians Regional Hospital, LLC d/b/a Franciscan Physicians Hospital ("FPH"), an Indiana limited liability company that leases and operates a 63-bed acute care hospital in Northwest Indiana, with the land and buildings having been owned by the Corporation. In November 2007, the Corporation sold and transferred the hospital land and buildings to a newly formed wholly-owned limited liability company, Franciscan Physicians Real Property, LLC ("FPRP"). FPH and FPRP then issued membership units representing equity ownership interests in those companies to various physicians and physician owned entities. At December 31, 2008 and 2007, the Corporation's ownership in FPH was approximately 79% and 78%, respectively, and 89% in FPRP at both December 31, 2008 and 2007, with the Corporation having majority board membership and certain reserve powers.

The Corporation has other investments in consolidated affiliates that are included in the Corporation's consolidated financial statements since it is deemed to have operating control. These consolidated affiliates include investments in various surgery centers, cardiovascular diagnostic services, radiation therapy and oncology services, imaging services, endoscopy centers and other health services related investments that support the Corporation's mission.

The Corporation has recorded the minority interest in these consolidated affiliates on its consolidated balance sheets and consolidated statements of operations and changes in net assets for 2008 and 2007.

##### **Investments in Unconsolidated Affiliates**

The Corporation has investments in entities that are recorded under the cost or equity method of accounting. At December 31, 2008, the Corporation maintained investments in unconsolidated affiliates which include surgery centers, imaging services, oncology services, a managed care organization, a wellness center, and other health service related investments that support the Corporation's mission having non-controlling ownership interests generally ranging from 20% to 49%.

At December 31, 2008 and 2007, the Corporation had a 33% and 66.5%, respectively, economic interest in Alverno Clinical Laboratories, LLC ("ACL, LLC"), an Indiana limited liability company created to direct, operate, maintain, and manage a centralized clinical laboratory in Hammond, Indiana supporting the Corporation, Provena Health ("Provena"), and in 2008 Resurrection Health Care ("Resurrection"). The Corporation is also an owner of Alverno Provena Hospital Laboratories, LLC ("APHL"), a nonprofit cooperative corporation created to direct, operate, maintain, and manage the on-site laboratories of the Corporation's, Provena's, and Resurrection's health centers. Effective January 2, 2008, the Corporation and Provena entered into a member/participation admission agreement with Resurrection, whereby Resurrection became an equal member of ACL, LLC, and a participant in APHL. Governance of ACL, LLC and APHL (referred to as the "Laboratories") is equally shared between health system members. The Corporation accounts for its investment in ACL, LLC under the equity method which approximated \$4,200,000 and \$8,500,000 at December 31, 2008 and 2007, respectively. The Corporation's capital account in APHL approximates \$250,000 and \$2,400,000 at December 31, 2008 and 2007, respectively.

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**December 31, 2008 and 2007**

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The Corporation's share of the equity in earnings of investments in unconsolidated affiliates accounted for on the equity method is \$13,733,000 and \$13,023,000 for the years ended December 31, 2008 and 2007, respectively, which is included in total unrestricted revenues, gains, and other support in the consolidated statements of operations and changes in net assets.

The unaudited summarized financial position and results of operations for the entities accounted for under the equity method as of and for the periods ended December 31 are as follows:

	<b>2008</b>	<b>2007</b>
	<b>(in thousands)</b>	
Total assets	\$ 186,934	\$ 149,968
Total liabilities	81,627	77,889
Net assets	105,307	72,079
Total unrestricted revenues, gains and other support	717,587	510,537
Excess of revenues over expenses	49,750	29,913

During 2007, the Corporation sold its ownership interests in a collection agency and a managed care company. The sale of these entities resulted in a gain of approximately \$1.0 million and \$9.9 million for the years ended December 31, 2008 and 2007, respectively, which is reported in other income (expense) in the consolidated statements of operations and changes in net assets.

**11. Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes at December 31, 2008 and 2007:

	<b>2008</b>	<b>2007</b>
	<b>(in thousands)</b>	
Capital expenditures	\$ 5,292	\$ 9,699
Medical education programs	3,899	5,946
Health care programs	6,632	6,588
Other restrictions	2,700	3,156
	<u>\$ 18,523</u>	<u>\$ 25,389</u>

Capital expenditures relate to assets held by the Corporation, its Health Centers and associated foundations which are restricted by donors or grantors to be used specifically for equipment, capital projects or other capital needs.

Medical education programs relate to assets held by the Corporation, its Health Centers and associated foundations which are restricted by donors or grantors to be used in specific education programs or for staff education.

Health care programs relate mainly to assets held by the Corporation's Health Centers and associated foundations which are restricted by donors or grantors to be used in specific health care programs for medical and patient services.

# **Sisters of St. Francis Health Services, Inc. and Affiliates**

## **Notes to Consolidated Financial Statements**

### **December 31, 2008 and 2007**

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Other restrictions relate to assets held by foundations which are restricted by donors or grantors to be used for programs such as spiritual care, mission related activities or employee emergencies.

Permanently restricted net assets of \$16.9 million and \$16.8 million at December 31, 2008 and 2007, respectively, are restricted to investments to be held in perpetuity with the income expendable to support the Corporation's mission.

#### **12. Related Party Transactions**

The Corporation's Health Centers incurred clinical laboratory charges from the Laboratories of approximately \$58,837,000 and \$56,434,000 for the years ended December 31, 2008 and 2007, respectively, which is included in purchased services in the consolidated statements of operations and changes in net assets. The Corporation provides information technology services, central procurement and disbursement services, and rents the core lab facilities to the Laboratories for which the Corporation had recorded approximately \$2,224,000 and \$1,593,000 in 2008 and 2007, respectively, as other operating revenue on the consolidated statements of operations and changes in net assets.

#### **13. Overview of Tax Positions**

The Corporation incurred income tax expense of approximately \$3,850,000 and \$150,000 for the years ended December 31, 2008 and 2007, respectively. As of December 31, 2008 and 2007, the Corporation had a deferred tax asset of approximately \$2,500,000 and \$7,000,000, respectively.

#### **14. Medicaid Disproportionate Share**

Certain of the Corporation's Health Centers qualify as State of Indiana Medicaid Acute Disproportionate Share and Medicaid Safety Net Hospitals ("DSH"). These Health Centers qualified as DSH providers under Indiana law (HEA 1095, Public Law 27-1992), and, as such, are eligible to receive DSH payments linked to the State's fiscal year, which differs from the Corporation's fiscal year. The amount of these additional DSH funds is dependent on regulatory approval by agencies of the federal and state governments, and is determined by the level, extent, and cost of uncompensated care (as defined) and various other factors. The Corporation records such amounts as revenue when payments are received or based upon data from the State of Indiana that payments are determinable and probable of receipt. For the years ended December 31, 2008 and 2007, the Corporation recognized unrestricted revenue of approximately \$61.0 million and \$36.9 million, respectively, related to the DSH program in the consolidated statements of operations and changes in net assets. Subsequent to year end, certain of the Corporation's Health Centers received a partial advance of \$13.6 million for State fiscal year 2009. Since the eligibility requirements and final distribution calculation has not been finalized for this payment, the Corporation has not recognized this advance in its unrestricted revenues, gains and other support in the consolidated statements of operations and changes in net assets for 2008.

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**December 31, 2008 and 2007**

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**15. Functional Expenses**

The Corporation provides general health care services to residents within its geographic location. Expenses related to providing these services for the years ended December 31, 2008 and 2007, are as follows:

	<b>2008</b>	<b>2007</b>
	<b>(in thousands)</b>	
Health care services	\$ 1,653,578	\$ 1,571,868
General, administrative, and other non-healthcare services	<u>453,808</u>	<u>427,678</u>
	<u>\$ 2,107,386</u>	<u>\$ 1,999,546</u>

**Report of Independent Auditors  
on Accompanying Consolidating Information  
and Other Supplemental Financial Information**

Board of Trustees  
Sisters of St. Francis Health Services, Inc.  
Mishawaka, Indiana

The report on our audits of the consolidated financial statements of Sisters of St. Francis Health Services, Inc. and Affiliates (collectively referred to as the "Corporation") as of December 31, 2008 and 2007 and for the years then ended appears on page 1 of this document. These audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information (pages 33 through 47) is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual entities. Accordingly, we do not express an opinion on the financial position and results of operations of the individual entities. The other supplemental financial information (pages 48 through 54) is presented for purposes of additional analysis and is not a required part of the basic financial statements. The consolidating information, and the other supplemental financial information, except for that portion marked "unaudited" has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

*PricewaterhouseCoopers LLP*

April 21, 2009

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Supplemental Schedule - Consolidating Balance Sheet**  
**December 31, 2008**  
(In thousands)

	Central Indiana Region	Western Indiana Region	Northern Indiana Region	South Suburban Chicago Region	Corporate & Other	Eliminations	Total
<b>Assets</b>							
Current assets							
Cash and cash equivalents	\$ 41,177	\$ 19,860	\$ 41,121	\$ 10,848	\$ 111,675	\$ -	\$ 224,681
Short-term investments	500	5,993	-	-	15,437	-	21,930
Patient accounts receivable, net of allowance for doubtful accounts	92,579	57,781	87,319	62,703	-	-	300,382
Inventories of supplies	11,266	5,747	10,336	8,376	191	-	35,916
Other current assets	8,363	4,702	16,574	5,154	42,838	(4,918)	72,713
Total current assets	153,885	94,083	155,350	87,081	170,141	(4,918)	655,622
Investments and assets limited as to use	2,515	8,679	8,711	2,028	1,003,042	-	1,024,975
Property, plant, and equipment, net	330,554	208,905	470,030	194,311	67,272	-	1,271,072
Investments in unconsolidated affiliates	3,642	17,499	2,202	578	13,021	-	36,942
Intangible assets, net of accumulated amortization	11,152	32,576	15,097	-	538	-	59,363
Other assets	6,274	3,011	281	(129)	62,789	(10,435)	61,791
Total assets	\$ 508,022	\$ 364,753	\$ 651,671	\$ 283,869	\$ 1,316,803	\$ (15,353)	\$ 3,109,765

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Supplemental Schedule - Consolidating Balance Sheet**  
**December 31, 2008**  
(In thousands)

	Central Indiana Region	Western Indiana Region	Northern Indiana Region	South Suburban Chicago Region	Corporate & Other	Eliminations	Total
<b>Liabilities and Net Assets</b>							
Current liabilities							
Current portion of long-term debt	\$ 3,161	\$ 9	\$ 389	\$ -	\$ 11,620	\$ -	\$ 15,179
Accounts payable and accrued expenses	30,541	18,476	45,838	20,407	71,095	(4,676)	181,681
Accrued payroll and related expenses	16,389	13,963	24,442	18,295	9,937	-	83,026
Estimated third-party payor settlements	7,946	1,763	5,059	4,763	-	-	19,531
Total current liabilities	58,037	34,211	75,728	43,465	92,652	(4,676)	299,417
Long-term debt, net of current portion	5,295	9,007	8,702	4,555	927,292	(4,555)	950,296
Fair value of interest rate swap contracts	-	-	-	-	102,173	-	102,173
Accrued pension liability	4,920	924	27,191	5,396	142,576	-	181,007
Estimated insurance liabilities	479	252	392	-	88,314	-	89,437
Other liabilities	7,909	1,857	4,269	1,049	15,870	(6,122)	24,832
Total liabilities	76,640	46,251	116,282	54,465	1,368,877	(15,353)	1,647,162
Minority interest in consolidated affiliates	17,813	14,247	6,102	-	-	-	38,162
Net assets							
Unrestricted	406,250	295,575	520,576	227,376	(60,719)	-	1,389,058
Temporarily restricted	6,371	3,093	6,608	2,011	440	-	18,523
Permanently restricted	948	5,587	2,103	17	8,205	-	16,860
Total net assets	413,569	304,255	529,287	229,404	(52,074)	-	1,424,441
Total liabilities and net assets	\$ 508,022	\$ 364,753	\$ 651,671	\$ 283,869	\$ 1,316,803	\$ (15,353)	\$ 3,109,765

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Supplemental Schedule - Consolidating Balance Sheet – Central Indiana Region**  
**December 31, 2008**  
(In thousands)

	St. Francis Hospital and Health Centers Beech Grove/ Indianapolis/ Mooresville	St. Francis Healthcare Foundation, Inc.	St. Francis Health Network, Inc.	Eliminations	Central Indiana Region
<b>Assets</b>					
Current assets					
Cash and cash equivalents	\$ 33,207	\$ 3,938	\$ 4,032	\$ -	\$ 41,177
Short-term investments	500	-	-	-	500
Patient accounts receivable, net of allowance for doubtful accounts	92,579	-	-	-	92,579
Inventory of supplies	11,215	51	-	-	11,266
Other current assets	11,818	1,554	84	(5,093)	8,363
Total current assets	149,319	5,543	4,116	(5,093)	153,885
Investments and assets limited as to use	-	2,515	-	-	2,515
Property, plant, and equipment, net	330,473	76	5	-	330,554
Investments in unconsolidated affiliates	3,642	-	-	-	3,642
Intangible assets, net of accumulated amortization	11,152	-	-	-	11,152
Other assets	5,716	558	-	-	6,274
Total assets	<u>\$ 500,302</u>	<u>\$ 8,692</u>	<u>\$ 4,121</u>	<u>\$ (5,093)</u>	<u>\$ 508,022</u>

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Supplemental Schedule - Consolidating Balance Sheet – Central Indiana Region**  
**December 31, 2008**  
(In thousands)

	<b>St. Francis Hospital and Health Centers Beech Grove/ Indianapolis/  Mooresville</b>	<b>St. Francis Healthcare Foundation, Inc.</b>	<b>St. Francis Health Network, Inc.</b>	<b>Eliminations</b>	<b>Central Indiana Region</b>
<b>Liabilities and Net Assets</b>					
Current liabilities					
Current portion of long-term debt	\$ 3,161	\$ -	\$ -	\$ -	\$ 3,161
Accounts payable and accrued expenses	28,696	2,144	4,794	(5,093)	30,541
Accrued payroll and related expenses	16,389	-	-	-	16,389
Estimated third-party payor settlements	7,946	-	-	-	7,946
Total current liabilities	56,192	2,144	4,794	(5,093)	58,037
Long-term debt, net of current portion	5,295	-	-	-	5,295
Accrued pension liability	4,920	-	-	-	4,920
Estimated insurance liabilities	479	-	-	-	479
Other liabilities	7,832	77	-	-	7,909
Total liabilities	74,718	2,221	4,794	(5,093)	76,640
Minority interest in consolidated affiliates	17,813	-	-	-	17,813
Net assets					
Unrestricted	406,677	246	(673)	-	406,250
Temporarily restricted	1,094	5,277	-	-	6,371
Permanently restricted	-	948	-	-	948
Total net assets	407,771	6,471	(673)	-	413,569
Total liabilities and net assets	\$ 500,302	\$ 8,692	\$ 4,121	\$ (5,093)	\$ 508,022

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Supplemental Schedule - Consolidating Balance Sheet – Western Indiana Region**  
**December 31, 2008**  
(In thousands)

	<b>St. Elizabeth Regional Health Lafayette</b>	<b>St. Clare Medical Center Crawfordsville</b>	<b>Eliminations</b>	<b>Western Indiana Region</b>
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 19,097	\$ 763	\$ -	\$ 19,860
Short-term investments	5,993	-	-	5,993
Patient accounts receivable, net of allowance for doubtful accounts	49,631	8,150	-	57,781
Inventory of supplies	4,623	1,124	-	5,747
Other current assets	4,596	836	(730)	4,702
Total current assets	83,940	10,873	(730)	94,083
Investments and assets limited as to use	4,431	4,248	-	8,679
Property, plant, and equipment, net	180,843	28,062	-	208,905
Investments in unconsolidated affiliates	17,499	-	-	17,499
Intangible assets, net of accumulated amortization	211	32,365	-	32,576
Other assets	3,011	-	-	3,011
Total assets	<u>\$ 289,935</u>	<u>\$ 75,548</u>	<u>\$ (730)</u>	<u>\$ 364,753</u>

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Supplemental Schedule - Consolidating Balance Sheet – Western Indiana Region**  
**December 31, 2008**  
(In thousands)

	<b>St. Elizabeth Regional Health Lafayette</b>	<b>St. Clare Medical Center Crawfordsville</b>	<b>Eliminations</b>	<b>Western Indiana Region</b>
<b>Liabilities and Net Assets</b>				
Current liabilities				
Current portion of long-term debt	\$ -	\$ 9	\$ -	\$ 9
Accounts payable and accrued expenses	17,457	1,749	(730)	18,476
Accrued payroll and related expenses	13,173	790	-	13,963
Estimated third-party payor settlements	1,735	28	-	1,763
Total current liabilities	32,365	2,576	(730)	34,211
Long-term debt, net of current portion	9,000	7	-	9,007
Accrued pension liability	1,066	(142)	-	924
Estimated insurance liabilities	237	15	-	252
Other liabilities	1,857	-	-	1,857
Total liabilities	44,525	2,456	(730)	46,251
Minority interest in consolidated affiliates	14,247	-	-	14,247
Net assets				
Unrestricted	226,731	68,844	-	295,575
Temporarily restricted	2,653	440	-	3,093
Permanently restricted	1,779	3,808	-	5,587
Total net assets	231,163	73,092	-	304,255
Total liabilities and net assets	\$ 289,935	\$ 75,548	\$ (730)	\$ 364,753

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Supplemental Schedule - Consolidating Balance Sheet – Northern Indiana Region**  
**December 31, 2008**  
(In thousands)

	St. Margaret Mercy Healthcare Centers Hammond/Dyer	St. Anthony Memorial Health Centers Michigan City	St. Anthony Medical Center Crown Point	Franciscan Physicians Hospital, LLC Munster	Franciscan Equipment Holdings	Franciscan Physicians Real Property, LLC	Eliminations	Northern Indiana Region
<b>Assets</b>								
Current assets								
Cash and cash equivalents	\$ 17,566	\$ 15,071	\$ 7,776	\$ 49	\$ 51	\$ 608	\$ -	\$ 41,121
Patient accounts receivable, net of allowance for doubtful accounts	42,176	18,356	25,372	1,415	-	-	-	87,319
Inventories of supplies	4,997	3,435	1,133	771	-	-	-	10,336
Other current assets	7,383	3,151	2,513	1,175	5,437	3,796	(6,881)	16,574
Total current assets	72,122	40,013	36,794	3,410	5,488	4,404	(6,881)	155,350
Investments and assets limited as to use	2,704	1,689	4,318	-	-	-	-	8,711
Property, plant, and equipment, net	164,975	90,895	175,108	33,095	5,957	-	-	470,030
Investments in unconsolidated affiliates	9,219	371	810	-	28,683	-	(36,881)	2,202
Intangible assets, net of accumulated amortization	6,126	4,645	3,144	1,082	100	-	-	15,097
Other assets	2,024	-	198	-	-	32,162	(34,103)	281
Total assets	\$ 257,170	\$ 137,613	\$ 220,372	\$ 37,587	\$ 40,228	\$ 36,566	\$ (77,865)	\$ 651,671

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Supplemental Schedule - Consolidating Balance Sheet – Northern Indiana Region**  
**December 31, 2008**  
**(In thousands)**

	St. Margaret Mercy Healthcare Centers Hammond/Dyer	St. Anthony Memorial Health Centers Michigan City	St. Anthony Medical Center Crown Point	Franciscan Physicians Hospital, LLC Munster	Franciscan Equipment Holdings	Franciscan Physicians Real Property, LLC	Eliminations	Northern Indiana Region
<b>Liabilities and Net Assets</b>								
Current liabilities								
Current portion of long-term debt	\$ 48	\$ 246	\$ -	\$ 769	\$ -	\$ -	\$ (674)	\$ 389
Accounts payable and accrued expenses	24,939	8,760	8,296	9,781	360	521	(6,819)	45,838
Accrued payroll and related expenses	11,281	5,007	7,719	435	-	-	-	24,442
Estimated third-party payor settlements	3,264	1,656	70	69	-	-	-	5,059
Total current liabilities	39,532	15,669	16,085	11,054	360	521	(7,493)	75,728
Long-term debt, net of current portion	-	8,569	-	33,563	-	-	(33,430)	8,702
Accrued pension liability	22,292	5,251	(352)	-	-	-	-	27,191
Estimated insurance liabilities	59	221	112	-	-	-	-	392
Other liabilities	2,794	1,363	112	-	-	-	-	4,269
Total liabilities	64,677	31,073	15,957	44,617	360	521	(40,923)	116,282
Minority interest in consolidated affiliates	-	4,123	-	-	-	-	1,979	6,102
Net assets								
Unrestricted	189,789	100,728	200,097	(7,030)	39,868	36,045	(38,921)	520,576
Temporarily restricted	2,704	1,574	2,330	-	-	-	-	6,608
Permanently restricted	-	115	1,988	-	-	-	-	2,103
Total net assets	192,493	102,417	204,415	(7,030)	39,868	36,045	(38,921)	529,287
Total liabilities and net assets	\$ 257,170	\$ 137,613	\$ 220,372	\$ 37,587	\$ 40,228	\$ 36,566	\$ (77,865)	\$ 651,671

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Supplemental Schedule - Consolidating Balance Sheet – Corporate and Other**  
**December 31, 2008**  
(In thousands)

	Corporate	Alverno Information Services	Alverno Clinical Laboratories, Inc.	Franciscan Holding Corporation	Alverno Construction Company, LLC	The Hills Insurance Company, LTD	Hills Insurance Company, Inc.	Eliminations	Corporate & Other
<b>Assets</b>									
Current assets									
Cash and cash equivalents	\$ 70,253	\$ 6,419	\$ 6	\$ 4	\$ 34,552	\$ 152	\$ 289	\$ -	\$ 111,675
Short-term investments	4,916	-	-	111	10,410	-	-	-	15,437
Inventories of supplies	-	-	-	-	191	-	-	-	191
Other current assets	7,462	4,284	11	368	31,634	25	720	(1,666)	42,838
Total current assets	82,631	10,703	17	483	76,787	177	1,009	(1,666)	170,141
Investments and assets limited as to use	920,352	-	-	-	2,450	-	80,240	-	1,003,042
Property, plant, and equipment, net	8,193	55,308	-	-	3,771	-	-	-	67,272
Investments in unconsolidated affiliates	63,130	-	-	34,553	703	-	-	(85,365)	13,021
Intangible assets, net of accumulated amortization	-	-	-	-	538	-	-	-	538
Other assets	39,372	-	-	11,522	557	-	11,338	-	62,789
Total assets	<u>\$ 1,113,678</u>	<u>\$ 66,011</u>	<u>\$ 17</u>	<u>\$ 46,558</u>	<u>\$ 84,806</u>	<u>\$ 177</u>	<u>\$ 92,587</u>	<u>\$ (87,031)</u>	<u>\$ 1,316,803</u>

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Supplemental Schedule - Consolidating Balance Sheet – Corporate and Other**  
**December 31, 2008**  
(In thousands)

	Corporate	Alverno Information Services	Alverno Clinical Laboratories, Inc.	Franciscan Holding Corporation	Alverno Construction Company, LLC	The Hills Insurance Company, LTD	Hills Insurance Company, Inc.	Eliminations	Corporate & Other
<b>Liabilities and Net Assets</b>									
Current liabilities									
Current portion of long-term debt	\$ 10,995	\$ 625	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,620
Accounts payable and accrued expenses	21,075	2,361	7	1,719	47,299	5	295	(1,666)	71,095
Accrued payroll and related expenses	4,142	4,090	-	-	1,705	-	-	-	9,937
Total current liabilities	36,212	7,076	7	1,719	49,004	5	295	(1,666)	92,652
Long-term debt, net of current portion	925,397	1,895	-	-	-	-	-	-	927,292
Fair value of interest rate swap contracts	102,173	-	-	-	-	-	-	-	102,173
Accrued pension liability	141,260	68	-	-	1,248	-	-	-	142,576
Estimated insurance liabilities	7,765	56	123	-	-	-	80,370	-	88,314
Other liabilities	9,749	-	-	6,121	-	-	-	-	15,870
Total liabilities	1,222,556	9,095	130	7,840	50,252	5	80,665	(1,666)	1,368,877
Net assets									
Unrestricted	(117,523)	56,916	(113)	38,718	34,554	172	11,922	(85,365)	(60,719)
Temporarily restricted	440	-	-	-	-	-	-	-	440
Permanently restricted	8,205	-	-	-	-	-	-	-	8,205
Total net assets	(108,878)	56,916	(113)	38,718	34,554	172	11,922	(85,365)	(52,074)
Total liabilities and net assets	\$ 1,113,678	\$ 66,011	\$ 17	\$ 46,558	\$ 84,806	\$ 177	\$ 92,587	\$ (87,031)	\$ 1,316,803

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Supplemental Schedule - Consolidating Statement of Operations**  
**Year Ended December 31, 2008**  
(In thousands)

	Central Indiana Region	Western Indiana Region	Northern Indiana Region	South Suburban Chicago Region	Corporate & Other	Eliminations	Total
<b>Unrestricted revenues, gains, and other support</b>							
Net patient service revenue	\$ 573,498	\$ 369,592	\$ 657,546	\$ 351,424	\$ -	\$ -	\$ 1,952,060
Premium revenue	60,030	238	23,777	24,683	-	-	108,728
Other operating revenue	20,183	10,590	25,303	15,298	383,271	(308,498)	146,147
Equity in earnings of investments in unconsolidated affiliates	4,053	8,306	752	144	478	-	13,733
Unrealized loss on investments	-	-	-	-	(14,374)	-	(14,374)
Net assets released from restrictions used for operations	-	434	463	797	180	-	1,874
Total unrestricted revenues, gains, and other support	<u>657,764</u>	<u>389,160</u>	<u>707,841</u>	<u>392,346</u>	<u>369,555</u>	<u>(308,498)</u>	<u>2,208,168</u>
<b>Operating expenses</b>							
Salaries	197,262	130,336	253,333	142,065	64,030	100	787,126
Employee benefits	48,427	34,611	65,239	32,254	21,443	(138)	201,836
Physicians' fees	7,816	6,574	5,503	20,407	-	-	40,300
Utilities	9,504	6,469	14,981	6,750	3,541	-	41,245
Repairs and maintenance	8,657	6,405	13,697	6,708	707	-	36,174
Drugs and pharmaceuticals	35,330	13,475	23,230	18,327	-	-	90,362
Medical supplies	63,384	45,847	55,875	32,158	-	-	197,264
Insurance	3,765	3,345	7,552	18,087	22,255	(14,481)	40,523
Purchased services	56,197	30,860	50,933	30,173	19,268	(298)	187,133
Other supplies and expenses	111,340	42,665	106,369	64,893	193,921	(257,354)	261,834
Provision for doubtful accounts	16,127	7,827	15,722	19,949	-	-	59,625
Interest	9,554	4,484	12,644	7,121	41,160	(37,487)	37,476
Depreciation and amortization	25,399	28,720	36,660	17,253	18,456	-	126,488
Total operating expenses	<u>592,762</u>	<u>361,618</u>	<u>661,738</u>	<u>416,145</u>	<u>384,781</u>	<u>(309,658)</u>	<u>2,107,386</u>
Operating income (loss)	<u>65,002</u>	<u>27,542</u>	<u>46,103</u>	<u>(23,799)</u>	<u>(15,226)</u>	<u>1,160</u>	<u>100,782</u>
<b>Other income (expense)</b>							
Investment income (loss)	106	(759)	155	315	(88,737)	(1,160)	(90,080)
Net unrealized investment losses on trading securities	(2,079)	-	(1,714)	(469)	(219,102)	-	(223,364)
Net unrealized loss and periodic settlements on interest rate swap contracts	-	-	-	-	(108,727)	-	(108,727)
Gain on sale of investments in unconsolidated affiliates	-	-	-	-	1,017	-	1,017
(Loss) gain on sale/disposal of assets	(2)	(405)	6,491	(190)	(17)	-	5,877
Loss on refunding and conversion of long-term debt	-	-	-	-	(15,906)	-	(15,906)
Net assets released from restrictions	2,025	-	-	-	-	-	2,025
Contributions	233	70	25	31	190	-	549
Other, net	(2,800)	-	351	(484)	(8,049)	-	(10,982)
Total other income (expense), net	<u>(2,517)</u>	<u>(1,094)</u>	<u>5,308</u>	<u>(797)</u>	<u>(439,331)</u>	<u>(1,160)</u>	<u>(439,591)</u>
Minority interest in consolidated affiliates	(21,931)	1,688	(1,276)	-	-	-	(21,519)
Excess (deficiency) of revenues over expenses	40,554	28,136	50,135	(24,596)	(454,557)	-	(360,328)
Equity transfers from (to) affiliates, net	28,520	19,592	(10,445)	25,743	(63,410)	-	-
Net unrealized investment losses on other than trading securities	-	-	-	-	(680)	-	(680)
Unrealized losses transferred to other income (expense)	-	-	-	-	19,686	-	19,686
Change in pension and postretirement benefits other than net periodic pension costs included in accrued pension liability	-	(4,657)	-	-	(73,473)	-	(78,130)
Other	200	-	(92)	-	-	-	108
Net assets released from restrictions used for purchase of property, plant, and equipment	-	5,738	-	571	-	-	6,309
Increase (decrease) in unrestricted net assets	<u>\$ 69,274</u>	<u>\$ 48,809</u>	<u>\$ 39,598</u>	<u>\$ 1,718</u>	<u>\$ (572,434)</u>	<u>\$ -</u>	<u>\$ (413,035)</u>

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Supplemental Schedule - Consolidating Statement of Operations - Central Indiana Region**  
**Year Ended December 31, 2008**  
(In thousands)

	St. Francis Hospital and Health Centers Beech Grove/ Indianapolis/ Mooresville	St. Francis Healthcare Foundation, Inc.	St. Francis Health Network, Inc.	Eliminations	Central Indiana Region
<b>Unrestricted revenues, gains, and other support</b>					
Net patient service revenue	\$ 573,498	\$ -	\$ -	\$ -	\$ 573,498
Premium revenue	29,955	-	60,030	(29,955)	60,030
Other operating revenue	17,747	-	3,453	(1,017)	20,183
Equity in earnings of investments in unconsolidated affiliates	4,053	-	-	-	4,053
Total unrestricted revenues, gains, and other support	<u>625,253</u>	<u>-</u>	<u>63,483</u>	<u>(30,972)</u>	<u>657,764</u>
<b>Operating expenses</b>					
Salaries	196,337	-	925	-	197,262
Employee benefits	48,138	-	289	-	48,427
Physicians' fees	7,816	-	-	-	7,816
Utilities	9,502	-	2	-	9,504
Repairs and maintenance	8,651	-	6	-	8,657
Drugs and pharmaceuticals	30,999	-	4,331	-	35,330
Medical supplies	63,384	-	-	-	63,384
Insurance	3,731	-	34	-	3,765
Purchased services	54,239	-	1,958	-	56,197
Other supplies and expenses	86,282	-	56,030	(30,972)	111,340
Provision for doubtful accounts	16,127	-	-	-	16,127
Interest	9,554	-	-	-	9,554
Depreciation and amortization	25,399	-	-	-	25,399
Total operating expenses	<u>560,159</u>	<u>-</u>	<u>63,575</u>	<u>(30,972)</u>	<u>592,762</u>
Operating income (loss)	<u>65,094</u>	<u>-</u>	<u>(92)</u>	<u>-</u>	<u>65,002</u>
<b>Other income (expense)</b>					
Investment (loss) income	(189)	260	35	-	106
Net unrealized investment losses on trading securities	(1)	(1,414)	(664)	-	(2,079)
Loss on sale/disposal of assets	(2)	-	-	-	(2)
Net assets released from restrictions	-	2,025	-	-	2,025
Contributions	-	233	-	-	233
Other, net	2	(2,802)	-	-	(2,800)
Total other income (expense), net	<u>(190)</u>	<u>(1,698)</u>	<u>(629)</u>	<u>-</u>	<u>(2,517)</u>
Minority interest in consolidated affiliates	<u>(21,931)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(21,931)</u>
Excess (deficiency) of revenues over expenses	42,973	(1,698)	(721)	-	40,554
Equity transfers from affiliates, net	28,520	-	-	-	28,520
Other	200	-	-	-	200
Increase (decrease) in unrestricted net assets	<u>\$ 71,693</u>	<u>\$ (1,698)</u>	<u>\$ (721)</u>	<u>\$ -</u>	<u>\$ 69,274</u>

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Supplemental Schedule - Consolidating Statement of Operations - Western Indiana Region**  
**Year Ended December 31, 2008**  
(In thousands)

	St. Elizabeth Regional Health Lafayette	St. Clare Medical Center Crawfordsville	Eliminations	Western Indiana Region
<b>Unrestricted revenues, gains, and other support</b>				
Net patient service revenue	\$ 322,311	\$ 47,281	\$ -	\$ 369,592
Premium revenue	87	151		238
Other operating revenue	10,454	653	(517)	10,590
Equity in earnings (losses) of investments in unconsolidated affiliates	8,362	(56)	-	8,306
Net assets released from restrictions used for operations	299	135	-	434
Total unrestricted revenues, gains, and other support	<u>341,513</u>	<u>48,164</u>	<u>(517)</u>	<u>389,160</u>
<b>Operating expenses</b>				
Salaries	116,254	14,082	-	130,336
Employee benefits	30,784	3,827	-	34,611
Physicians' fees	5,448	1,126	-	6,574
Utilities	5,623	846	-	6,469
Repairs and maintenance	4,785	1,620	-	6,405
Drugs and pharmaceuticals	11,843	1,632	-	13,475
Medical supplies	42,609	3,238	-	45,847
Insurance	2,980	365	-	3,345
Purchased services	26,823	4,554	(517)	30,860
Other supplies and expenses	33,503	9,162	-	42,665
Provision for doubtful accounts	6,367	1,460	-	7,827
Interest	3,258	1,226	-	4,484
Depreciation and amortization	24,089	4,631	-	28,720
Total operating expenses	<u>314,366</u>	<u>47,769</u>	<u>(517)</u>	<u>361,618</u>
Operating income	<u>27,147</u>	<u>395</u>	<u>-</u>	<u>27,542</u>
<b>Other income (expense)</b>				
Investment loss	(735)	(24)	-	(759)
Loss on sale/disposal of assets	(405)	-	-	(405)
Contributions	70	-	-	70
Total other income (expense), net	<u>(1,070)</u>	<u>(24)</u>	<u>-</u>	<u>(1,094)</u>
Minority interest in consolidated affiliates	1,688	-	-	1,688
Excess of revenues over expenses	27,765	371	-	28,136
Equity transfers from affiliates, net	19,140	452	-	19,592
Change in pension and postretirement benefits other than net periodic pension costs included in accrued pension liability	(4,657)	-	-	(4,657)
Net assets released from restrictions used for property, plant and equipment	5,738	-	-	5,738
Increase in unrestricted net assets	<u>\$ 47,986</u>	<u>\$ 823</u>	<u>\$ -</u>	<u>\$ 48,809</u>

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Supplemental Schedule - Consolidating Statement of Operations - Northern Indiana Region**  
**Year Ended December 31, 2008**  
(In thousands)

	St. Margaret Mercy Healthcare Centers Hammond/Dyer	St. Anthony Memorial Health Centers Michigan City	St. Anthony Medical Center Crown Point	Franciscan Physicians Hospital, LLC Munster	Franciscan Equipment Holdings	Franciscan Physicians Real Property, LLC	Eliminations	Northern Indiana Region
<b>Unrestricted revenues, gains, and other support</b>								
Net patient service revenue	\$ 310,292	\$ 144,178	\$ 185,664	\$ 17,412	\$ -	\$ -	\$ -	\$ 657,546
Premium revenue	12,197	11,580	-	-	-	-	-	23,777
Other operating revenue	16,511	3,921	4,304	760	2,551	4,092	(6,836)	25,303
Equity in earnings of investments in unconsolidated affiliates	438	129	185	-	-	-	-	752
Net assets released from restrictions used for operations	417	31	15	-	-	-	-	463
Total unrestricted revenues, gains, and other support	<u>339,855</u>	<u>159,839</u>	<u>190,168</u>	<u>18,172</u>	<u>2,551</u>	<u>4,092</u>	<u>(6,836)</u>	<u>707,841</u>
<b>Operating expenses</b>								
Salaries	125,317	53,374	66,993	7,649	-	-	-	253,333
Employee benefits	31,984	13,214	18,714	1,403	-	-	(76)	65,239
Physicians' fees	1,537	2,033	1,177	756	-	-	-	5,503
Utilities	7,435	2,645	4,332	569	-	-	-	14,981
Repairs and maintenance	5,832	3,002	4,361	502	-	-	-	13,697
Drugs and pharmaceuticals	11,263	3,943	7,467	557	-	-	-	23,230
Medical supplies	25,928	11,476	15,309	3,162	-	-	-	55,875
Insurance	3,654	1,651	1,956	291	-	-	-	7,552
Purchased services	22,566	12,549	14,250	1,568	-	-	-	50,933
Other supplies and expenses	48,839	32,243	21,919	5,999	-	40	(2,671)	106,369
Provision for doubtful accounts	6,814	4,316	3,907	685	-	-	-	15,722
Interest	5,711	3,839	2,747	4,436	-	-	(4,089)	12,644
Depreciation and amortization	14,833	7,196	11,602	1,005	2,024	-	-	36,660
Total operating expenses	<u>311,713</u>	<u>151,481</u>	<u>174,734</u>	<u>28,582</u>	<u>2,024</u>	<u>40</u>	<u>(6,836)</u>	<u>661,738</u>
Operating income (loss)	<u>28,142</u>	<u>8,358</u>	<u>15,434</u>	<u>(10,410)</u>	<u>527</u>	<u>4,052</u>	<u>-</u>	<u>46,103</u>
<b>Other income (expense)</b>								
Investment income (loss)	406	287	(538)	-	-	-	-	155
Net unrealized investment losses on trading securities	(1,193)	(451)	(70)	-	-	-	-	(1,714)
Gain (loss) on sale/disposal of assets	6,809	(349)	23	-	8	-	-	6,491
Contributions	13	4	8	-	-	-	-	25
Other, net	358	36	(43)	-	-	-	-	351
Total other income (expense), net	<u>6,393</u>	<u>(473)</u>	<u>(620)</u>	<u>-</u>	<u>8</u>	<u>-</u>	<u>-</u>	<u>5,308</u>
Minority interest in consolidated affiliates	-	(1,868)	-	-	-	-	592	(1,276)
Excess (deficiency) of revenues over expenses	34,535	6,017	14,814	(10,410)	535	4,052	592	50,135
Equity transfers (to) from affiliates, net	(18,658)	595	8,979	-	(600)	(761)	-	(10,445)
Other	-	-	-	-	-	(92)	-	(92)
Increase (decrease) in unrestricted net assets	<u>\$ 15,877</u>	<u>\$ 6,612</u>	<u>\$ 23,793</u>	<u>\$ (10,410)</u>	<u>\$ (65)</u>	<u>\$ 3,199</u>	<u>\$ 592</u>	<u>\$ 39,598</u>

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Supplemental Schedule - Consolidating Statement of Operations - Corporate and Other**  
**Year Ended December 31, 2008**  
**(In thousands)**

	Corporate	Alverno Information Services	Alverno Clinical Laboratories, Inc.	Franciscan Holding Corporation	Alverno Construction Company, LLC	The Hills Insurance Company, LTD	Hills Insurance Company, Inc.	Eliminations	Corporate & Other
<b>Unrestricted revenues, gains, and other support</b>									
Other operating revenue	\$ 93,555	\$ 66,277	\$ 26	\$ -	\$ 224,627	\$ 3	\$ 107	\$ (1,324)	\$ 383,271
Equity in earnings of investments in unconsolidated affiliates	12,129	-	-	11,923	318	-	-	(23,892)	478
Unrealized losses on investments	(14,374)	-	-	-	-	-	-	-	(14,374)
Net assets released from restrictions used for operations	180	-	-	-	-	-	-	-	180
Total unrestricted revenues, gains, and other support	<u>91,490</u>	<u>66,277</u>	<u>26</u>	<u>11,923</u>	<u>224,945</u>	<u>3</u>	<u>107</u>	<u>(25,216)</u>	<u>369,555</u>
<b>Operating expenses</b>									
Salaries	21,296	21,754	-	-	20,980	-	-	-	64,030
Employee benefits	7,573	5,251	156	-	8,463	-	-	-	21,443
Utilities	439	2,990	-	-	112	-	-	-	3,541
Repairs and maintenance	224	282	-	-	201	-	-	-	707
Insurance	(219)	56	5	-	694	-	21,719	-	22,255
Purchased services	4,041	15,201	26	-	-	-	-	-	19,268
Other supplies and expenses	9,686	3,200	20	84	182,876	3	-	(1,948)	193,921
Interest	52,828	1,221	-	862	-	-	-	(13,751)	41,160
Depreciation and amortization	1,662	16,322	-	-	472	-	-	-	18,456
Total operating expenses	<u>97,530</u>	<u>66,277</u>	<u>207</u>	<u>946</u>	<u>213,798</u>	<u>3</u>	<u>21,719</u>	<u>(15,699)</u>	<u>384,781</u>
Operating (loss) income	<u>(6,040)</u>	<u>-</u>	<u>(181)</u>	<u>10,977</u>	<u>11,147</u>	<u>-</u>	<u>(21,612)</u>	<u>(9,517)</u>	<u>(15,226)</u>
<b>Other income (expense)</b>									
Investment (loss) income	(90,765)	157	-	863	1,008	-	-	-	(88,737)
Net unrealized investment losses on trading securities	(218,832)	(269)	(1)	-	-	-	-	-	(219,102)
Net unrealized loss and periodic settlements on interest rate swap contracts	(108,727)	-	-	-	-	-	-	-	(108,727)
Gain on sale of investments in unconsolidated affiliates	1,017	-	-	-	-	-	-	-	1,017
(Loss) on sale/disposal of assets	-	(13)	-	-	(4)	-	-	-	(17)
Loss on refunding and conversion of long-term debt	(15,906)	-	-	-	-	-	-	-	(15,906)
Contributions	190	-	-	-	-	-	-	-	190
Other, net	282	-	3	(8,334)	-	-	-	-	(8,049)
Total other income (expense), net	<u>(432,741)</u>	<u>(125)</u>	<u>2</u>	<u>(7,471)</u>	<u>1,004</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(439,331)</u>
(Deficiency) excess of revenues over expenses	(438,781)	(125)	(179)	3,506	12,151	-	(21,612)	(9,517)	(454,557)
Equity transfers (to) from affiliates, net	(83,861)	1,388	3,362	1,085	(4,530)	-	15,700	3,446	(63,410)
Net unrealized investment losses on other than trading securities	(680)	-	-	-	-	-	-	-	(680)
Unrealized losses transferred to other income (expense)	19,686	-	-	-	-	-	-	-	19,686
Change in pension and postretirement benefits other than net periodic pension costs included in accrued pension liability	(73,461)	-	-	-	(12)	-	-	-	(73,473)
(Decrease) increase in unrestricted net assets	<u>\$ (577,097)</u>	<u>\$ 1,263</u>	<u>\$ 3,183</u>	<u>\$ 4,591</u>	<u>\$ 7,609</u>	<u>\$ -</u>	<u>\$ (5,912)</u>	<u>\$ (6,071)</u>	<u>\$ (572,434)</u>

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Supplemental Schedule - Patient Accounts Receivable and Related Data**  
**December 31, 2008 and 2007**  
(In thousands, except percentages and average days)

	Patient Accounts Receivable, Net		Increase		Average Day's Charges in Patient Accounts Receivable, Net (Unaudited)	
	2008	2007	Amount	Percentage	2008	2007
St. Francis Hospital and Health Centers, Beech Grove/Indianapolis/Mooresville	\$ 92,579	\$ 96,047	\$ (3,468)	(3.6) %	59.1	70.1
St. Elizabeth Regional Health, Lafayette	49,631	60,750	(11,119)	(18.3)	56.4	73.0
St. Clare Medical Center, Crawfordsville	8,150	9,493	(1,343)	(14.1)	63.1	72.7
St. Margaret Mercy Healthcare Centers, Hammond/Dyer	42,176	31,281	10,895	34.8	49.7	42.0
St. Anthony Memorial Health Centers, Michigan City	18,356	16,280	2,076	12.8	46.6	44.3
St. Anthony Medical Center, Crown Point	25,372	23,493	1,879	8.0	50.0	50.4
Franciscan Physicians Hospital, LLC, Munster	1,415	3,194	(1,779)	(55.7)	29.7	96.1
South Suburban Chicago Region, Chicago Heights/ Olympia Fields	62,703	67,963	(5,260)	(7.7)	65.3	70.2
Total	<u>\$ 300,382</u>	<u>\$ 308,501</u>	<u>\$ (8,119)</u>	<u>(2.6) %</u>	<u>56.3</u>	<u>62.9</u>

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Supplemental Schedule - Service Statistics**  
**Year Ended December 31, 2008**  
**(Unaudited)**

	Central Indiana Region	Western Indiana Region			Northern Indiana Region				South Suburban Chicago Region	Consolidated	
	St. Francis Hospital and Health Centers Beech Grove/ Indianapolis/ Mooresville	St. Elizabeth Regional Health Lafayette	St. Clare Medical Center Crawfordsville	Total	St. Margaret Mercy Healthcare Centers Hammond/Dyer	St. Anthony Memorial Health Centers Michigan City	St. Anthony Medical Center Crown Point	Franciscan Physicians Hospital, LLC Munster	Total		
Patient Days											
Medical and Surgical	77,838	45,198	4,591	49,789	67,458	19,908	35,307	2,057	124,730	82,603	334,960
Intensive Care and Coronary Care	10,531	9,865	477	10,342	7,594	2,679	3,586	1,324	15,183	11,082	47,138
Obstetrical	9,923	5,851	909	6,760	2,908	1,777	3,482	-	8,167	3,768	28,618
Pediatrics	1,195	815	-	815	4,851	975	4,011	-	9,837	2,213	14,060
Psychiatric/Rehabilitation	4,419	5,999	2,331	8,330	12,465	5,619	2,653	-	20,737	6,747	40,233
Skilled Nursing Facility Unit	-	-	4,136	4,136	-	-	-	-	-	-	4,136
Other	4,554	3,911	-	3,911	16,292	-	-	-	16,292	4,724	29,481
<b>Total Patient Days</b>	<b>108,460</b>	<b>71,639</b>	<b>12,444</b>	<b>84,083</b>	<b>111,568</b>	<b>30,958</b>	<b>49,039</b>	<b>3,381</b>	<b>194,946</b>	<b>111,137</b>	<b>498,626</b>
Acute Patient Days	99,487	65,640	5,977	71,617	86,322	25,339	46,386	3,381	161,428	99,666	432,198
Adjusted Patient Days	241,519	133,392	34,511	167,903	184,211	69,315	102,153	6,779	362,458	168,614	940,494
Admissions	24,048	17,185	2,409	19,594	18,326	6,828	10,888	892	36,934	24,916	105,492
Discharges	24,113	17,239	2,411	19,650	18,329	6,829	10,881	881	36,920	24,916	105,599
Medicare Discharges	10,759	8,042	1,498	9,540	8,677	3,198	5,290	458	17,623	11,367	49,289
Acute Discharges	23,400	16,827	1,931	18,758	16,045	6,242	10,643	881	33,811	23,434	99,403
Adjusted Discharges	53,695	32,379	6,690	39,069	30,263	15,290	22,666	1,767	69,986	37,715	200,465
Average Daily Census	296.3	195.7	34.0	229.7	304.8	84.6	134.0	9.2	532.6	303.7	1,362.3
Total Licensed Beds	600	740	120	860	782	310	411	63	1,566	562	3,588
Total Operated Beds	535	401	86	487	507	168	254	32	961	404	2,387
Total Adjusted Occupied Beds	660	368	94	462	503	189	279	19	990	462	2,574
Percentage of Occupancy- Licensed Beds	49.4%	26.5%	28.3%	26.7%	39.0%	27.3%	32.6%	14.7%	34.0%	54.0%	38.0%
Percentage of Occupancy- Operated Beds	55.4%	48.8%	39.5%	47.2%	60.1%	50.3%	52.8%	28.9%	55.4%	75.2%	57.1%
Average Length of Stay (Days)	4.5	4.2	4.6	4.4	6.1	4.5	4.5	3.8	5.3	4.5	4.7
Average Length of Stay (Days) - Acute	4.3	4.0	3.1	3.8	5.4	4.1	4.4	3.8	4.8	4.3	4.3
Average Length of Stay (Days) - SNF	-	-	14.8	14.8	-	-	-	-	-	-	14.8
Average Length of Stay (Days) - Long-term	10.0	-	11.9	11.9	11.1	8.2	11.1	-	10.1	12.8	12.5
Medicare Case Mix Index	1.6	1.6	1.1	1.5	1.5	1.4	1.3	1.6	1.4	1.4	1.5
Case Mix Index	1.3	1.4	1.0	1.3	1.3	1.3	1.1	1.4	1.2	1.2	1.3
Total Emergency Room Visits	86,834	73,960	19,744	93,704	62,250	30,282	28,585	-	121,117	67,688	369,343
Total Outpatient Surgeries	19,858	5,108	4,440	9,548	7,569	11,048	6,397	3,257	28,271	10,469	68,146
Total Outpatient Clinic Visits	219,325	121,815	39,303	161,118	130,462	260,987	181,375	491	573,315	311,844	1,265,602
Total Outpatient Visits and Surgeries	928,258	363,292	114,172	477,464	309,698	244,963	298,366	7,089	860,116	463,053	2,728,891

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Supplemental Schedule - Service Statistics**  
**Year Ended December 31, 2008**  
**(Unaudited)**

	Central Indiana Region	Western Indiana Region			Northern Indiana Region			South Suburban Chicago Region	Consolidated		
	St. Francis Hospital and Health Centers Beech Grove/ Indianapolis/ Mooresville	St. Elizabeth Regional Health Lafayette	St. Clare Medical Center Crawfordsville	Total	St. Margaret Mercy Healthcare Centers Hammond/Dyer	St. Anthony Memorial Health Centers Michigan City	St. Anthony Medical Center Crown Point	Franciscan Physicians Hospital, LLC Munster	Total		
<b>Nursery</b>											
Patient days	7,062	5,707	753	6,460	1,711	1,603	2,951	-	6,265	3,853	23,640
Admissions	3,380	2,625	324	2,949	739	757	1,512	-	3,008	1,619	10,956
Discharges	3,235	2,604	324	2,928	721	757	1,511	-	2,989	1,609	10,761
Average Daily Crib Capacity	52.9	24.0	11.0	35.0	16.0	20.0	30.0	-	66.0	36.0	189.9
Average Daily Census in Nursery	19.3	15.6	2.1	17.7	4.7	4.4	8.1	-	17.2	10.5	64.6
Average Length of Stay (Days)	2.2	2.2	2.3	2.2	2.4	2.1	2.0	-	2.1	2.4	2.2
Percentage of Occupancy	36.5%	65.0%	18.7%	50.4%	29.2%	21.9%	26.9%	-	25.9%	29.2%	34.0%

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Supplemental Schedule - Gross Revenue Composition by Payor**  
**Year Ended December 31, 2008**  
(in thousands, except percentages)  
(Unaudited)

	Central Indiana Region		Western Indiana Region				Northern Indiana Region						South Suburban Chicago Region		Consolidated	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
	St. Francis Hospital and Health Centers Beech Grove/Indianapolis/Mooresville		St. Elizabeth Regional Health Lafayette		St. Clare Medical Center Crawfordsville		St. Margaret Mercy Healthcare Centers Hammond/Dyer		St. Anthony Memorial Health Centers Michigan City		St. Anthony Medical Center Crown Point		Franciscan Physicians Hospital, LLC Munster			
<b>Total</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>
Medicare	\$ 572,840	39.7 %	\$ 331,484	41.6 %	\$ 45,795	44.2 %	\$ 355,783	48.0 %	\$ 108,662	34.4 %	\$ 174,635	41.5 %	\$ 20,220	47.5 %	\$ 451,101	45.0 %
Medicaid	148,125	10.3	77,421	9.7	10,308	10.0	123,357	16.7	69,915	22.1	22,697	5.4	1,184	2.8	151,730	15.2
Blue Cross	344,045	23.8	113,648	14.3	18,137	17.5	114,315	15.4	51,260	16.2	63,035	15.0	12,222	28.7	201,369	20.1
Managed care contracts	263,429	18.2	182,720	23.0	19,069	18.4	78,376	10.6	43,969	13.9	127,201	30.3	1,833	4.3	118,192	11.8
Other commercial	49,298	3.4	19,528	2.5	3,761	3.6	31,448	4.2	12,599	4.0	18,852	4.5	6,747	15.9	40,124	4.0
Self-pay and other	66,855	4.6	71,194	8.9	6,543	6.3	37,922	5.1	29,489	9.4	14,018	3.3	355	0.8	39,314	3.9
	<u>\$ 1,444,592</u>	<u>100.0 %</u>	<u>\$ 795,995</u>	<u>100.0 %</u>	<u>\$ 103,613</u>	<u>100.0 %</u>	<u>\$ 741,201</u>	<u>100.0 %</u>	<u>\$ 315,894</u>	<u>100.0 %</u>	<u>\$ 420,438</u>	<u>100.0 %</u>	<u>\$ 42,561</u>	<u>100.0 %</u>	<u>\$ 1,001,830</u>	<u>100.0 %</u>
															<u>\$ 4,866,124</u>	<u>100.0 %</u>

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Supplemental Schedule - Gross Revenue Composition by Payor**  
**Year Ended December 31, 2008**  
(in thousands, except percentages)  
(Unaudited)

	Central Indiana Region		Western Indiana Region				Northern Indiana Region						South Suburban Chicago Region		Consolidated			
	St. Francis Hospital and Health Centers Beech Grove/Indianapolis/Mooresville		St. Elizabeth Regional Health Lafayette		St. Clare Medical Center Crawfordsville		St. Margaret Mercy Healthcare Centers Hammond/Dyer		St. Anthony Memorial Health Centers Michigan City		St. Anthony Medical Center Crown Point		Franciscan Physicians Hospital, LLC Munster					
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%		
<b>Inpatient</b>																		
Medicare	\$ 339,171	52.3 %	\$ 219,779	51.9 %	\$ 24,113	64.6 %	\$ 262,524	58.5 %	\$ 60,949	43.2 %	\$ 114,229	56.6 %	\$ 12,462	58.7 %	\$ 341,477	55.7 %	\$ 1,374,704	54.2 %
Medicaid	71,563	11.0	34,825	8.2	2,986	8.0	74,133	16.5	36,188	25.7	11,244	5.6	410	1.9	97,983	16.0	329,332	13.0
Blue Cross	116,458	18.0	55,238	13.0	4,164	11.1	53,024	11.8	17,424	12.3	20,293	10.0	4,668	22.0	98,278	16.0	369,547	14.6
Managed care contracts	91,074	14.0	85,560	20.2	4,453	11.9	33,140	7.4	16,084	11.4	44,780	22.2	1,025	4.8	50,623	8.3	326,739	12.9
Other commercial	15,965	2.5	8,179	1.9	586	1.6	11,438	2.5	4,515	3.2	7,018	3.5	2,586	12.2	16,010	2.6	66,297	2.6
Self-pay and other	14,498	2.2	20,215	4.8	1,041	2.8	14,651	3.3	5,926	4.2	4,269	2.1	75	0.4	8,872	1.4	69,547	2.7
	<u>\$ 648,729</u>	<u>100.0 %</u>	<u>\$ 423,796</u>	<u>100.0 %</u>	<u>\$ 37,343</u>	<u>100.0 %</u>	<u>\$ 448,910</u>	<u>100.0 %</u>	<u>\$ 141,086</u>	<u>100.0 %</u>	<u>\$ 201,833</u>	<u>100.0 %</u>	<u>\$ 21,226</u>	<u>100.0 %</u>	<u>\$ 613,243</u>	<u>100.0 %</u>	<u>\$ 2,536,166</u>	<u>100.0 %</u>
<b>Outpatient</b>																		
Medicare	\$ 233,669	29.3 %	\$ 111,705	30.0 %	\$ 21,682	32.7 %	\$ 93,259	31.9 %	\$ 47,713	27.3 %	\$ 60,406	27.6 %	\$ 7,758	36.4 %	\$ 109,624	28.2 %	\$ 685,816	29.4 %
Medicaid	76,562	9.6	42,596	11.4	7,322	11.0	49,224	16.8	33,727	19.3	11,453	5.2	774	3.6	53,747	13.9	275,405	11.8
Blue Cross	227,587	28.6	58,410	15.7	13,973	21.1	61,291	21.0	33,836	19.4	42,742	19.6	7,554	35.4	103,091	26.5	548,484	23.6
Managed care contracts	172,355	21.7	97,160	26.1	14,616	22.1	45,236	15.5	27,885	15.9	82,421	37.7	808	3.8	67,569	17.4	508,050	21.8
Other commercial	33,333	4.2	11,349	3.1	3,175	4.8	20,010	6.8	8,084	4.6	11,834	5.4	4,161	19.5	24,114	6.2	116,060	5.0
Self-pay and other	52,357	6.6	50,979	13.7	5,502	8.3	23,271	8.0	23,563	13.5	9,749	4.5	280	1.3	30,442	7.8	196,143	8.4
	<u>\$ 795,863</u>	<u>100.0 %</u>	<u>\$ 372,199</u>	<u>100.0 %</u>	<u>\$ 66,270</u>	<u>100.0 %</u>	<u>\$ 292,291</u>	<u>100.0 %</u>	<u>\$ 174,808</u>	<u>100.0 %</u>	<u>\$ 218,605</u>	<u>100.0 %</u>	<u>\$ 21,335</u>	<u>100.0 %</u>	<u>\$ 388,587</u>	<u>100.0 %</u>	<u>\$ 2,329,958</u>	<u>100.0 %</u>

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Supplemental Schedule – Full-Time Equivalent Personnel**  
**Years Ended December 31, 2008 and 2007**  
**(Unaudited)**

	<b>Total FTEs</b>		<b>FTEs Per Adjusted Occupied Bed</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Central Indiana Region</b>				
St. Francis Hospital and Health Centers - Beech Grove/Indianapolis/Mooresville	3,391	3,158	5.1	5.1
St. Francis Healthcare Foundation, Inc.	21	23	-	-
St. Francis Health Network, Inc.	14	15	-	-
Total Central Indiana Region	<u>3,426</u>	<u>3,196</u>	<u>5.1</u>	<u>5.1</u>
<b>Western Indiana Region</b>				
St. Elizabeth Regional Health - Lafayette	2,075	2,103	5.6	5.8
St. Clare Medical Center - Crawfordsville	306	268	3.2	3.0
Total Western Indiana Region	<u>2,381</u>	<u>2,371</u>	<u>5.2</u>	<u>5.4</u>
<b>Northern Indiana Region</b>				
St. Margaret Mercy Healthcare Centers - Hammond/Dyer	2,287	2,221	4.5	4.8
St. Anthony Memorial Health Centers - Michigan City	921	894	4.9	4.9
St. Anthony Medical Center- Crown Point	1,264	1,220	4.5	4.8
Franciscan Physicians Hospital, LLC - Munster	150	142	8.1	9.5
Total Northern Indiana Region	<u>4,622</u>	<u>4,477</u>	<u>4.6</u>	<u>4.9</u>
<b>South Suburban Chicago Region</b>				
	<u>2,450</u>	<u>2,524</u>	<u>4.9</u>	<u>4.7</u>
<b>Corporate and Other</b>				
Corporate and other coordinated business functions	235	232	-	-
Alverno Information Services	327	316	-	-
Alverno Construction Company, LLC	327	290	-	-
Total Corporate and Other	<u>889</u>	<u>838</u>	<u>-</u>	<u>-</u>
Totals	<u>13,768</u>	<u>13,406</u>	<u>5.0</u>	<u>5.0</u>

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Supplemental Schedule – Medical Staff Complement**  
**Year Ended December 31, 2008 and 2007**  
**(Unaudited)**

	<u>Active</u>		<u>Associate</u>		<u>Other</u>		<u>Total</u>		<u>Average Age</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
<b>Central Indiana Region</b>										
St. Francis Hospital and Health Centers - Beech Grove/Indianapolis/Mooresville	393	384	29	47	315	287	737	718	46	46
<b>Western Indiana Region</b>										
St. Elizabeth Regional Health - Lafayette	287	333	-	-	27	32	314	365	48	48
St. Clare Medical Center - Crawfordsville	50	49	-	-	83	72	133	121	47	46
<b>Northern Indiana Region</b>										
St. Margaret Mercy Healthcare Centers - Hammond/Dyer	368	376	97	61	123	109	588	546	49	49
St. Anthony Memorial Health Centers - Michigan City	131	134	49	37	12	16	192	187	50	50
St. Anthony Medical Center- Crown Point	287	303	38	34	69	44	394	381	48	48
Franciscan Physicians Hospital, LLC - Munster	131	179	130	-	2	1	263	180	48	47
<b>South Suburban Chicago Region</b>	<u>244</u>	<u>256</u>	<u>307</u>	<u>325</u>	<u>75</u>	<u>58</u>	<u>626</u>	<u>639</u>	<u>49</u>	<u>49</u>
Total/Average	<u>1,891</u>	<u>2,014</u>	<u>650</u>	<u>504</u>	<u>706</u>	<u>619</u>	<u>3,247</u>	<u>3,137</u>	<u>48</u>	<u>48</u>