

Franciscan Alliance, Inc. and Affiliates

**Consolidated Financial Statements with
Supplemental Financial Information
December 31, 2012 and 2011**

Franciscan Alliance, Inc. and Affiliates
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December 31, 2012 and 2011

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Independent Auditor's Report

Board of Trustees
Franciscan Alliance, Inc.
Mishawaka, Indiana

We have audited the accompanying consolidated financial statements of Franciscan Alliance, Inc. and Affiliates (collectively referred to as the "Corporation"), which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations and changes in net assets and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

Opinion

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

PricewaterhouseCoopers LLP

April 22, 2013

Franciscan Alliance, Inc. and Affiliates
Consolidated Balance Sheets
December 31, 2012 and 2011
(In thousands)

	2012	2011		2012	2011
Assets			Liabilities and Net Assets		
Current assets			Current liabilities		
Cash and cash equivalents	\$ 199,564	\$ 172,319	Current portion of long-term debt	\$ 22,103	\$ 17,909
Short-term investments	37,159	40,418	Accounts payable and accrued expenses	228,870	222,514
Patient accounts receivable, net of allowance for doubtful accounts of \$42,917 in 2012 and \$47,933 in 2011	336,243	312,539	Accrued payroll and related expenses	110,656	99,128
Inventories of supplies	39,855	36,418	Estimated third-party payor settlements	<u>34,420</u>	<u>29,074</u>
Other current assets	<u>123,365</u>	<u>83,259</u>	Total current liabilities	396,049	368,625
Total current assets	736,186	644,953	Long-term debt, net of current portion	1,116,075	1,119,157
Board designated and other investments	1,726,697	1,673,904	Fair value of interest rate swap contracts	102,208	105,964
Property, plant, and equipment, net	1,570,193	1,504,623	Accrued pension liability	426,629	326,527
Investments in unconsolidated affiliates	21,378	24,012	Estimated insurance liabilities	130,132	136,362
Goodwill	21,361	18,425	Other liabilities	57,944	37,680
Intangible assets, net of accumulated amortization of \$10,554 in 2012 and \$7,732 in 2011	19,077	9,940	Total liabilities	<u>2,229,037</u>	<u>2,094,315</u>
Other assets	96,314	91,985	Net assets		
Total assets	<u>\$ 4,191,206</u>	<u>\$ 3,967,842</u>	Unrestricted	1,904,372	1,815,411
			Noncontrolling interests in consolidated affiliates	<u>28,376</u>	<u>28,383</u>
			Total unrestricted net assets	<u>1,932,748</u>	<u>1,843,794</u>
			Temporarily restricted	17,559	17,798
			Permanently restricted	<u>11,862</u>	<u>11,935</u>
			Total net assets	<u>1,962,169</u>	<u>1,873,527</u>
			Total liabilities and net assets	<u>\$ 4,191,206</u>	<u>\$ 3,967,842</u>

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

Franciscan Alliance, Inc. and Affiliates
Consolidated Statements of Operations and Changes in Net Assets
Years Ended December 31, 2012 and 2011
(In thousands)

	2012	2011
Unrestricted revenues, gains, and other support		
Patient service revenue, net of contractual allowances and discounts	\$ 2,460,016	\$ 2,200,132
Provision for doubtful accounts	<u>(106,994)</u>	<u>(93,140)</u>
Net patient service revenue	2,353,022	2,106,992
Capitation and premium revenue	134,779	108,828
Other operating revenue	126,525	139,112
Equity in earnings of investments in unconsolidated affiliates	5,001	7,608
Net unrealized investment gains (losses)	5,533	(4,132)
Net assets released from restrictions used for operations	<u>2,001</u>	<u>3,068</u>
 Total unrestricted revenues, gains and other support	 <u>2,626,861</u>	 <u>2,361,476</u>
Operating expenses		
Salaries	1,000,612	920,065
Employee benefits	290,012	262,262
Physicians' fees	52,721	48,310
Utilities	43,031	41,473
Repairs and maintenance	41,115	39,503
Drugs and pharmaceuticals	95,961	89,884
Medical supplies	189,503	190,356
Insurance	38,749	35,100
Purchased services	253,927	215,153
Other supplies and expenses	340,145	245,234
Interest	35,133	33,199
Depreciation and amortization	<u>136,171</u>	<u>126,175</u>
Total operating expenses before asset impairment	<u>2,517,080</u>	<u>2,246,714</u>
Operating income before asset impairment	109,781	114,762
Asset impairment	<u>(30,000)</u>	<u>-</u>
Operating income	<u>79,781</u>	<u>114,762</u>
Other income (expense)		
Investment income	82,065	88,709
Net unrealized investment gains (losses) on trading securities	76,311	(62,303)
Net unrealized losses and periodic settlements on interest rate swap contracts	(10,673)	(63,971)
(Loss) gain on sale/disposal of assets	(1,045)	7
Net assets released from restrictions	1,318	2,072
Contributions	431	1,387
Other, net	<u>(5,040)</u>	<u>(3,764)</u>
Total other income (expense), net	<u>143,367</u>	<u>(37,863)</u>
Excess of revenues over expenses	<u>\$ 223,148</u>	<u>\$ 76,899</u>

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

Franciscan Alliance, Inc. and Affiliates
Consolidated Statements of Operations and Changes in Net Assets
Years Ended December 31, 2012 and 2011
(In thousands)

	2012	2011
Unrestricted net assets, controlling interest		
Excess of revenues over expenses	\$ 204,073	\$ 59,111
Change in pension and postretirement benefits other than net periodic pension costs included in accrued pension liability	(116,529)	(94,433)
Other, net	(241)	(3,004)
Net assets released from restrictions used for purchase of property, plant, and equipment	<u>1,658</u>	<u>784</u>
Increase (decrease) in unrestricted net assets, controlling interest	<u>88,961</u>	<u>(37,542)</u>
Unrestricted net assets, noncontrolling interest		
Excess of revenues over expenses	19,075	17,788
Distributions	<u>(19,082)</u>	<u>(16,892)</u>
(Decrease) increase in unrestricted net assets, noncontrolling interest	(7)	896
Temporarily restricted net assets, controlling interest		
Contributions	3,498	6,237
Investment income	366	250
Net assets released from restrictions	(4,977)	(5,924)
Net unrealized investment gains (losses)	100	(147)
Other, net	<u>774</u>	<u>115</u>
(Decrease) increase in temporarily restricted net assets, controlling interest	<u>(239)</u>	<u>531</u>
Permanently restricted net assets, controlling interest		
Contributions	15	-
Investment income	95	71
Net unrealized investment (losses) gains	(64)	252
Other, net	<u>(119)</u>	<u>(111)</u>
(Decrease) increase in permanently restricted net assets, controlling interest	<u>(73)</u>	<u>212</u>
Increase (decrease) in net assets	88,642	(35,903)
Net assets, beginning of the year	<u>1,873,527</u>	<u>1,909,430</u>
Net assets, end of the year	<u>\$ 1,962,169</u>	<u>\$ 1,873,527</u>

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

Franciscan Alliance, Inc. and Affiliates
Consolidated Statements of Cash Flows
Years Ended December 31, 2012 and 2011
(In thousands)

	2012	2011
Cash flows from operating activities		
Increase (decrease) increase in net assets	\$ 88,642	\$ (35,903)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation of plant, property, and equipment	131,557	122,577
Amortization of bond discounts, deferred financing costs, and other intangible assets	4,614	3,598
Provision for doubtful accounts	106,994	93,140
Loss (gain) on sale/disposal of assets	1,045	(7)
Net investment gains	(163,909)	(22,274)
Asset impairment (see Note 2)	30,000	-
Net unrealized (gains) losses on interest rate swap contracts	(3,756)	49,510
Distributions to noncontrolling interests in consolidated affiliates	19,082	16,892
Distributions from unconsolidated affiliates	8,261	10,981
Equity in earnings of investments in unconsolidated affiliates	(5,001)	(7,608)
Restricted contributions and investment income	(3,974)	(6,558)
Change in pension and postretirement benefits other than net periodic pension costs included in accrued pension liability	116,529	94,433
Changes in operating assets and liabilities:		
Patient accounts receivable	(130,699)	(157,212)
Inventories of supplies	(2,488)	1,748
Other assets	(42,943)	(30,835)
Accounts payable and accrued expenses	5,155	9,734
Accrued payroll and related expenses	11,528	13,159
Estimated third-party payor settlements	5,346	(995)
Estimated insurance liabilities	(6,230)	15,357
Accrued pension liability	(16,427)	(21,051)
Other liabilities	20,264	(8,865)
Total adjustments	<u>84,948</u>	<u>175,724</u>
Net cash provided by operating activities	<u>173,590</u>	<u>139,821</u>
Cash flows from investing activities		
Purchases of investments	(8,068,570)	-
Proceeds from sale of investments	8,228,260	-
(Purchases) sales of board designated and other investments in the HSD, net (see Note 2)	(45,315)	66,501
Purchases of property, plant, and equipment	(208,646)	(198,993)
Proceeds from sale of property, plant, and equipment	2,977	1,792
Acquisition of physician practices and other healthcare service organizations	(25,712)	(14,827)
Proceeds from sale of investments in unconsolidated affiliates	-	556
Net cash used by investing activities	<u>(117,006)</u>	<u>(144,971)</u>
Cash flows from financing activities		
Proceeds from issuance of long-term debt (see Note 6)	88,142	-
Refunding of long-term debt (see Note 6)	(82,620)	-
Principal payments on long-term debt	(19,753)	(20,029)
Distributions to noncontrolling interests of consolidated affiliates	(19,082)	(16,892)
Restricted contributions and investment income	3,974	6,558
Net cash used by financing activities	<u>(29,339)</u>	<u>(30,363)</u>
Net increase (decrease) in cash and cash equivalents	27,245	(35,513)
Cash and cash equivalents, beginning of year	<u>172,319</u>	<u>207,832</u>
Cash and cash equivalents, end of year	<u>\$ 199,564</u>	<u>\$ 172,319</u>

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

Franciscan Alliance, Inc. and Affiliates

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

1. Description of Organization and Mission

Organization

Franciscan Alliance, Inc. and Affiliates (collectively referred to as the "Corporation"), under the sponsorship of the Sisters of St. Francis of Perpetual Adoration, Inc., is an Indiana nonprofit, Catholic health care system. The Corporation is dedicated to providing comprehensive health care services, including medical, surgical, behavioral health, rehabilitative, and other health services in inpatient and outpatient settings; home health care services; primary and specialty physician services; as well as physician hospital managed care networks to communities within four geographic regions in Indiana and Illinois (the "Health Centers"). The Corporation also has a number of support related divisions and affiliates including a corporate office, a consolidated information technology services division, various back office/management support organizations, a construction company, a captive insurance company, and nonprofit foundations. In addition, the Corporation has various investments in consolidated and unconsolidated affiliates (see Note 10). 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 "Code").

Mission

The Corporation's mission statement 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.

Franciscan Alliance, Inc. and Affiliates
Notes to Consolidated Financial Statements
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The following amounts reflect the Corporation's quantifiable community benefits for the years ended December 31, 2012 and 2011:

	(Unaudited)	
	2012	2011
	(in thousands)	
Benefits for the poor and underserved		
Unreimbursed costs of Medicaid and other indigent care programs	\$ 96,672	\$ 119,144
Cost of charity care provided	83,775	69,465
Other benefits for the poor and underserved		
Subsidized health services	2,953	2,203
Community health improvement services	713	673
Financial and in-kind contributions	584	1,229
Health professions education	-	21
Community building activities	-	2
Community benefit operations	2	7
	<u>4,252</u>	<u>4,135</u>
Total benefits for the poor and underserved	<u>184,699</u>	<u>192,744</u>
Benefits for the broader community		
Subsidized health services	30,954	18,058
Health professions education	14,349	15,373
Community health improvement services	4,380	4,050
Financial and in-kind contributions	2,545	754
Research	937	597
Community building activities	890	988
Community benefit operations	151	107
	<u>54,206</u>	<u>39,927</u>
Total benefits for the broader community	<u>54,206</u>	<u>39,927</u>
Total quantifiable community benefits	<u>238,905</u>	<u>232,671</u>
Unreimbursed costs of Medicare	<u>250,739</u>	<u>192,996</u>
Total quantifiable community benefits including unreimbursed costs of Medicare	<u>\$ 489,644</u>	<u>\$ 425,667</u>

Total quantifiable community benefits including unreimbursed costs of Medicare were approximately 19% of total operating expenses, before the asset impairment, for both the years ended December 31, 2012 and 2011.

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, 2012 and 2011, the Corporation reported approximately \$107.0 million and \$93.1 million, respectively, as provision for doubtful accounts based on accumulated charges.

Franciscan Alliance, Inc. and Affiliates

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

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. These programs and services are not intended to be financially self-supporting.

Unreimbursed costs of Medicaid and other indigent care programs represent 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.

Charity care represents the cost (determined using a cost to charge ratio) of health care 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.

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, which is netted against any amounts reported. Some examples include health education, health fairs, free or low cost health screening, immunization services, prescription medication assistance programs, and other various community 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 various 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.

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

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

Franciscan Alliance, Inc. and Affiliates

Notes to Consolidated Financial Statements

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

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

Unreimbursed costs of Medicare represent 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

The consolidated financial statements include the accounts of the Corporation, and all wholly-owned, majority-owned, and controlled organizations with all significant transactions and accounts between affiliates eliminated in consolidation. Investments in affiliates where the Corporation owns less than or equal to 50% 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 financial statements in conformity with accounting principles generally accepted in the United States of America requires management of the Corporation to make assumptions, estimates, and judgments that affect the amounts reported in the consolidated financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. The Corporation considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of its consolidated financial statements, including the following: recognition of net patient service revenue, which includes contractual allowances and a provision for doubtful accounts; recorded values of investments and goodwill; reserves for employee health costs and losses and expenses related to professional and general liabilities; and risks and assumptions for measurement of the pension liabilities. Management relies on historical experience and other assumptions believed to be reasonable in making its judgments and estimates. Actual results could differ materially from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of cash and highly liquid marketable securities including interest bearing securities with maturities which may extend longer than three months. However, adequate liquidity is maintained to satisfy daily cash flow needs. 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/surgical supplies and pharmaceuticals, are stated at the lower of cost (first-in, first out method) or market value.

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Board Designated, Other Investments, and Investment Income

Board designated investments represents investments set aside by the Corporation primarily for future purposes including capital expenditures, acquisitions, improvements, and amounts held for mission programs. The Corporation's Board of Trustees retains control of these investments and may, at its discretion and in certain circumstances, use them for other purposes. Assets limited as to use include assets under bond indenture and swap agreements, investments maintained for the payment of estimated insurance liabilities, and amounts contributed by donors with stipulated restrictions.

As of April 1, 2012, substantially all of the Corporation's board designated and other investments are invested and managed by professional managers in accordance with agreed-upon investment and socially responsible investing guidelines and are held in custody with a financial institution. Prior to April 1, 2012, approximately 96% of the Corporation's board designated and other investments were invested in a pooled account coordinated through Ascension Health's Health System Depository (the "HSD") under an investment management agreement. The custodian-held assets in the HSD were managed by professional managers who followed agreed-upon investment and socially responsible investing guidelines.

Board designated and other investments are measured at fair value, classified as trading securities, and consist of: cash and cash equivalents; U.S. government, state, municipal, and agency obligations; asset backed securities; corporate and foreign income securities; various types of equity securities and mutual funds; and prior to April 1, 2012, the Corporation's pro-rata share of pooled investments within the HSD. Board designated and other investments also include alternative investments, consisting of investments in hedge funds, prime credit and private equity investments, and real assets, which are generally measured based on their net asset value as a practical expedient for fair value that is further described in Note 4. As of December 31, 2011, the HSD's asset allocation consisted of 38% equities, 29% fixed income, 31% alternative investments, and 2% cash and cash equivalents.

Investment earnings consist of dividends, interest, realized gains and losses and, prior to April 1, 2012, the Corporation's pro-rata net earnings of the HSD. In accordance with industry practice, investment earnings and unrealized gains and losses on assets limited as to use under bond indenture and swap agreements and estimated insurance liability funds are included in other operating revenue in the consolidated statements of operations and changes in net assets. Investment earnings and unrealized gains and losses 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 earnings and any associated unrealized gains and losses restricted for specified purposes by donor or legal requirements are recorded as temporarily or permanently restricted in the consolidated statements of operations and changes in net assets.

Board designated and other investments are exposed to various risks, such as interest rate, market, liquidity, performance, and credit risk. 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 net assets.

Franciscan Alliance, Inc. and Affiliates

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Securities Lending Program

The Corporation participates in a securities lending program through its custodian whereby the Corporation lends a portion of its investments to various brokers in exchange for collateral for securities loaned, mostly on a short-term basis. Collateral provided by these brokers consists of cash and is maintained at levels approximating 102-105% of the fair value of the securities on loan, adjusted for any market fluctuations. The Corporation maintains effective control of loaned securities through its custodian during the term of the agreement so that the securities may be recalled at any time. Under the terms of the agreement, the borrower must return the same, or substantially the same, investments that were borrowed. At December 31, 2012, the fair value of collateral for loaned securities provided on behalf of the Corporation was approximately \$30.7 million while the fair market value of securities on loan was approximately \$30.8 million with the net amount reported in board designated and other investments.

Fair Value Measurement

The Corporation's consolidated financial statements reflect certain assets and liabilities recorded at fair value. Assets measured at fair value on a recurring basis in the Corporation's consolidated balance sheets include: cash and cash equivalents; short-term investments; U.S. government, state, municipal, and agency obligations; asset backed securities; corporate and foreign income securities; various types of equity securities and mutual funds; hedge funds; private credit and private equity investments; real assets; benefit plan assets; and, prior to April 1, 2012, pooled investments within the HSD. Liabilities measured at fair value on a recurring basis include the Corporation's interest rate swap contracts.

Fair value measurements reflected in the consolidated financial statements conceptually represent the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Generally accepted accounting principles provide a hierarchy that prioritizes the inputs to fair value measurements based on the extent to which inputs to valuation techniques are observable in the marketplace. The hierarchy assigns a higher priority to observable inputs that reflect the Corporation's assumptions about how market participants would value an asset or liability based on the best information available. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs.

The three levels of the hierarchy of inputs used to measure fair value are described briefly as follows:

- Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities that are available at the measurement date.
- Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 Unobservable inputs for the asset or liability, used in situations in which little or no market activity exists for the asset or liability at the measurement date.

The categorization of fair value measurements by hierarchy level is based upon the lowest level input that is significant to the overall fair value measurement for a given asset or liability.

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The Corporation applies the guidance in Accounting Standards Codification 820-10-15-4, *Fair Value Measurements of Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)*. Under the guidance, the Corporation is permitted, as a practical expedient, to estimate the fair value of certain portfolio investments on the basis of the net asset value per share. In the normal course of business, the Corporation holds certain investments that qualify for the usage of the practical expedient. Fair value measurements of certain investment assets for which the measurement was based on net asset value ("NAV") or its equivalent as provided by an external manager are categorized within Level 2 or 3.

In the event that changes in the inputs used in the fair value measurements of an asset or liability results in a transfer of the fair value measurement to a different categorization (e.g., from Level 3 to Level 2), such transfers between fair value categories are recognized at the end of the reporting period.

Property, Plant, and Equipment

Property, plant, and equipment (including internal-use software) are recorded at cost if purchased or at fair value at the date of donation, if donated. 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. Cost incurred in the development and installation of internal-use software are expensed or capitalized depending on whether they are incurred in the preliminary project stage, application development stage, or post implementation stage. 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 net assets. Interest costs incurred during the period of construction or development of capital assets are capitalized as a component of the cost of acquiring those assets. Depreciation is provided over the estimated useful lives of the assets utilizing the straight-line method. Assets under capital lease obligations are amortized utilizing the straight-line method over the shorter of the lease term or estimated useful life of the asset. Amounts capitalized for internal-use software are amortized over the useful life of the developed asset following project completion.

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, a gain or loss on sale/disposal of assets is recognized. As of December 31, 2012 and 2011, conditional asset retirement obligations of approximately \$18.7 million and \$18.9 million, respectively, are included within other liabilities in the consolidated balance sheets.

Goodwill and Intangible Assets

Goodwill represents the excess of costs over the fair value of assets of businesses acquired. Goodwill is tested for impairment on an annual basis or when an event or change in circumstances indicates the value of a reporting unit, which for the Corporation is the individual Health Centers within its four regions, may have changed. There is a two-step process for determining goodwill

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impairment. Step one compares the carrying value of each reporting unit with its fair value. Step two compares the implied fair value of the reporting unit's goodwill with the carrying value of the reporting unit's goodwill. If the carrying value of goodwill is impaired, the Corporation reduces the carrying amount to fair value. Estimates of fair value are based on appraisals, internal estimates of future net cash flows on a discounted basis, as well as other generally accepted valuation methodologies.

Intangible assets primarily consist of covenants not to compete which are amortized on a straight-line basis over periods ranging from 2 to 5 years.

Asset Impairment

The Corporation periodically evaluates the carrying value of its other long-lived assets for impairment whenever events or business conditions indicate the carrying value of such assets may not be fully recoverable. Initial assessments of recoverability are based upon estimates of undiscounted future net cash flows associated with an asset or group of assets. When an impairment is indicated, the carrying amount of these long-lived assets is reduced to fair value, based on future discounted net cash flows or other estimates of fair value.

During the year ended December 31, 2012, the Corporation recognized an impairment of buildings, building equipment, and departmental equipment of \$30.0 million at two of its Health Centers due to declines in operating performance.

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. Costs associated with securing the direct pay letters of credit to support its variable rate demand bonds are amortized over the term of the associated liquidity facility. Deferred financing costs are included in other assets in the consolidated balance sheets.

Estimated Insurance Liabilities

The provision for estimated insurance liabilities 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

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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.

During 2012 and 2011, net assets of \$4,977,000 and \$5,924,000, 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 excess of revenues over expenses, which includes all changes in unrestricted net assets except for the change in pension and postretirement benefits other than net periodic pension costs which is included in accrued pension liability; contributions and distributions to noncontrolling interests in consolidated affiliates; 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).

Operating and Nonoperating Activities

The Corporation's primary mission is to meet the health care needs in the communities it is privileged to operate through a broad range of general and specialized health care services, including medical, surgical, behavioral health, rehabilitative, and other health services in inpatient and outpatient settings; home health care services; primary and specialty physician services; as well as physician hospital managed care networks. Activities directly associated with the furtherance of this purpose are considered to be operating activities. Other activities that result in gains or losses peripheral to the Corporation's primary mission are considered to be nonoperating activities.

Patient Accounts Receivable, Estimated Third-Party Payor Settlements, and Net Patient Service Revenue

The Corporation has agreements with third-party payors that provide for payments at amounts different from its established rates. Patient accounts receivable and net patient service revenue are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered net of the provision for doubtful accounts and includes estimated retroactive revenue adjustments under reimbursement agreements with third-party payors and amounts received under various state Medicaid Hospital Assessment and Disproportionate Share Programs. Revenue under certain third-party payor agreements is subject to audit, retroactive adjustments, and significant regulatory actions. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as additional information becomes available and as final settlements are determined.

Allowance for Doubtful Accounts

The collection of outstanding patient accounts receivable from government, managed care, and other third party payors and patients is the Corporation's primary source of cash. The Corporation's main collection risk relates to uninsured patient accounts and to patient accounts for which the third party payor has paid amounts in accordance with the applicable agreement, however the patient's responsibility, usually in the form of deductibles, copayments, and coinsurance payments, remain outstanding ("self-pay accounts"). The Corporation's patient accounts receivable is reduced by an allowance for amounts, primarily self-pay accounts, which

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could become uncollectible in the future. Throughout the year, the Corporation estimates this allowance based on the aging of its patient accounts receivable, historical collection experience, and other relevant factors. These factors include changes in the economy and unemployment rates, which has an impact on the number of uninsured and underinsured patients, as well as trends in health care coverage, such as the increased burden of deductibles, copayments, and coinsurance payments to be made by patients with insurance. After satisfaction of amounts due from insurance and reasonable efforts to collect from the patient have been exhausted, the Corporation follows established procedures for placing certain past due patient balances with collection agencies, subject to the terms and certain restrictions on collection efforts as determined by the Corporation. Uncollectible patient accounts receivable are written off against the allowance for doubtful accounts with any subsequent recoveries being recorded against the provision for doubtful accounts.

Charity Care

As an integral part of its mission, the Corporation provides care to patients who meet certain criteria under its charity care and uninsured patient discount policy without charge or at amounts less than its established rates. The cost of charity care is determined based on each Health Center's total cost as a percentage of total charges and that ratio is applied to the charges incurred by patients qualifying for charity care under the Corporation's policy and is not included in net patient service revenue in the consolidated statements of operations and changes in net assets. The estimated cost of charity care provided approximated \$83.8 million and \$69.5 million for the years ending December 31, 2012 and 2011, respectively. For both the years ending December 31, 2012 and 2011, no gifts or grants were received to offset or subsidize charity care services provided. The Corporation maintains records to identify and monitor the level of charity it provides.

Capitation and Premium Revenue

The Corporation has certain Health Centers that arrange for the delivery of health care services to enrollees through various contracts with providers and common provider entities. Enrollee contracts are negotiated on an annual basis. Premiums are due monthly and are recognized as revenue during the period in which the Corporation is obligated to provide services to enrollees.

Certain of the Corporation's Health Centers have entered into capitation agreements whereby they accept the risk for the provision of certain health care services to health plan members. Under these agreements, the Corporation's Health Centers are financially responsible for services provided to health plan members by other health care providers. Capitation revenue is recognized during the period for which the Health Centers are obligated to provide services to health plan enrollees under capitation contracts.

Reserves for incurred but not reported claims have been established to cover the unpaid costs of health care services under capitation and premium arrangements. Capitation and premium arrangement reserves are classified within accounts payable and accrued expenses in the consolidated balance sheets. The liability is estimated based on actuarial studies, historical reporting, and payment trends. Actual claims experience will differ from estimated liabilities due to variances in estimated and actual utilization of health care services, charge amounts, and other factors. As settlements are made and estimates revised, any differences are reflected in current operations. The Corporation limits a portion of its liabilities through stop-loss reinsurance.

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During 2011, the Corporation formed Franciscan Alliance Accountable Care Organization, LLC along with various accountable care affiliates (collectively referred to as "Franciscan ACO"). Franciscan ACO is an organization formed to manage and coordinate a full continuum of patient care services to covered individuals on a capitated, shared savings, risk or partial risk basis under contracts with the Centers for Medicare and Medicaid Services ("CMS") and commercial payors. In December 2011, Franciscan ACO was selected as a participant in the Medicare Pioneer Accountable Care Organization initiative ("Pioneer ACO") for a three year period effective January 1, 2012. In July 2012 and January 2013, Franciscan ACO was selected as a participant in two Medicare Shared Savings Program initiatives ("MSSP"). The Pioneer ACO and the MSSP initiatives are new programs sponsored by CMS to provide Medicare beneficiaries with high-quality coordinated care at a lower cost. Under the first year of the Pioneer ACO agreement, the Corporation does not have any downside risk attributable to its performance. The MSSP initiatives that the Corporation selected do not have any downside risk for any performance year.

Electronic Health Record Incentive Payments

Starting in 2011, Medicare and state Medicaid programs are providing an incentive payment to eligible hospitals and professionals if meaningful use certified electronic health care ("EHR") technology is adopted and utilized. The Corporation recognizes income related to these incentive payments using a grant accounting model that is based upon when the Corporation has reasonable assurance that it will comply with any designated conditions set forth by Medicare and Medicaid and that the dollars will be received. For the years ended December 31, 2012 and 2011, approximately \$19.8 million and \$10.7 million, respectively, of EHR incentive income was recognized and is included in other operating revenue in the consolidated statements of operations and changes in net assets. The Corporation's attestation of compliance with the meaningful use criteria is subject to audit by the federal government or its designee. Additionally, Medicare EHR incentive payments are subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were initially calculated. The Corporation has incurred and will continue to incur both capital expenditures and operating expenses in order to implement certified EHR technology and to meet meaningful use requirements. The timing of expense recognition to implement the Corporation's certified EHR technology may not correlate with the receipt of incentive payments and recognition of EHR incentive revenue.

Income Taxes

The Corporation has established its status as an organization exempt from income taxes under 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 material to the consolidated financial statements.

Derivative Financial Instruments

Derivative financial instruments consist of interest rate swap contracts that are measured at fair value. The Corporation accounts for any changes in the fair value of derivative financial instruments in other income (expense) in the consolidated statements of operations and changes in net assets. The Corporation has reflected the fair value of its interest rate swap contracts as a long-term liability on the consolidated balance sheets (see Note 7).

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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, net of amounts capitalized, amounted to \$38,665,000 and \$40,844,000 for the years ended December 31, 2012 and 2011, respectively.

Cash paid (received) for income taxes approximated \$386,000 and (\$232,000) for the years ended December 31, 2012 and 2011, respectively.

Included in accounts payable and accrued expenses and other liabilities at December 31, 2012 and 2011 are approximately \$20,926,000 and \$24,093,000, respectively, of costs related to construction in progress and for the acquisition of property, plant, and equipment (including internal-use software).

Reclassifications

Certain reclassifications were made to prior year balances to conform to current year presentation. Distributions from unconsolidated affiliates have been reclassified from cash flows from investing activities to cash flows from operating activities on the consolidated statements of cash flows.

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 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 – Reimbursement for services rendered to Medicaid program beneficiaries includes prospectively determined rates per discharge, per diem payments, discounts from established charges, fee schedules, and cost reimbursement methodologies with certain limitations. Cost reimbursable items are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicaid fiscal intermediaries.

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,

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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, 2012 and 2011, the Corporation recognized unrestricted revenue of approximately \$19.7 million and \$35.7 million, respectively, related to the DSH program in the consolidated statements of operations and changes in net assets.

During 2012, the State of Indiana established a Hospital Assessment Fee Program ("HAF") which was retroactive to July 1, 2011, that increased reimbursements made under the State's fee for service and managed Medicaid programs. For the year ended December 31, 2012, the Corporation's Indiana Health Centers were assessed a fee under the HAF program of approximately \$84.1 million (approximately \$27.1 million related to the year ended December 31, 2011), which is included as a component of other supplies and expenses in the accompanying consolidated statements of operations and changes in net assets and the Corporation's Indiana Health Centers recognized approximately \$135.2 million (approximately \$43.4 million related to the year ended December 31, 2011) in supplemental Medicaid reimbursement, which is a component of net patient service revenue in the consolidated statements of operations and changes in net assets.

The Corporation's Illinois Health Centers are obligated under Illinois Public Act 95-859 to participate in the State of Illinois' Hospital Assessment Program. For the years ended December 31, 2012 and 2011, the Corporation recognized \$17.4 million and \$17.7 million of unrestricted revenue and \$10.3 million and \$7.4 million, respectively, of other expense related to the Illinois Hospital Assessment Program.

Other – Reimbursement for services to certain patients is received from commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for reimbursement 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.

A summary of gross patient service revenue, by payor, for the periods ended December 31, 2012 and 2011, is as follows:

	2012	2011
Medicare	38 %	38 %
Medicare managed care	5 %	4 %
Medicaid	8 %	9 %
Medicaid managed care	5 %	4 %
Other third-party payors	38 %	40 %
Self-pay	5 %	4 %
Other	1 %	1 %
	100 %	100 %

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The Corporation grants credit without collateral to its patients, most of who are insured under third-party payor agreements. The mix of net receivables from patients and third-party payors at December 31, 2012 and 2011, is as follows:

	2012	2011
Medicare and Medicare managed care	23 %	24 %
Medicaid and Medicaid managed care	18 %	19 %
Other third-party payors	45 %	43 %
Self-pay and Other	14 %	14 %
	<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. As a result, there is at least a reasonable possibility that recorded estimates may change in the near term. Net patient service revenue increased by approximately \$10.1 million and by \$3.0 million for the years ended December 31, 2012 and 2011, respectively, due to changes in estimates related to prior-year settlements with third party payors. In addition, for the year ended December 31, 2012, net patient service revenue includes approximately \$19.1 million related to Medicare's settlement of the Rural Floor Budget Neutrality Adjustment Appeal that related to fiscal years 2007-2011.

4. Board Designated and Other Investments

Board designated investments represents investments set aside by policy of the Corporation primarily for future purposes including capital expenditures, acquisitions, and improvements as well as amounts held for mission programs. Assets limited as to use include assets under bond indenture and swap agreements, investments maintained for the payment of estimated insurance liabilities, and amounts contributed by donors with stipulated restrictions.

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The composition of board designated and other investments, at December 31, 2012 and 2011, is as follows:

	2012	2011
	(in thousands)	
Board designated investments		
Funded depreciation and other Board projects	\$ 1,543,442	\$ 1,509,215
Other designated investments	3,190	2,876
	<u>1,546,632</u>	<u>1,512,091</u>
Assets limited as to use		
Estimated insurance liability funds	152,680	137,945
Assets under bond indenture and swap agreements	40,970	40,540
Other restricted investments	23,574	23,746
	<u>217,224</u>	<u>202,231</u>
Board designated and other investments	<u>1,763,856</u>	<u>1,714,322</u>
Less short-term investments	<u>37,159</u>	<u>40,418</u>
Board designated and other investments, classified as noncurrent	<u>\$ 1,726,697</u>	<u>\$ 1,673,904</u>

Board designated and other investments at December 31, 2012 and 2011, consist of the following:

	2012	2011
	(in thousands)	
Cash and cash equivalents	\$ 83,537	\$ 41,870
U.S. government, state, municipal, and agency obligations	231,938	9,751
Other fixed income securities	180,998	11,132
Pooled funds	-	1,637,653
Equity securities	350,398	-
Asset-backed securities	128,414	-
Index funds, exchange traded funds and mutual funds	316,183	13,916
Unregistered mutual funds	56,257	-
Real estate investment trusts	3,746	-
Hedge funds	247,699	-
Private credit	23,664	-
Private equity	79,238	-
Real assets	61,784	-
	<u>\$ 1,763,856</u>	<u>\$ 1,714,322</u>

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The following tables present the fair value hierarchy of the valuation techniques utilized to determine the fair value of the Corporation's board designated and other investments as of December 31, 2012 and 2011:

	Balance as of December 31, 2012	Level 1 (in thousands)	Level 2	Level 3
Investments				
Cash and cash equivalents	\$ 83,537	\$ 83,537	\$ -	\$ -
U.S. government, state, municipal, and agency obligations	231,938	162,654	68,001	1,283
Other fixed income securities	180,998	-	177,780	3,218
Equity securities	350,398	350,398	-	-
Asset-backed securities	128,414	-	128,124	290
Index funds, exchange traded funds and mutual funds	316,183	316,183	-	-
Unregistered mutual funds	56,257	-	56,257	-
Real estate investment trusts	3,746	3,746	-	-
Hedge funds	247,699	-	-	247,699
Private credit	23,664	-	-	23,664
Private equity	79,238	-	-	79,238
Real assets	61,784	-	-	61,784
	<u>\$ 1,763,856</u>	<u>\$ 916,518</u>	<u>\$ 430,162</u>	<u>\$ 417,176</u>

	Balance as of December 31, 2011	Level 1 (in thousands)	Level 2	Level 3
Investments				
Cash and cash equivalents	\$ 41,870	\$ 41,870	\$ -	\$ -
U.S. government, state, municipal, and agency obligations	9,751	4,048	5,703	-
Other fixed income securities	11,132	-	11,132	-
Pooled funds	1,637,653	-	1,637,653	-
Index funds, exchange traded funds and mutual funds	13,916	13,916	-	-
	<u>\$ 1,714,322</u>	<u>\$ 59,834</u>	<u>\$ 1,654,488</u>	<u>\$ -</u>

Certain investments categorized within Level 2 are not traded in active markets but are measured using pricing sources such as broker quotes, or using models with externally verifiable inputs, such as relevant interest or exchange rates.

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Changes in Level 3 hierarchy assets measured at fair value for the Corporation's board designated and other investments at December 31, 2012 are as follows:

	Initial Contribution at Fair Value	Net Unrealized Gain (Loss)	Net Realized Gain (Loss) (in thousands)	Purchases	Sales	Ending Balance
U.S. government, state, municipal, and agency obligations	\$ 1,249	\$ 34	\$ -	\$ -	\$ -	\$ 1,283
Other fixed income securities	-	66	70	12,413	(9,331)	3,218
Asset-backed securities	384	(1)	7	-	(100)	290
Hedge funds	233,701	10	5,836	54,000	(45,848)	247,699
Private credit	20,083	1,763	(131)	6,293	(4,344)	23,664
Private equity	70,327	4,589	272	12,486	(8,436)	79,238
Real assets	52,007	1,414	95	17,911	(9,643)	61,784
	<u>\$ 377,751</u>	<u>\$ 7,875</u>	<u>\$ 6,149</u>	<u>\$ 103,103</u>	<u>\$ (77,702)</u>	<u>\$ 417,176</u>

There were no significant transfers to or from Levels 1 and 2 during the years ended December 31, 2012 and 2011.

The following table summarizes the Corporation's investment in entities that calculate net asset value per share (or its equivalent):

	Fair Value (in thousands)	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge Funds	\$ 247,699	\$ -	Monthly, quarterly, annually	5 - 180 days
Private Credit	23,644	12,466	Not currently redeemable	
Private Equity	79,238	45,310	Not currently redeemable	
Real Assets	61,784	46,469	Not currently redeemable	
Unregistered mutual funds	56,257	-	Monthly	1 day
	<u>\$ 468,622</u>	<u>\$ 104,245</u>		

Hedge funds include absolute return and directional hedge funds. Absolute return hedge funds pursue multiple strategies to diversify risks and reduce volatility while directional hedge funds utilize market movement, trends, and inconsistencies when selecting securities across a variety of markets. Directional hedge funds are usually less exposed to the overall market and are likely to include long equity positions hedged with short positions to cancel out short-term uncertainty. The fair values of the investments in this class have been estimated using the NAV per share of the investments.

Private credit includes investments that are secured by high quality assets or backed by a senior claim on stable cash flows. Investments in this asset class will be made opportunistically during periods of broad market or security specific distress. The fair values of the investments in this class have been estimated using the NAV of the Corporation's ownership interest in partners' capital. Investments within these funds cannot be currently redeemed. After the expiration of the investment period, distributions from each fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of the funds will be liquidated over the next 1 to 10 years. However, the individual investments that will be sold have not yet been determined.

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Private equity includes funds that invest globally using strategies that include leveraged buyouts, venture capital, growth capital, distressed investments, and mezzanine capital. The fair values of the investments in this class have been estimated using the NAV of the Corporation's ownership interest in partners' capital. Investments within these funds cannot be currently redeemed. After the expiration of the investment period, distributions from each fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of the funds will be liquidated over the next 1 to 10 years. However, the individual investments that will be sold have not yet been determined.

Real asset includes energy and energy-related investments and private real estate funds that invest in both U.S. and international commercial real estate. Energy and energy-related investments exposure mainly relate to oil and gas properties which include exploration, production, processing, servicing, or transportation of oil, natural gas, and other hydrocarbon fuels. Private real estate investment strategies include core, value-add, and opportunistic real estate which typically seek to earn a return over inflation. The fair values of the investments in this class have been estimated using the NAV of the Corporation's ownership interest in partners' capital. Investments within these funds cannot be currently redeemed. After the expiration of the investment period, distributions from each fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of the funds will be liquidated over the next 2 to 14 years. However, the individual investments that will be sold have not yet been determined.

Unregistered mutual funds include funds that primarily invest in domestic and international short-term government, investment grade, high yield, and mortgage-related fixed income securities. The fair values of the investments in this class have been estimated using the NAV per share of the investments.

Investment returns including net unrealized gains (losses) included in the consolidated statements of operations and changes in net assets for the years ended December 31, 2012 and 2011, are as follows:

	2012	2011
	(in thousands)	
Unrestricted revenues, gains and other support		
Investment income	\$ 9,807	\$ 7,788
Net unrealized investment gains (losses)	5,533	(4,132)
	<u>15,340</u>	<u>3,656</u>
Other income (expense)		
Investment income	82,065	88,709
Net unrealized investment gains (losses) on trading securities	76,311	(62,303)
	<u>158,376</u>	<u>26,406</u>
Temporarily restricted net assets, controlling interest		
Investment income	366	250
Net unrealized investment gains (losses)	100	(147)
	<u>466</u>	<u>103</u>
Permanently restricted net assets, controlling interest		
Investment income	95	71
Net unrealized investment (losses) gains	(64)	252
	<u>31</u>	<u>323</u>
	<u>\$ 174,213</u>	<u>\$ 30,488</u>

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5. Property, Plant, and Equipment

A summary of property, plant, and equipment at December 31, 2012 and 2011, is as follows:

	2012	2011
	(in thousands)	
Land and land improvements	\$ 120,577	\$ 115,109
Buildings and building equipment	1,326,847	1,242,346
Departmental equipment	1,328,500	1,128,588
Construction in progress	72,765	337,016
	<u>2,848,689</u>	<u>2,823,059</u>
Less accumulated depreciation	<u>1,278,496</u>	<u>1,318,436</u>
	<u>\$ 1,570,193</u>	<u>\$ 1,504,623</u>

As of December 31, 2012, approximately \$3.6 million of construction commitments and commitments to purchase software were outstanding. Costs of these capital items are expected to be financed by using the Corporation's board designated funded depreciation investments, future operations of the Corporation, and contributions. The decrease in construction in progress is due to the completion and capitalization of several major building projects during 2012.

Certain leases for facilities and medical equipment are accounted for as capital leases. These leases expire in various years through 2024 and are included in property, plant, and equipment on the consolidated balance sheets. The amortization of assets under capital leases is included in depreciation and amortization 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, 2012 and 2011, consists of the following:

	Year of Final Maturity	Interest Rate Range over Life of Bonds		2012	2011
(in thousands)					
Tax Exempt Hospital and Health System Revenue and Refunding Bonds					
Fixed rate term and serial bonds					
Series 2009	2039	2.50% - 5.375%		\$ 218,105	\$ 220,480
Series 2008C	2032	5.00% - 5.50%		278,995	284,830
Series 2006E, insured	2041	5.125% - 5.25%		84,675	84,675
Series 2001	-	4.75% - 5.35%		-	7,620
Series 1999, insured	-	5.25%		-	4,065
Less: bond discounts and premiums, net				(3,653)	(3,948)
Total fixed rate term and serial bonds				<u>\$ 578,122</u>	<u>\$ 597,722</u>
Variable rate direct placement bonds					
Series 2012A	2048	1.00% - 1.02%	-	\$ 75,000	\$ -
Series 2012B	2015	0.85% - 0.87%	-	5,855	-
Total variable rate direct placement bonds				<u>\$ 80,855</u>	<u>\$ -</u>
Variable rate demand bonds, subject to seven-day put provision supported by direct pay bank letters of credit					
Series 2008A	2041	0.03% - 0.27%	0.02% - 0.32%	\$ 81,175	\$ 81,175
Series 2008B	2041	0.04% - 0.24%	0.02% - 0.32%	81,070	81,170
Series 2008D	2048	0.04% - 0.29%	0.03% - 0.38%	-	75,000
Series 2008E	2048	0.04% - 0.29%	0.03% - 0.38%	50,000	50,000
Series 2008F	2048	0.04% - 0.24%	0.03% - 0.32%	45,200	45,200
Series 2008G	2048	0.04% - 0.24%	0.03% - 0.32%	45,250	45,250
Series 2008H	2048	0.05% - 0.24%	0.03% - 0.32%	63,895	63,895
Series 2008I	2037	0.03% - 0.25%	0.03% - 0.29%	40,495	40,595
Series 2008J	2037	0.04% - 0.24%	0.03% - 0.29%	40,500	40,600
Total variable rate demand bonds				<u>\$ 447,585</u>	<u>\$ 522,885</u>
Other debt					
Capital lease obligations (excluding imputed interest of \$5,498 and \$4,626 at December 31, 2012 and 2011, respectively)				\$ 21,696	\$ 12,067
Other				9,920	4,392
Total other debt				<u>\$ 31,616</u>	<u>\$ 16,459</u>
Total long-term debt				\$ 1,138,178	\$ 1,137,066
Less current portion of long-term debt				(22,103)	(17,909)
Long-term debt, net of current portion				<u>\$ 1,116,075</u>	<u>\$ 1,119,157</u>

Franciscan Alliance, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2012 and 2011

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

Years ending December 31	Fixed and Variable Rate Bonds	Capital Lease Obligations	Other	Total
	(in thousands)			
2013	\$ 15,040	\$ 4,771	\$ 2,292	\$ 22,103
2014	15,780	3,426	2,130	21,336
2015	16,585	3,318	2,217	22,120
2016	17,370	3,181	2,188	22,739
2017	18,165	2,320	1,093	21,578
Thereafter	1,019,969	4,680	-	1,024,649

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

	2012	2011
	(in thousands)	
Interest costs incurred	\$ 38,302	\$ 40,711
Less capitalized interest	<u>3,169</u>	<u>7,512</u>
Interest expense included in operating income	<u>\$ 35,133</u>	<u>\$ 33,199</u>

The fair value of the Corporation's long-term debt at December 31, 2012 and 2011 approximates \$1,128,000,000 and \$1,181,000,000, 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 which are considered Level 2 inputs as described in Note 2.

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 ("AMTI"). The AMTI permits the Corporation to issue obligations to finance certain activities. Obligations issued under the AMTI are general, direct obligations of the Corporation and any future members of the Franciscan Alliance, Inc. Obligated Group ("Obligated Group"). All members of the Obligated Group are jointly and severally liable with respect to the payment of each obligation issued under the AMTI. In addition, the AMTI provides that certain affiliates of the Corporation may be designated as Designated Group Affiliates from time to time and the Corporation covenants to cause each of its Designated Group Affiliates to pay, loan, or otherwise transfer to the Obligated Group such amounts necessary to pay the obligations issued under the AMTI. The Designated Group Affiliates are not members of the Obligated Group and are not directly liable for payments on the obligations. The Corporation has granted a security interest in its unrestricted receivables, among others, for the benefit of the owners of the obligations. The AMTI includes covenants which require the Corporation to maintain a minimum debt service coverage ratio of 1.10 and limit the Corporation's ability to encumber certain of its assets. In determining whether the Corporation has satisfied such covenants, the AMTI requires the Corporation to include the Obligated Group and 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 long-term debt issued under the AMTI. As of December 31, 2012 and 2011, the Corporation was in compliance with the terms of the AMTI and there were no other Obligated Group members nor any Designated Group Affiliates.

Franciscan Alliance, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2012 and 2011

Refunding of Long-Term Debt – In April 2012, the Corporation issued at par \$82.62 million of Series 2012A and 2012B variable rate direct placement bonds. Proceeds were used to refund the Series 2008D variable rate demand bonds that were previously supported by a direct pay letter of credit and legally defeased the Series 2001 fixed rate bonds. The transaction resulted in a loss on refunding of long-term debt of approximately \$0.2 million, which is reflected in other income (expense) in the consolidated statements of operations and change in net assets.

Variable Rate Demand Bonds – As of December 31, 2012, the Corporation has separate direct pay letters of credit totaling \$447.6 million to fully support its Series 2008A, Series 2008B, and Series 2008E 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. Additionally, these facilities (if utilized) generally have repayment terms for bonds held by the letter of credit banks that amortize ratably over 3 to 5 years, depending on the facility used. Termination dates for the various liquidity facility agreements have expiration dates extending from October 2014 through April 2017. Since the liquidity facilities expire beyond one year from the Corporation’s balance sheet date and the Corporation has the intent to continually renew these liquidity facilities, the variable rate demand bonds are classified as long-term debt and are disclosed in accordance with the stated maturities.

7. Other Liabilities and Commitments

Interest Rate Swap Contracts – The Corporation utilizes interest rate swaps to manage interest rate risk associated with its variable rate bonds. Cash payments on the interest rate swap contracts totaled \$14.4 million and \$14.5 million for the years ended December 31, 2012 and 2011, respectively. At December 31, 2012 and 2011, the interest rate swap contracts were in a liability position with a fair value of approximately \$102.2 million and \$106.0 million, respectively. The fair value of the Corporation’s interest rate swap contracts are based on observable inputs, such as interest rates and credit risk spreads, that fall within Level 2 of the hierarchy of fair value inputs as described in Note 2. Certain of the Corporation’s interest rate swap agreements include collateral funding requirements based on the market value of these contracts. At December 31, 2012 and 2011, the Corporation had posted \$41.0 million and \$40.5 million, respectively, to satisfy its collateral funding obligations on these contracts which are included in assets under bond indenture and swap agreements within board designated and other investments on the consolidated balance sheets.

Operating Leases – The Corporation leases various facilities, equipment, and software. Total rental expense under operating leases approximated \$39.8 million and \$38.1 million for the years ended December 31, 2012 and 2011, respectively. Future minimum lease payments under operating leases as of December 31, 2012 that have initial or remaining lease terms in excess of one year are as follows:

	(in thousands)
Years ending December 31	
2013	\$ 36,730
2014	34,361
2015	34,357
2016	33,226
2017	32,443
Thereafter	52,091
	<u>\$ 223,208</u>

Franciscan Alliance, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2012 and 2011

8. Pension and Other Benefit Plans

Noncontributory Defined Benefit Pension Plans - The Corporation has qualified, noncontributory defined benefit pension plans covering all eligible employees of certain of the Corporation's entities. 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 normal service cost based on the accumulated benefit obligation for the plan's year and amortize any under or over funding over a ten year period.

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

The change in projected benefit obligation, change in plan assets, and funded status of the Corporation's pension plans as of December 31, 2012 and 2011, are as follows:

	2012	2011
	(in thousands)	
Change in benefit obligation		
Benefit obligation, beginning of year	\$ 1,164,705	\$ 956,720
Service cost	45,732	37,796
Interest cost	57,896	55,215
Plan amendment	2,766	-
Actuarial loss	159,643	139,706
Benefits paid	<u>(27,584)</u>	<u>(24,732)</u>
Benefit obligation, end of year	<u>1,403,158</u>	<u>1,164,705</u>
Change in plan assets		
Fair value of plan assets, beginning of year	838,463	703,544
Actual gain on plan assets	85,365	79,791
Employer contributions	78,773	79,860
Benefits paid	<u>(27,584)</u>	<u>(24,732)</u>
Fair value of plan assets, end of year	<u>975,017</u>	<u>838,463</u>
Funded status	<u>\$ (428,141)</u>	<u>\$ (326,242)</u>
Amounts recognized in the consolidated balance sheets		
Noncurrent assets	\$ -	\$ 464
Current liabilities	(1,512)	(179)
Noncurrent liabilities	<u>(426,629)</u>	<u>(326,527)</u>
Total amount recognized	<u>\$ (428,141)</u>	<u>\$ (326,242)</u>

Franciscan Alliance, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2012 and 2011

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

	Net Gain (Loss)	Prior Service Cost (in thousands)	Total
December 31, 2010	\$ (226,621)	\$ (2,879)	\$ (229,500)
Amounts reclassified into net periodic benefit cost	15,648	2,018	17,666
Amounts arising during the year	<u>(112,099)</u>	<u>-</u>	<u>(112,099)</u>
December 31, 2011	<u>\$ (323,072)</u>	<u>\$ (861)</u>	<u>\$ (323,933)</u>

	Net Gain (Loss)	Prior Service Cost (in thousands)	Total
December 31, 2011	\$ (323,072)	\$ (861)	\$ (323,933)
Amounts reclassified into net periodic benefit cost	22,959	(1,602)	21,357
Amounts arising during the year	<u>(137,886)</u>	<u>-</u>	<u>(137,886)</u>
December 31, 2012	<u>\$ (437,999)</u>	<u>\$ (2,463)</u>	<u>\$ (440,462)</u>

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

	(in thousands)
Unrecognized prior service cost	\$ (485)
Unrecognized loss	<u>(32,153)</u>
Total amount expected to be amortized from unrestricted net assets in 2013	<u>\$ (32,638)</u>

The accumulated benefit obligation ("ABO") at December 31, 2012 and 2011 was \$1,235,880,000 and \$1,027,114,000, respectively. The following information is provided for plans with an ABO in excess of plan assets at December 31, 2012 and 2011:

	2012	2011
	(in thousands)	
Projected benefit obligation	\$ 1,403,158	\$ 1,150,358
ABO	1,235,880	1,012,766
Fair value of plan assets	975,017	823,652

Franciscan Alliance, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2012 and 2011

Components of net periodic pension cost for the years ended December 31, 2012 and 2011, are as follows:

	2012	2011
	(in thousands)	
Service cost	\$ 45,732	\$ 37,796
Interest cost	57,896	55,215
Expected return on plan assets	(64,046)	(52,184)
Amortization of prior service cost	1,602	2,018
Amortization of net loss	22,959	15,648
Net periodic pension cost	<u>\$ 64,143</u>	<u>\$ 58,493</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:

	2012	2011
Benefit obligation		
Discount rate	4.25 %	5.00 %
Rate of compensation increase	4.50 %	4.50 %
Net periodic pension cost		
Discount rate	5.00 %	5.75 %
Expected rate of return on plan assets	7.31 %	7.38 %
Rate of compensation increase	4.50 %	4.50 %

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 discount rate assumption reflects the yield of a portfolio of high quality bonds matched against the timing and amount of projected future benefit payments as of the measurement date.

The Corporation's pension 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 plans utilize 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

Franciscan Alliance, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2012 and 2011

monthly for deviations in the allowable range and is rebalanced as necessary. The asset allocation for the Corporation's pension plans as of December 31, 2012 and 2011 and the target allocation of the pension plans, by asset category, are as follows:

Asset class	Target Allocation	Percentage of Plan Assets	
		2012	2011
Domestic large capitalization securities	26 %	26 %	24 %
Domestic mid capitalization securities	3	4	4
Domestic small capitalization securities	9	8	8
International equity securities	19	18	16
Fixed income securities	36	39	44
Hedge funds	7	5	4
	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

Cash Flows

During 2013, the Corporation anticipates making contributions of approximately \$29.1 million to fund the normal service cost in accordance with its standard funding policy and an additional \$50 million to fund the second year of a four year, \$200 million total supplemental pension funding commitment approved by the Corporation's Board.

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

	(in thousands)
2013	\$ 41,845
2014	39,280
2015	46,666
2016	50,410
2017	51,504
Years 2018-2022	354,865

Defined Contribution Benefits - The Corporation sponsors various defined contribution benefit 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 provide for established contribution percentages or a percentage match of employee contributions up to certain limits. Contribution expense for the years ended December 31, 2012 and 2011 aggregated \$14.3 million and \$14.0 million, respectively.

Franciscan Alliance, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2012 and 2011

The following tables summarize the Corporation's pension and other benefit plans' assets, measured at fair value as of December 31, 2012 and 2011, respectively.

Asset category	Balance as of December 31, 2012	Level 1 Level 2 Level 3 (in thousands)		
		Cash and cash equivalents	\$ 64,917	\$ 64,917
U.S. government, state, municipal, and agency obligations	328,793	328,793	-	-
Other fixed income securities	33,958	-	33,958	-
Equity securities	422,878	422,878	-	-
Asset-backed securities	2,122	-	2,122	-
Registered and unregistered mutual funds	74,484	318	74,166	-
Real estate investment trusts	6,044	6,044	-	-
Hedge funds	41,821	-	-	41,821
Total	<u>\$ 975,017</u>	<u>\$ 822,950</u>	<u>\$ 110,246</u>	<u>\$ 41,821</u>

Asset category	Balance as of December 31, 2011	Level 1 Level 2 Level 3 (in thousands)		
		Cash and cash equivalents	\$ 69,309	\$ 69,309
U.S. government, state, municipal, and agency obligations	304,955	304,955	-	-
Other fixed income securities	29,302	-	29,302	-
Equity securities	333,769	333,769	-	-
Asset-backed securities	3,079	-	3,079	-
Registered and unregistered mutual funds	64,299	335	63,964	-
Real estate investment trusts	5,003	5,003	-	-
Hedge funds	28,747	-	-	28,747
Total	<u>\$ 838,463</u>	<u>\$ 713,371</u>	<u>\$ 96,345</u>	<u>\$ 28,747</u>

There were no significant transfers to or from Levels 1 and 2 during the years ended December 31, 2012 and 2011.

Franciscan Alliance, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2012 and 2011

Changes in Level 3 hierarchy assets measured at fair value for the Corporation's pension and other benefit plans are as follows:

	(in thousands)
Beginning balance, December 31, 2010	\$ 30,547
Net unrealized investment gains	-
Investment losses	-
Purchases of investments	1,157
Sales of investments	<u>(2,957)</u>
Ending balance, December 31, 2011	<u>28,747</u>
Beginning balance, December 31, 2011	28,747
Net unrealized investment gains	415
Investment losses	(10)
Purchases of investments	40,997
Sales of investments	<u>(28,328)</u>
Ending balance, December 31, 2012	<u>\$ 41,821</u>

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. The Corporation, through Hills Inc., has limited its liability by purchasing reinsurance and 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, through Hills Inc., would be liable for such defaulted amounts. In addition, the Corporation is self-insured for its employee health, long-term disability, and workers' compensation employee benefit programs.

The estimated insurance liabilities provide for reported losses and for losses incurred but not reported based on projections by independent actuaries using information provided by the Corporation's management. The estimated insurance liabilities, which consist of professional liability, general liability, long-term disability insurance, workers' compensation, and amounts self-insured for allocated loss adjustment expenses, approximated \$130.1 million and \$136.4 million on an undiscounted basis at December 31, 2012 and 2011, respectively.

Claims arising from provisions of health care and other operating activities 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, 2012 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, 2012.

Franciscan Alliance, Inc. and Affiliates

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

10. Noncontrolling Interests in Consolidated Affiliates and Investments in Unconsolidated Affiliates

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

Noncontrolling Interests in Consolidated Affiliates

The Corporation's consolidated financial statements include all assets, liabilities, revenues, and expenses of less than 100% owned entities that it controls. Accordingly, the Corporation has recorded noncontrolling interests in the earnings and equities of such entities in its consolidated financial statements.

The significant consolidated affiliates that the Corporation had jointly owned, along with a number of physicians who are unrelated to the Corporation, include Franciscan Physicians Hospital, LLC ("FPH") and Franciscan Physicians Real Property, LLC ("FPRP"). FPH is an Indiana limited liability company that leases and operates a 63-bed acute care hospital in Northwest Indiana. FPRP is an Indiana limited liability company that owns and leases all the real property inclusive of land, improvements, and buildings to FPH. In April 2011, all external physician ownership in FPH was fully redeemed making the Corporation the sole owner of FPH. At both December 31, 2012 and 2011, the Corporation's ownership in FPRP was 90%, with the Corporation having majority board membership and reserve powers.

The Corporation's other consolidated affiliates reflected in its consolidated financial statements include various health service related entities that support the Corporation's mission.

Investments in Unconsolidated Affiliates

The Corporation has investments in entities that are recorded under the cost or equity method of accounting. At December 31, 2012, the Corporation maintained investments in unconsolidated affiliates that support the Corporation's mission having noncontrolling ownership interests ranging from 8% to 50%.

At December 31, 2012 and 2011, the Corporation had a 33%, 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 and Presence Health ("Presence"). 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 and Presence's health centers. Governance of ACL, LLC and APHL (collectively referred to as the "Laboratories") is shared between the health system members. The Corporation accounts for its investment in ACL, LLC under the equity method which approximated \$4.1 million and \$4.0 million at December 31, 2012 and 2011, respectively. The Corporation's capital account in APHL approximates \$50,000 at both December 31, 2012 and 2011.

The Corporation's share of the equity in earnings of investments in unconsolidated affiliates accounted for on the equity method is approximately \$5.0 million and \$7.6 million for the years ended December 31, 2012 and 2011, respectively, which is included in total unrestricted revenues, gains, and other support in the consolidated statements of operations and changes in net assets.

Franciscan Alliance, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2012 and 2011

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 is as follows:

	2012	2011
	(in thousands)	
Total assets	\$ 127,161	\$ 116,797
Total liabilities	71,516	54,824
Net assets	55,645	61,973
Total unrestricted revenues, gains, and other support	664,353	597,537
Excess of revenues over expenses	9,660	20,070

11. Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31, 2012 and 2011:

	2012	2011
	(in thousands)	
Capital expenditures	\$ 4,216	\$ 5,745
Medical education programs	4,785	4,557
Health care programs	5,627	5,161
Other restrictions	2,931	2,335
	<u>\$ 17,559</u>	<u>\$ 17,798</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.

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 approximately \$11.9 million at both December 31, 2012 and 2011, are restricted to investments to be held in perpetuity with the income expendable to support the Corporation's mission.

Franciscan Alliance, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2012 and 2011

12. Related Party Transactions

The Corporation's Health Centers incurred clinical laboratory charges from the Laboratories of approximately \$60.5 million and \$59.4 million for the years ended December 31, 2012 and 2011, 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 has recorded approximately \$2.3 million and \$1.8 million for the years ended December 31, 2012 and 2011, respectively, as other operating revenue on the consolidated statements of operations and changes in net assets.

13. 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, 2012 and 2011, are as follows:

	2012	2011
	(in thousands)	
Health care services	\$ 2,042,280	\$ 1,844,850
General, administrative, and other nonhealth care services	<u>474,800</u>	<u>401,864</u>
Total operating expenses before asset impairment	<u>\$ 2,517,080</u>	<u>\$ 2,246,714</u>

14. Subsequent Events

Management has evaluated events and transactions through April 22, 2013, the date the consolidated financial statements were issued, noting no subsequent events requiring recording or disclosure.



**Independent Auditor's Report on Accompanying Consolidating Information and Other
Supplemental Financial Information**

Board of Trustees
Franciscan Alliance, Inc.
Mishawaka, Indiana

We have audited the consolidated financial statements of Franciscan Alliance, Inc. and Affiliates (collectively referred to as the "Corporation") as of December 31, 2012 and 2011 and for the years then ended and our report thereon appears on page 1 of this document. Those audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information and other supplemental financial information is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information and other supplemental financial information has been subjected to the auditing procedures applied in the audit of the financial statements, except for the portion marked "unaudited", including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information and other supplemental information, except for the portion marked "unaudited" is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information and other supplemental financial information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual companies and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations, and cash flows of the individual companies.

PricewaterhouseCoopers LLP

April 22, 2013

Franciscan Alliance, Inc. and Affiliates
Supplemental Schedule - Consolidating Balance Sheet
December 31, 2012
(In thousands)

	Central Indiana Region	Western Indiana Region	Northern Indiana Region	South Suburban Chicago Region	Corporate & Other	Eliminations	Total
Assets							
Current assets							
Cash and cash equivalents	\$ 68,714	\$ 13,715	\$ 46,017	\$ 14,452	\$ 56,666	\$ -	\$ 199,564
Short-term investments	-	5	-	-	37,154	-	37,159
Patient accounts receivable, net of allowance for doubtful accounts	104,659	51,218	128,425	51,941	-	-	336,243
Inventories of supplies	13,702	4,484	13,771	7,814	84	-	39,855
Other current assets	23,916	8,999	55,297	9,716	42,384	(16,947)	123,365
Total current assets	210,991	78,421	243,510	83,923	136,288	(16,947)	736,186
Board designated and other investments	-	4,425	1,409	40	1,720,823	-	1,726,697
Property, plant, and equipment, net	535,648	257,436	513,440	125,657	138,012	-	1,570,193
Investments in unconsolidated affiliates	3,804	3,570	261	288	13,455	-	21,378
Goodwill	14,465	-	6,358	-	538	-	21,361
Intangible assets, net of accumulated amortization	5,582	-	13,453	42	-	-	19,077
Other assets	3,890	3,063	8,797	4,147	108,880	(32,463)	96,314
Total assets	\$ 774,380	\$ 346,915	\$ 787,228	\$ 214,097	\$ 2,117,996	\$ (49,410)	\$ 4,191,206

Franciscan Alliance, Inc. and Affiliates
Supplemental Schedule - Consolidating Balance Sheet
December 31, 2012
(In thousands)

	Central Indiana Region	Western Indiana Region	Northern Indiana Region	South Suburban Chicago Region	Corporate & Other	Eliminations	Total
Liabilities and Net Assets							
Current liabilities							
Current portion of long-term debt	\$ 1,565	\$ 1,068	\$ 3,994	\$ 436	\$ 15,040	\$ -	\$ 22,103
Accounts payable and accrued expenses	78,495	17,697	73,695	26,061	49,869	(16,947)	228,870
Accrued payroll and related expenses	31,719	13,844	35,713	13,561	15,819	-	110,656
Estimated third-party payor settlements	5,580	2,511	16,470	9,859	-	-	34,420
Total current liabilities	117,359	35,120	129,872	49,917	80,728	(16,947)	396,049
Long-term debt, net of current portion	4,056	148	19,510	33,302	1,091,522	(32,463)	1,116,075
Fair value of interest rate swap contracts	-	-	-	-	102,208	-	102,208
Accrued pension liability	(9,617)	1,374	10,642	(3,746)	427,976	-	426,629
Estimated insurance liabilities	2,190	312	-	-	127,630	-	130,132
Other liabilities	2,988	1,126	4,977	3,698	45,155	-	57,944
Total liabilities	116,976	38,080	165,001	83,171	1,875,219	(49,410)	2,229,037
Net assets							
Unrestricted	646,553	289,099	618,359	130,886	219,475	-	1,904,372
Noncontrolling interests in consolidated affiliates	10,607	15,311	2,458	-	-	-	28,376
Total unrestricted net assets	657,160	304,410	620,817	130,886	219,475	-	1,932,748
Temporarily restricted	244	212	116	40	16,947	-	17,559
Permanently restricted	-	4,213	1,294	-	6,355	-	11,862
Total net assets	657,404	308,835	622,227	130,926	242,777	-	1,962,169
Total liabilities and net assets	\$ 774,380	\$ 346,915	\$ 787,228	\$ 214,097	\$ 2,117,996	\$ (49,410)	\$ 4,191,206

Franciscan Alliance, Inc. and Affiliates
Supplemental Schedule - Consolidating Balance Sheet – Central Indiana Region
December 31, 2012
(In thousands)

	Franciscan St. Francis Health - Beech Grove*/ Carmel*/ Indianapolis/ Mooresville	St. Francis Health Network, Inc.	Eliminations	Central Indiana Region
Assets				
Current assets				
Cash and cash equivalents	\$ 62,342	\$ 6,372	\$ -	\$ 68,714
Patient accounts receivable, net of allowance for doubtful accounts	104,659	-	-	104,659
Inventories of supplies	13,702	-	-	13,702
Other current assets	27,233	623	(3,940)	23,916
	<u>207,936</u>	<u>6,995</u>	<u>(3,940)</u>	<u>210,991</u>
Total current assets	207,936	6,995	(3,940)	210,991
Property, plant, and equipment, net	535,638	10	-	535,648
Investments in unconsolidated affiliates	4,154	-	(350)	3,804
Goodwill	14,465	-	-	14,465
Intangible assets, net of accumulated amortization	5,582	-	-	5,582
Other assets	3,890	-	-	3,890
	<u>\$ 771,665</u>	<u>\$ 7,005</u>	<u>\$ (4,290)</u>	<u>\$ 774,380</u>
Total assets	\$ 771,665	\$ 7,005	\$ (4,290)	\$ 774,380

Franciscan Alliance, Inc. and Affiliates
Supplemental Schedule - Consolidating Balance Sheet – Central Indiana Region
December 31, 2012
(In thousands)

	Franciscan St. Francis Health - Beech Grove*/ Carmel*/ Indianapolis/ Mooresville	St. Francis Health Network, Inc.	Eliminations	Central Indiana Region
Liabilities and Net Assets				
Current liabilities				
Current portion of long-term debt	\$ 1,565	\$ -	\$ -	\$ 1,565
Accounts payable and accrued expenses	75,509	6,926	(3,940)	78,495
Accrued payroll and related expenses	31,719	-	-	31,719
Estimated third-party payor settlements	5,580	-	-	5,580
Total current liabilities	<u>114,373</u>	<u>6,926</u>	<u>(3,940)</u>	<u>117,359</u>
Long-term debt, net of current portion	4,056	-	-	4,056
Accrued pension liability	(9,617)	-	-	(9,617)
Estimated insurance liabilities	2,190	-	-	2,190
Other liabilities	2,988	-	-	2,988
Total liabilities	<u>113,990</u>	<u>6,926</u>	<u>(3,940)</u>	<u>116,976</u>
Net assets				
Unrestricted	646,824	79	(350)	646,553
Noncontrolling interests in consolidated affiliates	10,607	-	-	10,607
Total unrestricted net assets	<u>657,431</u>	<u>79</u>	<u>(350)</u>	<u>657,160</u>
Temporarily restricted	244	-	-	244
Total net assets	<u>657,675</u>	<u>79</u>	<u>(350)</u>	<u>657,404</u>
Total liabilities and net assets	<u>\$ 771,665</u>	<u>\$ 7,005</u>	<u>\$ (4,290)</u>	<u>\$ 774,380</u>

* Franciscan St. Francis Health-Beech Grove campus closed in March 2012 and Franciscan St. Francis Health-Carmel campus opened in April 2012.

Franciscan Alliance, Inc. and Affiliates
Supplemental Schedule - Consolidating Balance Sheet – Western Indiana Region
December 31, 2012
(In thousands)

	Franciscan St. Elizabeth Health - Lafayette	Franciscan St. Elizabeth Health - Crawfordsville	Eliminations	Western Indiana Region
Assets				
Current assets				
Cash and cash equivalents	\$ 10,845	\$ 2,870	\$ -	\$ 13,715
Short-term investments	5	-	-	5
Patient accounts receivable, net of allowance for doubtful accounts	45,738	5,480	-	51,218
Inventories of supplies	3,308	1,176	-	4,484
Other current assets	5,839	3,499	(339)	8,999
Total current assets	65,735	13,025	(339)	78,421
Board designated and other investments	144	4,281	-	4,425
Property, plant, and equipment, net	231,821	25,615	-	257,436
Investments in unconsolidated affiliates	3,570	-	-	3,570
Other assets	3,063	-	-	3,063
Total assets	<u>\$ 304,333</u>	<u>\$ 42,921</u>	<u>\$ (339)</u>	<u>\$ 346,915</u>

Franciscan Alliance, Inc. and Affiliates
Supplemental Schedule - Consolidating Balance Sheet – Western Indiana Region
December 31, 2012
(In thousands)

	Franciscan St. Elizabeth Health - Lafayette	Franciscan St. Elizabeth Health - Crawfordsville	Eliminations	Western Indiana Region
Liabilities and Net Assets				
Current liabilities				
Current portion of long-term debt	\$ 1,068	\$ -	\$ -	\$ 1,068
Accounts payable and accrued expenses	14,104	3,932	(339)	17,697
Accrued payroll and related expenses	11,476	2,368	-	13,844
Estimated third-party payor settlements	3,087	(576)	-	2,511
Total current liabilities	<u>29,735</u>	<u>5,724</u>	<u>(339)</u>	<u>35,120</u>
Long-term debt, net of current portion	148	-	-	148
Accrued pension liability	3,659	(2,285)	-	1,374
Estimated insurance liabilities	312	-	-	312
Other liabilities	1,126	-	-	1,126
Total liabilities	<u>34,980</u>	<u>3,439</u>	<u>(339)</u>	<u>38,080</u>
Net assets				
Unrestricted	253,898	35,201	-	289,099
Noncontrolling interests in consolidated affiliates	15,311	-	-	15,311
Total unrestricted net assets	<u>269,209</u>	<u>35,201</u>	<u>-</u>	<u>304,410</u>
Temporarily restricted	144	68	-	212
Permanently restricted	-	4,213	-	4,213
Total net assets	<u>269,353</u>	<u>39,482</u>	<u>-</u>	<u>308,835</u>
Total liabilities and net assets	<u>\$ 304,333</u>	<u>\$ 42,921</u>	<u>\$ (339)</u>	<u>\$ 346,915</u>

Franciscan Alliance, Inc. and Affiliates
Supplemental Schedule - Consolidating Balance Sheet – Northern Indiana Region
December 31, 2012
(In thousands)

	Franciscan St. Margaret Health - Hammond/Dyer	Franciscan St. Anthony Health - Michigan City	Franciscan St. Anthony Health - Crown Point	Franciscan Physicians Hospital, LLC Munster	Franciscan Physicians Real Property, LLC	Eliminations	Northern Indiana Region
Assets							
Current assets							
Cash and cash equivalents	\$ 19,401	\$ 9,935	\$ 9,004	\$ 3,629	\$ 4,048	\$ -	\$ 46,017
Patient accounts receivable, net of allowance for doubtful accounts	44,568	18,512	32,666	32,679	-	-	128,425
Inventories of supplies	5,508	2,677	1,624	3,962	-	-	13,771
Other current assets	44,402	8,801	9,161	12,372	8,183	(27,622)	55,297
Total current assets	113,879	39,925	52,455	52,642	12,231	(27,622)	243,510
Board designated and other investments	-	-	1,409	-	-	-	1,409
Property, plant, and equipment, net	154,367	114,493	190,580	27,104	26,896	-	513,440
Investments in unconsolidated affiliates	2,096	76	76	28,744	-	(30,731)	261
Goodwill	-	-	-	6,358	-	-	6,358
Intangible assets, net of accumulated amortization	333	1,650	93	11,377	-	-	13,453
Other assets	1,759	2,265	187	4,586	2,807	(2,807)	8,797
Total assets	\$ 272,434	\$ 158,409	\$ 244,800	\$ 130,811	\$ 41,934	\$ (61,160)	\$ 787,228

Franciscan Alliance, Inc. and Affiliates
Supplemental Schedule - Consolidating Balance Sheet – Northern Indiana Region
December 31, 2012
(In thousands)

	Franciscan St. Margaret Health - Hammond/Dyer	Franciscan St. Anthony Health - Michigan City	Franciscan St. Anthony Health - Crown Point	Franciscan Physicians Hospital, LLC Munster	Franciscan Physicians Real Property, LLC	Eliminations	Northern Indiana Region
Liabilities and Net Assets							
Current liabilities							
Current portion of long-term debt	\$ 192	\$ 1,320	\$ 1,285	\$ 1,551	\$ -	\$ (354)	\$ 3,994
Accounts payable and accrued expenses	22,197	11,142	13,611	52,654	1,359	(27,268)	73,695
Accrued payroll and related expenses	16,709	4,996	7,331	6,677	-	-	35,713
Estimated third-party payor settlements	9,270	2,837	4,269	94	-	-	16,470
Total current liabilities	48,368	20,295	26,496	60,976	1,359	(27,622)	129,872
Long-term debt, net of current portion	691	10,914	4,629	5,272	-	(1,996)	19,510
Accrued pension liability	13,912	1,718	(4,988)	-	-	-	10,642
Other liabilities	3,292	1,607	78	811	-	(811)	4,977
Total liabilities	66,263	34,534	26,215	67,059	1,359	(30,429)	165,001
Net assets							
Unrestricted	206,171	121,888	217,175	63,752	40,575	(31,202)	618,359
Noncontrolling interests in consolidated affiliates	-	1,987	-	-	-	471	2,458
Total unrestricted net assets	206,171	123,875	217,175	63,752	40,575	(30,731)	620,817
Temporarily restricted	-	-	116	-	-	-	116
Permanently restricted	-	-	1,294	-	-	-	1,294
Total net assets	206,171	123,875	218,585	63,752	40,575	(30,731)	622,227
Total liabilities and net assets	\$ 272,434	\$ 158,409	\$ 244,800	\$ 130,811	\$ 41,934	\$ (61,160)	\$ 787,228

Franciscan Alliance, Inc. and Affiliates
Supplemental Schedule - Consolidating Balance Sheet – Corporate and Other
December 31, 2012
(In thousands)

	Corporate and Other Corporate and Business Functions	Hills Insurance Company, Inc.	Tonn and Blank Construction, LLC	Franciscan Holding Corporation	Franciscan Alliance Foundation	Alverno Clinical Laboratories, Inc.	Eliminations	Corporate and Other
Assets								
Current assets								
Cash and cash equivalents	\$ 31,697	\$ 250	\$ 17,130	\$ 1,540	\$ 6,047	\$ 2	\$ -	\$ 56,666
Short-term investments	11,982	-	25,059	113	-	-	-	37,154
Inventories of supplies	-	-	84	-	-	-	-	84
Other current assets	31,906	685	9,410	-	1,138	-	(755)	42,384
Total current assets	75,585	935	51,683	1,653	7,185	2	(755)	136,288
Board designated and other investments	1,552,847	152,680	-	-	15,296	-	-	1,720,823
Property, plant, and equipment, net	131,494	-	6,384	-	134	-	-	138,012
Investments in unconsolidated affiliates	109,931	-	-	40,968	-	-	(137,444)	13,455
Goodwill	-	-	538	-	-	-	-	538
Other assets	85,886	21,241	1,015	-	738	-	-	108,880
Total assets	\$ 1,955,743	\$ 174,856	\$ 59,620	\$ 42,621	\$ 23,353	\$ 2	\$ (138,199)	\$ 2,117,996

Franciscan Alliance, Inc. and Affiliates
Supplemental Schedule - Consolidating Balance Sheet – Corporate and Other
December 31, 2012
(In thousands)

	Corporate and Other Coordinated Business Functions	Hills Insurance Company, Inc.	Tonn and Blank Construction, LLC	Franciscan Holding Corporation	Franciscan Alliance Foundation	Alverno Clinical Laboratories, Inc.	Eliminations	Corporate and Other
Liabilities and Net Assets								
Current liabilities								
Current portion of long-term debt	\$ 15,040	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,040
Accounts payable and accrued expenses	30,362	2,359	15,197	-	2,706	-	(755)	49,869
Accrued payroll and related expenses	14,498	-	1,321	-	-	-	-	15,819
Total current liabilities	59,900	2,359	16,518	-	2,706	-	(755)	80,728
Long-term debt, net of current portion	1,091,522	-	-	-	-	-	-	1,091,522
Fair value of interest rate swap contracts	102,208	-	-	-	-	-	-	102,208
Accrued pension liability	426,427	-	1,549	-	-	-	-	427,976
Estimated insurance liabilities	8,987	118,643	-	-	-	-	-	127,630
Other liabilities	45,094	-	-	-	61	-	-	45,155
Total liabilities	1,734,138	121,002	18,067	-	2,767	-	(755)	1,875,219
Net assets								
Unrestricted	219,254	53,854	41,553	42,621	(365)	2	(137,444)	219,475
Temporarily restricted	544	-	-	-	16,403	-	-	16,947
Permanently restricted	1,807	-	-	-	4,548	-	-	6,355
Total net assets	221,605	53,854	41,553	42,621	20,586	2	(137,444)	242,777
Total liabilities and net assets	\$ 1,955,743	\$ 174,856	\$ 59,620	\$ 42,621	\$ 23,353	\$ 2	\$ (138,199)	\$ 2,117,996

Franciscan Alliance, Inc. and Affiliates
Supplemental Schedule - Consolidating Statement of Operations
Year Ended December 31, 2012
(In thousands)

	Central Indiana Region	Western Indiana Region	Northern Indiana Region	South Suburban Chicago Region	Corporate and Other	Eliminations	Total
Unrestricted revenues, gains, and other support							
Patient service revenue, net of contractual allowances and discounts	\$ 843,703	\$ 426,495	\$ 863,712	\$ 326,106	\$ -	\$ -	\$ 2,460,016
Provision for doubtful accounts	(32,022)	(15,842)	(43,081)	(16,049)	-	-	(106,994)
Net patient service revenue	811,681	410,653	820,631	310,057	-	-	2,353,022
Capitation and premium revenue	71,708	109	38,113	24,849	-	-	134,779
Other operating revenue	32,128	11,933	34,694	13,708	320,869	(286,807)	126,525
Equity in earnings (losses) of investments in unconsolidated affiliates	74	6,766	124	5	(1,968)	-	5,001
Net unrealized investment gains	-	-	-	-	5,533	-	5,533
Net assets released from restrictions used for operations	-	425	1,020	460	96	-	2,001
Total unrestricted revenues, gains, and other support	915,591	429,886	894,582	349,079	324,530	(286,807)	2,626,861
Operating expenses							
Salaries	305,340	137,987	341,174	129,998	86,113	-	1,000,612
Employee benefits	78,383	46,297	105,665	29,790	29,877	-	290,012
Physicians' fees	11,834	10,366	10,867	19,654	-	-	52,721
Utilities	10,371	6,209	15,558	5,290	5,658	(55)	43,031
Repairs and maintenance	12,949	7,803	13,737	5,963	665	(2)	41,115
Drugs and pharmaceuticals	32,887	10,671	33,932	18,471	-	-	95,961
Medical supplies	69,863	35,453	57,962	26,225	-	-	189,503
Insurance	5,108	2,870	8,382	17,944	16,973	(12,528)	38,749
Purchased services	80,685	48,169	71,011	27,218	28,626	(1,782)	253,927
Other supplies and expenses	166,815	74,262	166,094	76,445	84,362	(227,833)	340,145
Interest	13,772	8,550	15,731	7,454	34,233	(44,607)	35,133
Depreciation and amortization	40,375	18,343	40,476	16,937	20,040	-	136,171
Total operating expenses before asset impairment	828,382	406,980	880,589	381,389	306,547	(286,807)	2,517,080
Operating income (loss) before asset impairment	87,209	22,906	13,993	(32,310)	17,983	-	109,781
Asset impairment	-	-	-	(30,000)	-	-	(30,000)
Operating income (loss) after asset impairment	87,209	22,906	13,993	(62,310)	17,983	-	79,781
Other income (expense)							
Investment income	697	256	1,002	258	79,852	-	82,065
Net unrealized investment gains on trading securities	162	-	37	7	76,105	-	76,311
Net unrealized losses and periodic settlements on interest rate swap contracts	-	-	-	-	(10,673)	-	(10,673)
(Loss) gain on sale/disposal of assets	(192)	(278)	(173)	(486)	84	-	(1,045)
Net assets released from restrictions	-	-	-	-	1,318	-	1,318
Contributions	95	57	1	5	273	-	431
Other, net	56	(3)	(558)	554	(5,089)	-	(5,040)
Total other income, net	818	32	309	338	141,870	-	143,367
Excess (deficiency) of revenues over expenses	88,027	22,938	14,302	(61,972)	159,853	-	223,148
Equity transfers (to) from affiliates, net	(34,612)	(38,424)	74,987	33,170	(35,121)	-	-
Change in pension and postretirement benefits other than net periodic pension costs included in accrued pension liability	-	(2,206)	-	-	(114,323)	-	(116,529)
Distribution (to) from noncontrolling interests in consolidated affiliates	(17,317)	(2,090)	325	-	-	-	(19,082)
Other, net	-	-	(241)	-	-	-	(241)
Net assets released from restrictions used for purchase of property, plant, and equipment	39	38	220	1,361	-	-	1,658
Increase (decrease) in unrestricted net assets	\$ 36,137	\$ (19,744)	\$ 89,593	\$ (27,441)	\$ 10,409	\$ -	\$ 88,954

Franciscan Alliance, Inc. and Affiliates
Supplemental Schedule - Consolidating Statement of Operations – Central Indiana Region
Year Ended December 31, 2012
(In thousands)

	Franciscan St. Francis Health - Beech Grove*/ Carmel*/ Indianapolis/ Mooreville	St. Francis Health Network, Inc.	Eliminations	Central Indiana Region
Unrestricted revenues, gains, and other support				
Patient service revenue, net of contractual allowances and discounts	\$ 843,703	\$ -	\$ -	\$ 843,703
Provision for doubtful accounts	(32,022)	-	-	(32,022)
Net patient service revenue	811,681	-	-	811,681
Capitation and premium revenue	40,562	71,708	(40,562)	71,708
Other operating revenue	29,443	8,351	(5,666)	32,128
Equity in earnings of investments in unconsolidated affiliates	74	-	-	74
Total unrestricted revenues, gains, and other support	881,760	80,059	(46,228)	915,591
Operating expenses				
Salaries	303,743	1,597	-	305,340
Employee benefits	77,865	518	-	78,383
Physicians' fees	11,834	-	-	11,834
Utilities	10,366	5	-	10,371
Repairs and maintenance	12,946	3	-	12,949
Drugs and pharmaceuticals	32,887	-	-	32,887
Medical supplies	69,863	-	-	69,863
Insurance	5,086	22	-	5,108
Purchased services	78,468	6,311	(4,094)	80,685
Other supplies and expenses	137,198	71,751	(42,134)	166,815
Interest	13,772	-	-	13,772
Depreciation and amortization	40,371	4	-	40,375
Total operating expenses	794,399	80,211	(46,228)	828,382
Operating income (loss)	87,361	(152)	-	87,209
Other income (expense)				
Investment income	543	154	-	697
Net unrealized investment gains on trading securities	-	162	-	162
Loss on sale/disposal of assets	(192)	-	-	(192)
Contributions	95	-	-	95
Other, net	56	-	-	56
Total other income, net	502	316	-	818
Excess of revenues over expenses	87,863	164	-	88,027
Equity transfers (to) from affiliates, net	(34,612)	350	(350)	(34,612)
Distribution to noncontrolling interests in consolidated affiliates	(17,317)	-	-	(17,317)
Net assets released from restrictions used for purchase of property, plant, and equipment	39	-	-	39
Increase (decrease) in unrestricted net assets	\$ 35,973	\$ 514	\$ (350)	\$ 36,137

* Franciscan St. Francis Health-Beech Grove campus closed in March 2012 and Franciscan St. Francis Health-Carmel campus opened in April 2012.

Franciscan Alliance, Inc. and Affiliates
Supplemental Schedule - Consolidating Statement of Operations - Western Indiana Region
Year Ended December 31, 2012
(In thousands)

	Franciscan St. Elizabeth Health - Lafayette	Franciscan St. Elizabeth Health - Crawfordsville	Eliminations	Western Indiana Region
Unrestricted revenues, gains, and other support				
Patient service revenue, net of contractual allowances and discounts	\$ 368,010	\$ 58,485	\$ -	\$ 426,495
Provision for doubtful accounts	(12,219)	(3,623)	-	(15,842)
Net patient service revenue	<u>355,791</u>	<u>54,862</u>	<u>-</u>	<u>410,653</u>
Capitation and premium revenue	25	84	-	109
Other operating revenue	11,124	1,272	(463)	11,933
Equity in earnings of investments in unconsolidated affiliates	6,766	-	-	6,766
Net assets released from restrictions used for operations	331	94	-	425
Total unrestricted revenues, gains, and other support	<u>374,037</u>	<u>56,312</u>	<u>(463)</u>	<u>429,886</u>
Operating expenses				
Salaries	117,548	20,439	-	137,987
Employee benefits	40,784	5,513	-	46,297
Physicians' fees	9,733	633	-	10,366
Utilities	5,423	786	-	6,209
Repairs and maintenance	6,229	1,574	-	7,803
Drugs and pharmaceuticals	7,724	2,947	-	10,671
Medical supplies	33,195	2,258	-	35,453
Insurance	2,387	483	-	2,870
Purchased services	44,917	3,715	(463)	48,169
Other supplies and expenses	62,184	12,078	-	74,262
Interest	7,486	1,064	-	8,550
Depreciation and amortization	15,685	2,658	-	18,343
Total operating expenses	<u>353,295</u>	<u>54,148</u>	<u>(463)</u>	<u>406,980</u>
Operating income	<u>20,742</u>	<u>2,164</u>	<u>-</u>	<u>22,906</u>
Other income (expense)				
Investment income	230	26	-	256
(Loss) gain on sale/disposal of assets	(293)	15	-	(278)
Contributions	57	-	-	57
Other, net	-	(3)	-	(3)
Total other (expense) income, net	<u>(6)</u>	<u>38</u>	<u>-</u>	<u>32</u>
Excess of revenues over expenses	20,736	2,202	-	22,938
Equity transfers to affiliates, net	(35,334)	(3,090)	-	(38,424)
Change in pension and postretirement benefits other than net periodic pension costs included in accrued pension liability	(2,206)	-	-	(2,206)
Distributions to noncontrolling interests in consolidated affiliates	(2,090)	-	-	(2,090)
Net assets released from restrictions used for purchase of property, plant, and equipment	38	-	-	38
Decrease in unrestricted net assets	<u>\$ (18,856)</u>	<u>\$ (888)</u>	<u>\$ -</u>	<u>\$ (19,744)</u>

Franciscan Alliance, Inc. and Affiliates
Supplemental Schedule - Consolidating Statement of Operations - Northern Indiana Region
Year Ended December 31, 2012
(In thousands)

	Franciscan St. Margaret Health - Hammond/Dyer	Franciscan St. Anthony Health - Michigan City	Franciscan St. Anthony Health - Crown Point	Franciscan Physicians Hospital, LLC Munster	Franciscan Physicians Real Property, LLC	Eliminations	Northern Indiana Region
Unrestricted revenues, gains, and other support							
Patient service revenue, net of contractual allowances and discounts	\$ 338,116	\$ 177,107	\$ 245,245	\$ 103,244	\$ -	\$ -	\$ 863,712
Provision for doubtful accounts	(17,748)	(9,296)	(12,614)	(3,423)	-	-	(43,081)
Net patient service revenue	320,368	167,811	232,631	99,821	-	-	820,631
Capitation and premium revenue	8,859	6,754	138	22,362	-	-	38,113
Other operating revenue	16,507	7,226	6,894	4,062	3,689	(3,684)	34,694
Equity in earnings of investments in unconsolidated affiliates	28	48	48	-	-	-	124
Net assets released from restrictions used for operations	963	53	4	-	-	-	1,020
Total unrestricted revenues, gains, and other support	346,725	181,892	239,715	126,245	3,689	(3,684)	894,582
Operating expenses							
Salaries	139,488	69,566	81,170	50,950	-	-	341,174
Employee benefits	48,565	20,405	27,628	9,067	-	-	105,665
Physicians' fees	2,055	4,422	2,216	2,174	-	-	10,867
Utilities	6,383	2,989	4,426	1,760	-	-	15,558
Repairs and maintenance	5,665	2,708	3,659	1,705	-	-	13,737
Drugs and pharmaceuticals	8,436	5,242	8,684	11,570	-	-	33,932
Medical supplies	23,198	11,560	16,461	6,743	-	-	57,962
Insurance	3,100	1,709	1,884	1,689	-	-	8,382
Purchased services	26,567	13,331	16,401	14,712	-	-	71,011
Other supplies and expenses	61,214	42,843	46,434	18,984	29	(3,410)	166,094
Interest	6,350	3,865	4,803	986	1	(274)	15,731
Depreciation and amortization	13,652	10,207	12,567	3,370	680	-	40,476
Total operating expenses	344,673	188,847	226,333	123,710	710	(3,684)	880,589
Operating income (loss)	2,052	(6,955)	13,382	2,535	2,979	-	13,993
Other income (expense)							
Investment income	327	74	601	-	-	-	1,002
Net unrealized investment gains (losses) on trading securities	53	13	(107)	78	-	-	37
(Loss) gain on sale/disposal of assets	(209)	32	4	-	-	-	(173)
Contributions	-	1	-	-	-	-	1
Other, net	-	-	(556)	(2)	-	-	(558)
Total other income (expense), net	171	120	(58)	76	-	-	309
Excess (deficiency) of revenues over expenses	2,223	(6,835)	13,324	2,611	2,979	-	14,302
Equity transfers from (to) affiliates, net	48,562	19,541	(12,709)	21,704	(2,111)	-	74,987
Distributions from noncontrolling interests in consolidated affiliates	-	12	-	-	-	313	325
Other, net	-	-	-	-	(241)	-	(241)
Net assets released from restrictions used for purchase of property, plant, and equipment	11	190	19	-	-	-	220
Increase in unrestricted net assets	\$ 50,796	\$ 12,908	\$ 634	\$ 24,315	\$ 627	\$ 313	\$ 89,593

Franciscan Alliance, Inc. and Affiliates
Supplemental Schedule - Consolidating Statement of Operations - Corporate and Other
Year Ended December 31, 2012
(In thousands)

	Corporate and Other Coordinated Business Functions	Hills Insurance Company, Inc.	Tonn and Blank Construction, LLC	Franciscan Holding Corporation	Franciscan Alliance Foundation	Alverno Clinical Laboratories, Inc.	Eliminations	Corporate & Other
Unrestricted revenues, gains, and other support								
Other operating revenue	\$ 237,338	\$ 22,335	\$ 79,853	\$ -	\$ -	\$ 35	\$ (18,692)	\$ 320,869
Equity in earnings (losses) of investments in unconsolidated affiliates	5,236	-	-	1,196	-	-	(8,400)	(1,968)
Net unrealized investment gains	5,533	5,533	-	-	-	-	(5,533)	5,533
Net assets released from restrictions used for operations	96	-	-	-	-	-	-	96
Total unrestricted revenues, gains, and other support	<u>248,203</u>	<u>27,868</u>	<u>79,853</u>	<u>1,196</u>	<u>-</u>	<u>35</u>	<u>(32,625)</u>	<u>324,530</u>
Operating expenses								
Salaries	72,042	-	14,071	-	-	-	-	86,113
Employee benefits	23,877	-	5,807	-	-	193	-	29,877
Utilities	5,536	-	122	-	-	-	-	5,658
Repairs and maintenance	521	-	144	-	-	-	-	665
Insurance	132	16,421	418	-	-	2	-	16,973
Purchased services	28,591	-	-	-	-	35	-	28,626
Other supplies and expenses	28,000	-	57,509	9	-	-	(1,156)	84,362
Interest	51,769	-	-	-	-	-	(17,536)	34,233
Depreciation and amortization	19,544	-	496	-	-	-	-	20,040
Total operating expenses	<u>230,012</u>	<u>16,421</u>	<u>78,567</u>	<u>9</u>	<u>-</u>	<u>230</u>	<u>(18,692)</u>	<u>306,547</u>
Operating income (loss)	<u>18,191</u>	<u>11,447</u>	<u>1,286</u>	<u>1,187</u>	<u>-</u>	<u>(195)</u>	<u>(13,933)</u>	<u>17,983</u>
Other income (expense)								
Investment income	79,524	-	318	-	10	-	-	79,852
Net unrealized investment gains on trading securities	76,053	-	52	-	-	-	-	76,105
Net unrealized losses and periodic settlements on interest rate swap contracts	(10,673)	-	-	-	-	-	-	(10,673)
Gain (loss) on sale/disposal of assets	99	-	(15)	-	-	-	-	84
Net assets released from restrictions	-	-	-	-	1,318	-	-	1,318
Contributions	114	-	-	-	159	-	-	273
Other, net	(2,180)	-	-	104	(3,013)	-	-	(5,089)
Total other income (expense), net	<u>142,937</u>	<u>-</u>	<u>355</u>	<u>104</u>	<u>(1,526)</u>	<u>-</u>	<u>-</u>	<u>141,870</u>
Excess (deficiency) of revenues over expenses	<u>161,128</u>	<u>11,447</u>	<u>1,641</u>	<u>1,291</u>	<u>(1,526)</u>	<u>(195)</u>	<u>(13,933)</u>	<u>159,853</u>
Equity transfers (to) from affiliates, net	(35,817)	-	-	-	501	195	-	(35,121)
Change in pension and postretirement benefits other than net periodic pension costs included in accrued pension liability	(113,941)	-	(382)	-	-	-	-	(114,323)
Other, net	514	-	(1,011)	-	-	-	497	-
Increase (decrease) in unrestricted net assets	<u>\$ 11,884</u>	<u>\$ 11,447</u>	<u>\$ 248</u>	<u>\$ 1,291</u>	<u>\$ (1,025)</u>	<u>\$ -</u>	<u>\$ (13,436)</u>	<u>\$ 10,409</u>

Franciscan Alliance, Inc. and Affiliates
Supplemental Schedule - Patient Accounts Receivable and Related Data
December 31, 2012 and 2011
(In thousands, except percentages and average days)

	Patient Accounts Receivable, Net		Increase (Decrease)		Average Day's Charges in Patient Accounts Receivable, Net (Unaudited)	
	2012	2011	Amount	Percentage	2012	2011
Franciscan St. Francis Health - Beech Grove*/ Carmel*/Indianapolis/Mooresville	\$ 104,659	\$ 98,945	\$ 5,714	5.8%	47.2	51.2
Franciscan St. Elizabeth Health - Lafayette	45,738	44,910	828	1.8%	47.1	52.9
Franciscan St. Elizabeth Health - Crawfordsville	5,480	6,736	(1,256)	-18.6%	36.6	45.5
Franciscan St. Margaret Health - Hammond/Dyer	44,568	35,182	9,386	26.7%	50.9	44.3
Franciscan St. Anthony Health - Michigan City	18,512	17,463	1,049	6.0%	40.4	43.7
Franciscan St. Anthony Health - Crown Point	32,666	31,888	778	2.4%	51.4	55.9
Franciscan Physicians Hospital, LLC, Munster	32,679	15,545	17,134	110.2%	119.8	89.3
South Suburban Chicago Region, Chicago Heights/ Olympia Fields	51,941	61,870	(9,929)	-16.0%	61.3	68.4
Total	\$ 336,243	\$ 312,539	\$ 23,704	7.6%	52.3	54.1

* Franciscan St. Francis Health-Beech Grove campus closed in March 2012 and Franciscan St. Francis Health-Carmel campus opened in April 2012.

Franciscan Alliance, Inc. and Affiliates
Supplemental Schedule - Gross Revenue Composition by Payor
Year Ended December 31, 2012
(In thousands, except percentages)
(Unaudited)

	Central Indiana Region		Western Indiana Region				Northern Indiana Region						South Suburban Chicago Region		Consolidated			
	Franciscan St. Francis Health - Beech Grove*/Carmel*/Indianapolis/Mooresville		Franciscan St. Elizabeth Health - Lafayette		Franciscan St. Elizabeth Health - Crawfordsville		Franciscan St. Margaret Health - Hammond/Dyer		Franciscan St. Anthony Health - Michigan City		Franciscan St. Anthony Health - Crown Point		Franciscan Physicians Hospital, LLC Munster					
Medicare	\$ 772,470	34.4%	\$ 323,616	34.6%	\$ 49,575	38.0%	\$ 392,459	44.6%	\$ 183,707	40.5%	\$ 216,191	38.0%	\$ 82,894	28.2%	\$ 460,570	42.4%	\$ 2,481,482	37.6%
Medicare managed care	175,896	7.8%	43,112	4.6%	9,751	7.5%	23,473	2.7%	12,031	2.7%	30,536	5.4%	3,398	1.2%	37,748	3.5%	335,945	5.1%
Medicaid	177,742	7.9%	61,132	6.5%	4,612	3.5%	101,878	11.6%	40,434	8.9%	18,685	3.3%	5,841	2.0%	122,136	11.2%	532,460	8.1%
Medicaid managed care	74,287	3.3%	53,020	5.7%	8,256	6.3%	46,693	5.3%	37,854	8.4%	32,009	5.6%	5,230	1.8%	47,935	4.4%	305,284	4.6%
Blue Cross	528,512	23.5%	143,700	15.3%	21,155	16.2%	131,174	14.9%	76,348	16.9%	137,482	24.2%	82,175	28.0%	205,782	18.9%	1,326,328	20.1%
Managed care contracts	323,171	14.4%	217,720	23.2%	17,792	13.6%	91,169	10.4%	44,369	9.8%	75,073	13.2%	80,296	27.4%	109,571	10.1%	959,161	14.5%
Other commercial	83,405	3.7%	13,282	1.4%	8,333	6.4%	35,893	4.1%	22,027	4.8%	34,163	6.0%	22,900	7.8%	37,659	3.5%	257,662	3.9%
Self-pay	108,795	4.8%	58,037	6.2%	9,554	7.3%	47,856	5.4%	30,956	6.8%	18,844	3.3%	3,645	1.2%	62,606	5.7%	340,293	5.2%
Other	5,253	0.2%	23,096	2.5%	1,507	1.2%	9,070	1.0%	5,486	1.2%	5,673	1.0%	7,226	2.4%	3,543	0.3%	60,854	0.9%
Total	\$ 2,249,531	100.0%	\$ 936,715	100.0%	\$ 130,535	100.0%	\$ 879,665	100.0%	\$ 453,212	100.0%	\$ 568,656	100.0%	\$ 293,605	100.0%	\$ 1,087,550	100.0%	\$ 6,599,469	100.0%

* Franciscan St. Francis Health-Beech Grove campus closed in March 2012 and Franciscan St. Francis Health-Carmel campus opened in April 2012.

Franciscan Alliance, Inc. and Affiliates
Supplemental Schedule - Gross Revenue Composition by Payor
Year Ended December 31, 2012
(In thousands, except percentages)
(Unaudited)

	Central Indiana Region		Western Indiana Region				Northern Indiana Region						South Suburban Chicago Region		Consolidated			
	Franciscan St. Francis Health - Beech Grove*/Carmel*/Indianapolis/Mooresville		Franciscan St. Elizabeth Health - Lafayette		Franciscan St. Elizabeth Health - Crawfordsville		Franciscan St. Margaret Health - Hammond/Dyer		Franciscan St. Anthony Health - Michigan City		Franciscan St. Anthony Health - Crown Point		Franciscan Physicians Hospital, LLC Munster					
Inpatient																		
Medicare	\$ 376,498	45.1%	\$ 200,817	46.3%	\$ 17,491	62.1%	\$ 273,862	56.1%	\$ 93,476	52.9%	\$ 131,633	50.7%	\$ 11,066	44.7%	\$ 311,137	55.6%	\$ 1,415,980	50.5%
Medicare managed care	94,570	11.3%	28,869	6.7%	3,618	12.8%	16,283	3.3%	5,882	3.3%	16,519	6.4%	375	1.5%	24,514	4.4%	190,630	6.8%
Medicaid	65,048	7.8%	30,213	7.0%	660	2.3%	58,539	12.0%	17,592	10.0%	12,792	4.9%	379	1.5%	55,586	9.9%	240,809	8.6%
Medicaid managed care	22,260	2.7%	21,728	5.0%	408	1.5%	16,145	3.3%	9,780	5.5%	10,456	4.0%	48	0.2%	28,929	5.2%	109,754	3.9%
Blue Cross	143,594	17.2%	51,229	11.8%	2,391	8.5%	59,485	12.2%	21,175	12.0%	44,900	17.3%	7,939	32.0%	76,298	13.7%	407,011	14.5%
Managed care contracts	75,226	9.0%	73,944	17.0%	1,873	6.6%	28,832	5.9%	12,572	7.1%	23,880	9.2%	2,887	11.7%	31,785	5.7%	250,999	8.9%
Other commercial	27,165	3.3%	6,268	1.4%	698	2.5%	15,523	3.2%	5,464	3.1%	11,448	4.4%	919	3.7%	8,718	1.6%	76,203	2.7%
Self-pay	28,870	3.5%	18,548	4.3%	987	3.5%	17,424	3.6%	10,180	5.8%	7,156	2.8%	154	0.6%	22,034	3.9%	105,353	3.8%
Other	1,060	0.1%	1,993	0.5%	45	0.2%	2,063	0.4%	522	0.3%	757	0.3%	1,007	4.1%	-	-	7,447	0.3%
	<u>\$ 834,291</u>	<u>100.0%</u>	<u>\$ 433,609</u>	<u>100.0%</u>	<u>\$ 28,171</u>	<u>100.0%</u>	<u>\$ 488,156</u>	<u>100.0%</u>	<u>\$ 176,643</u>	<u>100.0%</u>	<u>\$ 259,541</u>	<u>100.0%</u>	<u>\$ 24,774</u>	<u>100.0%</u>	<u>\$ 559,001</u>	<u>100.0%</u>	<u>\$ 2,804,186</u>	<u>100.0%</u>
Outpatient																		
Medicare	\$ 395,972	28.0%	\$ 122,799	24.4%	\$ 32,084	31.3%	\$ 118,597	30.3%	\$ 90,231	32.6%	\$ 84,558	27.4%	\$ 71,828	26.7%	\$ 149,433	28.2%	\$ 1,065,502	28.1%
Medicare managed care	81,326	5.7%	14,243	2.8%	6,133	6.0%	7,190	1.8%	6,149	2.2%	14,017	4.5%	3,023	1.1%	13,234	2.5%	145,315	3.8%
Medicaid	112,694	8.0%	30,919	6.2%	3,952	3.9%	43,339	11.1%	22,842	8.3%	5,893	1.9%	5,462	2.1%	66,550	12.6%	291,651	7.7%
Medicaid managed care	52,027	3.7%	31,292	6.2%	7,848	7.7%	30,548	7.8%	28,074	10.1%	21,553	7.0%	5,182	1.9%	19,006	3.6%	195,530	5.1%
Blue Cross	384,918	27.2%	92,471	18.4%	18,764	18.3%	71,689	18.3%	55,173	20.0%	92,582	29.9%	74,236	27.6%	129,484	24.5%	919,317	24.2%
Managed care contracts	247,945	17.5%	143,776	28.6%	15,919	15.6%	62,337	15.9%	31,797	11.5%	51,193	16.6%	77,409	28.8%	77,786	14.7%	708,162	18.7%
Other commercial	56,240	4.0%	7,014	1.4%	7,635	7.4%	20,370	5.2%	16,563	6.0%	22,715	7.3%	21,981	8.2%	28,941	5.5%	181,459	4.8%
Self-pay	79,925	5.6%	39,489	7.8%	8,567	8.4%	30,432	7.8%	20,776	7.5%	11,688	3.8%	3,491	1.3%	40,572	7.7%	234,940	6.2%
Other	4,193	0.3%	21,103	4.2%	1,462	1.4%	7,007	1.8%	4,964	1.8%	4,916	1.6%	6,219	2.3%	3,543	0.7%	53,407	1.4%
	<u>\$ 1,415,240</u>	<u>100.0%</u>	<u>\$ 503,106</u>	<u>100.0%</u>	<u>\$ 102,364</u>	<u>100.0%</u>	<u>\$ 391,509</u>	<u>100.0%</u>	<u>\$ 276,569</u>	<u>100.0%</u>	<u>\$ 309,115</u>	<u>100.0%</u>	<u>\$ 268,831</u>	<u>100.0%</u>	<u>\$ 528,549</u>	<u>100.0%</u>	<u>\$ 3,795,283</u>	<u>100.0%</u>

* Franciscan St. Francis Health-Beech Grove campus closed in March 2012 and Franciscan St. Francis Health-Carmel campus opened in April 2012.

Franciscan Alliance, Inc. and Affiliates
Supplemental Schedule - Service Statistics
Year Ended December 31, 2012
(Unaudited)

	Central Indiana Region	Western Indiana Region			Northern Indiana Region			South Suburban Chicago Region	Consolidated		
	Franciscan St. Francis Health - Beech Grove*/ Carmel*/ Indianapolis/ Mooresville	Franciscan St. Elizabeth Health - Lafayette	Franciscan St. Elizabeth Health - Crawfordsville	Total	Franciscan St. Margaret Health - Hammond/Dyer	Franciscan St. Anthony Health - Michigan City	Franciscan St. Anthony Health - Crown Point	Franciscan Physicians Hospital, LLC Munster	Total		
Patient Days											
Medical	43,658	19,505	2,414	21,919	37,712	13,256	21,607	1,317	73,892	47,033	186,502
Surgical	23,128	3,931	520	4,451	20,771	5,603	12,680	1,038	40,092	17,223	84,894
Intensive Care and Coronary Care	16,972	10,710	288	10,998	7,040	2,559	3,658	1,165	14,422	9,106	51,498
Obstetrical	7,606	5,190	-	5,190	1,710	1,549	3,813	-	7,072	3,162	23,030
Pediatrics	757	570	-	570	-	371	3,503	-	3,874	888	6,089
Psychiatric/Rehabilitation	4,153	5,720	1,908	7,628	17,008	4,820	2,488	-	24,316	5,388	41,485
Other	4,309	3,553	-	3,553	7,434	-	-	-	7,434	4,360	19,656
Total Patient Days	100,583	49,179	5,130	54,309	91,675	28,158	47,749	3,520	171,102	87,160	413,154
Acute Patient Days	96,430	46,039	3,222	49,261	67,940	23,338	45,261	3,520	140,059	77,412	363,162
Adjusted Patient Days	271,206	106,240	23,771	130,011	165,200	72,245	104,618	25,368	367,431	160,010	928,658
Admissions	22,495	12,237	1,180	13,417	16,001	7,283	9,759	855	33,898	20,028	89,838
Discharges	22,485	12,318	1,178	13,496	15,945	7,274	9,925	862	34,006	20,035	90,022
Medicare Discharges	11,726	5,711	891	6,602	7,826	3,590	4,820	380	16,616	9,966	44,910
Acute Discharges	22,108	12,052	1,018	13,070	13,196	6,663	9,689	862	30,410	18,763	84,351
Adjusted Discharges	60,627	26,610	5,459	32,069	28,733	18,663	21,746	6,212	75,354	36,781	204,831
Average Daily Census	274.8	134.4	14.0	148.4	250.5	76.9	130.5	9.6	467.5	238.1	1,128.8
Total Licensed Beds	606	281	103	384	782	310	411	63	1,566	476	3,032
Total Operated Beds	543	267	42	309	467	172	250	32	921	398	2,171
Total Adjusted Occupied Beds	741	290	65	355	451	197	286	114	1,049	437	2,582
Percentage of Occupancy - Licensed Beds	45.3%	47.8%	13.6%	38.6%	32.0%	24.8%	31.7%	15.3%	29.9%	50.0%	37.2%
Percentage of Occupancy - Operated Beds	50.6%	50.3%	33.4%	48.0%	53.6%	44.7%	52.2%	30.1%	50.8%	59.8%	52.0%
Average Length of Stay (Days)	4.5	4.0	4.4	4.0	5.7	3.9	4.8	4.1	5.0	4.4	4.6
Average Length of Stay (Days) - Acute	4.4	3.8	3.2	3.8	5.1	3.5	4.7	4.1	4.6	4.1	4.3
Average Length of Stay (Days) - Long-term	11.0	-	11.9	11.9	8.6	4.6	10.5	4.1	5.9	14.5	10.8
Medicare Case Mix Index	1.7	1.6	1.1	1.3	1.5	1.4	1.4	1.5	1.5	1.4	1.5
Total Case Mix Index	1.5	1.5	1.1	1.3	1.3	1.2	1.2	1.5	1.3	1.2	1.3
Total Emergency Room Visits	112,863	65,269	20,458	85,727	65,162	41,467	32,605	-	139,234	81,377	419,201
Total Outpatient Surgeries	18,162	3,501	3,646	7,147	6,688	10,308	7,083	6,286	30,365	5,379	61,053
Total Outpatient Clinic Visits	754,082	184,174	69,061	253,235	146,959	340,732	191,294	389,977	1,068,962	266,932	2,343,211
Total Outpatient Visits and Surgeries	1,568,108	418,948	151,157	570,105	318,327	392,507	311,004	503,311	1,525,149	424,895	4,088,257
Open Heart Surgeries	574	97	-	97	119	30	52	13	214	129	1,014
Total Surgeries	24,137	11,898	3,899	15,797	11,319	14,006	10,630	6,600	42,555	14,304	96,793
Observation Stays	4,141	6,401	400	6,801	3,588	1,144	3,426	1,456	9,614	5,372	25,928
Medicare Readmission Rate	10.6%	17.0%	8.5%	12.8%	14.4%	15.3%	16.5%	16.4%	15.7%	14.8%	13.4%
Readmission Rate	6.1%	10.6%	9.9%	10.3%	11.0%	11.3%	9.7%	5.1%	9.3%	11.7%	9.3%
Unique Patients	191,276	71,662	21,752	93,414	70,625	34,080	67,438	98,972	271,115	79,120	634,925

* Franciscan St. Francis Health-Beech Grove campus closed in March 2012 and Franciscan St. Francis Health-Carmel campus opened in April 2012.

Franciscan Alliance, Inc. and Affiliates
Supplemental Schedule - Service Statistics
Year Ended December 31, 2012
(Unaudited)

	<u>Central Indiana Region</u>	<u>Western Indiana Region</u>	<u>Northern Indiana Region</u>			<u>South Suburban Chicago Region</u>	<u>Consolidated</u>	
	Franciscan St. Francis Health - Beech Grove*/ Carmel*/ Indianapolis/ Mooresville	Franciscan St. Elizabeth Health - Lafayette	Franciscan St. Margaret Health - Hammond/Dyer	Franciscan St. Anthony Health - Michigan City	Franciscan St. Anthony Health - Crown Point	Total		
Nursery								
Patient days	5,455	3,862	1,267	1,363	2,710	5,340	3,382	18,039
Admissions	2,585	1,970	575	640	1,518	2,733	1,206	8,494
Discharges	2,445	1,850	540	640	1,414	2,594	1,304	8,193
Average Daily Crib Capacity	60	36	14	20	30	64	36	196
Average Daily Census in Nursery	14.9	10.6	3.5	3.7	7.4	14.6	9.2	49.3
Average Length of Stay (Days)	2.2	2.1	2.3	2.1	1.9	2.1	2.6	2.2
Percentage of Occupancy	24.8%	29.3%	24.9%	18.6%	24.7%	22.8%	25.7%	25.2%

* Franciscan St. Francis Health-Beech Grove campus closed in March 2012 and Franciscan St. Francis Health-Carmel campus opened in April 2012.

Franciscan Alliance, Inc. and Affiliates
Supplemental Schedule – Full-Time Equivalent Personnel
Years Ended December 31, 2012 and 2011
(Unaudited)

	Total FTEs		FTEs Per Adjusted Occupied Bed	
	2012	2011	2012	2011
Central Indiana Region				
Franciscan St. Francis Health - Beech Grove*/Carmel*/Indianapolis/Mooresville	4,310	4,155	5.8	5.8
St. Francis Health Network, Inc.	15	14	-	-
Total Central Indiana Region	<u>4,325</u>	<u>4,169</u>	<u>5.8</u>	<u>5.8</u>
Western Indiana Region				
Franciscan St. Elizabeth Health - Lafayette	1,864	1,790	6.4	6.2
Franciscan St. Elizabeth Health - Crawfordsville	316	324	4.9	4.4
Total Western Indiana Region	<u>2,180</u>	<u>2,114</u>	<u>6.1</u>	<u>5.9</u>
Northern Indiana Region				
Franciscan St. Margaret Health - Hammond/Dyer	2,291	2,159	5.1	5.1
Franciscan St. Anthony Health - Michigan City	1,118	1,001	5.7	5.4
Franciscan St. Anthony Health - Crown Point	1,358	1,298	4.8	4.6
Franciscan Physicians Hospital, LLC - Munster	677	536	5.9	5.3
Total Northern Indiana Region	<u>5,444</u>	<u>4,994</u>	<u>5.2</u>	<u>5.0</u>
South Suburban Chicago Region	<u>2,249</u>	<u>2,350</u>	<u>5.1</u>	<u>4.7</u>
Corporate and Other				
Corporate and Other Coordinated Business Functions	1,113	973	-	-
Tonn and Blank Construction, LLC	188	209	-	-
Franciscan Alliance Foundation	15	-	-	-
Total Corporate and Other	<u>1,316</u>	<u>1,182</u>	<u>-</u>	<u>-</u>
	<u>15,514</u>	<u>14,809</u>	<u>5.5</u>	<u>5.3</u>

* Franciscan St. Francis Health-Beech Grove campus closed in March 2012 and Franciscan St. Francis Health-Carmel campus opened in April 2012.

Franciscan Alliance, Inc. and Affiliates
Supplemental Schedule – Medical Staff Complement
Years Ended December 31, 2012 and 2011
(Unaudited)

Active Medical Staff

	<u>Active</u>		<u>Associate</u>		<u>Other</u>		<u>Total</u>		<u>Average Age</u>	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Central Indiana Region										
Franciscan St. Francis Health - Beech Grove*/ Carmel*/Indianapolis/Mooresville	497	501	18	29	397	363	912	893	49	48
Western Indiana Region										
Franciscan St. Elizabeth Health - Lafayette	207	233	45	39	66	38	318	310	50	49
Franciscan St. Elizabeth Health - Crawfordsville	47	66	-	-	98	81	145	147	51	50
Northern Indiana Region										
Franciscan St. Margaret Health - Hammond/Dyer	419	444	104	102	110	85	633	631	51	50
Franciscan St. Anthony Health - Michigan City	217	198	47	42	6	8	270	248	51	52
Franciscan St. Anthony Health - Crown Point	222	226	55	46	118	118	395	390	49	50
Franciscan Physicians Hospital, LLC - Munster	176	183	83	72	49	46	308	301	47	48
South Suburban Chicago Region	141	220	240	256	112	95	493	571	51	51
Total/Average	1,926	2,071	592	586	956	834	3,474	3,491	50	50

Number of Employed Physicians

	<u>Employed Physicians</u>		<u>Worked RVUs for Employed Physicians</u>	
	2012	2011	2012	2011
Central Indiana Region				
Franciscan St. Francis Health - Carmel*/Indianapolis/Mooresville	216	208	1,324,053	993,337
Western Indiana Region				
Franciscan St. Elizabeth Health - Lafayette	65	71	452,183	373,141
Franciscan St. Elizabeth Health - Crawfordsville	23	20	94,215	108,919
Northern Indiana Region				
Franciscan St. Margaret Health - Hammond/Dyer	84	88	264,545	242,697
Franciscan St. Anthony Health - Michigan City	64	60	332,228	298,243
Franciscan St. Anthony Health - Crown Point	67	63	324,580	280,650
Franciscan Physicians Hospital, LLC - Munster	113	68	524,854	246,289
South Suburban Chicago Region	96	101	467,928	602,990
Total	728	679	3,784,586	3,146,266

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