Franciscan Alliance, Inc. and Affiliates

Consolidated Financial Statements with Supplemental Financial Information
December 31, 2011 and 2010

Franciscan Alliance, Inc. and Affiliates
Index
December 31, 2011 and 2010

Report of Independent Auditors

Board of Trustees
Franciscan Alliance, Inc.
Mishawaka, Indiana

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and changes in net assets, and of cash flows, present fairly, in all material respects, the financial position of Franciscan Alliance, Inc. and Affiliates (collectively referred to as the "Corporation") at December 31, 2011 and 2010, and the results of their operations, changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated financial statements, the Corporation adopted the new Financial Accounting Standards Board's ("FASB") presentation and disclosure guidance for patient service revenues and provision for doubtful accounts in 2011 and changed the manner in which it accounts for goodwill and reports noncontrolling interests in consolidated affiliates in 2010.

PricewaterhouseCoopers LLP

April 17, 2012

PricewaterhouseCoopers LLP, One North Wacker, Chicago, IL 60606
T: (312) 298 2000, F: (312) 298 2001, www.pwc.com/us

Franciscan Alliance, Inc. and Affiliates
Consolidated Balance Sheets
December 31, 2011 and 2010
(In thousands)

	2011	2010
Assets		
Current assets		
Cash and cash equivalents	$ 172,319	$ 207,832
Short-term investments	40,418	37,180
Patient accounts receivable, net of allowance for doubtful accounts of $47,933 in 2011 and $42,372 in 2010	312,539	247,021
Inventories of supplies	36,418	37,525
Other current assets	83,259	64,193
Total current assets	644,953	593,751
Board designated and other investments	1,673,904	1,721,369
Property, plant, and equipment, net	1,504,623	1,405,090
Investments in unconsolidated affiliates	24,012	27,941
Goodwill	18,425	11,198
Intangible assets, net of accumulated amortization of $7,732 in 2011 and $4,945 in 2010	9,940	12,743
Other assets	91,985	81,351
Total assets	$ 3,967,842	$ 3,853,443

	2011	2010
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term debt	$ 17,909	$ 19,785
Accounts payable and accrued expenses	222,514	197,470
Accrued payroll and related expenses	99,128	85,969
Estimated third-party payor settlements	29,074	30,069
Total current liabilities	368,625	333,293
Long-term debt, net of current portion	1,119,157	1,133,571
Fair value of interest rate swap contracts	105,964	56,454
Accrued pension liability	326,527	253,145
Estimated insurance liabilities	136,362	121,005
Other liabilities	37,680	46,545
Total liabilities	2,094,315	1,944,013
Net assets		
Unrestricted	1,815,411	1,852,953
Noncontrolling interests in consolidated affiliates	28,383	27,487
Total unrestricted net assets	1,843,794	1,880,440
Temporarily restricted	17,798	17,267
Permanently restricted	11,935	11,723
Total net assets	1,873,527	1,909,430
Total liabilities and net assets	$ 3,967,842	$ 3,853,443

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, 2011 and 2010
(In thousands)

	2011	2010
Unrestricted revenues, gains, and other support		
Patient service revenue, net of contractual allowances and discounts	$ 2,200,132	$ 2,100,426
Provision for doubtful accounts	(93,140)	(82,581)
Net patient service revenue	2,106,992	2,017,845
Capitation and premium revenue	108,828	111,372
Other operating revenue	139,112	77,872
Equity in earnings of investments in unconsolidated affiliates	7,608	11,983
Net unrealized investment (losses) gains	(4,132)	5,891
Net assets released from restrictions used for operations	3,068	1,318
Total unrestricted revenues, gains, and other support	2,361,476	2,226,281
Operating expenses		
Salaries	920,065	861,402
Employee benefits	262,262	237,374
Physicians' fees	48,310	45,334
Utilities	41,473	38,995
Repairs and maintenance	39,503	39,113
Drugs and pharmaceuticals	89,884	87,665
Medical supplies	190,356	194,141
Insurance	35,100	32,996
Purchased services	215,153	209,784
Other supplies and expenses	245,234	197,106
Interest	33,199	36,559
Depreciation and amortization	126,175	123,794
Total operating expenses	2,246,714	2,104,263
Operating income	114,762	122,018
Other income (expense)		
Investment income	88,709	103,324
Net unrealized investment (losses) gains on trading securities	(62,303)	78,302
Net unrealized losses and periodic settlements on interest rate swap contracts	(63,971)	(29,587)
Gain on sale of investments in unconsolidated affiliates	-	3,951
Gain on sale/disposal of assets	7	52
Net assets released from restrictions	2,072	1,482
Contributions	1,387	441
Other, net	(3,764)	(4,252)
Total other (expense) income, net	(37,863)	153,713
Excess of revenues over expenses	$ 76,899	$ 275,731

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, 2011 and 2010
(In thousands)

	2011	2010
Unrestricted net assets		
Excess of revenues over expenses	$ 76,899	$ 275,731
Change in pension and postretirement benefits other than net periodic pension costs included in accrued pension liability	(94,433)	(45,071)
Distributions to noncontrolling interests of consolidated affiliates (See Note 11)	(16,892)	(17,649)
Cumulative effect of change in accounting principle (See Note 2)	-	(64,639)
Other, net	(3,004)	1,777
Net assets released from restrictions used for purchase of property, plant, and equipment	784	3,802
(Decrease) increase in unrestricted net assets	(36,646)	153,951
Temporarily restricted net assets		
Contributions	6,237	5,327
Investment income	250	274
Net assets released from restrictions	(5,924)	(6,602)
Net unrealized investment (losses) gains	(147)	302
Other, net	115	(287)
Increase (decrease) in temporarily restricted net assets	531	(986)
Permanently restricted net assets		
Contributions	-	1
Investment income (loss)	71	(159)
Net unrealized investment gains	252	297
Transfer of endowment to intended beneficiary (See Note 12)	-	(6,291)
Other, net	(111)	(112)
Increase (decrease) in permanently restricted net assets	212	(6,264)
(Decrease) increase in net assets	(35,903)	146,701
Net assets, beginning of the year	1,909,430	1,762,729
Net assets, end of the year	$ 1,873,527	$ 1,909,430

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, 2011 and 2010
(In thousands)

	2011	2010
Cash flows from operating activities		
(Decrease) increase in net assets	$ (35,903)	$ 146,701
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation of plant, property, and equipment	122,577	120,001
Amortization of bond discounts, deferred financing costs, and other intangible assets	3,598	3,793
Provision for doubtful accounts	93,140	82,581
Gain on sale of investments in unconsolidated affiliates	-	(3,951)
Gain on sale/disposal of assets	(7)	(52)
Transfer of endowment to intended beneficiary (See Note 12)	-	6,291
Net investment gains	(22,274)	(188,116)
Net unrealized losses on interest rate swap contracts	49,510	16,182
Distributions to noncontrolling interests in consolidated affiliates (See Note 11)	16,892	17,649
Equity in earnings of investments in unconsolidated affiliates	(7,608)	(11,983)
Restricted contributions and investment income	(6,558)	(5,443)
Change in pension and postretirement benefits other than net periodic pension costs included in accrued pension liability	94,433	45,071
Cumulative effect of change in accounting principle (See Note 2)	-	64,639
Changes in operating assets and liabilities:		
Patient accounts receivable	(157,212)	(91,907)
Inventories of supplies	1,748	(311)
Other assets	(30,835)	(19,243)
Accounts payable and accrued expenses	9,734	34,867
Accrued payroll and related expenses	13,159	9,427
Estimated third-party payor settlements	(995)	12,754
Estimated insurance liabilities	15,357	6,329
Accrued pension liability	(21,051)	7,914
Other liabilities	(8,865)	5,983
Total adjustments	164,743	112,475
Net cash provided by operating activities	128,840	259,176
Cash flows from investing activities		
Purchase of property, plant, and equipment	(198,993)	(161,212)
Acquisition of physician practices and support organizations	(14,827)	(20,129)
Sales (purchases) of board designated and other investments, net	66,501	(52,523)
Proceeds from sale of property, plant, and equipment	1,792	8,909
Proceeds from sale of investments in unconsolidated affiliates	556	3,951
Distributions from unconsolidated affiliates	10,981	10,556
Net cash used by investing activities	(133,990)	(210,448)
Cash flows from financing activities		
Principal payments on long-term debt	(20,029)	(27,718)
Distributions to noncontrolling interests of consolidated affiliates (See Note 11)	(16,892)	(17,649)
Restricted contributions and investment income	6,558	5,443
Transfer of endowment to intended beneficiary (See Note 12)	-	(6,291)
Net cash used by financing activities	(30,363)	(46,215)
Net (decrease) increase in cash and cash equivalents	(35,513)	2,513
Cash and cash equivalents, beginning of year	207,832	205,319
Cash and cash equivalents, end of year	$ 172,319	$ 207,832

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

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., provides health care and related services to the communities in which it operates. The Corporation is incorporated as a not-for-profit corporation under the laws of Indiana and is a tax-exempt organization as described in Section 501(c) (3) of the Internal Revenue Code (the "Code"). The Corporation operates a comprehensive integrated network of health care services, including inpatient and outpatient services, physician services, home health care services, rehabilitation services and physician hospital managed care networks within four geographic regions located in two states (the "Health Centers") along with other related support divisions and affiliates including a corporate office, consolidated information services and back office / management support organizations, a construction company, a captive insurance company, and nonprofit foundations. The Corporation also has various investments in consolidated and unconsolidated affiliates (See Note 11).

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.

The following amounts reflect the Corporation's quantifiable community benefits for the years ended December 31, 2011 and 2010:

	(Unaudited)	
	2011	**2010**
	(in thousands)	
Benefits for the poor and underserved		
Unreimbursed costs of Medicaid and other indigent care programs	$ 115,825	$ 128,895
Cost of charity care provided	69,346	63,648
Other benefits for the poor and underserved		
Subsidized health services	2,203	2,134
Community health improvement services	673	570
Financial and in kind contributions	1,229	988
Health professions education	21	-
Community building activities	2	3
Community benefit operations	7	1
	4,135	3,696
Total benefits for the poor and underserved	189,306	196,239
Benefits for the broader community		
Subsidized health services	41,385	39,447
Health professions education	15,373	15,791
Community health improvement services	4,050	4,201
Community building activities	988	1,149
Financial and in kind contributions	754	7,506
Research	597	616
Community benefit operations	107	100
Total benefits for the broader community	63,254	68,810
Total quantifiable community benefits	252,560	265,049
Unreimbursed costs of Medicare	173,107	151,817
Total quantifiable community benefits including unreimbursed costs of Medicare	$ 425,667	$ 416,866

Total quantifiable community benefits including unreimbursed costs of Medicare were approximately 19% and 20% of total operating expenses for the years ended December 31, 2011 and 2010, respectively.

The Corporation also provides a significant amount of uncompensated care to patients which is reported as provision for doubtful accounts in the consolidated statements of operations and changes in net assets and is not reported in the summary of quantifiable community benefits. During the years ended December 31, 2011 and 2010, the Corporation reported approximately $93.1 million and $82.6 million, respectively, as provision for doubtful accounts based on accumulated charges.

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.

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 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; reserves for losses and expenses related to employee health costs and 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

For purposes of the consolidated financial statements, cash and cash equivalents consist primarily of cash and highly liquid marketable securities, including a short term pooled account containing interest bearing securities with maturities which many 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 and surgical supplies and pharmaceuticals, are stated at the lower of cost (first-in, first out method) or market value.

Board Designated and Other Investments

At December 31, 2011 and 2010, approximately 96% and 95%, respectively, of the Corporation's investments are invested in a pooled account coordinated through Ascension Health's Health System Depository (the "HSD") under an investment management agreement. The Corporation treats the application of its investment in the HSD as a mutual fund with shares as the common unit of measure. The custodian-held assets in the HSD are primarily managed by external investment managers who follow agreed-upon investment and socially responsible investment guidelines. The HSD's asset allocation consisted of 38% equities, 29% fixed income, 31% alternative investments, and 2% cash and cash equivalents at December 31, 2011 and 40% equities, 30% fixed income, 28% alternative investments, and 2% cash and cash equivalents at December 31, 2010. The HSD's alternative investments are comprised of derivative contracts, private equity investments, real estate investments, and hedge funds. The Corporation may redeem its investments with 30 days notice.

The HSD operates the investment pool using the market value method. Under this method, net earnings of the HSD are allocated to investing participants on a pro-rata basis. The Corporation's interest in the pooled account is included in the consolidated financial statements at the fair value of its portion in the HSD. The fair value of the HSD's underlying investments in equities, fixed income securities, and commodities are based on quoted market prices, if available, or estimated using quoted market prices for similar securities. The fair value of the HSD's alternative assets are generally measured based on net asset value as a practical expedient for fair value. The significant unobservable inputs used by the HSD's external investment managers in developing the fair value measurement of the HSD's alternative investments include a combination of cost, discounted cash flow analysis, industry comparables, and outside appraisals. Increases/decreases in any inputs used by investment managers in determining net asset values in isolation could result in a higher/lower fair value measurement.

In accordance with industry practice, investment earnings 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 from all other unrestricted investments and board designated funds are included in other income (expense) in the consolidated statements of operations and changes in net assets. Investment income restricted for specified purposes by donor or legal requirements is recorded as temporarily or permanently restricted in the consolidated statements of 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 changes in net assets.

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 on 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, 2011 and 2010, conditional asset retirement obligations of approximately $18,878,000 and $17,585,000, 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. As of January 1, 2010, the Corporation adopted new authoritative guidance whereby goodwill is not amortized, but is instead subject to an annual impairment test. The Corporation conducts the impairment test at the reporting unit level, which are the individual Health Centers within its four regions, on at least an annual basis or when events occur that require such an evaluation be performed. 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. Prior to January 1, 2010, the Corporation amortized its recorded goodwill on a straight-line basis.

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. In completing this evaluation, the Corporation compares estimated future cash flows to the carrying value of the assets. An impairment loss would be recorded in the period such determination is made.

Deferred Financing Costs
Deferred financing costs incurred with the Hospital and Health System Revenue Bonds and Refunding Bonds are amortized using the bonds outstanding method. 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 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 2011 and 2010, net assets of $5,924,000 and $6,602,000, 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 included in accrued pension liability, cumulative effect of change in accounting principle, 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 inpatient acute care, outpatient services, home health care, and other health care services. 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 to the Corporation 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. 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. Net patient service revenues for the years ended December 31, 2011 and 2010 have been increased by approximately $2,972,000 and $13,260,000, respectively, due to favorable changes in estimates. These amounts do not include net patient service revenue recognized during 2011 or 2010 related to the State of Indiana Medicaid Acute Disproportionate Share and Medicaid Safety Net Hospitals ("DSH") Program and unrestricted revenue from the Illinois Hospital Assessment Program (See Note 14).

Allowance for Doubtful Accounts

The collection of outstanding patient accounts receivable from governmental payors, managed care and other third party payors, and patients is the Corporation's primary source of cash. The primary collection risk relates to uninsured patient accounts and 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 could become uncollectible in the future. Throughout the year, the Corporation estimated 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, which has an impact on unemployment rates and 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 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

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. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The Corporation maintains records to identify and monitor the level of charity care it provides.

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 institutional 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.

Electronic Health Record Incentive Payments

The American Recovery and Reinvestment Act of 2009 provides for Medicare and Medicaid incentive payments beginning in 2011 for eligible hospitals and professionals that adopt and meaningfully use certified electronic health record ("EHR") technology. The Corporation will recognize 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 and that the dollars will be received.

Medicare EHR incentive calculations and related initial payment amounts are based upon the most current filed cost report information available at the time the Corporation's eligible Health Centers demonstrate meaningful use of certified EHR technology for the applicable period. Unlike Medicaid, this initial payment amount will be adjusted based upon and the calculation updated using the annual cost report information for the cost report that began during the applicable payment year. EHR incentive income under Medicare will be recognized ratably over the entire EHR reporting period if the Corporation's eligible Health Centers are reasonably assured that they will demonstrate meaningful use of certified EHR technology.

Medicaid EHR incentive calculations and related payment amounts are based upon prior period cost report information available at the time the Corporation's eligible Health Centers adopt, implement, or demonstrate meaningful use of certified EHR technology for the applicable period, and are not subject to revision for cost report data filed for a subsequent period. As such, incentive income recognition occurs at the point the Corporation's eligible Health Centers adopt, implement, or demonstrate meaningful use of certified EHR technology for the applicable period.

In 2011, the Corporation recognized $10.7 million of EHR incentive income in other operating revenue in the consolidated statements of operations and changes in net assets related to Medicare and Medicaid incentive programs. Actual incentive payments could vary from amounts recorded due to certain factors such as the availability of federal funding for both programs, annual cost report information, timing of the approval of state Medicaid EHR incentive payment plans by the federal government, and the Corporation's ability to demonstrate meaningful use of certified EHR technology. 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 revenues.

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).

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 $40,844,000 and $43,555,000 for the years ended December 31, 2011 and 2010, respectively.

Cash paid for income taxes approximated $116,000 and $1,577,000 for the years ended December 31, 2011 and 2010, respectively.

Included in accounts payable and accrued expenses and other liabilities at December 31, 2011 and 2010 are approximately $24,093,000 and $12,649,000, respectively, of costs related to construction in progress and for the acquisition of property, plant, and equipment (including internal-use software).

Changes in Accounting Standards
In May 2009, the FASB issued new guidance for not-for-profit entities regarding mergers and acquisitions. Under this guidance it establishes principles and requirements in determining whether a combination by a not-for-profit entity is a merger or acquisition, applies the carry-over method of accounting for mergers, applies the acquisition method of accounting for acquisitions, and requires enhanced disclosures about the merger or acquisition including identifying which of the combining entities is the acquirer. In addition, this guidance amended previous FASB guidance on goodwill and other intangible assets and the reporting of noncontrolling interests in consolidated financial statements that was previously only applicable to for-profit entities to be fully applicable to not-for-profit entities. As such, goodwill and indefinite-lived intangible assets are no longer amortized and are instead subject to annual impairment assessments. In addition, minority interests in consolidated affiliates are now referred to as noncontrolling interests in consolidated affiliates and are reported as a separate component of net assets. In 2010, the Corporation reclassified its noncontrolling interest in consolidated affiliates as a separate component of unrestricted net assets and other changes attributable to noncontrolling interests in consolidated affiliates are presented below excess of revenues over expenses.

As required by the change in the above accounting guidance, the Corporation performed transitional impairment tests on all goodwill and indefinite-lived intangibles as of January 1, 2010. As a result of the impairment tests, the Corporation recorded $64.6 million for 2010 as a cumulative effect of change in accounting principle in the consolidated statements of operations and changes in net assets. The impairment charges primarily relate to the Health Centers in the Corporation's Western Indiana Region.

In January 2010, the FASB issued amended fair value disclosure requirements. Under this amended guidance, entities are to separately disclose the amounts of significant transfers into and out of its financial assets or liabilities having a fair value hierarchy valuation of Level 1 and Level 2 along with the reasons for those transfers. The amended disclosure guidance also requires entities to separately present its financial assets or liabilities having a fair value hierarchy valuation based on unobservable inputs that reflect the reporting entity's own assumptions ("Level 3 hierarchy") in a reconciliation that includes: purchases, sales, issuances, and settlements on a gross basis. The Corporation adopted this amended disclosure guidance as of December 31, 2010.

In July 2011, the FASB issued new presentation and enhanced disclosure guidance related to patient service revenue and the provision for doubtful accounts requiring health care entities to present the provision for doubtful accounts related to patient service revenue as a deduction from revenue, net of contractual allowances and discounts, versus as an expense in the consolidated statements of operations and changes in net assets. In addition, the guidance also requires enhanced disclosures regarding revenue recognition policies and the provision for doubtful accounts. This guidance is effective for the Corporation beginning January 1, 2012; however, the Corporation elected early adoption of the guidance and retrospectively applied its requirements, which results in a reduction of net patient service revenue and operating expense, with no resulting impact in the consolidated statement of operations and changes in net assets. All periods presented in the consolidated financial statements and notes to the consolidated financial statements have been reclassified in accordance with this new authoritative guidance.

Reclassifications

Certain reclassifications were made to prior year balances to conform to current year presentation. Distributions to noncontrolling interests of consolidated affiliates have been reclassified from cash flows from investing activities to cash flows from financing 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 to the Corporation at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

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

Medicaid – 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.

Other – Reimbursement for services to certain patients is received from commercial insurance carriers, HMOs, 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. For both the years ended December 31, 2011 and 2010, approximately 93% of net patient service revenue is subject to the provisions of Medicare and Medicaid programs and other third-party payor contracts.

A summary of sources of gross patient service revenue, by payor, for the periods ended December 31, 2011 and 2010, is as follows:

	2011	2010
Medicare	42 %	42 %
Medicaid	13 %	14 %
Other third-party payors	39 %	38 %
Patients	6 %	6 %
	100 %	100 %

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, 2011 and 2010, is as follows:

	2011	2010
Medicare	24 %	24 %
Medicaid	19 %	14 %
Other third-party payors	43 %	44 %
Patients	14 %	18 %
	100 %	100 %

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

4. Board Designated and Other Investments

Board designated investments represents investments set aside by policy of the Corporation primarily for future capital expansions, acquisitions, and improvements. Assets limited as to use include assets under bond indenture and swap agreements, investments maintained for the payment of self-insured claims, and investments externally restricted by donors.

The composition of board designated and other investments, at December 31, 2011 and 2010, is as follows:

	2011	2010
	(in thousands)	
Board designated investments:		
Funded depreciation and other Board projects	$ 1,509,215	$ 1,555,678
Other designated investments	2,876	3,020
	1,512,091	1,558,698
Assets limited as to use:		
Estimated insurance liability funds	137,945	129,391
Assets under bond indenture and swap agreements	40,540	50,401
Other restricted investments	23,746	20,059
	202,231	199,851
Board designated and other investments	1,714,322	1,758,549
Less short-term investments	40,418	37,180
Board designated and other investments, classified as noncurrent	$ 1,673,904	$ 1,721,369

Board designated and other investments at December 31, 2011 and 2010, consist of the following:

	2011	2010
	(in thousands)	
Pooled funds	$ 1,637,653	$ 1,669,308
Mutual funds	245	35,133
Cash and cash equivalents	41,870	17,525
Corporate bonds	11,132	8,370
Agency bonds	5,703	6,432
Treasury bonds	4,048	6,090
Other	13,671	15,691
	$ 1,714,322	$ 1,758,549

Investment returns including net unrealized (losses) gains included in the consolidated statements of operations and changes in net assets for the years ended December 31, 2011 and 2010, are as follows:

	2011	2010
	(in thousands)	
Unrestricted revenues, gains, and other support		
Investment income	$ 7,788	$ 7,865
Net unrealized investment (losses) gains	(4,132)	5,891
	3,656	13,756
Other income (expense)		
Investment income	88,709	103,324
Net unrealized investment (losses) gains on trading securities	(62,303)	78,302
	26,406	181,626
Temporarily restricted net assets		
Investment income	250	274
Net unrealized investment (losses) gains	(147)	302
	103	576
Permanently restricted net assets		
Investment income (loss)	71	(159)
Net unrealized investment gains	252	297
	323	138
	$ 30,488	$ 196,096

5. Property, Plant, and Equipment

A summary of property, plant, and equipment at December 31, 2011 and 2010, is as follows:

	2011	2010
	(in thousands)	
Land and land improvements	$ 115,109	$ 109,461
Buildings and building equipment	1,242,346	1,221,211
Departmental equipment	1,128,588	1,069,168
Construction in progress	337,016	225,220
	2,823,059	2,625,060
Less accumulated depreciation	1,318,436	1,219,970
	$ 1,504,623	$ 1,405,090

As of December 31, 2011, approximately $17 million of construction commitments and commitments to purchase software was outstanding. Costs of these capital items are expected to be financed by using the Corporation's board designated funded depreciation investments and future operations.

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.

6. Long-Term Debt

Long-term debt at December 31, 2011 and 2010, consists of the following:

	2011	2010
	(in thousands)	
Tax Exempt Hospital and Health System Revenue Bonds and Refunding Bonds		
Series 2009, fixed rate term and serial bonds payable through November 2039; interest ranging from 2.50% to 5.375% over the remaining life of the bonds	$ 220,480	$ 222,705
Series 2008 A and Series 2008 B, variable rate demand bonds, subject to a seven-day put provision supported by direct pay bank letters of credit, payable through November 2041; interest ranging from 0.02% to 0.32% in 2011 and 0.12% to 0.40% in 2010	162,345	162,680
Series 2008 C, fixed rate term and serial bonds payable through November 2032; interest ranging from 5.00% to 5.50% over the remaining life of the bonds	284,830	290,145
Series 2008 D and Series 2008 E, variable rate demand bonds, subject to a seven-day put provision supported by direct pay bank letters of credit, payable through November 2048; interest ranging from 0.03% to 0.38% in 2011 and 0.14% to 0.40% in 2010	125,000	125,000
Series 2008 F through Series 2008 H, variable rate demand bonds, subject to a seven-day put provision supported by direct pay bank letters of credit, payable through November 2048; interest ranging from 0.03% to 0.32% in 2011 and 0.11% to 0.34% in 2010	154,345	154,345
Series 2008 I and Series 2008 J, variable rate demand bonds, subject to a seven-day put provision supported by direct pay bank letters of credit, payable through November 2037; interest ranging from 0.03% to 0.29% in 2011 and 0.11% to 0.34% in 2010	81,195	81,450
Series 2006 E, insured fixed rate term and serial bonds, payable through May 2041; interest ranging from 5.125% to 5.25% over the remaining life of the bonds	84,675	84,675
Series 2001, fixed rate uninsured serial bonds, payable through November 2015; interest rates ranging from 4.75% to 5.35% over the remaining life of the bonds	7,620	9,305
Series 1999, fixed rate insured serial bonds, payable through November 2012; interest is 5.25% over the remaining life of the bonds	4,065	7,925
Other	16,459	19,353
Total long-term debt	1,141,014	1,157,583
Less bond discounts on Hospital and Health System Revenue Bonds and Refunding Bonds	(3,948)	(4,227)
Total long-term debt	1,137,066	1,153,356
Less current portion of long-term debt	17,909	19,785
Long-term debt, net of current portion	$ 1,119,157	$ 1,133,571

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

		(in thousands)
Years ending December 31		
2012	$	17,909
2013		18,603
2014		18,078
2015		18,568
2016		19,166
Thereafter		1,048,690
	$	1,141,014

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

		2011		2010
		(in thousands)		
Interest costs incurred	$	40,711	$	43,220
Less capitalized interest		7,512		6,661
Interest expense included in operating income	$	33,199	$	36,559

The fair value of the Corporation's long-term debt at December 31, 2011 and 2010 approximates $1,181,000,000 and $1,161,209,000, 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 10.

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, 2011 and 2010, the Corporation was in compliance with the terms of the AMTI and there were no other Obligated Group members nor any Designated Group Affiliates.

Liquidity Facilities – As of December 31, 2011, the Corporation has separate direct pay letters of credit totaling $523 million to fully support its Series 2008A, Series 2008B, and Series 2008D through Series 2008J variable rate demand bonds. These liquidity facilities are available to the Corporation should the holders of the obligations present such obligations for redemption and the obligations are not remarketed. 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 2013 through October 2015. 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 utilized interest rate swaps to manage interest rate risk related to the Corporation's variable rate demand bonds. Cash payments on the interest rate swap contracts totaled $14.5 million during both years ended December 31, 2011 and 2010. At December 31, 2011 and 2010, the interest rate swap contracts were in a liability position with a fair value of approximately $106.0 million and $56.5 million, respectively. Certain of the Corporation's interest rate swap agreements include collateral funding requirements based on the market value of these contracts. At December 31, 2011 and 2010, the Corporation had posted $40.5 million and $16.2 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 $38.1 million and $33.0 million for the years ended December 31, 2011 and 2010, respectively. Future minimum lease payments under operating leases as of December 31, 2011 that have initial or remaining lease terms in excess of one year are as follows:

	(in thousands)
Years ending December 31	
2012	$ 35,749
2013	34,086
2014	32,284
2015	32,409
2016	31,365
Thereafter	32,173
	$ 198,066

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, 2011 and 2010, are as follows:

	2011	2010
	(in thousands)	
Change in benefit obligation		
Benefit obligation, beginning of year	$ 956,720	$ 813,115
Service cost	37,796	30,813
Interest cost	55,215	50,943
Actuarial loss	139,706	84,318
Benefits paid	(24,732)	(22,469)
Benefit obligation, end of year	1,164,705	956,720
Change in plan assets		
Fair value of plan assets, beginning of year	703,544	606,646
Actual gain on plan assets	79,791	72,422
Employer contributions	79,860	46,945
Benefits paid	(24,732)	(22,469)
Fair value of plan assets, end of year	838,463	703,544
Funded status	$ (326,242)	$ (253,176)
Amounts recognized in the consolidated balance sheets		
Noncurrent assets	$ 464	$ 149
Current liabilities	(179)	(180)
Noncurrent liabilities	(326,527)	(253,145)
Total amount recognized	$ (326,242)	$ (253,176)

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, 2009	$ (179,532)	$ (4,897)	$ (184,429)
Amounts reclassified into net periodic benefit cost	11,637	2,019	13,656
Amounts arising during the year	(58,726)	(1)	(58,727)
December 31, 2010	$ (226,621)	$ (2,879)	$ (229,500)

	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	(112,099)	-	(112,099)
December 31, 2011	$ (323,072)	$ (861)	$ (323,933)

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	$ (866)
Unrecognized loss	(21,986)
Total amount expected to be amortized from unrestricted net assets in 2012	$ (22,852)

The accumulated benefit obligation ("ABO") at December 31, 2011 and 2010 was $1,027,114,000 and $845,909,000, respectively. The following information is provided for plans with an ABO in excess of plan assets at December 31, 2011 and 2010:

	2011 (in thousands)	2010
Projected benefit obligation	$ 1,150,358	$ 943,121
ABO	1,012,766	832,310
Fair value of plan assets	823,652	689,795

Components of net periodic pension cost for the years ended December 31, 2011 and 2010, are as follows:

	2011	2010
	(in thousands)	
Service cost	$ 37,796	$ 30,813
Interest cost	55,215	50,943
Expected return on plan assets	(52,184)	(46,830)
Amortization of prior service cost	2,018	2,019
Amortization of net loss	15,648	11,637
Net periodic pension cost	$ 58,493	$ 48,582

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:

	2011	2010
Benefit obligation		
Discount rate	5.00 %	5.75 %
Rate of compensation increase	4.50 %	4.50 %
Net periodic pension cost		
Discount rate	5.75 %	6.25 %
Expected rate of return on plan assets	7.38 %	7.72 %
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 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, 2011 and 2010 and the target allocation of the pension plans, by asset category, are as follows:

		Percentage of Plan Assets	
Asset class	**Target Allocation**	**2011**	**2010**
Domestic large capitalization securities	26 %	24 %	28 %
Domestic mid capitalization securities	3	4	4
Domestic small capitalization securities	9	8	10
International equity securities	19	16	19
Fixed income securities	36	44	34
Hedge funds	7	4	5
	100 %	100 %	100 %

Cash flows

During 2012, the Corporation anticipates making contributions of approximately $30 million to fund the normal service cost in accordance with its standard funding policy and an additional $50 million to fund the first 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)
2012	$ 31,488
2013	40,889
2014	39,283
2015	46,630
2016	50,176
Years 2017-2021	321,631

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, 2011 and 2010 aggregated $13,967,000 and $12,317,000, respectively.

9. Estimated Insurance Liabilities

Hills Insurance Company, Inc. ("Hills Inc."), the wholly owned captive insurance subsidiary of the Corporation, provides certain professional and general liability coverage for the Health Centers and other corporate entities. 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 from information provided by the Corporation's management and their insurance consultants. 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 $136.4 million and $121.0 million on an undiscounted basis at December 31, 2011 and 2010, 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, 2011 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, 2011.

10. Fair Value Measurements

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, pooled investment funds, mutual funds, and corporate, treasury, and agency bonds. Liabilities measured at fair value on a recurring basis include the Corporation's interest rate swap contracts.

Fair value is 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. The fair value is based on assumptions that market participants would use, including consideration of nonperformance risk.

The Corporation assesses the inputs used to measure fair value using a three level hierarchy based on the extent to which inputs used in measuring fair value are observable in the market. The fair value hierarchy is as follows:

Level 1 Quoted (unadjusted) prices for identical instruments in active markets.

Level 2 Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar investments in active markets;

- Quoted prices for identical or similar investments in nonactive markets (few transactions, limited information, noncurrent prices, high variability over time, etc.);

- Inputs other than quoted prices that are observable for the instrument (interest rates, yield curves, volatilities, default rates, etc.); or

- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 Unobservable inputs that cannot be corroborated by observable market data.

The following tables present information about the Corporation's financial assets and liabilities on the consolidated balance sheets which are measured at fair value on a recurring basis as of December 31, 2011 and 2010, respectively, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value.

	Balance as of December 31, 2011	**Level 1** (in thousands)	**Level 2**
Investments			
Pooled funds	$ 1,637,653	$ -	$ 1,637,653
Mutual funds	245	245	-
Cash and cash equivalents	41,870	41,870	-
Corporate bonds	11,132	-	11,132
Agency bonds	5,703	-	5,703
Treasury bonds	4,048	4,048	-
Other	13,671	13,671	-
	$ 1,714,322	$ 59,834	$ 1,654,488
Liabilities			
Interest rate swap contracts	$ (105,964)	$ -	$ (105,964)

	Balance as of December 31, 2010	Level 1	Level 2
		(in thousands)	
Investments			
Pooled funds	$ 1,669,308	$ -	$ 1,669,308
Mutual funds	35,133	35,133	-
Cash and cash equivalents	17,525	17,525	-
Corporate bonds	8,370	-	8,370
Agency bonds	6,432	-	6,432
Treasury bonds	6,090	6,090	-
Other	15,691	15,691	-
	$ 1,758,549	$ 74,439	$ 1,684,110
Liabilities			
Interest rate swap contracts	$ (56,454)	$ -	$ (56,454)

The following tables summarize the Corporation's pension and other benefit plans' assets, measured at fair value as of December 31, 2011 and 2010, respectively.

Asset category	Balance as of December 31, 2011	Level 1	Level 2	Level 3
		(in thousands)		
Cash and cash equivalents	$ 69,309	$ -	$ 69,309	$ -
Equity securities				
Common stock	318,277	318,277	-	-
Depository receipts	13,243	13,243	-	-
Mutual funds	64,299	335	63,964	-
Hedge funds	28,747	-	-	28,747
Preferred stock	2,249	2,249	-	-
Real estate investment trusts	5,003	5,003	-	-
Fixed income securities				
Government issues	304,955	304,955	-	-
Corporate bonds	29,302	-	29,302	-
Other	3,079	-	3,079	-
Total	$ 838,463	$ 644,062	$ 165,654	$ 28,747

Asset category	Balance as of December 31, 2010	Level 1	Level 2	Level 3
			(in thousands)	
Cash and cash equivalents	$ 50,622	$ -	$ 50,622	$ -
Equity securities				
Common stock	316,648	316,648	-	-
Depository receipts	11,871	11,871	-	-
Mutual funds	53,294	320	52,974	-
Hedge funds	30,547	-	-	30,547
Preferred stock	2,682	2,682	-	-
Real estate investment trusts	6,110	6,110	-	-
Fixed income securities				
Government issues	212,960	212,844	116	-
Corporate bonds	10,831	-	10,831	-
Other	7,979	3,590	4,389	-
Total	$ 703,544	$ 554,065	$ 118,932	$ 30,547

There were no significant transfers to or from Levels 1 and 2 during the years ending December 31, 2011 and 2010.

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, 2009	$ 29,199
Net unrealized investment gains	1,363
Investment losses	(1,420)
Purchases of investments	3,534
Sales of investments	(2,129)
Ending balance, December 31, 2010	$ 30,547
Beginning balance, December 31, 2010	$ 30,547
Net unrealized investment gains	-
Investment losses	-
Purchases of investments	1,157
Sales of investments	(2,957)
Ending balance, December 31, 2011	$ 28,747

11. 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 with its previous ownership being 62% at December 31, 2010. At both December 31, 2011 and 2010, 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 other health service related entities that support the Corporation's mission.

The changes in the Corporation's consolidated unrestricted net assets attributable to wholly owned affiliates and noncontrolling interests are as follows:

	Wholly Owned Affiliates	Noncontrolling Interest	Total
		(in thousands)	
Balance at January 1, 2010	$ 1,697,850	$ 28,639	$ 1,726,489
Excess of revenues over expenses	259,234	16,497	275,731
Change in pension and postretirement benefits other than net periodic pension costs included in accrued pension liability	(45,071)	-	(45,071)
Distributions to noncontrolling interests of consolidated affiliates	-	(17,649)	(17,649)
Cumulative effect of change in accounting principle (See Note 2)	(64,639)	-	(64,639)
Other, net	1,777	-	1,777
Net assets released from restrictions used for purchase of property, plant, and equipment	3,802	-	3,802
Balance at December 31, 2010	$ 1,852,953	$ 27,487	$ 1,880,440
Excess of revenues over expenses	$ 59,111	$ 17,788	$ 76,899
Change in pension and postretirement benefits other than net periodic pension costs included in accrued pension liability	(94,433)	-	(94,433)
Distributions to noncontrolling interests of consolidated affiliates	-	(16,892)	(16,892)
Other, net	(3,004)	-	(3,004)
Net assets released from restrictions used for purchase of property, plant, and equipment	784	-	784
Balance at December 31, 2011	$ 1,815,411	$ 28,383	$ 1,843,794

Investments in Unconsolidated Affiliates

The Corporation has investments in entities that are recorded under the cost or equity method of accounting. At December 31, 2011, the Corporation maintained investments in unconsolidated affiliates that support the Corporation's mission having noncontrolling ownership interests ranging from 20% to 49%.

At December 31, 2011 and 2010, 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 health system members. The Corporation accounts for its investment in ACL, LLC under the equity method which approximated $4.0 million at both December 31, 2011 and 2010. The Corporation's capital account in APHL approximates $50,000 at both December 31, 2011 and 2010.

The Corporation's share of the equity in earnings of investments in unconsolidated affiliates accounted for on the equity method is $7,608,000 and $11,983,000 for the years ended December 31, 2011 and 2010, respectively, which is included in total unrestricted revenues, gains, and other support in the consolidated statements of operations and changes in net assets.

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

	2011	2010
	(in thousands)	
Total assets	$ 116,797	$ 121,685
Total liabilities	54,824	51,212
Net assets	61,973	70,473
Total unrestricted revenues, gains, and other support	597,537	653,351
Excess of revenues over expenses	20,070	28,629

12. Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31, 2011 and 2010:

	2011	2010
	(in thousands)	
Capital expenditures	$ 5,745	$ 4,352
Medical education programs	4,557	4,723
Health care programs	5,161	6,324
Other restrictions	2,335	1,868
	$ 17,798	$ 17,267

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 and $11.7 million at December 31, 2011 and 2010, respectively, are restricted to investments to be held in perpetuity with the income expendable to support the Corporation's mission. The Corporation had acted as a nonbeneficial holding agent of a permanently restricted endowment. During 2010, the Corporation transferred approximately $6.3 million of this permanently restricted endowment to the intended beneficiary.

13. Related Party Transactions

The Corporation's Health Centers incurred clinical laboratory charges from the Laboratories of approximately $59.4 million and $58.5 million for the years ended December 31, 2011 and 2010, 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 $1.8 million and $1.9 million for the years ended December 31, 2011 and 2010, respectively, as other operating revenue on the consolidated statements of operations and changes in net assets.

14. Medicaid Disproportionate Share Revenue and State Hospital Assessment Program

Certain of the Corporation's Health Centers qualify as State of Indiana Medicaid Acute Disproportionate Share and Medicaid Safety Net Hospitals ("DSH"). These Health Centers qualified as DSH providers under Indiana law (HEA 1095, Public Law 27-1992), and, as such, are eligible to receive DSH payments linked to the State's fiscal year, which differs from the Corporation's fiscal year. The amount of these additional DSH funds is dependent on regulatory approval by agencies of the federal and state governments, and is determined by the level, extent, and cost of uncompensated care (as defined) and various other factors. The Corporation records such amounts as revenue when payments are received or based upon data from the State of Indiana that payments are determinable and probable of receipt. For the years ended December 31, 2011 and 2010, the Corporation recognized unrestricted revenue of approximately $35.7 million and $21.0 million, respectively, related to the DSH program in the consolidated statements of operations and changes in net assets.

Certain of the Corporation's Health Centers are obligated under IL Public Act 95-859 to participate in the State of Illinois' Hospital Assessment Program. For the years ended December 31, 2011 and 2010, the Corporation recognized $17.7 million of unrestricted revenue each year and $7.4 million of other expense each year related to the Illinois Hospital Assessment program.

15. Functional Expenses

The Corporation provides general health care services to residents within its geographic location. Expenses related to providing these services for the years ended December 31, 2011 and 2010, are as follows:

	2011	2010
	(in thousands)	
Health care services	$ 1,844,850	$ 1,737,432
General, administrative, and other non-healthcare services	401,864	366,831
	$ 2,246,714	$ 2,104,263

16. Subsequent Events

Management has evaluated subsequent issues through April 17, 2012, the date the financial statements were issued. The following event was noted:

Effective March 31, 2012, the Corporation is no longer invested in the pooled investment account within the HSD. The Corporation's beneficial interest in the HSD was transferred to a separate custodian account with bonds, securities, and other investments titled in the Corporation's own name.

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

Board of Trustees
Franciscan Alliance, Inc.
Mishawaka, Indiana

The report on our audits of the consolidated financial statements of Franciscan Alliance, Inc. and Affiliates (collectively referred to as the "Corporation") as of December 31, 2011 and 2010 and for the years then ended 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 (pages 37 through 51) is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual entities. The other supplemental financial information (pages 52 through 58) is presented for purposes of additional analysis and is not a required part of the basic financial statements. The consolidating information and the other supplemental financial information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements, and, except for the portion marked "unaudited", has been subjected to the auditing procedures applied in the audits of the consolidated financial statements, and in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

PricewaterhouseCoopers LLP

April 17, 2012

Franciscan Alliance, Inc. and Affiliates
Supplemental Schedule - Consolidating Balance Sheet
December 31, 2011
(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	$ 68,260	$ 17,754	$ 43,838	$ 8,187	$ 34,280	$ -	$ 172,319
Short-term investments	500	163	-	-	39,755	-	40,418
Patient accounts receivable, net of allowance for doubtful accounts	98,945	51,646	100,078	61,870	-	-	312,539
Inventories of supplies	12,053	4,982	11,736	7,560	87	-	36,418
Other current assets	16,177	6,318	19,909	5,105	44,712	(8,962)	83,259
Total current assets	195,935	80,863	175,561	82,722	118,834	(8,962)	644,953
Board designated and other investments	-	9,673	8,964	2,879	1,652,388	-	1,673,904
Property, plant, and equipment, net	499,067	270,639	473,116	158,413	103,388	-	1,504,623
Investments in unconsolidated affiliates	3,928	3,503	255	283	16,043	-	24,012
Goodwill	11,528	-	6,359	-	538	-	18,425
Intangible assets, net of accumulated amortization	6,807	-	3,039	94	-	-	9,940
Other assets	4,556	3,442	4,257	4,341	95,602	(20,213)	91,985
Total assets	$ 721,821	$ 368,120	$ 671,551	$ 248,732	$ 1,986,793	$ (29,175)	$ 3,967,842

Franciscan Alliance, Inc. and Affiliates
Supplemental Schedule - Consolidating Balance Sheet
December 31, 2011
(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	$ 337	$ 1,032	$ 1,582	$ 218	$ 14,740	$ -	$ 17,909
Accounts payable and accrued expenses	67,355	18,773	60,716	22,820	61,812	(8,962)	222,514
Accrued payroll and related expenses	26,524	13,731	30,194	15,531	13,148	-	99,128
Estimated third-party payor settlements	(1,136)	497	6,190	23,523	-	-	29,074
Total current liabilities	93,080	34,033	98,682	62,092	89,700	(8,962)	368,625
Long-term debt, net of current portion	208	1,188	11,124	20,586	1,106,264	(20,213)	1,119,157
Fair value of interest rate swap contracts	-	-	-	-	105,964	-	105,964
Accrued pension liability	(5,126)	(1,308)	15,368	1,081	316,512	-	326,527
Estimated insurance liabilities	1,505	416	1,056	-	133,385	-	136,362
Other liabilities	3,613	1,229	4,820	3,767	24,251	-	37,680
Total liabilities	93,280	35,558	131,050	87,526	1,776,076	(29,175)	2,094,315
Net assets							
Unrestricted	611,074	308,838	528,765	158,328	208,406	-	1,815,411
Noncontrolling interests in consolidated affiliates	11,560	14,052	2,771	-	-	-	28,383
Total unrestricted net assets	622,634	322,890	531,536	158,328	208,406	-	1,843,794
Temporarily restricted	4,947	3,610	6,354	2,409	478	-	17,798
Permanently restricted	960	6,062	2,611	469	1,833	-	11,935
Total net assets	628,541	332,562	540,501	161,206	210,717	-	1,873,527
Total liabilities and net assets	$ 721,821	$ 368,120	$ 671,551	$ 248,732	$ 1,986,793	$ (29,175)	$ 3,967,842

Franciscan Alliance, Inc. and Affiliates
Supplemental Schedule - Consolidating Balance Sheet – Central Indiana Region
December 31, 2011
(In thousands)

	Franciscan St. Francis Health - Beech Grove/ Indianapolis/ Mooresville	St. Francis Healthcare Foundation, Inc.	St. Francis Health Network, Inc.	Eliminations	Central Indiana Region
Assets					
Current assets					
Cash and cash equivalents	$ 58,235	$ 5,748	$ 4,277	$ -	$ 68,260
Short-term investments	500	-	-	-	500
Patient accounts receivable, net of allowance for doubtful accounts	98,945	-	-	-	98,945
Inventories of supplies	12,053	-	-	-	12,053
Other current assets	19,420	1,138	-	(4,381)	16,177
Total current assets	189,153	6,886	4,277	(4,381)	195,935
Property, plant, and equipment, net	499,007	48	12	-	499,067
Investments in unconsolidated affiliates	3,928	-	-	-	3,928
Goodwill	11,528	-	-	-	11,528
Intangible assets, net of accumulated amortization	6,807	-	-	-	6,807
Other assets	3,818	738	-	-	4,556
Total assets	$ 714,241	$ 7,672	$ 4,289	$ (4,381)	$ 721,821

Franciscan Alliance, Inc. and Affiliates
Supplemental Schedule - Consolidating Balance Sheet – Central Indiana Region
December 31, 2011
(In thousands)

	Franciscan St. Francis Health - Beech Grove/ Indianapolis/ Mooresville	St. Francis Healthcare Foundation, Inc.	St. Francis Health Network, Inc.	Eliminations	Central Indiana Region
Liabilities and Net Assets					
Current liabilities					
Current portion of long-term debt	$ 337	$ -	$ -	$ -	$ 337
Accounts payable and accrued expenses	65,714	1,298	4,724	(4,381)	67,355
Accrued payroll and related expenses	26,524	-	-	-	26,524
Estimated third-party payor settlements	(1,136)	-	-	-	(1,136)
Total current liabilities	91,439	1,298	4,724	(4,381)	93,080
Long-term debt, net of current portion	208	-	-	-	208
Accrued pension liability	(5,126)	-	-	-	(5,126)
Estimated insurance liabilities	1,505	-	-	-	1,505
Other liabilities	3,553	60	-	-	3,613
Total liabilities	91,579	1,358	4,724	(4,381)	93,280
Net assets					
Unrestricted	610,850	659	(435)	-	611,074
Noncontrolling interests in consolidated affiliates	11,560	-	-	-	11,560
Total unrestricted net assets	622,410	659	(435)	-	622,634
Temporarily restricted	252	4,695	-	-	4,947
Permanently restricted	-	960	-	-	960
Total net assets	622,662	6,314	(435)	-	628,541
Total liabilities and net assets	$ 714,241	$ 7,672	$ 4,289	$ (4,381)	$ 721,821

Franciscan Alliance, Inc. and Affiliates
Supplemental Schedule - Consolidating Balance Sheet – Western Indiana Region
December 31, 2011
(In thousands)

	Franciscan St. Elizabeth Health - Lafayette	Franciscan St. Elizabeth Health - Crawfordsville	Eliminations	Western Indiana Region
Assets				
Current assets				
Cash and cash equivalents	$ 16,487	$ 1,267	$ -	$ 17,754
Short-term investments	163	-	-	163
Patient accounts receivable, net of allowance for doubtful accounts	44,910	6,736	-	51,646
Inventories of supplies	3,772	1,210	-	4,982
Other current assets	4,873	1,515	(70)	6,318
Total current assets	70,205	10,728	(70)	80,863
Board designated and other investments	5,283	4,390	-	9,673
Property, plant, and equipment, net	243,960	26,679	-	270,639
Investments in unconsolidated affiliates	3,503	-	-	3,503
Other assets	3,442	-	-	3,442
Total assets	$ 326,393	$ 41,797	$ (70)	$ 368,120

Franciscan Alliance, Inc. and Affiliates
Supplemental Schedule - Consolidating Balance Sheet – Western Indiana Region
December 31, 2011
(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	$ 705	$ 327	$ -	$ 1,032
Accounts payable and accrued expenses	16,098	2,745	(70)	18,773
Accrued payroll and related expenses	12,199	1,532	-	13,731
Estimated third-party payor settlements	1,569	(1,072)	-	497
Total current liabilities	30,571	3,532	(70)	34,033
Long-term debt, net of current portion	1,188	-	-	1,188
Accrued pension liability	1,067	(2,375)	-	(1,308)
Estimated insurance liabilities	250	166	-	416
Other liabilities	1,229	-	-	1,229
Total liabilities	34,305	1,323	(70)	35,558
Net assets				
Unrestricted	272,754	36,084	-	308,838
Noncontrolling interests in consolidated affiliates	14,052	-	-	14,052
Total unrestricted net assets	286,806	36,084	-	322,890
Temporarily restricted	3,497	113	-	3,610
Permanently restricted	1,785	4,277	-	6,062
Total net assets	292,088	40,474	-	332,562
Total liabilities and net assets	$ 326,393	$ 41,797	$ (70)	$ 368,120

Franciscan Alliance, Inc. and Affiliates
Supplemental Schedule - Consolidating Balance Sheet – Northern Indiana Region
December 31, 2011
(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 Equipment Holdings	Franciscan Physicians Real Property, LLC	Eliminations	Northern Indiana Region
Assets								
Current assets								
Cash and cash equivalents	$ 20,812	$ 9,207	$ 9,671	$ 2,611	$ -	$ 1,537	$ -	$ 43,838
Patient accounts receivable, net of allowance for doubtful accounts	35,182	17,463	31,888	15,545	-	-	-	100,078
Inventories of supplies	5,940	2,226	1,734	1,836	-	-	-	11,736
Other current assets	6,090	5,492	4,380	1,784	-	9,076	(6,913)	19,909
Total current assets	68,024	34,388	47,673	21,776	-	10,613	(6,913)	175,561
Board designated and other investments	2,769	963	5,232	-	-	-	-	8,964
Property, plant, and equipment, net	146,958	100,170	185,072	13,340	-	27,576	-	473,116
Investments in unconsolidated affiliates	2,114	74	74	28,744	-	-	(30,751)	255
Goodwill	-	-	-	6,359	-	-	-	6,359
Intangible assets, net of accumulated amortization	567	2,441	31	-	-	-	-	3,039
Other assets	1,808	2,265	184	-	-	3,056	(3,056)	4,257
Total assets	$ 222,240	$ 140,301	$ 238,266	$ 70,219	$ -	$ 41,245	$ (40,720)	$ 671,551

Franciscan Alliance, Inc. and Affiliates
Supplemental Schedule - Consolidating Balance Sheet – Northern Indiana Region
December 31, 2011
(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 Equipment Holdings	Franciscan Physicians Real Property, LLC	Eliminations	Northern Indiana Region
Liabilities and Net Assets								
Current liabilities								
Current portion of long-term debt	$ 132	$ 580	$ 323	$ 925	$ -	$ -	$ (378)	$ 1,582
Accounts payable and accrued expenses	23,619	10,848	12,674	18,820	-	1,290	(6,535)	60,716
Accrued payroll and related expenses	15,217	3,771	5,847	5,359	-	-	-	30,194
Estimated third-party payor settlements	3,635	1,167	1,366	22	-	-	-	6,190
Total current liabilities	42,603	16,366	20,210	25,126	-	1,290	(6,913)	98,682
Long-term debt, net of current portion	500	7,341	684	4,948	-	-	(2,349)	11,124
Accrued pension liability	17,811	2,576	(5,019)	-	-	-	-	15,368
Estimated insurance liabilities	-	525	531	-	-	-	-	1,056
Other liabilities	3,181	1,552	87	707	-	-	(707)	4,820
Total liabilities	64,095	28,360	16,493	30,781	-	1,290	(9,969)	131,050
Net assets								
Unrestricted	155,375	108,972	216,541	39,438	-	39,955	(31,516)	528,765
Noncontrolling interests in consolidated affiliates	-	2,006	-	-	-	-	765	2,771
Total unrestricted net assets	155,375	110,978	216,541	39,438	-	39,955	(30,751)	531,536
Temporarily restricted	2,126	848	3,380	-	-	-	-	6,354
Permanently restricted	644	115	1,852	-	-	-	-	2,611
Total net assets	158,145	111,941	221,773	39,438	-	39,955	(30,751)	540,501
Total liabilities and net assets	$ 222,240	$ 140,301	$ 238,266	$ 70,219	$ -	$ 41,245	$ (40,720)	$ 671,551

Franciscan Alliance, Inc. and Affiliates
Supplemental Schedule - Consolidating Balance Sheet – Corporate and Other
December 31, 2011
(In thousands)

	Corporate and Other Coordinated Business Functions	Alverno Clinical Laboratories, Inc.	Franciscan Holding Corporation	Tonn and Blank Construction, LLC	Hills Insurance Company, Inc.	Eliminations	Corporate and Other
Assets							
Current assets							
Cash and cash equivalents	$ 11,758	$ 2	$ 954	$ 21,315	$ 251	$ -	$ 34,280
Short-term investments	15,767	-	113	23,875	-	-	39,755
Inventories of supplies	-	-	-	87	-	-	87
Other current assets	20,298	-	-	23,628	954	(168)	44,712
Total current assets	47,823	2	1,067	68,905	1,205	(168)	118,834
Board designated and other investments	1,514,443	-	-	-	137,945	-	1,652,388
Property, plant, and equipment, net	99,141	-	-	4,247	-	-	103,388
Investments in unconsolidated affiliates	99,782	-	40,270	-	-	(124,009)	16,043
Goodwill	-	-	-	538	-	-	538
Other assets	66,183	-	-	895	28,524	-	95,602
Total assets	$ 1,827,372	$ 2	$ 41,337	$ 74,585	$ 167,674	$ (124,177)	$ 1,986,793

Franciscan Alliance, Inc. and Affiliates
Supplemental Schedule - Consolidating Balance Sheet – Corporate and Other
December 31, 2011
(In thousands)

	Corporate and Other Coordinated Business Functions	Alverno Clinical Laboratories, Inc.	Franciscan Holding Corporation	Tonn and Blank Construction, LLC	Hills Insurance Company, Inc.	Eliminations	Corporate and Other
Liabilities and Net Assets							
Current liabilities							
Current portion of long-term debt	$ 14,740	$ -	$ -	$ -	$ -	$ -	$ 14,740
Accounts payable and accrued expenses	30,673	-	6	30,679	622	(168)	61,812
Accrued payroll and related expenses	11,609	-	-	1,539	-	-	13,148
Total current liabilities	57,022	-	6	32,218	622	(168)	89,700
Long-term debt, net of current portion	1,106,264	-	-	-	-	-	1,106,264
Fair value of interest rate swap contracts	105,964	-	-	-	-	-	105,964
Accrued pension liability	315,451	-	-	1,061	-	-	316,512
Estimated insurance liabilities	8,740	-	-	-	124,645	-	133,385
Other liabilities	24,251	-	-	-	-	-	24,251
Total liabilities	1,617,692	-	6	33,279	125,267	(168)	1,776,076
Net assets							
Unrestricted	207,369	2	41,331	41,306	42,407	(124,009)	208,406
Temporarily restricted	478	-	-	-	-	-	478
Permanently restricted	1,833	-	-	-	-	-	1,833
Total net assets	209,680	2	41,331	41,306	42,407	(124,009)	210,717
Total liabilities and net assets	$ 1,827,372	$ 2	$ 41,337	$ 74,585	$ 167,674	$ (124,177)	$ 1,986,793

Franciscan Alliance, Inc. and Affiliates
Supplemental Schedule - Consolidating Statement of Operations
Year Ended December 31, 2011
(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	$ 731,559	$ 378,923	$ 739,808	$ 349,842	$ -	$ -	$ 2,200,132
Provision for doubtful accounts	(26,254)	(15,064)	(32,129)	(19,693)	-	-	(93,140)
Net patient service revenue	705,305	363,859	707,679	330,149	-	-	2,106,992
Capitation and premium revenue	67,873	32	15,346	25,577	-	-	108,828
Other operating revenue	30,550	12,400	29,812	13,206	339,282	(286,138)	139,112
Equity in earnings of investments in unconsolidated affiliates	305	6,367	255	-	681	-	7,608
Net unrealized investment losses	-	-	-	-	(4,132)	-	(4,132)
Net assets released from restrictions used for operations	-	96	2,321	559	92	-	3,068
Total unrestricted revenues, gains, and other support	804,033	382,754	755,413	369,491	335,923	(286,138)	2,361,476
Operating expenses							
Salaries	285,931	131,854	285,479	135,537	81,264	-	920,065
Employee benefits	73,553	40,339	89,234	32,752	26,519	(135)	262,262
Physicians' fees	9,975	8,598	9,747	19,990	-	-	48,310
Utilities	10,152	6,695	14,355	5,474	5,559	(762)	41,473
Repairs and maintenance	11,279	6,957	13,604	6,346	1,334	(17)	39,503
Drugs and pharmaceuticals	30,934	11,674	26,249	21,027	-	-	89,884
Medical supplies	69,132	37,055	55,914	28,255	-	-	190,356
Insurance	4,833	2,786	7,829	18,593	16,646	(15,587)	35,100
Purchased services	56,315	49,483	60,924	25,901	24,022	(1,492)	215,153
Other supplies and expenses	130,146	49,539	105,207	72,275	103,125	(215,058)	245,234
Interest	10,812	11,565	17,908	8,515	37,486	(53,087)	33,199
Depreciation and amortization	34,329	18,142	37,345	17,348	19,011	-	126,175
Total operating expenses	727,391	374,687	723,795	392,013	314,966	(286,138)	2,246,714
Operating income (loss)	76,642	8,067	31,618	(22,522)	20,957	-	114,762
Other income (expense)							
Investment income	615	357	1,694	458	85,585	-	88,709
Net unrealized investment losses on trading securities	(214)	-	(297)	(24)	(61,768)	-	(62,303)
Net unrealized losses and periodic settlements on interest rate swap contracts	-	-	-	-	(63,971)	-	(63,971)
Gain (loss) on sale/disposal of assets	1,447	(1,850)	434	(38)	14	-	7
Net assets released from restrictions	2,072	-	-	-	-	-	2,072
Contributions	1,109	54	22	90	112	-	1,387
Other, net	(2,703)	-	(216)	(528)	(317)	-	(3,764)
Total other income (expense), net	2,326	(1,439)	1,637	(42)	(40,345)	-	(37,863)
Excess (deficiency) of revenues over expenses	78,968	6,628	33,255	(22,564)	(19,388)	-	76,899
Equity transfers from (to) affiliates, net	46,966	(9,448)	27,761	1,270	(66,549)	-	-
Change in pension and postretirement benefits other than net periodic pension costs included in accrued pension liability	-	(1,857)	-	-	(92,576)	-	(94,433)
Distributions to noncontrolling interests in consolidated affiliates	(16,820)	(412)	340	-	-	-	(16,892)
Other, net	(141)	(318)	(915)	-	(1,630)	-	(3,004)
Net assets released from restrictions used for purchase of property, plant, and equipment	30	-	541	213	-	-	784
Increase (decrease) in unrestricted net assets	$ 109,003	$ (5,407)	$ 60,982	$ (21,081)	$ (180,143)	$ -	$ (36,646)

Franciscan Alliance, Inc. and Affiliates
Supplemental Schedule - Consolidating Statement of Operations - Central Indiana Region
Year Ended December 31, 2011
(In thousands)

	Franciscan St. Francis Health - Beech Grove/ Indianapolis/ Mooresville	St. Francis Healthcare Foundation, Inc.	St. Francis Health Network, Inc.	Eliminations	Central Indiana Region
Unrestricted revenues, gains, and other support					
Patient service revenue, net of contractual allowances and discounts	$ 731,559	$ -	$ -	$ -	$ 731,559
Provision for doubtful accounts	(26,254)	-	-	-	(26,254)
Net patient service revenue	705,305	-	-	-	705,305
Capitation and premium revenue	37,391	-	67,872	(37,390)	67,873
Other operating revenue	28,169	-	4,028	(1,647)	30,550
Equity in earnings of investments in unconsolidated affiliates	305	-	-	-	305
Total unrestricted revenues, gains, and other support	771,170	-	71,900	(39,037)	804,033
Operating expenses					
Salaries	284,811	-	1,120	-	285,931
Employee benefits	73,208	-	345	-	73,553
Physicians' fees	9,975	-	-	-	9,975
Utilities	10,142	-	10	-	10,152
Repairs and maintenance	11,277	-	2	-	11,279
Drugs and pharmaceuticals	30,934	-	-	-	30,934
Medical supplies	69,132	-	-	-	69,132
Insurance	4,806	-	27	-	4,833
Purchased services	53,700	-	2,615	-	56,315
Other supplies and expenses	101,207	-	67,976	(39,037)	130,146
Interest	10,812	-	-	-	10,812
Depreciation and amortization	34,325	-	4	-	34,329
Total operating expenses	694,329	-	72,099	(39,037)	727,391
Operating income (loss)	76,841	-	(199)	-	76,642
Other income (expense)					
Investment income	393	16	206	-	615
Net unrealized investment losses on trading securities	-	-	(214)	-	(214)
Gain on sale/disposal of assets	1,447	-	-	-	1,447
Net assets released from restrictions	-	2,072	-	-	2,072
Contributions	-	1,109	-	-	1,109
Other, net	86	(2,789)	-	-	(2,703)
Total other income (expense), net	1,926	408	(8)	-	2,326
Excess (deficiency) of revenues over expenses	78,767	408	(207)	-	78,968
Equity transfers from affiliates, net	46,966	-	-	-	46,966
Distributions to noncontrolling interests in consolidated affiliates	(16,820)	-	-	-	(16,820)
Other, net	(141)	-	-	-	(141)
Net assets released from restrictions used for purchase of property, plant, and equipment	30	-	-	-	30
Increase (decrease) in unrestricted net assets	$ 108,802	$ 408	$ (207)	$ -	$ 109,003

Franciscan Alliance, Inc. and Affiliates
Supplemental Schedule - Consolidating Statement of Operations - Western Indiana Region
Year Ended December 31, 2011
(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	$ 321,775	$ 57,148	$ -	$ 378,923
Provision for doubtful accounts	(11,905)	(3,159)	-	(15,064)
Net patient service revenue	309,870	53,989	-	363,859
Capitation and premium revenue	-	32	-	32
Other operating revenue	11,822	1,162	(584)	12,400
Equity in earnings of investments in unconsolidated affiliates	6,367	-	-	6,367
Net assets released from restrictions used for operations	84	12	-	96
Total unrestricted revenues, gains, and other support	328,143	55,195	(584)	382,754
Operating expenses				
Salaries	110,472	21,382	-	131,854
Employee benefits	34,280	6,059	-	40,339
Physicians' fees	7,733	865	-	8,598
Utilities	5,839	856	-	6,695
Repairs and maintenance	5,362	1,595	-	6,957
Drugs and pharmaceuticals	8,539	3,135	-	11,674
Medical supplies	34,362	2,693	-	37,055
Insurance	2,286	500	-	2,786
Purchased services	46,247	3,820	(584)	49,483
Other supplies and expenses	40,884	8,655	-	49,539
Interest	9,710	1,855	-	11,565
Depreciation and amortization	15,612	2,530	-	18,142
Total operating expenses	321,326	53,945	(584)	374,687
Operating income	6,817	1,250	-	8,067
Other income (expense)				
Investment income	301	56	-	357
Loss on sale/disposal of assets	(1,850)	-	-	(1,850)
Contributions	54	-	-	54
Total other (expense) income, net	(1,495)	56	-	(1,439)
Excess of revenues over expenses	5,322	1,306	-	6,628
Equity transfers to affiliates, net	(8,599)	(849)	-	(9,448)
Change in pension and postretirement benefits other than net periodic pension costs included in accrued pension liability	(1,857)	-	-	(1,857)
Distributions to noncontrolling interests in consolidated affiliates	(412)	-	-	(412)
Other, net	-	(318)	-	(318)
(Decrease) increase in unrestricted net assets	$ (5,546)	$ 139	$ -	$ (5,407)

Franciscan Alliance, Inc. and Affiliates
Supplemental Schedule - Consolidating Statement of Operations - Northern Indiana Region
Year Ended December 31, 2011
(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 Equipment Holdings	Franciscan Physicians Real Property, LLC	Eliminations	Northern Indiana Region
Unrestricted revenues, gains, and other support								
Patient service revenue, net of contractual allowances and discounts	$ 305,363	$ 151,987	$ 217,227	$ 65,231	$ -	$ -	$ -	$ 739,808
Provision for doubtful accounts	(15,515)	(6,046)	(8,844)	(1,724)	-	-	-	(32,129)
Net patient service revenue	289,848	145,941	208,383	63,507	-	-	-	707,679
Capitation and premium revenue	8,002	7,202	142	-	-	-	-	15,346
Other operating revenue	14,903	4,663	5,120	5,143	1,151	3,792	(4,960)	29,812
Equity in earnings of investments in unconsolidated affiliates	63	96	96	-	-	-	-	255
Net assets released from restrictions used for operations	1,052	1,242	27	-	-	-	-	2,321
Total unrestricted revenues, gains, and other support	313,868	159,144	213,768	68,650	1,151	3,792	(4,960)	755,413
Operating expenses								
Salaries	125,266	59,040	74,554	26,619	-	-	-	285,479
Employee benefits	40,628	20,453	23,497	4,656	-	-	-	89,234
Physicians' fees	1,718	3,675	2,519	1,835	-	-	-	9,747
Utilities	6,528	2,469	4,229	1,129	-	-	-	14,355
Repairs and maintenance	6,013	2,662	4,017	912	-	-	-	13,604
Drugs and pharmaceuticals	8,682	4,250	8,465	4,852	-	-	-	26,249
Medical supplies	23,247	11,493	15,447	5,727	-	-	-	55,914
Insurance	3,296	1,742	2,130	661	-	-	-	7,829
Purchased services	24,735	12,633	15,635	7,921	-	-	-	60,924
Other supplies and expenses	46,436	26,944	24,862	11,502	(119)	43	(4,461)	105,207
Interest	7,797	4,439	5,270	898	-	3	(499)	17,908
Depreciation and amortization	15,615	8,561	10,929	1,468	92	680	-	37,345
Total operating expenses	309,961	158,361	191,554	68,180	(27)	726	(4,960)	723,795
Operating income	3,907	783	22,214	470	1,178	3,066	-	31,618
Other income (expense)								
Investment income	995	272	427	-	-	-	-	1,694
Net unrealized investment losses on trading securities	(250)	(42)	(5)	-	-	-	-	(297)
(Loss) gain on sale/disposal of assets	(187)	(76)	(355)	78	-	974	-	434
Contributions	12	2	8	-	-	-	-	22
Other, net	(1)	(24)	(191)	-	-	-	-	(216)
Total other income (expense), net	569	132	(116)	78	-	974	-	1,637
Excess of revenues over expenses	4,476	915	22,098	548	1,178	4,040	-	33,255
Equity transfers from (to) affiliates, net	9,973	15,663	(7,791)	60,967	(39,274)	(3,183)	(8,594)	27,761
Contributions from noncontrolling interests in consolidated affiliates	-	19	-	-	-	-	321	340
Other, net	-	-	(651)	-	-	(264)	-	(915)
Net assets released from restrictions used for purchase of property, plant, and equipment	1	70	470	-	-	-	-	541
Increase (decrease) in unrestricted net assets	$ 14,450	$ 16,667	$ 14,126	$ 61,515	$ (38,096)	$ 593	$ (8,273)	$ 60,982

Franciscan Alliance, Inc. and Affiliates
Supplemental Schedule - Consolidating Statement of Operations - Corporate and Other
Year Ended December 31, 2011
(In thousands)

	Corporate and Other Coordinated Business Functions	Alverno Clinical Laboratories, Inc.	Franciscan Holding Corporation	Tonn and Blank Construction, LLC	Hills Insurance Company, Inc.	Eliminations	Corporate & Other
Unrestricted revenues, gains, and other support							
Other operating revenue	$ 225,632	$ 47	$ -	$ 115,284	$ 23,376	$ (25,057)	$ 339,282
Equity in earnings of investments in unconsolidated affiliates	11,139	-	3,813	-	-	(14,271)	681
Net unrealized investment losses	(4,132)	-	-	-	(4,132)	4,132	(4,132)
Net assets released from restrictions used for operations	92	-	-	-	-	-	92
Total unrestricted revenues, gains, and other support	232,731	47	3,813	115,284	19,244	(35,196)	335,923
Operating expenses							
Salaries	66,219	-	-	15,045	-	-	81,264
Employee benefits	20,022	263	-	6,234	-	-	26,519
Utilities	5,437	-	-	122	-	-	5,559
Repairs and maintenance	1,150	-	-	184	-	-	1,334
Insurance	(859)	2	-	479	17,024	-	16,646
Purchased services	23,975	47	-	-	-	-	24,022
Other supplies and expenses	21,098	114	72	89,353	-	(7,512)	103,125
Interest	55,032	-	-	-	-	(17,546)	37,486
Depreciation and amortization	18,516	-	-	495	-	-	19,011
Total operating expenses	210,590	426	72	111,912	17,024	(25,058)	314,966
Operating income (loss)	22,141	(379)	3,741	3,372	2,220	(10,138)	20,957
Other income (expense)							
Investment income	85,073	-	-	512	-	-	85,585
Net unrealized investment losses on trading securities	(61,640)	-	-	(128)	-	-	(61,768)
Net unrealized losses and periodic settlements on interest rate swap contracts	(63,971)	-	-	-	-	-	(63,971)
Gain on sale/disposal of assets	1	-	-	13	-	-	14
Contributions	112	-	-	-	-	-	112
Other, net	(665)	-	348	-	-	-	(317)
Total other (expense) income, net	(41,090)	-	348	397	-	-	(40,345)
(Deficiency) excess of revenues over expenses	(18,949)	(379)	4,089	3,769	2,220	(10,138)	(19,388)
Equity transfers (to) from affiliates, net	(66,947)	382	16	-	-	-	(66,549)
Change in pension and postretirement benefits other than net periodic pension costs included in accrued pension liability	(92,824)	-	-	248	-	-	(92,576)
Other, net	(767)	-	-	(1,327)	-	464	(1,630)
(Decrease) increase in unrestricted net assets	$ (179,487)	$ 3	$ 4,105	$ 2,690	$ 2,220	$ (9,674)	$ (180,143)

Franciscan Alliance, Inc. and Affiliates
Supplemental Schedule - Patient Accounts Receivable and Related Data
December 31, 2011 and 2010
(In thousands, except percentages and average days)

	Patient Accounts Receivable, Net		Increase (Decrease)		Average Day's Charges in Patient Accounts Receivable, Net (Unaudited)	
	2011	2010	Amount	Percentage	2011	2010
Franciscan St. Francis Health - Beech Grove/Indianapolis/Mooresville	$ 98,945	$ 78,117	$ 20,828	26.7 %	51.2	42.6
Franciscan St. Elizabeth Health - Lafayette	44,910	40,168	4,742	11.8 %	52.9	50.0
Franciscan St. Elizabeth Health - Crawfordsville	6,736	6,780	(44)	(0.6)%	45.5	44.1
Franciscan St. Margaret Health - Hammond/Dyer	35,182	28,741	6,441	22.4 %	44.3	36.0
Franciscan St. Anthony Health - Michigan City	17,463	15,504	1,959	12.6 %	43.7	38.8
Franciscan St. Anthony Health - Crown Point	31,888	25,635	6,253	24.4 %	55.9	45.4
Franciscan Physicians Hospital, LLC, Munster	15,545	2,975	12,570	422.5 %	89.3	46.8
South Suburban Chicago Region, Chicago Heights/ Olympia Fields	61,870	49,101	12,769	26.0 %	68.4	53.8
Total	$ 312,539	$ 247,021	$ 65,518	26.5 %	54.1	44.7

Franciscan Alliance, Inc. and Affiliates
Supplemental Schedule - Gross Revenue Composition by Payor
Year Ended December 31, 2011
(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/ 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	$ 786,731	38.7%	$ 332,390	38.2%	$ 59,097	45.4%	$ 373,533	47.6%	$ 168,186	43.8%	$ 216,874	42.1%	$ 42,665	26.9%	$ 520,616	46.0%	$ 2,500,092	41.6%
Medicaid	255,129	12.6%	107,073	12.3%	12,354	9.5%	136,074	17.3%	60,735	15.8%	28,220	5.5%	5,889	3.7%	179,565	15.9%	785,039	13.1%
Blue Cross	486,241	24.0%	137,547	15.8%	18,942	14.6%	121,249	15.5%	73,251	19.1%	85,456	16.6%	45,392	28.6%	211,080	18.6%	1,179,158	19.6%
Managed care contracts	319,392	15.7%	200,113	23.0%	19,717	15.1%	74,712	9.5%	33,492	8.7%	124,958	24.3%	48,565	30.6%	128,111	11.3%	949,060	15.8%
Other commercial	67,326	3.3%	17,243	2.0%	8,648	6.6%	44,157	5.6%	19,094	4.9%	38,921	7.6%	8,910	5.6%	41,142	3.6%	245,441	4.1%
Self-pay and other	115,949	5.7%	75,692	8.7%	11,441	8.8%	35,560	4.5%	29,552	7.7%	19,968	3.9%	7,315	4.6%	52,490	4.6%	347,967	5.8%
Total	$ 2,030,768	100.0%	$ 870,058	100.0%	$ 130,199	100.0%	$ 785,285	100.0%	$ 384,310	100.0%	$ 514,397	100.0%	$ 158,736	100.0%	$ 1,133,004	100.0%	$ 6,006,757	100.0%

Franciscan Alliance, Inc. and Affiliates
Supplemental Schedule - Gross Revenue Composition by Payor
Year Ended December 31, 2011
(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/ 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	$ 410,165	53.8%	$ 211,191	51.8%	$ 23,641	75.3%	$ 268,065	60.3%	$ 91,339	56.2%	$ 134,139	56.3%	$ 9,024	36.1%	$ 370,286	59.8%	$ 1,517,850	56.4%
Medicaid	94,123	12.3%	46,840	11.5%	1,661	5.3%	66,434	14.9%	24,746	15.2%	12,939	5.4%	750	3.0%	98,655	15.9%	346,148	12.9%
Blue Cross	135,865	17.8%	51,261	12.6%	2,441	7.8%	52,540	11.8%	20,653	12.7%	26,933	11.3%	9,209	36.9%	88,858	14.3%	387,760	14.4%
Managed care contracts	82,726	10.9%	69,755	17.1%	1,772	5.7%	30,212	6.8%	10,230	6.3%	41,773	17.5%	2,006	8.0%	34,461	5.6%	272,935	10.1%
Other commercial	19,838	2.6%	8,078	2.0%	727	2.3%	17,114	3.9%	6,504	4.0%	14,573	6.1%	3,083	12.3%	10,786	1.7%	80,703	3.0%
Self-pay and other	19,903	2.6%	20,673	5.0%	1,146	3.6%	10,405	2.3%	9,117	5.6%	7,956	3.4%	929	3.7%	16,769	2.7%	86,898	3.2%
	$ 762,620	100.0%	$ 407,798	100.0%	$ 31,388	100.0%	$ 444,770	100.0%	$ 162,589	100.0%	$ 238,313	100.0%	$ 25,001	100.0%	$ 619,815	100.0%	$ 2,692,294	100.0%
Outpatient																		
Medicare	$ 376,566	29.7%	$ 121,199	26.2%	$ 35,456	35.9%	$ 105,468	31.0%	$ 76,847	34.7%	$ 82,735	30.0%	$ 33,641	25.1%	$ 150,330	29.3%	$ 982,242	29.6%
Medicaid	161,006	12.7%	60,233	13.0%	10,693	10.8%	69,640	20.4%	35,989	16.2%	15,281	5.5%	5,139	3.8%	80,910	15.8%	438,891	13.2%
Blue Cross	350,376	27.6%	86,286	18.7%	16,501	16.7%	68,709	20.2%	52,598	23.7%	58,523	21.2%	36,183	27.1%	122,222	23.8%	791,398	23.9%
Managed care contracts	236,666	18.7%	130,358	28.2%	17,945	18.2%	44,500	13.1%	23,262	10.5%	83,185	30.1%	46,559	34.8%	93,650	18.2%	676,125	20.4%
Other commercial	47,488	3.7%	9,165	2.0%	7,921	8.0%	27,043	7.9%	12,590	5.7%	24,348	8.8%	5,827	4.4%	30,356	5.9%	164,738	5.0%
Self-pay and other	96,046	7.6%	55,019	11.9%	10,295	10.4%	25,155	7.4%	20,435	9.2%	12,012	4.4%	6,386	4.8%	35,721	7.0%	261,069	7.9%
	$ 1,268,148	100.0%	$ 462,260	100.0%	$ 98,811	100.0%	$ 340,515	100.0%	$ 221,721	100.0%	$ 276,084	100.0%	$ 133,735	100.0%	$ 513,189	100.0%	$ 3,314,463	100.0%

Franciscan Alliance, Inc. and Affiliates
Supplemental Schedule - Service Statistics
Year Ended December 31, 2011
(Unaudited)

	Central Indiana Region	Western Indiana Region			Northern Indiana Region					South Suburban Chicago Region	Consolidated
	Franciscan St. Francis Health - Beech Grove/ 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 and Surgical	69,035	23,935	3,521	27,456	58,044	18,544	34,065	3,207	113,860	73,868	284,219
Intensive Care and Coronary Care	10,901	10,002	401	10,403	6,640	2,316	3,686	597	13,239	10,975	45,518
Obstetrical	8,797	5,284	121	5,405	1,131	1,563	3,747	-	6,441	3,537	24,180
Pediatrics	931	582	-	582	-	631	3,480	-	4,111	1,406	7,030
Psychiatric/Rehabilitation	4,582	6,181	2,362	8,543	14,965	5,575	2,926	-	23,466	5,352	41,943
Other	4,305	3,171	-	3,171	6,082	-	-	-	6,082	4,501	18,059
Total Patient Days	98,551	49,155	6,405	55,560	86,862	28,629	47,904	3,804	167,199	99,639	420,949
Acute Patient Days	93,969	45,490	4,043	49,533	65,818	23,054	44,978	3,804	137,654	89,786	370,942
Adjusted Patient Days	262,430	104,874	26,570	131,444	153,363	67,656	103,400	12,208	336,628	169,989	900,490
Admissions	22,875	12,126	1,513	13,639	16,716	7,170	10,365	956	35,207	22,349	94,070
Discharges	22,903	12,223	1,517	13,740	16,710	7,169	10,477	949	35,305	22,369	94,317
Medicare Discharges	11,492	5,642	1,119	6,761	8,475	3,657	5,043	381	17,556	10,842	46,651
Acute Discharges	22,480	11,907	1,320	13,227	13,784	6,471	10,195	949	31,399	21,113	88,219
Adjusted Discharges	60,988	26,078	6,293	32,371	29,503	16,942	22,615	3,046	72,105	38,163	203,627
Average Daily Census	270.0	134.7	17.5	152.2	238.0	78.4	131.2	10.4	458.1	273.0	1,153.3
Total Licensed Beds	600	281	103	384	782	310	411	63	1,566	476	3,026
Total Operated Beds	532	267	62	329	438	172	238	32	880	398	2,139
Total Adjusted Occupied Beds	719	287	73	360	420	185	283	33	922	466	2,467
Percentage of Occupancy- Licensed Beds	45.0%	47.9%	17.0%	39.6%	30.4%	25.3%	31.9%	16.5%	29.3%	57.3%	38.1%
Percentage of Occupancy- Operated Beds	50.8%	50.4%	28.3%	46.3%	54.3%	45.6%	55.1%	32.6%	52.1%	68.6%	53.9%
Average Length of Stay (Days)	4.3	4.0	4.2	4.0	5.2	4.0	4.6	4.0	4.7	4.5	4.5
Average Length of Stay (Days) - Acute	4.2	3.8	3.1	3.7	4.8	3.6	4.4	4.0	4.4	4.3	4.2
Average Length of Stay (Days) - Long-term	11.5	-	12.0	12.0	9.2	9.4	10.4	-	9.4	13.1	11.0
Medicare Case Mix Index	1.6	1.6	1.0	1.5	1.5	1.4	1.4	1.4	1.4	1.4	1.5
Case Mix Index	1.4	1.5	1.0	1.4	1.3	1.3	1.2	1.5	1.3	1.1	1.3
Total Emergency Room Visits	127,141	65,413	20,747	86,160	65,207	35,140	32,106	-	132,453	78,869	424,623
Total Outpatient Surgeries	16,598	3,766	3,639	7,405	6,811	10,429	6,287	5,236	28,763	7,456	60,222
Total Outpatient Clinic Visits	520,967	186,376	74,938	261,314	138,449	282,525	178,323	246,755	846,052	291,875	1,920,208
Total Outpatient Visits and Surgeries	1,252,255	419,843	142,509	562,352	314,796	328,094	307,759	257,878	1,208,527	447,769	3,470,903

Franciscan Alliance, Inc. and Affiliates
Supplemental Schedule - Service Statistics
Year Ended December 31, 2011
(Unaudited)

	Central Indiana Region	Western Indiana Region			Northern Indiana Region				South Suburban Chicago Region	Consolidated
	Franciscan St. Francis Health - Beech Grove/ 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	Total		
Nursery										
Patient days	6,069	3,803	104	3,907	1,378	1,360	2,728	5,466	3,740	19,182
Admissions	2,682	1,876	51	1,927	410	646	1,546	2,602	1,450	8,661
Discharges	2,708	1,778	51	1,829	411	646	1,447	2,504	1,498	8,539
Average Daily Crib Capacity	60.0	36.0	-	36.0	15.1	20.0	30.0	65.1	36.0	197.1
Average Daily Census in Nursery	16.6	10.4	-	10.4	3.8	3.7	7.5	15.0	10.2	52.6
Average Length of Stay (Days)	2.2	2.1	-	2.1	3.4	2.1	1.9	2.2	2.5	2.2
Percentage of Occupancy	27.7%	28.9%	-	28.9%	25.0%	18.6%	24.9%	23.0%	28.5%	26.7%

Franciscan Alliance, Inc. and Affiliates
Supplemental Schedule – Full-Time Equivalent Personnel
Years Ended December 31, 2011 and 2010
(Unaudited)

	Total FTEs		FTEs Per Adjusted Occupied Bed	
	2011	2010	2011	2010
Central Indiana Region				
Franciscan St. Francis Health - Beech Grove/Indianapolis/Mooresville	4,155	3,878	5.8	5.7
St. Francis Healthcare Foundation, Inc.	-	6	-	-
St. Francis Health Network, Inc.	14	13	-	-
Total Central Indiana Region	4,169	3,897	5.8	5.7
Western Indiana Region				
Franciscan St. Elizabeth Health - Lafayette	1,790	1,779	6.2	6.1
Franciscan St. Elizabeth Health - Crawfordsville	324	344	4.4	4.5
Total Western Indiana Region	2,114	2,123	5.9	6.0
Northern Indiana Region				
Franciscan St. Margaret Health - Hammond/Dyer	2,159	2,266	5.1	4.7
Franciscan St. Anthony Health - Michigan City	1,001	1,009	5.4	5.3
Franciscan St. Anthony Health - Crown Point	1,298	1,328	4.6	4.7
Franciscan Physicians Hospital, LLC - Munster	536	154	5.3	6.1
Total Northern Indiana Region	4,994	4,757	5.0	4.8
South Suburban Chicago Region	2,350	2,302	4.7	4.8
Corporate and Other				
Corporate and Other Coordinated Business Functions	973	673	-	-
Tonn and Blank Construction, LLC	209	170	-	-
Total Corporate and Other	1,182	843	-	-
	14,809	13,922	5.3	5.1

Franciscan Alliance, Inc. and Affiliates
Supplemental Schedule – Medical Staff Complement
Years Ended December 31, 2011 and 2010
(Unaudited)

	Active		Associate		Other		Total		Average Age	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Central Indiana Region										
Franciscan St. Francis Health - Beech Grove/Indianapolis/Mooresville	501	495	29	26	363	327	893	848	48	47
Western Indiana Region										
Franciscan St. Elizabeth Health - Lafayette	233	238	39	33	38	54	310	325	49	49
Franciscan St. Elizabeth Health - Crawfordsville	66	64	-	-	81	82	147	146	50	50
Northern Indiana Region										
Franciscan St. Margaret Health - Hammond/Dyer	444	461	102	87	85	87	631	635	50	49
Franciscan St. Anthony Health - Michigan City	198	185	42	37	8	11	248	233	52	52
Franciscan St. Anthony Health - Crown Point	226	222	46	37	118	119	390	378	50	49
Franciscan Physicians Hospital, LLC - Munster	183	118	72	104	46	45	301	267	48	48
South Suburban Chicago Region	220	232	256	278	95	93	571	603	51	50
Total/Average	2,071	2,015	586	602	834	818	3,491	3,435	50	49