

ORIGINAL

12-037

ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD
APPLICATION FOR PERMIT

RECEIVED

SECTION I. IDENTIFICATION, GENERAL INFORMATION, AND CERTIFICATION

APR 20 2012

This Section must be completed for all projects.

HEALTH FACILITIES &
SERVICES REVIEW BOARD

Facility/Project Identification

Facility Name:	Franciscan Alliance, Inc. D/B/A Franciscan St. James Health-Olympia Fields		
Street Address:	20201 S. Crawford		
City and Zip Code:	Olympia Fields, IL 60461		
County:	Cook	Health Service Area	VII
		Health Planning Area:	A-04

Applicant /Co-Applicant Identification

[Provide for each co-applicant [refer to Part 1130.220].

Exact Legal Name:	Franciscan Alliance, Inc. D/B/A Franciscan St. James Health-Olympia Fields		
Address:	20201 S. Crawford Olympia Fields, IL 60461		
Name of Registered Agent:			
Name of Chief Executive Officer:	Seth Warren President, Franciscan St. James Health		
CEO Address:	1423 Chicago Road Chicago Heights, IL 60411		
Telephone Number:	708/756-1000		

Type of Ownership of Applicant/Co-Applicant

<input checked="" type="checkbox"/> Non-profit Corporation	<input type="checkbox"/> Partnership
<input type="checkbox"/> For-profit Corporation	<input type="checkbox"/> Governmental
<input type="checkbox"/> Limited Liability Company	<input type="checkbox"/> Sole Proprietorship
	<input type="checkbox"/> Other

- o Corporations and limited liability companies must provide an Illinois certificate of good standing.
- o Partnerships must provide the name of the state in which organized and the name and address of each partner specifying whether each is a general or limited partner.

APPEND DOCUMENTATION AS ATTACHMENT-1 IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Primary Contact

[Person to receive all correspondence or inquiries during the review period]

Name:	Thomas W. Senesac
Title:	Regional Chief Financial Officer
Company Name:	Franciscan Alliance, Inc., South Suburban Chicago Region
Address:	1423 Chicago Road Chicago Heights, IL 60411
Telephone Number:	708/756-1000
E-mail Address:	Tom.Senesac@Franciscanalliance.Org
Fax Number:	708/756-6863

Additional Contact

[Person who is also authorized to discuss the application for permit]

Name:	Jacob M. Axel
Title:	President
Company Name:	Axel & Associates, Inc.
Address:	675 North Court, Suite 210 Palatine, IL 60067
Telephone Number:	847/776-7101
E-mail Address:	jacobmaxel@msn.com
Fax Number:	847/776-7004

**ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD
APPLICATION FOR PERMIT**

SECTION I. IDENTIFICATION, GENERAL INFORMATION, AND CERTIFICATION

This Section must be completed for all projects.

Facility/Project Identification

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Street Address:	20201 S. Crawford		
City and Zip Code:	Olympia Fields, IL 60461		
County:	Cook	Health Service Area	VII
		Health Planning Area:	A-04

Applicant /Co-Applicant Identification

[Provide for each co-applicant [refer to Part 1130.220].

Exact Legal Name:	Franciscan Alliance, Inc.
Address:	1515 Dragoon Trail Mishawaka, IN 46546
Name of Registered Agent:	
Name of Chief Executive Officer:	Kevin D. Leahy President & CEO
CEO Address:	1515 Dragoon Trail Mishawaka, IN 46546
Telephone Number:	574/256-3935

Type of Ownership of Applicant/Co-Applicant

<input checked="" type="checkbox"/> Non-profit Corporation	<input type="checkbox"/> Partnership	
<input type="checkbox"/> For-profit Corporation	<input type="checkbox"/> Governmental	
<input type="checkbox"/> Limited Liability Company	<input type="checkbox"/> Sole Proprietorship	<input type="checkbox"/> Other

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Title:	Regional Chief Financial Officer
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Address:	1423 Chicago Road Chicago Heights, IL 60411
Telephone Number:	708/756-1000
E-mail Address:	Tom.Senesac@Franciscanalliance.Org
Fax Number:	708/756-6863

Additional Contact

[Person who is also authorized to discuss the application for permit]

Name:	Jacob M. Axel
Title:	President
Company Name:	Axel & Associates, Inc.
Address:	675 North Court, Suite 210 Palatine, IL 60067
Telephone Number:	847/776-7101
E-mail Address:	jacobmaxel@msn.com
Fax Number:	847/776-7004

Post Permit Contact

[Person to receive all correspondence subsequent to permit issuance-THIS PERSON MUST BE EMPLOYED BY THE LICENSED HEALTH CARE FACILITY AS DEFINED AT 20 ILCS 3960

[Person to receive all correspondence or inquiries during the review period]

Name:	Thomas W. Senesac
Title:	Regional Chief Financial Officer
Company Name:	Franciscan Alliance, Inc., South Suburban Chicago Region
Address:	1423 Chicago Road Chicago Heights, IL 60411
Telephone Number:	708/756-1000
E-mail Address:	Tom.Senesac@Franciscanalliance.Org
Fax Number:	708/756-6863

Site Ownership

[Provide this information for each applicable site]

Exact Legal Name of Site Owner:	Franciscan Alliance, Inc. D/B/A Franciscan St. James Health-Olympia Fields
Address of Site Owner:	1423 Chicago Road Chicago Heights, IL 60411
Street Address or Legal Description of Site:	20201 S. Crawford Olympia Fields, IL 60461
Proof of ownership or control of the site is to be provided as Attachment 2. Examples of proof of ownership are property tax statement, tax assessor's documentation, deed, notarized statement of the corporation attesting to ownership, an option to lease, a letter of intent to lease or a lease.	
APPEND DOCUMENTATION AS ATTACHMENT-2, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.	

Operating Identity/Licensee

[Provide this information for each applicable facility, and insert after this page.]

Exact Legal Name:		
Address:		
<input checked="" type="checkbox"/> Non-profit Corporation	<input type="checkbox"/> Partnership	
<input type="checkbox"/> For-profit Corporation	<input type="checkbox"/> Governmental	
<input type="checkbox"/> Limited Liability Company	<input type="checkbox"/> Sole Proprietorship	<input type="checkbox"/> Other
<ul style="list-style-type: none">o Corporations and limited liability companies must provide an Illinois Certificate of Good Standing.o Partnerships must provide the name of the state in which organized and the name and address of each partner specifying whether each is a general or limited partner.o Persons with 5 percent or greater interest in the licensee must be identified with the % of ownership.		
APPEND DOCUMENTATION AS ATTACHMENT-3, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.		

Organizational Relationships

Provide (for each co-applicant) an organizational chart containing the name and relationship of any person or entity who is related (as defined in Part 1130.140). If the related person or entity is participating in the development or funding of the project, describe the interest and the amount and type of any financial contribution.

APPEND DOCUMENTATION AS ATTACHMENT-4, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Flood Plain Requirements

[Refer to application instructions.]

Provide documentation that the project complies with the requirements of Illinois Executive Order #2005-5 pertaining to construction activities in special flood hazard areas. As part of the flood plain requirements please provide a map of the proposed project location showing any identified floodplain areas. Floodplain maps can be printed at www.FEMA.gov or www.illinoisfloodmaps.org. **This map must be in a readable format.** In addition please provide a statement attesting that the project complies with the requirements of Illinois Executive Order #2005-5 (<http://www.hfsrb.illinois.gov>).

APPEND DOCUMENTATION AS ATTACHMENT -5, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Historic Resources Preservation Act Requirements

[Refer to application instructions.]

Provide documentation regarding compliance with the requirements of the Historic Resources Preservation Act.

APPEND DOCUMENTATION AS ATTACHMENT-6, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

DESCRIPTION OF PROJECT

1. Project Classification

[Check those applicable - refer to Part 1110.40 and Part 1120.20(b)]

Part 1110 Classification:

- Substantive
 Non-substantive

Part 1120 Applicability or Classification:
[Check one only.]

- Part 1120 Not Applicable
 Category A Project
 Category B Project
 DHS or DVA Project

2. Narrative Description

Provide in the space below, a brief narrative description of the project. Explain **WHAT** is to be done in **State Board defined terms**, **NOT WHY** it is being done. If the project site does **NOT** have a street address, include a legal description of the site. Include the rationale regarding the project's classification as substantive or non-substantive.

The proposed major modernization project is limited to Franciscan St. James Hospital-Olympia Fields' Medical/Surgical units and will increase the number of private rooms available at the hospital. The modernization will be limited to the renovation of existing nursing units, and the hospital's approved Medical/Surgical bed complement will be reduced from 139 to 133 beds.

No debt will be incurred to fund the project.

The project is classified as being "substantive" because it does not meet the limited definition of "non-substantive" projects included in Section 1110.40.

PROJECT COSTS AND SOURCES OF FUNDS

	Clinical/ Reviewable	Non-Clinical/ Non-Reviewable	Total
Project Costs:			
Preplanning Costs			
Site Survey and Soil Investigation			
Site Preparation			
Off Site Work			
New Construction Contracts			
Modernization Contracts	\$8,111,640		\$8,111,640
Contingencies	\$675,970		\$675,970
Architectural/Engineering Fees	\$509,681		\$509,681
Consulting and Other Fees	\$40,000		\$40,000
Movable and Other Equipment	\$5,500,000		\$5,500,000
Bond Issuance Expense			
Net Interest Expense During Construction			
Other Costs to be Capitalized			
Acquisition of Building or Other Property			
TOTAL COSTS	\$14,837,291		\$14,837,291
Sources of Funds:			
Cash and Securities	\$14,837,291		\$14,837,291
Pledges			
Gifts and Bequests			
Bond Issues			
Mortgages			
Leases (fair market value)			
Government Appropriations			
Grants			
Other Funds and Sources			
TOTAL FUNDS	\$14,837,291		\$14,837,291

Related Project Costs

Provide the following information, as applicable, with respect to any land related to the project that will be or has been acquired during the last two calendar years:

Land acquisition is related to project	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Purchase Price: \$	_____	
Fair Market Value: \$	_____	
The project involves the establishment of a new facility or a new category of service		
	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If yes, provide the dollar amount of all non-capitalized operating start-up costs (including operating deficits) through the first full fiscal year when the project achieves or exceeds the target utilization specified in Part 1100.		
Estimated start-up costs and operating deficit cost is \$ <u>none</u> .		

Project Status and Completion Schedules

Indicate the stage of the project's architectural drawings:	
<input type="checkbox"/> None or not applicable	<input type="checkbox"/> Preliminary
<input checked="" type="checkbox"/> Schematics	<input type="checkbox"/> Final Working
Anticipated project completion date (refer to Part 1130.140): <u>December 15, 2014</u>	
Indicate the following with respect to project expenditures or to obligation (refer to Part 1130.140):	
<input type="checkbox"/> Purchase orders, leases or contracts pertaining to the project have been executed.	
<input type="checkbox"/> Project obligation is contingent upon permit issuance. Provide a copy of the contingent "certification of obligation" document, highlighting any language related to CON Contingencies	
<input checked="" type="checkbox"/> Project obligation will occur after permit issuance.	
APPEND DOCUMENTATION AS ATTACHMENT-8, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.	

State Agency Submittals

Are the following submittals up to date as applicable:
<input checked="" type="checkbox"/> Cancer Registry
<input checked="" type="checkbox"/> APORS
<input checked="" type="checkbox"/> All formal document requests such as IDPH Questionnaires and Annual Bed Reports been submitted
<input checked="" type="checkbox"/> All reports regarding outstanding permits
Failure to be up to date with these requirements will result in the application for permit being deemed incomplete.

Cost Space Requirements

Provide in the following format, the department/area **DGSF** or the building/area **BGSF** and cost. The type of gross square footage either **DGSF** or **BGSF** must be identified. The sum of the department costs **MUST** equal the total estimated project costs. Indicate if any space is being reallocated for a different purpose. Include outside wall measurements plus the department's or area's portion of the surrounding circulation space. **Explain the use of any vacated space.**

Dept. / Area	Cost	Gross Square Feet		Amount of Proposed Total Gross Square Feet That Is:			
		Existing	Proposed	New Const.	Modernized	As Is	Vacated Space
REVIEWABLE							
Medical Surgical							
Intensive Care							
Diagnostic Radiology							
MRI							
Total Clinical							
NON REVIEWABLE							
Administrative							
Parking							
Gift Shop							
Total Non-clinical							
TOTAL							

APPEND DOCUMENTATION AS ATTACHMENT-9, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Facility Bed Capacity and Utilization

Complete the following chart, as applicable. Complete a separate chart for each facility that is a part of the project and insert following this page. Provide the existing bed capacity and utilization data for the latest Calendar Year for which the data are available. Include observation days in the patient day totals for each bed service. Any bed capacity discrepancy from the Inventory will result in the application being deemed incomplete.

FACILITY NAME: Franciscan St. James Health		CITY: Olympia Fields			
REPORTING PERIOD DATES: From: January 1, 2011 to: December 31, 2011					
Category of Service	Authorized Beds	Admissions	Patient Days	Bed Changes	Proposed Beds
Medical/Surgical	139	7,808	33,093	-6	133
Obstetrics					
Pediatrics					
Intensive Care	25	1,137	4,287	none	25
Comprehensive Physical Rehabilitation					
Acute/Chronic Mental Illness					
Neonatal Intensive Care					
General Long Term Care					
Specialized Long Term Care					
Long Term Acute Care					
Other ((identify))					
TOTALS:	164	8,945	38,933		158

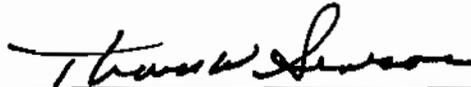
CERTIFICATION

The application must be signed by the authorized representative(s) of the applicant entity. The authorized representative(s) are:

- o in the case of a corporation, any two of its officers or members of its Board of Directors;
- o in the case of a limited liability company, any two of its managers or members (or the sole manger or member when two or more managers or members do not exist);
- o in the case of a partnership, two of its general partners (or the sole general partner, when two or more general partners do not exist);
- o in the case of estates and trusts, two of its beneficiaries (or the sole beneficiary when two or more beneficiaries do not exist); and
- o in the case of a sole proprietor, the individual that is the proprietor.

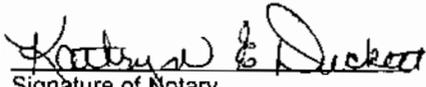
This Application for Permit is filed on the behalf of Franciscan Alliance, Inc.* in accordance with the requirements and procedures of the Illinois Health Facilities Planning Act. The undersigned certifies that he or she has the authority to execute and file this application for permit on behalf of the applicant entity. The undersigned further certifies that the data and information provided herein, and appended hereto, are complete and correct to the best of his or her knowledge and belief. The undersigned also certifies that the permit application fee required for this application is sent herewith or will be paid upon request.

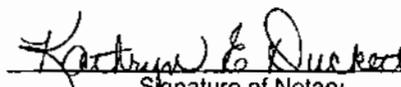

SIGNATURE
SETH C.R. WARREN
PRINTED NAME
REGIONAL CEO
PRINTED TITLE


SIGNATURE
THOMAS W SENSITIVE
PRINTED NAME
REGIONAL CFO
PRINTED TITLE

Notarization:
Subscribed and sworn to before me
this 17th day of April 2012

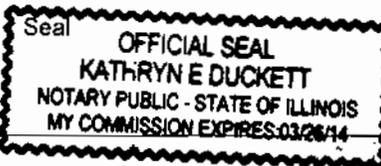
Notarization:
Subscribed and sworn to before me ^{16th}
this 17th day of April 2012


Signature of Notary


Signature of Notary

Seal

*Insert EXACT legal name of the applicant

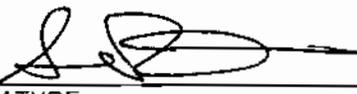
Seal


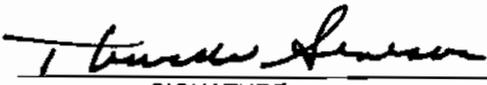
CERTIFICATION

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- o in the case of a corporation, any two of its officers or members of its Board of Directors;
- o in the case of a limited liability company, any two of its managers or members (or the sole manger or member when two or more managers or members do not exist);
- o in the case of a partnership, two of its general partners (or the sole general partner, when two or more general partners do not exist);
- o in the case of estates and trusts, two of its beneficiaries (or the sole beneficiary when two or more beneficiaries do not exist); and
- o in the case of a sole proprietor, the individual that is the proprietor.

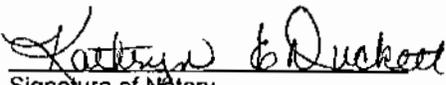
This Application for Permit is filed on the behalf of **Franciscan Alliance, Inc. D/B/A Franciscan St. James Health-Olympia Fields** in accordance with the requirements and procedures of the Illinois Health Facilities Planning Act. The undersigned certifies that he or she has the authority to execute and file this application for permit on behalf of the applicant entity. The undersigned further certifies that the data and information provided herein, and appended hereto, are complete and correct to the best of his or her knowledge and belief. The undersigned also certifies that the permit application fee required for this application is sent herewith or will be paid upon request.

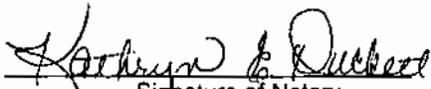

SIGNATURE
SETH C.R. WARREN
PRINTED NAME
REGIONAL CEO
PRINTED TITLE


SIGNATURE
THOMAS W. SENECHAL
PRINTED NAME
REGIONAL CFO
PRINTED TITLE

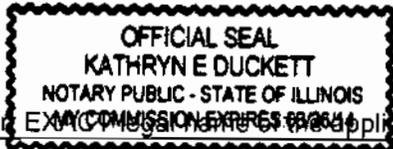
Notarization:
Subscribed and sworn to before me
this 17th day of April 2012

Notarization:
Subscribed and sworn to before me
this 17th day of April 2012


Signature of Notary


Signature of Notary

Seal



Seal



*Insert EXHIBIT name of the applicant

SECTION III – BACKGROUND, PURPOSE OF THE PROJECT, AND ALTERNATIVES - INFORMATION REQUIREMENTS

This Section is applicable to all projects except those that are solely for discontinuation with no project costs.

Criterion 1110.230 – Background, Purpose of the Project, and Alternatives

READ THE REVIEW CRITERION and provide the following required information:

BACKGROUND OF APPLICANT

1. A listing of all health care facilities owned or operated by the applicant, including licensing, and certification if applicable.
2. A certified listing of any adverse action taken against any facility owned and/or operated by the applicant during the three years prior to the filing of the application.
3. Authorization permitting HFSRB and DPH access to any documents necessary to verify the information submitted, including, but not limited to: official records of DPH or other State agencies; the licensing or certification records of other states, when applicable; and the records of nationally recognized accreditation organizations. **Failure to provide such authorization shall constitute an abandonment or withdrawal of the application without any further action by HFSRB.**
4. If, during a given calendar year, an applicant submits more than one application for permit, the documentation provided with the prior applications may be utilized to fulfill the information requirements of this criterion. In such instances, the applicant shall attest the information has been previously provided, cite the project number of the prior application, and certify that no changes have occurred regarding the information that has been previously provided. The applicant is able to submit amendments to previously submitted information, as needed, to update and/or clarify data.

APPEND DOCUMENTATION AS ATTACHMENT-11, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM. EACH ITEM (1-4) MUST BE IDENTIFIED IN ATTACHMENT 11.

PURPOSE OF PROJECT

1. Document that the project will provide health services that improve the health care or well-being of the market area population to be served.
2. Define the planning area or market area, or other, per the applicant's definition.
3. Identify the existing problems or issues that need to be addressed, as applicable and appropriate for the project. [See 1110.230(b) for examples of documentation.]
4. Cite the sources of the information provided as documentation.
5. Detail how the project will address or improve the previously referenced issues, as well as the population's health status and well-being.
6. Provide goals with quantified and measurable objectives, with specific timeframes that relate to achieving the stated goals as appropriate.

For projects involving modernization, describe the conditions being upgraded if any. For facility projects, include statements of age and condition and regulatory citations if any. For equipment being replaced, include repair and maintenance records.

NOTE: Information regarding the "Purpose of the Project" will be included in the State Agency Report.

APPEND DOCUMENTATION AS ATTACHMENT-12, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM. EACH ITEM (1-6) MUST BE IDENTIFIED IN ATTACHMENT 12.

ALTERNATIVES

- 1) Identify ALL of the alternatives to the proposed project:

Alternative options must include:

- A) Proposing a project of greater or lesser scope and cost;
 - B) Pursuing a joint venture or similar arrangement with one or more providers or entities to meet all or a portion of the project's intended purposes; developing alternative settings to meet all or a portion of the project's intended purposes;
 - C) Utilizing other health care resources that are available to serve all or a portion of the population proposed to be served by the project; and
 - D) Provide the reasons why the chosen alternative was selected.
- 2) Documentation shall consist of a comparison of the project to alternative options. The comparison shall address issues of total costs, patient access, quality and financial benefits in both the short term (within one to three years after project completion) and long term. This may vary by project or situation. **FOR EVERY ALTERNATIVE IDENTIFIED THE TOTAL PROJECT COST AND THE REASONS WHY THE ALTERNATIVE WAS REJECTED MUST BE PROVIDED.**
 - 3) The applicant shall provide empirical evidence, including quantified outcome data that verifies improved quality of care, as available.

APPEND DOCUMENTATION AS ATTACHMENT-13, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

SECTION IV - PROJECT SCOPE, UTILIZATION, AND UNFINISHED/SHELL SPACE

Criterion 1110.234 - Project Scope, Utilization, and Unfinished/Shell Space

READ THE REVIEW CRITERION and provide the following information:

SIZE OF PROJECT:

1. Document that the amount of physical space proposed for the proposed project is necessary and not excessive. This must be a narrative.
2. If the gross square footage exceeds the BGSF/DGSF standards in Appendix B, justify the discrepancy by documenting one of the following:
 - a. Additional space is needed due to the scope of services provided, justified by clinical or operational needs, as supported by published data or studies;
 - b. The existing facility's physical configuration has constraints or impediments and requires an architectural design that results in a size exceeding the standards of Appendix B;
 - c. The project involves the conversion of existing space that results in excess square footage.

Provide a narrative for any discrepancies from the State Standard. A table must be provided in the following format with Attachment 14.

SIZE OF PROJECT				
DEPARTMENT/SERVICE	PROPOSED BGSF/DGSF	STATE STANDARD	DIFFERENCE	MET STANDARD?
Medical/Surgical Units	67,597 DGSF	87,780	-152/bed	YES

APPEND DOCUMENTATION AS ATTACHMENT-14, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

PROJECT SERVICES UTILIZATION:

This criterion is applicable only to projects or portions of projects that involve services, functions or equipment for which HFSRB has established utilization standards or occupancy targets in 77 Ill. Adm. Code 1100.

Document that in the second year of operation, the annual utilization of the service or equipment shall meet or exceed the utilization standards specified in 1110.Appendix B. A narrative of the rationale that supports the projections must be provided.

A table must be provided in the following format with Attachment 15.

UTILIZATION					
	DEPT./ SERVICE	HISTORICAL UTILIZATION (PATIENT DAYS) (TREATMENTS) ETC.	PROJECTED UTILIZATION	STATE STANDARD	MET STANDARD?
YEAR 1					
YEAR 2	M/S Units	34,703	41,103*	40,954+	YES

APPEND DOCUMENTATION AS ATTACHMENT-15, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

*mid-day census, including observation patients on a Medical/Surgical unit

UNFINISHED OR SHELL SPACE: NOT APPLICABLE—NO SHELL SPACE

Provide the following information:

1. Total gross square footage of the proposed shell space;
2. The anticipated use of the shell space, specifying the proposed GSF to be allocated to each department, area or function;
3. Evidence that the shell space is being constructed due to
 - a. Requirements of governmental or certification agencies; or
 - b. Experienced increases in the historical occupancy or utilization of those areas proposed to occupy the shell space.
4. Provide:
 - a. Historical utilization for the area for the latest five-year period for which data are available; and
 - b. Based upon the average annual percentage increase for that period, projections of future utilization of the area through the anticipated date when the shell space will be placed into operation.

APPEND DOCUMENTATION AS ATTACHMENT-16, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

ASSURANCES: NOT APPLICABLE—NO SHELL SPACE

Submit the following:

1. Verification that the applicant will submit to HFSRB a CON application to develop and utilize the shell space, regardless of the capital thresholds in effect at the time or the categories of service involved.
2. The estimated date by which the subsequent CON application (to develop and utilize the subject shell space) will be submitted; and
3. The anticipated date when the shell space will be completed and placed into operation.

APPEND DOCUMENTATION AS ATTACHMENT-17, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

SECTION VII - SERVICE SPECIFIC REVIEW CRITERIA

This Section is applicable to all projects proposing establishment, expansion or modernization of categories of service that are subject to CON review, as provided in the Illinois Health Facilities Planning Act [20 ILCS 3960]. It is comprised of information requirements for each category of service, as well as charts for each service, indicating the review criteria that must be addressed for each action (establishment, expansion and modernization). After identifying the applicable review criteria for each category of service involved, read the criteria and provide the required information, AS APPLICABLE TO THE CRITERIA THAT MUST BE ADDRESSED:

A. Criterion 1110.530 - Medical/Surgical, Obstetric, Pediatric and Intensive Care

1. Applicants proposing to establish, expand and/or modernize Medical/Surgical, Obstetric, Pediatric and/or Intensive Care categories of service must submit the following information:
2. Indicate bed capacity changes by Service: Indicate # of beds changed by action(s):

Category of Service	# Existing Beds	# Proposed Beds
<input checked="" type="checkbox"/> Medical/Surgical	139	133
<input type="checkbox"/> Obstetric		
<input type="checkbox"/> Pediatric		
<input type="checkbox"/> Intensive Care		

3. READ the applicable review criteria outlined below and **submit the required documentation for the criteria:**

APPLICABLE REVIEW CRITERIA	Establish	Expand	Modernize
1110.530(b)(1) - Planning Area Need - 77 Ill. Adm. Code 1100 (formula calculation)	X		
1110.530(b)(2) - Planning Area Need - Service to Planning Area Residents	X	X	
1110.530(b)(3) - Planning Area Need - Service Demand - Establishment of Category of Service	X		
1110.530(b)(4) - Planning Area Need - Service Demand - Expansion of Existing Category of Service		X	
1110.530(b)(5) - Planning Area Need - Service Accessibility	X		
1110.530(c)(1) - Unnecessary Duplication of Services	X		
1110.530(c)(2) - Maldistribution	X	X	
1110.530(c)(3) - Impact of Project on Other Area Providers	X		
1110.530(d)(1) - Deteriorated Facilities			X
1110.530(d)(2) - Documentation			X

APPLICABLE REVIEW CRITERIA	Establish	Expand	Modernize
1110.530(d)(3) - Documentation Related to Cited Problems			X
1110.530(d)(4) - Occupancy			X
110.530(e) - Staffing Availability	X	X	
1110.530(f) - Performance Requirements	X	X	X
1110.530(g) - Assurances	X	X	X
APPEND DOCUMENTATION AS ATTACHMENT-20, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.			

The following Sections **DO NOT** need to be addressed by the applicants or co-applicants responsible for funding or guaranteeing the funding of the project if the applicant has a bond rating of A- or better from Fitch's or Standard and Poor's rating agencies, or A3 or better from Moody's (the rating shall be affirmed within the latest 18 month period prior to the submittal of the application):

- Section 1120.120 Availability of Funds – Review Criteria
- Section 1120.130 Financial Viability – Review Criteria
- Section 1120.140 Economic Feasibility – Review Criteria, subsection (a)

VIII. - 1120.120 - Availability of Funds

The applicant shall document that financial resources shall be available and be equal to or exceed the estimated total project cost plus any related project costs by providing evidence of sufficient financial resources from the following sources, as applicable: indicate the dollar amount to be provided from the following sources:

\$14,837,291_	a)	Cash and Securities – statements (e.g., audited financial statements, letters from financial institutions, board resolutions) as to:
	1)	the amount of cash and securities available for the project, including the identification of any security, its value and availability of such funds; and
	2)	interest to be earned on depreciation account funds or to be earned on any asset from the date of applicant's submission through project completion;
_____	b)	Pledges – for anticipated pledges, a summary of the anticipated pledges showing anticipated receipts and discounted value, estimated time table of gross receipts and related fundraising expenses, and a discussion of past fundraising experience.
_____	c)	Gifts and Bequests – verification of the dollar amount, identification of any conditions of use, and the estimated time table of receipts;
_____	d)	Debt – a statement of the estimated terms and conditions (including the debt time period, variable or permanent interest rates over the debt time period, and the anticipated repayment schedule) for any interim and for the permanent financing proposed to fund the project, including:
	1)	For general obligation bonds, proof of passage of the required referendum or evidence that the governmental unit has the authority to issue the bonds and evidence of the dollar amount of the issue, including any discounting anticipated;
	2)	For revenue bonds, proof of the feasibility of securing the specified amount and interest rate;
	3)	For mortgages, a letter from the prospective lender attesting to the expectation of making the loan in the amount and time indicated, including the anticipated interest rate and any conditions associated with the mortgage, such as, but not limited to, adjustable interest rates, balloon payments, etc.;
	4)	For any lease, a copy of the lease, including all the terms and conditions, including any purchase options, any capital improvements to the property and provision of capital equipment;
	5)	For any option to lease, a copy of the option, including all terms and conditions.
_____	e)	Governmental Appropriations – a copy of the appropriation Act or ordinance accompanied by a statement of funding availability from an official of the governmental unit. If funds are to be made available from subsequent fiscal years, a copy of a resolution or other action of the governmental unit attesting to this intent;
_____	f)	Grants – a letter from the granting agency as to the availability of funds in terms of the amount and time of receipt;
_____	g)	All Other Funds and Sources – verification of the amount and type of any other funds that will be used for the project.
\$14,837,291	TOTAL FUNDS AVAILABLE	

APPEND DOCUMENTATION AS ATTACHMENT-39, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

IX. 1120.130 - Financial Viability

funded through internal sources

All the applicants and co-applicants shall be identified, specifying their roles in the project funding or guaranteeing the funding (sole responsibility or shared) and percentage of participation in that funding.

Financial Viability Waiver

The applicant is not required to submit financial viability ratios if:

1. All of the projects capital expenditures are completely funded through internal sources
2. The applicant's current debt financing or projected debt financing is insured or anticipated to be insured by MBIA (Municipal Bond Insurance Association Inc.) or equivalent
3. The applicant provides a third party surety bond or performance bond letter of credit from an A rated guarantor.

See Section 1120.130 Financial Waiver for information to be provided

APPEND DOCUMENTATION AS ATTACHMENT-40, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

The applicant or co-applicant that is responsible for funding or guaranteeing funding of the project shall provide viability ratios for the latest three years for which audited financial statements are available and for the first full fiscal year at target utilization, but no more than two years following project completion. When the applicant's facility does not have facility specific financial statements and the facility is a member of a health care system that has combined or consolidated financial statements, the system's viability ratios shall be provided. If the health care system includes one or more hospitals, the system's viability ratios shall be evaluated for conformance with the applicable hospital standards.

Provide Data for Projects Classified as:	Category A or Category B (last three years)			Category B (Projected)
Enter Historical and/or Projected Years:				
Current Ratio				
Net Margin Percentage				
Percent Debt to Total Capitalization				
Projected Debt Service Coverage				
Days Cash on Hand				
Cushion Ratio				

Provide the methodology and worksheets utilized in determining the ratios detailing the calculation and applicable line item amounts from the financial statements. Complete a separate table for each co-applicant and provide worksheets for each.

2. Variance

Applicants not in compliance with any of the viability ratios shall document that another organization, public or private, shall assume the legal responsibility to meet the debt obligations should the applicant default.

APPEND DOCUMENTATION AS ATTACHMENT 41, IN NUMERICAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

X. 1120.140 - Economic Feasibility

This section is applicable to all projects subject to Part 1120.

A. Reasonableness of Financing Arrangements

The applicant shall document the reasonableness of financing arrangements by submitting a notarized statement signed by an authorized representative that attests to one of the following:

- 1) That the total estimated project costs and related costs will be funded in total with cash and equivalents, including investment securities, unrestricted funds, received pledge receipts and funded depreciation; or
- 2) That the total estimated project costs and related costs will be funded in total or in part by borrowing because:
 - A) A portion or all of the cash and equivalents must be retained in the balance sheet asset accounts in order to maintain a current ratio of at least 2.0 times for hospitals and 1.5 times for all other facilities; or
 - B) Borrowing is less costly than the liquidation of existing investments, and the existing investments being retained may be converted to cash or used to retire debt within a 60-day period.

B. Conditions of Debt Financing **funded through internal sources**

This criterion is applicable only to projects that involve debt financing. The applicant shall document that the conditions of debt financing are reasonable by submitting a notarized statement signed by an authorized representative that attests to the following, as applicable:

- 1) That the selected form of debt financing for the project will be at the lowest net cost available;
- 2) That the selected form of debt financing will not be at the lowest net cost available, but is more advantageous due to such terms as prepayment privileges, no required mortgage, access to additional indebtedness, term (years), financing costs and other factors;
- 3) That the project involves (in total or in part) the leasing of equipment or facilities and that the expenses incurred with leasing a facility or equipment are less costly than constructing a new facility or purchasing new equipment.

C. Reasonableness of Project and Related Costs

Read the criterion and provide the following:

1. Identify each department or area impacted by the proposed project and provide a cost and square footage allocation for new construction and/or modernization using the following format (insert after this page).

COST AND GROSS SQUARE FEET BY DEPARTMENT OR SERVICE									
Department (list below)	A	B	C	D	E	F	G	H	Total Cost (G + H)
	Cost/Square Foot New	Mod.	Gross Sq. Ft. New	Circ.*	Gross Sq. Ft. Mod.	Circ.*	Const. \$ (A x C)	Mod. \$ (B x E)	
Contingency									
TOTALS									

* Include the percentage (%) of space for circulation

D. Projected Operating Costs

The applicant shall provide the projected direct annual operating costs (in current dollars per equivalent patient day or unit of service) for the first full fiscal year at target utilization but no more than two years following project completion. Direct cost means the fully allocated costs of salaries, benefits and supplies for the service.

E. Total Effect of the Project on Capital Costs

The applicant shall provide the total projected annual capital costs (in current dollars per equivalent patient day) for the first full fiscal year at target utilization but no more than two years following project completion.

APPEND DOCUMENTATION AS ATTACHMENT -42, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

XI. Safety Net Impact Statement

Olympia Fields

SAFETY NET IMPACT STATEMENT that describes all of the following must be submitted for **ALL SUBSTANTIVE AND DISCONTINUATION PROJECTS**:

1. The project's material impact, if any, on essential safety net services in the community, to the extent that it is feasible for an applicant to have such knowledge.
2. The project's impact on the ability of another provider or health care system to cross-subsidize safety net services, if reasonably known to the applicant.
3. How the discontinuation of a facility or service might impact the remaining safety net providers in a given community, if reasonably known by the applicant.

Safety Net Impact Statements shall also include all of the following:

1. For the 3 fiscal years prior to the application, a certification describing the amount of charity care provided by the applicant. The amount calculated by hospital applicants shall be in accordance with the reporting requirements for charity care reporting in the Illinois Community Benefits Act. Non-hospital applicants shall report charity care, at cost, in accordance with an appropriate methodology specified by the Board.
2. For the 3 fiscal years prior to the application, a certification of the amount of care provided to Medicaid patients. Hospital and non-hospital applicants shall provide Medicaid information in a manner consistent with the information reported each year to the Illinois Department of Public Health regarding "Inpatients and Outpatients Served by Payor Source" and "Inpatient and Outpatient Net Revenue by Payor Source" as required by the Board under Section 13 of this Act and published in the Annual Hospital Profile.
3. Any information the applicant believes is directly relevant to safety net services, including information regarding teaching, research, and any other service.

A table in the following format must be provided as part of Attachment 43.

Safety Net Information per PA 96-0031			
CHARITY CARE			
Charity (# of patients)	2009	2010	2011
Inpatient	1,920	1,468	1,370
Outpatient	8,751	7,609	7,960
Total	10,671	9,077	9,330
Charity (cost in dollars)			
Inpatient	\$2,487,763	\$1,786,020	\$1,875,129
Outpatient	\$1,893,434	\$2,246,566	\$2,317,906
Total	\$4,381,197	\$4,032,586	\$4,193,035
MEDICAID			
Medicaid (# of patients)	2009	2010	2011
Inpatient	855	719	611
Outpatient	12,203	12,882	13,423
Total	13,058	13,601	14,034
Medicaid (revenue)			
Inpatient	\$4,535,215	\$4,334,781	\$4,398,248
Outpatient	\$2,035,407	\$2,289,740	\$2,506,733
Total	\$6,570,262	\$6,624,521	\$6,904,981

APPEND DOCUMENTATION AS ATTACHMENT-43, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

XI. Safety Net Impact Statement

Chicago Heights

SAFETY NET IMPACT STATEMENT that describes all of the following must be submitted for ALL SUBSTANTIVE AND DISCONTINUATION PROJECTS:

1. The project's material impact, if any, on essential safety net services in the community, to the extent that it is feasible for an applicant to have such knowledge.
2. The project's impact on the ability of another provider or health care system to cross-subsidize safety net services, if reasonably known to the applicant.
3. How the discontinuation of a facility or service might impact the remaining safety net providers in a given community, if reasonably known by the applicant.

Safety Net Impact Statements shall also include all of the following:

1. For the 3 fiscal years prior to the application, a certification describing the amount of charity care provided by the applicant. The amount calculated by hospital applicants shall be in accordance with the reporting requirements for charity care reporting in the Illinois Community Benefits Act. Non-hospital applicants shall report charity care, at cost, in accordance with an appropriate methodology specified by the Board.
2. For the 3 fiscal years prior to the application, a certification of the amount of care provided to Medicaid patients. Hospital and non-hospital applicants shall provide Medicaid information in a manner consistent with the information reported each year to the Illinois Department of Public Health regarding "Inpatients and Outpatients Served by Payor Source" and "Inpatient and Outpatient Net Revenue by Payor Source" as required by the Board under Section 13 of this Act and published in the Annual Hospital Profile.
3. Any information the applicant believes is directly relevant to safety net services, including information regarding teaching, research, and any other service.

A table in the following format must be provided as part of Attachment 43.

Safety Net Information per PA 96-0031			
CHARITY CARE			
Charity (# of patients)	2009	2010	2011
Inpatient	2,310	2,158	2,002
Outpatient	10,101	8,828	8,447
Total	12,411	10,986	10,449
Charity (cost in dollars)			
Inpatient	\$3,513,497	\$2,701,171	\$3,047,468
Outpatient	\$2,815,054	\$3,052,571	3,147,881
Total	\$6,328,551	\$5,753,742	\$6,195,349
MEDICAID			
Medicaid (# of patients)	2009	2010	2011
Inpatient	2,133	2,495	2,073
Outpatient	21,416	21,357	\$21,862
Total	23,549	23,852	23,935
Medicaid (revenue)			
Inpatient	\$8,692,704	\$10,191,848	\$8,857,623
Outpatient	\$2,832,724	\$3,028,914	\$3,060,623
Total	\$11,525,428	\$13,220,762	\$11,918,246

APPEND DOCUMENTATION AS ATTACHMENT-43, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

XII. Charity Care Information

Olympia Fields

Charity Care information MUST be furnished for ALL projects.

1. All applicants and co-applicants shall indicate the amount of charity care for the latest three audited fiscal years, the cost of charity care and the ratio of that charity care cost to net patient revenue.
2. If the applicant owns or operates one or more facilities, the reporting shall be for each individual facility located in Illinois. If charity care costs are reported on a consolidated basis, the applicant shall provide documentation as to the cost of charity care; the ratio of that charity care to the net patient revenue for the consolidated financial statement; the allocation of charity care costs; and the ratio of charity care cost to net patient revenue for the facility under review.
3. If the applicant is not an existing facility, it shall submit the facility's projected patient mix by payer source, anticipated charity care expense and projected ratio of charity care to net patient revenue by the end of its second year of operation.

Charity care" means care provided by a health care facility for which the provider does not expect to receive payment from the patient or a third-party payer. (20 ILCS 3960/3) Charity Care must be provided at cost.

A table in the following format must be provided for all facilities as part of Attachment 44.

CHARITY CARE			
	2009	2010	2011
Net Patient Revenue	\$125,539,057	\$109,596,584	\$130,991,359
Amount of Charity Care (charges)	\$14,826,385	\$8,650,904	\$9,840,253
Cost of Charity Care	\$4,381,197	\$4,032,586	\$4,193,035

APPEND DOCUMENTATION AS ATTACHMENT 44, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

XII. Charity Care Information

Chicago Heights

Charity Care information **MUST** be furnished for **ALL** projects.

1. All applicants and co-applicants shall indicate the amount of charity care for the latest three **audited** fiscal years, the cost of charity care and the ratio of that charity care cost to net patient revenue.
2. If the applicant owns or operates one or more facilities, the reporting shall be for each individual facility located in Illinois. If charity care costs are reported on a consolidated basis, the applicant shall provide documentation as to the cost of charity care; the ratio of that charity care to the net patient revenue for the consolidated financial statement; the allocation of charity care costs; and the ratio of charity care cost to net patient revenue for the facility under review.
3. If the applicant is not an existing facility, it shall submit the facility's projected patient mix by payer source, anticipated charity care expense and projected ratio of charity care to net patient revenue by the end of its second year of operation.

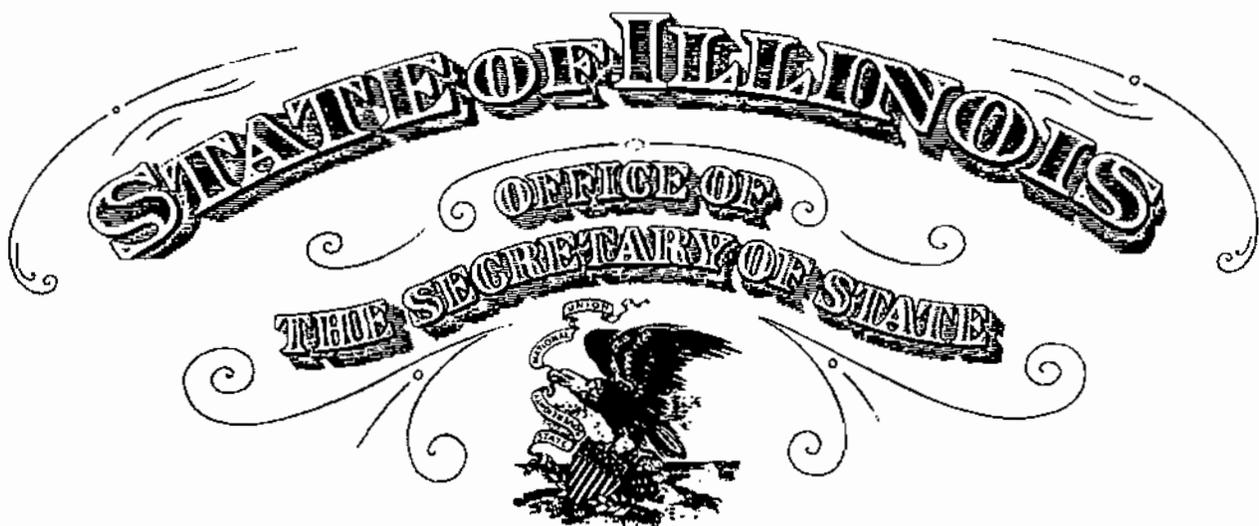
Charity care" means care provided by a health care facility for which the provider does not expect to receive payment from the patient or a third-party payer. (20 ILCS 3960/3) Charity Care **must** be provided at cost.

A table in the following format must be provided for all facilities as part of Attachment 44.

CHARITY CARE			
	2009	2010	2011
Net Patient Revenue	\$123,366,082	\$126,484,850	\$129,407,743
Amount of Charity Care (charges)	\$21,416,417	\$12,271,859	\$14,728,450
Cost of Charity Care	\$6,328,551	\$5,753,742	\$6,195,349

APPEND DOCUMENTATION AS ATTACHMENT-44, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

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To all to whom these Presents Shall Come, Greeting:

I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that

FRANCISCAN ALLIANCE, INC., INCORPORATED IN INDIANA AND LICENSED TO CONDUCT AFFAIRS IN THIS STATE ON OCTOBER 15, 1974, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS A FOREIGN CORPORATION IN GOOD STANDING AND AUTHORIZED TO CONDUCT AFFAIRS IN THE STATE OF ILLINOIS.

In Testimony Whereof, I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this 5TH day of FEBRUARY A.D. 2012 .



Authentication #: 1203600162

Authenticate at: <http://www.cyberdriveillinois.com>

Jesse White

SECRETARY OF STATE

ATTACHMENT 1



CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY)
02/06/2012

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

IMPORTANT: If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

PRODUCER St. Francis Insurance Services, LLC Franciscan Alliance - RM Department 3510 Park Place West, Suite 200 Mishawaka IN 46545		CONTACT NAME: PHONE (A/C, No, Ext): FAX (A/C, No): E-MAIL ADDRESS:	
INSURED Franciscan Alliance, Inc. Franciscan St. James Health 20201 South Crawford Avenue Olympia Fields IL 60461		INSURER(S) AFFORDING COVERAGE INSURER A: Hills Insurance Company, Inc. INSURER B: INSURER C: INSURER D: INSURER E: INSURER F:	
		NAIC #	

COVERAGES **CERTIFICATE NUMBER:** **REVISION NUMBER:**

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR LTR	TYPE OF INSURANCE	ADDL INSR	SUBR WYD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS
A	<input checked="" type="checkbox"/> GENERAL LIABILITY <input checked="" type="checkbox"/> COMMERCIAL GENERAL LIABILITY <input type="checkbox"/> CLAIMS-MADE <input checked="" type="checkbox"/> OCCUR GEN'L AGGREGATE LIMIT APPLIES PER: <input checked="" type="checkbox"/> POLICY <input type="checkbox"/> PROJECT <input type="checkbox"/> LOC			HLL-1033-12-IL	01/01/2012	01/01/2013	EACH OCCURRENCE \$ 1,000,000 DAMAGE TO RENTED PREMISES (Ea occurrence) \$ MED EXP (Any one person) \$ PERSONAL & ADV INJURY \$ GENERAL AGGREGATE \$ 3,000,000 PRODUCTS - COMP/OP AGG \$
	AUTOMOBILE LIABILITY <input type="checkbox"/> ANY AUTO <input type="checkbox"/> ALL OWNED AUTOS <input type="checkbox"/> HIRED AUTOS <input type="checkbox"/> SCHEDULED AUTOS <input type="checkbox"/> NON-OWNED AUTOS						COMBINED SINGLE LIMIT (Ea accident) \$ BODILY INJURY (Per person) \$ BODILY INJURY (Per accident) \$ PROPERTY DAMAGE (Per accident) \$
	<input type="checkbox"/> UMBRELLA LIAB <input type="checkbox"/> EXCESS LIAB <input type="checkbox"/> DED <input type="checkbox"/> RETENTION \$						<input type="checkbox"/> OCCUR <input type="checkbox"/> CLAIMS-MADE EACH OCCURRENCE \$ AGGREGATE \$
	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory in NH) If yes, describe under DESCRIPTION OF OPERATIONS below		N/A				<input type="checkbox"/> WC STATUTORY LIMITS <input type="checkbox"/> OTHER E.L. EACH ACCIDENT \$ E.L. DISEASE - EA EMPLOYEE \$ E.L. DISEASE - POLICY LIMIT \$
A	Medical Malpractice			HLL-1033-12	01/01/2012	01/01/2013	Per Occurrence \$1,000,000 Aggregate \$3,000,000

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (Attach ACORD 101, Additional Remarks Schedule, if more space is required)
It is hereby agreed and understood that Franciscan St. James Health - Olympia Fields is an Insured under the Hills Insurance Company, Inc.

CERTIFICATE HOLDER Franciscan Alliance, Inc. Franciscan St. James Health 20201 South Crawford Avenue Olympia Fields IL 60461	CANCELLATION SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS. AUTHORIZED REPRESENTATIVE <i>Robert James</i>
---	---

1



To all to whom these Presents Shall Come, Greeting:

I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that

FRANCISCAN ALLIANCE, INC., INCORPORATED IN INDIANA AND LICENSED TO CONDUCT AFFAIRS IN THIS STATE ON OCTOBER 15, 1974, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS A FOREIGN CORPORATION IN GOOD STANDING AND AUTHORIZED TO CONDUCT AFFAIRS IN THE STATE OF ILLINOIS.

In Testimony Whereof, I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this 5TH day of FEBRUARY A.D. 2012 .



Authentication #: 1203600162
Authenticate at: <http://www.cyberdriveillinois.com>

Jesse White

SECRETARY OF STATE

ATTACHMENT 3

Franciscan Alliance, Inc.
Board of Trustees
 Sister Jane Marie Klein, OSF, Chairperson

(CIR) Regional CEO/ President
 Robert Brody

St. Francis Health - Beech Grove

St. Francis Health - Indianapolis

St. Francis Health - Mooresville

(NIR) Regional CEO
 Eugene Diamond

St. Anthony Health - Crown Point
 David Ruskowski, President

St. Anthony Health - Michigan City
 James Callaghan, M.D. President

Saint Margaret Health - Hammond
 Thomas Gryzbek, President

Saint Margaret Health - Dyer
 Thomas Gryzbek, President

(SSCR) Regional CEO/ President
 Seth Warren

St. James Health - Chicago Heights

St. James Health - Olympia Fields

(WR) Regional CEO/ President
 Terrance Wilson

St. Elizabeth Health - Lafayette East

St. Elizabeth Health - Lafayette Centre

St. Elizabeth Health - Crawfordsville

President & CEO
 Kevin D. Leahy

Senior Vice President
 Chief Medical Officer
 Albert Tomchaney, M.D.

Vice President
 Quality Service
 Paul Strange, M.D.

Vice President
 Innovation
 James Sparks, PhD.

Senior Vice President
 Administrative Services
 Joel Hoff

Vice President
 Human Resources
 Thomas Creevey

Vice President
 Material Resources
 Matthew Mayer

Senior Vice President
 Finance
 Jennifer Marion

Vice President
 Finance
 Paul Plomin

Treasurer
 Sister Ann Kathleen Magiera, OSF

Vice President
 Revenue Cycle Management
 Virginia Martinez

Senior VP Information Svcs/CIO
 Alverno Information Services
 William Laker

Vice President
 Education
 Sister Elaine Brothers, OSF

Vice President
 Planning & Business Development
 John Whitcomb

General Counsel
 Legal/ Risk Management
 Patrick W. Downes

Corporate Counsel
 John S. Schwartz

Senior Vice President
 Director of Development, Marketing,
 & Public Relations Relations
 Sister Aline Schultz, OSF

Hills Insurance Company, Inc.
 Board of Directors
 Sister Jane Marie Klein, OSF
 Chairperson & President

Franciscan Holding Company
 Board of Directors
 Kevin D. Leahy, President

Franciscan Physicians Hospital, LLC
 Board of Directors
 Cynthia Sanders, Chairperson

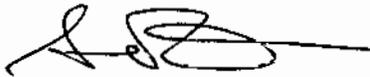
April 16, 2012

Illinois Health Facilities
and Services Review Board
Springfield, IL

To Whom It May Concern:

I hereby certify that the Franciscan St. James Health-Olympia Fields campus is not located in a special flood hazard area.

Sincerely,

A handwritten signature in black ink, appearing to read 'Seth Warren', with a long horizontal line extending to the right.

Seth Warren
President

FEMA

Scale 4% LOMC MICS-17786V-170054

The screenshot displays the FEMA Intranetix Viewer interface. At the top left is the FEMA logo. To its right, the text 'Scale 4%' and 'LOMC MICS-17786V-170054' is visible. The main area is a map viewer. On the left side, there is a vertical toolbar with icons for 'Home', 'Zoom In', 'Zoom Out', '1:1 Zoom Fit', and 'MAX Zoom Out'. Below these icons is a button labeled 'Make a Print Matte'. The central map area shows a dark, textured image with a grid overlay. On the right side, there is a metadata or information panel with various text fields and checkboxes.

ATTACHMENT 5

32

Axel & Associates, Inc.

MANAGEMENT CONSULTANTS

April 6, 2012

Ms. Anne E. Haaker
Deputy State Historic Preservation Officer
Illinois Historic Preservation Agency
1 Old State Capitol Plaza
Springfield, IL 62701-1507

RE: Proposed Modernization of
Franciscan St. James Health
Olympia Fields

Dear Ms. Haaker:

I am in the process of developing a Certificate of Need application, to be filed with the Illinois Health Facilities Services and Review Board, and I am in need of a determination of applicability from your agency.

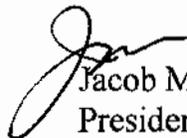
The project proposes renovation to the existing hospital structure, which is located at 20201 S. Crawford Street, Olympia Fields. The project does not involve any external demolition or new construction. The general area of the site has been developed for primarily residential use over the past thirty years, and I do not believe there to be any structures of historical significance in the vicinity.

I have enclosed photographs of the proposed site and a map for your review.

A letter from your office, confirming that the Preservation Act is not applicable to this project would be greatly appreciated.

Should you have any questions, I may be reached at the phone number below.

Sincerely,


Jacob M. Axel
President

enclosures (photographs and map)

PROJECT COSTS

Modernization Contracts (\$8,111,640)

Estimate of the renovation costs of the Medical/Surgical units.

Contingencies (\$675,970)

Allowance for unanticipated costs associated with the renovation of the Medical/Surgical units.

Architectural and Engineering Fees (\$509,681)

Estimate of design and systems engineering fees and required interaction with governmental agencies associated with the proposed project.

Consulting and Other Fees (\$40,000)

Estimate of miscellaneous fees to be incurred and capitalized, including CON application review fees and plan review fees.

Movable and Other Equipment (\$5,500,000)

Estimate of the cost of patient monitoring equipment to be purchased (\$2,000,000), patient room and nursing station equipment (including IT), and miscellaneous equipment to be located on the Medical/Surgical units.

Cost Space Requirements

		Gross Square Feet		Amount of proposed Total Square Feet			Vacated Space
		Existing	Proposed	New Const.	Modernized	As Is	
Dept./Area	Cost						
Reviewable							
Med/Surg Units	\$ 14,837,291	67,597	67,597	0	67,597	0	0
Total	\$ 14,837,291	67,597	67,597	0	67,597	0	0

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BACKGROUND

Franciscan Alliance, Inc. owns and operates three licensed health care facilities in Illinois:

- Franciscan St. James Health-Olympia Fields
- Franciscan St. James Health-Chicago Heights
- Franciscan St. James Surgery Center (Chicago Heights)

Attached are copies of the IDPH licenses of each of the three above-identified facilities, as well as proof of accreditation.

In addition to Franciscan Alliance, Inc.'s three Illinois facilities, the applicant owns and operates fourteen facilities in Indiana. A list of those facilities is attached.

The applicants have not had any "adverse actions" over the past three years, and an attestation to that fact is attached.

April 16, 2012

Ms. Courtney Avery
Illinois Health Facilities
and Services review Board
525 West Jefferson
Springfield, IL 62761

Dear Ms. Avery:

In accordance with Review Criterion 1110.230.b, Background of the Applicant, we are submitting this letter assuring the Illinois Health Facilities and Services Review Board that:

1. Franciscan Alliance, Inc. does not have any adverse actions against any facility owned and operated by the applicant during the three (3) year period prior to the filing of this application, and
2. Franciscan Alliance, Inc. authorizes the State Board and Agency access to information to verify documentation or information submitted in response to the requirements of Review Criterion 1110.230.b or to obtain any documentation or information which the State Board or Agency finds pertinent to this application.

If we can in any way provide assistance to your staff regarding these assurances or any other issue relative to this application, please do not hesitate to call me.

Sincerely,



Seth Warren
President

28

ATTACHMENT 11

State of Illinois 2067193
Department of Public Health

LICENSE, PERMIT, CERTIFICATION, REGISTRATION

The person, firm or corporation whose name appears on this certificate has complied with the provisions of the Illinois Statutes and/or rules and regulations and is hereby authorized to engage in the activity as indicated below.

Issued under the authority of
 The State of Illinois
 Department of Public Health

KENNETH SOYEMI, M.C. M.P.
 ACTING DIRECTOR

EXPIRATION DATE	CATEGORY	I.D. NUMBER
01/07/13	868D	0005074

FULL LICENSE
 GENERAL HOSPITAL
 EFFECTIVE: 01/08/12

BUSINESS ADDRESS

FRANCISCAN ALLIANCE, INC.
 D/B/A FRANCISCAN ST. JAMES HEALTH
 20201 S. CRAWFORD
 OLYMPIA FIELDS, IL 60461

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← DISPLAY THIS PART IN A CONSPICUOUS PLACE

REMOVE THIS CARD TO CARRY AS AN IDENTIFICATION

State of Illinois 2067193
Department of Public Health

LICENSE, PERMIT, CERTIFICATION, REGISTRATION

FRANCISCAN ALLIANCE, INC.

EXPIRATION DATE	CATEGORY	I.D. NUMBER
01/07/13	868D	0005074

FULL LICENSE
 GENERAL HOSPITAL
 EFFECTIVE: 01/08/12

12/02/11

FRANCISCAN ALLIANCE INC.
 D/B/A FRANCISCAN ST. JAMES HEALTH
 20201 S. CRAWFORD
 OLYMPIA FIELDS IL 60461

FEE RECEIPT NO.



State of Illinois 2035996

Department of Public Health

LICENSE, PERMIT, CERTIFICATION, REGISTRATION

The person, firm or corporation whose name appears on this certificate has complied with the provisions of the Illinois Statutes and/or rules and regulations and is hereby authorized to engage in the activity as indicated below.

JACOB T. ARABLE, M.D.
DIRECTOR

Issued under the authority of
The State of Illinois
Department of Public Health

EXPIRATION DATE	CATEGORY	ID. NUMBER
06/30/12	AGBL	0002430
FULL LICENSE		
GENERAL HOSPITAL		
EFFECTIVE: 07/01/11		

BUSINESS ADDRESS

FRANCISCAN ALLIANCE, INC.
670/A FRANCISCAN ST. JAMES HEALTH
1422 CHICAGO RDAL

CHICAGO HEIGHTS IL 60641

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IDENTIFICATION



State of Illinois 2035996

Department of Public Health

LICENSE, PERMIT, CERTIFICATION, REGISTRATION

FRANCISCAN ALLIANCE, INC.

EXPIRATION DATE	CATEGORY	ID. NUMBER
06/30/12	AGBL	0002430

FULL LICENSE

GENERAL HOSPITAL

EFFECTIVE: 07/01/11

06/30/11

FRANCISCAN ALLIANCE, INC.
670/A FRANCISCAN ST. JAMES HEALTH
1422 CHICAGO RDAL
CHICAGO HEIGHTS IL 60641

FEE RECEIPT NO.

ATTACHMENT 11

State of Illinois 2037024
Department of Public Health

LICENSE, PERMIT, CERTIFICATION, REGISTRATION

The person, firm or corporation whose name appears on this certificate has complied with the provisions of the Illinois Statutes and/or rules and regulations and is hereby authorized to engage in the activity as indicated below.

Systemic Pesticide Applicator
 License
 03/20/2024 03/20/2027

ISSUANCE DATE	03/20/2024	EXPIRES	03/20/2027
Licensee Name TALLER, JEFFREY Address 4000 SHERIDAN AVE CHICAGO, IL 60653			

BUSINESS ADDRESS

FRANK COOKS, Inc. 4000 SHERIDAN AVE
 CHICAGO, IL 60653
 312 441-1100

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REMOVE THIS CARD TO CARRY AS AN IDENTIFICATION

State of Illinois 2037024
Department of Public Health

LICENSE, PERMIT, CERTIFICATION, REGISTRATION

ISSUANCE DATE	03/20/2024	EXPIRES	03/20/2027
Licensee Name TALLER, JEFFREY Address 4000 SHERIDAN AVE CHICAGO, IL 60653			

BUSINESS ADDRESS

FRANK COOKS, Inc. 4000 SHERIDAN AVE
 CHICAGO, IL 60653
 312 441-1100

FEE RECEIPT NO

40

Revised 03/12/12

Franciscan Alliance, Inc.

Northern Region

Franciscan St. Margaret Health-Hammond
5454 Hohman Avenue
Hammond, IN 46320
License#: 12-005004-1

Franciscan St. Margaret Health-Dyer
24 Joliet Street
Dyer, IN 46311
License#: 12-005080-1

Franciscan St. Anthony Health-Crown Point
1201 S. Main Street
Crown Point, IN 46307
License #: 12-005107-1

Franciscan Point-Surgery Center
12800 Mississippi Parkway
Crown Point, IN 46307
License #: 12-005107-1

Franciscan St. Anthony Health-Michigan City
301 W. Homer Street
Michigan City, IN 46360
License #: 12-005015-1

St. Anthony Memorial Woodland Health Center
8865 W 400 North, Suite 100
Michigan City, IN 46360
License #: 12-005015-1

Franciscan Physicians Hospital
701 Superior Avenue
Munster, IN 46321
License #: 11-005615-1

*Franciscan St. Margaret Health-Dyer Munster Endoscopy Center
(f/k/a Surgical Hospital of Munster)
7847 Calumet Avenue
Munster, IN 46321

Revised 03/12/12

Western Region

Franciscan St Elizabeth Health - Lafayette Central
1501 Hartford St
Lafayette, IN 47904
State License #: 12-005003-1

Franciscan St. Elizabeth health - Lafayette East
1701 S. Creasy Lane
Lafayette, IN 47905
State License #: 12-005096-1

Franciscan St. Elizabeth Health - Crawfordsville
1710 Lafayette Road
Crawfordsville, IN 47933
State License #: 11-005021

Central Region

Franciscan St. Francis Health-Mooresville
1201 Hadley Rd
Mooresville, IN 46158
State License # 11-005052-1

Franciscan St. Francis Health-Beech Grove
1600 Albany St.
Beech Grove, IN 46107
State License #: 11-005031-1

Franciscan St. Francis Health- Indianapolis
8111 S. Emerson Ave
Indianapolis, IN 46237
State License # 11-004972-1

Healthcare Facilities Accreditation Program



grants this

CERTIFICATE OF ACCREDITATION

to

Franciscan St. James Health – Olympia Fields
Olympia Fields, IL

This Facility has met the applicable HFAP accreditation requirements and is therefore fully accredited by the Healthcare Facilities Accreditation Program

2011-2014

A handwritten signature in cursive script, reading "Joe B. Cross".

Executive Director
American Osteopathic Association

A handwritten signature in cursive script, reading "Martin A. Ferrer".

President
American Osteopathic Association



A handwritten signature in cursive script, reading "Lawrence W. Skypel".

Chairman
Bureau Healthcare Facilities Accreditation

Healthcare Facilities Accreditation Program



grants this

CERTIFICATE OF ACCREDITATION

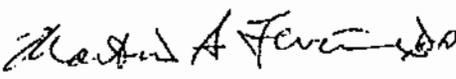
to

Franciscan St. James Health – Chicago Heights
Chicago Heights, IL

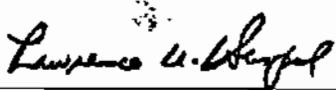
This Facility has met the applicable HFAP accreditation requirements and is therefore fully accredited by the Healthcare Facilities Accreditation Program

2011-2014


Executive Director
American Osteopathic Association


President
American Osteopathic Association




Chairman
Bureau Healthcare Facilities Accreditation

PURPOSE OF THE PROJECT

The purpose of the project is to provide, within the hospital's financial ability, a contemporary treatment environment for as many of the Medical/Surgical patients admitted to the hospital as possible, and within the hospital's fiscal capabilities. Paramount in doing so is maximizing the number of the hospital's Medical/Surgical beds that are located in private rooms. Doing so, which is absolutely consistent with the design of other area hospitals, has been shown to reduce hospital-acquired infections, promote patient privacy, provide a quieter recuperative environment, and reduce the need to transfer patients to other rooms. During 2011, 593 patients were transferred from one Medical/Surgical room to the other, for patient compatibility reasons. As a result of this project, the well being of those patients treated on the hospital's Medical/Surgical units will be enhanced.

The table on the following page identifies the hospital's 2011 patient origin (inpatient only). No substantial changes to patient origin are anticipated to result from this project.

ZIP Code		Cumulative		
Area	Community	Admissions	%	%
60466	Park Forest	1,183	13.1%	13.1%
60443	Matteson	1,179	13.1%	26.2%
60471	Richton Park	982	10.9%	37.0%
60411	Chicago Heights	843	9.3%	46.4%
60461	Olympia Fields	393	4.4%	50.7%
60478	Country Club Hills	379	4.2%	54.9%
60449	Monee	360	4.0%	58.9%
60430	Homewood	353	3.9%	62.8%
60423	Frankfort	337	3.7%	66.5%
60422	Flossmoor	228	2.5%	69.1%
60417	Crete	223	2.5%	71.5%
60475	Steger	213	2.4%	73.9%
60477	Tinley Park	184	2.0%	75.9%
60429	Hazel Crest	135	1.5%	77.4%
60401	Beecher	133	1.5%	78.9%
60425	Glenwood	123	1.4%	80.2%
60426	Harvey	108	1.2%	81.4%
60484	University Park	92	1.0%	82.5%
	other, <1.0%	<u>1,584</u>	<u>17.5%</u>	100.0%
		9,032	100.0%	

As can be seen from the table above, and as would be anticipated, Franciscan St. James Health-Olympia Fields attracts the vast majority of its patients from the far southwestern suburbs surrounding the hospital, with over half of the patients coming from five relatively small suburban communities. No ZIP Code area outside of the southwestern suburbs provides in excess of 1.0% of the hospital's inpatients.

The primary measures of the project's success, which will be measurable immediately following the project's completion, will be improved patient satisfaction

with their rooms, as evidenced by patient discharge surveys, and a reduced number of necessary transfers of patients to different rooms for patient compatibility reasons.

ALTERNATIVES

In order to increase the availability of private Medical/Surgical rooms at Franciscan St. James Health-Olympia Fields, two alternatives were considered.

The more ambitious alternative of combining the renovation of the existing Medical/Surgical units with the construction of a new 26-room unit was considered, and dismissed, primarily for cost reasons. Assuming 660 DGSF per room, a construction and contingency cost of \$390-395/sf, architectural fees at 9% of construction cost, a 30% increase in equipment costs and a 10% allowance for other and miscellaneous costs, this alternative would add approximately \$9.88 million to the project cost. Operating costs would, with the exception of the utilities and housekeeping costs associated with 17,000 additional square feet, be the same as those of the selected project. While this alternative would increase accessibility to private rooms, accessibility to the services provided at the hospital would not be improved, nor would the quality of care be substantially improved with the alternative.

The second alternative considered involved the reduction of the hospital's Medical/Surgical bed complement to 107 beds, consistent with the number of available patient rooms, the conversion of all existing semi-private rooms to private rooms, and the "off-loading" of a portion of the patients to Franciscan St. James Health-Chicago

Heights. This alternative was dismissed for a variety of reasons. First, approximately 77% of the patients admitted to the Olympia Fields hospital are initially seen in the Emergency Department, and the required reduction of the bed complement would essentially eliminate voluntary/scheduled admissions. Second, with only 107 beds, the number of days the hospital is put on paramedic "bypass" would increase, and the number of (costly) transfers to the Chicago Heights hospital would increase. The capital cost associated with this alternative would be very similar to that associated with the proposed project, the operating costs resulting from patient transfers would be higher, and the quality of care would be identical to that of the proposed project. Accessibility to the hospital, and particularly by non-emergency patients would, however, be significantly limited with the reduced bed complement.

SIZE OF PROJECT

The proposed project is limited to the renovation of existing Medical/Surgical units, and the square footage allocated to the service will not increase or decrease from its current 67,597 DGSF. Upon project completion, the hospital's Medical/Surgical units will provide 508 DGSF per bed, compared to the IHFSRB standard of 660 DGSF/bed. As a result, the space addressed in this project is necessary and not excessive.

SIZE OF PROJECT				
DEPARTMENT/SERVICE	PROPOSED BGSF/DGSF	STATE STANDARD	DIFFERENCE	MET STANDARD?
Medical/Surgical Units	67,597 DGSF	87,780	-152/bed	YES

PROJECT SERVICES UTILIZATION

The proposed project is limited to the hospital's Medical/Surgical service, and with the approval of the proposed project, the hospital's approved number of Medical/Surgical beds will be reduced from 139 to 133. The proposed reduction in beds, coupled with the projected 2015 utilization (year 2, following project completion), will support the projected bed complement.

As part of the planning process for this project, an in-depth analysis of the utilization of the hospital's Medical/Surgical beds was undertaken, using the 12-month period ending September 30, 2011. Two adjustments to a "simple" assessment of average daily census (ADC) were made, to more accurately identify actual utilization of the hospital's Medical/Surgical beds.

The first adjustment results from management's estimate that the hospital's mid-day Medical/Surgical census exceeds the midnight census by 10%. The hospital's data systems, however, do not allow for an accurate identification of mid-day census. The variance between midnight and mid-day census is due to two factors. First, there is an "overlap" between patients being admitted on a given day and the time at which many patients are discharged. This resultant stress on bed availability is exacerbated during the hospital's periods of highest utilization (January-May and/or Monday-Thursday).

Second, Franciscan St. James Health-Olympia Fields does not have a distinct observation unit for patients staying less than 24 hours. These patients are often kept in the hospital for “extended recovery” following an outpatient procedure or following evaluation in the Emergency Department, with the vast majority of these patients occupying a Medical/Surgical bed between 10AM and 10PM, and therefore not being included in a midnight census count. Only those (few) observation patients occupying a bed at midnight were included in the 12-month census analysis discussed here.

The second adjustment relates to variations in utilization experienced at the hospital. While the hospital’s midnight ADC over the 12-month period was 95.76 patients, clear and identifiable differences occur on a seasonal as well as day-of-the-week basis. Specifically, during the January 2011-May 2011 period the ADC was 99.78 patients, and similarly during the entire 12-month period, the Monday-Thursday ADC was 99.76 patients. While the applicants believe that it is inappropriate to base bed need projections on peak census (122 patients), because the 5-month period identified above accounts for 42% of the year and because the weekly Monday-Thursday census accounts for 57% of the year, bed need planning based on either of those periods would appear prudent and responsible.

Last, projected demographic changes to the hospital’s service area will impact future Medical/Surgical utilization and bed need. During 2011, 66.5% of the hospital’s admissions came from nine communities/ZIP Codes (Park Forest, Matteson, Richton Park, Chicago Heights, Olympia Fields, Country Club Hills, Monee, Homewood, and

Frankfort). Population data developed by ESRI, Inc. projects the population of those communities to increase by 2.6% between 2010 and 2015, and more importantly, the population of those community's 65+ age group to increase by 2.9% over that period. During 2011, over 57% of the Medical/Surgical patient days of care provided at the hospital were provided to patients 65 years of age or older. Assuming no change to the hospital's market share, and no change to admission rates, and to assure a conservative estimate, the impact of demographic changes for bed need planning purposes are based on a 2.6% increase.

The table below presents Franciscan St. James Health-Olympia Fields' projected Medical/Surgical bed need for the second year following the project's completion, 2015.

2015 Projected bed Need

January-May ADC (incl. midnight observation pts)		99.78
plus adjustment for mid-day	10%	9.98
plus adj. from demographic changes	2.6%	<u>2.85</u>
projected ADC		112.61
target occupancy rate	85%	
projected bed need		132.5

Consistent with the IHFSRB's practice of rounding up all bed need calculations, a "need" for 133 Medical/Surgical beds is identified. The 133 beds represents a reduction of six beds from the hospital's currently-approved complement, and upon the completion

of the project, 61% of the hospital's Medical/Surgical beds will be located in private rooms and 39% will be located in semi-private rooms.

UTILIZATION					
	DEPT./ SERVICE	HISTORICAL UTILIZATION (PATIENT DAYS) (TREATMENTS) ETC.	PROJECTED UTILIZATION	STATE STANDARD	MET STANDARD?
YEAR 1					
YEAR 2	M/S Units	34,703	41,103*	40,954+	YES

***mid-day census, including observation patients in a Medical/Surgical unit**

CATEGORY OF SERVICE MODERNIZATION

The proposed project addresses one IDPH-designated category of service: Medical/Surgical beds. The project is being developed consistent with review criterion 1110.530d.1, addressing a change in the standard of care, namely the provision of Medical/Surgical services in private rooms. The goal of locating as many of the hospital's Medical/Surgical beds in private rooms as possible and within hospital's fiscal limitations is identified in ATTACHMENT 12 as a primary purpose for the project.

The replacement of semi-private rooms with private patient rooms has become the norm in Illinois and throughout the country over the past five years, with virtually every modernization project in the metropolitan Chicago area over the past five years incorporating this trend. As noted in the attached articles, private patient rooms hold numerous benefits, including improved infection control, greater patient and family privacy, increased room for patient-family interaction, a quieter and less disruptive recuperative environment, and a reduced need to transfer patients to other rooms for compatibility reasons.

5-1

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THE WALL STREET JOURNAL

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THE INFORMED PATIENT | MARCH 22, 2006

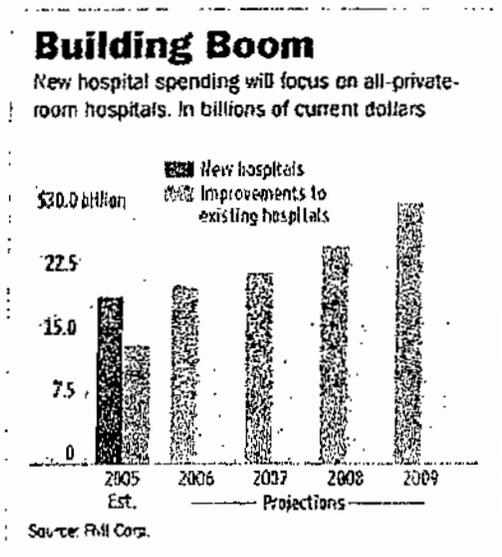
New Standards for Hospitals Call For Patients to Get Private Rooms



By LAURA LANDRO

The private patient room, once a luxury for the privileged few, is about to become the standard for the nation's hospitals, as evidence mounts that shared rooms lead to higher infection rates, more medical errors, privacy violations and harmful stress.

New guidelines for hospital design, due out next month, will for the first time call for single-patient rooms as a minimum requirement for most new hospital construction. Published every four years by the nonprofit Facilities Guidelines Institute and the American Institute of Architects' Academy of Architecture for Health, the guidelines are used by more than 40 state governments to set regulations, approve construction plans and license hospitals to operate.



With growing concern about infection risk and pandemic disease outbreaks, the guidelines will also include other new safety recommendations, including more areas in hospitals that can be quickly isolated during an infectious-disease outbreak, and better ventilation systems to thwart the spread of bacteria.

The new guidelines apply only to new construction. But they will influence a significant proportion of the nation's approximately 6,000 hospitals, which are already launching a building boom to meet demand from an aging population and replace obsolete facilities.

Mark Bridgers, a senior consultant at construction research firm FMI Corp., estimates that spending on new construction alone -- including hospitals tearing down old facilities to rebuild or starting from scratch on new sites -- will exceed \$30 billion by 2009, up from about \$19.8 billion last year. And the

majority of new projects are for all-private rooms, according to health-care architects and construction firms.

The guidelines will add to growing competitive pressure on existing facilities to shift to the all-private model when practical. The trend toward all-private-room designs began a few years ago as hospitals vied for patients by offering better amenities and more comfortable facilities where family members can stay overnight in patient

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rooms. Affluent baby boomers, too, have been willing to shell out extra out-of-pocket expenses for private rooms.

But the driving force behind all-private rooms is coming down to better patient safety -- and better economics. "Unless there are extenuating circumstances, for most hospitals the semiprivate room will be a thing of the past," says Scot Latimer, a consultant at Kurt Salmon Associates and president of the health architecture group. While it may cost more to build hospitals with all-private rooms initially, he says, "they pay for themselves very quickly and are much less expensive to operate" in the long run.

In facilities that have a mix of private and semiprivate rooms, private rooms can cost hundreds of dollars more per day and are rarely covered by insurance unless deemed medically necessary. But with the all-private model, a hospital has just one rate, which Medicare, Medicaid and private insurers must cover, hospitals say. Many existing hospitals that have converted to all-private say they have met insurers halfway by continuing to charge their old semiprivate rates for all rooms.

Insurance companies increasingly reimburse hospitals for patients on a per diem basis, and the room rate may range from 10% of that charge to a third, depending on the severity of the case. A spokeswoman for insurer Aetna Inc., for example, says that in many cases, it is up to hospitals to allocate how the reimbursement is divided among room and other charges.

One reason the guidelines may actually reduce costs: Patients recover faster in private rooms. They are less susceptible to disease transmission, and are less likely to get the wrong medication or experience other medical errors because they were confused with a roommate. And studies show patients sleep better and maintain better spirits when there isn't another patient snoring or coughing in a nearby bed and they see only their own relatives and visitors.

Operating and labor costs are also less than for semiprivate rooms because patients don't have to be transferred as often. And with no need to make sure male and female patients have roommates of the same sex, hospitals can actually run at higher occupancy, notes Craig Zimring, a professor at the Georgia Institute of Technology and co-author of a report to the nonprofit Center For Health Design, which conducts research on optimal hospital facilities.

Private rooms help reduce patient falls, which can add \$10,000 in extra costs. In private rooms, among other things, patients often have relatives around for assistance and have less equipment and furniture to maneuver around. Private rooms also allow full use of hospital beds, while hospitals with semiprivate rooms often have 10% or more of beds unoccupied.

Numerous studies show that infection rates are lower in private hospital rooms, for fairly obvious reasons: Patients don't have to share a bathroom where bacteria lurk, and they aren't exposed to airborne infections that waft over from a roommate. In shared rooms, staffers may touch both patients without washing their hands between contacts, or after touching privacy curtains, blood-pressure cuffs, computer keyboards and other equipment used for both patients in a room.

With added costs from infections and other risks in shared rooms, "we can't afford to operate U.S. hospitals that have anything other than private rooms," Mr. Zimring says.

At Bronson Methodist Hospital in Kalamazoo, Mich., which built a new all-private-room hospital in 2000 with hand-washing stations in each room, a study showed a 45% decline in infection rates in the new hospital compared with an older facility with semiprivate rooms that it closed after the new one was completed. The private rooms required more space per patient and cost more to build, but savings in operational costs from the reduced infection rates offset the initial capital expense, the hospital says. Bronson says room charges in its new facility were based on the semiprivate rate before the move.

Richard Van Enk, the epidemiologist at Bronson and co-author of the study, also says new federal privacy regulations are almost impossible to enforce in shared rooms, where every consultant has a room. ATTACHMENT 2001-3
AIA WITH ENK OF 2001

can possibly be overheard. "If I were ill and dealing with a disease, I can't imagine wanting a complete stranger sharing that experience," he says.

That was the case for Ann Nieuwenhuis, an educator and researcher at Michigan State University, who was treated in a private room at Bronson after an auto accident last year. "Just being able to have the trauma surgeon come in and not have to speak in hushed tones about my treatment was a relief," she says. Her husband was able to stay in the room, it was quiet enough to sleep, and she didn't have to worry about personal privacy or disturbing a fellow patient.

HCA Inc., the largest for-profit hospital company, with 182 hospitals, already recommends that its hospitals make the shift to private rooms when building new facilities. While private rooms can mean extra walking time between rooms for nurses and other staff, they reduce the need to move around equipment that might spread infection, notes Jane Englebright, vice president for quality programs. Patients also find there is a much better "healing environment," she says, "because you don't have issues like roommates who don't like the same TV program or don't like your family."

Some experts warn that not all hospitals can afford to convert to all-private rooms. In dense urban areas, there may not be enough real estate to expand, and in rural areas that need to serve a widely spread population, hospitals may not find it feasible to build a facility large enough to give them all private rooms. Hospitals also must have "surge capacity" -- the ability to add beds in an emergency or disease outbreak.

"If the choice is one patient in a private room and the other one in the hallway, two in a room is obviously better for patients," says Dale Woodin, deputy executive director of the American Hospital Association's health-care engineering society.

Joseph G. Sprague, senior vice president at Dallas health-care design firm HKS Inc. and chairman of the health-care guidelines revision committee, says the guidelines provide an exception to the private-room standard if hospitals can demonstrate "the necessity of a two-bed arrangement," which might include the need to handle surge capacity in regions such as the Southeast, where there is a big seasonal population influx. There may also be some "therapeutic value in having more than one patient in a room," such as rehabilitation hospitals, where it can be encouraging for patients to see each other's progress, he adds.

At Proctor Hospital in Peoria, Ill., which began a gradual shift to all-private rooms starting in 1997, Chief Operating Officer Garrett McGowan says its 128 private rooms are large enough and designed to add a second patient in the event of need. "We can convert back to semiprivate and we've had to do that from time to time," Mr. McGowan says.

Chicago's Northwestern Memorial Hospital found that patient satisfaction scores went up sharply after the hospital switched to all-private rooms in 1999 -- and the 500-bed hospital is now able to provide equal accommodations for both affluent and less-well-off patients. "Every single patient deserves a private room, and it doesn't matter whether they are rich or poor," says Jean Przybylek, vice president of operations.

■ Email me at informedpatient@wsj.com.

Printed in The Wall Street Journal, page A1

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Single Rooms Becoming the Norm in New Hospitals

By Amanda Gardner
HealthDay Reporter

Tuesday, August 26, 2008; 12:00 AM

TUESDAY, Aug. 26 (HealthDay News) -- France is doing it. Britain, the Netherlands and Norway are on their way.

And hospitals elsewhere should be doing it, too, namely moving toward all single rooms in newly built hospitals, argue the authors of a paper in the Aug. 27 issue of the *Journal of the American Medical Association*.

"[Previous studies] have shown that it does reduce infections, there is some evidence that it may reduce medication errors, the physician can talk to the patient in private, and the family can be there," said Jane Bolin, an associate professor of health policy and management at Texas A&M Health Science Center School of Rural Public Health in College Station. "I think hospitals are going that way."

According to background information in the article, multi-bed wards have been the norm in hospitals, with semi-private and private rooms reserved for those who could pay.

Now, single, double and four-bed rooms are the norm, though single rooms were signaled as the best way to deliver patient care almost a century ago.

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Among the numerous benefits of private rooms, according to the authors, from Sunnybrook Health Sciences Centre and the University of Toronto in Canada:

They reduce hospital-acquired infections, especially important in the age of methicillin-resistant

Staphylococcus aureus

and SARS. "Most of the cases of the SARS outbreak in Toronto came out of a hospital, which could have been avoided if they didn't have multiple patients in a room," Bolin

pointed out. Private rooms also have private bathrooms, again helping to curb infection. Patients who have changing needs won't need to be transferred to other rooms, possibly resulting in harm to the patient. Even now, baby-delivery suites can quickly be transformed into semi-surgical rooms when needed, Bolin said. Patients can get access to beds more quickly. Now, for instance, two empty beds in a male-only room would go to waste if females were waiting for beds. Private rooms mean you don't have to discuss your sensitive medical matters in front of strangers. Families and friends will find it easier to visit (many single rooms already have parent or spouse beds). Private rooms are calmer and have lower noise levels, which helps keep blood pressure, heart rate and respiratory rate in check, along with improved pain control and sleep quality.

A focus on single rooms would increase construction costs, with one study finding that the cost for building a new ward with only single-patient rooms would be \$182 to \$400 per patient, versus \$122 to \$500 per patient for a ward with double rooms.

But many of those costs are capital costs and would be recouped relatively quickly.

"Many people consider an expensive hotel room to be \$300 to \$500 per night, whereas the average cost per night in a hospital is \$400 to \$2,000," Bolin said. "About \$40,000 in overall construction costs could be recouped, and it's not that much, considering the cost of equipment."

More information

Visit the [American Hospital Association](http://www.AmericanHospitalAssociation.org) for more on issues affecting hospitals.

SOURCES: Jane Bolin, J.D., Ph.D., B.S.N., associate professor, health policy and

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ATTACHMENT 20d1-3

management, Texas A&M Health Science Center School of Rural Public Health, College Station; Aug. 27, 2008, Journal of the American Medical Association

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ATTACHMENT 20d1-3

OCCUPANCY

The proposed removal of six Medical/Surgical beds from Franciscan St. James Health-Olympia Fields' approved bed complement will allow the hospital to operate at the IHFSRB's 85% target occupancy rate, as discussed in detail in ATTACHMENT 15.

PERFROMANCE REQUIREMENTS

Hospitals providing Medical/Surgical services and located within a MSA are required to provide a minimum of 100 Medical/Surgical beds. The proposed project includes 133 Medical/Surgical beds, and is therefore consistent with the requirement.

April 16, 2012

Illinois Health Facilities and
Services Review Board
Springfield, Illinois

To Whom It May Concern:

Please be advised that it is fully anticipated that Franciscan St. James Health-Olympia Field's Medical/Surgical beds will reach the IHFSRB's target occupancy level by the second year following the proposed project's completion, and that they will maintain that level.

Sincerely,



Seth Warren
President



Notarized:

Kathryn E Duckett
April 17, 2012

Franciscan Alliance, Inc. and Affiliates

(Formerly known as Sisters of St. Francis Health Services, Inc.)

Consolidated Financial Statements

December 31, 2010 and 2009

Franciscan Alliance, Inc. and Affiliates
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December 31, 2010 and 2009

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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. (which was formerly known as Sisters of St. Francis Health Services, Inc.) and Affiliates (collectively referred to as the "Corporation") at December 31, 2010 and 2009, 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 newly issued FASB accounting standard guidance which amended previous authoritative guidance on goodwill and intangible assets as well as reporting of noncontrolling interests in consolidated financial statements.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

April 13, 2011

Franciscan Alliance, Inc. and Affiliates
Consolidated Balance Sheet
December 31, 2010 and 2009
(In thousands)

	2010	2009		2010	2009
Assets			Liabilities and Net Assets		
Current assets			Current liabilities		
Cash and cash equivalents	\$ 207,832	\$ 205,319	Current portion of long-term debt	\$ 19,785	\$ 18,891
Short-term investments	37,180	13,525	Accounts payable and accrued expenses	197,470	168,457
Patient accounts receivable, net of allowance for doubtful accounts of \$42,372 in 2010 and \$46,364 in 2009	247,021	237,456	Accrued payroll and related expenses	85,969	76,542
Inventories of supplies	37,525	37,140	Estimated third-party payor settlements	30,069	17,315
Other current assets	64,193	55,393			
			Total current liabilities	333,293	281,205
Total current assets	593,751	548,833	Long-term debt, net of current portion	1,133,571	1,160,438
Investments and assets limited as to use	1,721,369	1,504,387	Fair value of interest rate swap contracts	56,454	40,272
Property, plant, and equipment, net	1,405,090	1,348,884	Accrued pension liability	253,145	206,303
Investments in unconsolidated affiliates	27,941	26,514			
Goodwill (See Note 2)	10,696	75,335	Estimated insurance liabilities	121,005	114,676
			Other liabilities	46,545	32,406
Intangible assets, net of accumulated amortization of \$5,880 in 2010 and \$3,057 in 2009 (See Note 2)	13,245	9,155			
Other assets	81,351	84,921	Total liabilities	1,944,013	1,835,300
			Net assets		
			Unrestricted	1,852,953	1,697,850
			Noncontrolling interests in consolidated affiliates	27,487	28,639
			Total unrestricted net assets	1,880,440	1,726,489
			Temporarily restricted	17,267	18,253
			Permanently restricted	11,723	17,987
			Total net assets	1,909,430	1,762,729
Total assets	\$ 3,853,443	\$ 3,598,029	Total liabilities and net assets	\$ 3,853,443	\$ 3,598,029

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, 2010 and 2009
(In thousands)

	2010	2009
Unrestricted revenues, gains, and other support		
Net patient service revenue	\$ 2,100,426	\$ 2,007,071
Premium revenue	111,372	119,258
Other operating revenue	77,872	104,805
Equity in earnings of investments in unconsolidated affiliates	11,983	13,777
Net unrealized investment gains	5,891	12,270
Net assets released from restrictions used for operations	1,318	1,657
Total unrestricted revenues, gains, and other support	<u>2,308,862</u>	<u>2,258,838</u>
Operating expenses		
Salaries	861,402	813,562
Employee benefits	237,374	220,897
Physicians' fees	45,334	41,693
Utilities	38,995	38,811
Repairs and maintenance	39,113	37,556
Drugs and pharmaceuticals	87,665	94,554
Medical supplies	194,141	195,221
Insurance	32,996	41,622
Purchased services	209,784	199,971
Other supplies and expenses	197,106	219,378
Provision for doubtful accounts	82,581	86,995
Interest	36,559	22,932
Depreciation and amortization	123,794	130,307
Total operating expenses	<u>2,186,844</u>	<u>2,143,499</u>
Operating income	<u>122,018</u>	<u>115,339</u>
Other income (expense)		
Investment income	103,324	35,126
Net unrealized investment gains on trading securities	78,302	170,497
Net unrealized (losses) gains and periodic settlements on interest rate swap contracts	(29,587)	47,559
Gain on sale of investments in unconsolidated affiliates	3,951	2,059
Gain (loss) on sale/disposal of assets	52	(4,119)
Net assets released from restrictions	1,482	2,218
Contributions	441	709
Other, net	(4,252)	(5,700)
Total other income, net	<u>153,713</u>	<u>248,349</u>
Excess of revenues over expenses	<u>\$ 275,731</u>	<u>\$ 363,688</u>

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

Franciscan Alliance, Inc. and Affiliates
Consolidated Statements of Operations and Changes in Net Assets
Years Ended December 31, 2010 and 2009
(In thousands)

	2010	2009
Unrestricted net assets		
Excess of revenues over expenses	\$ 275,731	\$ 363,688
Change in pension and postretirement benefits other than net periodic pension costs included in accrued pension liability	(45,071)	(33,686)
Other changes in net assets attributable to noncontrolling interests in consolidated affiliates (See Note 10)	(17,649)	(31,809)
Cumulative effect of change in accounting principle (See Note 2)	(64,639)	-
Other	1,777	(45)
Net assets released from restrictions used for purchase of property, plant, and equipment	<u>3,802</u>	<u>1,121</u>
Increase in unrestricted net assets	<u>153,951</u>	<u>299,269</u>
Temporarily restricted net assets		
Contributions	5,327	5,794
Investment income	274	240
Net assets released from restrictions	(6,602)	(4,996)
Net unrealized investment gains	302	274
Other	<u>(287)</u>	<u>(1,582)</u>
Decrease in temporarily restricted net assets	<u>(986)</u>	<u>(270)</u>
Permanently restricted net assets		
Contributions	1	10
Investment (loss) income	(159)	121
Net unrealized investment gains	297	79
Transfer of endowment to intended beneficiary (See Note 11)	(6,291)	-
Other	<u>(112)</u>	<u>917</u>
(Decrease) increase in permanently restricted net assets	<u>(6,264)</u>	<u>1,127</u>
Increase in net assets	146,701	300,126
Net assets beginning of the year	<u>1,762,729</u>	<u>1,462,603</u>
Net assets, end of the year	<u>\$ 1,909,430</u>	<u>\$ 1,762,729</u>

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

Franciscan Alliance, Inc. and Affiliates
Consolidated Statement of Cash Flows
Years Ended December 31, 2010 and 2009
(In thousands)

	2010	2009
Cash flows from operating activities		
Increase in net assets	\$ 146,701	\$ 300,126
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation of plant, property, and equipment	120,001	123,409
Amortization of bond discounts, deferred financing costs, and other intangible assets	3,793	6,898
Provision for doubtful accounts	82,581	86,995
Gain on sale of investments in unconsolidated affiliates	(3,951)	(2,059)
(Gain) loss on sale/disposal of assets	(52)	4,119
Transfer of endowment to intended beneficiary	6,291	-
Net investment gains	(188,116)	(218,246)
Net unrealized losses (gains) on interest rate swap contracts	16,182	(61,901)
Other changes in net assets attributable to noncontrolling interests in consolidated affiliates	17,649	31,809
Equity in earnings of investments in unconsolidated affiliates	(11,983)	(13,777)
Change in deferred tax asset	-	(2,521)
Restricted contributions and investment income	(5,443)	(6,165)
Change in pension and postretirement benefits other than net periodic pension costs included in accrued pension liability	45,071	33,686
Insurance proceeds	-	8,308
Cumulative effect of change in accounting principle (See Note 2)	64,639	-
Changes in operating assets and liabilities:		
Patient accounts receivable	(91,907)	(23,074)
Inventories of supplies	(311)	(918)
Other assets	(19,243)	2,633
Accounts payable and accrued expenses	34,867	6,788
Accrued payroll and related expenses	9,427	(6,591)
Estimated third-party payor settlements	12,754	(2,216)
Estimated insurance liabilities	6,329	25,240
Accrued pension liability	7,914	(8,390)
Other liabilities	5,983	(709)
Total adjustments	<u>112,475</u>	<u>(16,682)</u>
Net cash provided by operating activities	<u>259,176</u>	<u>283,444</u>
Cash flows from investing activities		
Purchase of property, plant, and equipment	(161,212)	(217,525)
Acquisition of physician practices and support organization	(20,129)	(25,823)
Purchases and sales of investments and assets limited as to use, net	(52,523)	(252,082)
Proceeds from sale of property, plant, and equipment	8,909	124
Proceeds from sale of investments in unconsolidated affiliates	3,951	2,059
Insurance proceeds	-	570
Distributions to noncontrolling interests of consolidated affiliates	(17,649)	(27,815)
Distributions from unconsolidated affiliates	10,556	7,658
Net cash used by investing activities	<u>(228,097)</u>	<u>(512,834)</u>
Cash flows from financing activities		
Proceeds from issuance of long-term debt (See Note 6)	-	227,932
Payments of bond costs	-	(6,296)
Principal payments on long-term debt	(27,718)	(17,773)
Restricted contributions and investment income	5,443	6,165
Transfer of endowment to intended beneficiary	(6,291)	-
Net cash (used) provided by financing activities	<u>(28,566)</u>	<u>210,028</u>
Net increase (decrease) in cash and cash equivalents	2,513	(19,362)
Cash and cash equivalents, beginning of year	<u>205,319</u>	<u>224,681</u>
Cash and cash equivalents, end of year	<u>\$ 207,832</u>	<u>\$ 205,319</u>

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

Franciscan Alliance, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

1. Description of Organization and Mission

Organization

During November 2010, Sisters of St. Francis Health Services, Inc. changed its legal name to Franciscan Alliance, Inc. There was no change in the organization's corporate structure, management, or governance as a result of this change.

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 consists of four geographic regions comprised of twelve wholly owned health centers (the "Health Centers") and other related divisions and affiliates. The other related divisions and affiliates include the corporate office, consolidated information services and back office / management support organizations, a construction company, a captive insurance company, nonprofit foundations, and physician hospital organizations. The Corporation also has various investments in consolidated and unconsolidated affiliates (See Note 10).

Mission

The mission statement for the Franciscan Alliance, Inc. is as follows:

Continuing Christ's Ministry in Our Franciscan Tradition

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

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

Franciscan Alliance, Inc. and Affiliates
Notes to Consolidated Financial Statements
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The following amounts reflect the Corporation's quantifiable community benefits for the years ended December 31, 2010 and 2009:

	(Unaudited)	
	2010	2009
	(in thousands)	
Benefits for the poor and underserved		
Unreimbursed costs of Medicaid and other indigent care program	\$ 128,895	\$ 110,046
Cost of charity care provided	63,648	61,181
Other benefits for the poor and underserved		
Subsidized health services	2,134	1,947
Community health improvement services	570	733
Financial and in kind contributions	988	500
Health professions education	-	1
Community building activities	3	1
Community benefit operations	1	1
	<u>3,696</u>	<u>3,183</u>
Total benefits for the poor and underserved	<u>196,239</u>	<u>174,410</u>
Benefits for the broader community		
Subsidized health services	39,447	24,819
Health professions education	15,791	15,039
Community health improvement services	4,201	3,966
Community building activities	1,149	1,398
Financial and in kind contributions	7,506	703
Research	616	542
Community benefit operations	100	62
	<u>68,810</u>	<u>46,529</u>
Total benefits for the broader community	<u>68,810</u>	<u>46,529</u>
Total quantifiable community benefits	<u>265,049</u>	<u>220,939</u>
Unreimbursed costs of Medicare	<u>151,817</u>	<u>160,029</u>
Total quantifiable community benefits including unreimbursed costs of Medicare	<u>\$ 416,866</u>	<u>\$ 380,968</u>

Total quantifiable community benefits including unreimbursed costs of Medicare were approximately 19% and 18% of total operating expenses for the years ended December 31, 2010 and 2009, 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, 2010 and 2009, the Corporation reported approximately \$83 million and \$87 million, respectively, as provision for doubtful accounts.

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.

Franciscan Alliance, Inc. and Affiliates
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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 healthcare services, provided in accordance with the Corporation's charity care policy, for which no or partial reimbursement will be received because of the recipient's inability to pay for those services.

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 include 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.

Franciscan Alliance, Inc. and Affiliates
Notes to Consolidated Financial Statements
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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 controls 50% or less of the affiliate's operations and does not have operational control are recorded under the equity method of accounting unless the Corporation's control or investment percentage is insignificant in which case the Corporation uses the cost method.

Use of Estimates

The preparation of 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 provisions 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.

Investments and Assets Limited As to Use

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

Franciscan Alliance, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

At December 31, 2010 and 2009, approximately 95% and 91%, respectively, of the Corporation's investments are invested in a pooled account coordinated through Ascension Health's Health System Depository (the "HSD") under an investment management agreement. The Corporation treats the application of its investment in the HSD as a mutual fund with shares as the common unit of measure. The custodian-held assets in the HSD are managed by professional investment firms who follow agreed upon investment goals and adhere to socially responsible investment guidelines. The HSD's asset allocation consisted of 40% equities, 30% fixed income, 28% alternative investments, and 2% cash and cash equivalents at December 31, 2010 and 31% equities, 34% fixed income, 21% alternative investments, and 14% cash and cash equivalents at December 31, 2009. 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.

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

Investments and assets limited as to use are exposed to various risks, such as interest rate, market, liquidity, performance, and credit risks. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term may affect the amounts reported in the consolidated balance sheet 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 on borrowed funds during the period of construction or development of capital assets are capitalized as a component of the cost of acquiring the assets. Depreciation is provided over the estimated useful lives of the assets utilizing the straight-line method. Assets under capital lease obligations are amortized on the straight-line method over the shorter of the

Franciscan Alliance, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

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 (loss) on sale/disposal of assets is recognized. As of December 31, 2010 and 2009, conditional asset retirement obligations of approximately \$17,585,000 and \$15,587,000, respectively, are included within other liabilities in the consolidated balance sheet.

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 having an indefinite useful life 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.

Other intangible assets primarily consist of covenants not to compete which are amortized on a straight-line basis over periods ranging from 3 to 8 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 flow 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 sheet.

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.

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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 2010 and 2009, net assets of \$6,602,000 and \$4,996,000, 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, change in net assets attributable 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).

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. Payment arrangements include prospectively determined rates per discharge, reimbursable costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive revenue adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Net patient service revenues for the years ended December 31, 2010 and 2009 have been increased by approximately \$13,260,000 and \$1,727,000, respectively, due to favorable changes in estimates related to adjustments to final settlements. These amounts do not include net patient service revenue recognized during 2010 or 2009 related to the State of Indiana Medicaid Acute Disproportionate Share and Medicaid Safety Net Hospitals ("DSH") Program (See Note 13).

Allowance for Doubtful Accounts

The Corporation's patient accounts receivable is reduced by an allowance for amounts that could become uncollectible in the future. Throughout the year, the Corporation estimates this allowance based on the aging of its patients accounts receivable, historical collection experience, and other relevant factors. These other 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 co-payments and deductibles 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, uncollectible accounts are written off against the allowance for doubtful accounts with any subsequent recoveries being recorded against the provision for doubtful accounts.

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Charity Care

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

Premium Revenue

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

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 and 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 sheet (See Note 7).

Consolidated Statement of Cash Flows

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

Cash paid during the year for interest and amounts paid on interest rate swap contracts, net of amounts capitalized, amounted to \$58,053,000 and \$45,766,000 for the years ended December 31, 2010 and 2009, respectively.

Cash paid for income taxes approximated \$1,577,000 and \$1,001,000 for the years ended December 31, 2010 and 2009, respectively.

Included in accounts payable at December 31, 2010 and 2009 are approximately \$1,875,000 and \$6,208,000, respectively, of costs related to construction in progress and for the acquisition of property, plant, and equipment.

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 not-for-profit entity combination 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

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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. 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 accounting standard, the Corporation performed impairment tests on goodwill and indefinite lived-intangibles as of January 1, 2010. As a result of the impairment tests, the Corporation recorded \$64.6 million as a cumulative effect of change in accounting principle. The impairment charges primarily relate to the health centers in the Corporation's Western Indiana Region. As of December 31, 2010, there are no significant balances of goodwill or indefinite-lived intangibles subject to impairment remaining on the balance sheet.

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.

Reclassifications

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

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

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

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

Medicaid – 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.

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Provisions have been made in the consolidated financial statements for estimated contractual adjustments, representing the difference between the established charges for services and estimated total payments to be received from third-party payors. For the years ended December 31, 2010 and 2009, approximately 94% and 93%, respectively, of net patient service revenue is subject to the provisions of Medicare and Medicaid programs and other third-party payor contracts.

The Corporation grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at December 31, 2010 and 2009, is as follows:

	2010	2009
Medicare	24 %	24 %
Medicaid	14	16
Other third-party payors	44	42
Patients	18	18
	<u>100 %</u>	<u>100 %</u>

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

4. Investments and Assets Limited As to Use

The composition of investments and assets limited as to use, at December 31, 2010 and 2009, is as follows:

	2010	2009
	(in thousands)	
Assets held by bond trustees	\$ 50,401	\$ 112,043
Assets held for estimated insurance liabilities	129,391	108,779
Board designated for services for the poor	3,020	3,405
Board designated funded depreciation and other Board projects	1,555,678	1,261,185
Other restricted assets	<u>20,059</u>	<u>32,500</u>
	1,758,549	1,517,912
Less short-term investments	<u>37,180</u>	<u>13,525</u>
Investments and assets limited as to use, classified as noncurrent	<u>\$ 1,721,369</u>	<u>\$ 1,504,387</u>

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Investments and assets limited as to use, at December 31, 2010 and 2009, consist of the following:

	2010	2009
	(in thousands)	
Pooled funds	\$ 1,669,308	\$ 1,383,689
Mutual funds	35,133	107,722
Cash and cash equivalents	17,525	10,936
Corporate bonds	8,370	-
Agency bonds	6,432	-
Treasury bonds	6,090	-
Other	15,691	15,565
	<u>\$ 1,758,549</u>	<u>\$ 1,517,912</u>

Investment returns including net unrealized gains included in the consolidated statements of operations and changes in net assets for the years ended December 31, 2010 and 2009, are as follows:

	2010	2009
	(in thousands)	
Unrestricted revenues, gains, and other support		
Investment income	\$ 7,865	\$ 2,061
Net unrealized investment gains	5,891	12,270
	<u>13,756</u>	<u>14,331</u>
Other income		
Investment income	103,324	35,126
Net unrealized investment gains on trading securities	78,302	170,497
	<u>181,626</u>	<u>205,623</u>
Temporarily restricted net assets		
Investment income	274	240
Net unrealized investment gains	302	274
	<u>576</u>	<u>514</u>
Permanently restricted net assets		
Investment (loss) income	(159)	121
Net unrealized investment gains	297	79
	<u>138</u>	<u>200</u>
	<u>\$ 196,096</u>	<u>\$ 220,668</u>

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The following table presents information about the Corporation's financial assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2010 and 2009, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value.

	Balance as of December 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (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	-
	<u>\$ 1,758,549</u>	<u>\$ 74,439</u>	<u>\$ 1,684,110</u>
Liabilities			
Interest rate swap contracts	\$ (56,454)	\$ -	\$ (56,454)
(in thousands)			
	Balance as of December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Investments			
Pooled funds	\$ 1,383,689	\$ -	\$ 1,383,689
Mutual funds	107,722	107,722	-
Cash and cash equivalents	10,936	10,936	-
Other	15,565	15,565	-
	<u>\$ 1,517,912</u>	<u>\$ 134,223</u>	<u>\$ 1,383,689</u>
Liabilities			
Interest rate swap contracts	\$ (40,272)	\$ -	\$ (40,272)

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

A summary of property, plant, and equipment at December 31, 2010 and 2009, is as follows:

	2010	2009
	(in thousands)	
Land and land improvements	\$ 109,461	\$ 105,221
Buildings and building equipment	1,221,211	1,022,845
Departmental equipment	1,069,168	1,065,841
Construction in progress	<u>225,220</u>	<u>311,266</u>
	2,625,060	2,505,173
Less accumulated depreciation	<u>1,219,970</u>	<u>1,156,289</u>
	<u>\$ 1,405,090</u>	<u>\$ 1,348,884</u>

The Corporation has several capital projects with remaining construction commitments approximating \$31 million and \$73 million at December 31, 2010 and 2009, respectively. Cost of these commitments are primarily expected to be satisfied by using the remaining Series 2009 fixed rate term and serial bond proceeds that are reflected in assets held by bond trustees.

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 sheet. The amortization of assets under capital leases is included in depreciation and amortization expense in the consolidated statements of operations and changes in net assets.

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6. Long-Term Debt

Long-term debt at December 31, 2010 and 2009, consists of the following:

	2010	2009
	(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	\$ 222,705	\$ 225,000
Series 2008 A and Series 2008 B, variable rate demand bonds, subject to a seven-day put provision supported by a direct pay bank letter of credit, payable through November 2041; interest ranging from 0.12% to 0.40% in 2010 and 0.15% to 1.00% in 2009	162,660	162,960
Series 2008 C, fixed rate term and serial bonds payable through November 2032; interest ranging from 4.00% to 5.50% over the remaining life of the bonds	290,145	291,155
Series 2008 D and Series 2008 E, variable rate demand bonds, subject to a seven-day put provision supported by a direct pay bank letter of credit, payable through November 2048; interest ranging from 0.14% to 0.40% in 2010 and 0.20% to 0.72% in 2009	125,000	125,000
Series 2008 F through Series 2008 H, variable rate demand bonds, subject to a seven-day put provision supported by a direct pay bank letter of credit, payable through November 2048; interest ranging from 0.11% to 0.34% in 2010 and 0.13% to 0.72% in 2009	154,345	154,345
Series 2008 I and Series 2008 J, variable rate demand bonds, subject to a seven-day put provision supported by a direct pay bank letter of credit, payable through November 2037; interest ranging from 0.11% to 0.34% in 2010 and 0.10% to 0.54% in 2009	81,450	81,650
Series 2006E, 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 insured serial bonds, payable through November 2015; interest rates ranging from 4.75% to 5.35% over the remaining life of the bonds	9,305	10,910
Series 1999, fixed rate insured serial bonds, payable through November 2012; interest rates ranging from 4.40% to 5.25% over the remaining life of the bonds	7,925	11,625
Series 1997 A and Series 1997 B, fixed rate insured serial bonds, payable through November 2010; remaining serial bond interest rate of 5.00% for the Series 1997A bonds and 5.75% for the Series 1997B bonds	-	4,165
Other	19,353	32,420
Total long-term debt	<u>1,157,583</u>	<u>1,183,905</u>
Less bond discounts on Hospital and Health System Revenue Bonds and Refunding Bonds	(4,227)	(4,576)
Total long-term debt	<u>1,153,356</u>	<u>1,179,329</u>
Less current portion of long-term debt	19,785	18,891
Long-term debt and bond discounts	<u>\$ 1,133,571</u>	<u>\$ 1,160,438</u>

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

	(in thousands)
Years ending December 31	
2011	\$ 19,785
2012	18,525
2013	17,415
2014	17,523
2015	18,077
Thereafter	<u>1,066,258</u>
	<u>\$ 1,157,583</u>

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

	2010	2009
	(in thousands)	
Interest costs incurred	\$ 43,220	\$ 33,258
Less capitalized interest	<u>6,661</u>	<u>10,326</u>
Interest expense included in operating income	<u>\$ 36,559</u>	<u>\$ 22,932</u>

The fair value of the Corporation's long-term debt at December 31, 2010 and 2009, approximates \$1,161,209,000 and \$1,194,867,000, respectively. The fair values of the Corporation's underlying tax exempt Hospital and Health System Revenue Bonds and Refunding Bonds are based on current traded values for similar types of borrowings.

Obligated Group and Designated Group Affiliates and Other Requirements - The Corporation has long-term debt outstanding under a Master Trust Indenture dated November 1, 1997, as amended and supplemented ("MTI"). The MTI permits the Corporation to issue obligations to finance certain activities. Obligations issued under the MTI are general, direct obligations of the Corporation and any future members of Franciscan Alliance, Inc. ("Obligated Group"). All members of the Obligated Group are joint and severally liable with respect to the payment of each obligation issued under the MTI. The MTI provides that certain affiliates of the Corporation may be designated as Designated Group Affiliates from time to time. The Designated Group Affiliates are not members of the Obligated Group and are not directly liable for payments on the obligations. The Corporation has granted a security interest in its unrestricted receivables for the benefit of the owners of the obligations. The MTI 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 MTI 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 MTI. The Corporation was in compliance with the terms of the MTI as of December 31, 2010 and 2009.

Issuance of Long-Term Debt - In November 2009, the Corporation issued \$225.0 million of its Series 2009 fixed rate term and serial bonds. The proceeds are being used to finance and reimburse a portion of the costs of acquisition, construction, expansion and equipping certain of the Corporation's Health Centers and to pay related costs of issuance.

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Liquidity Facilities – As of December 31, 2010, the Corporation has separate direct pay letters of credit totaling \$523.5 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. All termination dates for the various liquidity facility agreements were extended during 2010, with new termination dates extending from October 2012 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.

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 and \$14.4 million for the years ended December 31, 2010 and 2009, respectively. At December 31, 2010 and 2009, the interest rate swap contracts are in a liability position with a fair value of approximately \$56.5 million and \$40.3 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, 2010 and 2009, the Corporation had posted \$16.2 million and \$9.5 million, respectively, to satisfy its collateral funding obligations on these contracts which is included in assets held by bond trustees within investments and assets limited as to use on the consolidated balance sheet.

Operating Leases – The Corporation leases various facilities, equipment, and software. Total rental expense under operating leases approximated \$33.0 million and \$31.4 million for the years ended December 31, 2010 and 2009, respectively. Future minimum lease payments under operating leases as of December 31, 2010 that have initial or remaining lease terms in excess of one year are as follows:

	(in thousands)
Years ending December 31	
2011	\$ 30,157
2012	28,564
2013	22,369
2014	21,120
2015	20,879
Thereafter	9,087
	<u>\$ 132,176</u>

8. Pension and Other Benefit Plans

Noncontributory Defined Benefit Pension Plans - The Corporation has qualified, noncontributory defined benefit pension plans that cover substantially all of its employees except as amended during 2009 to freeze the future benefits and service accruals for two of the Corporation's Health Centers. 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

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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 benefit obligation, change in plan assets, and funded status of the Corporation's pension plans as of December 31, 2010 and 2009, are as follows:

	2010	2009
	(in thousands)	
Change in benefit obligation		
Benefit obligation, beginning of year	\$ 813,115	\$ 762,413
Service cost	30,813	33,759
Interest cost	50,943	47,639
Plan amendments	-	(1,250)
Plan curtailments	-	(16,281)
Actuarial loss	84,318	7,676
Benefits paid	<u>(22,469)</u>	<u>(20,841)</u>
Benefit obligation, end of year	<u>956,720</u>	<u>813,115</u>
Change in plan assets		
Fair value of plan assets, beginning of year	606,646	581,368
Actual gain (loss) on plan assets	72,422	(9,227)
Employer contributions	46,945	55,346
Benefits paid	<u>(22,469)</u>	<u>(20,841)</u>
Fair value of plan assets, end of year	<u>703,544</u>	<u>606,646</u>
Funded status	<u>\$ (253,176)</u>	<u>\$ (206,469)</u>
Amounts recognized in the consolidated balance sheets		
Noncurrent assets	\$ 149	\$ -
Current liabilities	(180)	(166)
Noncurrent liabilities	<u>(253,145)</u>	<u>(206,303)</u>
Total amount recognized	<u>\$ (253,176)</u>	<u>\$ (206,469)</u>

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, 2008	\$ (141,054)	\$ (9,689)	\$ (150,743)
Amounts reclassified into net periodic benefit cost	7,525	3,542	11,067
Amounts arising during the year	<u>(46,003)</u>	<u>1,250</u>	<u>(44,753)</u>
December 31, 2009	<u>\$ (179,532)</u>	<u>\$ (4,897)</u>	<u>\$ (184,429)</u>

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	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	<u>(58,726)</u>	<u>(1)</u>	<u>(58,727)</u>
December 31, 2010	<u>\$ (226,621)</u>	<u>\$ (2,879)</u>	<u>\$ (229,500)</u>

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

Unrecognized prior service cost	\$ (2,019)
Unrecognized loss	<u>(13,002)</u>
Total amount expected to be amortized from unrestricted net assets in 2011	<u>\$ (15,021)</u>

The accumulated benefit obligation ("ABO") at December 31, 2010 and 2009 was \$845,909,000 and \$714,803,000, respectively. The following information is provided for plans with an ABO in excess of plan assets at December 31, 2010 and 2009:

	2010	2009
	(in thousands)	
Projected benefit obligation	\$ 943,121	\$ 813,115
ABO	832,310	714,803
Fair value of plan assets	689,795	606,646

Components of net periodic pension cost for the years ended December 31, 2010 and 2009 are as follows:

	2010	2009
	(in thousands)	
Service cost	\$ 30,813	\$ 33,759
Interest cost	50,943	47,639
Expected return on plan assets	(46,830)	(45,381)
Amortization of prior service cost	2,019	3,542
Amortization of net loss	<u>11,637</u>	<u>7,525</u>
Net periodic pension cost	<u>\$ 48,582</u>	<u>\$ 47,084</u>

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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:

	2010	2009
Benefit obligation		
Discount rate	5.75 %	6.25 %
Rate of compensation increase	4.50 %	4.50 %
Net periodic pension cost		
Discount rate	6.25 %	6.25 %
Expected rate of return on plan assets	7.75 %	7.75 %
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 following table presents information about the Corporation's plan assets that are measured at fair value as of December 31, 2010 and 2009 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value.

Asset Category	Balance as of December 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)			Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (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	<u>\$ 703,544</u>	<u>\$ 554,065</u>		<u>\$ 118,932</u>		<u>\$ 30,547</u>

Franciscan Alliance, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

Asset Category	Balance as of December 31, 2009	Quoted Prices		
		In Active Markets for Identical Assets (Level 1) (in thousands)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 82,577	\$ -	\$ 82,577	\$ -
Equity securities				
Common stock	282,859	282,859	-	-
Depository receipts	11,088	11,088	-	-
Mutual funds	43,148	215	42,933	-
Hedge funds	29,199	-	-	29,199
Preferred stock	1,260	1,260	-	-
Real estate investment trusts	5,304	5,304	-	-
Fixed income securities				
Government issues	145,414	145,304	110	-
Corporate bonds	5,103	-	5,103	-
Other	694	-	694	-
Total	\$ 606,646	\$ 446,030	\$ 131,417	\$ 29,199

Changes in Level 3 hierarchy assets measured at fair value are as follows:

	(in thousands)
Beginning balance, December 31, 2008	\$ 30,052
Net unrealized investment losses	(1,307)
Investment losses	(3)
Purchases of investments	3,615
Sales of investments	(3,158)
Ending balance, December 31, 2009	<u>\$ 29,199</u>
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	<u>\$ 30,547</u>

The investment policy reflects the long-term nature of the pension plans' funding obligations. Assets are invested to achieve a rate of return consistent with policy allocation targets, which significantly contributes to meeting the current and future obligations of the plans and helps to ensure solvency of the plans over time. It is expected that this objective can be achieved through a well-diversified asset portfolio and an emphasis on long-term capital appreciation as a primary source of return. The 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.

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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, 2010 and 2009 and the target allocation of the pension plans, by asset category, are as follows:

Asset class	Target Allocation	Percentage of Plan Assets	
		2010	2009
Domestic large capitalization securities	26 %	28 %	27 %
Domestic small capitalization securities	9 %	10 %	11 %
Domestic mid capitalization securities	3 %	4 %	4 %
International equity securities	19 %	19 %	18 %
Fixed income securities	36 %	34 %	35 %
Hedge funds	7 %	5 %	5 %
	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

Cash flows

The Corporation anticipates making contributions of approximately \$34,270,000 in 2011. The Corporation may elect to make additional contributions.

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

	(in thousands)
2011	\$ 28,306
2012	31,516
2013	40,614
2014	39,323
2015	45,861
Years 2016-2020	294,779

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, 2010 and 2009, aggregated \$11,456,000 and \$10,317,000, respectively.

Franciscan Alliance, Inc. and Affiliates
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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. Hills Inc. purchases reinsurance coverage which limits the Corporation's exposure on individual claims. In addition, the Corporation has obtained excess insurance coverage from several commercial insurance companies. In the unlikely event that any or all of the insurance or reinsurance companies might be unable to meet their obligations under the existing agreements, the Corporation would be liable for such defaulted amounts. In addition, the Corporation is self-insured for its employee health, long-term disability, and excess 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, excess workers' compensation and amounts self-insured for allocated loss adjustment expenses, approximated \$121.0 million and \$114.7 million on an undiscounted basis at December 31, 2010 and 2009, respectively.

Claims have been asserted against the Corporation by various claimants. These claims are in various stages of processing and some may ultimately be brought to trial. Counsel is unable to conclude as to the ultimate outcome of the actions. There are known incidents occurring through December 31, 2010 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, 2010.

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

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

Noncontrolling Interests in Consolidated Affiliates

The Corporation consolidates certain affiliates in which it maintains majority ownership and/or control into its consolidated financial statements. The significant consolidated affiliates that the Corporation jointly owns, along with a number of physicians and a large physician company otherwise unrelated to the Corporation, are 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 of the 63-bed hospital to FPH. At December 31, 2010 and 2009, the Corporation's ownership in FPH was approximately 62% and 79%, respectively, and 90% in FPRP at both December 31, 2010 and 2009, with the Corporation having majority board membership and reserve powers.

Franciscan Alliance, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

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

The 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 (in thousands)	Total
Balance January 1, 2009	\$ 1,389,058	\$ 38,162	\$ 1,427,220
Excess of revenues over expenses	341,402	22,286	363,688
Change in pension and postretirement benefits other than net periodic pension costs included in accrued pension liability	(33,686)	-	(33,686)
Distributions to noncontrolling interests of consolidated affiliates	-	(27,815)	(27,815)
Acquisition of investment in consolidated affiliates	-	(3,994)	(3,994)
Other	(45)	-	(45)
Net assets released from restrictions used for purchase of property, plant, and equipment	1,121	-	1,121
Balance at December 31, 2009	<u>\$ 1,697,850</u>	<u>\$ 28,639</u>	<u>\$ 1,726,489</u>
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	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	<u>\$ 1,852,953</u>	<u>\$ 27,487</u>	<u>\$ 1,880,440</u>

Investments in Unconsolidated Affiliates

The Corporation has investments in entities that are recorded under the cost or equity method of accounting. These investments in unconsolidated affiliates include surgery centers, imaging services, oncology services, a managed care organization, a wellness center, and other health service related investments that support the Corporation's mission and have noncontrolling ownership interests generally ranging from 20% to 49%.

Franciscan Alliance, Inc. and Affiliates
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At December 31, 2010 and 2009, 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, Provena Health ("Provena"), and Resurrection Health Care ("Resurrection"). The Corporation is also an owner of Alverno Provena Hospital Laboratories, LLC ("APHL"), a nonprofit cooperative corporation created to direct, operate, maintain, and manage the on-site laboratories of the Corporation's, Provena's, and Resurrection's health centers. Governance of ACL, LLC and

APHL (collectively referred to as the "Laboratories") is equally shared between health system members. The Corporation accounts for its investment in ACL, LLC under the equity method which approximated \$4.0 million at both December 31, 2010 and 2009. The Corporation's capital account in APHL approximates \$250,000 at both December 31, 2010 and 2009.

The Corporation's share of the equity in earnings of investments in unconsolidated affiliates accounted for on the equity method is \$11,983,000 and \$13,777,000 for the years ended December 31, 2010 and 2009, respectively, which is included in total unrestricted revenues, gains, and other support in the consolidated statements of operations and changes in net assets.

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

	2010	2009
	(in thousands)	
Total assets	\$ 121,685	\$ 137,281
Total liabilities	51,212	73,135
Net assets	70,473	64,146
Total unrestricted revenues, gains, and other support	653,351	679,275
Excess of revenues over expenses	28,629	28,645

11. Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31, 2010 and 2009:

	2010	2009
	(in thousands)	
Capital expenditures	\$ 4,352	\$ 6,256
Medical education programs	4,723	3,536
Health care programs	6,324	6,549
Other restrictions	1,868	1,912
	<u>\$ 17,267</u>	<u>\$ 18,253</u>

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

Franciscan Alliance, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

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 \$11.7 million and \$18.0 million at December 31, 2010 and 2009, 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 \$6.0 million of this permanently restricted endowment to the intended beneficiary.

12. Related Party Transactions

The Corporation's Health Centers incurred clinical laboratory charges from the Laboratories of approximately \$58.5 million and \$57.2 million for the years ended December 31, 2010 and 2009, respectively, which is included in purchased services in the consolidated statements of operations and changes in net assets. The Corporation provides information technology services, central procurement and disbursement services, and rents the core lab facilities to the Laboratories for which the Corporation had recorded approximately \$1.9 million and \$1.8 million for the years ended December 31, 2010 and 2009, respectively, as other operating revenue on the consolidated statements of operations and changes in net assets.

13. Medicaid Disproportionate Share Revenue

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, 2010 and 2009, the Corporation recognized unrestricted revenue of approximately \$21.0 million and \$32.3 million, respectively, related to the DSH program in the consolidated statements of operations and changes in net assets. In addition, certain of the Corporation's Health Centers received a partial advance of \$14.0 million for State fiscal year 2011. Since the eligibility requirements and final distribution calculation has not been finalized for this payment, the Corporation has not recognized this advance in its unrestricted revenues, gains, and other support in the consolidated statement of operations and changes in net assets for 2010.

Franciscan Alliance, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

14. 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, 2010 and 2009, are as follows:

	2010	2009
	(in thousands)	
Health care services	\$ 1,820,013	\$ 1,721,372
General, administrative, and other non-healthcare services	<u>366,831</u>	<u>422,127</u>
	<u>\$ 2,186,844</u>	<u>\$ 2,143,499</u>

15. Subsequent Events

The Corporation is not aware of any material subsequent events. The Corporation has evaluated subsequent events through April 13, 2011, the date the financial statements were available to be issued.

April 16, 2012

Illinois Health Facilities
and Services Review Board
Springfield, IL

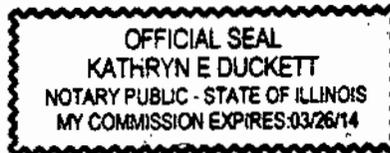
To Whom It May Concern:

Please be advised that the proposed project to modernize Franciscan St. James Health-Olympia Fields will be funded entirely with cash and equivalents.

Sincerely,



Seth Warren
President



Notarized:

Kathryn E. Duckett
April 17, 2012

COST AND GROSS SQUARE FEET BY DEPARTMENT OR SERVICE

Department	A	B	C	D	E	F	G	H	Total
(list below)	Cost/Sq. Foot		Gross Sq. Ft.		Gross Sq. Ft.		Const. \$	Mod. \$	Costs
	New	Mod.	New	Circ.	Mod.	Circ.	(A x C)	(B x E)	(G + H)
Reviewable									
Med/Surg Units		\$ 120.00			67,597			\$ 8,111,640	\$ 8,111,640
Contingency		\$ 10.00						\$ 675,970	\$ 675,970
Total		\$ 130.00						\$ 8,787,610	\$ 8,787,610

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**PROJECTED OPERATING COSTS and
TOTAL EFFECT OF THE PROJECT ON CAPITAL COSTS**

**FRANCISCAN ST. JAMES HEALTH-OLYMPIA FIELDS
2ND Year Following Project Completion**

Adjusted Patient Days:

$$\frac{\$51,935,088}{2,031} = 25,577$$

Operating Costs:

	Hospital	Med/Surg
salaries	\$100,923,496	\$10,229,905
benefits	\$ 25,630,548	\$ 2,864,374
supplies	<u>\$ 27,406,000</u>	<u>\$ 388,084</u>
	\$ 153,960,044	\$ 13,482,363

Per Adjusted Patient Day	
Hospital	Med/Surg
\$6,020	\$527

Capital Costs

	Hospital
depreciation & amortization	\$14,532,949
interest expense	<u>\$ 8,514,511</u>
	\$ 23,047,460

Per Adjusted Patient Day	
Hospital	
\$901.12	

SAFETY NET STATEMENT

Franciscan Alliance, Inc. operates two hospitals in the far southwestern suburbs of Chicago, and both play a critical role in the provision of safety net services—particularly inpatient services—to the communities they serve. Those services are provided directly by the hospitals, as well as in conjunction with or through the community agencies, such as Aunt Martha's, that the hospitals support both financially and programmatically.

During 2011 Franciscan St. James Health-Olympia Fields (formerly known as St. James-Olympia Fields) provided \$4.193M (cost) of charity care, equating to 3.2% of its net revenue. During the same period, the hospital's sister facility, Franciscan St. James Health-Chicago Heights (formerly known as St. James-Chicago Heights) provided \$6.195M (cost) of charity care, equating to 4.8% of its net revenue. Combined, the two hospitals provided nearly \$10.4M of charity care. Similarly, 8.1% of the patients admitted to Olympia Fields hospital are Medicaid recipients, and 20.4% of the patients admitted to the Chicago Heights hospital are Medicaid recipients. The two hospitals operate under common charity care and admissions policies, and the disparity between the two hospitals in terms of charity care as a percentage of net revenue or Medicaid admissions as a percentage of total admissions is almost totally the result of the demographics of the communities primarily served by the individual hospitals.

To the extent that either of the hospitals remains financially strong, the ability to provide safety net services through both of the hospitals is strengthened.