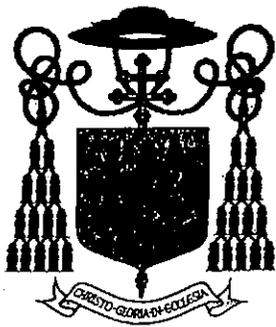


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**RECEIVED**

SEP 13 2011

**HEALTH FACILITIES &  
SERVICES REVIEW BOARD**

August 12, 2011

Illinois Health Facilities and Services  
Review Board  
2nd Floor  
525 West Jefferson Street  
Springfield, Illinois 62761

To Whom It May Concern:

It is my pleasure to write this letter in support of the transition of Alexian Brothers Medical Center, St. Alexius Medical Center and Alexian Brothers Behavioral Health Hospital to Ascension Health.

For more than 150 years, the Brothers, through their healthcare ministry, have ministered to the people of the greater metropolitan Chicago area. From humble beginnings, the Brothers' ministries have grown to encompass acute-care hospitals, immediate-care centers, imaging facilities and other healthcare services serving more than two million people residing in the ministry's service area.

Ascension Health is the largest Catholic healthcare system in the nation. Its record of service in the more than twenty states it serves is exemplary. By Ascension Health's assuming the oversight of the Alexian Brothers' ministries, Catholic healthcare services will be strengthened and preserved.

Sincerely yours,

Francis Cardinal George, O.M.I.  
Archbishop of Chicago

## PROJECT OVERVIEW

This Project Overview supplements the Narrative Description provided in Attachment 3.

This Certificate of Exemption ("COE") application addresses the change in ultimate corporate control of St. Alexius Medical Center ("SAMC"), a 310-bed acute care hospital located in Hoffman Estates, Illinois.

### **Summary of Transaction**

Alexian Brothers Health System ("ABHS"), an Illinois-based not-for-profit Catholic health care system, is proposing to combine its health care system and operations into Ascension Health ("Ascension"), which is the largest not-for-profit Catholic health care system in the United States. This combination, through which ABHS would join the Ascension system, would be implemented through a corporate affiliation transaction ("Affiliation"). If the Affiliation is approved, the applicants anticipate an effective Closing Date of January 1, 2012.

The core objective of the proposed Affiliation is to continue the development of a preeminent Catholic health care system, in order to facilitate improved health care quality and access for the communities served by ABHS. The Affiliation will afford both ABHS and Ascension the opportunity to advance their respective charitable missions; enhance

sound stewardship; further develop a comprehensive and fully integrated Catholic health care delivery system; and undertake efforts to promote community health and well-being through improved administrative and operating systems, clinical excellence, and advocacy.

The Affiliation will result in the transfer of the ultimate corporate control of ABHS' three (3) Illinois hospitals from the Alexian Brothers of America, Inc. ("ABA") to Ascension. These ABHS hospitals are: Alexian Brothers Medical Center in Elk Grove Village; St. Alexius Medical Center in Hoffman Estates; and Alexian Brothers Behavioral Health Hospital in Hoffman Estates.

This change in ultimate corporate control, through which Ascension will become the sole corporate member of ABHS, requires the approval of the Illinois Health Facilities and Services Review Board. All applicant entities are not-for-profit corporations authorized to do business in Illinois, and are exempt from taxation pursuant to Section 501(c)(3) of the Internal Revenue Code. The terms of the Affiliation are detailed in the definitive Affiliation Agreement included with this application. An organizational chart identifying the proposed relationship between Ascension and the ABHS hospitals is provided in ATTACHMENT 3.

The proposed change of ownership qualifies for review as a COE as a result of Ascension's "AA" bond rating. A copy of that rating is provided in ATTACHMENT 6.

### **About Ascension Health**

Ascension Health ("Ascension"), a Missouri nonprofit health care corporation, was created in November 1999 through the union of Daughters of Charity National Health System and the Sisters of St. Joseph Health System. In December 2002, the system was enhanced with the addition of the hospitals and related health care facilities of Carondelet Health System. If the proposed Affiliation is completed, ABHS will join these entities as an Ascension Health Ministry.

Ascension currently operates in more than 500 locations in twenty states, including 77 hospitals. A list of Ascension's hospitals is provided in ATTACHMENT 4.

Ascension is the largest Catholic health care system, the largest nonprofit health care system, and the third largest health care system (based on revenues) in the United States. In excess of 113,000 persons are employed through Ascension facilities and programs. During 2010, Ascension provided in excess of \$1.1 billion in care for the poor and community benefits; of that, in excess of \$375 million was categorized as charity care.

Ascension is a mission-driven health care system. It has a fully developed Strategic Direction plan with three components:

- Healthcare That Works--a system that seeks to maximize patient satisfaction. Over three years ending in 2010, Ascension has achieved significant and measurable increases in patient satisfaction scores, measured across factors such as quality, staff compassion and respect, effective communication, and care responsiveness.
- Healthcare That Is Safe--a multi-faceted system for improving patient safety and clinical excellence in Ascension's hospitals. A risk-adjusted comparison of baseline year 2004 to FY 2010 preventable mortality data for Ascension shows significantly fewer patient deaths across the system than would have been predicted.
- Healthcare That Leaves No One Behind--In addition to its robust charity care and community benefit performance, Ascension has implemented this comprehensive public policy advocacy initiative that has as its goal achieving 100% health care access and 100% health care coverage for all persons, but especially those that are uninsured or underinsured.

Ascension combines this mission focus with excellent financial performance, strong administration, experience in successfully combining Catholic health care systems, access to the capital markets on favorable terms, and significant clinical and infrastructure resources. As the national health care delivery system stands on the precipice of dramatic change, these resources will be a critical asset for Ascension facilities.

### **About Alexian Brothers Health System (ABHS)**

Alexian Brothers Health System was founded in 1866, and is governed by the 800 year-old religious Congregation of Alexian Brothers. ABHS oversees the operations of two (2) acute care hospitals, a psychiatric hospital, a multi-specialty group practice, and ambulatory care facilities in Illinois, and senior living facilities, rehabilitation services and community-based programming for the elderly in Wisconsin, Tennessee and Missouri. ABHS' inpatient campuses in Illinois are located in Elk Grove Village (Alexian Brothers Medical Center) and Hoffman Estates (St. Alexius Medical Center and Alexian Brothers Behavioral Health Hospital). In addition, ABHS provides ambulatory care services through 27 sites throughout the northwest suburbs of Chicago. ABHS employs in excess of 6,000 individuals in Illinois, and during 2010, provided in excess of \$16 million in charity care.

### **About St. Alexius Medical Center**

SAMC is a 310-bed acute care hospital, offering a broad scope of inpatient and outpatient services. Among the specialty programs offered at the hospital are a neonatal intensive care unit/Level 3 nursery and a wide array of pediatric programs. SAMC is currently implementing a \$117 million modernization program approved by the IHFSRB.

### **ABHS' Decision to Affiliate with Ascension**

ABHS's decision to affiliate with Ascension is the culmination of a two-year evaluation process conducted by ABHS leadership and its outside consultants, to identify a potential affiliation that best fits ABHS' strategic plan, mission, culture, and financial goals. That process included discussions with a number of other potential affiliation partners.

Ascension has entered into similar affiliation agreements with other independent Catholic health care systems, and will bring to ABHS unparalleled financial and management strength and capacity. The Affiliation will offer to ABHS expanded access to resources, including health information technology; quality initiatives; capital; supply purchasing; systems efficiencies; the sharing of clinical best practices across a nationwide network; and momentum for continued success.

Ascension will be obligated to fund the yet-to-be funded portion and complete St. Alexius Medical Center's campus modernization program up to \$125 million (IHFSRB Permit # 09-054), will be obligated to fund an ABHS Tennessee long-term care project up to \$30 million, will fund the defeasance of outstanding ABHS debt and refinance the long-term debt of ABHS, and will implement information technology systems at the ABHS facilities consistent with those at Ascension's other Health Ministries.

At the same time, the proposed Affiliation will advance ABHS' unwavering commitment to mission. Both Ascension and ABHS are Catholic organizations. Post-affiliation, ABHS' hospitals will continue to abide by the *Ethical and Religious Directives for Catholic Health Care Services*. Upon closing of the transaction, an Alexian Brother will be the chairman of the ABHS Board for a minimum of four (4) years, and an Alexian Brother will serve on the Board of Trustees of Ascension. In addition, ABHS facilities will be integrated into Ascension's three mission-driven Strategic Plan initiatives described above.

Upon closing, ABHS will retain significant regional decision-making, subject to corporate reserve powers to be held by Ascension. These reserve powers are set forth in the proposed revised ABHS Bylaws attached to the definitive Affiliation Agreement that is included as ATTACHMENT 5 to this application. ABHS will continue to hold its assets, including but not limited to cash and investments (except that Alexian Brothers Medical Center's ownership interest in a captive insurance company will be transferred to Ascension), as well as its liabilities, including but not limited to accounts payable, malpractice liability and self-insurance and pension plan liability, deferred compensation and workers compensation expenses. Responsibility for the day-to-day operations of the ABHS hospitals will remain with ABHS, through its existing subsidiary, Alexian Brothers Hospital Network.

**ILLINOIS HEALTH FACILITIES PLANNING BOARD  
APPLICATION FOR EXEMPTION FOR THE  
CHANGE OF OWNERSHIP FOR AN EXISTING HEALTH CARE FACILITY**

**1. INFORMATION FOR EXISTING FACILITY**

Current Facility Name St. Alexius Medical Center  
Address 1555 N. Barrington Road  
City Hoffman Estates, IL Zip Code 60194 County Cook  
Name of current licensed entity for the facility St. Alexius Medical Center  
Does the current licensee: own this facility  OR lease this facility \_\_\_\_\_ (if leased, check if sublease   
Type of ownership of the current licensed entity (check one of the following:) \_\_\_\_\_ Sole Proprietorship  
 Not-for-Profit Corporation \_\_\_\_\_ For Profit Corporation \_\_\_\_\_ Partnership \_\_\_\_\_ Governmental  
\_\_\_\_\_ Limited Liability Company \_\_\_\_\_ Other, specify \_\_\_\_\_  
Illinois State Senator for the district where the facility is located: Sen. Michael Noland  
State Senate District Number 22 Mailing address of the State Senator \_\_\_\_\_  
100 East Chicago Street Elgin, IL 60120  
Illinois State Representative for the district where the facility is located: Rep. Fred Crespo  
State Representative District Number 44 Mailing address of the State Representative \_\_\_\_\_  
1014 East Schaumburg Road Streamwood, IL 60107

2. **OUTSTANDING PERMITS.** Does the facility have any projects for which the State Board issued a permit that will not be completed (refer to 1130.140 "Completion or Project Completion" for a definition of project completion) by the time of the proposed ownership change? Yes  No . If yes, refer to Section 1130.520(f), and indicate the projects by Project # 09-054 (obligated May 2, 2011)
3. **FACILITY'S BED OR DIALYSIS STATION CAPACITY BY CATEGORY OF SERVICE** (Complete "APPENDIX A" attached to this application)
4. **FACILITY'S OTHER CATEGORIES OF SERVICE AS DEFINED IN 77 IAC 1100** (Complete "APPENDIX A" attached to this application)
5. **NAME OF APPLICANT** (complete this information for each co-applicant and insert after this page).  
Exact Legal Name of Applicant St. Alexius Medical Center  
Address 1555 N. Barrington Road  
City, State & Zip Code Hoffman Estates, IL 60194  
Type of ownership of the current licensed entity (check one of the following:) \_\_\_\_\_ Sole Proprietorship  
 Not-for-Profit Corporation \_\_\_\_\_ For Profit Corporation \_\_\_\_\_ Partnership \_\_\_\_\_ Governmental  
\_\_\_\_\_ Limited Liability Company \_\_\_\_\_ Other, specify \_\_\_\_\_
6. **NAME OF LEGAL ENTITY THAT WILL BE THE LICENSEE/OPERATING ENTITY OF THE FACILITY NAMED IN THE APPLICATION AS A RESULT OF THIS TRANSACTION.**  
Exact Legal Name of Entity to be Licensed St. Alexius Medical Center  
Address 1555 N. Barrington Road  
City, State & Zip Code Hoffman Estates, IL 60194  
Type of ownership of the current licensed entity (check one of the following:) \_\_\_\_\_ Sole Proprietorship  
 Not-for-Profit Corporation \_\_\_\_\_ For Profit Corporation \_\_\_\_\_ Partnership \_\_\_\_\_ Governmental  
\_\_\_\_\_ Limited Liability Company \_\_\_\_\_ Other, specify \_\_\_\_\_
7. **BUILDING/SITE OWNERSHIP. NAME OF LEGAL ENTITY THAT WILL OWN THE "BRICKS AND MORTAR" (BUILDING) OF THE FACILITY NAMED IN THIS APPLICATION IF DIFFERENT FROM THE OPERATING/LICENSED ENTITY**  
Exact Legal Name of Entity That Will Own the Site St. Alexius Medical Center  
Address 1555 N. Barrington Road  
City, State & Zip Code Hoffman Estates, IL 60194  
Type of ownership of the current licensed entity (check one of the following:) \_\_\_\_\_ Sole Proprietorship  
 Not-for-Profit Corporation \_\_\_\_\_ For Profit Corporation \_\_\_\_\_ Partnership \_\_\_\_\_ Governmental  
\_\_\_\_\_ Limited Liability Company \_\_\_\_\_ Other, specify \_\_\_\_\_

**ILLINOIS HEALTH FACILITIES PLANNING BOARD  
APPLICATION FOR EXEMPTION FOR THE  
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Type of ownership of the current licensed entity (check one of the following:) \_\_\_\_\_ Sole Proprietorship  
 Not-for-Profit Corporation \_\_\_\_\_ For Profit Corporation \_\_\_\_\_ Partnership \_\_\_\_\_ Governmental  
\_\_\_\_\_ Limited Liability Company \_\_\_\_\_ Other, specify \_\_\_\_\_  
Illinois State Senator for the district where the facility is located: Sen. Michael Noland  
State Senate District Number 22 Mailing address of the State Senator \_\_\_\_\_  
100 East Chicago Street Elgin, IL 60120  
Illinois State Representative for the district where the facility is located: Rep. Fred Crespo  
State Representative District Number 44 Mailing address of the State Representative \_\_\_\_\_  
1014 East Schaumburg Road Streamwood, IL 60107

2. **OUTSTANDING PERMITS.** Does the facility have any projects for which the State Board issued a permit that will not be completed (refer to 1130.140 "Completion or Project Completion" for a definition of project completion) by the time of the proposed ownership change? Yes  No . If yes, refer to Section 1130.520(f), and indicate the projects by Project # 09-054 (obligated May 2, 2011)
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5. **NAME OF APPLICANT** (complete this information for each co-applicant and insert after this page).

Exact Legal Name of Applicant Alexian Brothers Health System  
Address 3040 W. Salt Creek Lane  
City, State & Zip Code Arlington Heights, IL 60005  
Type of ownership of the current licensed entity (check one of the following:) \_\_\_\_\_ Sole Proprietorship  
 Not-for-Profit Corporation \_\_\_\_\_ For Profit Corporation \_\_\_\_\_ Partnership \_\_\_\_\_ Governmental  
\_\_\_\_\_ Limited Liability Company \_\_\_\_\_ Other, specify \_\_\_\_\_

6. **NAME OF LEGAL ENTITY THAT WILL BE THE LICENSEE/OPERATING ENTITY OF THE FACILITY NAMED IN THE APPLICATION AS A RESULT OF THIS TRANSACTION.**

Exact Legal Name of Entity to be Licensed St. Alexius Medical Center  
Address 1555 N. Barrington Road  
City, State & Zip Code Hoffman Estates, IL 60194  
Type of ownership of the current licensed entity (check one of the following:) \_\_\_\_\_ Sole Proprietorship  
 Not-for-Profit Corporation \_\_\_\_\_ For Profit Corporation \_\_\_\_\_ Partnership \_\_\_\_\_ Governmental  
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7. **BUILDING/SITE OWNERSHIP. NAME OF LEGAL ENTITY THAT WILL OWN THE "BRICKS AND MORTAR" (BUILDING) OF THE FACILITY NAMED IN THIS APPLICATION IF DIFFERENT FROM THE OPERATING/LICENSED ENTITY**

Exact Legal Name of Entity That Will Own the Site St. Alexius Medical Center  
Address 1555 N. Barrington Road  
City, State & Zip Code Hoffman Estates, IL 60194  
Type of ownership of the current licensed entity (check one of the following:) \_\_\_\_\_ Sole Proprietorship  
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**ILLINOIS HEALTH FACILITIES PLANNING BOARD  
APPLICATION FOR EXEMPTION FOR THE  
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 Not-for-Profit Corporation \_\_\_\_\_ For Profit Corporation \_\_\_\_\_ Partnership \_\_\_\_\_ Governmental  
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State Representative District Number 44 Mailing address of the State Representative \_\_\_\_\_  
1014 East Schaumburg Road Streamwood, IL 60107

2. **OUTSTANDING PERMITS.** Does the facility have any projects for which the State Board issued a permit that will not be completed (refer to 1130.140 "Completion or Project Completion" for a definition of project completion) by the time of the proposed ownership change? Yes  No . If yes, refer to Section 1130.520(f), and indicate the projects by Project # 09-054 (obligated May 2, 2011)
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5. **NAME OF APPLICANT** (complete this information for each co-applicant and insert after this page).

Exact Legal Name of Applicant Ascension Health  
Address 4600 Edmundson Road  
City, State & Zip Code St. Louis, MO  
63134 Type of ownership of the current licensed  
entity (check one of the following:) \_\_\_\_\_ Sole Proprietorship  
 Not-for-Profit Corporation \_\_\_\_\_ For Profit Corporation \_\_\_\_\_ Partnership \_\_\_\_\_ Governmental  
\_\_\_\_\_ Limited Liability Company \_\_\_\_\_ Other, specify \_\_\_\_\_

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Type of ownership of the current licensed entity (check one of the following:) \_\_\_\_\_ Sole Proprietorship  
 Not-for-Profit Corporation \_\_\_\_\_ For Profit Corporation \_\_\_\_\_ Partnership \_\_\_\_\_ Governmental  
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 Not-for-Profit Corporation \_\_\_\_\_ For Profit Corporation \_\_\_\_\_ Partnership \_\_\_\_\_ Governmental  
\_\_\_\_\_ Limited Liability Company \_\_\_\_\_ Other, specify \_\_\_\_\_

**8. TRANSACTION TYPE. CHECK THE FOLLOWING THAT APPLY TO THE TRANSACTION:**

- Purchase resulting in the issuance of a license to an entity different from current licensee;
- Lease resulting in the issuance of a license to an entity different from current licensee;
- Stock transfer resulting in the issuance of a license to a different entity from current licensee;
- Stock transfer resulting in no change from current licensee;
- Assignment or transfer of assets resulting in the issuance of a license to an entity different from the current licensee;
- Assignment or transfer of assets not resulting in the issuance of a license to an entity different from the current licensee;
- Change in membership or sponsorship of a not-for-profit corporation that is the licensed entity;
- Change of 50% or more of the voting members of a not-for-profit corporation's board of directors that controls a health care facility's operations, license, certification or physical plant and assets;
- Change in the sponsorship or control of the person who is licensed, certified or owns the physical plant and assets of a governmental health care facility;
- Sale or transfer of the physical plant and related assets of a health care facility not resulting in a change of current licensee;

X Any other transaction that results in a person obtaining control of a health care facility's operation or physical plant and assets, and explain in "Attachment 3 Narrative Description"

9. **APPLICATION FEE.** Submit the application fee in the form of a check or money order for \$2,500 payable to the Illinois Department of Public Health and append as **ATTACHMENT #1.**

10. **FUNDING.** Indicate the type and source of funds which will be used to acquire the facility (e.g., mortgage through Health Facilities Authority; cash gift from parent company, etc.) and append as **ATTACHMENT #2.**

11. **ANTICIPATED ACQUISITION PRICE:** \$ 0

12. **FAIR MARKET VALUE OF THE FACILITY:** \$ \$153,075,000\*  
(to determine fair market value, refer to 77 IAC 1130.140) \*net book value of land, buildings and equipment as of 12/31/10)

13. **DATE OF PROPOSED TRANSACTION:** January 1, 2012

14. **NARRATIVE DESCRIPTION.** Provide a narrative description explaining the transaction, and append it to the application as **ATTACHMENT #3.**

15. **BACKGROUND OF APPLICANT** (co-applicants must also provide this information). Corporations and Limited Liability Companies must provide a current Certificate of Good Standing from the Illinois Secretary of State. Partnerships must provide the name and address of each partner and specify whether each is a general or limited partner. Append this information to the application as **ATTACHMENT #4.**

16. **TRANSACTION DOCUMENTS.** Provide a copy of the document(s) which detail the terms and conditions of the proposed transaction (purchase, lease, stock transfer, etc). Applicants should note that the document(s) submitted should reflect the applicant's (and co-applicant's, if applicable) involvement in the transaction. The document must be signed by both parties and contain language stating that the transaction is contingent upon approval of the Illinois Health Facilities Planning Board. Append this document(s) to the application as **ATTACHMENT #5.**

17. **FINANCIAL INFORMATION** (co-applicants must also provide this information). Per 77 IAC 1130.520(b)(3), an applicant must demonstrate it has sufficient funds to finance the acquisition **and** to operate the facility for 36 months by providing evidence of a bond rating of "A" or better (that must be less than two years old) from Fitch, Moody or Standard and Poor's rating agencies or evidence of compliance with the financial viability review criteria (as applicable) to the type of facility being acquired (as specified at 77 IAC 1120). Append as **ATTACHMENT #6.**

18. **PRIMARY CONTACT PERSON.** Individual representing the applicant to whom all correspondence and inquiries pertaining to this application are to be directed. (Note: other persons representing the applicant not named below will need written authorization from the applicant stating that such persons are also authorized to represent the applicant in relationship to this application).

Name: Ms. Anne M. Murphy  
Address: Holland + Knight 131 South Dearborn Street  
City, State & Zip Code: Chicago, IL 60603  
Telephone ( ) Ext. 312/578-6544

**18a. Additional Contact Person:**

Name: Jacob M. Axel

Address: Axel & Associates, Inc. 675 North Court Suite 210

City, State & ZIP Code: Palatine, IL 60067

Telephone ( ) Ext. (847) 776-7101

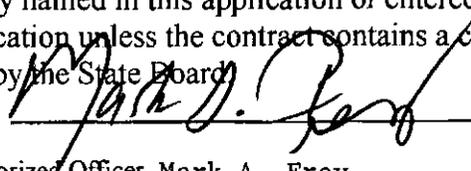
19. **ADDITIONAL CONTACT PERSON.** Consultant, attorney, other individual who is also authorized to discuss this application and act on behalf of the applicant.

Name: \_\_\_\_\_ Ms. Kelley Clancy, Vice President Alexian Brothers Health System \_\_\_\_\_  
Address: \_\_\_\_\_ 3040 Salt Creek Lane \_\_\_\_\_  
City, State & Zip Code: \_\_\_\_\_ Arlington Heights, IL 60005 \_\_\_\_\_  
Telephone ( ) Ext. \_\_\_\_\_ 847/385-7112 \_\_\_\_\_

**20. CERTIFICATION---St. Alexius Medical Center**

I certify that the above information and all attached information are true and correct to the best of my knowledge and belief. I certify that the categories of service, number of beds and/or dialysis stations within the facility will not change as part of this transaction. I certify that no adverse action has been taken against the applicant(s) by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois. I certify that I am fully aware that a change in ownership will void any permits for projects that have not been completed unless such projects will be completed or altered pursuant to the requirements in 77 IAC 1130.520(f) prior to the effective date of the proposed ownership change. I also certify that the applicant has not already acquired the facility named in this application or entered into an agreement to acquire the facility named in the application unless the contract contains a clause that the transaction is contingent upon approval by the State Board.

Signature of Authorized Officer \_\_\_\_\_



Typed or Printed Name of Authorized Officer Mark A. Frey

Title of Authorized Officer: Executive Vice President of Alexian Brothers Health System

Address: 3040 W. Salt Creek Lane

City, State & Zip Code: Arlington Heights, Illinois 60005

Telephone (847 ) 818-5100 Date: September 7, 2011

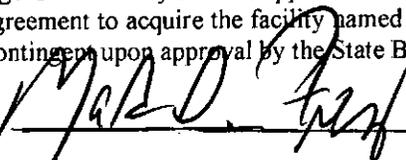
**NOTE:** complete a separate signature page for each co-applicant and insert following this page.

**19. ADDITIONAL CONTACT PERSON.** Consultant, attorney, other individual who is also authorized to discuss this application and act on behalf of the applicant.

Name: Ms. Kelley Clancy, Vice President Alexian Brothers Health System  
Address: 3040 Salt Creek Lane  
City, State & Zip Code: Arlington Heights, IL 60005  
Telephone ( ) Ext. 847/385-7112

**20. CERTIFICATION -- Alexian Brothers Health System**

I certify that the above information and all attached information are true and correct to the best of my knowledge and belief. I certify that the categories of service, number of beds and/or dialysis stations within the facility will not change as part of this transaction. I certify that no adverse action has been taken against the applicant(s) by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois. I certify that I am fully aware that a change in ownership will void any permits for projects that have not been completed unless such projects will be completed or altered pursuant to the requirements in 77 IAC 1130.520(f) prior to the effective date of the proposed ownership change. I also certify that the applicant has not already acquired the facility named in this application or entered into an agreement to acquire the facility named in the application unless the contract contains a clause that the transaction is contingent upon approval by the State Board.

Signature of Authorized Officer 

Typed or Printed Name of Authorized Officer Mark A. Frey

Title of Authorized Officer: Executive Vice President of Alexian Brothers Health System

Address: 3040 W. Salt Creek Lane

City, State & Zip Code: Arlington Heights, Illinois 60005

Telephone ( 847 ) 818-5100 Date: September 7, 2011

**NOTE: complete a separate signature page for each co-applicant and insert following this page.**

19. **ADDITIONAL CONTACT PERSON.** Consultant, attorney, other individual who is also authorized to discuss this application and act on behalf of the applicant.

Name: \_\_\_\_\_ Ms. Kelley Clancy, Vice President Alexian Brothers Health System \_\_\_\_\_  
Address: \_\_\_\_\_ 3040 W. Salt Creek Lane \_\_\_\_\_  
City, State & Zip Code: \_\_\_\_\_ Arlington Heights, IL 60005 \_\_\_\_\_  
Telephone ( ) Ext. \_\_\_\_\_ 847/385-7112 \_\_\_\_\_

**20. CERTIFICATION---Ascension Health**

I certify that the above information and all attached information are true and correct to the best of my knowledge and belief. I certify that the categories of service, number of beds and/or dialysis stations within the facility will not change as part of this transaction. I certify that no adverse action has been taken against the applicant(s) by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois. I certify that I am fully aware that a change in ownership will void any permits for projects that have not been completed unless such projects will be completed or altered pursuant to the requirements in 77 IAC 1130.520(f) prior to the effective date of the proposed ownership change. I also certify that the applicant has not already acquired the facility named in this application or entered into an agreement to acquire the facility named in the application unless the contract contains a clause that the transaction is contingent upon approval by the State Board.

Signature of Authorized Officer



Typed or Printed Name of Authorized Officer Anthony R. Tersigni, Ed.D., FACHE

Title of Authorized Officer:

President and Chief Executive Officer

Address:

4600 Edmundson Road

City, State & Zip Code:

St. Louis, MO 63134

Telephone ( 314 ) 733-8235

Date: September 9, 2011

**NOTE: complete a separate signature page for each co-applicant and insert following this page.**



FUNDING

The proposed change of ownership does not involve a financial transaction.

## NARRATIVE DESCRIPTION

This Certificate of Exemption ("COE") application addresses the proposed change in ultimate corporate control of St. Alexius Medical Center, a 310-bed acute care hospital located in Hoffman Estates, Illinois ("St. Alexius").

Alexian Brothers Health System (ABHS") is proposing a corporate affiliation ("Affiliation") with Ascension Health ("Ascension"). The Affiliation will result in the transfer of the ultimate corporate control of St. Alexius from the Alexian Brothers of America, Inc. ("ABA") to Ascension. This change in control, through which Ascension will become the sole corporate member of ABHS, requires the approval of the Illinois Health Facilities and Services Review Board. All applicant entities are not-for-profit corporations authorized to do business in Illinois, and are exempt from taxation pursuant to Section 501(c)(3) of the Internal Revenue Code. The terms of the Affiliation are detailed in the definitive Affiliation Agreement included in this application.

The proposed change of control qualifies for review as a COE as a result of Ascension's "AA" bond rating. A copy of that rating is provided in ATTACHMENT 6. Similar COE applications have been submitted for ABHS' other two (2) hospitals. An organizational chart identifying the proposed relationship between Ascension and the ABHS hospitals is attached.

Upon closing of the Affiliation transaction, Ascension will serve as the sole corporate member of ABHS, and ABHS will operate as one of Ascension's Health Ministries. ABHS will remain the sole corporate member of its of its hospital operating subsidiary, Alexian Brothers Hospital Network ("ABHN"). ABHN, in turn, will remain the sole corporate member of each of the three (3) hospitals in Illinois.

Both Ascension and ABHS are Catholic organizations. All Ascension and ABHS health care facilities will continue to abide by the *Ethical and Religious Directives for Catholic Health Care Services*.

An Alexian Brother appointed by the ABA will be the chairman of the ABHS Board for a minimum of four (4) years. In addition, an Alexian Brother appointed by the ABA will serve on the Board of Trustees of Ascension.

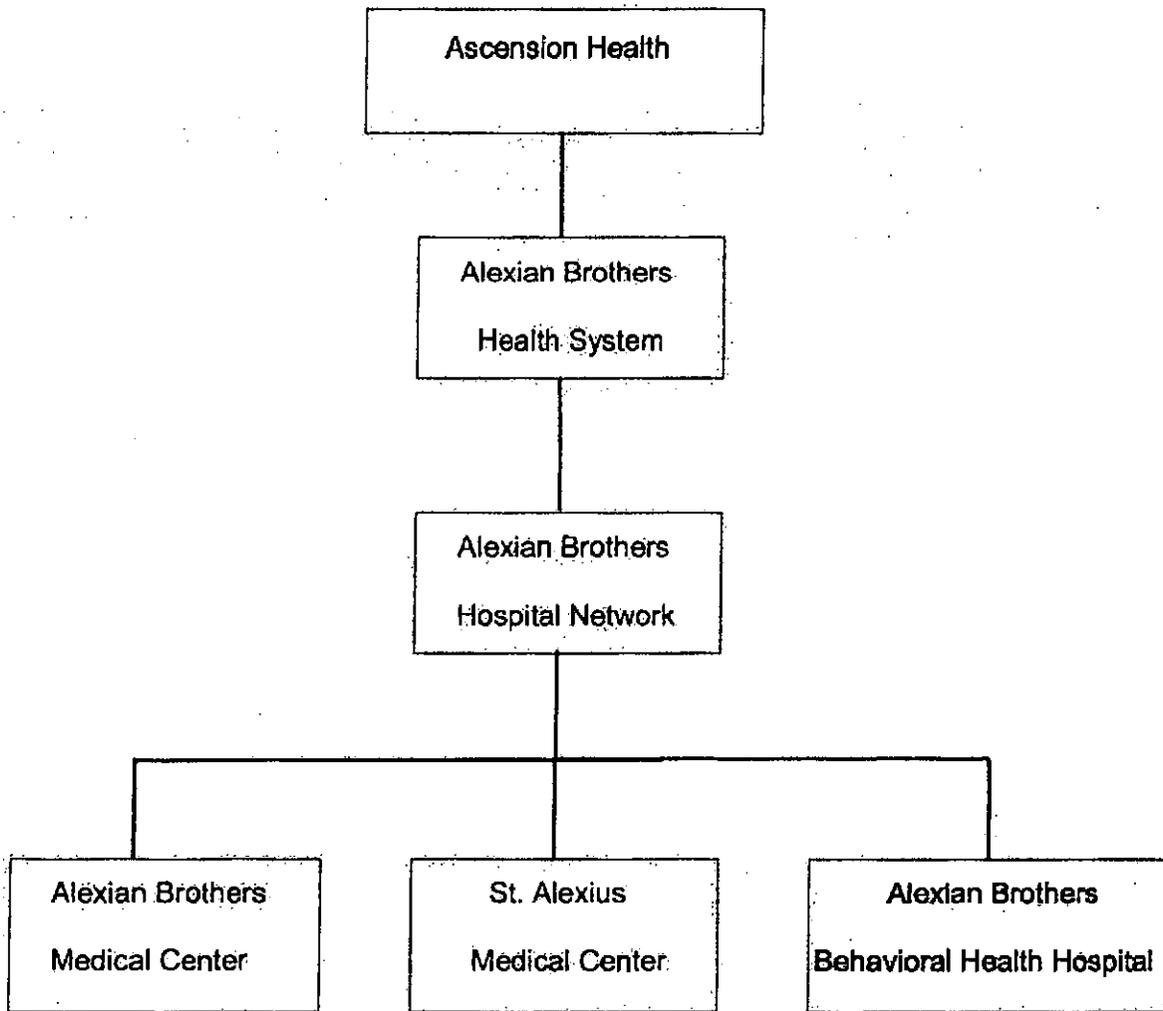
Upon closing, ABHS will retain its assets, including but not limited to cash and investments, as well as its liabilities, including but not limited to accounts payable, malpractice liability and self-insurance and pension plan liability, deferred compensation and workers compensation expenses. Responsibility for the day-to-day operations of the ABHS hospitals will remain under the control of ABHS, through its subsidiary ABHN. The Affiliation will not result in a change of any ABHS health care facility licensee in Illinois.

The Affiliation is being implemented without a purchase price payment. Ascension, however, will be obligated to fund the yet-to-be funded portion and complete St. Alexius Medical Center's campus modernization program up to \$125 million (IHFSRB Permit # 09-054), will be obligated to fund an ABHS Tennessee long-term care project up to \$30 million, will fund the defeasance of outstanding ABHS debt and refinance the long-term debt of ABHS, and will implement information technology systems at the ABHS facilities consistent with those at Ascensions other Health Ministries.

The applicants will implement the Affiliation consistent with the regulatory requirements of Rules 1130.520 (Requirements for Exemptions Involving the Change of Ownership of a Health Care Facility) and 1110.240 (Changes of Ownership, Mergers and Consolidations). It is not anticipated that any changes to the hospital's number of beds or clinical services will result from the Affiliation, nor will access to the services provided by the hospital be diminished as a result of the Affiliation. For a period of at least twelve (12) months after the Affiliation closing date ("Closing Date"), the current number of beds and categories of service at the hospital will not substantially change. For a period of at least three (3) years after the Closing Date, Ascension expects to retain ultimate ownership and corporate control of the hospital. For a period of at least two (2) years after the Closing Date, the hospital will maintain a charity care policy no more restrictive than the policy that was in effect at the hospital one (1) year prior to the Closing Date.

ABHS, through its subsidiary ABHN, will continue to have direct control over staffing and employment decisions for the hospital. The expect that for a period of at least two (2) years after the Closing Date, there will be no material reductions in the levels of clinical and non-administrative operational staff employed by the hospital, other than those typically associated with the ongoing operations of hospitals.

**PROPOSED ORGANIZATIONAL CHART**





**To all to whom these Presents Shall Come, Greeting:**

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

ASCENSION HEALTH, INCORPORATED IN MISSOURI AND LICENSED TO CONDUCT AFFAIRS IN THIS STATE ON JUNE 27, 2011, 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.



Authentication #: 1118200684

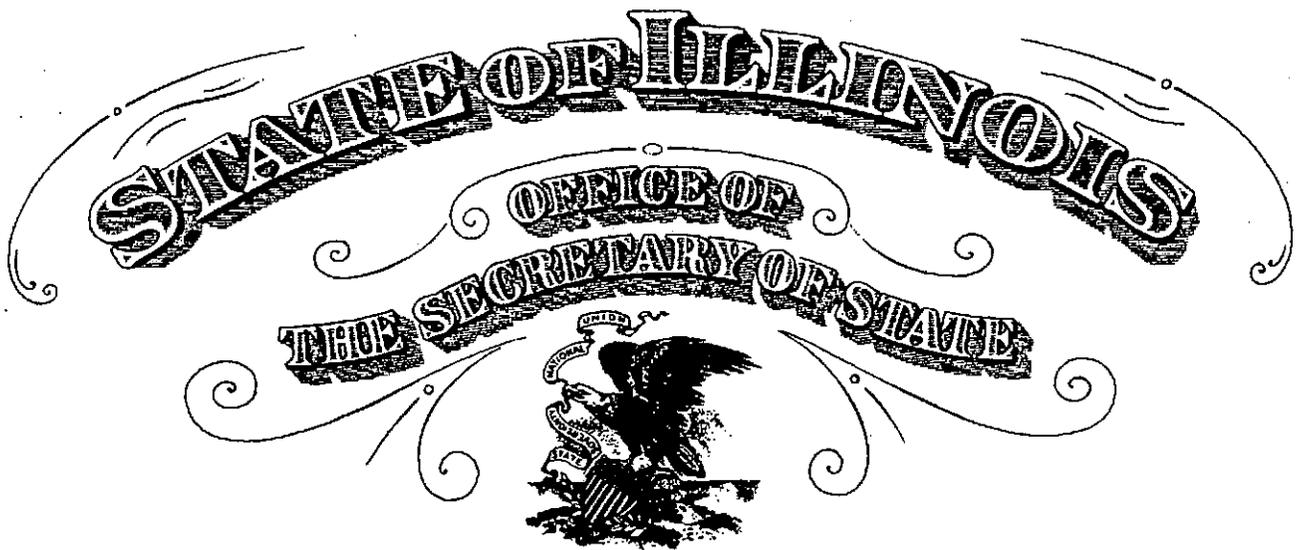
Authenticate at: <http://www.cyberdriveillinois.com>

***In Testimony Whereof,*** I hereto set  
*my hand and cause to be affixed the Great Seal of  
the State of Illinois, this 1ST  
day of JULY A.D. 2011 .*

*Jesse White*

SECRETARY OF STATE

ATTACHMENT 4



**To all to whom these Presents Shall Come, Greeting:**

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

ALEXIAN BROTHERS HEALTH SYSTEM, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON OCTOBER 03, 1983, 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 IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.



Authentication #: 1116602084

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

***In Testimony Whereof, I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this 15TH day of JUNE A.D. 2011 .***

*Jesse White*

SECRETARY OF STATE

ATTACHMENT 4



**To all to whom these Presents Shall Come, Greeting:**

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

ST. ALEXIUS MEDICAL CENTER, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON AUGUST 21, 1998, 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 IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.



Authentication # 1116602124

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

**In Testimony Whereof,** I hereto set  
my hand and cause to be affixed the Great Seal of  
the State of Illinois, this 15TH  
day of JUNE A.D. 2011 .

*Jesse White*

SECRETARY OF STATE

ATTACHMENT 4

# ACSENSION HEALTH HOSPITAL LISTING

May 27, 2011

## General Acute Care (68)

|   |                   |
|---|-------------------|
| 1. St. Vincent's Birmingham                             | Birmingham, AL    |
| 2. St. Vincent's East                                   | Huffman, AL       |
| 3. St. Vincent's St. Clair                              | Pell, AL          |
| 4. St. Vincent's Blount                                 | Oneonta, AL       |
| 5. Providence Hospital                                  | Mobile, AL        |
| 6. Carondelet Holy Cross Hospital*                      | Nogales, AZ       |
| 7. Carondelet St. Joseph's Hospital                     | Tucson, AZ        |
| 8. Carondelet St. Mary's Hospital                       | Tucson, AZ        |
| 9. Carondelet Heart & Vascular Institute                | Tucson, AZ        |
| 10. St. Vincent's Medical Center                        | Bridgeport, CT    |
| 11. Providence Hospital                                 | Washington, D.C.  |
| 12. St. Luke's Hospital                                 | Jacksonville, FL  |
| 13. St. Vincent's Medical Center                        | Jacksonville, FL  |
| 14. Sacred Heart Hospital on the Emerald Coast          | Miramar Beach, FL |
| 15. Sacred Heart Hospital of Pensacola                  | Pensacola, FL     |
| 16. Sacred Heart Hospital on the Gulf Coast             | Port St. Joe, FL  |
| 17. St. Joseph Regional Medical Center                  | Lewiston, ID      |
| 18. St. Mary's Warrick Hospital*                        | Boonville, IN     |
| 19. St. Mary's Medical Center                           | Evansville, IN    |
| 20. Saint John's Health System                          | Anderson, IN      |
| 21. St. Vincent Clay Hospital*                          | Brazil, IN        |
| 22. St. Vincent Carmel Hospital                         | Carmel, IN        |
| 23. St. Vincent Dunn Hospital*                          | Bedford, IN       |
| 24. St. Vincent Mercy Hospital*                         | Elwood, IN        |
| 25. St. Vincent Frankfort Hospital*                     | Frankfort, IN     |
| 26. St. Vincent Heart Center of Indiana                 | Indianapolis, IN  |
| 27. St. Vincent Indianapolis Hospital                   | Indianapolis, IN  |
| 28. St. Joseph Hospital and Health Center               | Kokomo, IN        |
| 29. St. Vincent Jennings Hospital*                      | North Vernon, IN  |
| 30. St. Vincent Salem Hospital*                         | Salem, IN         |
| 31. St. Vincent Williamsport Hospital*                  | Williamsport, IN  |
| 32. St. Vincent Randolph Hospital*                      | Winchester, IN    |
| 33. St. Vincent Women's Hospital                        | Indianapolis, IN  |
| 34. Saint Agnes HealthCare                              | Baltimore, MD     |
| 35. St. John Hospital and Medical Center                | Detroit, MI       |
| 36. St. John River District Hospital                    | East China, MI    |
| 37. Providence Hospital                                 | Southfield, MI    |
| 38. Providence Park Hospital                            | Novi, MI          |
| 39. St. John Macomb-Oakland Hospital -<br>Macomb Center | Warren, MI        |
| 40. Genesys Regional Medical Center                     | Grand Blanc, MI   |
| 41. Borgess-Lee Memorial Hospital*                      | Dowagiac, MI      |
| 42. Borgess Medical Center                              | Kalamazoo, MI     |
| 43. St. Mary's of Michigan                              | Saginaw, MI       |
| 44. St. Mary's Of Michigan Standish Hospital*           | Standish, MI      |
| 45. Tawas St. Joseph Health System                      | Tawas City, MI    |
| 46. St. Mary's Medical Center                           | Blue Springs, MO  |
| 47. St. Joseph Medical Center                           | Kansas City, MO   |
| 48. St. Mary's Hospital                                 | Amsterdam, NY     |

|  |                  |
|--|------------------|
| 49. Our Lady of Lourdes Memorial Hospital        | Binghamton, NY   |
| 50. Mount St. Mary's Hospital and Health Center  | Lewiston, NY     |
| 51. St. Mary's Hospital                          | Troy, NY         |
| 52. Hickman Community Hospital*                  | Centerville, TN  |
| 53. Middle Tennessee Medical Center              | Murfreesboro, TN |
| 54. Baptist Hospital                             | Nashville, TN    |
| 55. Saint Thomas Hospital                        | Nashville, TN    |
| 56. University Medical Center Brackenridge       | Austin, TX       |
| 57. Dell Children's Medical Ctr of Central Texas | Austin, TX       |
| 58. Seton Medical Center                         | Austin, TX       |
| 59. Seton Northwest Hospital                     | Austin, TX       |
| 60. Seton Southwest Healthcare Center            | Austin, TX       |
| 61. Seton Highland Lakes Hospital*               | Burnet, TX       |
| 62. Seton Medical Center Hays                    | Hays, TX         |
| 63. Seton Edgar B. Davis*                        | Luling, TX       |
| 64. Seton Medical Center Williamson              | Round Rock, TX   |
| 65. Providence Health Center                     | Waco, TX         |
| 66. Lourdes Medical Center*                      | Pasco, WA        |
| 67. Columbia St. Mary's Ozaukee Hospital         | Mequon, WI       |
| 68. Columbia St. Mary's Hospital                 | Milwaukee, WI    |

**Long-Term Acute Care (2)**

|  |                  |
|--|------------------|
| 69. St. Vincent Seton Specialty Hospital | Indianapolis, IN |
| 70. St. Vincent Seton Specialty Hospital | Lafayette, IN    |

**Rehabilitation Hospitals (2)**

|   |               |
|---|---------------|
| 71. Brighton Hospital                           | Brighton, MI  |
| 72. Sacred Heart Rehabilitation Institute, Inc. | Milwaukee, WI |

**Psychiatric Hospitals (5)**

|  |                  |
|--|------------------|
| 73. St. Vincent's Behavioral Health Services | Bridgeport, CT   |
| 74. St. Vincent Stress Center                | Indianapolis, IN |
| 75. Seton Shoal Creek                        | Austin, TX       |
| 76. DePaul Center                            | Waco, TX         |
| 77. Lourdes Counseling Center                | Pasco, WA        |

**Affiliation Agreement  
and  
Bylaws**

(provided separately)

May 9, 2011

## Ascension Health, Missouri; System

**Primary Credit Analyst:**

Kevin Holloran, Dallas (1) 214-871-1412; kevin\_holloran@standardandpoors.com

**Secondary Contact:**

Martin D Arrick, New York (1) 212-438-7963; martin\_arrick@standardandpoors.com

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# Ascension Health, Missouri; System

## Credit Profile

Indiana Hlth Fac Fin Auth, Indiana

Ascension Hlth, Missouri

Indiana Hlth Fac Fin Auth (Ascension Health) sr lien

Long Term Rating

AA+/Stable

Upgraded

## Rationale

Standard & Poor's Ratings Services raised its long-term rating to 'AA+' from 'AA' on Ascension Health, Mo.'s senior revenue bonds (various series and issuers) and raised its long-term rating to 'AA' from 'AA-' on Ascension Health's series 2005A subordinated revenue bonds. The outlook is stable.

The 'AA+' long-term component of the various ratings is based on Ascension Health's credit quality, while the 'A-1+' short-term component of the ratings is based on Ascension Health's self-liquidity.

The 'AA+' long-term rating reflects Ascension Health's:

- Excellent geographic and financial dispersion as the largest nongovernmental not-for-profit health system in the country, with approximately \$15 billion in operating revenue and total assets of about \$18 billion;
- Continued robust financial performance in fiscal 2010 (ended June 30, 2010) and into fiscal 2011 (unaudited third-quarter results through March 31, 2011) highlighted by solid operating income, which produced very strong total debt service coverage of about 8.6x as of March 31, 2011;
- Growth in unrestricted liquidity and the balance sheet, providing Ascension Health with significant financial flexibility, highlighted by operational liquidity of 203 days' cash on hand as of March 31, 2011; and
- Strong management practices, with an exceptional central team that influences health care on a national level and with a proven commitment to providing clinically excellent, affordable, and available health care.

Ascension Health has approximately \$4.2 billion in total debt. Our analysis reflects the results of Ascension Health as a whole, because the vast majority of its assets are within the credit group, and we include the New York affiliates as limited designated affiliates. Ascension Health has approximately \$3.6 billion of obligations under its senior master trust indenture secured by revenue from the senior obligated group members, and about \$514 million of obligations under its subordinated master indenture. The 'A-1+' short-term rating reflects Ascension Health's ample liquidity and the quality of its short-term, short-duration assets, which are sufficient to meet potential puts or purchases.

Ascension Health has a variety of swaps. Standard & Poor's assigned a Debt Derivative Profile (DDP) overall score to Ascension Health's swap portfolio of '1.5', on a four-point scale, with '1' representing minimal risk. The overall score of '1.5' indicates that in our view, the swaps pose a very low risk to the system's credit quality.

Standard & Poor's is aware of the April 27, 2011, announcement that Ascension Health has signed a non-binding letter of intent to acquire Illinois-based Alexian Brothers Health System.

## **Outlook**

The stable outlook reflects our view of Ascension Health's strong operations and strengthened liquidity position during fiscal 2010 and into fiscal 2011, which solidify its overall credit profile and afford it ample financial flexibility. We view downward rating pressure as very unlikely, given Ascension Health's considerable credit strengths, but markedly weakened operations or a sizable debt issuance that critically affects balance sheet metrics could pressure the rating.

## **Operations Span The Nation**

Ascension Health's size and geographic diversity are among its main credit strengths. Ascension Health consists of 70 acute-care hospitals; two long-term, acute-care hospitals; three rehabilitation hospitals; four psychiatric hospitals; and a wide range of ambulatory and home health services. The system has approximately 18,400 available beds (including more than 17,800 acute-care beds), and is the largest nongovernmental, not-for-profit hospital system in the nation, in terms of both total number of hospitals and total revenues. Ascension Health operates in 20 states and the District of Columbia, providing significant revenue diversity and insulating the system from economic trends in any one market.

Utilization declined slightly systemwide in fiscal 2010, with acute-care admissions totaling 636,687 in fiscal 2010 as compared with 638,209 in fiscal 2009. Ascension Health has a number of markets of significant size, including Detroit, Mich., Indianapolis, Ind., Nashville, Tenn., and Austin, Texas., which account for approximately 46.8% of its total net patient revenue income (based on March 31, 2011), but no single market accounts for more than 14% of total net patient revenue.

## **Financial Performance Is Strong**

Fiscal 2010 (audited year ending June 30, 2010) showed a continuation of the strong financial performance Ascension Health has demonstrated over the last several fiscal years (see table). Operating revenue grew by about 3.4% in fiscal 2010 to more than \$14.7 billion, from \$14.2 billion the previous year. The system generated more than \$503 million in operating income (including minority interest in consolidated entities), or a 3.4% operating margin, in fiscal 2010, highly consistent with its \$471 million operating income, or a 3.3% operating margin, in fiscal 2009.

Non-operating earnings (as calculated by Standard & Poor's) in fiscal 2010 resulted in excess income of \$915 million, or a 6% excess margin, due to the rebound in the equities market, combined with robust cash flow from operations. Fiscal 2010's results compare more favorably with the excess loss of \$302 million, or negative 2.2% excess margin, in fiscal 2009 (June 30, 2009) that resulted from the volatility in the equities market that affected virtually the entire health care sector. Ascension Health generated very good maximum annual debt service (MADS) of 7.4x at fiscal year end 2010. (Standard & Poor's analysis excludes unrealized investment income and losses.)

Ascension Health's year-to-date operating results in fiscal 2011 have remained solid, with nine-month results (unaudited through March 31, 2011) showing that the system generated more than \$356 million in operating income, or a 3.1% operating margin. Ascension Health also earned more than \$885 million in excess income, or an 8.1% margin, which generated MADS coverage of 8.6x.

A few markets are failing to generate positive income from operations in the fiscal year to date, but given Ascension Health's size and geographic dispersion, we expect occasional operational challenges in various markets due to market and/or economic conditions. Given the challenges, management has initiated or intensified improvement initiatives in those markets. Ascension Health's management has repeatedly demonstrated the ability to manage the dynamics of each market successfully, resolving unfavorable financial conditions in underperforming markets.

**Ascension Health, Mo., Financial Statistics**

|  | --Fiscal year ended-- |               |               |               |
|--|-----------------------|---------------|---------------|---------------|
|  | March 31, 2011        | June 30, 2010 | June 30, 2009 | June 30, 2008 |
| <b>Income statement and cash flow</b>      |                       |               |               |               |
| Operating revenue (\$000s)                 | 11,878,236            | 14,773,336    | 14,276,669    | 13,489,323    |
| Total expenses (\$000s)                    | 11,321,785            | 14,270,331    | 13,805,320    | 12,981,915    |
| Operating income (\$000s)                  | 356,451               | 503,005       | 471,349       | 507,408       |
| Operating margin (%)                       | 3                     | 3             | 3             | 4             |
| Net nonoperating revenues (\$000s)         | 566,307               | 455,655       | (700,175)     | 449,303       |
| Excess income (\$000s)                     | 885,024               | 915,034       | (301,863)     | 865,585       |
| Excess margin (%)                          | 7                     | 6             | (2)           | 6             |
| Change in net assets (\$000s)              | 1,616,486.0           | 1,139,061.0   | (1,430,864.0) | 1,292,958.0   |
| EBIDA/total revenue (%)                    | 12.1                  | 11.2          | 3.4           | 11.7          |
| Cash flow/total liabilities (%)            | 22                    | 18            | 4             | 17            |
| Capital expenditures (\$000s)              | N.A.                  | 622,486       | 766,001       | 1,085,432     |
| <b>Debt</b>                                |                       |               |               |               |
| Net available for debt service (\$000s)    | 1,477,433             | 1,696,613     | 459,656       | 1,613,407     |
| Maximum debt service (\$000s)              | 230,445               | 230,445       | 230,445       | 248,759       |
| Maximum debt service coverage (x)          | 8.5                   | 7.4           | 2.0           | 6.5           |
| Maximum debt service to total revenue (%)  | 1                     | 2             | 2             | 2             |
| <b>Balance sheet</b>                       |                       |               |               |               |
| Unrestricted cash and investments (\$000s) | 8,034,936             | 7,049,642     | 5,688,081     | 6,238,221     |
| Restricted cash (\$000s)                   | 1,001,962             | 901,614       | 827,570       | 927,420       |
| Unrestricted days' cash on hand            | 203.0                 | 189.0         | 158.0         | 184.0         |
| Unrestricted cash/debt (%)                 | 190.6                 | 166.4         | 135.7         | 146.7         |
| Cushion ratio (x)                          | 35                    | 31            | 25            | 25            |
| Net fixed assets (\$000s)                  | 6,312,734             | 6,484,477     | 6,548,574     | 6,444,956     |
| Long-term debt (\$000s)                    | 4,214,564             | 4,235,325     | 4,191,180     | 4,252,065     |
| Unrestricted fund balance (\$000s)         | 10,629,397            | 9,013,920     | 7,866,092     | 9,283,351     |
| Debt/capitalization (%)                    | 28.4                  | 32.0          | 34.8          | 31.4          |
| Average age of plant (years)               | 11.4                  | 11            | 10.7          | 10.9          |

## Balance Sheet

Ascension Health's solid cash flow and a rebound in the equities market have helped boost unrestricted liquidity in fiscal 2011 after the extreme volatility in fiscal 2009, which had reduced Ascension Health's balance sheet. As of March 31, 2011, unrestricted cash and investments had improved to more than \$8 billion, compared with \$5.7

billion at the end of fiscal 2009. This is equal to approximately 203 days' cash on hand. Leverage, as measured by debt to capitalization and cash to debt, is improved at less than 30% and almost 1.9x, respectively.

Over the last two fiscal years, Ascension Health did curtail capital spending to about 100% of annual depreciation (approximately \$700 million on average in fiscals 2009 and 2010), which has helped to build balance sheet strength. Ascension Health does plan on increasing capital spending in fiscal 2011 to about 160% of annual depreciation, which, while more commensurate with historical capital spending, will place additional pressure on balance sheet metrics.

### **Short-term credit factors**

Ascension Health has committed several sources of funds -- including its short-term fund, long-term fund, and eligible equity investments -- to support its unenhanced variable-rate demand bonds (VRDBs) and serial mode bonds, windows, and traditional commercial paper (CP) program. Ascension Health established both the long-term and short-term funds, which are managed by professional fixed-income and equity investment managers. On a monthly basis, Standard & Poor's continues to monitor both the sufficiency and the liquidity available through Ascension Health's identified eligible assets to ensure that Ascension Health can cover the purchase price of any bonds in the event of failed remarketing for VRDBs and CP. Ample liquidity is provided through the money held in domestic equities, cash, and high-quality, short-term, fixed-income assets, and is monitored by Standard & Poor's on a monthly basis.

### **Debt Derivative Profile: Very Low Risk**

Ascension Health has a variety of swaps to hedge interest rate risk in its debt program, roughly equally split between counterparties Citibank N.A. (with parent Citigroup Inc.) and Morgan Stanley Capital Services. Standard & Poor's assigned Ascension Health's swaps a DDP overall score of '1.5' on a four-point scale, with '1' representing the lowest risk. The overall score of '1.5' indicates that Ascension's swaps pose a very low credit risk.

Specific factors include:

- Low counterparty risk due to the use of highly rated counterparties;
- Low likelihood of default or termination by Ascension Health, given the high rating on its debt and large spread between the 'AA+' rating on Ascension Health's debt and termination triggers at the 'BBB-' level;
- Good economic viability of the swap program over stressful economic cycles; and
- Strong management oversight of the swap program.

Ascension Health's swaps had a total combined unfavorable mark to market of approximately \$61 million as of April 1, 2011, associated with Morgan Stanley and Citibank swaps. Collateral postings would come into play only if the mark-to-market exceeds \$125 million with a single counterparty. Despite the sizable unfavorable mark-to-markets, they are unlikely to become a rating concern, given Ascension Health's sizable balance sheet and significant distance to any collateral posting with its counterparties.

## Related Criteria And Research

- USPF Criteria: Not-For-Profit Health Care, June 14, 2007
- USPF Criteria: Commercial Paper, VRDO, And Self-Liquidity, July 3, 2007

### Ratings Detail (As Of May 9, 2011)

#### Alabama Spl Care Fac Fin Auth of Birmingham, Alabama

Ascension Hlth, Missouri

Alabama Spl Care Fac Fin Auth of Birmingham sr ln (Ascension Hlth) sys

Long Term Rating AA+/Stable Upgraded

Alabama Spl Care Fac Fin Auth of Birmingham (Ascension Health) jr lien

Long Term Rating AA/Stable Upgraded

#### Alabama Spl Care Fac Fin Auth of Mobile, Alabama

Ascension Hlth, Missouri

Alabama Spl Care Fac Fin Auth of Mobile (Ascension Health) sr lien

Long Term Rating AA+/Stable Upgraded

#### Connecticut Hlth & Educl Facs Auth, Connecticut

Ascension Hlth, Missouri

Connecticut Hlth & Educl Facs Auth (Ascension Health) sr lien

Long Term Rating AA+/Stable Upgraded

Short Term Rating NR

#### Escambia Cnty Hlth Fac Auth, Florida

Ascension Hlth, Missouri

Escambia Cnty Hlth Fac Auth (Ascension Health) sr lien

Long Term Rating AA+/Stable † Upgraded

#### Illinois Educl Fac Auth, Illinois

Ascension Hlth, Missouri

Illinois Fin Auth (Ascension Hlth) sys

Long Term Rating NR Affirmed

Short Term Rating A-1+

#### Indiana Hlth Fac Fin Auth, Indiana

Ascension Hlth, Missouri

Indiana Hlth Fac Fin Auth jr ln (Ascension Hlth) sys

Long Term Rating AA/Stable Upgraded

Indiana Hlth Fac Fin Auth (Ascension Health) jr lien

Long Term Rating AA/A-1+/Stable Upgraded

Indiana Hlth Fac Fin Auth (Ascension Health) sr lien

Long Term Rating AA+/A-1+/Stable Upgraded

Unenhanced Rating NR(SPUR)

#### Indiana Hlth Fac Fin Auth (Ascension Health) sr lien

Unenhanced Rating NR(SPUR)

#### Jacksonville Hlth Fac Auth, Florida

Ascension Hlth, Missouri

**Ratings Detail (As Of May 9, 2011) (cont.)**

|   |                  |          |
|---|------------------|----------|
| <b>Jacksonville Health Facilities Authority (Ascension Health) sr lien</b>          |                  |          |
| <i>Long Term Rating</i>   | AA+/Stable       | Upgraded |
| <b>Michigan St Hosp Fin Auth, Michigan</b>  |                  |          |
| Ascension Hlth, Missouri  |                  |          |
| Michigan St Hosp Fin Auth sr lien (Ascension Hlth) sys                              |                  |          |
| <i>Long Term Rating</i>   | AA+/A-1+/Stable  | Upgraded |
| Michigan St Hosp Fin Auth (Ascension Health) jr lien                                |                  |          |
| <i>Long Term Rating</i>   | AA/A-1+/Stable   | Upgraded |
| Michigan St Hosp Fin Auth (Ascension Health) sr lien                                |                  |          |
| <i>Long Term Rating</i>   | AA+/Stable       | Upgraded |
| Michigan St Hosp Fin Auth (Ascension Health) (MBIA)                                 |                  |          |
| <i>Long Term Rating</i>   | AA+/A-1+/Stable  | Upgraded |
| <i>Unenhanced Rating</i>  | AA+(SPUR)/Stable | Upgraded |
| <b>Missouri Hlth &amp; Educl Facs Auth, Missouri</b>                                |                  |          |
| Ascension Hlth, Missouri  |                  |          |
| <b>Missouri Hlth &amp; Ed Facs Auth (Ascension Health) sr lien</b>                  |                  |          |
| <i>Unenhanced Rating</i>  | AA+(SPUR)/Stable | Upgraded |
| <b>Nashville &amp; Davidson Cnty Metro Govt Hlth &amp; Ed Fac Brd, Tennessee</b>    |                  |          |
| Ascension Hlth, Missouri  |                  |          |
| Nashville & Davidson Cnty Metro Govt Hlth & Ed Fac Brd (Ascension Health) sr lien   |                  |          |
| <i>Long Term Rating</i>   | AA+/A-1+/Stable  | Upgraded |
| <b>Puerto Rico Indl Tour Ed Med &amp; Environ Ctrl Fac Fin Auth, Puerto Rico</b>    |                  |          |
| Ascension Hlth, Missouri  |                  |          |
| Puerto Rico Indl Tour Ed Med & Environ Ctrl Fac Fin Auth (Ascension Health) sr lien |                  |          |
| <i>Long Term Rating</i>   | AA+/Stable       | Upgraded |
| <b>Rutherford Cnty Hlth &amp; Ed Fac Bd, Tennessee</b>                              |                  |          |
| Ascension Hlth, Missouri  |                  |          |
| Rutherford Cnty Hlth & Ed Fac Bd sr ln (Ascension Hlth) sys                         |                  |          |
| <i>Long Term Rating</i>   | AA+/Stable       | Upgraded |
| <b>Schuylkill Cnty Indl Dev Auth, Pennsylvania</b>                                  |                  |          |
| Ascension Hlth, Missouri  |                  |          |
| Schuylkill Cnty Indl Dev Auth (Ascension Health) sr lien                            |                  |          |
| <i>Long Term Rating</i>   | AA+/Stable       | Upgraded |
| <b>Tarrant Cnty Cult Educ Facs Fin Corp, Texas</b>                                  |                  |          |
| Ascension Hlth, Missouri  |                  |          |
| Tarrant Cnty Cult Educ Facs Fin Corp (Ascension Health) sr ln                       |                  |          |
| <i>Long Term Rating</i>   | AA+/Stable       | Upgraded |
| <b>Waco Hlth Fac Dev Corp, Texas</b>  |                  |          |
| Ascension Hlth, Missouri  |                  |          |
| Waco Hlth Fac Dev Corp (Ascension Health) sr lien                                   |                  |          |
| <i>Long Term Rating</i>   | AA+/Stable       | Upgraded |

**Ratings Detail (As Of May 9, 2011) (cont.)**

**Wisconsin Hlth & Ed Fac Auth, Wisconsin**

Ascension Hlth, Missouri

Wisconsin Hlth & Educational Fac Auth (Ascension Health) sr lien

*Long Term Rating*

AA+/Stable

Upgraded

Many issues are enhanced by bond insurance.

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# MOODY'S

INVESTORS SERVICE

## Rating Update: MOODY'S AFFIRMS Aa1, Aa1/VMIG 1, AND Aa1/P-1 RATINGS ON ASCENSION HEALTH'S SENIOR BONDS AND Aa2 AND Aa2/VMIG 1 RATINGS ON SUBORDINATED BONDS; RATING OUTLOOK REVISED TO NEGATIVE FROM STABLE

Global Credit Research - 18 May 2011

### RATING ACTION AFFECTS \$4.2 BILLION OF OUTSTANDING DEBT

Health Care-Hospital  
MO

#### Opinion

NEW YORK, May 18, 2011 — Moody's Investors Service has affirmed the Aa1, Aa1/VMIG 1, and Aa1/P-1 ratings on Ascension Health's senior bonds and Aa2 and Aa2/VMIG 1 ratings on the system's subordinated bonds. At this time, we are revising the outlook to negative from stable.

#### SUMMARY RATING RATIONALE

The Aa1 long-term senior rating is based on Ascension Health's status as the largest not-for-profit healthcare system in the United States with over \$15 billion in total operating revenue and a large portfolio of sizable hospitals, providing both geographic and cash flow diversity; prominent market positions in individual markets with 22 out of 26 ministries holding the first or second market share in the local service area, large and currently liquid investment portfolio which has grown significantly, and strong debt measures. The system's primary challenges include a several-year trend in declining operating margins, a concentration of revenues in Michigan, competition in most markets that has contributed to volume declines in certain markets, and short-term risks and costs related to a major project ("Symphony") to centralize support services. The Aa2 long-term ratings on the Series 2005 bonds reflect their subordination to Ascension Health's outstanding senior debt.

The negative outlook primarily reflects several years of declines in operating margins and future challenges related to cuts in government reimbursement, the effects of the economy on volumes and charity care, and short-term costs related to the implementation of the Symphony project. Management is identifying initiatives to improve operating margins to compensate for these challenges.

#### STRENGTHS

\*Status as the largest not-for-profit healthcare system in the United States with over \$15 billion in total operating revenue and a large portfolio of sizable hospitals, providing both geographic and cash flow diversity; the system's size has provided leverage and savings through group purchasing, cash management, revenue cycle, and quality initiatives; the system is targeting a \$1.6 billion return over ten years from a significant strategy to consolidate to a shared services center, which we believe will be a long-term benefit, although pose short-term implementation risks and costs

\*Prominent market positions held by many of the system's hospitals with 22 out of 26 ministries holding the first or second highest market share in the local service area

\*A strong investment position with over \$8 billion in unrestricted investments, equating to a healthy 203 days of cash on hand and 189% cash-to-debt as of March 31, 2011, representing a significant 40% increase in investments since fiscal yearend (FYE) June 30, 2009; over 80% of the system's investments can be liquidated on a monthly basis and the system has maintained a large \$500 million syndicated bank line as an additional liquidity source

\*Solid debt measures with a strong peak debt service coverage ratio of 7.5 times (Moody's adjusted) and favorable debt-to-cash flow of 2.8 times based on annualized nine-month results for fiscal year (FY) 2011; the system is only moderately leveraged with 27% debt-to-revenue

\*Following a reduction in capital spending to preserve liquidity in 2009 and 2010, capital spending is expected to increase over the next several years but at manageable levels relative to current operating cash flow

#### CHALLENGES

\*Although revenue is diversified among markets within the state, Michigan accounts for 23% of system revenues and 14% of system operating cash flow in FY 2010, which is a risk given high unemployment, rising uninsured, declining population and Medicaid cuts in the state; although the Michigan markets still perform below the system's margins, all five markets in Michigan reported an increase in operating cash flow in the first nine months of FY 2011

\*While historical operating cash flow margins were in the 9%-10% range, the system has experienced declines in margins to 7%-8% in FY 2010 and interim FY 2011, which is below peer systems in the Aa rating category; management is identifying further initiatives to improve margins to compensate for future challenges related to governmental reimbursement, increasing charity care and costs to fund the Symphony project

\*Investment allocation is currently over-weighted to fixed income and cash and will be reallocated to increase investments in equities and alternative investments, which may affect the liquidity of the system's investment portfolio

\*Competitive challenges in certain of the system's largest markets, which are generally served by several regional healthcare systems

#### DETAILED CREDIT DISCUSSION

LEGAL SECURITY: Security for the senior bondholders is a revenue pledge, as defined in the bond documents. Security for the subordinated bondholders is an unsecured general obligation of Ascension Health and the bonds are subordinate to all outstanding senior bonds. No debt

service reserve funds in place. Covenants include minimal debt service coverage test and no additional indebtedness tests. Members of the subordinate credit group are identical to those in the senior credit group. The VMIG 1 ratings are based on Ascension Health's own large and liquid investment portfolio, which provides support for tenders of puttable debt and purchase of serial mode bonds. The Aa2 ratings on the Series 2005 bonds reflect their subordination to Ascension Health's outstanding senior debt.

**INTEREST RATE DERIVATIVES:** Ascension Health has entered into multiple interest rate swap transactions to synthetically convert interest rates on certain variable rate debt to fixed rates and fixed rates to variable rates, on a total notional amount of \$2.4 billion. Counterparties are Citic (\$1.0 billion) and Morgan Stanley (\$1.4 billion). Given Ascension Health's strong credit position, significant investment portfolio and experienced treasury management, we believe risks associated with the swap transactions, including potential termination payments, do not detract from the system's overall credit position. Ascension Health has not had to post collateral under its swaps because the system has not exceeded threshold levels for individual counterparties. The current fair market value of the swaps is a net liability of \$56.0 million as of March 31, 2011.

#### RECENT DEVELOPMENTS/RESULTS

Ascension Health's primary fundamental credit strength continues to be its large and highly diversified portfolio of prominent hospitals. Ascension Health is the largest not-for-profit health care system in the U.S. with annual operating revenues of over \$15 billion in FY 2011, operating 79 hospitals and other health-related entities in 20 states and the District of Columbia. Additionally, almost all of the system's hospitals are prominent providers in their local markets, averaging over 200 beds each, which suggests long-term market viability of individual facilities. The system's facilities in Michigan pose concentration risk in the state, although cash flow is diversified across the system's 13 hospitals within that state. In FY 2010, Michigan accounted for a high 23% of total operating revenues and 14% of total operating cash flow.

The system's size has also enabled it to achieve some synergies and savings through group purchasing, cash management, revenue cycle, and quality initiatives. Ascension Health is implementing a very significant strategy (Symphony) to fully consolidate and standardize all shared services, which is projected to result in approximately \$1.6 billion in benefits over a 10-year period. A strategy of this scale has short-term execution risks (including maintaining support functions without disruption) and costs; operating costs are expected to exceed benefits until 2015. If implemented successfully, this strategy will provide long-term operating and financial benefits and position the system to maximize efficiencies.

The system is focusing on growing core markets, including the Milwaukee, Indianapolis, Tucson, and Austin markets, through facility expansion or selective acquisitions. Ascension Health has a long track record of successfully completing large mergers or acquisitions while maintaining financial strength and focus on operations. The system recently announced a letter of intent to merge with Alexian Brothers Health System (ABHS), currently rated A3. ABHS is a large tertiary provider located in the northwest Chicago suburbs with 45,000 inpatient admissions in 2010. The system includes: (1) two acute care hospitals in Illinois (Alexian Brothers Medical Center in Elk Grove Village and St. Alexius Medical Center in Hoffman Estates); (2) Alexian Brothers Behavioral Health Hospital in Hoffman Estates; (3) Alexian Brothers Rehabilitation Hospital in Elk Grove Village; (4) immediate care centers and occupational health facilities located throughout the northwest Chicago suburbs; and (5) life care facilities in Milwaukee and Tennessee. Although ABHS is almost \$1 billion of revenue, our preliminary assessment of the proposed merger indicates that the impact on Ascension Health's key financial metrics is minimal.

While Ascension Health's cash flow diversity has helped the system absorb challenges in individual markets in the past and maintain relatively consistent margins, margins in FY 2010 and FY 2011 declined and are moderate relative to other Aa-rated healthcare systems. In FY 2010, Ascension Health had \$1.2 billion (8.3% margin) in operating cash flow, on par with the absolute operating cash flow in FY 2009 but lower than a margin of 8.6%, adjusted for the items noted below. The system's net patient revenue growth was modest at under 3%, driven by overall flat volumes, higher charity care, and a shift from commercial to governmental payers. Many ministries reported flat or declining admissions, reflecting national trends in volumes as well as competitive challenges in certain markets; notable growth was achieved in Austin (TX), Pensacola (FL), Evansville (IN), and Nashville (TN).

Through the first nine months of FY 2011, absolute operating cash flow is down 4% compared to the same period of the prior year, with a moderate operating cash flow margin of 7.5%. Similar issues are affecting FY 2011 and FY 2010. In addition, several markets are experiencing particularly difficult challenges. Milwaukee, historically a strong performer, had a significant decline in performance through the first nine months of FY 2011 due to the opening of a competitive hospital and the loss of a large physician group to a competitor. Tucson had a large operating loss in the first nine months due to significant Medicaid cuts, competition and issues related to physician loyalty. The Michigan markets continue to underperform relative to the system, although progress has been made in restructuring these markets and cutting costs, resulting in all Michigan markets showing increases in operating cash flow in 2011. Indianapolis, Austin and Nashville continue to be high cash flow performers.

Margins are likely to be challenged over the next several years and management is identifying further initiatives to improve performance. Like many health systems nationally, the system faces varying degrees of Medicaid cuts and flat Medicare rates, as well as lingering effects of a slow economic recovery. For Ascension Health specifically, the system faces growing competition in a number of markets and will need to absorb short-term costs of implementing the Symphony initiative.

Ascension Health's investment position grew significantly since FYE 2009 to \$8 billion (203 days cash on hand) as of March 31, 2011, a 40% increase from June 30, 2009, due to positive investment returns and moderate capital spending. This increase resulted in a significant improvement in cash-to-debt to 189% from 165% at fiscal yearend 2010. Ascension Health's current asset allocation is heavily weighted toward cash and fixed income as a result of strategies in the recent past to preserve liquidity. The system developed a new investment strategy that anticipates effectively allocating 50%, 30% and 20% to Growth, Recession/Deflation and Inflation asset classes, respectively. Currently, over 80% of the system's cash and investments are able to be liquidated on a monthly basis, providing a high degree of liquidity. The new asset allocation is likely to reduce this liquidity in moving to a more long-term investment strategy.

Capital spending was slowed significantly in FY 2009 and FY 2010 (averaging \$700 million) to preserve liquidity. Current plans anticipate increasing spending to approximately \$1.1 billion annually, which is still supportable by the system's \$1.2 billion in annual operating cash flow generation. There are no short-term plans for new debt outside of the merger with Alexian Brothers Health System.

Ascension Health's debt structure is manageable. The system's demand debt is primarily supported by its own liquidity so the system has no dependency on banks for direct liquidity support. Total unrestricted cash and investments relative to demand debt is strong at over 300%. The system has not had to post any collateral under its swaps; collateral thresholds for the counterparties are relatively high. The system has a large \$500 million operating line that has been renewed multiple times over the last several years and provides an important source of liquidity.

The Aa1/VMIG 1 ratings on Ascension Health's variable rate bonds whose tender features are supported with its own liquidity are primarily

based on the system's strong treasury management function, large portfolio of diversified investments, adequate daily liquidity and access to other funding sources. The system's total self-liquidity program is \$2.2 billion, including approximately \$407 million in weekly variable rate demand obligations (VRDOs), \$1.7 billion in a serial mode, and \$154 million in Index put bonds (first tenders 2016). The system also has \$320 million in a Windows mode, which rely on market access to fund any unremarketed tenders. The serial mode bonds are well staggered across months and years; the current maximum amount of serial bonds that can be put in any 5-day period over the next 12 months is \$168 million.

As of March 31, 2011, Ascension Health has \$2.8 billion in discounted daily liquidity, providing an exceptionally strong 9 times coverage on its self-liquidity bonds. The largest components of Ascension Health's daily liquidity include about \$1.7 billion in discounted U.S. treasuries and agencies with less than 3-year maturities and \$745 million in discounted U.S. treasuries and agencies with greater than 3-year maturities. Current coverage levels are particularly robust compared with prior reporting periods. We expect coverage levels will come down as the system implements its new investment strategy and shifts from fixed income into more equities and alternatives, but remain ample to support the self-liquidity program.

#### Outlook

The revision in the outlook to negative from stable primarily reflects several years of declines in operating margins and future challenges related to cuts in government reimbursement, the negative effects of the economy on volumes and charity care, and short-term costs related to the implementation of Symphony. Management is identifying initiatives to improve operating margins to compensate for these challenges.

#### WHAT COULD MAKE THE RATING GO UP

Given the exceptional rating level relative to other systems in the healthcare industry, a further upgrade is unlikely

#### WHAT COULD MAKE THE RATING GO DOWN

Inability to improve operating margins from current levels or further declines in margins; meaningful increase in debt; merger or acquisition that is dilutive to key financial measures

#### KEY INDICATORS

##### Assumptions & Adjustments:

-Based on financial statements for Ascension Health

-First number reflects audit year ended June 30, 2010

-Second number reflects unaudited results for nine months ended March 31, 2011, annualized

-Adjustments made to numbers: Investment Income for Via Christi eliminated from all ratios, operating income from Via Christi reclassified to non-operating income from operating income; net fundraising activities reclassified to operating expenses from non-operating expenses

-Interest expense grossed up for capitalized interest in both periods

-Investment returns normalized at 6%

\*Inpatient admissions: 687,203; 686,017

\*Total operating revenues: \$14.7 billion; \$15.5 billion

\*Moody's-adjusted net revenue available for debt service: \$1.69 billion; \$1.68 billion

\*Total debt outstanding: \$4.3 billion; \$4.3 billion

\*Maximum annual debt service (MADS): \$230 million; \$224 million

\*Moody's-adjusted MADS coverage with normalized investment income: 7.3 times; 7.5 times

\*Debt-to-cash flow: 2.7 times; 2.8 times

\*Days cash on hand: 189 days; 203 days

\*Cash-to-debt: 165%; 189%

\*Operating margin: 2.9%; 2.4%

\*Operating cash flow margin: 8.3%; 7.5%

#### CONTACTS

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#### PRINCIPAL METHODOLOGY USED

The principal methodology used in this rating was Not-for-Profit Hospitals and Health Systems published in January 2008.

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# FitchRatings

## **FITCH AFFIRMS ASCENSION HEALTH'S CREDIT GROUP REVS AT 'AA+'/'AA'; SHORT-TERM 'F1+'; OUTLOOK STABLE**

Fitch Ratings-Chicago-31 May 2011: Fitch Ratings affirms the 'AA+' rating on approximately \$3.6 billion of Ascension Health Senior Credit Group bonds currently outstanding, the 'AA' rating on approximately \$515 million of Ascension Health Subordinate Credit Group bonds currently outstanding, and the 'F1+' short-term rating on approximately \$1.9 billion of variable rate and short-term debt currently outstanding based on the adequacy of Ascension's self-liquidity.

The Rating Outlook is Stable.

Fitch Ratings has withdrawn the 'AA+/F1+' rating on the following Ascension Health bonds as the bonds were not sold:

- Connecticut Health & Educational Facilities Authority (CT) (Ascension Health Senior Credit Group) var-rate rev bonds ser 2010
- Wisconsin Health & Educational Facilities Authority (WI) (Ascension Health Senior Credit Group) var-rate rev bonds ser 2010I
- Rutherford County Health and Educational Facilities Board (TN) (Ascension Health Senior Credit Group) var-rate rev bonds ser 2010H

### **RATING RATIONALE:**

- Ascension's broad scope of operations, preponderance of high performing providers with strong market positions, consistent operating results, well developed management practices and low debt burden combine to support Fitch's highest long-term rating for acute care systems;
- Due to the wide geographic dispersion of its operations, Ascension's financial results are relatively insulated from local and regional economic, political and demographic changes that could negatively impact pricing, inflation and/or patient volumes;
- Ascension's light debt burden and solid operating profitability combined to produce strong coverage of "all-in" (senior and subordinated obligations) maximum annual debt service (MADS) by EBITDA of 6.9 times (x) in fiscal 2010;
- Ascension's strong management practices are evident in improved revenue collection, consolidation of redundant services into a centralized business office and a willingness to close or divest money losing operations. Ascension's systematic approach to identifying, standardizing and implementing best practices in all aspects of its operations has generated stable operating margins and cash flow;
- Ascension's unrestricted cash and investments of \$8.03 billion at Mar.31, 2011 equates to 220 days cash on hand (DCOH), 191% of long-term debt and a cushion ratio of 36.5x; all of which exceed Fitch's 'AA' category medians.

### **KEY RATING DRIVERS:**

- Maintaining leadership positions in key markets (e.g. Austin, Indianapolis, and Nashville) as management further implements efficiency improvements throughout the system;
- Negative impacts from enacted and proposed reductions in reimbursement under state Medicaid programs, particularly in Florida and Texas.

### **SECURITY:**

Security interest in pledged revenues of the Senior Credit Group for Senior Credit Group bonds.

### **CREDIT SUMMARY:**

Credit considerations that drive the rating affirmations of 'AA+' on the Ascension Senior Credit Group and 'AA' rating assigned to the Subordinate Credit Group remain largely unchanged from the

March 2010 rating action and reflect the benefit of Ascension's large geographic footprint, the system's light debt burden and robust coverage of MADS, strong and proactive management practices and controls and ample liquidity.

Ascension is unique among Fitch's not-for-profit healthcare systems because of the wide geographic diversity and scale of its operations. With 70 hospitals and healthcare operations in 20 states and the District of Columbia, Ascension operates facilities that stretch from New York to Washington State and Michigan to Florida and Texas. Fitch believes this geographic diversity provides a higher level of insulation from the various local and regional operating risks (economic, demographic and environmental changes) assumed by hospitals and healthcare systems operating in an individual state or multi-state regions. Furthermore, Ascension's hospital portfolio is heavily weighted with local market leaders.

In fiscal 2010, Ascension generated \$1.31 billion of operating EBITDA and \$1.55 billion of EBITDA which, based on total revenues of \$14.8 billion, translates into operating and net EBITDA margins of 8.9% and 10.3%, respectively and are consistent with its 'AA' peers. Combined with a light debt burden (MADS equates to just 1.5% of fiscal 2010 revenues) coverage of MADS by EBITDA was a robust 6.9x in fiscal 2010. Due to investment losses during fiscal 2009, MADS coverage by EBITDA dropped to 2.3x in 2009; however, Fitch notes that MADS coverage by operating EBITDA was a very solid 5.5x in fiscal 2009. Through the nine-month interim period ended Mar. 31, 2011 Ascension generated \$1.33 billion of EBITDA resulting in coverage of MADS of 7.9x.

Ascension's credit profile has been enhanced due to its excellent management practices which are evidenced by improved revenue collection, further consolidation of redundant services into a centralized business office and a willingness to close or divest money losing operations. Ongoing improvements in the areas of quality and safety, bad debt management, supply chain, payer contracting, and risk management have yielded favorable results and demonstrate the system's ability to pilot programs in local ministries and then leverage expertise across its spectrum of providers.

Ascension's liquidity position remains very strong. At March 31, 2011, unrestricted cash and investments totaled approximately \$8.03 billion which equates to 220 DCOH, 191% of long term debt and a cushion ratio of 36.5x; all of which exceed the respective 'AA' category medians of 214.7, 149.9% and 19.6x. Furthermore, collection of account receivables is outstanding at 41.6 days at June 30, 2010.

The 'F1+' rating is based on the sufficiency of Ascension's liquid resources and written procedures to fund any un-remarketed weekly or annual puts on its debt. As of March 31, 2011 Ascension's capital structure consisted of \$407 million of weekly variable rate demand bonds, \$227 million of annual put bonds, \$988 million of multi-annual put bonds with maturities between one and three years and \$320 million of "Windows" weekly reset bonds. Ascension's maximum put exposure in any given week totals approximately \$777 million. Based on Fitch's Rating Criteria related to Self Liquidity, Ascension had eligible cash and investments, commercial paper and reverse repurchase agreements in excess of the 125% threshold of its maximum put exposure in any given week for assignment of the F1+ rating. Ascension provides Fitch monthly cash and investment reports.

Headquartered in St. Louis, MO Ascension Health is the largest Catholic sponsored health care provider in the United States. The system operates 70 hospitals located in 20 states and the District of Columbia. On a fully consolidated basis, Ascension Health reported total revenues of \$14.8 billion in fiscal 2010. Ascension has covenanted to provide audited financial information and annual operating data within 180 days of each fiscal year end, quarterly unaudited financial information for the first three quarters within 60 days of each fiscal quarter end and monthly liquidity information within 45 days of each month end. The annual, quarterly and monthly financial releases and all notices of material events will be filed by the bond trustee with Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system (or 'EMMA System'). Additionally, Ascension has made annual, quarterly and monthly financial information available on its website at [www.ascensionhealth.org](http://www.ascensionhealth.org). Fitch views Ascension's disclosure content

and practices positively.

Contact:

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cindy.stoller@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:

- 'Nonprofit Hospitals and Health Systems Rating Criteria' (Dec. 29, 2009);
- 'Revenue-Supported Rating Criteria' (Dec. 29, 2009);
- 'Criteria for Assigning Short Term Ratings Based on Internal Liquidity' (Dec. 30, 2009).

Applicable Criteria and Related Research:

Criteria for Assigning Short-Term Ratings Based on Internal Liquidity  
[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=493176](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=493176)  
Nonprofit Hospitals and Health Systems Rating Criteria  
[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=493186](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=493186)  
Revenue-Supported Rating Criteria  
[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=564565](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=564565)

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OF THIS SITE.

**APPENDIX A  
FACILITY BED AND DIALYSIS STATION CAPACITY AND CATEGORIES OF SERVICE**

Complete the following for the facility for which the change of ownership is requested. The facility's bed and dialysis station capacity must be consistent with the State Board's Inventory of Health Care Facilities.

FACILITY NAME St. Alexius Medical Center CITY: Hoffman Estates

1. Indicate (by placing an "X") the type of facility for which the change of ownership is requested:

Hospital;  Long-term Care Facility;  Dialysis Facility;  Ambulatory Surgical Treatment Center.

2. Provide the bed capacity by category of service:

| SERVICE                 | # of Beds  | SERVICE                 | # of Beds |
|-------------------------|------------|-------------------------|-----------|
| Medical/Surgical        | <u>212</u> | Nursing Care            | _____     |
| Obstetrics              | <u>38</u>  | Shelter Care            | _____     |
| Pediatrics              | <u>17</u>  | DD Adults*              | _____     |
| Intensive Care          | <u>35</u>  | DD Children**           | _____     |
| Acute Mental Illness    | _____      | Chronic Mental Illness  | _____     |
| Rehabilitation          | _____      | Children's Medical Care | _____     |
| Neonatal Intensive Care | <u>8</u>   | Children's Respite Care | _____     |

\*Includes ICF/DD 16 and fewer bed facilities; \*\*Includes skilled pediatric 22 years and under

6. Chronic Renal Dialysis: Enter the number of ESRD stations: \_\_\_\_\_

7. Indicate (by placing an "X") those categories of service for which the facility is approved.

|   |   |
|---|---|
| <input checked="" type="checkbox"/> Cardiac Catheterization | _____ Open Heart Surgery                      |
| _____ Subacute Care Hospital Model                          | _____ Kidney Transplantation                  |
| _____ Selected Organ Transplantation                        | _____ Postsurgical Recovery Care Center Model |

8. Non-Hospital Based Ambulatory Surgery and Ambulatory Surgical Treatment Centers

Indicate (by placing an "X") if the facility is a  limited or  multi-specialty facility and indicate the surgical specialties provided.

|  |                          |
|--|--------------------------|
| _____ Cardiovascular   | _____ Ophthalmology      |
| _____ Dermatology  | _____ Oral/Maxillofacial |
| _____ Gastroenterology   | _____ Orthopedic         |
| _____ General/Other (includes any procedure that is not included in the other specialties) | _____ Otolaryngology     |
| _____ Neurological   | _____ Plastic Surgery    |
| _____ Obstetrics/Gynecology  | _____ Podiatry           |
|  | _____ Thoracic           |
|  | _____ Urology            |

## Addendum

1. "Adverse Action" letter, Alexian Brothers Health System
2. Attestations of Ascension Health



**ALEXIAN**  
BROTHERS  
Health System

July 22, 2011

Illinois Health Facilities and  
Services Review Board  
525 West Jefferson  
Springfield, IL 62761

RE: Ascension/Alexian Brothers Change of Ownership COE Applications

To Whom It May Concern:

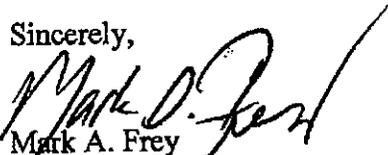
In accordance with Review Criterion 1130.520.b.3, Background of the Applicant, we are submitting this letter assuring the Illinois Health Facilities and Services Review Board that:

Alexian Brothers Health System ("ABHS") has not had any adverse actions against any Illinois health care facility owned or operated by ABHS during the three (3) year period prior to the filing of this application.

In order to facilitate the processing of the captioned COE applications, ABHS authorizes the State Board and Agency access to information to verify documentation or information submitted in response to the requirements of Review Criterion 1130.520.b.3 or to obtain any documentation or information which the State Board or Agency finds pertinent to this COE application.

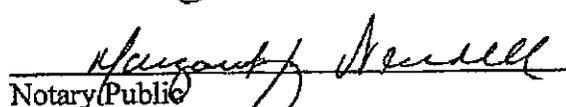
If we can in any way provide assistance to your staff regarding these assurances or any other issue relative to this application, please do not hesitate to call me.

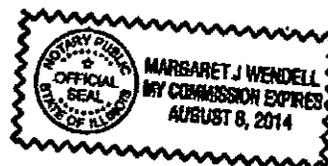
Sincerely,

  
Mark A. Frey  
Executive Vice President

Signed and sworn to before me on this

22<sup>nd</sup> day of July, 2011.

  
Notary Public



September 9, 2011

Mr. Dale Galassie  
Chairman  
Illinois Health Facilities and  
Services Review Board  
525 West Jefferson  
Springfield, IL 62761

**RE: Change of Ownership of  
Alexian Brothers Medical Center,  
St. Alexius Medical Center, and  
Alexian Brothers Behavioral Health Hospital**

Dear Mr. Galassie:

I hereby attest to the following:

1. Ascension Health does not expect there will be any changes to the number of beds or clinical services at any of the three above-referenced hospitals ("Hospitals") as a result of the proposed changes of ownership.
2. The number of beds and categories of service provided through each of the Hospitals will not substantially change for a minimum of twelve months following the proposed changes of ownership.
3. The charity care policies at the Hospitals will not become more restrictive than those in place at the respective hospitals a year prior to the changes of ownership, for at least two years after the proposed changes of ownership.
4. Ascension Health, directly or through a controlled subsidiary, intends to maintain ownership and control of each of the three above-referenced hospitals for a minimum of three years after the proposed changes of ownership.



**ALEXIAN BROTHERS HEALTH SYSTEM  
AND SUBSIDIARIES**

Consolidated Financial Statements  
and Consolidating Schedules

December 31, 2010 and 2009

(With Independent Auditors' Report Thereon)

**ALEXIAN BROTHERS HEALTH SYSTEM  
AND SUBSIDIARIES**

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KPMG LLP  
303 East Wacker Drive  
Chicago, IL 60601-5212

## Independent Auditors' Report

Board of Governors  
Alexian Brothers Health System:

We have audited the accompanying consolidated balance sheets of Alexian Brothers Health System and subsidiaries (ABHS) as of December 31, 2010 and 2009, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of ABHS's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ABHS' internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ABHS as of December 31, 2010 and 2009, and the results of their operations, changes in net assets, and cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying 2010 schedules are presented for purposes of additional analysis of the 2010 consolidated financial statements, rather than to present the financial position and results of operations of the individual corporations. The 2010 schedules have been subjected to the auditing procedures applied in the audit of the 2010 consolidated financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the 2010 consolidated financial statements taken as a whole.

**KPMG LLP**

March 16, 2011

**ALEXIAN BROTHERS HEALTH SYSTEM  
AND SUBSIDIARIES**

Consolidated Balance Sheets

December 31, 2010 and 2009

(In thousands)

| Assets  | <u>2010</u>         | <u>2009</u>      |
|---|---------------------|------------------|
| Current assets:   |                     |                  |
| Cash and cash equivalents   | \$ 14,551           | 1,323            |
| Receivables:  |                     |                  |
| Patient and resident accounts, less allowance for uncollectible<br>accounts of approximately \$29,500 in 2010 and<br>\$30,400 in 2009 | 99,350              | 101,436          |
| Other   | 15,063              | 12,525           |
| Total receivables   | <u>114,413</u>      | <u>113,961</u>   |
| Assets limited as to use – required for current liabilities   | 14,965              | 15,126           |
| Inventory of supplies   | 16,147              | 13,673           |
| Prepaid expenses  | 7,264               | 7,056            |
| Total current assets  | <u>167,340</u>      | <u>151,139</u>   |
| Assets limited as to use:   |                     |                  |
| Board-designated  | 389,522             | 317,918          |
| Trustee-held funds  | 53,386              | 15,970           |
| Assets held by captive insurance company  | 95,431              | 74,858           |
| Total assets limited as to use  | <u>538,339</u>      | <u>408,746</u>   |
| Less assets limited as to use – required for current liabilities  | 14,965              | 15,126           |
| Noncurrent assets limited as to use   | <u>523,374</u>      | <u>393,620</u>   |
| Land, buildings, and equipment, net   | 539,456             | 535,187          |
| Other assets:   |                     |                  |
| Deferred finance charges, net   | 10,834              | 11,507           |
| Land held for future development, at cost   | 10,211              | 10,211           |
| Excess of purchase price over net assets acquired, net  | 74,354              | 74,281           |
| Restricted assets   | 10,011              | 10,198           |
| Notes, deposits, and other  | 12,296              | 11,731           |
| Total other assets  | <u>117,706</u>      | <u>117,928</u>   |
| Total assets  | <u>\$ 1,347,876</u> | <u>1,197,874</u> |

See accompanying notes to consolidated financial statements.

| <b>Liabilities and Net Assets</b>                             | <u>2010</u>                | <u>2009</u>             |
|---|----------------------------|-------------------------|
| Current liabilities:  |                            |                         |
| Current installments of long-term debt                        | \$ 12,523                  | 11,785                  |
| Long-term debt subject to short-term remarketing arrangements | 2,320                      | 41,772                  |
| Accounts payable  | 27,256                     | 23,478                  |
| Accrued expenses  | 78,009                     | 77,600                  |
| Estimated payables under third-party reimbursement programs   | 86,822                     | 60,391                  |
| Other   | <u>17,968</u>              | <u>13,307</u>           |
| Total current liabilities                                     | 224,898                    | 228,333                 |
| Deferred accommodation fees and deposits                      | 48,544                     | 46,732                  |
| Reserve for outstanding insurance losses                      | 113,725                    | 91,495                  |
| Long-term debt, excluding current installments                | 475,360                    | 384,304                 |
| Other   | <u>27,547</u>              | <u>32,368</u>           |
| Total liabilities   | <u>890,074</u>             | <u>783,232</u>          |
| Net assets:   |                            |                         |
| Unrestricted  | 447,791                    | 404,444                 |
| Temporarily restricted  | 8,397                      | 8,582                   |
| Permanently restricted  | <u>1,614</u>               | <u>1,616</u>            |
| Total net assets  | <u>457,802</u>             | <u>414,642</u>          |
| Commitments and contingencies                                 |                            |                         |
| <br>  |                            |                         |
| Total liabilities and net assets                              | \$ <u><u>1,347,876</u></u> | <u><u>1,197,874</u></u> |

**ALEXIAN BROTHERS HEALTH SYSTEM  
AND SUBSIDIARIES**

Consolidated Statements of Operations

Years ended December 31, 2010 and 2009

(In thousands)

|   | 2010       | 2009    |
|---|------------|---------|
| Unrestricted revenues, gains, and other support:  |            |         |
| Net patient and resident service revenues   | \$ 881,414 | 856,543 |
| Capitation revenues   | 37,026     | 39,297  |
| Investment income   | 4,374      | 3,857   |
| Other   | 26,970     | 27,781  |
| Net assets released from restrictions used for operations                                       | 2,768      | 2,858   |
| Total unrestricted revenues, gains, and other support   | 952,552    | 930,336 |
| Expenses:   |            |         |
| Salaries and wages  | 375,883    | 370,834 |
| Employee benefits   | 87,300     | 87,693  |
| Supplies and other  | 154,897    | 144,998 |
| Purchased services  | 112,323    | 113,752 |
| Provision for bad debts   | 29,843     | 26,969  |
| Repairs and maintenance   | 28,350     | 25,976  |
| Utilities   | 13,752     | 13,566  |
| Insurance and taxes   | 61,674     | 60,278  |
| Interest  | 18,891     | 14,749  |
| Restructuring   | 352        | 747     |
| Depreciation and amortization   | 48,048     | 53,226  |
| Total expenses  | 931,313    | 912,788 |
| Income from operations  | 21,239     | 17,548  |
| Nonoperating gains (losses):  |            |         |
| Investment income   | 19,256     | 35,102  |
| Unrestricted gifts and bequests   | 113        | 266     |
| Loss on bond refinancing  | (1,750)    | —       |
| Other, net  | (241)      | 203     |
| Nonoperating gains, net   | 17,378     | 35,571  |
| Unrestricted revenues, gains, and other support in excess<br>of expenses and nonoperating gains | 38,617     | 53,119  |
| Other changes in unrestricted net assets:   |            |         |
| Net assets released from restrictions used for purchase of land,<br>buildings, and equipment    | 1,185      | 1,432   |
| Minority interest   | 96         | 153     |
| Recognition of change in pension funded status  | 3,449      | 3,704   |
| Increase in unrestricted net assets   | \$ 43,347  | 58,408  |

See accompanying notes to consolidated financial statements.

**ALEXIAN BROTHERS HEALTH SYSTEM  
AND SUBSIDIARIES**

Consolidated Statements of Changes in Net Assets

Years ended December 31, 2010 and 2009

(In thousands)

|  | 2010       | 2009    |
|--|------------|---------|
| Unrestricted net assets:   |            |         |
| Unrestricted revenues, gains, and other support in excess of expenses and nonoperating gains | \$ 38,617  | 53,119  |
| Other changes in unrestricted net assets:  |            |         |
| Net assets released from restrictions used for purchase of land, buildings, and equipment    | 1,185      | 1,432   |
| Minority interest  | 96         | 153     |
| Recognition of change in pension funded status   | 3,449      | 3,704   |
| Change in unrestricted net assets  | 43,347     | 58,408  |
| Temporarily restricted net assets:   |            |         |
| Contributions for specific purposes  | 3,509      | 2,936   |
| Investment income  | 259        | 194     |
| Net assets released from restrictions used for purchase of land, buildings, and equipment    | (1,185)    | (1,432) |
| Net assets released from restrictions used for operations                                    | (2,768)    | (2,858) |
| Change in temporarily restricted net assets  | (185)      | (1,160) |
| Permanently restricted net assets:   |            |         |
| Investment income (loss)   | (2)        | 14      |
| Change in permanently restricted net assets  | (2)        | 14      |
| Change in net assets   | 43,160     | 57,262  |
| Net assets at beginning of year  | 414,642    | 357,380 |
| Net assets at end of year  | \$ 457,802 | 414,642 |

See accompanying notes to consolidated financial statements.

**ALEXIAN BROTHERS HEALTH SYSTEM  
AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

Years ended December 31, 2010 and 2009

(In thousands)

|   | <u>2010</u>      | <u>2009</u>     |
|---|------------------|-----------------|
| Cash flows from operating activities:   |                  |                 |
| Change in net assets  | \$ 43,160        | 57,262          |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: |                  |                 |
| Depreciation and amortization   | 48,048           | 53,226          |
| Minority interest income  | 96               | 153             |
| Amortization of deferred financing costs included in interest expense                       | 861              | 879             |
| Amortization of bond premium  | (40)             | —               |
| Loss on bond refinancing  | 1,750            | —               |
| Provision for bad debts   | 29,843           | 26,969          |
| Amortization of deferred revenue  | (467)            | (467)           |
| Amortization of deferred accommodation fees   | (5,733)          | (5,889)         |
| Nonoperating investment income  | (19,256)         | (35,102)        |
| Recognition of change in pension funded status  | (3,449)          | (3,704)         |
| Investment loss (income) for permanently restricted net assets                              | 2                | (14)            |
| Changes in assets and liabilities:  |                  |                 |
| Patient and resident accounts receivable  | (27,757)         | (19,828)        |
| Estimated payables under third-party reimbursement programs, net                            | 26,431           | (159)           |
| Other receivables   | (2,538)          | 586             |
| Inventory of supplies   | (2,474)          | (1,802)         |
| Prepaid expenses  | (208)            | (153)           |
| Accounts payable  | 3,778            | (18,418)        |
| Accrued expenses  | 409              | (8,747)         |
| Other current liabilities   | 4,661            | 1,194           |
| Additions to deferred accommodation fees and deposits, net of refunds                       | 7,545            | 2,658           |
| Change in other long-term liabilities   | (962)            | (3,405)         |
| Reserve for outstanding insurance losses  | 22,230           | 14,486          |
| Net cash provided by operating activities   | <u>125,930</u>   | <u>59,725</u>   |
| Cash flows from investing activities:   |                  |                 |
| Acquisition of land, buildings, and equipment, net  | (52,317)         | (62,604)        |
| Addition of excess of purchase price over net assets acquired, net                          | (73)             | —               |
| Net distributions to minority interest  | (39)             | (155)           |
| Purchases of assets limited as to use   | (477,646)        | (246,885)       |
| Proceeds from sale or maturities of assets limited as to use                                | 367,309          | 249,378         |
| Change in restricted assets   | 187              | 1,146           |
| Net change in notes, deposits, and others   | (565)            | 245             |
| Net cash used in investing activities   | <u>(163,144)</u> | <u>(58,875)</u> |
| Cash flows from financing activities:   |                  |                 |
| Investment income (loss) for permanently restricted net assets                              | (2)              | 14              |
| Proceeds from issuance of long-term debt  | 133,400          | 13,607          |
| Issuance of bond premium  | 1,187            | —               |
| Payment of bond issuance costs  | (1,938)          | (178)           |
| Repayment of long-term debt   | (82,205)         | (36,704)        |
| Net cash provided by (used in) financing activities   | <u>50,442</u>    | <u>(23,261)</u> |
| Change in cash and cash equivalents   | 13,228           | (22,411)        |
| Cash and cash equivalents at beginning of year  | 1,323            | 23,734          |
| Cash and cash equivalents at end of year  | <u>\$ 14,551</u> | <u>1,323</u>    |
| Supplemental disclosure of cash flow information:   |                  |                 |
| Cash paid for interest, net of amounts capitalized  | \$ 15,700        | 14,580          |

See accompanying notes to consolidated financial statements.

**ALEXIAN BROTHERS HEALTH SYSTEM  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(In thousands)

**(1) Operations and Basis of Consolidation**

Alexian Brothers Health System (ABHS) considers all wholly owned or controlled entities as subsidiaries for consolidated financial statement purposes. The accompanying consolidated financial statements include the accounts of ABHS and its subsidiaries (collectively referred to as the Corporations). Alexian Brothers of America, Inc. is the sole corporate member of ABHS. ABHS is the parent corporation for several subsidiary corporations, and exerts control through various reserved powers. The subsidiary corporations and controlled entities included in the accompanying consolidated financial statements are as follows:

- Alexian Brothers Hospital Network (ABHN), including Alexian Brothers Medical Center (ABMC); St. Alexius Medical Center (St. Alexius); Alexian Brothers Behavioral Health Hospital (ABBHH); Alexian Brothers Ambulatory Group (ABAG, formerly Alexian Brothers Corporate Health Services); Bonaventure Medical Foundation, L.L.C. (BMF); Bonaventure Medical Group, S.C. (BMG), which was dissolved on June 30, 2009; Thelen Corporation; Savelli Properties, Inc. (Savelli); Alexian Brothers Center for Mental Health (ABCMH); Alexian Brothers Health Providers Association, Inc. (ABHP); and Edessa Insurance Company, Ltd. (Edessa).
- Alexian Brothers Senior Ministries, Inc. (ABSM) including Alexian Village of Milwaukee, Inc. (AVM); Alexian Village of Tennessee (AVT); Alexian Brothers Lansdowne Village (ABLV); Alexian Brothers Sherbrooke Village (ABSV); Alexian Brothers Community Services (ABCS); Alexian Brothers Senior Neighbors (ABSN); Alexian Elderly Services, Inc. (AES); and Alexian Village of Elk Grove (AVEG). Effective June 30, 2009, the operations of Alexian Brothers of Missouri and Alexian Brothers of the Southeast were merged into Alexian Brothers Senior Ministries.
- Alexian Brothers Health System, Inc. Investment Trust (Trust).
- Alexian Brothers of St. Louis, Inc.
- Alexian Brothers Services, Inc. (A.B. Services).
- Alexian Brothers of San Jose, Inc. (ABSJ).

ABHS and its subsidiaries are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (Code), and are exempt from federal income taxes on related income under Section 501(a) of the Code, except as follows:

- ABHP, AVEG, Thelen Corporation, and BMG are for-profit corporations.
- Savelli is a not-for-profit corporation exempt from federal income taxes on related income under Section 501(c)(2) of the Code.
- BMF is a limited liability corporation, which has elected to be taxed as a partnership.
- Trust is an Illinois trust exempt from federal income tax on related income pursuant to Section 501(a) of the Code as an organization described in Section 501(c)(3) of the Code.

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In 1976, ABHS formed Edessa, a wholly owned captive insurance company of ABMC, which is consolidated with ABHS for financial reporting purposes. Significant intercompany balances and transactions have been eliminated in consolidation. Edessa was formed to meet the funding requirements of the self-insured retention on ABHS' professional liability coverage. Edessa is a Bermuda corporation.

The Corporations provide general healthcare services to residents within their geographic locations through their acute care facilities, behavioral health hospital, continuing care centers, and other healthcare related facilities. Expenses related to the Corporations providing healthcare services in 2010 and 2009 amounted to approximately \$858,000 and \$835,000, respectively. All other expenses included in the accompanying consolidated financial statements relate primarily to general and administrative costs.

ABMC has investments in Workplace Solutions LLC (WPS) and Illinois NeuroMeg Center, LLC (NeuroMeg). WPS and NeuroMeg are both limited liability companies that have elected to be taxed as partnerships. ABMC owns 52% of WPS and 71.43% of NeuroMeg. Both are consolidated with ABMC for financial reporting purposes. Significant intercompany balances and transactions have been eliminated in consolidation.

Alexian Rehabilitation Services (ARS) is a not-for-profit limited liability corporation as described in Section 501(c)(3) of the Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. ABHN's investment in ARS is accounted for on the equity method. In consideration of its 49% interest in ARS, Rehabilitation Institute of Chico paid \$6,958 to ABMC in 2004 and \$2,015 in 2006, which ABMC is amortizing over the life of the ARS facility. Included in accrued expenses and other long-term liabilities in the accompanying consolidated balance sheets is current and long-term unamortized revenue of \$467 and \$5,598, respectively, at December 31, 2010, and \$467 and \$6,065, respectively, at December 31, 2009.

All significant intercompany accounts and transactions have been eliminated in consolidation.

**(2) Summary of Significant Accounting Policies**

A summary of the significant accounting policies is as follows:

- In June 2009, the Financial Accounting Standards Board (FASB) issued an accounting standard that established the Codification to become the single source of authoritative accounting principles. The standard also provides the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are represented in conformity with generally accepted accounting principles in the United States of America. All guidance contained in the Codification carries an equal level of authority. The Codification is not intended to change generally accepted accounting principles, but is expected to simplify accounting research by reorganizing current generally accepted accounting principles into specific accounting topics. ABHS adopted this accounting standard in the fourth quarter of 2009. The adoption of this accounting standard, which was subsequently codified in Accounting Standards Codification (ASC) Topic 105, *Generally Accepted Accounting Principles*, had no impact on ABHS' results of operations, financial position, and liquidity.

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- The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are reported as unrestricted revenues, gains, and other support, and expenses. Peripheral or incidental transactions are reported as nonoperating gains or losses.
- The consolidated statements of operations include unrestricted revenues, gains, and other support in excess of expenses and nonoperating gains. Changes in unrestricted net assets, which are excluded from unrestricted revenues, gains, and other support in excess of expenses and nonoperating gains, consistent with industry practice, include the 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), minority interest, and recognition of change in pension funded status.
- Cash and cash equivalents consist primarily of demand deposits with banks, cash on hand, and pooled moneys in the cash management program invested in a money market mutual fund, excluding amounts designated as assets limited as to use and restricted assets.
- Assets limited as to use and restricted assets are measured at fair value in the accompanying consolidated balance sheets. Investment income or loss (including realized gains and losses on investments, changes in unrealized gains and losses on trading securities, interest, and dividends) is included in unrestricted revenues, gains, and other support in excess of expenses and nonoperating gains in the accompanying consolidated statements of operations unless the income or loss is restricted by donor or law. Investment income from trustee-held funds and Edessa are reported as operating income. Investment income from board-designated assets limited as to use is reported as nonoperating.
- ABHS accounts for derivatives and hedging activities in accordance with ASC Topic 815, *Derivatives and Hedging* (Statement No. 133, *Accounting for Derivative Instruments and Certain Hedging Activities*, as amended), which requires that all derivative instruments be recorded on the consolidated balance sheets at fair values.
- ABHS is involved in an interest rate swap program. The fair value of the interest rate swap program is included as a component of other long-term liabilities in the accompanying consolidated balance sheets. For ABHS, the derivative is not designated as a hedge instrument, and therefore, the change in fair value of the interest rate swap program is recognized in the consolidated statements of operations as a component of nonoperating gains (losses) – investment income in the period of change.
- Inventory of supplies is stated at the lower of cost (first-in, first-out) or market.

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- Land, buildings, and equipment are stated at cost or fair value at date of donation. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Net interest cost incurred during the construction period for significant capital projects is capitalized as a component of the cost of acquiring such assets.
- Long lived assets (including buildings and equipment) are periodically assessed for recoverability based on the occurrence of a significant adverse event or change in the environment in which the Corporations operate or if the expected future cash flows (undiscounted and without interest) would become less than the carrying amount of the asset. An impairment loss would be recorded in the period such determination is made based on the fair value of the related entity. No impairments were recorded for the years ended December 31, 2010 and 2009.
- Assets limited as to use include assets set aside by the boards of directors for future capital improvements, over which the boards retain control and may at their discretion subsequently use for other purposes; assets held by trustees under bond indenture agreements and self-insurance trust arrangements; and the assets held by Edessa.
- The excess of purchase price over net assets acquired primarily relates to the acquisitions of St. Alexius and ABBHH. The Corporations implemented ASC 958-805, *Not-For-Profit Entities: Business Combinations*, in 2010 that discontinues the amortization of goodwill. Under ASC 958-805, goodwill is to be reviewed for impairment at least annually. The goodwill impairment test is a two-step test. Under the first step, the fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the entity must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and the residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed.

The Corporations performed their annual goodwill impairment test as of December 31, 2010 and did not identify any impairment issues. The fair value of the reporting unit is in excess of its carrying value.

- Temporarily restricted net assets represent those net assets whose use by the Corporations have 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 Corporations in perpetuity. The Corporations' temporarily restricted net assets are restricted for various programs related to the provision of health and pastoral care. The Corporations' permanently restricted net assets represent endowment funds for which the investments are to be held in perpetuity and the related investment income is expendable to support healthcare or other donor-designated services.

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- In August 2008, the FASB issued ASC Subtopic 958, *Endowments for Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA)*, and *Enhanced Disclosures for All Endowment Funds*. ASC Subtopic 958 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of UPMIFA. ASC Subtopic 958 also enhances disclosures related to both donor-restricted and board-designated endowment funds.
- The Corporations have agreements with third-party payors that provide for payments to the Corporations at amounts different from their established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient and resident service revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered, and adjusted in future periods as final settlements are determined.
- Certain members of the Corporations have agreements with various Health Maintenance Organizations (HMOs) to provide medical services to subscribing participants. Under these agreements, the members receive monthly capitation payments based on the number of each HMO's participants, regardless of services actually performed by the members.
- The Corporations provide care to patients who meet certain criteria under their charity care policies without charge or at amounts less than its established rates. Because the Corporations do not pursue collection of amounts determined to qualify as charity care, they are not reported as revenues.
- Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, which is then treated as cost. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the accompanying consolidated statements of operations as net assets released from restrictions.
- Gifts of long-lived assets such as land, buildings, and equipment are reported as unrestricted gifts and bequests unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted contributions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.
- Advance fees paid by a resident upon entering into a continuing care contract, net of the estimated portion thereof that is expected to be refunded to the resident, are recorded as deferred revenue, and

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are amortized to income using the straight-line method over the estimated remaining life expectancy of the resident. Accommodation fees are refundable to residents based on contractual rebate schedules. The refundable portion based on the contractual rebate schedules of the deferred accommodation fees was approximately \$28,200 and \$26,500 at December 31, 2010 and 2009, respectively.

- Under the terms of residency agreements with individuals, AVM and AVT are obligated to provide those individuals with occupancy and certain services in their respective residential units as well as required nursing care in their skilled nursing centers during the residents' remaining lifetimes, in exchange for payment of the respective accommodation fees and monthly service fees. AVM and AVT annually calculate the present value of the net cost of future services and use of facilities to be provided to current residents and compare those amounts with the balance of deferred accommodation fees. If the present value of the net cost of future services and use of facilities exceeds the deferred accommodation fees, a liability is recorded (obligation to provide future services and use of facilities) with the corresponding charge to income. Using a discount rate of 6.0% at December 31, 2010 and 2009, no such liability was required. The discount rate is based on the average rate for actual earnings, dividends, and appreciation on investments.
- Deferred tax assets arising primarily from net operating loss carryforwards have been offset in their entirety by a valuation allowance at both December 31, 2010 and 2009. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Provision for income taxes has not been recorded for BMG or ABHP as they did not incur operating income during 2010 and 2009. Additionally, there are net operating losses available for carryforward, which expire at various future dates through 2029. Thelen Corporation did not incur taxable operating income in 2010 and 2009. AVEG has recorded a provision for income taxes of \$94 at December 31, 2010.
- On January 1, 2008, the Corporations adopted Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, included in FASB ASC Subtopic 740-10, *Income Taxes – Overall*. ASC Subtopic 740-10 addresses the determination of how tax benefits claimed or expected to be claimed on a tax return should be recorded in the consolidated financial statements. Under ASC Subtopic 740-10, the Corporations must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. ASC Subtopic 740-10 also provides guidance on derecognition, classification, interest and penalties on income taxes, and accounting in interim periods and requires increased disclosures. As of December 31, 2010 and 2009, the Corporations do not have a liability for unrecognized tax benefits.
- The Corporations adopted the provisions of ASC Topic 820, *Fair Value Measurements and Disclosures*, for fair value measurements of financial assets and financial liabilities and for fair value

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measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 also establishes a framework for measuring fair value and expands disclosures about fair value measurements.

In conjunction with the adoption of ASC Topic 820, the Corporations adopted the measurement provisions of Accounting Standards Update (ASU) No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* (ASU No. 2009-12), to certain investments in funds that do not have readily determinable fair values including private investments, hedge funds, real estate, and other funds. This guidance amends ASC Topic 820 and allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value per share or its equivalent. The Corporations adopted the disclosure provisions of ASU No. 2009-12 as of January 1, 2010.

In January 2010, the FASB issued ASU No. 2010-06, *Improving Disclosures about Fair Value Measurements* (ASU No. 2010-06). ASU No. 2010-06 amends ASC Subtopic 820-10, *Fair Value Measurement and Disclosure*, to provide additional disclosure requirements for transfers into and out of Levels 1 and 2 and for activity in Level 3 and to clarify certain other existing disclosure requirements. The Corporations implemented ASU No. 2010-06 for the year ended December 31, 2010.

- The Corporations have adopted the provisions of ASC 825-10, *Financial Instruments*. ASC 825-10 gives the Corporations the irrevocable option to report most financial assets and financial liabilities at fair value on an instrument-by-instrument basis, with changes in fair value reported in earnings. The Corporations' management did not elect to measure any additional eligible financial assets or financial liabilities at fair value, and as a result, adoption of this statement did not have an effect on the results of operations or financial position of the Corporations.
- Certain 2009 amounts have been reclassified to conform to the 2010 consolidated financial statement presentation.

**(3) Net Patient and Resident Service Revenues**

Several subsidiaries of ABHS participate as providers of healthcare services under Medicare, Medicaid, Blue Cross, and other contracted care reimbursement agreements. The provisions of these agreements vary depending on the type of services rendered and the geographical location of each institution.

Estimated contractual adjustments under third-party reimbursement programs represent the differences between the institutions' billings at list price and the amount reimbursed; they also include any differences between estimated third-party reimbursement settlements for prior years and subsequent final settlements.

**(a) Medicare**

The hospital subsidiaries of ABHS are reimbursed for inpatient acute-care, outpatient, home health, skilled, and certain psychiatric services rendered to Medicare program beneficiaries at prospectively

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determined rates. The prospectively determined rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. The rates are not subject to retroactive adjustment. The hospitals classification of patients under the Medicare prospective payment system and the appropriateness of the patients' admissions are subject to validation reviews.

Certain services provided to Medicare beneficiaries are reimbursed at a tentative reimbursement rate with final settlement determined after submission of annual reimbursement reports by the hospitals and audits by the Medicare fiscal intermediaries. Provisions for estimated retroactive contractual adjustments for retrospectively reimbursable services have been provided for in the accompanying consolidated financial statements. In the opinion of management, final settlement of prior years Medicare reimbursement reports will not have a material effect on the accompanying consolidated financial statements. As of December 31, 2010, Medicare cost reports have been audited and final settled through December 31, 2009 for all healthcare providers except ABMC and St. Alexins who have been audited and final settled through December 31, 2007 and ABBHH who has been audited and final settled through December 31, 2008.

**(b) Medicaid**

Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Medicaid outpatient services are reimbursed based primarily on fee schedules. The State of Illinois (the State) enacted an assessment program to assist in the financing of its Medicaid program through June 30, 2013. Pursuant to this program, hospitals within the State are required to remit payment to the State Medicaid program under an assessment formula approved by the Centers for Medicare and Medicaid Services (CMS). The Corporations have included their related prorated assessments of \$24,216 in 2010 and \$24,337 in 2009 within insurance and taxes in the accompanying consolidated statements of operations. The assessment program also provides hospitals within the State with additional Medicaid reimbursement based on funding formulas also approved by CMS. The Corporations have included their additional related prorated reimbursement of \$26,421 in 2010 and \$24,696 in 2009 within net patient service revenues in the accompanying consolidated statements of operations, of which \$1,725 is recorded as one time Medicaid stimulus payments to hospitals for the year ended December 31, 2010. Additionally, \$7,975 of net payments received from the State is recorded as estimated payables under third-party reimbursement programs for advanced quarterly payments through June 2011.

St. Alexius also qualified for the Safety Net Adjustment Payments program (SNAP) to provide additional funding to providers based on funding formulas approved by the State for State fiscal years ended June 30, 2010 and 2009. St. Alexius has included its related prorated SNAP reimbursement of \$1,288 and \$966, respectively, within net patient service revenues in the accompanying 2010 and 2009 consolidated statements of operations. St. Alexius also qualified for the Outpatient Assistance Adjustment program (OAAP) to provide additional funding to providers based on funding formulas approved by the State for State fiscal years ended June 30, 2010 and 2009. St. Alexius has included its related prorated OAAP reimbursement of \$5,126 and \$6,481, respectively, within net patient service revenues in the accompanying 2010 and 2009 consolidated

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statements of operations. Included in estimated payables under third-party reimbursement programs in the accompanying 2010 consolidated balance sheet is \$3,207 of SNAP and OAAP payments received from the State for advanced quarterly payments through June 2011. Included in estimated payables under third-party reimbursement programs in the accompanying 2009 consolidated balance sheet is \$(3,207) related to the net amount due from the State under the SNAP and OAAP.

**(c) Capitation**

Several subsidiaries of ABHS are involved in various risk-based contracts with third parties. Under these arrangements, the subsidiaries receive capitation payments based on the demographic characteristics of covered members in exchange for providing certain medical services dependent upon the arrangement. Additionally, certain of the participating subsidiaries are eligible for incentive payments based on favorable utilization experience. Capitation revenues are recognized in the month to which they apply and are reported separately in the accompanying consolidated financial statements.

Pursuant to the risk-based contracts, participating subsidiaries are obligated for all covered medical services, including claims for services incurred but not reported as of the consolidated balance sheet dates. The Corporations' estimated liability, based upon historical costs incurred and payment processing experience, approximated \$1,674 and \$1,088 at December 31, 2010 and 2009, respectively, and is included in accrued expenses in the accompanying consolidated balance sheets.

A summary of gross and net patient and resident service revenues for the years ended December 31, 2010 and 2009 is as follows:

|  | <b>2010</b>  | <b>2009</b> |
|--|--------------|-------------|
| Gross patient and resident service revenues                                | \$ 2,946,533 | 2,779,175   |
| Less provisions for:   |              |             |
| Estimated contractual adjustments under third-party reimbursement programs | 1,969,663    | 1,834,772   |
| Discounts and other allowances   | 95,456       | 87,860      |
| Net patient and resident service revenues                                  | \$ 881,414   | 856,543     |

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**(4) Concentration of Credit Risk**

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

|   | 2010   | 2009   |
|---|--------|--------|
| Medicare                                    | 20.1%  | 18.1%  |
| Medicaid                                    | 8.1    | 11.8   |
| Blue Cross (including HMO and PPO products) | 24.6   | 24.4   |
| Managed care                                | 13.0   | 14.7   |
| Others                                      | 34.2   | 31.0   |
|   | 100.0% | 100.0% |

**(5) Investment Composition and Fair Value Measurements**

**(a) Overall Investment Objective**

The overall investment objective of the Corporations is to invest its assets in a prudent manner that will achieve an expected rate of return, manage risk exposure, and focus on downside sensitivities. The Corporations' invested assets will maintain sufficient liquidity to fund a portion of the Corporations' annual operating activities and structure the invested assets to maintain a high percentage of available liquidity. The Corporations diversify their investments among various asset classes incorporating multiple strategies and managers. Major investment decisions are authorized by the Board's Investment Subcommittee, which oversees the investment program in accordance with established guidelines.

**(b) Allocation of Investment Strategies**

The Corporations maintain a small percent of assets in domestic and international stocks. To manage risk exposure, the majority of assets are invested in intermediate term fixed income funds and invested with short term fixed income managers. In addition to traditional stocks and fixed-income securities, the Corporations may also hold shares or units in alternative investment funds involving hedged strategies. Hedged strategies involve funds whose managers have the authority to invest in various asset classes at their discretion, including the ability to invest long and short. Funds with hedged strategies generally hold securities or other financial instruments for which a ready market exists and may include stocks, bonds, put or call options, swaps, currency hedges, and other instruments, and are valued accordingly. Because of the inherent uncertainties for valuation of some holdings, the estimated fair values may differ from values that would have been used had a ready market existed.

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**(c) Basis of Reporting**

Assets limited as to use and restricted assets are reported at estimated fair value. If an investment is held directly by the Corporations and an active market with quoted prices exists, the market price of an identical security is used as reported fair value. Reported fair values for shares in corporate stock and fixed income are based on share prices reported by the funds as of the last business day of the fiscal year. The Corporations' interests in alternative investment funds are generally reported at the net asset value (NAV) reported by the fund managers, which is used as a practical expedient to estimate the fair value of the Corporations' interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of December 31, 2010 and 2009, ABHS had no plans or intentions to sell investments at amounts different from NAV.

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The following tables summarize the Corporations' cash and cash equivalents, board-designated investment portfolio and restricted assets by major category in the fair value hierarchy as of December 31, 2010 and 2009, as well as related strategy, liquidity, and funding commitments:

|   | December 31, 2010 |         |         | Total   | Redemption<br>or liquidation | Days'<br>notice |
|---|-------------------|---------|---------|---------|------------------------------|-----------------|
|   | Level 1           | Level 2 | Level 3 |         |                              |                 |
| Cash and cash equivalents   | \$ 14,551         | —       | —       | 14,551  | Daily                        | One             |
| Assets limited as to use:   |                   |         |         |         |                              |                 |
| Board-designated and restricted assets excluding accrued interest and other of \$3,335: |                   |         |         |         |                              |                 |
| Cash and cash equivalents   | 25,832            | —       | —       | 25,832  | Daily                        | One             |
| Corporate stocks  | 36,743            | —       | —       | 36,743  | Daily                        | One             |
| Fixed income:   |                   |         |         |         |                              |                 |
| Corporate bonds   | —                 | 35,190  | —       | 35,190  | Daily                        | One             |
| Intermediate bond index fund  | 71,127            | —       | —       | 71,127  | Daily                        | One             |
| U.S. government bond index fund   | 39,063            | —       | —       | 39,063  | Daily                        | One             |
| Asset-backed securities   | —                 | 19,059  | —       | 19,059  | Daily                        | One             |
| Commercial mortgage-backed securities   | —                 | 14,656  | —       | 14,656  | Daily                        | One             |
| Nongovernment-backed collateralized mortgage obligations                                | —                 | 1,531   | —       | 1,531   | Daily                        | One             |
| Government mortgage-backed securities   | —                 | 11,199  | —       | 11,199  | Daily                        | One             |
| Municipal bonds   | —                 | 1,002   | —       | 1,002   | Daily                        | One             |
| U.S. Treasury securities  | —                 | 46,638  | —       | 46,638  | Daily                        | One             |
| U.S. Treasury inflation protected securities  | —                 | 6,727   | —       | 6,727   | Daily                        | One             |
| Guaranteed fixed income   | —                 | 4,385   | —       | 4,385   | Daily                        | One             |
| Total fixed income  | 110,190           | 140,387 | —       | 250,577 |                              |                 |
| Hedge fund investments:   |                   |         |         |         |                              |                 |
| Absolute return/multiple strategies   | —                 | 57,398  | —       | 57,398  | Quarterly                    | 95              |
| Absolute return/multiple strategies   | —                 | 7,570   | —       | 7,570   | In redemption                |                 |
| International fund of funds   | 18,078            | —       | —       | 18,078  | Monthly                      | Five            |
| Total hedge fund investments  | 18,078            | 64,968  | —       | 83,046  |                              |                 |
| Total board-designated and restricted assets  | \$ 190,843        | 205,355 | —       | 396,198 |                              |                 |

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|   | December 31, 2009 |         |         | Total   | Redemption<br>or liquidation | Days'<br>notice |
|---|-------------------|---------|---------|---------|------------------------------|-----------------|
|   | Level 1           | Level 2 | Level 3 |         |                              |                 |
| Cash and cash equivalents   | \$ 1,323          | —       | —       | 1,323   | Daily                        | One             |
| Assets limited as to use:   |                   |         |         |         |                              |                 |
| Board-designated and restricted assets excluding accrued interest and other of \$2,396: |                   |         |         |         |                              |                 |
| Cash and cash equivalents   | 10,840            | —       | —       | 10,840  | Daily                        | One             |
| Corporate stocks  | 31,073            | —       | —       | 31,073  | Daily                        | One             |
| Fixed income:   |                   |         |         |         |                              |                 |
| Corporate bonds   | —                 | 82,129  | —       | 82,129  | Daily                        | One             |
| Asset-backed securities   | —                 | 22,567  | —       | 22,567  | Daily                        | One             |
| Commercial mortgage-backed securities   | —                 | 12,353  | —       | 12,353  | Daily                        | One             |
| Nongovernment-backed collateralized mortgage obligations                                | —                 | 5,669   | —       | 5,669   | Daily                        | One             |
| Government mortgage-backed securities   | —                 | 25,681  | —       | 25,681  | Daily                        | One             |
| Municipal bonds   | —                 | 1,418   | —       | 1,418   | Daily                        | One             |
| U.S. Treasury securities  | —                 | 43,465  | —       | 43,465  | Daily                        | One             |
| U.S. Treasury inflation protected securities  | —                 | 4,927   | —       | 4,927   | Daily                        | One             |
| Guaranteed fixed income   | —                 | 1,850   | —       | 1,850   | Daily                        | One             |
| Total fixed income  | —                 | 200,059 | —       | 200,059 |                              |                 |
| Hedge fund investments:   |                   |         |         |         |                              |                 |
| Absolute return/multiple strategies   | —                 | 52,237  | —       | 52,237  | Quarterly                    | 95              |
| Absolute return/multiple strategies   | —                 | 13,490  | —       | 13,490  | In redemption                |                 |
| International fund of funds   | 18,021            | —       | —       | 18,021  | Monthly                      | Five            |
| Total hedge fund investments  | 18,021            | 65,727  | —       | 83,748  |                              |                 |
| Total board-designated and restricted assets  | \$ 59,934         | 265,786 | —       | 325,720 |                              |                 |

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The following tables summarize the Corporations' investment portfolio of the trustee-held funds by major category in the fair value hierarchy as of December 31, 2010 and 2009, as well as related strategy, liquidity, and funding commitments:

|                           | December 31, 2010 |         |         |        | Redemption<br>or liquidation | Days'<br>notice |
|---------------------------|-------------------|---------|---------|--------|------------------------------|-----------------|
|                           | Level 1           | Level 2 | Level 3 | Total  |                              |                 |
| Assets limited as to use: |                   |         |         |        |                              |                 |
| Cash and cash equivalents | \$ 20,460         | —       | —       | 20,460 | Daily                        | One             |
| U.S. Treasury securities  | —                 | 32,926  | —       | 32,926 | Daily                        | One             |
| Total trustee-held funds  | \$ 20,460         | 32,926  | —       | 53,386 |                              |                 |

|                           | December 31, 2009 |         |         |        | Redemption<br>or liquidation | Days'<br>notice |
|---------------------------|-------------------|---------|---------|--------|------------------------------|-----------------|
|                           | Level 1           | Level 2 | Level 3 | Total  |                              |                 |
| Assets limited as to use: |                   |         |         |        |                              |                 |
| Cash and cash equivalents | \$ 15,970         | —       | —       | 15,970 | Daily                        | One             |

The following tables summarize the Corporations' assets held by the captive insurance company by major category in the fair value hierarchy as of December 31, 2010 and 2009, as well as related strategy, liquidity, and funding commitments:

|   | December 31, 2010 |         |         |        | Redemption<br>or liquidation | Days'<br>notice |
|---|-------------------|---------|---------|--------|------------------------------|-----------------|
|   | Level 1           | Level 2 | Level 3 | Total  |                              |                 |
| Assets limited as to use:   |                   |         |         |        |                              |                 |
| Assets held by captive insurance company excluding accrued interest and other of \$714: |                   |         |         |        |                              |                 |
| Cash and cash equivalents   | \$ 2,736          | —       | —       | 2,736  | Daily                        | One             |
| Corporate stocks  | 12,473            | —       | —       | 12,473 | Daily                        | One             |
| Fixed income:   |                   |         |         |        |                              |                 |
| Corporate bonds   | —                 | 18,876  | —       | 18,876 | Daily                        | One             |
| Asset-backed securities   | —                 | 1,831   | —       | 1,831  | Daily                        | One             |
| Commercial mortgage-backed securities   | —                 | 1,547   | —       | 1,547  | Daily                        | One             |
| Nongovernment-backed collateralized mortgage obligations                                | —                 | 430     | —       | 430    | Daily                        | One             |
| Government mortgage-backed securities   | —                 | 13,311  | —       | 13,311 | Daily                        | One             |
| U.S. Treasury securities  | —                 | 34,089  | —       | 34,089 | Daily                        | One             |
| Guaranteed fixed income   | —                 | 917     | —       | 917    | Daily                        | One             |
| Total fixed income  | —                 | 71,001  | —       | 71,001 |                              |                 |
| International fund of funds   | 8,507             | —       | —       | 8,507  | Monthly                      | Five            |
| Total assets held by captive insurance company  | \$ 23,716         | 71,001  | —       | 94,717 |                              |                 |

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|   | December 31, 2009 |         |         | Total  | Redemption<br>or liquidation | Days'<br>notice |
|---|-------------------|---------|---------|--------|------------------------------|-----------------|
|   | Level 1           | Level 2 | Level 3 |        |                              |                 |
| Assets limited as to use:   |                   |         |         |        |                              |                 |
| Assets held by captive insurance company excluding accrued interest and other of \$529: |                   |         |         |        |                              |                 |
| Cash and cash equivalents \$  | 3,506             | —       | —       | 3,506  | Daily                        | One             |
| Corporate stocks  | 11,111            | —       | —       | 11,111 | Daily                        | One             |
| Fixed income:   |                   |         |         |        |                              |                 |
| Corporate bonds   | —                 | 9,900   | —       | 9,900  | Daily                        | One             |
| Asset-backed securities   | —                 | 2,593   | —       | 2,593  | Daily                        | One             |
| Commercial mortgage-backed securities   | —                 | 390     | —       | 390    | Daily                        | One             |
| Nongovernment-backed collateralized mortgage obligations                                | —                 | 740     | —       | 740    | Daily                        | One             |
| Government mortgage-backed securities   | —                 | 1,892   | —       | 1,892  | Daily                        | One             |
| U.S. Treasury securities  | —                 | 36,048  | —       | 36,048 | Daily                        | One             |
| Guaranteed fixed income   | —                 | 397     | —       | 397    | Daily                        | One             |
| Total fixed income  | —                 | 51,960  | —       | 51,960 |                              |                 |
| International fund of funds   | 7,752             | —       | —       | 7,752  | Monthly                      | Five            |
| Total assets held by captive insurance company  | \$ 22,369         | 51,960  | —       | 74,329 |                              |                 |

**(d) Fair Value of Financial Instruments**

The following methods and assumptions were used by ABHS in estimating the fair value of its financial instruments:

- The carrying amount reported in the consolidated balance sheets for the following approximates fair value because of the short maturities of these instruments: cash and cash equivalents, accounts payable excluding interest rate swaps, accrued expenses, and estimated payables under third-party reimbursement programs.
- Fair value for corporate stocks and fixed income are measured using quoted market prices at the reporting date multiplied by the quantity held. ABHS has certain investments, principally limited partnerships and similar interests, for which quoted market prices are not available. The estimated fair value of these hedge fund investments includes estimates, appraisals, assumptions, and methods provided by external financial advisors and reviewed by ABHS.
- Fair value of fixed rate long-term debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to ABHS for debt of the same remaining maturities. For variable rate debt, carrying amounts approximate fair value. Fair value was estimated using quoted market prices based upon ABHS' current borrowing rates for similar types of long-term debt securities.

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- Fair value of the interest rate swap is determined using pricing models developed based on the LIBOR swap rate and other observable market data. The value was determined after considering the potential impact of collateralization and netting agreements, adjusted to reflect nonperformance risk of both the counterparty and the Corporations.

The following table presents the carrying amounts and estimated fair values of ABHS's financial instruments not carried at fair value at December 31, 2010 and 2009:

|                | 2010               |            | 2009               |            |
|----------------|--------------------|------------|--------------------|------------|
|                | Carrying<br>amount | Fair value | Carrying<br>amount | Fair value |
| Long-term debt | \$ 489,056         | 483,356    | 437,861            | 443,084    |

The following table presents the carrying amounts and estimated fair values of ABHS's interest rate swap carried at fair value at December 31, 2010 and 2009:

|                    | December 31, 2010 |         |         |       |
|--------------------|-------------------|---------|---------|-------|
|                    | Level 1           | Level 2 | Level 3 | Total |
| Interest rate swap | \$ —              | 3,569   | —       | 3,569 |
|                    | December 31, 2009 |         |         |       |
|                    | Level 1           | Level 2 | Level 3 | Total |
| Interest rate swap | \$ —              | 2,840   | —       | 2,840 |

**(e) Fair Value Hierarchy**

ABHS adopted ASC Subtopic 820-10 on January 1, 2008 for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Corporations have the ability to access at the measurement date.
- Level 2 are observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

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- Level 3 inputs are unobservable inputs for the asset or liability.

The following table presents a reconciliation for all Level 1, 2, and 3 assets measured at fair value on a recurring basis for the period January 1, 2009 to December 31, 2009. Alternative investments were transferred to Level 2 assets as the net asset value was used as a practical expedient to determine fair value.

|  | <u>Level 3 assets</u> |
|--|-----------------------|
| Financial assets:                            |                       |
| Beginning balance, January 1, 2009           | \$ 68,068             |
| Total net gains<br>(unrealized and realized) | 9,859                 |
| Purchases                                    | 33,520                |
| Sales  | (45,720)              |
| Transfers out of Level 3                     | (65,727)              |
| Ending balance, December 31,<br>2009         | \$ —                  |

The composition of investment return on the Corporations' investment portfolio and restricted assets for the years ended December 31, 2010 and 2009 is as follows:

|  | <u>2010</u> | <u>2009</u> |
|--|-------------|-------------|
| Interest and dividend income, net of fees and expenses             | \$ 11,335   | 11,684      |
| Change in net unrealized gains and losses on trading<br>securities | 8,418       | 27,646      |
| Change in fair value of interest rate swap                         | (729)       | 2,618       |
| Net realized gains (losses) on sale of investments                 | 6,641       | (846)       |
| Interest rate swap settlements                                     | (1,778)     | (1,935)     |
|  | \$ 23,887   | 39,167      |

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Investment returns are included in the accompanying consolidated statements of operations for the years ended December 31, 2010 and 2009 as follows:

|  | 2010      | 2009   |
|--|-----------|--------|
| Unrestricted revenues, gains, and other support: |           |        |
| Investment income                                | \$ 4,374  | 3,857  |
| Nonoperating gains:                              |           |        |
| Investment income                                | 19,256    | 35,102 |
| Temporarily restricted net assets:               |           |        |
| Investment income                                | 259       | 194    |
| Permanently restricted net assets:               |           |        |
| Investment income (loss)                         | (2)       | 14     |
|  | \$ 23,887 | 39,167 |

**(6) Charity Care and Community Service**

Consistent with the mission, the Corporations provide medical care to all patients regardless of their ability to pay. In addition, the Corporations provide services intended to benefit the poor and underserved, including those persons who cannot afford health insurance because of inadequate resources and/or are uninsured or underinsured, and to enhance the health status of the communities in which they operate.

The following summary has been prepared in accordance with the Catholic Health Association of the United States' (CHA) policy documents, *A Guide for Planning and Reporting Community Benefit (2008 Edition)*. The Corporations have expanded their reporting by including more detailed classifications of program spending, which is consistent with the released guidelines.

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The following amounts reflect the quantifiable costs of the Corporations' community benefit ministry for the years ended December 31, 2010 and 2009:

|  | 2010       | 2009   |
|--|------------|--------|
| Benefits for the poor and the underserved:   |            |        |
| Charity care reduced to cost from charges of \$63,577 in 2010 and \$58,824 in 2009 | \$ 15,980  | 14,879 |
| Unreimbursed cost of Medicaid program  | 23,126     | 17,544 |
| Programs for the poor and underserved:   |            |        |
| Community health improvement services  | 3,838      | 4,387  |
| Health professions education   | 2,363      | 2,160  |
| Financial and in-kind contributions  | 464        | 460    |
| Community benefit operations   | 24         | 19     |
| Research and innovation  | 36         | 19     |
| Community building activities  | 423        | 548    |
| Subsidized health services   | 1,783      | 1,928  |
| Total programs for the poor and underserved  | 8,931      | 9,521  |
| Total including charity and Medicaid   | 48,037     | 41,944 |
| Unreimbursed cost of Medicare  | 53,384     | 52,997 |
| Total community benefit ministry including Medicare                                | \$ 101,421 | 94,941 |
| Provision for bad debt expense at cost   | \$ 7,020   | 7,502  |

*Ministry for the poor and the underserved* represents the financial commitment to seek out and serve those who need help the most, especially the poor, the uninsured, and the indigent. This is done with the conviction that healthcare is a basic human right.

*Ministry for the broader community* represents the cost of services provided for the general benefit of the communities in which the Corporations operate. Many programs are targeted toward populations that may be poor, but also include those areas that may need special health services and support. These programs are not intended to be financially self-supporting.

*Charity care* represents the cost of services provided to patients who cannot afford healthcare services due to inadequate resources and/or are uninsured or underinsured. A patient is classified as a charity patient in accordance with the Corporations established policies and where no payment for such services is anticipated. Services provided to these patients are not reported as revenue in the consolidated statements of operations. The cost of charity care is calculated using a cost-to-charge ratio methodology.

*Unreimbursed cost of Medicaid and other public programs* represents the cost (determined using a cost-to-charge ratio) of providing services to beneficiaries of public programs, including Medicaid and indigent

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care programs, in excess of governmental and managed care contract payments. The calculation includes the net amount of the Medicaid assessment program (note 3).

*Community health improvement services* are activities and services for which no patient bill exists. These services are not expected to be financially self-supporting, although some may be supported by outside grants or funding. Amounts reported are net of any outside funding. Some examples include community health education and prevention services. The Corporations actively collaborate with community groups and agencies to assist those in need in providing such services.

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

*Subsidized health services* are clinical services needed by the community that are provided despite significant financial losses even after removing the effects of charity care, Medicaid shortfalls, and bad debt.

*Donations* are made by the Corporations on behalf of the poor and underserved to community agencies. These amounts include systemwide funds used for charitable activities as well as resources contributed directly to programs, organizations, and foundations for efforts on behalf of the poor and the underserved. Amounts included here also represent certain in-kind donations.

*Community building activities* represent the cost to address the root causes of health problems such as poverty, homelessness, and environmental hazards. They include such things as housing, economic development, and coalition building.

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

*Unreimbursed cost of Medicare* represents the cost (determined using a cost-to-charge ratio) of providing services to primarily elderly beneficiaries of the Medicare program, in excess of governmental and managed care contract payments.

The Corporations also provide a significant amount of uncompensated care to their uninsured and underinsured patients, which is reported as provision for bad debts, and not included in the amounts reported above. During the years ended December 31, 2010 and 2009, the Corporations reported provision for bad debts of \$29,843 and \$26,969, respectively, at charges, which equate to \$7,020 and \$7,502 at cost (based on an overall cost to charge ratio).

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**(7) Land, Buildings, and Equipment**

A summary of land, buildings, and equipment at December 31, 2010 and 2009 is as follows:

|  | <u>2010</u>       | <u>2009</u>    |
|--|-------------------|----------------|
| Land   | \$ 22,075         | 22,455         |
| Land improvements                              | 24,663            | 22,054         |
| Buildings                                      | 650,101           | 625,465        |
| Fixed equipment                                | 80,573            | 76,179         |
| Moveable equipment                             | <u>286,351</u>    | <u>277,277</u> |
|  | 1,063,763         | 1,023,430      |
| Less accumulated depreciation and amortization | <u>556,144</u>    | <u>509,584</u> |
|  | 507,619           | 513,846        |
| Construction in progress                       | <u>31,837</u>     | <u>21,341</u>  |
| Land, buildings, and equipment, net            | <u>\$ 539,456</u> | <u>535,187</u> |

For the years ended December 31, 2010 and 2009, the Corporations' capitalized net interest cost amounted to \$1,338 and \$1,445, respectively.

Construction in progress at December 31, 2010 relates primarily to various building and building improvement projects. At December 31, 2010, approximately \$86,700 of total estimated remaining construction and infrastructure costs have been contractually committed. These projects will be funded from bond proceeds, existing cash reserves, and cash from operations.

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**(8) Long-Term Debt**

A summary of long-term debt as of December 31, 2010 and 2009 is as follows:

|  | 2010      | 2009   |
|--|-----------|--------|
| Illinois Finance Authority Revenue Refunding Bonds Series 2005 (Alexian Brothers Health System):   |           |        |
| Series 2005A, with fixed interest rates ranging from 3.00% to 5.50% and varying debt service payments beginning January 1, 2009 through January 1, 2028  | \$ 84,975 | 85,550 |
| Series 2005B, with fixed interest rates ranging from 3.00% to 5.50% and varying debt service payments beginning January 1, 2009 through January 1, 2028  | 85,050    | 85,525 |
| Series 2005C, variable rate demand notes, with variable interest rates (0.22% at December 31, 2009) and debt service payments. Bonds were defeased in 2010.  | —         | 77,920 |
| Illinois Finance Authority Revenue Refunding Bonds Series 2010 (Alexian Brothers Health System), with fixed interest rates ranging from 3.00% to 5.25% and varying debt service payments through February 15, 2030   | 133,400   | —      |
| Illinois Finance Authority Revenue Bonds, Series 2008 (Alexian Brothers Health System), with fixed effective rate of 5.50%, due by annual mandatory redemption beginning February 15, 2029 through 2038  | 45,000    | 45,000 |
| Illinois Finance Authority Variable Rate Demand Revenue Bonds, Series 2004 (Alexian Brothers Health System), with variable interest rates (0.23% and 0.21% at December 31, 2010 and 2009, respectively) and varying debt service payments beginning April 1, 2029 through 2035 | 80,000    | 80,000 |
| Illinois Finance Authority Revenue Bonds, Series 1999 (Alexian Brothers Health System), with fixed interest rates ranging from 4.00% to 5.25% and varying debt service payments through January 1, 2028  | 18,245    | 18,245 |
| Illinois Finance Authority Revenue Refunding Bonds, Series 2009 (Alexian Brothers Health System), direct purchase tax-exempt bank qualified bond with variable interest rate of 2.52% and 2.50% at December 31, 2010 and 2009, respectively                                    | 12,129    | 13,607 |

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|   | 2010       | 2009     |
|---|------------|----------|
| Wisconsin Health and Educational Facilities Authority, Unit Priced Demand Adjustable Revenue Bonds, Series 1988A (Alexian Village of Milwaukee, Inc. Refinancing), with varying debt service through March 1, 2017. Interest at the lesser of 15% or a variable rate as determined by current market conditions (0.36% and 0.55% at December 31, 2010 and 2009, respectively) | \$ 8,700   | 9,600    |
| The Health, Educational, and Housing Facility Board of Signal Mountain, Tennessee, Adjustable Rate Revenue Refunding Bonds, Series 1999 (Alexian Village of Tennessee), with variable interest rates (0.50% and 0.26% at December 31, 2010 and 2009, respectively) and debt service payments through January 1, 2028  | 14,600     | 15,100   |
| U.S. Department of Housing and Urban Development note, 5.88%, with monthly debt service through 2036, collateralized by elderly housing units   | 3,986      | 4,054    |
| Mortgage note, 7.15%, with principal and interest due monthly through 2012, and \$2,400 due on January 1, 2013, collateralized by real property   | 2,971      | 3,260    |
| Total long-term debt  | 489,056    | 437,861  |
| Less current installments of long-term debt   | (12,523)   | (11,785) |
| Plus unamortized net bond premium   | 1,147      | —        |
| Less long-term debt subject to short-term remarketing arrangements  | (2,320)    | (41,772) |
| Long-term debt, excluding current installments  | \$ 475,360 | 384,304  |

ABHS and certain of its affiliates (ABMC, St. Alexius, ABBHH, ABHN, ABSJ, AVM, AVT, Savelli, ABSV, ABLV, and ABCS, collectively referred to as the Obligated Group) entered into a Master Trust Indenture dated September 1, 1985, as amended and restated. The purpose of the Master Trust Indenture is to provide a mechanism for the efficient and economical issuance of notes by individual members of the Obligated Group using the collective borrowing capacity and credit rating of the Obligated Group. The Master Trust Indenture requires individual members of the Obligated Group to make principal and interest payments on notes issued for their benefit and to pay such amounts as are otherwise necessary to enable the Obligated Group to satisfy other obligations issued under the Master Trust Indenture. Outstanding debt issued by members of the Obligated Group pursuant to the Master Trust Indenture aggregated \$482,099 at December 31, 2010 and \$430,547 at December 31, 2009.

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Obligations issued under the Master Trust Indenture are secured by a direct pledge of the unrestricted receivables of the Obligated Group and a mortgage on ABMC and St. Alexius. The proceeds from each bond issue are administered by bond trustees to comply with the terms of the Master Trust Indenture.

The Series 1988A bonds (Series 1988A Bonds) are secured through December 2013 under an irrevocable direct pay letter of credit arrangement with a bank. The Series 1988A Bonds also have a put option that allows the holders to redeem the bonds prior to maturity. AVM has an agreement with a remarketing agent to remarket any bonds redeemed as a result of the exercise of the put options. If the bonds cannot be remarketed, a bank will purchase the bonds under the letter of credit. In the event the bank does not renew the letter of credit and a substitute letter of credit is not secured, the Series 1988A Bonds would be subject to acceleration.

On February 1, 1999, ABHS issued Revenue Bonds, Series 1999 (ABHS Series 1999 Bonds) in the aggregate amount of \$305,975, through the Illinois Finance Authority. The ABHS Series 1999 Bonds are due in varying annual principal installments through 2028 with interest payable semiannually. Assured Guaranty, formerly, Financial Security Assurance, Inc., issued a Municipal Bond Assurance Policy guaranteeing scheduled principal and interest payments. ABHS advance refunded \$232,245 of ABHS Series 1999 Bonds in 2005 as part of the ABHS Series 2005 Bonds issuance.

On March 18, 1999, AVT issued variable rate Revenue Refunding Bonds, Series 1999 (AVT Series 1999 Bonds) in the amount of \$19,500 through the Health, Educational and Housing Facility Board of the Town of Signal Mountain, Tennessee. The AVT Series 1999 Bonds are due in annual principal installments through 2028. The scheduled principal and interest payments are guaranteed under an insurance policy issued by Assured Guaranty (FSA). Additional security is provided by a standby bond purchase agreement entered through March 2011. The AVT Series 1999 Bonds also have a put option that allows the holders to redeem the bonds prior to maturity. AVT has an agreement with a remarketing agent to remarket any bonds redeemed as a result of the exercise of the put options. If the bonds cannot be remarketed, a bank, under the standby bond purchase agreement, will purchase the bonds.

On April 28, 2004, ABHS issued Variable Rate Demand Revenue Bonds, Series 2004 (Series 2004 Bonds) in the aggregate amount of \$80,000 through the Illinois Finance Authority for the purposes of payment or reimbursement of costs of acquiring, constructing, renovating, remodeling, and equipping certain health facilities, including but not limited to the modernization and expansion of hospital facilities at ABMC, St. Alexius, and ABBHH; fund working capital; and pay certain costs incurred with the bonds. The Series 2004 Bonds are due in varying annual principal installments beginning in 2029 and continuing through 2035. Principal and interest payments are also secured through December 2013 under an irrevocable letter of credit issued by a bank, which has the option to renew the letter of credit for additional successive periods. The Series 2004 Bonds also have a put option that allows the holders to redeem the bonds prior to maturity. ABHS has an agreement with a remarketing agent to remarket any bonds redeemed as a result of the exercise of the put options. If the bonds cannot be remarketed, a bank will purchase the bonds under the letter of credit. In the event the bank does not renew the letter of credit and a substitute letter of credit is not secured, the Series 2004 Bonds would be subject to acceleration.

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On August 11, 2005, ABHS issued Series 2005A Auction Rate Securities (Series 2005A), Series 2005B Auction Rate Securities (Series 2005B), and Series 2005C Variable Rate Demand Revenue Bonds (Series 2005C) (collectively, the Series 2005 Bonds), issued by the Illinois Finance Authority, for the purpose of partial refinancing of the ABHS Series 1999 Bonds. Assured Guaranty, (FSA), insures payment of the principal and interest of the Series 2005 Bonds. On April 14, 2008, ABHS converted the outstanding Illinois Finance Authority Revenue Refunding Bonds Series 2005A and Series 2005B from auction rate securities to fixed rate bonds. The aggregate amounts for each series are set forth below:

- Series 2005A Bonds are fixed rate bonds issued in the aggregate amount of \$87,425. Principal and interest payments on the Series 2005A Bonds are payable semiannually commencing on January 1, 2009 through 2028, with fixed interest rates ranging from 3.00% to 5.50% with an aggregate rate of 5.35%.
- Series 2005B Bonds are fixed rate bonds issued in the aggregate amount of \$85,925. Principal and interest payments on the Series 2005B Bonds are payable semiannually commencing on January 1, 2009 through 2028, with fixed interest rates ranging from 3.00% to 5.50% with an aggregate rate of 5.35%.
- Series 2005C Bonds were variable rate demand revenue securities issued in the aggregate amount of \$80,945. The Series 2005C Bonds were due in varying annual principal installments through 2018, with interest payable monthly. Obligations under the Series 2005C Bonds were also secured through August 2010, provided by a standby bond purchase agreement entered into with a large regional bank. On April 21, 2010, the Series 2005C Bonds were refunded with Illinois Revenue Refunding Bonds, Series 2010 (ABHS Series 2010 Bonds).

On April 23, 2008, ABHS issued Revenue Bonds, Series 2008 (ABHS Series 2008 Bonds) in the aggregate amount of \$45,000 through the Illinois Finance Authority. The ABHS Series 2008 Bonds are due in varying annual principal installments beginning February 2029 through January 2038 with interest payable semiannually at an effective rate of 5.50%. The ABHS Series 2008 are supported by a debt service reserve of \$4,500. Proceeds of the ABHS Series 2008 Bonds were used for payment or reimbursement of costs of acquiring, constructing, renovating, remodeling, and equipping certain health facilities, including but not limited to the modernization and expansion of hospital facilities at ABMC; fund working capital; and to pay certain costs incurred with the bonds.

On July 23, 2009, ABHS issued ABHS Series 2009 Bonds in the aggregate amount of \$13,607 through the Illinois Finance Authority, and purchased by JP Morgan Chase Bank, N.A. as a Direct Purchase Tax-Exempt Qualified Bond. The ABHS Series 2009 Bonds were issued for the purpose of refinancing the Series 1985D Bonds. Aggregate trustee funds on deposit for the Series 1985D Bonds on the issue date were prorated to the outstanding principal installments for the ABHS Series 2009 Bonds. The ABHS 2009 Bonds are due in varying annual principal installments beginning January 2010 through January 2016 with interest payable monthly and have no puttable option.

On April 21, 2010, ABHS issued ABHS Series 2010 Bonds in the aggregate amount of \$133,400 through the Illinois Finance Authority. The ABHS Series 2010 Bonds are due in varying annual principal

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installments beginning February 2011 through February 2030 with interest payable semiannually at an effective rate of 4.975%. The ABHS Series 2010 Bonds are supported by a debt service reserve of \$12,000. Proceeds of the ABHS Series 2010 Bonds were used for payment to refund the ABHS Series 2005C Bonds in the amount outstanding of \$70,420, payment or reimbursement of costs of acquiring, constructing, renovating, remodeling, and equipping certain health facilities, including but not limited to the modernization and expansion of hospital facilities at SAMC; to fund the debt service reserve; and to pay certain costs incurred with the bonds.

On October 29, 2010, ABHS entered into a Loan Agreement (Agreement) with the Bank of America to finance working capital needs. Under the terms of the Agreement, ABHS has a line of credit in the amount of \$25,000 for the term of one year. Interest payable for borrowings under the Agreement is fixed at the time of borrowing with interest rates determined by the prime rate or the Libor rate. There were no outstanding borrowings on the line of credit at December 31, 2010.

The Corporations have the option of converting any or all of the variable rate bonds to fixed rate bonds without put options under certain conditions.

Deferred finance charges consist of insurance premiums, underwriter fees, and other issuance costs related to the issuance of the revenue bonds and are being amortized using the bonds outstanding method.

ABHS's effective interest rates for variable debt for the years ended December 31, 2010 and 2009 are as follows:

|                                | 2010 | 2009 |
|--------------------------------|------|------|
| Variable interest rate issues: |      |      |
| Series 2009 Bonds              | 2.56 | 2.42 |
| Series 2005C Bonds             | 0.22 | 0.43 |
| Series 2004 Bonds              | 0.26 | 0.28 |
| Series 1985D Bonds             | —    | 5.36 |
| Series 1988A Bonds             | 0.33 | 0.61 |
| AVT Series 1999 Bonds          | 0.39 | 0.39 |
| Loan agreement                 | —    | 1.65 |

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ABHS has variable rate demand notes that have put options available to the creditors. If the put option is exercised, the bonds are presented to the bank, which in turn draws on the underlying letter of credit. The variable debt series and the underlying credit facility terms are described as follows:

| <u>Series</u>         | <u>Terms</u>  |
|-----------------------|---|
| Series 1988A Bonds    | Twelve equal quarterly installments commencing on day 367 following the date of the liquidity draw and ending on the fourth anniversary of the advance. |
| AVT Series 1999 Bonds | Twenty equal installments every 90 days beginning the 90 days following tender expiring in February 2011.   |
| Series 2004 Bonds     | Twelve equal quarterly installments commencing on day 367 following the date of the liquidity draw and ending on the fourth anniversary of the advance. |

Scheduled principal repayments on long-term debt based on the variable rate demand notes being put back to ABHS and a corresponding draw being made on the underlying letter of credit facility are as follows:

|            |                   |
|------------|-------------------|
| Year:      |                   |
| 2011       | \$ 14,843         |
| 2012       | 44,000            |
| 2013       | 44,520            |
| 2014       | 45,112            |
| 2015       | 16,033            |
| Thereafter | <u>324,548</u>    |
|            | <u>\$ 489,056</u> |

Scheduled principal repayments on the long-term debt based on the scheduled redemptions according to the Master Trust Indenture (MTI) are as follows:

|                          |                   |
|--------------------------|-------------------|
| Year ending December 31: |                   |
| 2011                     | \$ 12,523         |
| 2012                     | 13,114            |
| 2013                     | 13,734            |
| 2014                     | 14,426            |
| 2015                     | 15,113            |
| Thereafter               | <u>420,146</u>    |
|                          | <u>\$ 489,056</u> |

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**(9) Derivative Instruments and Hedging Activities**

ABHS has an interest rate related derivative instrument to manage its exposure on debt instruments. By using the derivative financial instrument to hedge exposures to changes in interest rates, ABHS is exposed to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contracts. When the fair value of a derivative contract is positive, the counterparty owes ABHS, which creates credit risk for ABHS. When the fair value of a derivative contract is negative, ABHS owes the counterparty, and therefore, it does not possess credit risk. ABHS minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate changes is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. ABHS management also mitigates risk through periodic reviews of its derivative positions in the context of their total blended cost of capital.

***2005C Interest Rate Swap Agreement***

In an effort to lower its overall cost of capital on the 2005C debt, ABHS entered into an interest rate swap agreement in June 2005. The interest rate swap agreement is not designated as a cash flow hedge instrument by ABHS' management. The changes in the fair value of the Series 2005C interest rate swap agreement of \$(729) for 2010 and \$2,618 for 2009 are recognized as a component of investment income (loss) in nonoperating gains in the accompanying consolidated statements of operations. Under the Series 2005C swap agreement, ABHS receives, monthly, 58.20% of one-month LIBOR plus 40 basis points and makes payments at an annual fixed rate of 3.089% through April 2028.

The fair value of the Series 2005 interest rate swap agreements of \$3,569 and \$2,840 at December 31, 2010 and 2009, respectively, is included as a component of other long-term liabilities in the accompanying consolidated balance sheets. The differential to be paid or received under the Series 2005 interest rate swap agreements is recognized monthly and amounted to net payments of \$1,778 and \$1,935 in 2010 and 2009, respectively, which has been included in nonoperating investment income in the accompanying consolidated statements of operations. The value of the swap has been reduced by a credit valuation adjustment of approximately \$77 and \$46 at December 31, 2010 and 2009, respectively.

A summary of outstanding positions under the interest rate swap agreements at December 31, 2010 is as follows:

| <u>Series</u> | <u>Notional amount</u> | <u>Maturity date</u> | <u>Rate received</u>              | <u>Rate paid</u> |
|---------------|------------------------|----------------------|-----------------------------------|------------------|
| 2005C         | \$ 70,420              | January 1, 2018      | 58.20% of LIBOR + 40 basis points | 3.089%           |

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A summary of outstanding positions under the interest rate swap agreements at December 31, 2009 is as follows:

| <u>Series</u> | <u>Notional amount</u> | <u>Maturity date</u> | <u>Rate received</u>              | <u>Rate paid</u> |
|---------------|------------------------|----------------------|-----------------------------------|------------------|
| 2005C         | \$ 77,920              | January 1, 2018      | 58.20% of LIBOR + 40 basis points | 3.089%           |

**(10) Retirement Plans**

The Corporations sponsor various noncontributory defined benefit pension plans (Plans) for the benefit of certain eligible employees of participating entities. The normal retirement benefit of the Plans is a monthly retirement income, which is computed based on a cash balance accumulated from employer contributions and interest earnings thereon tied to the 10-year treasury bill rate. The normal benefit is payable to a married participant as a 50% joint and survivor annuity and to a single participant as a life only annuity. Alternative forms of payment are available. Contributions made to the Plans are calculated by multiplying each employee's annual earnings by percentages that vary depending on the employee's years of credited service. The assets of the Plans are held in a bank-administered trust. Active participants are also eligible to participate in the Alexian Brothers Retirement Savings 401(k) Plan (the 401(k) Plan), which permits them to defer income and receive a matching contribution to a portion of the savings.

Effective December 31, 2009, ABHS amended the Basic Plan to close participation to employees hired on or after January 1, 2010. Eligible participants as of December 31, 2009, employees hired during 2009, and certain groups of employees who were not currently at work on December 31, 2009 but returned to work within the provisions of the Plan continue to be eligible to participate in the Plan. Additionally, the 401(k) Plan was amended effective January 1, 2010 to add a Retirement Contribution Account (Account) for employees hired on or after January 1, 2010. This Account provides for a contribution to the 401(k) Plan based upon earnings and years of service for eligible employees without regard to whether they are currently deferring their own savings.

The Corporations recognize the cost related to employee service using the unit credit cost method. Gains and losses, calculated as the difference between estimates and actual amounts of plan assets and the projected benefit obligation, and prior service costs are amortized over the expected future service period. The excess of plan assets over the projected benefit obligation at transition is also amortized over the expected future service period.

ABHS accounts for the defined benefit pension plan in accordance with ASC Topic 715, *Employer Accounting for Defined Benefit Pension and Other Postretirement Plans*. ASC Topic 715 recognition in the consolidated balance sheet of the funded status of defined benefit pension plans and other postretirement benefit plans, including all previously unrecognized actuarial gains and losses and unamortized prior service cost, as a component of unrestricted net assets.

The actuarial funding method used in the actuarial valuation for 2010 and 2009 is the projected unit credit cost method. The measurement date for plan liabilities and assets is January 1.

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The following tables set forth the Plans' Basic Pension Plan and SERP Restoration Plan funded status, amounts recognized in the accompanying consolidated financial statements, and assumptions used in determining the benefit obligation at December 31:

|  | 2010        | 2009     |
|--|-------------|----------|
| Change in benefit obligation:  |             |          |
| Projected benefit obligation at beginning of year  | \$ 103,454  | 89,165   |
| Service cost   | 10,527      | 8,591    |
| Interest cost  | 5,231       | 5,580    |
| Actuarial gains (losses)   | (1,268)     | 3,417    |
| Benefits paid  | (7,025)     | (3,299)  |
| Projected benefit obligation at end of year  | \$ 110,919  | 103,454  |
| Change in plan assets:   |             |          |
| Fair value of plan assets at beginning of year   | \$ 83,342   | 64,890   |
| Actual return on plan assets   | 7,030       | 10,223   |
| Employer contributions   | 11,507      | 11,528   |
| Benefits paid  | (7,025)     | (3,299)  |
| Fair value of plan assets at end of year   | \$ 94,854   | 83,342   |
| Reconciliation of funded status:   |             |          |
| Funded status  | \$ (16,065) | (20,112) |
| Amounts recognized in the accompanying consolidated balance sheets:  |             |          |
| Accrued benefit liability  | \$ (8)      | (18)     |
| Other long-term liabilities  | (16,057)    | (20,094) |
| Net amounts recognized in the accompanying consolidated balance sheets   | \$ (16,065) | (20,112) |
| Amounts not yet reflected in net periodic benefit cost and included as an accumulated credit to unrestricted net assets: |             |          |
| Net actuarial loss   | \$ 30,327   | 35,023   |
| Prior service cost   | (1,569)     | (2,348)  |
| Net amounts included as an accumulated charge to unrestricted net assets   | \$ 28,758   | 32,675   |

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|  | 2010       | 2009     |
|--|------------|----------|
| Calculation of change in unrestricted net assets:  |            |          |
| Accumulated unrestricted net assets, end of year   | \$ 28,758  | 32,675   |
| Reversal of accumulated unrestricted net assets, prior year                                      | (32,675)   | (36,172) |
| Change in unrestricted net assets  | \$ (3,917) | (3,497)  |
| Other changes in plan assets and benefit obligations recognized in unrestricted net assets:      |            |          |
| Net gain experienced during the year   | \$ (2,202) | (972)    |
| Amortization of unrecognized net loss  | (2,494)    | (3,304)  |
| Amortization of unrecognized prior service cost  | 779        | 779      |
| Net amounts recognized in unrestricted net assets  | \$ (3,917) | (3,497)  |
| Estimate of amounts that will be amortized out of unrestricted net assets into net pension cost: |            |          |
| Net loss   | \$ 1,707   | 2,575    |
| Prior service cost   | (779)      | (779)    |
|  | 2010       | 2009     |
| Weighted average assumptions:  |            |          |
| Discount rate – benefit obligation   | 4.60%      | 5.20%    |
| Discount rate – periodic benefit cost  | 5.20       | 6.30     |
| Expected return on plan assets   | 7.00       | 8.50     |
| Rate of compensation increase  | 4.00       | 4.00     |
| Components of net periodic benefit cost:   |            |          |
| Service cost   | \$ 10,527  | 8,591    |
| Interest cost  | 5,231      | 5,580    |
| Expected return on plan assets   | (6,096)    | (5,834)  |
| Amortization of transition asset   | 2,493      | 3,304    |
| Amortization of prior service cost   | (779)      | (778)    |
| Net periodic benefit cost  | \$ 11,376  | 10,863   |

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The following tables set forth the Plans' Bargaining Unit Pension Plan funded status, amounts recognized in the accompanying consolidated financial statements, and assumptions used in determining the benefit obligation at December 31:

|  | <u>2010</u>      | <u>2009</u>   |
|--|------------------|---------------|
| Change in benefit obligation:  |                  |               |
| Projected benefit obligation at beginning of year  | \$ 12,471        | 11,740        |
| Interest cost  | 717              | 721           |
| Actuarial gains  | 750              | 485           |
| Benefits paid  | (555)            | (475)         |
| Projected benefit obligation at end of year  | <u>\$ 13,383</u> | <u>12,471</u> |
| Change in plan assets:   |                  |               |
| Fair value of plan assets at beginning of year   | \$ 9,435         | 8,024         |
| Actual return on plan assets   | 774              | 1,204         |
| Employer contributions   | 530              | 682           |
| Benefits paid  | (555)            | (475)         |
| Fair value of plan assets at end of year   | <u>\$ 10,184</u> | <u>9,435</u>  |
| Amounts recognized in the accompanying consolidated balance sheets:  |                  |               |
| Other long-term liabilities  | \$ (3,199)       | (3,036)       |
| Amounts not yet reflected in net periodic benefit cost and included as an accumulated credit to unrestricted net assets: |                  |               |
| Net actuarial loss   | \$ 5,115         | 4,647         |
| Calculation of change in unrestricted net assets:  |                  |               |
| Accumulated unrestricted net assets, end of year   | \$ 5,115         | 4,647         |
| Reversal of accumulated unrestricted net assets, prior year  | (4,647)          | (4,854)       |
| Change in unrestricted net assets  | <u>\$ 468</u>    | <u>(207)</u>  |
| Estimate of amounts that will be amortized out of unrestricted net assets into net pension cost:                         |                  |               |
| Net loss   | \$ 159           | 145           |

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|   | 2010   | 2009  |
|---|--------|-------|
| Other changes in plan assets and benefit obligations recognized in unrestricted net assets: |        |       |
| Net (gain) loss experienced during the year   | \$ 612 | (59)  |
| Amortization of unrecognized net loss   | (144)  | (148) |
| Net amounts recognized in unrestricted net assets   | \$ 468 | (207) |
|   | 2010   | 2009  |
| Weighted average assumptions:   |        |       |
| Discount rate – benefit obligation  | 5.40%  | 5.90% |
| Discount rate – periodic benefit cost   | 5.90   | 6.30  |
| Expected return on plan assets  | 7.00   | 8.50  |
| Rate of compensation increase   | N/A    | N/A   |
| Components of net periodic benefit cost:  |        |       |
| Interest cost   | \$ 717 | 721   |
| Expected return on plan assets  | (636)  | (661) |
| Amortization of transition asset  | 144    | 148   |
| Net periodic benefit cost   | \$ 225 | 208   |

The accumulated benefit obligation equals the projected benefit obligation at December 31, 2010 and 2009 as disclosed in the previous table.

ABHS's overall expected long-term rate of return on assets is 7.00% and 8.50% at December 31, 2010 and 2009, respectively. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

ABHS expects to contribute \$13,425 to its Plans in 2011.

The benefits expected to be paid in each year from 2011 to 2015 are \$13,565, \$14,391, \$13,914, \$14,209, and \$14,369, respectively. The aggregate benefits expected to be paid in the five years from 2016 to 2020 are \$81,480. The expected benefits are based on the same assumptions used to measure ABHS' benefit obligation at December 31 and include estimated future employee service.

ABHS has developed a Pension Plan Investment Policy and Guidelines (policy), which is reviewed and approved by the ABHS Investment Subcommittee and ratified by the ABHS Finance Committee. The policy established goals and objectives of the fund, asset allocations, allowable and prohibited investments, socially responsible guidelines, and asset classifications as well as specific manager guidelines. The policy dictates that assets should be rebalanced back to target allocations on a quarterly basis. Investments are

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managed by independent advisors. Management monitors the performance of these managers on a monthly basis while quarterly performance measurement is conducted by a third party and reported to the ABHS Investment Subcommittee.

The table below lists the target asset allocation and acceptable ranges and actual asset allocations as of December 31, 2010:

| Asset                         | Target<br>allocation | Acceptable<br>range | Actual<br>allocation at<br>December 31,<br>2010 |
|-------------------------------|----------------------|---------------------|---|
| Cash and equivalents          | —%                   | 0% – 5%             | 11%   |
| Domestic common stocks        | 20                   | 13 – 27             | 20  |
| International equity          | 10                   | 6 – 14              | 10  |
| Intermediate fixed securities | 20                   | 15 – 25             | 10  |
| Enhanced cash                 | 15                   | 10 – 20             | 16  |
| Long/short equity             | 20                   | 15 – 25             | 20  |
| Alternative investments       | 15                   | 10 – 20             | 13  |
| Total                         | <u>100%</u>          | <u>100%</u>         | <u>100%</u>                                     |

The table below lists the target asset allocation and acceptable ranges and actual asset allocations as of December 31, 2009:

| Asset                         | Target<br>allocation | Acceptable<br>range | Actual<br>allocation at<br>December 31,<br>2009 |
|-------------------------------|----------------------|---------------------|---|
| Cash and equivalents          | —%                   | 0% – 5%             | 1%  |
| Domestic common stocks        | 20                   | 13 – 27             | 20  |
| International equity          | 10                   | 6 – 14              | 10  |
| Intermediate fixed securities | 20                   | 15 – 25             | 19  |
| Enhanced cash                 | 15                   | 10 – 20             | 15  |
| Long/short equity             | 20                   | 15 – 25             | 20  |
| Alternative investments       | 15                   | 10 – 20             | 15  |
| Total                         | <u>100%</u>          | <u>100%</u>         | <u>100%</u>                                     |

**(a) Overall Investment Objective**

The overall investment objective of the Pension Plan is to invest the plan assets in a prudent manner to best serve the participants of the Plan. Pension Plan investment assets are to produce investment results, which achieve the Plan's actuarial assumed rate of return, protect the integrity of the Plan,

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assist ABHS in meeting the obligations to the Plan participants, manage risk exposures, focus on downside sensitivities, and to maintain enough liquidity in the portfolio to ensure timely cash outflows and beneficiary payments. The Plans' investments are diversified among various asset classes incorporating multiple strategies and managers to exceed a weighted benchmark return based upon policy asset allocation targets and standard index returns. Major investment decisions are authorized by the Board's Investment Subcommittee, which oversees the Corporations' investment program in accordance with established guidelines.

**(b) *Allocation of Investment Strategies***

The Plan maintains a percent of assets in domestic and international equity stocks to achieve the expected rate of return. To manage risk exposure, the Plans' assets are invested in intermediate term fixed income funds, short-term fixed income funds, and shares or units in alternative investment funds involving hedged strategies and long/short equity funds. Hedged strategies involve funds whose managers have the authority to invest in various asset classes at their discretion, including the ability to invest long and short. Funds with hedged strategies generally hold securities or other financial instruments for which a ready market exists and may include stocks, bonds, put or call options, swaps, currency hedges and other instruments, and are valued accordingly. Because of the inherent uncertainties of valuation, these estimated fair values may differ from values that would have been used had a ready market existed.

**(c) *Basis of Reporting***

Investments are reported at estimated fair value. If an investment is held directly by the Corporations and an active market with quoted prices exists, the market price of an identical security is used as reported fair value. Reported fair values for shares in mutual funds registered with them are based on share prices reported by the funds as of the last business day of the fiscal year. The Corporations' interests in alternative investment funds are generally reported at the NAV reported by the fund managers, which is used as a practical expedient to estimate the fair value of the Corporations' interest.

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The fair value of the Corporations' pension plan assets at December 31, 2010 and 2009, by asset category class, are as follows:

|  | December 31, 2010 |         |         | Total   | Redemption<br>or liquidation | Days'<br>notice |
|--|-------------------|---------|---------|---------|------------------------------|-----------------|
|  | Level 1           | Level 2 | Level 3 |         |                              |                 |
| Pension plan assets excluding accrued interest of \$129: |                   |         |         |         |                              |                 |
| Cash and cash equivalents                                | \$ 11,367         | —       | —       | 11,367  | Daily                        | One             |
| Corporate stocks   | 21,134            | —       | —       | 21,134  | Daily                        | One             |
| Fixed income:  |                   |         |         |         |                              |                 |
| Short-term bond fund                                     | 16,744            | —       | —       | 16,744  | Daily                        | One             |
| Intermediate-term bond fund                              | 10,592            | —       | —       | 10,592  | Daily                        | One             |
| Total fixed income                                       | 27,336            | —       | —       | 27,336  |                              |                 |
| Hedge fund investments:                                  |                   |         |         |         |                              |                 |
| Equity long/short  | —                 | 10,250  | —       | 10,250  | Annually                     | 95              |
| Equity long/short  | —                 | 10,266  | —       | 10,266  | Quarterly                    | 92              |
| Absolute return/<br>multiple strategies                  | —                 | 12,601  | —       | 12,601  | Quarterly                    | 92              |
| Absolute return/<br>multiple strategies                  | —                 | 1,247   | —       | 1,247   | In Redemption                |                 |
| International fund<br>of funds                           | 10,708            | —       | —       | 10,708  | Monthly                      | Five            |
| Total hedge fund investments                             | 10,708            | 34,364  | —       | 45,072  |                              |                 |
| Total pension plan assets \$                             | 70,545            | 34,364  | —       | 104,909 |                              |                 |

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|   | December 31, 2009 |         |         | Total  | Redemption<br>or liquidation | Days'<br>notice |
|---|-------------------|---------|---------|--------|------------------------------|-----------------|
|   | Level 1           | Level 2 | Level 3 |        |                              |                 |
| Pension plan assets excluding accrued interest of \$83: |                   |         |         |        |                              |                 |
| Cash and cash equivalents                               | \$ 681            | —       | —       | 681    | Daily                        | One             |
| Corporate stocks  | 18,802            | —       | —       | 18,802 | Daily                        | One             |
| Fixed income:   |                   |         |         |        |                              |                 |
| Corporate bonds   | —                 | 10,682  | —       | 10,682 | Daily                        | One             |
| Asset-backed securities                                 | —                 | 827     | —       | 827    | Daily                        | One             |
| Commercial mortgage-backed securities                   | —                 | 533     | —       | 533    | Daily                        | One             |
| Nongovernment-backed collateralized mortgage securities | —                 | 224     | —       | 224    | Daily                        | One             |
| Government mortgage-backed securities                   | —                 | 3,142   | —       | 3,142  | Daily                        | One             |
| U.S. Treasury securities                                | —                 | 16,156  | —       | 16,156 | Daily                        | One             |
| Total fixed income                                      | —                 | 31,564  | —       | 31,564 |                              |                 |
| Hedge fund investments:                                 |                   |         |         |        |                              |                 |
| Equity long/short                                       | —                 | 8,910   | —       | 8,910  | Annual                       | 95              |
| Equity long/short                                       | —                 | 8,866   | —       | 8,866  | Annual                       | 92              |
| Absolute return/multiple strategy                       | —                 | 11,461  | —       | 11,461 | Quarterly                    | 92              |
| Absolute return/multiple strategy                       | —                 | 2,809   | —       | 2,809  |                              |                 |
| International fund of funds                             | 9,601             | —       | —       | 9,601  | Monthly                      | Five            |
| Total hedge fund investments                            | 9,601             | 32,046  | —       | 41,647 |                              |                 |
| Total pension plan assets \$                            | 29,084            | 63,610  | —       | 92,694 |                              |                 |

**(d) Fair Value of Financial Instruments**

The following methods and assumptions were used by ABHS in estimating the fair value of its financial instruments of the Plan:

- Fair value for corporate stocks, international equity funds, U.S. government bonds, corporate bonds, municipal bonds, and mortgage and asset-backed securities are measured using quoted market prices at the reporting date multiplied by the quantity held. The Plan has certain investments, principally limited partnerships and similar interests, for which quoted market prices are not available. The estimated fair value of these alternative investments includes

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estimates, appraisals, assumptions, and methods provided by external financial advisors and reviewed by the Plan.

**(e) Fair Value Hierarchy**

The Plan adopted ASC Subtopic 715-20-50 on January 1, 2009 for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. ASC Subtopic 715-20-50 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

The Plan has various alternative investment funds in which the NAV is used as a practical expedient to determine fair value in accordance with ASC Subtopic 820-10-65-6. The Plan has no required commitments to fund the alternative investment funds. The redemption frequency of the alternative investment funds is quarterly with a notice period of 95 days.

In addition, Thelen and BMG (now ABAG) each sponsor a contributory 401(k) plan (Plan) that covers substantially all employees. Participants may contribute a percentage of their salary up to the IRS limits. The ABAG Plan was amended in June 2009 to provide for a dollar for dollar match on the first two percent of earnings the employee saves. Employees who were eligible participants in the previous BMG 401(k) plan also became eligible to participate in the ABAG defined benefit plan as of July 1, 2009. As part of these amendments, sponsorship of the ABAG Plan was assumed by ABHS. The Thelen Plan may also make contributions starting January 1, 2008. Cost recognized in the consolidated financial statements pursuant to the terms of the Plan totaled approximately \$4,645 and \$4,722 for the years ended December 31, 2010 and 2009, respectively, and is reflected as employee benefits expense in the accompanying consolidated statements of operations. The Plan is funded on a current basis.

**(11) Professional and General Liability Insurance**

The Corporations are insured for general and professional liability primary and excess insurance through Edessa, a wholly owned subsidiary of ABMC. Excess coverage provided by Edessa is reinsured to outside commercial insurance providers. From time to time, the Corporations have also obtained primary and excess insurance coverage directly from outside insurance carriers or from the Chicago Hospital Risk Pooling Program (CHRPP) on an occurrence basis.

Edessa has provided for the ultimate cost of reported losses on a claims-made basis, and the Corporations have accrued for losses incurred but not reported based upon projections by ABHS management and independent actuaries for coverage periods not covered by commercial insurance or CHRPP. Such losses are included in the accompanying consolidated financial statements as reserve for outstanding insurance losses. Included in other insurance and taxes expense are provisions of \$25,109 and \$23,608 for professional and general liability program expenses in 2010 and 2009, respectively.

It is management's opinion that the reserve for outstanding insurance losses is adequate to cover ultimate losses incurred to date.

**ALEXIAN BROTHERS HEALTH SYSTEM  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(In thousands)

**(12) Master Compensation Deferral Plan**

Certain Alexian Brothers organizations participate in a Master Compensation Deferral Plan that was established by the American Hospital Association (AHA Plan). Pursuant to the AHA Plan, eligible employees are able to defer a portion of their annual compensation, which the Corporations deposit into an investment pool managed by an insurance company. The normal retirement benefit of the AHA Plan is a life annuity based upon the accumulated asset balance at the time of retirement. The balance of this fully funded obligation amounted to \$3,769 and \$4,437 as of December 31, 2010 and 2009, respectively. The AHA Plan assets and offsetting liability are not included in the accompanying consolidated financial statements. Effective December 31, 2006, no new employees are eligible for the AHA Plan.

**(13) Operating Leases**

ABHS occupies space in certain facilities under long-term noncancelable operating lease arrangements. Total equipment rental, asset lease, and facility rental expense in 2010 and 2009 was \$22,000 and \$24,100, respectively.

The following is a schedule by year of future minimum lease payments to be made under operating leases as of December 31, 2010 that have initial or remaining lease terms in excess of one year:

|                          | <b>Amount</b> |
|--------------------------|---------------|
| Year ending December 31: |               |
| 2011                     | \$ 20,307     |
| 2012                     | 16,356        |
| 2013                     | 14,410        |
| 2014                     | 12,976        |
| 2015                     | 10,928        |
| Thereafter               | 11,353        |
| Total                    | \$ 86,330     |

**(14) Commitments and Contingencies**

**(a) Self-Insurance**

ABMC, St. Alexius, and ABBHH are self-insured for workers' compensation. Provisions for workers' compensation claims include estimates of the ultimate cost of known claims as well as claims incurred but not reported as of the consolidated balance sheet dates. Included in accrued expenses at December 31, 2010 and 2009 are approximately \$3,069 and \$3,377, respectively, of accrued workers' compensation claims pursuant to the self-insured workers' compensation program. Provisions for the self-insured workers' compensation claims of \$2,023 in 2010 and \$3,009 in 2009 are included in insurance and taxes expense as the best estimate of workers' compensation insurance costs. Nonhospital ABHS subsidiaries are commercially insured for workers' compensation. Management is currently unaware of any workers' compensation claims that exceed commercial insurance limits.

**ALEXIAN BROTHERS HEALTH SYSTEM  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(In thousands)

Under the requirements established by the State, an organization must maintain a letter of credit to qualify as a private self-insurer, which was established by the Corporations in the amount of \$3,175 and \$2,850 at December 31, 2010 and 2009, respectively. In connection with workers' compensation insurance obtained through an outside insurance carrier, the Corporations have established bank letters of credit totaling \$1,907 and \$2,018 at December 31, 2010 and 2009, respectively. There were no outstanding draws on these lines as of December 31, 2010 and 2009.

ABHS and ABHN are also self-insured for employee health claims. ABHS has developed internal techniques for estimating the ultimate costs of health claims. Estimates of the ultimate cost of known claims as well as incurred but not reported claims of \$3,854 and \$3,776 at December 31, 2010 and 2009, respectively, are included with accrued expenses in the accompanying consolidated balance sheets. Provisions for self-insured employee health claims of \$42,453 and \$44,290 at December 31, 2010 and 2009, respectively, are included in employee benefits expense. Stop-loss reinsurance coverage is maintained for claims in excess of stop-loss limits. There are no assurances that ABHS and ABHN will be able to renew existing policies or procure coverage on similar terms in the future.

**(b) Medicare and Medicaid Reimbursement**

ABHS participates as a provider under the Medicare program. Federal legislation routinely includes provisions to change Medicare reimbursement mechanisms and reimbursement levels. Future Medicare legislation may have an adverse effect on ABHS' net patient and resident service revenues.

Medicaid payment methodologies and rates may be subject to modification based on the amount of funding available to the State of Illinois Medicaid program.

In 2010, ABMC and St. Alexius received notice from the Medicare program requiring that they provide Medicare with documentation for claims to carry out the Recovery Audit Contracting (RAC) program. ABMC and St. Alexius are responding to the request. Future review of the claims through the RAC program may have an adverse effect on ABMC and St. Alexius' net patient and resident service revenues.

**(c) Regulatory Investigations**

The U.S. Department of Justice and other federal agencies routinely conduct regulatory investigations and compliance audits of healthcare providers. ABHS is subject to these regulatory efforts. Management is currently unaware of any regulatory matters that may have a material adverse effect on ABHS's financial position or results of operations.

**ALEXIAN BROTHERS HEALTH SYSTEM  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(In thousands)

**(d) Charity Care Legislation**

The Illinois attorney general and state legislature are considering legislation directed at Illinois not-for-profit hospitals. Such legislation could mandate the level of charity care, as defined by the State, that hospitals must provide in the future in order to retain state and local tax exemption benefits. Management is unable to predict the outcome of these legislative initiatives and any related impact such legislation may have on the Corporations.

**(e) Risks and Uncertainties**

The Corporations invest in various investment securities. Investment securities are exposed to various risks such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying consolidated balance sheets.

**(15) Subsequent Events**

In connection with the preparation of the consolidated financial statements and in accordance with the recently issued ASC Topic 855, *Subsequent Events*, the Corporations evaluated subsequent events after the consolidated balance sheet date of December 31, 2010 through March 16, 2011, which was the date the financial statements were available to be issued noting no events requiring recording or disclosure.

ALEXIAN BROTHERS HEALTH SYSTEM  
AND SUBSIDIARIES

Consolidating Schedule - Balance Sheet Information

December 31, 2010

(In thousands)

| Assets   | Alexian<br>Brothers<br>Health<br>System | Alexian<br>Brothers<br>Hospital<br>Network | Alexian<br>Brothers<br>Senior<br>Ministries | Alexian<br>Brothers<br>Health<br>System, Inc.<br>Investment<br>Trust | Alexian<br>Brothers<br>of<br>St. Louis, Inc. | Alexian<br>Brothers<br>Services,<br>Inc. | Eliminations | Consolidated<br>total |
|--|---|--|---|--|--|--|--------------|-----------------------|
| Current assets:  |   |  |   |  |  |  |              |                       |
| Cash and cash equivalents  | \$ (10,090)                             | 24,542                                     | 32  | —  | —  | 67                                       | —            | 14,551                |
| Receivables:   |   |  |   |  |  |  |              |                       |
| Patient and resident accounts, less allowance for uncollectible accounts of approximately \$29,500 | —                                       | 93,659                                     | 5,684                                       | —  | —  | 7  | —            | 99,350                |
| Other  | 8,019                                   | 3,657                                      | 3,387                                       | —  | —  | —  | —            | 15,063                |
| Total receivables  | 8,019                                   | 97,316                                     | 9,071                                       | —  | —  | 7  | —            | 114,413               |
| Assets limited as to use - required for current liabilities  | 14,965                                  | —  | —   | —  | —  | —  | —            | 14,965                |
| Inventory of supplies  | 3,045                                   | 12,582                                     | 520   | —  | —  | —  | —            | 16,147                |
| Prepaid expenses   | 4,458                                   | 2,321                                      | 483   | —  | —  | 2  | —            | 7,264                 |
| Total current assets   | 20,397                                  | 136,761                                    | 10,106                                      | —  | —  | 76                                       | —            | 167,340               |
| Assets limited as to use:  |   |  |   |  |  |  |              |                       |
| Board-designated   | 1,349                                   | 322  | 810   | 396,288  | —  | —  | (9,247)      | 389,522               |
| Trustee-held funds   | 51,879                                  | —  | 847   | —  | —  | 660                                      | —            | 53,386                |
| Assets held by captive insurance company   | —                                       | 93,431                                     | —   | —  | —  | —  | —            | 93,431                |
| Due from affiliates  | 235,221                                 | 63,183                                     | 89,614                                      | —  | —  | —  | (388,018)    | —                     |
| Total assets limited as to use   | 288,449                                 | 158,936                                    | 91,271                                      | 396,288  | —  | 660                                      | (397,265)    | 538,339               |
| Less assets limited as to use - required for current liabilities                                   | 14,965                                  | —  | —   | —  | —  | —  | —            | 14,965                |
| Noncurrent assets limited as to use  | 273,484                                 | 158,936                                    | 91,271                                      | 396,288  | —  | 660                                      | (397,265)    | 523,374               |
| Land, buildings, and equipment, net  | 38,830                                  | 413,387                                    | 84,938                                      | —  | —  | 2,301                                    | —            | 539,456               |
| Other assets:  |   |  |   |  |  |  |              |                       |
| Due from affiliates  | 3,407                                   | —  | 215   | 1,129  | —  | —  | (4,751)      | —                     |
| Deferred finance charges, net  | 10,213                                  | —  | 621   | —  | —  | —  | —            | 10,834                |
| Land held for future development, at cost  | 2,313                                   | 7,203                                      | 695   | —  | —  | —  | —            | 10,211                |
| Excess of purchase price over net assets acquired, net   | 74,052                                  | 302  | —   | —  | —  | —  | —            | 74,354                |
| Restricted assets  | 1,755                                   | 4,965                                      | 3,291                                       | —  | —  | —  | —            | 10,011                |
| Notes, deposits, and other investments in subsidiaries   | 8,224                                   | 3,934                                      | —   | —  | —  | 138                                      | (1)          | 12,296                |
| Total other assets   | 99,965                                  | 16,404                                     | 4,822                                       | 1,129  | —  | 138                                      | (4,752)      | 117,706               |
| Total assets   | \$ 432,676                              | 725,488                                    | 191,137                                     | 397,417  | —  | 3,175                                    | (402,017)    | 1,347,876             |

**ALEXIAN BROTHERS HEALTH SYSTEM  
AND SUBSIDIARIES**

Consolidating Schedule - Balance Sheet Information

December 31, 2010

(In thousands)

|   | Alexian<br>Brothers<br>Health<br>System | Alexian<br>Brothers<br>Hospital<br>Network | Alexian<br>Brothers<br>Senior<br>Ministries | Alexian<br>Brothers<br>Health<br>System, Inc.<br>Investment<br>Trust | Alexian<br>Brothers of<br>St. Louis, Inc. | Alexian<br>Brothers<br>Services,<br>Inc. | Eliminations     | Consolidated<br>total |
|---|---|--|---|--|---|--|------------------|-----------------------|
| <b>Liabilities and Net Assets</b>                             |   |  |   |  |   |  |                  |                       |
| <b>Current liabilities:</b>                                   |   |  |   |  |   |  |                  |                       |
| Current installments of long-term debt                        | \$ 10,851                               | —  | 1,600                                       | —  | —   | 72                                       | —                | 12,523                |
| Long-term debt subject to short-term remarketing arrangements | —                                       | —  | 2,320                                       | —  | —   | —  | —                | 2,320                 |
| Accounts payable  | 6,891                                   | 17,123                                     | 3,221                                       | —  | —   | 21                                       | —                | 27,256                |
| Accrued expenses  | 26,288                                  | 46,516                                     | 4,846                                       | 153  | 21  | 28                                       | 157              | 78,009                |
| Estimated payables under third-party reimbursement programs   | —                                       | 86,822                                     | —   | —  | —   | —  | —                | 86,822                |
| Other   | 10,740                                  | 4,073                                      | 3,130                                       | —  | —   | 25                                       | —                | 17,968                |
| <b>Total current liabilities</b>                              | <b>54,770</b>                           | <b>154,534</b>                             | <b>15,117</b>                               | <b>153</b>   | <b>21</b>                                 | <b>146</b>                               | <b>157</b>       | <b>224,898</b>        |
| Deferred accommodation fees and deposits                      | —                                       | —  | 48,544                                      | —  | —   | —  | —                | 48,544                |
| Reserve for outstanding insurance losses                      | 7                                       | 113,480                                    | 238   | —  | —   | —  | —                | 113,725               |
| Long-term debt, excluding current installments                | 452,066                                 | —  | 19,380                                      | —  | —   | 3,914                                    | —                | 475,360               |
| Other   | 21,904                                  | 5,643                                      | —   | —  | —   | —  | —                | 27,547                |
| Due to affiliates   | (3,073)                                 | 6,768                                      | 1,129                                       | 397,264  | 85  | —  | (402,173)        | —                     |
| <b>Total liabilities</b>                                      | <b>525,674</b>                          | <b>280,425</b>                             | <b>84,408</b>                               | <b>397,417</b>   | <b>106</b>                                | <b>4,060</b>                             | <b>(402,016)</b> | <b>890,074</b>        |
| <b>Net assets (liabilities):</b>                              |   |  |   |  |   |  |                  |                       |
| Unrestricted  | (94,753)                                | 440,098                                    | 103,438                                     | —  | (106)                                     | (885)                                    | (1)              | 447,791               |
| Temporarily restricted  | 1,755                                   | 4,036                                      | 2,606                                       | —  | —   | —  | —                | 8,397                 |
| Permanently restricted  | —                                       | 929  | 685   | —  | —   | —  | —                | 1,614                 |
| <b>Total net assets (liabilities)</b>                         | <b>(92,998)</b>                         | <b>445,063</b>                             | <b>106,729</b>                              | <b>—</b>   | <b>(106)</b>                              | <b>(885)</b>                             | <b>(1)</b>       | <b>457,802</b>        |
| <b>Total liabilities and net assets</b>                       | <b>\$ 432,676</b>                       | <b>725,488</b>                             | <b>191,137</b>                              | <b>397,417</b>   | <b>—</b>                                  | <b>3,175</b>                             | <b>(402,017)</b> | <b>1,347,876</b>      |

See accompanying independent auditors' report.

ALEXIAN BROTHERS HEALTH SYSTEM  
AND SUBSIDIARIES

Consolidating Schedule - Statement of Operations Information  
Year ended December 31, 2010

(In thousands)

|  | Alexian Health System | Alexian Hospital Network | Alexian Brothers Senior Ministries | Alexian Brothers Health Investment Trust | Alexian Brothers of St. Louis, Inc. | Alexian Brothers Services, Inc. | Eliminations | Consolidated total |
|--|-----------------------|--------------------------|------------------------------------|--|-------------------------------------|---------------------------------|--------------|--------------------|
| Unrestricted revenues, gains, and other support:   |                       |                          |                                    |  |                                     |                                 |              |                    |
| Net patient and resident service revenues  | —                     | 817,882                  | 63,532                             | —  | —                                   | —                               | —            | 881,414            |
| Capitation revenues  | —                     | 4,704                    | 32,328                             | —  | —                                   | —                               | (6)          | 37,026             |
| Investment income  | —                     | 4,374                    | —                                  | —  | —                                   | —                               | —            | 4,374              |
| Other  | 29,863                | 20,267                   | 4,165                              | —  | —                                   | 907                             | (28,232)     | 26,970             |
| Net assets released from restrictions used for operations  | —                     | 2,286                    | 482                                | —  | —                                   | —                               | —            | 2,768              |
| Total unrestricted revenues, gains, and other support  | 29,863                | 849,513                  | 100,507                            | —  | —                                   | 907                             | (28,238)     | 952,552            |
| Expenses:  |                       |                          |                                    |  |                                     |                                 |              |                    |
| Salaries and wages   | 16,521                | 325,899                  | 38,151                             | —  | —                                   | 69                              | (4,757)      | 375,883            |
| Employee benefits  | 7,742                 | 77,349                   | 9,035                              | —  | —                                   | 31                              | (6,857)      | 87,300             |
| Supplies and other   | 730                   | 142,380                  | 11,764                             | —  | —                                   | 23                              | —            | 154,897            |
| Purchased services   | 5,087                 | 103,801                  | 19,888                             | —  | 78                                  | 93                              | (16,624)     | 112,323            |
| Provision for bad debts  | 1                     | 29,261                   | 571                                | —  | —                                   | 10                              | —            | 29,843             |
| Repairs and maintenance  | 346                   | 25,892                   | 1,918                              | —  | —                                   | 194                             | —            | 28,350             |
| Utilities  | 802                   | 9,775                    | 3,073                              | —  | —                                   | 102                             | —            | 13,752             |
| Insurance and taxes  | 442                   | 57,280                   | 3,922                              | —  | —                                   | 30                              | —            | 61,674             |
| Interest   | (786)                 | 19,118                   | 381                                | 21,952                                   | —                                   | 236                             | (22,010)     | 18,891             |
| Restructuring  | —                     | 352                      | —                                  | —  | —                                   | —                               | —            | 352                |
| Depreciation and amortization  | 784                   | 40,596                   | 6,517                              | —  | —                                   | 151                             | —            | 48,048             |
| Total expenses   | 31,669                | 831,703                  | 95,220                             | 21,952                                   | 78                                  | 939                             | (50,248)     | 931,313            |
| Income (loss) from operations  | (1,806)               | 17,810                   | 5,287                              | (21,952)                                 | (78)                                | (32)                            | 22,010       | 21,239             |
| Nonoperating gains (losses):   |                       |                          |                                    |  |                                     |                                 |              |                    |
| Investment income  | 14,031                | 186                      | 5,096                              | 21,952                                   | —                                   | 1                               | (22,010)     | 19,256             |
| Unrestricted gifts and bequests  | —                     | —                        | 113                                | —  | —                                   | —                               | —            | 113                |
| Loss on bond refinancing   | (1,750)               | —                        | —                                  | —  | —                                   | —                               | —            | (1,750)            |
| Other, net   | —                     | (241)                    | —                                  | —  | —                                   | —                               | —            | (241)              |
| Nonoperating gains (losses), net   | 12,281                | (55)                     | 5,209                              | 21,952                                   | —                                   | 1                               | (22,010)     | 17,378             |
| Unrestricted revenues, gains, and other support in excess (deficient) of expenses and nonoperating gains (losses), net | 10,475                | 17,755                   | 10,496                             | —  | (78)                                | (31)                            | —            | 38,617             |
| Other changes in unrestricted net assets:  |                       |                          |                                    |  |                                     |                                 |              |                    |
| Transfers from (to) affiliates and affiliated organization   | 25,542                | (25,542)                 | —                                  | —  | —                                   | —                               | —            | —                  |
| Minority interest  | —                     | 96                       | —                                  | —  | —                                   | —                               | —            | 96                 |
| Net assets released from restrictions used for purchase of land, buildings, and equipment                              | —                     | 1,149                    | 36                                 | —  | —                                   | —                               | —            | 1,185              |
| Recognition of change in pension funded status   | 3,449                 | —                        | —                                  | —  | —                                   | —                               | —            | 3,449              |
| Change in unrestricted net assets  | 39,466                | (6,542)                  | 10,532                             | —  | (78)                                | (31)                            | —            | 43,347             |

See accompanying independent auditors' report.

**ALEXIAN BROTHERS HEALTH SYSTEM  
AND SUBSIDIARIES**

Consolidating Schedule – Changes in Net Assets (Liabilities) Information

Year ended December 31, 2010

(in thousands)

|  | Alexian<br>Brothers<br>Health<br>System | Alexian<br>Brothers<br>Hospital<br>Network | Alexian<br>Brothers<br>Senior<br>Ministries | Alexian<br>Brothers of<br>St. Louis, Inc. | Alexian<br>Brothers<br>Services,<br>Inc. | Eliminations | Consolidated<br>total |
|--|---|--|---|---|--|--------------|-----------------------|
| Unrestricted net assets:   |   |  |   |   |  |              |                       |
| Unrestricted revenues, gains, and other support in excess (deficient) of expenses and nonoperating gains (losses), net | \$ 10,475                               | 17,755                                     | 10,496                                      | (78)                                      | (31)                                     | —            | 38,617                |
| Other changes in unrestricted net assets:  |   |  |   |   |  |              |                       |
| Transfers from (to) affiliates and affiliated organization   | 25,542                                  | (25,542)                                   | —   | —   | —  | —            | —                     |
| Minority interest  | —                                       | 96   | —   | —   | —  | —            | 96                    |
| Net assets released from restrictions used for purchase of land, buildings, and equipment                              | —                                       | 1,149                                      | 36  | —   | —  | —            | 1,185                 |
| Recognition of change in pension funded status   | 3,449                                   | —  | —   | —   | —  | —            | 3,449                 |
| Change in unrestricted net assets  | 39,466                                  | (6,542)                                    | 10,532                                      | (78)                                      | (31)                                     | —            | 43,347                |
| Temporarily restricted net assets:   |   |  |   |   |  |              |                       |
| Contributions for specific purposes  | —                                       | 3,249                                      | 260   | —   | —  | —            | 3,509                 |
| Investment income  | —                                       | 203  | 56  | —   | —  | —            | 259                   |
| Other transfers  | 55                                      | (55)                                       | —   | —   | —  | —            | —                     |
| Net assets released from restrictions used for purchase of land, buildings, and equipment                              | —                                       | (1,149)                                    | (36)  | —   | —  | —            | (1,185)               |
| Net assets released from restrictions used for operations  | —                                       | (2,286)                                    | (482)                                       | —   | —  | —            | (2,768)               |
| Change in temporarily restricted net assets  | 55                                      | (38)                                       | (202)                                       | —   | —  | —            | (185)                 |
| Permanently restricted net assets:   |   |  |   |   |  |              |                       |
| Investment income (loss)   | —                                       | 5  | (7)   | —   | —  | —            | (2)                   |
| Change in permanently restricted net assets  | —                                       | 5  | (7)   | —   | —  | —            | (2)                   |
| Change in net assets (liabilities)   | 39,521                                  | (6,575)                                    | 10,323                                      | (78)                                      | (31)                                     | —            | 43,160                |
| Net assets (liabilities) at beginning of year  | (132,519)                               | 451,638                                    | 96,406                                      | (28)                                      | (854)                                    | (1)          | 414,642               |
| Net assets (liabilities) at end of year  | \$ (92,998)                             | 445,063                                    | 106,729                                     | (106)                                     | (885)                                    | (1)          | 457,802               |

See accompanying independent auditors' report.

**ALEXIAN BROTHERS HEALTH SYSTEM  
AND SUBSIDIARIES**

Alexian Brothers Health System Obligated Group Consolidating Schedule – Balance Sheet Information

December 31, 2010

(In thousands)

| Assets   | Alexian<br>Brothers<br>Health<br>System | Alexian<br>Brothers<br>Hospital<br>Network | Alexian<br>Brothers<br>Medical<br>Center | Saint<br>Alexius<br>Medical<br>Center | Alexian<br>Brothers<br>Behavioral<br>Health<br>Hospital | Savelli<br>Properties,<br>Inc. |
|--|---|--|--|---------------------------------------|---|--------------------------------|
| <b>Current assets:</b>   |   |  |  |                                       |   |                                |
| Cash and cash equivalents  | \$ (10,090)                             | 27   | 5,006                                    | 15,139                                | 1,148   | 1,684                          |
| <b>Receivables:</b>  |   |  |  |                                       |   |                                |
| Patient and resident accounts, less allowance for uncollectible accounts of approximately \$28,800 | —                                       | —  | 48,345                                   | 31,884                                | 6,888   | 24                             |
| Other  | 8,019                                   | —  | 1,177                                    | 1,492                                 | 54  | 43                             |
| <b>Total receivables</b>   | <b>8,019</b>                            | <b>—</b>                                   | <b>49,522</b>                            | <b>33,376</b>                         | <b>6,942</b>  | <b>67</b>                      |
| Assets limited as to use – required for current liabilities  | 14,965                                  | —  | —  | —                                     | —   | —                              |
| Inventory of supplies  | 3,045                                   | —  | 8,055                                    | 4,374                                 | 153   | —                              |
| Prepaid expenses   | 4,458                                   | —  | 1,085                                    | 720                                   | 94  | 159                            |
| <b>Total current assets</b>  | <b>20,397</b>                           | <b>27</b>                                  | <b>63,668</b>                            | <b>53,609</b>                         | <b>8,337</b>  | <b>1,910</b>                   |
| <b>Assets limited as to use:</b>   |   |  |  |                                       |   |                                |
| Board-designated   | 236,568                                 | —  | 32,000                                   | 22,000                                | 5,000   | —                              |
| Trustee-held funds   | 51,879                                  | —  | —  | —                                     | —   | —                              |
| <b>Total assets limited as to use</b>  | <b>288,447</b>                          | <b>—</b>                                   | <b>32,000</b>                            | <b>22,000</b>                         | <b>5,000</b>  | <b>—</b>                       |
| Less assets limited as to use – required for current liabilities                                   | 14,965                                  | —  | —  | —                                     | —   | —                              |
| <b>Noncurrent assets limited as to use</b>   | <b>273,482</b>                          | <b>—</b>                                   | <b>32,000</b>                            | <b>22,000</b>                         | <b>5,000</b>  | <b>—</b>                       |
| Advances due from affiliates and uncombined subsidiaries   | 1,601                                   | 21,732                                     | 5,471                                    | 2,426                                 | —   | —                              |
| Land, buildings, and equipment, net  | 38,830                                  | —  | 225,391                                  | 153,075                               | 24,657  | 7,151                          |
| <b>Other assets:</b>   |   |  |  |                                       |   |                                |
| Deferred finance charges, net  | 10,213                                  | —  | —  | —                                     | —   | —                              |
| Land held for future development, at cost  | 2,313                                   | —  | 2,026                                    | 5,177                                 | —   | —                              |
| Excess of purchase price over net assets acquired, net   | 74,052                                  | —  | —  | —                                     | —   | —                              |
| Investments in uncombined subsidiaries   | 1                                       | 2,057                                      | 6,480                                    | —                                     | —   | —                              |
| Restricted assets  | 1,755                                   | —  | 4,227                                    | 340                                   | 54  | —                              |
| Notes, deposits, and other   | 8,224                                   | —  | 219                                      | 1,790                                 | —   | 25                             |
| <b>Total other assets</b>  | <b>96,558</b>                           | <b>2,057</b>                               | <b>12,952</b>                            | <b>7,307</b>                          | <b>54</b>   | <b>25</b>                      |
| <b>Total assets</b>  | <b>\$ 430,868</b>                       | <b>23,816</b>                              | <b>339,482</b>                           | <b>238,417</b>                        | <b>38,048</b>   | <b>9,086</b>                   |
| <b>Liabilities and Net Assets</b>  |   |  |  |                                       |   |                                |
| <b>Current liabilities:</b>  |   |  |  |                                       |   |                                |
| Current installments of long-term debt   | \$ 10,851                               | —  | —  | —                                     | —   | —                              |
| Long-term debt subject to short-term remarketing arrangements                                      | —                                       | —  | —  | —                                     | —   | —                              |
| Accounts payable   | 6,889                                   | —  | 10,253                                   | 5,178                                 | 902   | 6                              |
| Accrued expenses   | 26,288                                  | —  | 22,040                                   | 14,990                                | 5,182   | 225                            |
| Estimated payables under third-party reimbursement programs  | —                                       | —  | 41,853                                   | 41,820                                | 3,149   | —                              |
| Other  | 10,740                                  | 1,653                                      | 1,795                                    | 157                                   | 37  | 14                             |
| <b>Total current liabilities</b>   | <b>54,768</b>                           | <b>1,653</b>                               | <b>75,941</b>                            | <b>62,145</b>                         | <b>9,270</b>  | <b>245</b>                     |
| Advances due to affiliates and uncombined subsidiaries   | (3,073)                                 | 7,896                                      | 10,058                                   | 9,544                                 | 1,212   | 493                            |
| Deferred accommodation fees and deposits   | —                                       | —  | —  | —                                     | —   | —                              |
| Reserve for outstanding insurance losses   | 7                                       | —  | 13,957                                   | 8,413                                 | 1,667   | 7                              |
| Long-term debt, excluding current installments   | 452,066                                 | —  | —  | —                                     | —   | —                              |
| Other  | 18,697                                  | —  | 5,605                                    | —                                     | —   | —                              |
| <b>Total liabilities</b>   | <b>522,465</b>                          | <b>9,549</b>                               | <b>105,561</b>                           | <b>80,102</b>                         | <b>12,149</b>   | <b>745</b>                     |
| <b>Net assets (liabilities):</b>   |   |  |  |                                       |   |                                |
| Unrestricted   | (93,352)                                | 14,267                                     | 229,694                                  | 157,975                               | 25,845  | 8,341                          |
| Temporarily restricted   | 1,755                                   | —  | 3,298                                    | 340                                   | 54  | —                              |
| Permanently restricted   | —                                       | —  | 929                                      | —                                     | —   | —                              |
| <b>Total net assets (liabilities)</b>  | <b>(91,597)</b>                         | <b>14,267</b>                              | <b>233,921</b>                           | <b>158,315</b>                        | <b>25,899</b>   | <b>8,341</b>                   |
| <b>Total liabilities and net assets</b>  | <b>\$ 430,868</b>                       | <b>23,816</b>                              | <b>339,482</b>                           | <b>238,417</b>                        | <b>38,048</b>   | <b>9,086</b>                   |

See accompanying independent auditors' report.

| Alexian Village of Milwaukee Inc. | Alexian Village of Tennessee | Alexian Brothers Lansdowne Village | Alexian Brothers Sherbrooke Village | Alexian Brothers Community Services | Alexian Brothers of San Jose Inc. | Eliminations | Combined total |
|-----------------------------------|------------------------------|------------------------------------|-------------------------------------|-------------------------------------|-----------------------------------|--------------|----------------|
| 68                                | (237)                        | 29                                 | 8                                   | 94                                  | --                                | --           | 12,876         |
| 1,990                             | 710                          | 1,371                              | 798                                 | 815                                 | --                                | --           | 92,825         |
| 1,793                             | 1,532                        | --                                 | --                                  | 44                                  | --                                | --           | 14,154         |
| 3,783                             | 2,242                        | 1,371                              | 798                                 | 859                                 | --                                | --           | 106,979        |
| --                                | --                           | --                                 | --                                  | --                                  | --                                | --           | 14,965         |
| 154                               | 79                           | 18                                 | 22                                  | 247                                 | --                                | --           | 16,147         |
| 194                               | 57                           | 37                                 | 42                                  | 57                                  | --                                | --           | 6,903          |
| 4,199                             | 2,141                        | 1,455                              | 870                                 | 1,257                               | --                                | --           | 157,870        |
| 12,601                            | 8,173                        | 10,675                             | 19,193                              | 37,894                              | 2                                 | --           | 384,106        |
| 247                               | 600                          | --                                 | --                                  | --                                  | --                                | --           | 52,726         |
| 12,848                            | 8,773                        | 10,675                             | 19,193                              | 37,894                              | 2                                 | --           | 436,832        |
| --                                | --                           | --                                 | --                                  | --                                  | --                                | --           | 14,965         |
| 12,848                            | 8,773                        | 10,675                             | 19,193                              | 37,894                              | 2                                 | --           | 421,867        |
| 1,003                             | 25                           | 47                                 | 63                                  | 41                                  | 1,806                             | (27,337)     | 6,878          |
| 23,644                            | 38,592                       | 3,837                              | 7,532                               | 9,680                               | --                                | --           | 532,389        |
| 83                                | 538                          | --                                 | --                                  | --                                  | --                                | --           | 10,834         |
| 451                               | --                           | --                                 | 244                                 | --                                  | --                                | --           | 10,211         |
| --                                | --                           | --                                 | --                                  | --                                  | --                                | --           | 74,052         |
| --                                | --                           | --                                 | --                                  | --                                  | --                                | --           | 8,538          |
| 79                                | 2,708                        | 6                                  | 2                                   | --                                  | --                                | --           | 9,171          |
| --                                | --                           | --                                 | --                                  | --                                  | --                                | --           | 10,258         |
| 613                               | 3,246                        | 6                                  | 246                                 | --                                  | --                                | --           | 123,064        |
| 42,307                            | 52,777                       | 16,020                             | 27,904                              | 48,872                              | 1,808                             | (27,337)     | 1,242,068      |
| 1,000                             | 600                          | --                                 | --                                  | --                                  | --                                | --           | 12,451         |
| --                                | 2,320                        | --                                 | --                                  | --                                  | --                                | --           | 2,320          |
| 432                               | 521                          | 263                                | 107                                 | 1,827                               | 2                                 | --           | 26,380         |
| 1,058                             | 1,652                        | 376                                | 397                                 | 1,094                               | --                                | --           | 73,302         |
| --                                | --                           | --                                 | --                                  | --                                  | --                                | --           | 86,822         |
| 137                               | 56                           | 97                                 | 128                                 | 2,712                               | --                                | --           | 17,526         |
| 2,627                             | 5,149                        | 736                                | 632                                 | 5,633                               | 2                                 | --           | 218,801        |
| --                                | 981                          | --                                 | 3                                   | 16                                  | --                                | (27,130)     | --             |
| 15,773                            | 30,313                       | --                                 | --                                  | 2,458                               | --                                | --           | 48,544         |
| 49                                | 48                           | 56                                 | 47                                  | 38                                  | --                                | --           | 24,289         |
| 7,700                             | 11,680                       | --                                 | --                                  | --                                  | --                                | --           | 471,446        |
| --                                | --                           | --                                 | --                                  | --                                  | 3,226                             | (207)        | 27,321         |
| 26,149                            | 48,171                       | 792                                | 682                                 | 8,145                               | 3,228                             | (27,337)     | 790,401        |
| 16,079                            | 1,898                        | 15,222                             | 27,220                              | 40,727                              | (1,420)                           | --           | 442,496        |
| 49                                | 2,196                        | 6                                  | 2                                   | --                                  | --                                | --           | 7,700          |
| 30                                | 512                          | --                                 | --                                  | --                                  | --                                | --           | 1,471          |
| 16,158                            | 4,606                        | 15,228                             | 27,222                              | 40,727                              | (1,420)                           | --           | 451,667        |
| 42,307                            | 52,777                       | 16,020                             | 27,904                              | 48,872                              | 1,808                             | (27,337)     | 1,242,068      |

**ALEXIAN BROTHERS HEALTH SYSTEM  
AND SUBSIDIARIES**

Alexian Brothers Health System Obligated Group Consolidating Schedule – Statement of Operations Information

Year ended December 31, 2010

(In thousands)

|   | Alexian<br>Brothers<br>Health<br>System | Alexian<br>Brothers<br>Hospital<br>Network | Alexian<br>Brothers<br>Medical<br>Center | Saint<br>Alexius<br>Medical<br>Center | Alexian<br>Brothers<br>Behavioral<br>Health<br>Hospital |
|---|---|--|--|---------------------------------------|---|
| <b>Unrestricted revenues, gains, and other support:</b>   |   |  |  |                                       |   |
| Net patient and resident service revenues   | \$ —                                    | —  | 422,177                                  | 310,498                               | 58,136  |
| Capitation revenues   | —                                       | —  | 2,185                                    | —                                     | 797   |
| Investment income   | —                                       | —  | 729                                      | —                                     | —   |
| Other   | 29,863                                  | 67,107                                     | 6,787                                    | 3,561                                 | 3,169   |
| Net assets released from restrictions used for operations   | —                                       | 1,014                                      | 730                                      | 251                                   | 16  |
| <b>Total unrestricted revenues, gains, and other support</b>  | <b>29,863</b>                           | <b>68,121</b>                              | <b>432,608</b>                           | <b>314,310</b>                        | <b>62,118</b>   |
| <b>Expenses:</b>  |   |  |  |                                       |   |
| Salaries and wages  | 16,521                                  | 24,727                                     | 141,065                                  | 98,973                                | 31,017  |
| Employee benefits   | 7,486                                   | 7,353                                      | 35,201                                   | 23,105                                | 6,462   |
| Supplies and other  | 730                                     | 2,761                                      | 89,671                                   | 47,939                                | 1,853   |
| Purchased services  | 5,087                                   | 15,411                                     | 74,877                                   | 60,788                                | 12,523  |
| Provision for bad debts   | 1                                       | —  | 13,667                                   | 12,627                                | 1,676   |
| Repairs and maintenance   | 346                                     | 16,941                                     | 8,319                                    | 7,754                                 | 597   |
| Utilities   | 802                                     | 665  | 5,200                                    | 2,735                                 | 486   |
| Insurance and taxes   | 442                                     | 49   | 22,452                                   | 18,241                                | 6,677   |
| Interest  | (786)                                   | —  | 10,980                                   | 6,937                                 | 1,201   |
| Restructuring   | —                                       | 171  | 181                                      | —                                     | —   |
| Depreciation and amortization   | 784                                     | 9,302                                      | 17,468                                   | 11,386                                | 1,203   |
| <b>Total expenses</b>   | <b>31,413</b>                           | <b>77,380</b>                              | <b>419,081</b>                           | <b>290,485</b>                        | <b>63,695</b>   |
| <b>Income (loss) from operations</b>  | <b>(1,550)</b>                          | <b>(9,259)</b>                             | <b>13,527</b>                            | <b>23,825</b>                         | <b>(1,577)</b>  |
| <b>Nonoperating gains (losses):</b>   |   |  |  |                                       |   |
| Investment income (loss)  | 14,031                                  | —  | —  | (57)                                  | —   |
| Unrestricted gifts and bequests   | —                                       | —  | —  | —                                     | —   |
| Change in equity of investments in uncombined subsidiaries  | —                                       | 66   | —  | —                                     | —   |
| Loss on bond refinancing  | (1,750)                                 | —  | —  | —                                     | —   |
| Other, net  | —                                       | —  | 103                                      | 53                                    | —   |
| <b>Nonoperating gains (losses), net</b>   | <b>12,281</b>                           | <b>66</b>                                  | <b>103</b>                               | <b>(4)</b>                            | <b>—</b>  |
| <b>Unrestricted revenues, gains, and other support in excess (deficient) of expenses and nonoperating gains (losses), net</b> | <b>10,731</b>                           | <b>(9,193)</b>                             | <b>13,630</b>                            | <b>23,821</b>                         | <b>(1,577)</b>  |
| <b>Other changes in unrestricted net assets:</b>  |   |  |  |                                       |   |
| Transfers from (to) affiliates and uncombined subsidiaries  | 25,542                                  | 11,270                                     | (26,696)                                 | (18,041)                              | (1,464)   |
| Minority interest   | —                                       | —  | 96                                       | —                                     | —   |
| Net assets released for the purchase of land, buildings, and equipment  | —                                       | 3  | 167                                      | 979                                   | —   |
| Recognition of change in pension funded status  | 3,916                                   | —  | —  | —                                     | —   |
| <b>Change in unrestricted net assets</b>  | <b>\$ 40,189</b>                        | <b>2,080</b>                               | <b>(12,803)</b>                          | <b>6,759</b>                          | <b>(3,041)</b>  |

See accompanying independent auditors' report.

| Savelli Properties, Inc. | Alexian Village of Milwaukee, Inc. | Alexian Village of Tennessee | Alexian Brothers Lansdowne Village | Alexian Brothers Sherbrooke Village | Alexian Brothers Community Services | Alexian Brothers of San Jose, Inc. | Eliminations    | Combined total |
|--------------------------|------------------------------------|------------------------------|------------------------------------|-------------------------------------|-------------------------------------|------------------------------------|-----------------|----------------|
| —                        | 21,441                             | 21,439                       | 10,631                             | 10,849                              | 1,000                               | —                                  | (6,168)         | 850,003        |
| —                        | —                                  | —                            | —                                  | —                                   | 32,332                              | —                                  | (5)             | 35,309         |
| —                        | —                                  | —                            | —                                  | —                                   | —                                   | —                                  | (729)           | —              |
| 3,103                    | 1,014                              | 653                          | 20                                 | 67                                  | 1,047                               | —                                  | (92,114)        | 24,277         |
| —                        | 20                                 | 152                          | 14                                 | 14                                  | 1                                   | —                                  | —               | 2,212          |
| <u>3,103</u>             | <u>22,475</u>                      | <u>22,244</u>                | <u>10,665</u>                      | <u>10,930</u>                       | <u>34,380</u>                       | <u>—</u>                           | <u>(99,016)</u> | <u>911,801</u> |
| —                        | 9,292                              | 7,657                        | 3,927                              | 4,474                               | 10,069                              | —                                  | (3,998)         | 343,724        |
| —                        | 2,076                              | 2,493                        | 760                                | 778                                 | 2,486                               | 256                                | (6,725)         | 81,731         |
| —                        | 2,274                              | 2,888                        | 1,388                              | 929                                 | 3,807                               | —                                  | —               | 154,240        |
| 2,202                    | 3,220                              | 2,166                        | 2,332                              | 1,149                               | 15,362                              | —                                  | (87,661)        | 107,456        |
| —                        | 104                                | 21                           | 163                                | 169                                 | 114                                 | —                                  | —               | 28,542         |
| 120                      | 737                                | 575                          | 195                                | 106                                 | 278                                 | —                                  | —               | 35,968         |
| 119                      | 897                                | 1,306                        | 260                                | 183                                 | 253                                 | —                                  | —               | 12,906         |
| 244                      | 716                                | 1,139                        | 794                                | 627                                 | 520                                 | —                                  | —               | 51,901         |
| —                        | 167                                | 193                          | —                                  | —                                   | —                                   | —                                  | —               | 18,692         |
| —                        | —                                  | —                            | —                                  | —                                   | —                                   | —                                  | —               | 352            |
| 501                      | 2,040                              | 2,731                        | 432                                | 561                                 | 647                                 | —                                  | —               | 47,055         |
| <u>3,186</u>             | <u>21,523</u>                      | <u>21,169</u>                | <u>10,251</u>                      | <u>8,976</u>                        | <u>33,536</u>                       | <u>256</u>                         | <u>(98,384)</u> | <u>882,567</u> |
| <u>(83)</u>              | <u>952</u>                         | <u>1,075</u>                 | <u>414</u>                         | <u>1,954</u>                        | <u>844</u>                          | <u>(256)</u>                       | <u>(632)</u>    | <u>29,234</u>  |
| —                        | 725                                | 456                          | 608                                | 1,041                               | 2,191                               | —                                  | —               | 18,995         |
| —                        | 94                                 | —                            | —                                  | —                                   | 5                                   | —                                  | —               | 99             |
| —                        | —                                  | —                            | —                                  | —                                   | —                                   | —                                  | 728             | 794            |
| —                        | —                                  | —                            | —                                  | —                                   | —                                   | —                                  | —               | (1,750)        |
| (400)                    | —                                  | —                            | —                                  | —                                   | —                                   | —                                  | —               | (244)          |
| <u>(400)</u>             | <u>819</u>                         | <u>456</u>                   | <u>608</u>                         | <u>1,041</u>                        | <u>2,196</u>                        | <u>—</u>                           | <u>728</u>      | <u>17,894</u>  |
| (483)                    | 1,771                              | 1,531                        | 1,022                              | 2,995                               | 3,040                               | (256)                              | 96              | 47,128         |
| —                        | —                                  | —                            | —                                  | —                                   | —                                   | —                                  | —               | (9,389)        |
| —                        | —                                  | 16                           | —                                  | —                                   | —                                   | —                                  | (96)            | —              |
| —                        | 20                                 | —                            | —                                  | —                                   | —                                   | —                                  | —               | 1,185          |
| —                        | —                                  | —                            | —                                  | —                                   | —                                   | (467)                              | —               | 3,449          |
| <u>(483)</u>             | <u>1,791</u>                       | <u>1,547</u>                 | <u>1,022</u>                       | <u>2,995</u>                        | <u>3,040</u>                        | <u>(723)</u>                       | <u>—</u>        | <u>42,373</u>  |

**ALEXIAN BROTHERS HEALTH SYSTEM  
AND SUBSIDIARIES**

Alexian Brothers Hospital Network Consolidating Schedule – Balance Sheet Information

December 31, 2010

(In thousands)

| Assets   | Alexian<br>Brothers<br>Hospital<br>Network | Alexian<br>Brothers<br>Medical<br>Center | St. Alexius<br>Medical<br>Center | Alexian<br>Brothers<br>Behavioral<br>Health<br>Hospital | Alexian<br>Brothers<br>Ambulatory<br>Group |
|--|--|--|----------------------------------|---|--|
| <b>Current assets:</b>   |  |  |                                  |   |  |
| Cash and cash equivalents  | \$ 27                                      | 5,006                                    | 15,139                           | 1,148   | —  |
| <b>Receivables:</b>  |  |  |                                  |   |  |
| Patient accounts, less allowance for uncollectible<br>accounts of approximately \$29,300 | —  | 48,345                                   | 31,884                           | 6,888   | 4,943                                      |
| Other  | —  | 1,177                                    | 1,492                            | 54  | 628  |
| Total receivables  | —  | 49,522                                   | 33,376                           | 6,942   | 5,571                                      |
| Inventory of supplies  | —  | 8,055                                    | 4,374                            | 153   | —  |
| Prepaid expenses   | —  | 1,085                                    | 720                              | 94  | 215  |
| Total current assets   | 27   | 63,668                                   | 53,609                           | 8,337   | 5,786                                      |
| <b>Assets limited as to use:</b>   |  |  |                                  |   |  |
| Board-designated   | —  | —  | —                                | —   | —  |
| Assets held by captive insurance company   | —  | —  | —                                | —   | —  |
| Due from affiliates  | —  | 32,000                                   | 22,000                           | 5,000   | 2,780                                      |
| Total assets limited as to use   | —  | 32,000                                   | 22,000                           | 5,000   | 2,780                                      |
| Land, buildings, and equipment, net  | —  | 225,391                                  | 153,075                          | 24,657  | 2,035                                      |
| <b>Other assets:</b>   |  |  |                                  |   |  |
| Due from affiliates  | 21,732                                     | 5,471                                    | 2,426                            | —   | —  |
| Land held for future development, at cost  | —  | 2,026                                    | 5,177                            | —   | —  |
| Excess of purchase price over net assets acquired, net                                   | —  | —  | —                                | —   | 302  |
| Restricted assets  | —  | 4,227                                    | 340                              | 54  | —  |
| Notes, deposits, and other   | —  | 219                                      | 1,790                            | —   | 129  |
| Investments in subsidiaries  | 2,057                                      | 6,480                                    | —                                | —   | —  |
| Total other assets   | 23,789                                     | 18,423                                   | 9,733                            | 54  | 431  |
| Total assets   | \$ 23,816                                  | 339,482                                  | 238,417                          | 38,048  | 11,032                                     |
| <b>Liabilities and Net Assets</b>  |  |  |                                  |   |  |
| <b>Current liabilities:</b>  |  |  |                                  |   |  |
| Accounts payable   | \$ —                                       | 10,253                                   | 5,178                            | 902   | 691  |
| Accrued expenses   | —  | 22,040                                   | 14,990                           | 5,182   | 3,424                                      |
| Estimated payables under third-party<br>reimbursement programs                           | —  | 41,853                                   | 41,820                           | 3,149   | —  |
| Other  | 1,653                                      | 1,795                                    | 157                              | 37  | 50   |
| Total current liabilities  | 1,653                                      | 75,941                                   | 62,145                           | 9,270   | 4,165                                      |
| Reserve for outstanding insurance losses   | —  | 13,957                                   | 8,413                            | 1,667   | 702  |
| Other  | —  | 5,605                                    | —                                | —   | —  |
| Due to affiliates  | 7,896                                      | 10,058                                   | 9,544                            | 1,212   | 5,366                                      |
| Total liabilities  | 9,549                                      | 105,561                                  | 80,102                           | 12,149  | 10,233                                     |
| <b>Net assets (liabilities):</b>   |  |  |                                  |   |  |
| Unrestricted   | 14,267                                     | 229,694                                  | 157,975                          | 25,845  | 799  |
| Temporarily restricted   | —  | 3,298                                    | 340                              | 54  | —  |
| Permanently restricted   | —  | 929                                      | —                                | —   | —  |
| Total net assets (liabilities)   | 14,267                                     | 233,921                                  | 158,315                          | 25,899  | 799  |
| Total liabilities and net assets   | \$ 23,816                                  | 339,482                                  | 238,417                          | 38,048  | 11,032                                     |

See accompanying independent auditors' report.

| Bonaventure Medical Foundation, L.L.C. | Thelen Corporation | Savelli Properties, Inc. | Alexian Brothers Center for Mental Health | Alexian Brothers Health Providers Association, Inc. | Edessa Insurance Company, Ltd. | Eliminations | Consolidated total |
|--|--------------------|--------------------------|---|---|--------------------------------|--------------|--------------------|
| —                                      | 1,461              | 1,684                    | 77  | —   | —                              | —            | 24,542             |
| —                                      | 8                  | 24                       | 1,567                                     | —   | —                              | —            | 93,659             |
| —                                      | 176                | 43                       | 87  | —   | —                              | —            | 3,657              |
| —                                      | 184                | 67                       | 1,654                                     | —   | —                              | —            | 97,316             |
| —                                      | —                  | —                        | —   | —   | —                              | —            | 12,582             |
| —                                      | 30                 | 159                      | 18  | —   | —                              | —            | 2,321              |
| —                                      | 1,675              | 1,910                    | 1,749                                     | —   | —                              | —            | 136,761            |
| —                                      | —                  | —                        | —   | 322   | —                              | —            | 322                |
| —                                      | —                  | —                        | —   | —   | 95,431                         | —            | 95,431             |
| —                                      | —                  | —                        | 1,403                                     | —   | —                              | —            | 63,183             |
| —                                      | —                  | —                        | 1,403                                     | 322   | 95,431                         | —            | 158,936            |
| —                                      | 913                | 7,151                    | 165                                       | —   | —                              | —            | 413,387            |
| —                                      | —                  | —                        | —   | —   | —                              | (29,629)     | —                  |
| —                                      | —                  | —                        | —   | —   | —                              | —            | 7,203              |
| —                                      | —                  | —                        | —   | —   | —                              | —            | 302                |
| —                                      | —                  | —                        | 344                                       | —   | —                              | —            | 4,965              |
| —                                      | 1,771              | 25                       | —   | —   | —                              | —            | 3,934              |
| —                                      | —                  | —                        | —   | —   | —                              | (8,537)      | —                  |
| —                                      | 1,771              | 25                       | 344                                       | —   | —                              | (38,166)     | 16,404             |
| —                                      | 4,359              | 9,086                    | 3,661                                     | 322   | 95,431                         | (38,166)     | 725,488            |
| 29                                     | 15                 | 6                        | 49  | —   | —                              | —            | 17,123             |
| —                                      | 41                 | 225                      | 320                                       | —   | 294                            | —            | 46,516             |
| —                                      | —                  | —                        | —   | —   | —                              | —            | 86,822             |
| —                                      | 63                 | 14                       | 304                                       | —   | —                              | —            | 4,073              |
| 29                                     | 119                | 245                      | 673                                       | —   | 294                            | —            | 154,534            |
| —                                      | 7                  | 7                        | 69  | —   | 88,658                         | —            | 113,480            |
| —                                      | 38                 | —                        | —   | —   | —                              | —            | 5,643              |
| 2,101                                  | 13                 | 493                      | 229                                       | (515)   | —                              | (29,629)     | 6,768              |
| 2,130                                  | 177                | 745                      | 971                                       | (515)   | 88,952                         | (29,629)     | 280,425            |
| (2,130)                                | 4,182              | 8,341                    | 2,346                                     | 837   | 6,479                          | (8,537)      | 440,098            |
| —                                      | —                  | —                        | 344                                       | —   | —                              | —            | 4,036              |
| —                                      | —                  | —                        | —   | —   | —                              | —            | 929                |
| (2,130)                                | 4,182              | 8,341                    | 2,690                                     | 837   | 6,479                          | (8,537)      | 445,063            |
| —                                      | 4,359              | 9,086                    | 3,661                                     | 322   | 95,431                         | (38,166)     | 725,488            |

**ALEXIAN BROTHERS HEALTH SYSTEM  
AND SUBSIDIARIES**

Alexian Brothers Hospital Network Consolidating Schedule – Statement of Operations Information

Year ended December 31, 2010

(In thousands)

|   | Alexian<br>Brothers<br>Hospital<br>Network | Alexian<br>Brothers<br>Medical<br>Center | St. Alexius<br>Medical<br>Center | Alexian<br>Brothers<br>Behavioral<br>Health<br>Hospital | Alexian<br>Brothers<br>Ambulatory<br>Group | Thelen<br>Corporation |
|---|--|--|----------------------------------|---|--|-----------------------|
| Unrestricted revenues, gains, and other support:  |  |  |                                  |   |  |                       |
| Net patient service revenues  | \$ —                                       | 422,177                                  | 310,498                          | 58,136  | 35,462                                     | —                     |
| Capitation revenues   | —  | 2,185                                    | —                                | 797   | 1,722                                      | —                     |
| Investment income   | —  | 729                                      | —                                | —   | —  | 415                   |
| Other   | 67,107                                     | 6,787                                    | 3,561                            | 3,169   | 10,076                                     | 1,837                 |
| Net assets released from restrictions used for operations   | 1,014                                      | 730                                      | 251                              | 16  | —  | —                     |
| <b>Total unrestricted revenues, gains, and other support</b>  | <b>68,121</b>                              | <b>432,608</b>                           | <b>314,310</b>                   | <b>62,118</b>   | <b>47,260</b>                              | <b>2,252</b>          |
| Expenses:   |  |  |                                  |   |  |                       |
| Salaries and wages  | 24,727                                     | 141,065                                  | 98,973                           | 31,017  | 27,048                                     | 163                   |
| Employee benefits   | 7,353                                      | 35,201                                   | 23,105                           | 6,462   | 4,578                                      | 50                    |
| Supplies and other  | 2,761                                      | 89,671                                   | 47,939                           | 1,853   | 1,958                                      | 30                    |
| Purchased services  | 15,411                                     | 74,877                                   | 60,788                           | 12,523  | 16,684                                     | 1,687                 |
| Provision for bad debts   | —  | 13,667                                   | 12,627                           | 1,676   | 1,218                                      | —                     |
| Repairs and maintenance   | 16,941                                     | 8,319                                    | 7,754                            | 597   | 139  | 3                     |
| Utilities   | 665  | 5,200                                    | 2,735                            | 486   | 463  | 33                    |
| Insurance and taxes   | 49   | 22,452                                   | 18,241                           | 6,677   | 3,329                                      | 5                     |
| Interest  | —  | 10,980                                   | 6,937                            | 1,201   | —  | —                     |
| Restructuring   | 171  | 181                                      | —                                | —   | —  | —                     |
| Depreciation and amortization   | 9,302                                      | 17,468                                   | 11,386                           | 1,203   | 503  | 214                   |
| <b>Total expenses</b>   | <b>77,380</b>                              | <b>419,081</b>                           | <b>290,485</b>                   | <b>63,695</b>   | <b>55,920</b>                              | <b>2,185</b>          |
| <b>Income (loss) from operations</b>  | <b>(9,259)</b>                             | <b>13,527</b>                            | <b>23,825</b>                    | <b>(1,577)</b>  | <b>(8,660)</b>                             | <b>67</b>             |
| Nonoperating gains (losses):  |  |  |                                  |   |  |                       |
| Investment income (loss)  | —  | —  | (57)                             | —   | 165  | —                     |
| Other, net  | 66   | 103                                      | 53                               | —   | —  | —                     |
| <b>Nonoperating gains (losses), net</b>   | <b>66</b>                                  | <b>103</b>                               | <b>(4)</b>                       | <b>—</b>  | <b>165</b>                                 | <b>—</b>              |
| <b>Unrestricted revenues, gains, and other support in excess (deficient) of expenses and nonoperating gains (losses), net</b> | <b>(9,193)</b>                             | <b>13,630</b>                            | <b>23,821</b>                    | <b>(1,577)</b>  | <b>(8,495)</b>                             | <b>67</b>             |
| Other changes in unrestricted net assets:   |  |  |                                  |   |  |                       |
| Transfers from (to) affiliates and uncombined subsidiaries  | 11,270                                     | (26,696)                                 | (18,041)                         | (1,464)   | 9,389                                      | —                     |
| Minority interest   | —  | 96                                       | —                                | —   | —  | —                     |
| Net assets released from restrictions used for purchase of land, buildings, and equipment                                     | 3  | 167                                      | 979                              | —   | —  | —                     |
| <b>Change in unrestricted net assets</b>  | <b>\$ 2,080</b>                            | <b>(12,803)</b>                          | <b>6,759</b>                     | <b>(3,041)</b>  | <b>894</b>                                 | <b>67</b>             |

See accompanying independent auditors' report.

Schedule 7

| Savelli Properties, Inc. | Alexian Brothers Center for Mental Health | Alexian Brothers Health Providers Association, Inc. | Edessa Insurance Company, Ltd. | Eliminations     | Consolidated total |
|--------------------------|---|---|--------------------------------|------------------|--------------------|
| —                        | 4,400                                     | —   | —                              | (12,791)         | 817,882            |
| —                        | —   | —   | —                              | —                | 4,704              |
| —                        | —   | —   | 3,958                          | (728)            | 4,374              |
| 3,103                    | 322                                       | 124   | 21,437                         | (97,256)         | 20,267             |
| —                        | 275                                       | —   | —                              | —                | 2,286              |
| <u>3,103</u>             | <u>4,997</u>                              | <u>124</u>  | <u>25,395</u>                  | <u>(110,775)</u> | <u>849,513</u>     |
| —                        | 2,906                                     | —   | —                              | —                | 325,899            |
| —                        | 667                                       | —   | —                              | (67)             | 77,349             |
| —                        | 182                                       | —   | —                              | (2,014)          | 142,380            |
| 2,202                    | 772                                       | 145   | —                              | (81,288)         | 103,801            |
| —                        | 73  | —   | —                              | —                | 29,261             |
| 120                      | 148                                       | —   | —                              | (8,129)          | 25,892             |
| 119                      | 74  | —   | —                              | —                | 9,775              |
| 244                      | 165                                       | —   | 24,667                         | (18,549)         | 57,280             |
| —                        | —   | —   | —                              | —                | 19,118             |
| —                        | —   | —   | —                              | —                | 352                |
| 501                      | 19  | —   | —                              | —                | 40,596             |
| <u>3,186</u>             | <u>5,006</u>                              | <u>145</u>  | <u>24,667</u>                  | <u>(110,047)</u> | <u>831,703</u>     |
| <u>(83)</u>              | <u>(9)</u>                                | <u>(21)</u>   | <u>728</u>                     | <u>(728)</u>     | <u>17,810</u>      |
| —                        | 78  | —   | —                              | —                | 186                |
| (400)                    | 3   | —   | —                              | (66)             | (241)              |
| <u>(400)</u>             | <u>81</u>                                 | <u>—</u>  | <u>—</u>                       | <u>(66)</u>      | <u>(55)</u>        |
| (483)                    | 72  | (21)  | 728                            | (794)            | 17,755             |
| —                        | —   | —   | —                              | —                | (25,542)           |
| —                        | —   | —   | —                              | —                | 96                 |
| —                        | —   | —   | —                              | —                | 1,149              |
| <u>(483)</u>             | <u>72</u>                                 | <u>(21)</u>   | <u>728</u>                     | <u>(794)</u>     | <u>(6,542)</u>     |

**ALEXIAN BROTHERS HEALTH SYSTEM  
AND SUBSIDIARIES**

Alexian Brothers Senior Ministries Consolidating Schedule – Balance Sheet Information

December 31, 2009

(In thousands)

| Assets  | Alexian<br>Brothers<br>Senior<br>Ministries | Alexian<br>Village of<br>Milwaukee,<br>Inc. | Alexian<br>Village of<br>Tennessee | Alexian<br>Brothers<br>Lansdowne<br>Village |
|---|---|---|------------------------------------|---|
| <b>Current assets:</b>  |   |   |                                    |   |
| Cash and cash equivalents   | \$ 6  | 68  | (237)                              | 29  |
| <b>Receivables:</b>   |   |   |                                    |   |
| Patient accounts, less allowance for uncollectible<br>accounts of approximately \$200 | —   | 1,990                                       | 710                                | 1,371                                       |
| Other   | —   | 1,794                                       | 1,532                              | —   |
| Total receivables   | —   | 3,784                                       | 2,242                              | 1,371                                       |
| Inventory of supplies   | —   | 154   | 79                                 | 18  |
| Prepaid expenses  | 90  | 194   | 57                                 | 37  |
| Total current assets  | 96  | 4,200                                       | 2,141                              | 1,455                                       |
| <b>Assets limited as to use:</b>  |   |   |                                    |   |
| Board-designated  | 730   | —   | 80                                 | —   |
| Trustee-held funds  | —   | 247   | 600                                | —   |
| Due from affiliates   | —   | 12,601                                      | 8,093                              | 10,675                                      |
| Total assets limited as to use  | 730   | 12,848                                      | 8,773                              | 10,675                                      |
| Land, buildings, and equipment, net   | 80  | 23,643                                      | 38,592                             | 3,837                                       |
| <b>Other assets:</b>  |   |   |                                    |   |
| Due from affiliates   | 6   | 1,003                                       | 25                                 | 47  |
| Deferred finance charges, net   | —   | 83  | 538                                | —   |
| Land held for future development, at cost   | —   | 451   | —                                  | —   |
| Restricted assets   | 20  | 79  | 2,708                              | 6   |
| Total other assets  | 26  | 1,616                                       | 3,271                              | 53  |
| Total assets  | \$ 932                                      | 42,307                                      | 52,777                             | 16,020                                      |
| <b>Liabilities and Net Assets</b>   |   |   |                                    |   |
| <b>Current liabilities:</b>   |   |   |                                    |   |
| Current installments of long-term debt  | \$ —  | 1,000                                       | 600                                | —   |
| Long-term debt subject to short-term<br>remarketing arrangements                      | —   | —   | 2,320                              | —   |
| Accounts payable  | 16  | 432   | 521                                | 263   |
| Accrued expenses  | 190   | 1,058                                       | 1,652                              | 376   |
| Other   | —   | 137   | 56                                 | 97  |
| Total current liabilities   | 206   | 2,627                                       | 5,149                              | 736   |
| Deferred accommodation fees and deposits  | —   | 15,773                                      | 30,313                             | —   |
| Reserve for outstanding insurance losses  | —   | 49  | 48                                 | 56  |
| Long-term debt, excluding current installments  | —   | 7,700                                       | 11,680                             | —   |
| Due to affiliates   | 6   | —   | 981                                | —   |
| Total liabilities   | 212   | 26,149                                      | 48,171                             | 792   |
| <b>Net assets (liabilities):</b>  |   |   |                                    |   |
| Unrestricted  | 700   | 16,079                                      | 1,898                              | 15,222                                      |
| Temporarily restricted  | 20  | 49  | 2,196                              | 6   |
| Permanently restricted  | —   | 30  | 512                                | —   |
| Total net assets  | 720   | 16,158                                      | 4,606                              | 15,228                                      |
| Total liabilities and net assets  | \$ 932                                      | 42,307                                      | 52,777                             | 16,020                                      |

See accompanying independent auditors' report.

| Alexian Brothers Sherbrooke Village | Alexian Brothers Community Services | Alexian Brothers Senior Neighbors | Alexian Elderly Services, Inc. | Alexian Village of Elk Grove | Eliminations | Consolidated total |
|-------------------------------------|-------------------------------------|-----------------------------------|--------------------------------|------------------------------|--------------|--------------------|
| 8                                   | 94                                  | 64                                | —                              | —                            | —            | 32                 |
| 798                                 | 815                                 | —                                 | —                              | —                            | —            | 5,684              |
| —                                   | 44                                  | 17                                | —                              | —                            | —            | 3,387              |
| 798                                 | 859                                 | 17                                | —                              | —                            | —            | 9,071              |
| 22                                  | 247                                 | —                                 | —                              | —                            | —            | 520                |
| 42                                  | 57                                  | 6                                 | —                              | —                            | —            | 483                |
| 870                                 | 1,257                               | 87                                | —                              | —                            | —            | 10,106             |
| —                                   | —                                   | —                                 | —                              | —                            | —            | 810                |
| —                                   | —                                   | —                                 | —                              | —                            | —            | 847                |
| 19,193                              | 37,894                              | 542                               | —                              | 616                          | —            | 89,614             |
| 19,193                              | 37,894                              | 542                               | —                              | 616                          | —            | 91,271             |
| 7,532                               | 9,680                               | 701                               | 873                            | —                            | —            | 84,938             |
| 63                                  | 41                                  | 10                                | —                              | —                            | (980)        | 215                |
| —                                   | —                                   | —                                 | —                              | —                            | —            | 621                |
| 244                                 | —                                   | —                                 | —                              | —                            | —            | 695                |
| 2                                   | —                                   | 476                               | —                              | —                            | —            | 3,291              |
| 309                                 | 41                                  | 486                               | —                              | —                            | (980)        | 4,822              |
| 27,904                              | 48,872                              | 1,816                             | 873                            | 616                          | (980)        | 191,137            |
| —                                   | —                                   | —                                 | —                              | —                            | —            | 1,600              |
| —                                   | —                                   | —                                 | —                              | —                            | —            | 2,320              |
| 107                                 | 1,827                               | 5                                 | —                              | 50                           | —            | 3,221              |
| 397                                 | 1,094                               | 63                                | 16                             | —                            | —            | 4,846              |
| 128                                 | 2,712                               | —                                 | —                              | —                            | —            | 3,130              |
| 632                                 | 5,633                               | 68                                | 16                             | 50                           | —            | 15,117             |
| —                                   | 2,458                               | —                                 | —                              | —                            | —            | 48,544             |
| 47                                  | 38                                  | —                                 | —                              | —                            | —            | 238                |
| —                                   | —                                   | —                                 | —                              | —                            | —            | 19,380             |
| 3                                   | 16                                  | 157                               | 946                            | —                            | (980)        | 1,129              |
| 682                                 | 8,145                               | 225                               | 962                            | 50                           | (980)        | 84,408             |
| 27,220                              | 40,727                              | 1,115                             | (89)                           | 566                          | —            | 103,438            |
| 2                                   | —                                   | 333                               | —                              | —                            | —            | 2,606              |
| —                                   | —                                   | 143                               | —                              | —                            | —            | 685                |
| 27,222                              | 40,727                              | 1,591                             | (89)                           | 566                          | —            | 106,729            |
| 27,904                              | 48,872                              | 1,816                             | 873                            | 616                          | (980)        | 191,137            |

**ALEXIAN BROTHERS HEALTH SYSTEM  
AND SUBSIDIARIES**

Alexian Brothers Senior Ministries Consolidating Schedule – Statement of Operations Information

Year ended December 31, 2010

(In thousands)

|  | Alexian<br>Brothers<br>Senior<br>Ministries | Alexian<br>Village of<br>Milwaukee,<br>Inc. | Alexian<br>Village of<br>Tennessee | Alexian<br>Brothers<br>Lansdowne<br>Village |
|--|---|---|------------------------------------|---|
| Unrestricted revenues, gains, and other support:   |   |   |                                    |   |
| Net patient and resident service revenues  | \$ —  | 21,441                                      | 21,439                             | 10,631                                      |
| Capitation revenues  | —   | —   | —                                  | —   |
| Investment income  | —   | —   | —                                  | —   |
| Other  | 2,039                                       | 901   | 489                                | 20  |
| Net assets released from restrictions<br>used for operations   | —   | 133   | 316                                | 14  |
| Total unrestricted revenues, gains,<br>and other support   | <u>2,039</u>                                | <u>22,475</u>                               | <u>22,244</u>                      | <u>10,665</u>                               |
| Expenses:  |   |   |                                    |   |
| Salaries and wages   | 1,345                                       | 9,292                                       | 7,657                              | 3,927                                       |
| Employee benefits  | 261   | 2,076                                       | 2,493                              | 760   |
| Supplies and other   | 77  | 2,274                                       | 2,888                              | 1,388                                       |
| Purchased services   | 283   | 3,220                                       | 2,166                              | 2,332                                       |
| Provision for bad debts  | —   | 104   | 21                                 | 163   |
| Repairs and maintenance  | —   | 737   | 575                                | 195   |
| Utilities  | 62  | 897   | 1,306                              | 260   |
| Insurance and taxes  | 2   | 716   | 1,139                              | 794   |
| Interest   | —   | 180   | 193                                | —   |
| Depreciation and amortization  | 9   | 2,027                                       | 2,731                              | 432   |
| Total expenses   | <u>2,039</u>                                | <u>21,523</u>                               | <u>21,169</u>                      | <u>10,251</u>                               |
| Income (loss) from operations  | <u>—</u>                                    | <u>952</u>                                  | <u>1,075</u>                       | <u>414</u>                                  |
| Nonoperating gains:  |   |   |                                    |   |
| Investment income  | 41  | 725   | 456                                | 608   |
| Unrestricted gifts and bequests  | —   | 94  | —                                  | —   |
| Nonoperating gains, net  | <u>41</u>                                   | <u>819</u>                                  | <u>456</u>                         | <u>608</u>                                  |
| Unrestricted revenues, gains, and other<br>support in excess (deficient) of expenses<br>and nonoperating gains (losses), net | <u>41</u>                                   | <u>1,771</u>                                | <u>1,531</u>                       | <u>1,022</u>                                |
| Other changes in unrestricted net assets:  |   |   |                                    |   |
| Net assets released from restrictions<br>used for purchase of land,<br>buildings, and equipment                              | —   | 20  | 16                                 | —   |
| Change in unrestricted net assets  | <u>\$ 41</u>                                | <u>1,791</u>                                | <u>1,547</u>                       | <u>1,022</u>                                |

See accompanying independent auditors' report.

| Alexian Brothers Sherbrooke Village | Alexian Brothers Community Services | Alexian Brothers Senior Neighbors | Alexian Elderly Services, Inc. | Alexian Village of Elk Grove | Eliminations   | Consolidated total |
|-------------------------------------|-------------------------------------|-----------------------------------|--------------------------------|------------------------------|----------------|--------------------|
| 10,849                              | 2,040                               | —                                 | —                              | —                            | (2,868)        | 63,532             |
| —                                   | 32,328                              | —                                 | —                              | —                            | —              | 32,328             |
| 67                                  | 7                                   | 2,134                             | 89                             | 371                          | (1,952)        | 4,165              |
| 14                                  | 5                                   | —                                 | —                              | —                            | —              | 482                |
| <u>10,930</u>                       | <u>34,380</u>                       | <u>2,134</u>                      | <u>89</u>                      | <u>371</u>                   | <u>(4,820)</u> | <u>100,507</u>     |
| 4,474                               | 10,069                              | 1,380                             | 7                              | —                            | —              | 38,151             |
| 778                                 | 2,486                               | 181                               | —                              | —                            | —              | 9,035              |
| 929                                 | 3,807                               | 401                               | —                              | —                            | —              | 11,764             |
| 1,149                               | 15,362                              | 186                               | 10                             | —                            | (4,820)        | 19,888             |
| 169                                 | 114                                 | —                                 | —                              | —                            | —              | 571                |
| 106                                 | 278                                 | 20                                | 7                              | —                            | —              | 1,918              |
| 183                                 | 253                                 | 57                                | 55                             | —                            | —              | 3,073              |
| 627                                 | 520                                 | 21                                | 9                              | 94                           | —              | 3,922              |
| —                                   | —                                   | 8                                 | —                              | —                            | —              | 381                |
| 561                                 | 647                                 | 53                                | 57                             | —                            | —              | 6,517              |
| <u>8,976</u>                        | <u>33,536</u>                       | <u>2,307</u>                      | <u>145</u>                     | <u>94</u>                    | <u>(4,820)</u> | <u>95,220</u>      |
| <u>1,954</u>                        | <u>844</u>                          | <u>(173)</u>                      | <u>(56)</u>                    | <u>277</u>                   | <u>—</u>       | <u>5,287</u>       |
| 1,041                               | 2,191                               | 34                                | —                              | —                            | —              | 5,096              |
| —                                   | 5                                   | 14                                | —                              | —                            | —              | 113                |
| <u>1,041</u>                        | <u>2,196</u>                        | <u>48</u>                         | <u>—</u>                       | <u>—</u>                     | <u>—</u>       | <u>5,209</u>       |
| 2,995                               | 3,040                               | (125)                             | (56)                           | 277                          | —              | 10,496             |
| —                                   | —                                   | —                                 | —                              | —                            | —              | 36                 |
| <u>2,995</u>                        | <u>3,040</u>                        | <u>(125)</u>                      | <u>(56)</u>                    | <u>277</u>                   | <u>—</u>       | <u>10,532</u>      |