Axel & Associates, Inc.

MANAGEMENT CONSULTANTS

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HEALTH FACILITIES &
SERVICES REVIEW BOARD

by FedEX

September 25, 2012

Mr. Michael Constantino
c/o Illinois Health Facilities and
Services Review Board
525 West Jefferson
Springfield, IL 62761

RE: Project 12-064
St. Alexius Medical Center

Dear Mike:

Enclosed please find the documentation that you had requested related to the above-referenced project.

Should any other information be required, please don't hesitate to contact me.

Sincerely,

Jacob M. Axel
President

enclosures (2)

675 North Court, Suite 210
Palatine, Illinois 60067

Phone (847) 776-7101
Fax (847) 776-7004

XII. Charity Care Information **Alexian Brothers Medical Center**

Charity Care information MUST be furnished for ALL projects.

1. All applicants and co-applicants shall indicate the amount of charity care for the latest three **audited** fiscal years, the cost of charity care and the ratio of that charity care cost to net patient revenue.

2. If the applicant owns or operates one or more facilities, the reporting shall be for each individual facility located in Illinois. If charity care costs are reported on a consolidated basis, the applicant shall provide documentation as to the cost of charity care; the ratio of that charity care to the net patient revenue for the consolidated financial statement; the allocation of charity care costs; and the ratio of charity care cost to net patient revenue for the facility under review.

3. If the applicant is not an existing facility, it shall submit the facility's projected patient mix by payer source, anticipated charity care expense and projected ratio of charity care to net patient revenue by the end of its second year of operation.

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

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

CHARITY CARE			
	2009	2010	2011
Net Patient Revenue	$397,331,230	$412,577,097	$417,752,000
Amount of Charity Care (charges)	$26,789,000	$29,868,000	$34,910,000
Cost of Charity Care	$6,735,450	$7,362,312	$8,064,013

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

Consolidated Financial Statements and Supplemental Schedules

Alexian Brothers Health System and Subsidiaries
Years Ended December 31, 2011 and 2010
With Report of Independent Auditors

Ernst & Young LLP

Ernst & Young

Alexian Brothers Health System and Subsidiaries

Consolidated Financial Statements and Supplemental Schedules

Years Ended December 31, 2011 and 2010

Contents

Ernst & Young

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Report of Independent Auditors

Board of Governors
Alexian Brothers Health System

We have audited the accompanying consolidated balance sheet of Alexian Brothers Health System and subsidiaries (ABHS) as of December 31, 2011, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of ABHS's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of ABHS as of December 31, 2010, and for the year then ended. The consolidated financial statements of ABHS as of December 31, 2010, were audited by other auditors whose report, dated March 16, 2011, expressed an unqualified opinion on those statements.

We conducted our audit 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's 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, and evaluating the overall financial statement presentation. We believe that our audit provides 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 at December 31, 2011, and the results of their operations, changes in net assets, and cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying 2011 schedules are presented for purposes of additional analysis of the 2011 consolidated financial statements, rather than to present the financial position and results of operations of the individual corporations. The 2011 schedules have been subjected to the auditing procedures applied in the audit of the 2011 consolidated financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the 2011 consolidated financial statements taken as a whole.

Ernst + Young LLP

March 14, 2012

Alexian Brothers Health System and Subsidiaries

Consolidated Balance Sheets
(In Thousands)

	December 31 2011	December 31 2010
Assets		
Current assets:		
Cash and cash equivalents	**$ 21,171**	$ 14,551
Receivables:		
Patient and resident accounts, less allowance for uncollectible accounts of approximately $33,000 in 2011 and $25,900 in 2010	**115,931**	99,350
Other	**9,094**	8,949
Total receivables	**125,025**	108,299
Assets limited as to use – required for current liabilities	**17,025**	14,965
Inventory of supplies	**17,566**	16,147
Prepaid expenses	**5,931**	7,264
Total current assets	**186,718**	161,226
Assets limited as to use:		
Board-designated	**343,993**	389,522
Trustee-held funds	**34,040**	53,386
Assets held by captive insurance company	**108,501**	95,431
Total assets limited as to use	**486,534**	538,339
Less assets limited as to use – required for current liabilities	**17,025**	14,965
Noncurrent assets limited as to use	**469,509**	523,374
Land, buildings, and equipment, net	**593,532**	539,456
Other assets:		
Deferred finance charges, net	**9,859**	10,834
Land held for future development, at cost	**10,222**	10,211
Excess of purchase price over net assets acquired, net	**76,038**	74,354
Restricted assets	**16,335**	18,120
Notes, deposits, and other	**11,131**	10,301
Total other assets	**123,585**	123,820
Total assets	**$ 1,373,344**	$ 1,347,876

	December 31	
	2011	**2010**
Liabilities and net assets		
Current liabilities:		
Current maturities of long-term debt	**$ 13,105**	$ 12,523
Long-term debt subject to short-term remarketing arrangements	**–**	2,320
Accounts payable	**32,816**	27,256
Accrued expenses	**97,674**	78,009
Estimated payables under third-party reimbursement programs	**81,904**	86,822
Other	**6,166**	9,859
Total current liabilities	**231,665**	216,789
Deferred accommodation fees and deposits	**49,602**	48,544
Reserve for outstanding insurance losses	**130,389**	113,725
Long-term debt, excluding current maturities	**460,632**	475,360
Other	**33,181**	27,547
Total liabilities	**905,469**	881,965
Net assets:		
Unrestricted	**451,540**	447,791
Temporarily restricted	**14,764**	16,506
Permanently restricted	**1,571**	1,614
Total net assets	**467,875**	465,911
Total liabilities and net assets	**$ 1,373,344**	$ 1,347,876

See accompanying notes.

Alexian Brothers Health System and Subsidiaries

Consolidated Statements of Operations

(In Thousands)

	Year Ended December 31	
	2011	**2010**
Unrestricted revenues, gains, and other support:		
Net patient and resident service revenues	**$ 914,618**	$ 881,414
Capitation revenues	**39,066**	37,026
Investment income	**2,531**	4,374
Other	**30,417**	26,970
Net assets released from restrictions used for operations	**3,133**	2,768
Total unrestricted revenues, gains, and other support	**989,765**	952,552
Expenses:		
Salaries and wages	**399,572**	375,883
Employee benefits	**85,463**	87,300
Supplies and other	**156,726**	154,897
Purchased services	**114,178**	112,323
Provision for bad debts	**33,119**	29,843
Repairs and maintenance	**28,901**	28,350
Utilities	**12,459**	13,752
Insurance and taxes	**60,669**	61,674
Interest	**20,263**	18,891
Restructuring	**2,091**	352
Ascension transaction costs	**3,623**	–
Depreciation	**49,425**	48,048
Total expenses	**966,489**	931,313
Income from operations	**23,276**	21,239
Nonoperating gains (losses):		
Investment income	**7,145**	19,256
Unrestricted gifts and bequests	**18**	113
Loss on bond refinancing	**(426)**	(1,750)
Other, net	**95**	(241)
Nonoperating gains, net	**6,832**	17,378
Unrestricted revenues, gains, and other support in excess of expenses and nonoperating gains	**$ 30,108**	$ 38,617

See accompanying notes.

Alexian Brothers Health System and Subsidiaries

Consolidated Statements of Changes in Net Assets
(In Thousands)

	Year Ended December 31 2011	2010
Unrestricted net assets:		
Unrestricted revenues, gains, and other support in excess of expenses and nonoperating gains	**$ 30,108**	$ 38,617
Other changes in unrestricted net assets:		
Equity transfer to Alexian Brothers of America, Inc.	**(25,000)**	–
Alexian Brothers AIDS Ministries acquisition	**1,668**	–
Net assets released from restrictions used for purchase of land, buildings, and equipment	**709**	1,185
Noncontrolling interest	**(282)**	96
Recognition of change in pension funded status	**(3,454)**	3,449
Change in unrestricted net assets	**3,749**	43,347
Temporarily restricted net assets:		
Contributions for specific purposes	**1,943**	4,354
Investment income	**157**	259
Net assets released from restrictions used for purchase of land, buildings, and equipment	**(709)**	(1,185)
Net assets released from restrictions used for operations	**(3,133)**	(2,768)
Change in temporarily restricted net assets	**(1,742)**	660
Permanently restricted net assets:		
Investment loss	**(43)**	(2)
Change in permanently restricted net assets	**(43)**	(2)
Change in net assets	**1,964**	44,005
Net assets at beginning of year	**465,911**	421,906
Net assets at end of year	**$ 467,875**	$ 465,911

See accompanying notes.

Alexian Brothers Health System and Subsidiaries

Consolidated Statements of Cash Flows
(In Thousands)

	Year Ended December 31 2011	2010
Operating activities		
Change in net assets	$ 1,964	$ 44,005
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	49,425	48,048
Noncontrolling interest	(282)	96
Amortization of deferred financing costs included in interest expense	765	861
Amortization of bond premium	(60)	(40)
Loss on bond refinancing	–	1,750
Provision for bad debts	33,119	29,843
Amortization of deferred revenue	(466)	(467)
Amortization of deferred accommodation fees	(4,351)	(5,733)
Nonoperating investment income	(7,145)	(19,256)
Sale/purchase of trading portfolio investments, net	60,303	(118,755)
Change in net unrealized (gain)/loss on investments	(1,353)	8,418
Recognition of change in pension funded status	3,454	(3,449)
Investment loss for permanently restricted net assets	43	2
Changes in assets and liabilities:		
Patient and resident accounts receivable	(49,700)	(27,757)
Estimated payables under third-party reimbursement programs, net	(4,918)	26,431
Other receivables	(145)	(2,538)
Inventory of supplies	(1,419)	(2,474)
Prepaid expenses	1,333	(208)
Accounts payable	5,560	3,778
Accrued expenses	19,665	409
Other current liabilities	(3,693)	3,816
Additions to deferred accommodation fees and deposits, net of refunds	5,409	7,545
Change in other long-term liabilities	2,988	(962)
Reserve for outstanding insurance losses	16,664	22,230
Net cash provided by operating activities	127,160	15,593
Investing activities		
Acquisition of land, buildings, and equipment, net	(103,501)	(52,317)
Addition of excess of purchase price over net assets acquired, net	(1,684)	(73)
Net distributions to noncontrolling interest	–	(39)
Change in restricted assets	1,785	(658)
Net change in notes, deposits, and other	(841)	280
Net cash used in investing activities	(104,241)	(52,807)
Financing activities		
Investment loss for permanently restricted net assets	(43)	(2)
Proceeds from issuance of long-term debt	–	133,400
Issuance of bond premium	–	1,187
Payment of bond issuance costs	–	(1,938)
Repayment of long-term debt	(16,256)	(82,205)
Net cash (used in) provided by financing activities	(16,299)	50,442
Change in cash and cash equivalents	6,620	13,228
Cash and cash equivalents at beginning of year	14,551	1,323
Cash and cash equivalents at end of year	$ 21,171	$ 14,551
Supplemental disclosure of cash flow information		
Cash paid for interest, net of amounts capitalized	$ 18,179	$ 15,700

See accompanying notes.

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. (ABA) is the sole corporate member of ABHS. 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); Alexian Brothers Specialty Group (ABSG); Bonaventure Medical Foundation, L.L.C. (BMF); 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).

- 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).

- Alexian Brothers AIDS Ministries (ABAM), including Alexian Brothers Bonaventure House and Alexian Brothers Bettendorf Place, LLC (Bettendorf Place). ABAM became part of ABHS on July 1, 2011. ABAM had previously been a ministry of ABA.

1. Operations and Basis of Consolidation (continued)

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, and Thelen Corporation 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 that 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.
- Bettendorf Place is a single member LLC, owned 100% by Alexian Brothers Bonaventure House.

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's professional liability coverage. Edessa is a Bermuda corporation.

The Corporations provide general healthcare services to patients/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 2011 and 2010 amounted to approximately $869,000 and $858,000, respectively. All other expenses included in the accompanying consolidated financial statements relate primarily to general and administrative costs.

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

1. Operations and Basis of Consolidation (continued)

In December 2011, ABHS transferred $25 million to ABA for ABA's use in support of their continued tax exempt, charitable, and religious purpose and mission, including but not limited to support of the ABA's housing and healthcare needs, and the development and continued support of new ministries consistent with the mission of the ABA.

2. Summary of Significant Accounting Policies

A summary of the significant accounting policies is as follows:

- 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 expenses and unrestricted revenues, gains, and other support. 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, are consistent with industry practice and 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), noncontrolling interest, equity transfers to affiliates, and recognition of change in pension funded status.

2. Summary of Significant Accounting Policies (continued)

- 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 Accounting Standards Codification (ASC) Topic 815, *Derivatives and Hedging*, which requires that all derivative instruments be recorded on the consolidated balance sheets at fair value.

- ABHS is involved in an interest rate swap program. The fair value of the interest rate swap 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 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.

- Land, buildings, and equipment are stated at cost or fair value at the 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.

2. Summary of Significant Accounting Policies (continued)

- 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, 2011 and 2010.

- 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 adopted 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 at December 31, 2011 and 2010, and did not identify any impairment issues. The fair value of the reporting unit is in excess of its carrying value.

2. Summary of Significant Accounting Policies (continued)

- 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.

- 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 their 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

2. Summary of Significant Accounting Policies (continued)

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 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 $28,500 and $28,200 at December 31, 2011 and 2010, 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, 2011 and 2010, no such liability was required. The discount rate is based on the average rate for actual earnings, dividends, and appreciation on investments.

2. Summary of Significant Accounting Policies (continued)

- Deferred tax assets arising primarily from net operating loss carryforwards have been offset in their entirety by a valuation allowance at both December 31, 2011 and 2010. 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 ABHP as it did not incur operating income during 2011 and 2010. In addition, there are net operating losses available for carryforward that expire at various future dates through 2018. Thelen Corporation did not incur taxable operating income in 2011 and 2010. AVEG has recorded a provision for income taxes of $185 and $94 at December 31, 2011 and December 31, 2010, respectively.

- In August 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-23, *Measuring Charity Care for Disclosure*. The provisions of ASU 2010-23 are intended to reduce the diversity in how charity care is calculated for disclosures across healthcare entities that provide it. Charity care is required to be measured at cost, defined as the direct and indirect costs of providing the charity care. This new guidance is effective for fiscal years beginning after December 15, 2010, with early application permitted. The Corporations have adopted this guidance for the year ended December 31, 2011, which did not significantly affect the Corporations' financial statements.

- In August 2010, the FASB issued ASU 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*. This guidance requires that health care entities present anticipated insurance recoveries separately on the balance sheet from estimated liabilities for medical malpractice claims or similar contingent liabilities. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010, with early adoption permitted. The Corporations have adopted the guidance as of December 31, 2011. Adoption of this ASU did not significantly affect the Corporations' financial statements.

- In July 2011, the FASB issued ASU 2011-07, *Health Care Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* (*a consensus of the*

2. Summary of Significant Accounting Policies (continued)

FASB Emerging Issues Task Force). This guidance requires certain healthcare entities to change the presentation of the statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). In addition, those healthcare entities are required to provide enhanced disclosures about their policies for recognizing revenue and assessing bad debts. The amendments also require disclosures of patient service revenue by major payor source (net of contractual allowances and discounts), as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. The amendments in ASU 2011-07 are effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2011, with early adoption permitted. The amendments to the presentation of the provision for bad debts related to patient service revenue in the statement of operations should be applied retrospectively to all prior periods presented. The disclosures required by the amendments in ASU 2011-07 should be provided for the period of adoption and subsequent reporting periods. The Corporations are required to adopt the new guidance for reporting periods beginning after December 15, 2011, and are currently evaluating the impact this guidance will have on the consolidated financial statements.

- The performance indicator is unrestricted revenues, gains, and other support in excess of expenses and nonoperating gains. Changes in unrestricted net assets that are excluded from the performance indicator primarily include pension adjustments, transfers to or from sponsors and other affiliates, net assets released from restrictions for property acquisitions, and contributions of property and equipment.

- During the years ended December 31, 2011 and 2010, ABHS recorded total restructuring expenses of $2,091 and $352, respectively. This amount primarily comprised severance expenses.

- Certain reclassifications were made to the 2010 consolidated financial statements to conform to the classification used in 2011. These reclassifications had no impact on the consolidated performance indicator.

(In Thousands)

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 summary of gross and net patient and resident service revenues for the years ended December 31, 2011 and 2010, is as follows:

	2011	2010
Gross patient and resident service revenues	**$ 3,189,266**	$ 2,946,533
Less provisions for:		
Estimated contractual adjustments under third-party reimbursement programs	**2,162,511**	1,969,663
Discounts and other allowances	**112,137**	95,456
Net patient and resident service revenues	**$ 914,618**	$ 881,414

Medicare

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

3. Net Patient and Resident Service Revenues (continued)

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 cost reports will not have a material effect on the accompanying consolidated financial statements. Medicare cost reports have been audited and final settled through December 31, 2007, for ABMC and St. Alexius and December 31, 2010, for all other ABHS healthcare providers. Net patient service revenue increased by $5,134 and $67 for the years ended December 31, 2011 and 2010, respectively, to reflect changes in the estimated third party settlements for prior years.

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 $24,341 in 2011 and $24,216 in 2010 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 $25,700 in 2011 and $26,421 in 2010 within net patient service revenues in the accompanying consolidated statements of operations, of which $1,004 and $1,725 are recorded as additional Medicaid stimulus payments to hospitals for the years ended December 31, 2011 and 2010, respectively. In addition, $12,348 of net payments received from the State is recorded as deferred revenue within estimated payables under third-party reimbursement programs at December 31, 2011 for advanced quarterly payments through June 2012. $7,975 of net payments received from the State is recorded as deferred revenue within estimated payables under third-party reimbursement programs at December 31, 2010, for advanced quarterly payments through June 2011.

St. Alexius and ABBHH 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, 2011 and 2010. St. Alexius and ABBHH have

3. Net Patient and Resident Service Revenues (continued)

included its related prorated SNAP reimbursement of $2,537 and $1,288, respectively, within net patient and resident service revenues in the accompanying 2011 and 2010 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, 2011 and 2010. St. Alexius has included its related prorated OAAP reimbursement of $5,125 and $5,126, respectively, within net patient and resident service revenues in the accompanying 2011 and 2010 consolidated statements of operations. Included as deferred revenue within estimated payables under third-party reimbursement programs at December 31, 2010, is $3,207 of SNAP and OAAP payments received from the State for advanced quarterly payments through June 2011. There were no advance quarterly payments at December 31, 2011.

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. In addition, 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 $1,312 and $1,674 at December 31, 2011 and 2010, respectively, and is included in accrued expenses in the accompanying consolidated balance sheets.

(In Thousands)

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, 2011 and 2010, is as follows:

	2011	**2010**
Medicare	**19.6 %**	20.1%
Medicaid	**21.9**	8.1
Blue Cross (including HMO and PPO products)	**23.1**	24.6
Managed care	**12.2**	13.0
Others	**23.2**	34.2
	100.0%	100.0%

The provision for bad debt expense is based upon management's assessment of expected net collections considering economic conditions, historical experience, trends in healthcare coverage, and other collection indicators. Periodically throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience by payor category, including those amounts not covered by insurance. The results of this review are then used to make any modifications to the provision for bad debt expense to establish an appropriate allowance for uncollectible accounts. After satisfaction of amounts due from insurance and reasonable efforts to collect from the patient have been exhausted, ABHS follows established guidelines regarding collection efforts. Accounts receivable are written off after collection efforts have been followed in accordance with ABHS's policies.

5. Investment Composition and Fair Value Measurements

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.

Allocation of Investment Strategies

The Corporations maintain a small percent of assets in domestic 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 does not exist and may include stocks, bonds, put or call options, swaps, currency hedges, and other instruments and are valued accordingly. Funds with hedged strategies hold some securities with inherent uncertainties for valuation. The estimated fair values may differ from values that would have been used had a ready market existed.

5. Investment Composition and Fair Value Measurements (continued)

Fair Value Hierarchy

ABHS follows ASC Subtopic 820-10 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.

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

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 to estimate fair value. Reported fair values for shares in corporate stock and fixed income funds 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, 2011 and 2010, ABHS had no plans or intentions to sell investments at amounts different from NAV.

(In Thousands)

5. Investment Composition and Fair Value Measurements (continued)

The following tables summarize the Corporations' cash and cash equivalents and board-designated investment portfolio and restricted assets by major category in the fair value hierarchy as of December 31, 2011 and 2010, as well as related strategy and liquidity:

	December 31, 2011				Redemption	Days'
	Level 1	Level 2	Level 3	Total	or Liquidation	Notice
Cash and cash equivalents	$ 21,171	$ –	$ –	$ 21,171	Daily	One
Assets limited as to use:						
Board-designated and restricted assets excluding accrued interest and other of $2,038:						
Cash and cash equivalents	$ 6,733	$ –	$ –	$ 6,733	Daily	One
Corporate stocks	29,225	–	–	29,225	Daily	One
Fixed income:						
Corporate bonds	–	40,631	–	40,631	Daily	One
Intermediate bond index fund	76,756	–	–	76,756	Daily	One
U.S. government bond index fund	41,354	–	–	41,354	Daily	One
Asset-backed securities	–	15,525	–	15,525	Daily	One
Commercial mortgage-backed securities	–	9,403	–	9,403	Daily	One
Nongovernment-backed collateralized mortgage obligations	–	1,131	–	1,131	Daily	One
Government mortgage- backed securities	–	10,056	–	10,056	Daily	One
Municipal bonds	–	2,307	–	2,307	Daily	One
U.S. Treasury securities	–	38,037	–	38,037	Daily	One
U.S. Treasury inflation protected securities	–	3,533	–	3,533	Daily	One
Guaranteed fixed income	–	871	–	871	Daily	One
Other fixed-income fund	25,856	–	–	25,856		
Total fixed income	143,966	121,494	–	265,460		
Hedge fund investments:						
Absolute return/multiple strategies	–	44,211	–	44,211	Quarterly	95
Absolute return/multiple strategies	–	5,877	–	5,877	In redemption	
Total hedge fund investments	–	50,088	–	50,088		
Total board-designated and restricted assets	$ 179,924	$ 171,582	$ –	$ 351,506		

(In Thousands)

5. Investment Composition and Fair Value Measurements (continued)

	December 31, 2010				Redemption	Days'
	Level 1	Level 2	Level 3	Total	or Liquidation	Notice
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		

(In Thousands)

5. Investment Composition and Fair Value Measurements (continued)

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, 2011 and 2010, as well as related strategy and liquidity:

	December 31, 2011				Redemption	Days'
	Level 1	Level 2	Level 3	Total	or Liquidation	Notice
Assets limited as to use:						
Cash and cash equivalents	$ 31,576	$ –	$ –	$ 31,576	Daily	One
U.S. Treasury securities	–	2,464	–	2,464	Daily	One
Total trustee-held funds	$ 31,576	$ 2,464	$ –	$ 34,040		

	December 31, 2010				Redemption	Days'
	Level 1	Level 2	Level 3	Total	or Liquidation	Notice
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		

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, 2011 and 2010, as well as related strategy and liquidity:

	December 31, 2011				Redemption	Days'
	Level 1	Level 2	Level 3	Total	or Liquidation	Notice
Assets limited as to use:						
Assets held by captive insurance company excluding accrued interest and other of $691:						
Cash and cash equivalents	$ 10,375	$ –	$ –	$ 10,375	Daily	One
Corporate stocks	11,064	–	–	11,064	Daily	One
Fixed income:						
Corporate bonds	–	30,139	–	30,139	Daily	One
Asset-backed securities	–	4,429	–	4,429	Daily	One
Commercial mortgage-backed securities	–	2,712	–	2,712	Daily	One
Nongovernment-backed collateralized mortgage obligations	–	134	–	134	Daily	One
Government mortgage-backed securities	–	2,419	–	2,419	Daily	One
U.S. Treasury securities	–	45,626	–	45,626	Daily	One
Guaranteed fixed income	–	912	–	912	Daily	One
Total fixed income	21,439	86,371	–	107,810	Monthly	Five
Total assets held by captive insurance company	$ 21,439	$ 86,371	$ –	$ 107,810		

(In Thousands)

5. Investment Composition and Fair Value Measurements (continued)

	December 31, 2010				Redemption	Days'
	Level 1	Level 2	Level 3	Total	or Liquidation	Notice
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	Monthly	Five
International fund of funds	8,507	–	–	8,507		
Total assets held by captive insurance company	$ 23,716	$ 71,001	$ –	$ 94,717		

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.

(In Thousands)

5. Investment Composition and Fair Value Measurements (continued)

- 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's current borrowing rates for similar types of long-term debt securities.
- 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, 2011 and 2010:

	2011		**2010**	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Long-term debt	**$ 472,619**	**$ 492,582**	$ 489,056	$ 483,356

The following table presents the carrying amounts and estimated fair values of ABHS's interest rate swap carried at fair value at December 31, 2011 and 2010:

	2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Interest rate swap	**$ –**	**$ 4,044**	**$ –**	**$ 4,044**

	2010			
	Level 1	**Level 2**	**Level 3**	**Total**
Interest rate swap	$ –	$ 3,569	$ –	$ 3,569

(In Thousands)

5. Investment Composition and Fair Value Measurements (continued)

The composition of investment return on the Corporations' investment portfolio and restricted assets for the years ended December 31, 2011 and 2010, is as follows:

	2011	2010
Interest and dividend income, net of fees and expenses	**$ 9,097**	$ 11,335
Change in net unrealized gains and losses on trading securities	**(1,353)**	8,418
Change in fair value of interest rate swap	**(475)**	(729)
Net realized gains on sale of investments	**3,267**	6,641
Interest rate swap settlements	**(1,601)**	(1,778)
	$ 8,935	$ 23,887

Investment returns are included in the accompanying consolidated statements of operations for the years ended December 31, 2011 and 2010, as follows:

	2011	2010
Unrestricted revenues, gains, and other support:		
Investment income	**$ 1,676**	$ 4,374
Nonoperating gains:		
Investment income	**7,145**	19,256
Temporarily restricted net assets:		
Investment income	**157**	259
Permanently restricted net assets:		
Investment loss	**(43)**	(2)
	$ 8,935	$ 23,887

6. Charity Care and Community Service

ABHS directs its governance and management activities toward strong, vibrant Catholic Health Ministries united in service and healing and dedicates its resources to spiritually centered care which sustains and improves the health of the individuals and communities it serves. In accordance with ABHS's mission of service to those persons living in poverty and other vulnerable persons, each Health Ministry accepts patients regardless of their ability to pay.

6. Charity Care and Community Service (continued)

ABHS uses four categories to identify the resources utilized for the care of persons living in poverty and community benefit programs:

- Traditional charity care includes the cost of services provided to persons who cannot afford healthcare because of inadequate resources and/or who are uninsured or underinsured.
- Unpaid cost of public programs, excluding Medicare, represents the unpaid cost of services provided to persons covered by public programs for persons living in poverty and other vulnerable persons.
- Community benefit consists of the unreimbursed costs of community benefit programs and services for the general community, not solely for persons living in poverty, including health promotion and education, health clinics and screenings, and medical research.

Discounts are provided to all uninsured patients, including those with the means to pay. Discounts provided to those patients who did not qualify for assistance under charity care guidelines are not included in the cost of providing care of persons living in poverty and community benefit programs. The cost of providing care of persons living in poverty and community benefit programs is estimated using internal cost data and is calculated in compliance with guidelines established by both the Catholic Health Association (CHA) and the Internal Revenue Service (IRS).

The amount of traditional charity care provided, determined on the basis of cost, excluding the provision for bad debt expense, was approximately $18,608 and $15,980 for the years ended December 31, 2011 and 2010, respectively. ABHS computes the cost of charity care using a ratio of cost to charges methodology based on total expenses and total gross charges for the Corporations. The amount of unpaid cost of public programs, cost of other programs for persons living in poverty and other vulnerable persons, and community benefit cost are reported in the accompanying table.

(In Thousands)

6. Charity Care and Community Service (continued)

The net cost, excluding the provision for bad debt expense, of providing care of persons living in poverty and community benefit programs is as follows:

	2011	2010
Traditional charity care provided	**$ 18,608**	$ 15,980
Unpaid cost of public programs for persons living in poverty	**28,003**	24,569
Community benefit programs	**8,105**	8,931
Care of persons living in poverty and community benefit programs	**$ 54,716**	$ 49,480

7. Land, Buildings, and Equipment

A summary of land, buildings, and equipment at December 31, 2011 and 2010, is as follows:

	2011	2010
Land	**$ 22,103**	$ 22,075
Land improvements	**27,607**	24,663
Buildings	**686,686**	650,101
Fixed equipment	**90,413**	80,573
Moveable equipment	**326,075**	286,351
	1,152,884	1,063,763
Less accumulated depreciation and amortization	**607,975**	556,144
	544,909	507,619
Construction in progress	**48,623**	31,837
Land, buildings, and equipment, net	**$ 593,532**	$ 539,456

Estimated useful lives by asset category are as follows: land improvements – 8 to 20 years, buildings – 5 to 40 years, and equipment – 3 to 20 years.

Interest costs incurred as part of related construction are capitalized during the period of construction. For the years ended December 31, 2011 and 2010, the Corporations' capitalized net interest cost amounted to $1,129 and $1,338, respectively.

Construction in progress at December 31, 2011, relates primarily to various building and building improvement projects. At December 31, 2011, approximately $51,316 of total estimated remaining construction and infrastructure costs have been contractually committed. These projects are expected to be funded from bond proceeds, existing cash reserves, and cash from operations. Subsequent to December 31, 2011, the Corporations entered into contractual commitments for the bed tower project at St. Alexius Medical Center totaling $18,917.

(In Thousands)

8. Long-Term Debt

A summary of long-term debt as of December 31, 2011 and 2010, is as follows:

	2011	2010
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	$ **84,650**	$ 84,975
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	**84,575**	85,050
Series 2005C, variable rate demand notes, with variable interest rates (0.22% at December 31, 2009) and debt service payments. Bonds were redeemed in 2010.	**–**	–
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	**125,280**	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 (0.11% and 0.38% at December 31, 2011 and 2010, 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 a fixed interest rate of 5.25% and varying debt service payments from January 1, 2026 through January 1, 2028	**18,245**	18,245

(In Thousands)

8. Long-Term Debt (continued)

	2011	2010
Illinois Finance Authority Revenue Refunding Bonds, Series 2009 (Alexian Brothers Health System), direct purchase tax-exempt bank qualified bond with variable interest rate of 2.12% and 2.52% at December 31, 2011 and 2010, respectively	**$ 10,509**	$ 12,129
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 (0.20% and 0.36% at December 31, 2011 and 2010, respectively)	**7,700**	8,700
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 (0.15% and 0.50% at December 31, 2011 and 2010, respectively) and debt service payments through January 1, 2028	**14,000**	14,600
U.S. Department of Housing and Urban Development note, 5.88%, with monthly debt service through 2036, collateralized by elderly housing units. Note was redeemed in 2011.	**-**	3,986
Mortgage note, 7.15%, with principal and interest due monthly through 2012, and $2,181 due on June 1, 2013, collateralized by real property	**2,660**	2,971
Total long-term debt	**472,619**	489,056
Less current maturities of long-term debt	**(13,105)**	(12,523)
Plus unamortized net bond premium	**1,118**	1,147
Less long-term debt subject to short-term remarketing arrangements	**–**	(2,320)
Long-term debt, excluding current maturities	**$ 460,632**	$ 475,360

8. Long-Term Debt (continued)

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 $469,959 and $482,099 at December 31, 2011 and 2010, respectively.

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. (FSA), 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.

8. Long-Term Debt (continued)

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. At the time of issuance, the scheduled principal and interest payments were guaranteed under an insurance policy issued by Assured Guaranty (formerly FSA). In April of 2011, security was provided by an irrevocable letter of credit issued by a bank through the month of April 2014, and the insurance policy was cancelled. 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, the bank, under the Letter of Credit 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.

8. Long-Term Debt (continued)

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. On April 21, 2010, the Series 2005C Bonds were refunded with the issuance of the Illinois Revenue Refunding Bonds, Series 2010 (ABHS Series 2010 Bonds), and that portion of the Assured Guaranty insurance policy for the Series 2005C was cancelled.

On February 1, 2006, Alexian Brothers Services, Inc. (sponsor of Alexian Court Apartments, located in St. Louis, MO) entered into an agreement with the U.S. Department of Housing and Urban Development, to establish a loan collateralized by Alexian Court housing units, with a fixed rate note of 5.88% and monthly debt service through January 2036. During 2011, the note was redeemed by ABHS for the outstanding amount.

8. Long-Term Debt (continued)

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 Bonds 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, which were 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 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 $12,300. Proceeds of the ABHS Series 2010 Bonds were used to refund the ABHS Series 2005C Bonds in the amount outstanding of $70,420 and 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 SAMC, to fund the debt service reserve, and to pay certain costs incurred with the bonds. The issuance of the Series 2010 Bonds resulted in a premium received by the Corporation that is being amortized.

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 Loan Agreement was not renewed in 2011.

(In Thousands)

8. Long-Term Debt (continued)

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 that are within the Corporations' control.

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, 2011 and 2010, are as follows:

	2011	**2010**
Variable interest rate issues:		
Series 2009 Bonds	**2.10%**	2.53%
Series 2005C Bonds	–	0.22
Series 2004 Bonds	**0.19**	0.26
AVM Series 1988A Bonds	**0.28**	0.33
AVT Series 1999 Bonds	**0.25**	0.39

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:

Series	**Terms**
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	Six equal installments every 180 days commencing 367 days following tender advance
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

(In Thousands)

8. Long-Term Debt (continued)

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:	
2012	$ 13,105
2013	13,653
2014	14,340
2015	15,022
2016	15,752
Thereafter	400,747
	$ 472,619

9. Derivative Instruments and Hedging Activities

ABHS has entered into interest rate related derivative instruments 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.

Interest Rate Swap Agreement

ABHS entered into an interest rate swap agreement in June 2005. The changes in the fair value of the interest rate swap agreement of $(475) for 2011 and $(729) for 2010 are recognized as a component of investment income (loss) in nonoperating gains in the accompanying consolidated statements of operations. Under the 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.

(In Thousands)

9. Derivative Instruments and Hedging Activities (continued)

The fair value of the interest rate swap agreement of $4,044 and $3,569 at December 31, 2011 and 2010, 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 interest rate swap agreement is recognized monthly and amounted to net payments of $1,601 and $1,778 in 2011 and 2010, respectively, which has been included in nonoperating investment income in the accompanying consolidated statements of operations and changes in net assets. The value of the swap has been reduced by a credit valuation adjustment of approximately $166 and $77 at December 31, 2011 and 2010, respectively.

A summary of outstanding positions under the interest rate swap agreements at December 31, 2011, is as follows:

Notional Amount	Maturity Date	Rate Received	Rate Paid
$ 62,820	January 1, 2018	58.20% of LIBOR + 40 basis points	3.089%

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

Notional Amount	Maturity Date	Rate Received	Rate Paid
$ 70,420	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.

In addition, Thelen and BMG (now ABAG) each sponsor a contributory 401(k) plan (the Thelen Plan and ABAG Plan, respectively) that covers substantially all employees of Thelen and ABAG. 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 2% 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 401(k) Plan, the Thelen Plan, and the ABAG Plan totaled approximately $4,666 and $4,645 for the years ended December 31, 2011 and 2010, respectively, and is reflected as employee benefits expense in the accompanying consolidated statements of operations. The 401(k) Plan, the Thelen Plan, and the ABAG Plan are funded on a current basis.

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. In addition, 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.

10. Retirement Plans (continued)

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 requires the 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 2011 and 2010 is the projected unit credit cost method. The measurement date for plan liabilities and assets is January 1.

(In Thousands)

10. Retirement Plans (continued)

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:

	2011	2010
Change in benefit obligation:		
Projected benefit obligation at beginning of year	**$ 110,994**	$ 103,454
Service cost	**10,460**	10,527
Interest cost	**4,817**	5,231
Actuarial losses	**(1,520)**	(1,268)
Benefits paid	**(7,727)**	(7,025)
Projected benefit obligation at end of year	**$ 117,024**	$ 110,919
Change in plan assets:		
Fair value of plan assets at beginning of year	**$ 94,919**	$ 83,342
Actual return on plan assets	**1,075**	7,030
Employer contributions	**12,919**	11,507
Benefits paid	**(7,727)**	(7,025)
Fair value of plan assets at end of year	**$ 101,186**	$ 94,854
Reconciliation of funded status:		
Funded status	**$ (15,838)**	$ (16,065)
Amounts recognized in the accompanying consolidated balance sheets:		
Accrued benefit liability	**$ (4)**	$ (8)
Other long-term liabilities	**(15,834)**	(16,057)
Net amounts recognized in the accompanying consolidated balance sheets	**$ (15,838)**	$ (16,065)
Amounts not yet reflected in net periodic benefit cost and included as an accumulated credit to unrestricted net assets:		
Net actuarial loss	**$ 31,972**	$ 30,327
Prior service cost	**(793)**	(1,569)
Net amounts included as an accumulated charge to unrestricted net assets	**$ 31,179**	$ 28,758

(In Thousands)

10. Retirement Plans (continued)

	2011	2010
Calculation of change in unrestricted net assets:		
Accumulated unrestricted net assets, end of year	**$ 31,179**	$ 28,758
Reversal of accumulated unrestricted net assets, prior year	**(28,745)**	(32,675)
Change in unrestricted net assets	**$ 2,434**	$ (3,917)
Other changes in plan assets and benefit obligations recognized in unrestricted net assets:		
Net gain experienced during the year	**$ 3,669**	$ (2,202)
Amortization of unrecognized net loss	**(2,015)**	(2,494)
Amortization of unrecognized prior service cost	**780**	779
Net amounts recognized in unrestricted net assets	**$ 2,434**	$ (3,917)
Estimate of amounts that will be amortized out of unrestricted net assets into net pension cost:		
Net loss	**$ 2,260**	$ 1,707
Prior service cost	**(780)**	(779)

	2011	2010
Weighted average assumptions:		
Discount rate – benefit obligation	**4.70%**	4.60%
Discount rate – periodic benefit cost	**4.60**	5.20
Expected return on plan assets	**6.50**	7.00
Rate of compensation increase	**4.00**	4.00
Components of net periodic benefit cost:		
Service cost	**$ 10,459**	$ 10,527
Interest cost	**4,817**	5,231
Expected return on plan assets	**(6,264)**	(6,096)
Amortization of transition asset	**2,015**	2,493
Amortization of prior service cost	**(780)**	(779)
Net periodic benefit cost	**$ 10,247**	$ 11,376

(In Thousands)

10. Retirement Plans (continued)

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:

	2011	2010
Change in benefit obligation:		
Projected benefit obligation at beginning of year	**$ 13,383**	$ 12,471
Interest cost	**700**	717
Actuarial gains	**652**	750
Benefits paid	**(586)**	(555)
Projected benefit obligation at end of year	**$ 14,149**	$ 13,383
Change in plan assets:		
Fair value of plan assets at beginning of year	**$ 10,184**	$ 9,435
Actual return on plan assets	**112**	774
Employer contributions	**463**	530
Benefits paid	**(587)**	(555)
Fair value of plan assets at end of year	**$ 10,172**	$ 10,184
Amounts recognized in the accompanying consolidated balance sheets:		
Other long-term liabilities	**$ (3,977)**	$ (3,199)
Amounts not yet reflected in net periodic benefit cost and included as an accumulated credit to unrestricted net assets:		
Net actuarial loss	**$ 6,135**	$ 5,115
Calculation of change in unrestricted net assets:		
Accumulated unrestricted net assets, end of year	**$ 6,135**	$ 5,115
Reversal of accumulated unrestricted net assets, prior year	**(5,115)**	(4,647)
Change in unrestricted net assets	**$ 1,020**	$ 468
Estimate of amounts that will be amortized out of unrestricted net assets into net pension cost:		
Net loss	**$ 207**	$ 159

(In Thousands)

10. Retirement Plans (continued)

	2011	2010
Other changes in plan assets and benefit obligations recognized in unrestricted net assets:		
Net loss experienced during the year	**$ 1,178**	$ 612
Amortization of unrecognized net loss	**(158)**	(144)
Net amounts recognized in unrestricted net assets	**$ 1,020**	$ 468

	2011	2010
Weighted average assumptions:		
Discount rate – benefit obligation	**4.95%**	5.40%
Discount rate – periodic benefit cost	**5.40**	5.90
Expected return on plan assets	**6.50**	7.00
Rate of compensation increase	**N/A**	N/A
Components of net periodic benefit cost:		
Interest cost	**$ 700**	$ 717
Expected return on plan assets	**(637)**	(636)
Amortization of transition asset	**158**	144
Net periodic benefit cost	**$ 221**	$ 225

The accumulated benefit obligation equals the projected benefit obligation at December 31, 2011 and 2010, as disclosed in the previous table.

ABHS's overall expected long-term rate of return on assets is 6.5% and 7.0% at December 31, 2011 and 2010, 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 $14,500 to its Plans in 2012.

The benefits expected to be paid in each year from 2012 to 2016 are $11,771, $11,407, $11,285, $11,560, and $12,967, respectively. The aggregate benefits expected to be paid in the five years from 2017 to 2021 are $70,160. The expected benefits are based on the same assumptions used to measure ABHS's benefit obligation at December 31 and include estimated future employee service.

(In Thousands)

10. Retirement Plans (continued)

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 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, 2011:

Asset	Target Allocation	Acceptable Range	Actual Allocation at December 31, 2011
Cash and equivalents	–%	0 –5%	–%
Domestic common stocks	15	10–20	13
Intermediate fixed securities	20	15–25	23
Enhanced cash	30	25–35	30
Long/short equity	20	15–25	19
Alternative investments	15	10–20	15
Total	100%	100%	100%

(In Thousands)

10. Retirement Plans (continued)

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

Asset	Target Allocation	Acceptable Range	Actual Allocation at December 31, 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	100%	100%	100%

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, assist ABHS in meeting the obligations to the Plan participants, manage risk exposures, focus on downside sensitivities, and 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.

10. Retirement Plans (continued)

Allocation of Investment Strategies

The Plan maintains a percent of assets in domestic 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.

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.

(In Thousands)

10. Retirement Plans (continued)

The fair value of the Corporations' pension plan assets at December 31, 2011 and 2010, by asset category class, are as follows:

	December 31, 2011				Redemption	Days'
	Level 1	Level 2	Level 3	Total	or Liquidation	Notice
Pension plan assets excluding accrued interest of $189:						
Cash and cash equivalents	$ 455	$ –	$ –	$ 455	Daily	One
Corporate stocks	14,283	–	–	14,283	Daily	One
Fixed income:						
Short-term bond fund	33,720	–	–	33,720	Daily	One
Intermediate-term bond fund	24,967	–	–	24,967	Daily	One
Other fixed income	7,579	–	–	7,579		
Total fixed income	66,266	–	–	66,266		
Hedge fund investments:						
Equity long/short	–	10,735	–	10,735	Annually	95
Equity long/short	–	10,653	–	10,653	Quarterly	92
Absolute return/multiple strategies	–	7,644	–	7,644	Quarterly	92
Absolute return/multiple strategies	–	1,117	–	1,117	In Redemption	
Total hedge fund investments	–	30,149	–	30,149		
Total pension plan assets	$ 81,004	$ 30,149	$ –	$ 111,153		

	December 31, 2010				Redemption	Days'
	Level 1	Level 2	Level 3	Total	or Liquidation	Notice
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/multiple strategies	–	12,601	–	12,601	Quarterly	92
Absolute return/multiple strategies	–	1,247	–	1,247	In Redemption	
International fund 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		

10. Retirement Plans (continued)

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

Fair Value Hierarchy

The Plan follows 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.

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.

(In Thousands)

11. Professional and General Liability Insurance (continued)

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. The interest rate used to discount the reported losses on the claims-made reserve was 4.5% at December 31, 2011 and 2010. 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 $22,800 and $23,600 for professional and general liability program expenses in 2011 and 2010, respectively.

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

12. 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 2011 and 2010 was $25,078 and $22,000, respectively.

The following is a schedule by year of future minimum lease payments to be made under operating leases as of December 31, 2011, that have initial or remaining lease terms in excess of one year:

Year ending December 31:	
2012	$ 19,484
2013	17,016
2014	15,389
2015	13,844
2016	10,044
Thereafter	23,605
	$ 99,382

13. Commitments and Contingencies

The Corporations are defendants in various lawsuits arising in the ordinary course of business. Although the outcome of those lawsuits cannot be predicted with certainty, management believes the ultimate disposition of such matters will not have a material effect on the Corporations' financial condition or operations.

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, 2011 and 2010, are approximately $3,675 and $3,069, respectively, of accrued workers' compensation claims pursuant to the self-insured workers' compensation program. Provisions for the self-insured workers' compensation claims of $2,989 in 2011 and $1,700 in 2010 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.

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 $3,225 and $3,175 at December 31, 2011 and 2010, respectively. In connection with workers' compensation insurance obtained through an outside insurance carrier, the Corporations have established bank letters of credit totaling $1,807 and $1,907 at December 31, 2011 and 2010, respectively. There were no outstanding draws on these lines as of December 31, 2011 and 2010.

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 $4,984 and $3,854 at December 31, 2011 and 2010, respectively, are included with accrued expenses in the accompanying consolidated balance sheets. Provisions for self-insured employee health claims of $40,906 and $42,453 at December 31, 2011 and 2010, 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.

13. Commitments and Contingencies (continued)

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's net patient and resident service revenues.

In 2011 and 2010, ABMC and St. Alexius received notice from the Medicare program requiring that they provide Medicare with documentation for claims under 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.

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

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.

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.

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.

14. Subsequent Events

The Corporations evaluated events and transactions occurring subsequent to December 31, 2011 through March 14, 2012, the date the consolidated financial statements were issued. During this period, there were no subsequent events that required recognition in the consolidated financial statements. The following were non-recognized subsequent events that required disclosure. Also see Note 7.

Effective January 1, 2012, Ascension Health became the sole corporate member of Alexian Brothers Health System. Ascension Health is a subsidiary of Ascension Health Alliance, a Missouri nonprofit corporation, and the largest nonprofit Catholic healthcare system in the United States, operating in 21 states and the District of Columbia. In addition, Ascension Health became the owner of Edessa Insurance Company, Ltd. effective January 11, 2012.

During the months of February and March 2012, Alexian Brothers Health System redeemed the following bonds for the aggregate principal amount due following the scheduled principal payments completed in 2012:

Alexian Brothers Health System Series 1999
Alexian Brothers Health System Series 2004
Alexian Brothers Health System Series 2009
Alexian Village of Milwaukee Series 1988
Alexian Village of Tennessee Series 1999

The redemptions were funded by an Ascension Health commercial paper offering in February 2012 in the amount of $128,080,000. It is the intent of Ascension Health to replace the commercial paper with part of the proceeds from an Ascension Health bond offering during 2012, which may include partial refunding of a selection of the Alexian Brothers Health System bonds listed above.

Supplemental Schedules

Schedule I

Alexian Brothers Health System and Subsidiaries

Consolidating Balance Sheet

(In Thousands)

December 31, 2011

	Alexian Brothers Health System	Alexian Brothers Hospital Network	Alexian Brothers Senior Ministries	Alexian Brothers AIDS Ministries	Alexian Brothers Health System, Inc. Investment Trust	Alexian Brothers of St. Louis, Inc.	Alexian Brothers Services, Inc.	Eliminations	Consolidated Total
Assets									
Current assets:									
Cash and cash equivalents	$ (52,082)	$ 73,373	$ (961)	$ 730	$ 1	$ –	$ 110	$ –	$ 21,171
Receivables:									
Patient and resident accounts, less allowance for uncollectible accounts of approximately $33,000	–	111,107	4,824	–	–	–	–	–	115,931
Other	1,642	2,613	4,737	102	–	–	–	–	9,094
Total receivables	1,642	113,720	9,561	102	–	–	–	–	125,025
Assets limited as to use – required for current liabilities	17,025	–	–	–	–	–	–	–	17,025
Inventory of supplies	4,433	12,611	522	–	–	–	–	–	17,566
Prepaid expenses	2,470	2,969	477	12	–	–	3	–	5,931
Total current assets	(26,512)	202,673	9,599	844	1	–	113	–	186,718
Assets limited as to use:									
Board-designated	886	322	13,071	229	352,305	–	–	(22,820)	343,993
Trustee-held funds	32,946	–	453	–	–	–	641	–	34,040
Assets held by captive insurance company	–	108,501	–	–	–	–	–	–	108,501
Due from affiliates	187,127	67,944	75,222	–	–	–	–	(330,293)	–
Total assets limited as to use	220,959	176,767	88,746	229	352,305	–	641	(353,113)	486,534
Less assets limited as to use – required for current liabilities	17,025	–	–	–	–	–	–	–	17,025
Noncurrent assets limited as to use	203,934	176,767	88,746	229	352,305	–	641	(353,113)	469,509
Land, buildings, and equipment, net	47,929	440,929	96,923	5,506	–	–	2,245	–	593,532
Other assets:									
Due from affiliates	10,190	16,954	(838)	–	1,065	–	–	(27,371)	–
Deferred finance charges, net	9,425	–	434	–	–	–	–	–	9,859
Land held for future development, at cost	2,324	7,203	695	–	–	–	–	–	10,222
Excess of purchase price over net assets acquired, net	74,052	1,986	–	–	–	–	–	–	76,038
Restricted assets	7,981	5,163	2,961	230	–	–	–	–	16,335
Notes, deposits, and other	10,502	4,154	–	408	–	–	196	(4,129)	11,131
Investments in subsidiaries	–	–	–	–	–	–	–	–	–
Total other assets	114,474	35,460	3,252	638	1,065	–	196	(31,500)	123,585
Total assets	$ 339,825	$ 855,829	$ 198,520	$ 7,217	$ 353,371	$ –	$ 3,195	$ (384,613)	$ 1,373,344

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Alexian Brothers Health System and Subsidiaries

Consolidating Balance Sheet (continued)

(In Thousands)

December 31, 2011

	Alexian Brothers Health System	Alexian Brothers Hospital Network	Alexian Brothers Senior Ministries	Alexian Brothers AIDS Ministries	Alexian Brothers Health System, Inc. Investment Trust	Alexian Brothers of St. Louis, Inc.	Alexian Brothers Services, Inc.	Eliminations	Consolidated Total
Liabilities and net assets									
Current liabilities:									
Current maturities of long-term debt	$ 11,438	$ –	$ 1,667	$ –	$ –	$ –	$ 81	$ (81)	$ 13,105
Accounts payable	25,004	6,182	1,586	–	–	–	44	–	32,816
Accrued expenses	46,116	42,691	7,095	95	159	–	(124)	1,642	97,674
Estimated payables under third-party reimbursement programs	–	81,904	–	–	–	–	–	–	81,904
Other	1,701	2,187	2,245	–	–	–	33	–	6,166
Total current liabilities	84,259	132,964	12,593	95	159	–	34	1,561	231,665
Deferred accommodation fees and deposits	–	–	49,631	(29)	–	–	–	–	49,602
Reserve for outstanding insurance losses	7	130,137	239	6	–	–	–	–	130,389
Long-term debt, excluding current maturities	440,569	–	21,001	–	–	–	4,048	(4,986)	460,632
Other	22,697	5,583	–	4,901	–	–	–	–	33,181
Due to affiliates	(74,286)	101,500	478	221	353,113	162	–	(381,188)	–
Total liabilities	473,246	370,184	83,942	5,194	353,272	162	4,082	(384,613)	905,469
Net assets (liabilities):									
Unrestricted	(141,402)	480,482	111,617	1,793	99	(162)	(887)	–	451,540
Temporarily restricted	7,981	4,234	2,319	230	–	–	–	–	14,764
Permanently restricted	–	929	642	–	–	–	–	–	1,571
Total net assets (liabilities)	(133,421)	485,645	114,578	2,023	99	(162)	(887)	–	467,875
Total liabilities and net assets	$ 339,825	$ 855,829	$ 198,520	$ 7,217	$ 353,371	$ –	$ 3,195	$ (384,613)	$ 1,373,344

Alexian Brothers Health System and Subsidiaries

Consolidating Statement of Operations

(In Thousands)

Year Ended December 31, 2011

	Alexian Brothers Health System	Alexian Brothers Hospital Network	Alexian Brothers Senior Ministries	Alexian Brothers AIDS Ministries	Alexian Brothers Health System, Inc. 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	$ –	$ 849,978	$ 64,640	$ –	$ –	$ –	$ –	$ –	$ 914,618
Capitation revenues	–	6,243	32,828	–	–	–	–	(5)	39,066
Investment income	–	2,531	–	–	–	–	–	–	2,531
Other	34,704	20,273	4,675	1,227	–	–	963	(31,425)	30,417
Net assets released from restrictions used for operations	–	2,622	511	–	–	–	–	–	3,133
Total unrestricted revenues, gains, and other support	34,704	881,647	102,654	1,227	–	–	963	(31,430)	989,765
Expenses:									
Salaries and wages	20,061	344,672	39,245	545	–	–	63	(5,014)	399,572
Employee benefits	8,382	75,256	9,098	129	–	–	29	(7,431)	85,463
Supplies and other	1,182	143,500	11,908	119	–	–	17	–	156,726
Purchased services	5,129	106,813	20,935	132	–	55	99	(18,985)	114,178
Provision for bad debts	–	32,784	333	–	–	–	2	–	33,119
Repairs and maintenance	353	26,078	2,230	17	–	–	223	–	28,901
Utilities	702	8,581	3,019	40	–	–	117	–	12,459
Insurance and taxes	454	56,164	4,008	12	–	–	31	–	60,669
Interest	(242)	19,861	416	–	9,219	–	233	(9,224)	20,263
Restructuring	–	2,091	–	–	–	–	–	–	2,091
Ascension transaction costs	3,623	–	–	–	–	–	–	–	3,623
Depreciation	827	41,587	6,793	74	–	–	144	–	49,425
Total expenses	40,471	857,387	97,985	1,068	9,219	55	958	(40,654)	966,489
Income (loss) from operations	(5,767)	24,260	4,669	159	(9,219)	(55)	5	9,224	23,276
Nonoperating gains (losses):									
Investment income	4,899	126	2,132	(7)	9,219	–	–	(9,224)	7,145
Unrestricted gifts and bequests	–	–	18	–	–	–	–	–	18
Loss on bond refinancing	–	–	(293)	–	–	–	(133)	–	(426)
Other, net	–	(43)	11	–	–	–	127	–	95
Nonoperating gains (losses), net	4,899	83	1,868	(7)	9,219	–	(6)	(9,224)	6,832
Unrestricted revenues, gains, and other support in excess (deficient) of expenses and nonoperating gains (losses), net	$ (868)	$ 24,343	$ 6,537	$ 152	$ –	$ (55)	$ (1)	$ –	$ 30,108

Alexian Brothers Health System and Subsidiaries

Consolidating Statement of Changes in Net Assets (Liabilities)

(In Thousands)

Year Ended December 31, 2011

	Alexian Brothers Health System	Alexian Brothers Hospital Network	Alexian Brothers Senior Ministries	Alexian Brothers AIDS Ministries	Alexian Brothers of St. Louis, Inc.	Alexian Brothers Services, Inc.	Alexian Brothers Health System, Inc. Investment Trust	Eliminations	Consolidated Total
Unrestricted net assets:									
Unrestricted revenues, gains, and other support in excess (deficient) of expenses and nonoperating gains (losses), net	$ (868)	$ 24,343	$ 6,537	$ 152	$ (55)	$ (1)	$ –	$ –	$ 30,108
Other changes in unrestricted net assets:									
Transfers from (to) affiliates and affiliated organization	(17,525)	15,842	1,612	(27)	(1)	(1)	99	1	–
Equity transfer to Alexian Brothers of America, Inc.	(25,000)	–	–	–	–	–	–	–	(25,000)
Alexian Brothers AIDS Ministries acquisition	–	–	–	1,668	–	–	–	–	1,668
Net assets released from restrictions used for purchase of land, buildings, and equipment	–	679	30	–	–	–	–	–	709
Noncontrolling interest	–	(282)	–	–	–	–	–	–	(282)
Recognition of change in pension funded status	(3,454)	–	–	–	–	–	–	–	(3,454)
Change in unrestricted net assets	(46,847)	40,582	8,179	1,793	(56)	(2)	99	1	3,749
Temporarily restricted net assets:									
Contributions for specific purposes	(2,439)	3,908	244	230	–	–	–	–	1,943
Investment income	–	147	10	–	–	–	–	–	157
Other transfers	754	(754)	–	–	–	–	–	–	–
Net assets released from restrictions used for purchase of land, buildings, and equipment	–	(679)	(30)	–	–	–	–	–	(709)
Net assets released from restrictions used for operations	–	(2,622)	(511)	–	–	–	–	–	(3,133)
Change in temporarily restricted net assets	(1,685)	–	(287)	230	–	–	–	–	(1,742)
Permanently restricted net assets:									
Investment loss	–	–	(43)	–	–	–	–	–	(43)
Change in permanently restricted net assets	–	–	(43)	–	–	–	–	–	(43)
Change in net assets (liabilities)	(48,532)	40,582	7,849	2,023	(56)	(2)	99	1	1,964
Net assets (liabilities) at beginning of year	(84,889)	445,063	106,729	–	(106)	(885)	–	(1)	465,911
Net assets (liabilities) at end of year	$ (133,421)	$ 485,645	$ 114,578	$ 2,023	$ (162)	$ (887)	$ 99	$ –	$ 467,875

December 31, 2011

	Alexian Brothers Health System	Alexian Brothers Hospital Network	Alexian Brothers Medical Center	Saint Alexius Medical Center	Alexian Brothers Behavioral Health Hospital	Savelli Properties Inc.	Alexian Village of Milwaukee Inc.	Alexian Village of Tennessee	Alexian Brothers Lansdowne Village	Alexian Brothers Sherbrooke Village	Alexian Brothers Community Services	Al Brot San I
	$ (52,082)	$ –	$ 35,389	$ 28,209	$ 5,456	$ 2,199	$ 21	$ (622)	$ (79)	$ (111)	$ (257)	$
ınce for												
ly $31,300	–	–	56,306	40,047	6,869	–	1,468	648	1,135	602	971	
	1,642	–	1,123	801	219	(7)	1,548	3,183	–	–	–	
	1,642	–	57,429	40,848	7,088	(7)	3,016	3,831	1,135	602	971	
nt liabilities	17,025	–	–	–	–	–	–	–	–	–	–	
	4,433	–	8,484	4,012	115	–	149	100	19	18	236	
	2,470	–	1,568	779	89	127	206	72	17	38	34	
	(26,512)	–	102,870	73,848	12,748	2,319	3,392	3,381	1,092	547	984	
		–										
	188,011	–	33,000	25,000	5,000	–	11,067	4,371	12,648	17,224	39,589	
	32,946	–	–	–	–	–	416	–	–	37	–	
	220,957	–	33,000	25,000	5,000	–	11,483	4,371	12,648	17,261	39,589	
urrent liabilities	17,025	–	–	–	–	–	–	–	–	–	–	
	203,932	–	33,000	25,000	5,000	–	11,483	4,371	12,648	17,261	39,589	
subsidiaries	8,879	16,954	(2,550)	2,550	–	–	947	27	34	21	72	
	47,929	–	230,285	175,069	24,631	6,897	26,753	42,621	3,650	12,490	9,860	
	9,425	–	–	–	–	–	70	364	–	–	–	
	2,324	–	2,026	5,177	–	–	451	–	–	244	–	
uired, net	74,052	–	–	–	–	–	–	–	–	–	–	
	–	–	6,655	–	–	–	–	–	–	–	–	
	7,981	–	3,852	663	77	–	78	2,390	6	2	–	
	10,502	–	220	1,985	–	21	–	–	–	–	–	
	104,284	–	12,753	7,825	77	21	599	2,754	6	246	–	
	$ 338,512	$ 16,954	$ 376,358	$ 284,292	$ 42,456	$ 9,237	$ 43,174	$ 53,154	$ 17,430	$ 30,565	$ 50,505	$
	$ 11,438	$ –	$ –	$ –	$ –	$ –	$ 1,000	$ 638	$ –	$ –	$ –	$
ceting arrangements	–	–	–	–	–	–	–	–	–	–	–	
	25,004	–	4,258	1,850	29	10	202	573	182	67	257	
	46,116	–	19,155	13,921	4,421	246	1,242	1,916	426	455	2,725	
ursement programs	–	–	45,765	32,862	3,277	–	–	–	–	–	–	
	1,701	1,138	600	155	93	3	82	143	75	49	1,896	
	84,259	1,138	69,778	48,788	7,820	259	2,526	3,270	683	571	4,878	
sidiaries	(74,286)	–	46,287	32,598	5,902	783	27	8	108	40	221	
	–	–	–	–	–	–	16,652	30,578	–	–	2,401	
	7	–	16,171	9,768	1,901	7	49	49	56	47	38	
	440,569	–	–	–	–	–	6,700	14,301	–	–	–	
	18,711	–	5,551	–	–	–	–	–	–	–	–	
	469,260	1,138	137,787	91,154	15,623	1,049	25,954	48,206	847	658	7,538	
	(138,729)	15,816	234,719	192,475	26,756	8,188	17,142	2,558	16,577	29,905	42,967	

Alexian Brothers Health System Obligated Group Consolidating Statement of Operations

(In Thousands)

Year Ended December 31, 2011

	Alexian Brothers Health System	Alexian Brothers Hospital Network	Alexian Brothers Medical Center	Saint Alexius Medical Center	Alexian Brothers Behavioral Health Hospital	Savelli Properties Inc.	Alexian Village of Milwaukee Inc.	Alexian Village of Tennessee	Alexian Brothers Lansdowne Village	Alexian Brothers Sherbrooke Village	Alexian Brothers Community Services	Alex Broth San In
t:												
	$ –	$ –	$ 427,656	$ 328,625	$ 64,327	$ –	$ 21,882	$ 21,836	$ 11,665	$ 11,293	$ 1,019	$
	–	–	2,135	1,040	750	–	–	–	–	–	32,828	
	–	–	522	–	–	–	–	–	–	–	–	
	34,704	86,083	6,017	3,432	3,682	3,102	855	562	15	62	1,071	
r operations	–	1,227	309	198	12	–	127	325	14	14	5	
ıpport	34,704	87,310	436,639	333,295	68,771	3,102	22,864	22,723	11,694	11,369	34,923	
	20,061	26,282	143,873	105,245	32,718	–	9,408	8,308	4,316	4,586	10,080	
	8,137	7,984	32,689	22,330	6,436	–	2,025	2,496	795	817	2,512	
	1,182	1,873	90,992	49,469	1,711	1	2,416	2,848	1,346	993	3,919	
	5,126	15,501	84,191	73,335	14,729	2,134	3,341	2,231	2,334	1,055	16,993	
	–	146	13,557	16,240	1,687	154	66	22	146	74	25	
	353	16,275	8,353	7,637	587	104	793	637	204	203	358	
	702	728	4,350	2,381	436	100	935	1,200	257	187	260	
	454	120	23,088	18,402	6,891	220	748	1,189	779	663	403	
	(242)	–	11,292	7,372	1,197	–	132	258	–	–	19	
	3,623	–	–	–	–	–	–	–	–	–	–	
	–	2,091	–	–	–	–	–	–	–	–	–	
	827	9,616	17,620	11,936	1,237	512	2,242	2,787	430	574	635	
	40,223	80,616	430,005	314,347	67,629	3,225	22,106	21,976	10,607	9,152	35,204	
	(5,519)	6,694	6,634	18,948	1,142	(123)	758	747	1,087	2,217	(281)	
	4,899	–	–	12	–	–	289	166	262	466	915	
	–	–	8	–	–	–	14	–	–	–	–	
ined subsidiaries	–	–	128	–	–	–	–	–	–	–	–	
	–	–	–	–	–	–	–	(293)	–	–	–	
	–	(388)	–	157	–	(30)	–	12		–	4	
	4,899	(388)	136	169	–	(30)	303	(115)	262	466	919	
t in excess (deficient) of et	(620)	6,306	6,770	19,117	1,142	(153)	1,061	632	1,349	2,683	638	
:d subsidiaries	(42,525)	(3,184)	(1,752)	14,966	(232)	–	–	–	–	–	1,612	
	–	–	(282)	–	–	–	–	–	–	–	–	
buildings, and equipment	–	–	263	416	–	–	–	30	–	–	–	
ıtus	(2,434)	–	–	–	–	–	–	–	–	–	–	
	$ (45,579)	$ 3,122	$ 4,999	$ 34,499	$ 910	$ (153)	$ 1,061	$ 662	$ 1,349	$ 2,683	$ 2,250	$

Alexian Brothers Hospital Network Consolidating Balance Sheet

(In Thousands)

December 31, 2011

	Alexian Brothers Hospital Network	Alexian Brothers Medical Center	St. Alexius Medical Center	Alexian Brothers Behavioral Health Hospital	Alexian Brothers Ambulatory Group	Alexian Brothers Specialty Group	Bonaventure Medical Foundation L.L.C.	Thelen Corporation	Savelli Properties, Inc.	Alexian Brothers Center for Mental Health	Alexian Brothers Health Providers Association, Inc.	Ec Insı Con I
	$ –	$ 35,389	$ 28,209	$ 5,456	$ 12	$ 258	$ (296)	$ 1,955	$ 2,199	$ 191	$ –	$
ınce for												
ly $32,600	–	56,306	40,047	6,869	4,526	1,440	–	–	–	1,919	–	
	–	1,123	801	219	356	–	–	48	(7)	73	–	
	–	57,429	40,848	7,088	4,882	1,440	–	48	(7)	1,992	–	
	–	8,484	4,012	115	–	–	–	–	–	–	–	
	–	1,568	779	89	155	113	–	110	127	28	–	
	–	102,870	73,848	12,748	5,049	1,811	(296)	2,113	2,319	2,211	–	
	–	–	–	–	–	–	–	–	–	–	322	
	–	–	–	–	–	–	–	–	–	–	–	
	–	33,000	25,000	5,000	3,804	–	–	–	–	1,140	–	
	–	33,000	25,000	5,000	3,804	–	–	–	–	1,140	322	
	–	230,285	175,069	24,631	2,290	785	–	684	6,897	288	–	
	16,954	(2,550)	2,550	–	–	–	–	–	–	–	–	
	–	2,026	5,177	–	–	–	–	–	–	–	–	
uired, net	–	–	–	–	549	1,437	–	–	–	–	–	
	–	3,852	663	77	–	–	–	–	–	571	–	
	–	220	1,985	–	461	–	–	1,467	21	–	–	
	–	6,655	–	–	–	–	–	–	–	–	–	
	16,954	10,203	10,375	77	1,010	1,437	–	1,467	21	571	–	
	$ 16,954	$ 376,358	$ 284,292	$ 42,456	$ 12,153	$ 4,033	$ (296)	$ 4,264	$ 9,237	$ 4,210	$ 322	$
	$ –	$ 4,258	$ 1,850	$ 29	$ 26	$ 2	$ 5	$ 2	$ 10	$ –	$ –	$
	–	19,155	13,921	4,421	3,307	832	–	116	246	359	–	
ırsement programs	–	45,765	32,862	3,277	–	–	–	–	–	–	–	
	1,138	600	155	93	43	–	–	59	3	96	–	
	1,138	69,778	48,788	7,820	3,376	834	5	177	259	455	–	
	–	16,171	9,768	1,901	702	–	–	7	7	69	–	
	–	5,551	–	–	–	–	–	32	–	–	–	
	–	46,287	32,598	5,902	9,583	4,259	1,830	264	783	480	(486)	
	1,138	137,787	91,154	15,623	13,661	5,093	1,835	480	1,049	1,004	(486)	
	15,816	234,719	192,475	26,756	(1,508)	(1,060)	(2,131)	3,784	8,188	2,635	808	
	–	2.923	663	77	–	–	–	–	–	571	–	

Alexian Brothers Hospital Network Consolidating Statement of Operations
(In Thousands)

Year Ended December 31, 2011

t:	Alexian Brothers Hospital Network	Alexian Brothers Medical Center	St. Alexius Medical Center	Alexian Brothers Behavioral Health Hospital	Alexian Brothers Ambulatory Group	Alexian Brothers Specialty Group	Bonaventure Medical Foundation L.L.C.	Thelen Corporation	Savelli Properties, Inc.	Alexian Brothers Center for Mental Health	Alexian Brothers Health Providers Association, Inc.	Ed Insu Com L
	$ –	$ 427,656	$ 328,625	$ 64,327	$ 36,029	$ 1,739	$ –	$ –	$ –	$ 4,574	$ –	$
	–	2,135	1,040	750	2,318	–	–	–	–	–	–	
	–	522	–	–	–	–	–	323	–	–	–	
	86,083	6,017	3,432	3,682	11,986	17	–	2,171	3,102	21	115	
r operations	1,227	309	198	12	–	–	–	–	–	876	–	
ıpport	87,310	436,639	333,295	68,771	50,333	1,756	–	2,494	3,102	5,471	115	
	26,282	143,873	105,245	32,718	31,344	1,665	–	456	–	3,089	–	
	7,984	32,689	22,330	6,436	4,619	454	–	95	–	649	–	
	1,873	90,992	49,469	1,711	2,098	42	–	34	1	190	–	
	15,501	84,191	73,335	14,729	15,203	457	–	1,730	2,134	894	144	
	146	13,557	16,240	1,687	819	41	–	51	154	89	–	
	16,275	8,353	7,637	587	375	3	–	4	104	65	–	
	728	4,350	2,381	436	452	23	–	29	100	82	–	
	120	23,088	18,402	6,891	3,364	107	–	3	220	142	–	
	–	11,292	7,372	1,197	–	–	–	–	–	–	–	
	–	–	–	–	–	–	–	–	–	–	–	
	2,091	–	–	–	–	–	–	–	–	–	–	
	9,616	17,620	11,936	1,237	443	24	–	180	512	19	–	
	80,616	430,005	314,347	67,629	58,717	2,816	–	2,582	3,225	5,219	144	
	6,694	6,634	18,948	1,142	(8,384)	(1,060)	–	(88)	(123)	252	(29)	
	–	–	12	–	77	–	–	–	–	37	–	
	(388)	136	157	–	–	–	–	(48)	(30)	–	–	
	(388)	136	169	–	77	–	–	(48)	(30)	37	–	
t in excess ins (losses), net	6,306	6,770	19,117	1,142	(8,307)	(1,060)	–	(136)	(153)	289	(29)	
:d subsidiaries	(3,184)	(1,752)	14,966	(232)	6,000	–	–	(262)	–	–	–	
	–	(282)	–	–	–	–	–	–	–	–	–	
r purchase of land,	–	–	–	–	–	–	–	–	–	–	–	
	–	263	416	–	–	–	–	–	–	–	–	
	$ 3,122	$ 4,999	$ 34,499	$ 910	$ (2,307)	$ (1,060)	$ –	$ (398)	$ (153)	$ 289	$ (29)	$

Alexian Brothers Health System and Subsidiaries

Alexian Brothers Senior Ministries Consolidating Balance Sheet

(In Thousands)

December 31, 2011

	Alexian Brothers Senior Ministries	Alexian Village of Milwaukee, Inc.	Alexian Village of Tennessee	Alexian Brothers Lansdowne Village	Alexian Brothers Sherbrooke Village	Alexian Brothers Community Services	Alexian Brothers Senior Neighbors	Alexian Brothers Elderly Services, Inc.	Alexian Village of Elk Grove	Eliminations	Consolidated Total
Assets											
Current assets:											
Cash and cash equivalents	$ 36	$ 21	$ (622)	$ (79)	$ (111)	$ (257)	$ 51	$ –	$ –	$ –	$ (961)
Receivables:											
Patient and resident accounts, less allowance for uncollectible accounts of approximately $290	–	1,468	648	1,135	602	971	–	–	–	–	4,824
Other	–	1,548	3,183	–	–	–	6	–	–	–	4,737
Total receivables	–	3,016	3,831	1,135	602	971	6	–	–	–	9,561
Inventory of supplies	–	149	100	19	18	236	–	–	–	–	522
Prepaid expenses	109	206	72	17	38	34	1	–	–	–	477
Total current assets	145	3,392	3,381	1,092	547	984	58	–	–	–	9,599
Assets limited as to use:											
Board-designated	789	11,067	62	–	–	9	–	–	1,144	–	13,071
Trustee-held funds	–	416	–	–	37	–	–	–	–	–	453
Due from affiliates	–	947	4,309	12,648	17,224	39,580	514	–	–	–	75,222
Total assets limited as to use	789	12,430	4,371	12,648	17,261	39,589	514	–	1,144	–	88,746
Land, buildings, and equipment, net	61	26,753	42,621	3,650	12,490	9,860	674	814	–	–	96,923
Other assets:											
Due from affiliates	4	–	27	34	21	72	6	–	–	(1,002)	(838)
Deferred finance charges, net	–	70	364	–	–	–	–	–	–	–	434
Land held for future development, at cost	–	451	–	–	244	–	–	–	–	–	695
Restricted assets	2	78	2,390	6	2	–	483	–	–	–	2,961
Total other assets	6	599	2,781	40	267	72	489	–	–	(1,002)	3,252
Total assets	$ 1,001	$ 43,174	$ 53,154	$ 17,430	$ 30,565	$ 50,505	$ 1,735	$ 814	$ 1,144	$ (1,002)	$ 198,520
Liabilities and net assets											
Current liabilities:											
Current maturities of long-term debt	$ –	$ 1,000	$ 638	$ –	$ –	$ –	$ 29	$ –	$ –	$ –	$ 1,667
Long-term debt subject to short-term remarketing arrangements	–	–	–	–	–	–	–	–	–	–	–
Accounts payable	19	202	573	182	67	257	–	3	283	–	1,586
Accrued expenses	233	1,242	1,916	426	455	2,725	88	10	–	–	7,095
Other	–	82	143	75	49	1,896	–	–	–	–	2,245
Total current liabilities	252	2,526	3,270	683	571	4,878	117	13	283	–	12,593
Deferred accommodation fees and deposits	–	16,652	30,578	–	–	2,401	–	–	–	–	49,631
Reserve for outstanding insurance losses	–	49	49	56	47	38	–	–	–	–	239
Long-term debt, excluding current maturities	–	6,700	14,301	–	–	–	–	–	–	–	21,001
Due to affiliates	31	27	8	108	40	221	103	942	–	(1,002)	478
Total liabilities	283	25,954	48,206	847	658	7,538	220	955	283	(1,002)	83,942
Net assets (liabilities):											
Unrestricted	716	17,142	2,558	16,577	29,905	42,967	1,032	(141)	861	–	111,617
Temporarily restricted	2	45	1,926	6	2	–	338	–	–	–	2,319
Permanently restricted	–	33	464	–	–	–	145	–	–	–	642
Total net assets (liabilities)	718	17,220	4,948	16,583	29,907	42,967	1,515	(141)	861	–	114,578
Total liabilities and net assets	$ 1,001	$ 43,174	$ 53,154	$ 17,430	$ 30,565	$ 50,505	$ 1,735	$ 814	$ 1,144	$ (1,002)	$ 198,520

Alexian Brothers Health System and Subsidiaries

Alexian Brothers Senior Ministries Consolidating Statement of Operations
(In Thousands)

Year Ended December 31, 2011

	Alexian Brothers Senior Ministries	Alexian Village of Milwaukee, Inc.	Alexian Village of Tennessee	Alexian Brothers Lansdowne Village	Alexian Brothers Sherbrooke Village	Alexian Brothers Community Services	Alexian Brothers Senior Neighbors	Alexian Brothers Elderly Services, Inc.	Alexian Village of Elk Grove	Eliminations	Consolidated Total
Unrestricted revenues, gains, and other support:											
Net patient and resident service revenues	$ –	$ 21,882	$ 21,836	$ 11,665	$ 11,293	$ 1,019	$ –	$ –	$ –	$ (3,055)	$ 64,640
Capitation revenues	–	–	–	–	–	32,828	–	–	–	–	32,828
Investment income	–	–	–	–	–	–	–	–	–	–	–
Other	2,220	855	562	15	62	1,071	1,670	106	493	(2,379)	4,675
Net assets released from restrictions used for operations	26	127	325	14	14	5	–	–	–	–	511
Total unrestricted revenues, gains, and other support	2,246	22,864	22,723	11,694	11,369	34,923	1,670	106	493	(5,434)	102,654
Expenses:											
Salaries and wages	1,480	9,408	8,308	4,316	4,586	10,080	1,060	7	–	–	39,245
Employee benefits	321	2,025	2,496	795	817	2,512	132	–	–	–	9,098
Supplies and other	99	2,416	2,848	1,346	993	3,919	287	–	–	–	11,908
Purchased services	256	3,341	2,231	2,334	1,055	16,993	141	6	12	(5,434)	20,935
Provision for bad debts	–	66	22	146	74	25	–	–	–	–	333
Repairs and maintenance	–	793	637	204	203	358	18	17	–	–	2,230
Utilities	70	935	1,200	257	187	260	52	58	–	–	3,019
Insurance and taxes	4	748	1,189	779	663	403	27	10	185	–	4,008
Interest	–	132	258	–	–	19	7	–	–	–	416
Depreciation	18	2,242	2,787	430	574	635	46	61	–	–	6,793
Total expenses	2,248	22,106	21,976	10,607	9,152	35,204	1,770	159	197	(5,434)	97,985
Income (loss) from operations	(2)	758	747	1,087	2,217	(281)	(100)	(53)	296	–	4,669
Nonoperating gains:											
Investment income	16	289	167	262	466	915	17	–	–	–	2,132
Gain on sale of fixed asset	–	–	11	–	–	–	–	–	–	–	11
Loss on bond refinancing	–	–	(293)	–	–	–	–	–	–	–	(293)
Unrestricted gifts and bequests	–	14	–	–	–	4	–	–	–	–	18
Nonoperating gains (losses), net	16	303	(115)	262	466	919	17	–	–	–	1,868
Unrestricted revenues, gains, and other support in excess (deficient) of expenses and nonoperating gains (losses), net	14	1,061	632	1,349	2,683	638	(83)	(53)	296	–	6,537
Other changes in unrestricted net assets:											
Transfers from affiliated organizations	–	–	–	–	–	1,612	–	–	–	–	1,612
Net assets released from restrictions used for purchase of land, buildings, and equipment	–	–	30	–	–	–	–	–	–	–	30
Change in unrestricted net assets	$ 14	$ 1,061	$ 662	$ 1,349	$ 2,683	$ 2,250	$ (83)	$ (53)	$ 296	$ –	$ 8,179

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