

# **Sisters of St. Francis Health Services, Inc. and Affiliates**

**Consolidated Financial Statements with  
Supplemental Financial Information  
December 31, 2007 and 2006**

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Index**  
**December 31, 2007 and 2006**

---

	Page(s)
<b>Report of Independent Auditors</b> .....	1
<b>Consolidated Financial Statements</b>	
Consolidated Balance Sheets.....	2
Consolidated Statements of Operations and Changes in Net Assets.....	3-4
Consolidated Statements of Cash Flows .....	5
Notes to Consolidated Financial Statements .....	6-29
Report of Independent Auditors on Accompanying Supplemental Consolidating Information.....	30
<b>Supplemental Schedules</b>	
Consolidating Balance Sheet.....	31-32
Consolidating Balance Sheet - Central Indiana Region .....	33-34
Consolidating Balance Sheet - Western Indiana Region .....	35-36
Consolidating Balance Sheet - Northern Indiana Region .....	37-38
Consolidating Balance Sheet - Corporate and Other.....	39-40
Consolidating Statement of Operations .....	41
Consolidating Statement of Operations - Central Indiana Region .....	42
Consolidating Statement of Operations - Western Indiana Region .....	43
Consolidating Statement of Operations - Northern Indiana Region .....	44
Consolidating Statement of Operations - Corporate and Other.....	45
Patient Accounts Receivable and Related Data .....	46
Service Statistics (Unaudited).....	47-48
Gross Revenue Composition by Payor (Unaudited) .....	49-50
Full-Time Equivalent Personnel (Unaudited).....	51
Medical Staff Complement (Unaudited).....	52

**Report of Independent Auditors**

Board of Trustees  
Sisters of St. Francis Health Services, Inc.  
Mishawaka, Indiana

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and changes in net assets, and of cash flows, present fairly, in all material respects, the financial position of Sisters of St. Francis Health Services, Inc. and Affiliates (collectively referred to as the "Corporation") at December 31, 2007 and 2006, and the results of their operations, changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 8, the Corporation adopted the provisions of SFAS No. 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Benefit Plans" at December 31, 2007 and changed the method of accounting for pension and other postretirement benefit obligations.

*PricewaterhouseCoopers LLP*

March 21, 2008

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Consolidated Balance Sheets**  
**December 31, 2007 and 2006**  
(In thousands)

	2007	2006		2007	2006
<b>Assets</b>			<b>Liabilities and Net Assets</b>		
Current assets			Current liabilities		
Cash and cash equivalents	\$ 141,083	\$ 84,965	Current portion of long-term debt	\$ 13,447	\$ 15,822
Short-term investments	18,969	19,990	Accounts payable and accrued expenses	157,892	133,383
Patient accounts receivable, net of allowance for doubtful accounts of \$41,234 in 2007 and \$35,838 in 2006	308,501	303,731	Accrued payroll and related expenses	82,246	73,994
Inventories of supplies	34,395	31,197	Estimated third-party payor settlements	<u>8,353</u>	<u>1,254</u>
Other current assets	<u>73,011</u>	<u>77,919</u>	Total current liabilities	261,938	224,453
Total current assets	575,959	517,802	Long-term debt, net of current portion	841,968	839,326
Investments, including assets limited as to use	1,344,460	1,290,682	Accrued pension liability	132,494	150,580
Property, plant, and equipment, net	1,121,872	1,038,272	Estimated insurance liabilities	82,979	75,628
Investments in unconsolidated affiliates	45,869	52,994	Other liabilities	<u>23,885</u>	<u>26,164</u>
Intangible assets, net of accumulated amortization of \$31,529 in 2007 and \$27,929 in 2006	50,461	68,799	Total liabilities	<u>1,343,264</u>	<u>1,316,151</u>
Other assets	83,320	91,314	Minority interest in consolidated affiliates	34,413	5,755
	<u>                    </u>	<u>                    </u>	Net assets		
			Unrestricted	1,802,093	1,697,951
			Temporarily restricted	25,389	23,416
			Permanently restricted	<u>16,782</u>	<u>16,590</u>
			Total net assets	<u>1,844,264</u>	<u>1,737,957</u>
Total assets	<u>\$ 3,221,941</u>	<u>\$ 3,059,863</u>	Total liabilities and net assets	<u>\$ 3,221,941</u>	<u>\$ 3,059,863</u>

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

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Consolidated Statements of Operations and Changes in Net Assets**  
**Years Ended December 31, 2007 and 2006**  
(In thousands)

	2007	2006
<b>Unrestricted revenues, gains, and other support</b>		
Net patient service revenue	\$ 1,789,904	\$ 1,748,681
Premium revenue	134,618	127,418
Other operating revenue	125,643	101,947
Equity in earnings of investments in unconsolidated affiliates	13,199	10,592
Net assets released from restrictions used for operations	<u>2,150</u>	<u>2,016</u>
Total unrestricted revenues, gains, and other support	<u>2,065,514</u>	<u>1,990,654</u>
<b>Operating expenses</b>		
Salaries	745,896	711,497
Employee benefits	205,648	204,927
Physicians' fees	35,742	36,818
Utilities	34,125	32,826
Repairs and maintenance	33,491	32,330
Drugs and pharmaceuticals	83,794	84,601
Medical supplies	182,015	179,081
Insurance	38,574	38,903
Purchased services	152,816	151,083
Other supplies and expenses	265,732	255,287
Provision for doubtful accounts	58,372	65,598
Interest	33,068	32,362
Depreciation and amortization	<u>130,273</u>	<u>125,046</u>
Total operating expenses	<u>1,999,546</u>	<u>1,950,359</u>
Operating income	<u>65,968</u>	<u>40,295</u>
<b>Other income (expense)</b>		
Investment income	91,379	136,971
Net cumulative unrealized gains transferred to trading securities (see Note 2)	51,256	-
Gain on sale of investments in unconsolidated affiliates	9,891	4,700
Gain on sale/disposal of assets	7,512	3,716
Loss on refunding and defeasance of long-term debt (see Note 6)	-	(23,460)
Realized gain on basis rate swap contracts	-	3,617
Net assets released from restrictions	2,140	2,448
Contributions	679	860
Other, net	<u>(3,666)</u>	<u>(4,265)</u>
Total other income (expense), net	<u>159,191</u>	<u>124,587</u>
Minority interest in consolidated affiliates	<u>(20,459)</u>	<u>(9,022)</u>
Excess of revenues over expenses	<u>\$ 204,700</u>	<u>\$ 155,860</u>

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

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Consolidated Statements of Operations and Changes in Net Assets**  
**Years Ended December 31, 2007 and 2006**  
(In thousands)

	2007	2006
<b>Unrestricted net assets</b>		
Excess of revenues over expenses	\$ 204,700	\$ 155,860
Net cumulative unrealized gains transferred to trading securities (see Note 2)	(51,432)	-
Change in net unrealized investment gains and losses on other than trading securities	99	(11,470)
Change in unrealized loss on cash flow hedges	(12,836)	(7,202)
Cumulative effect of change in accounting principle (see Note 8)	(69,329)	-
Change in minimum pension liability included in accrued pension liability	32,611	45,780
Other	(488)	768
Net assets released from restrictions used for purchase of property, plant, and equipment	817	1,491
Increase in unrestricted net assets	<u>104,142</u>	<u>185,227</u>
<b>Temporarily restricted net assets</b>		
Contributions	7,080	7,456
Investment income	936	442
Net assets released from restrictions	(5,107)	(5,955)
Change in net unrealized investment gains and losses	12	(143)
Other	(948)	(260)
Increase in temporarily restricted net assets	<u>1,973</u>	<u>1,540</u>
<b>Permanently restricted net assets</b>		
Contributions	1	72
Investment income	665	940
Change in net unrealized investment gains and losses	(53)	(13)
Other	(421)	(815)
Increase in permanently restricted net assets	<u>192</u>	<u>184</u>
Increase in net assets	106,307	186,951
Net assets, beginning of the year	<u>1,737,957</u>	<u>1,551,006</u>
Net assets, end of the year	<u>\$ 1,844,264</u>	<u>\$ 1,737,957</u>

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

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2007 and 2006**  
(In thousands)

	2007	2006
<b>Cash flows from operating activities</b>		
Increase in net assets	\$ 106,307	\$ 186,951
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
Depreciation of property, plant, and equipment	125,542	118,974
Amortization of bond discounts, deferred financing costs, and other intangible assets	4,731	3,518
Write-off of intangible asset	-	2,554
Provision for doubtful accounts	58,372	65,598
Gain on sale/disposal of assets	(7,512)	(3,716)
Gain on sale of investments in unconsolidated affiliates	(9,891)	(4,700)
Loss on refunding and defeasance of long-term debt (see Note 6)	-	23,460
Change in net unrealized investment gains and losses on other than trading securities	(99)	11,470
Change in unrealized loss on interest rate and basis rate swap contracts	12,484	3,585
Minority interest in consolidated affiliates	20,459	9,022
Equity in earnings in unconsolidated affiliates	(13,199)	(10,592)
Change in deferred tax asset	(769)	(947)
Restricted contributions and investment income	(8,682)	(8,910)
Change in minimum pension liability included in accrued pension liability	(32,611)	(45,780)
Cumulative effect of change in accounting principle (see Note 8)	69,329	-
Changes in operating assets and liabilities		
Patient accounts receivable	(63,142)	(119,002)
Inventories of supplies	(3,198)	(895)
Other assets	(5,854)	(42,577)
Accounts payable and accrued expenses	17,086	31,684
Accrued payroll and related expenses	8,252	7,024
Estimated third-party payor settlements	7,099	(14,872)
Estimated insurance liabilities	7,351	11,843
Accrued pension and other liabilities	(28,244)	(14,783)
Total adjustments	<u>157,504</u>	<u>21,958</u>
Net cash provided by operating activities	<u>263,811</u>	<u>208,909</u>
<b>Cash flows from investing activities</b>		
Purchase of property, plant, and equipment	(201,751)	(219,172)
Increase in investments, including assets limited as to use	(52,658)	(158,755)
Proceeds from sale of property, plant, and equipment	3,046	6,368
Proceeds from sale of investment in unconsolidated affiliates	14,375	7,820
Receipt of (distributions to) minority interest in affiliates	8,199	(3,267)
Distributions from unconsolidated affiliates, net	15,840	14,773
Acquisition of surgery center	(2,244)	-
Insurance proceeds	7,734	-
Net cash used in investing activities	<u>(207,459)</u>	<u>(352,233)</u>
<b>Cash flows from financing activities</b>		
Issuance of long-term debt	9,471	630,514
Principal payments on long-term debt	(18,387)	(3,409)
Refunding and defeasance of long-term debt (see Note 6)	-	(491,860)
Restricted contributions and investment income	<u>8,682</u>	<u>8,910</u>
Net cash (used in) provided by financing activities	<u>(234)</u>	<u>144,155</u>
Net increase in cash and cash equivalents	56,118	831
Cash and cash equivalents, beginning of year	<u>84,965</u>	<u>84,134</u>
Cash and cash equivalents, end of year	<u>\$ 141,083</u>	<u>\$ 84,965</u>

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

# **Sisters of St. Francis Health Services, Inc. and Affiliates**

## **Notes to Consolidated Financial Statements**

### **December 31, 2007 and 2006**

---

#### **1. Description of Organization and Mission**

##### **Organization**

The Sisters of St. Francis Health Services, Inc. and Affiliates (collectively referred to as the "Corporation"), under the sponsorship of the Sisters of St. Francis of Perpetual Adoration, Inc., provides health care and related services to the communities in which it operates. The Corporation consists of four geographic regions comprised of twelve health centers (the "Health Centers") and other related divisions and affiliates. The other related divisions and affiliates include the corporate office, an information services organization, management services organizations, a construction company, onshore and offshore captive insurance companies, nonprofit foundations and a taxable nonprofit physician hospital organization. The Corporation also has various investments in consolidated and unconsolidated affiliates (see Note 10).

##### **Mission**

The mission statement for Sisters of St. Francis Health Services, Inc. is as follows:

*Continuing Christ's Ministry in Our Franciscan Tradition*

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

The following summary has been prepared in accordance with the Catholic Health Association of the United States' policy document, *Guide for Planning and Reporting Community Benefit*, released in 2006. The benefits provided are measured at total cost, net of any offsetting revenues, donations or other funds used to defray cost.

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**December 31, 2007 and 2006**

The following amounts reflect the Corporation's quantifiable community benefits for the years ended December 31, 2007 and 2006:

	(unaudited)	
	2007	2006
	(in thousands)	
<b>Benefits for the poor</b>		
Cost of charity care provided	\$ 71,754	\$ 53,667
Unpaid costs of Medicaid and other indigent care programs	118,165	90,271
Other benefits for the poor		
Subsidized health services	763	774
Community health improvement services	718	1,346
Financial and in kind contributions	297	179
Community building activities	90	3
Community benefit operations	27	15
Health professions education	10	-
	<u>1,905</u>	<u>2,317</u>
Total benefits for the poor	<u>191,824</u>	<u>146,255</u>
<b>Benefits for the broader community</b>		
Health professions education	9,786	7,756
Subsidized health services	8,611	7,938
Community health improvement services	3,303	3,160
Community building activities	1,164	1,145
Financial and in kind contributions	713	1,144
Research	443	658
Community benefit operations	29	6
	<u>24,049</u>	<u>21,807</u>
Total benefits for the broader community	<u>24,049</u>	<u>21,807</u>
Total quantifiable community benefits	<u>215,873</u>	<u>168,062</u>
<b>Unpaid costs of Medicare</b>	<u>214,313</u>	<u>192,953</u>
<b>Total quantifiable community benefits including unpaid costs of Medicare</b>	<u>\$ 430,186</u>	<u>\$ 361,015</u>

Total quantifiable community benefits including unpaid costs of Medicare were approximately 22% and 19% of total operating expenses in 2007 and 2006, respectively.

The Corporation also provides a significant amount of uncompensated care to patients which is reported as provision for doubtful accounts in the consolidated statements of operations and changes in net assets and not reported in the summary of quantifiable community benefits. During the years ended December 31, 2007 and 2006, the Corporation reported \$58 million and \$66 million, respectively, as provisions for doubtful accounts.

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Notes to Consolidated Financial Statements

### December 31, 2007 and 2006

---

**Benefits for the poor** include the cost of providing programs and services to persons who are economically poor or are medically indigent and cannot afford to pay for health care services because they have inadequate resources and/or are uninsured or underinsured.

**Benefits for the broader community** include the costs of providing programs and services aimed at persons and groups for reasons other than poverty. These persons and groups may include needy populations that may not qualify as poor but need special services and support or broader populations who benefit from healthy community initiatives.

**Charity care** represents the cost of healthcare services, provided in accordance with the Corporation's charity care policy, for which no or partial reimbursement will be received because of the recipient's inability to pay for those services.

**Unpaid costs of Medicaid and other indigent care programs** represents the cost (determined using a cost to charge ratio) of providing services to beneficiaries of public programs including State Medicaid and indigent care programs in excess of any payments received.

**Subsidized health services** are net costs for billed services that are subsidized by the Corporation. These include services offered despite a financial loss because they are needed in the community and either other providers are unwilling to provide the services or the services would otherwise not be available in sufficient amount. Examples of services include emergency services, free standing community clinics, hospice care, behavioral health services, prenatal services, women's and children's services, palliative care, and parish nurse programs.

**Community health improvement services** are activities and services for which no patient bill exists. These services are not expected to be financially self-supporting, although some may be supported by outside grants or funding. Amounts reported are net of any outside funding. Some examples include community health education, free health screenings, health fairs, free immunization services, free or low cost prescription medications, and outreach programs. The Corporation actively collaborates with community groups and agencies to assist those in need in providing such services.

**Financial and in kind contributions** are made by the Corporation on behalf of the poor and underserved to community agencies. These amounts include funds used for charitable activities as well as resources contributed directly to programs, organizations, and foundations for efforts on behalf of the poor and underserved. In kind services include hours donated by staff to the community while on work time, overhead expenses of space donated to community groups, and donations of food, equipment and supplies.

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

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

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

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Notes to Consolidated Financial Statements

### December 31, 2007 and 2006

---

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

**Unpaid costs of Medicare** represents the cost (determined using a cost to charge ratio) of providing services primarily to elderly beneficiaries of the Medicare program in excess of any payments received.

## 2. Summary of Significant Accounting Policies

### Principles of Consolidation

All affiliates for which operating control is exercised by the Corporation or by one of its affiliates are consolidated with all significant transactions and accounts between affiliates eliminated in consolidation (see "Reclassifications" within this Note 2). Investments in affiliates where the Corporation controls 50% or less of the affiliate's operations and does not have operational control are recorded under the equity method of accounting unless the Corporation's control or investment percentage is insignificant in which case the Corporation uses the cost method.

### Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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.

### Cash and Cash Equivalents

For purposes of the consolidated financial statements, cash and cash equivalents consist primarily of cash and highly liquid marketable securities, including a pooled account (see Note 4), with original maturities of three months or less. Funds whose use is limited by Board designation or other restrictions are excluded. The carrying amount of cash and cash equivalents approximates fair value because of the short maturities of these instruments.

### Inventories of Supplies

Inventories of supplies are stated at the lower of cost (first-in, first out method) or market value.

### Investments and Assets Limited As to Use

Investments, including investments which comprise assets limited as to use, are recorded at fair value. Fair value is estimated based on quoted market prices for these or similar investments. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in excess of revenues over expenses unless the income or loss is restricted by donor or law. Investment income restricted for specified purposes by donor or legal requirements is recorded as temporarily or permanently restricted in the consolidated statements of changes in net assets.

In previous years, substantially all of the Corporation's investments were classified as nontrading. As such, unrealized gains and losses on investments considered available for sale were excluded from excess of revenues over expenses. During 2007, the Corporation determined that substantially all its investments were more accurately classified as trading. As such, unrealized

# **Sisters of St. Francis Health Services, Inc. and Affiliates**

## **Notes to Consolidated Financial Statements**

### **December 31, 2007 and 2006**

---

gains and losses on trading securities are included in excess of revenues over expenses. The transfer resulted in the Corporation recording \$176,000 in other operating revenues and \$51,256,000 in other income (expense) with a corresponding change in net cumulative unrealized gains transferred to trading securities within the consolidated statements of operations and changes in net assets.

Assets limited as to use include assets held by bond trustee under indenture agreements, assets designated by the Board of Trustees for future capital improvements and services for the poor over which the Board retains control and may at its discretion subsequently use for other purposes, assets held for estimated insurance liabilities, and assets held for other restrictive purposes.

In accordance with industry practice, investment earnings on assets held by bond trustee under indenture agreements and assets held for estimated issuance liabilities are included in other operating revenue in the consolidated statements of operations and changes in net assets. Investment earnings from all other unrestricted investments and Board designated funds are included in other income (expense) in the consolidated statements of operations and changes in net assets.

Investments and assets limited as to use are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term may affect the amounts reported in the consolidated balance sheets and the consolidated statements of operations and changes in net assets.

#### **Property, Plant, and Equipment**

Property, plant, and equipment are stated at cost or, if donated, at the fair value at the date of donation. Expenditures that materially increase values, change capacities, or extend useful lives are capitalized. Routine maintenance, repairs, and minor equipment replacement costs are charged to expense when incurred. Upon sale or retirement of property, plant, and equipment, the cost and related accumulated depreciation are eliminated from the respective accounts, and the resulting gain or loss is included in the consolidated statements of operations and changes in net assets. Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring the assets. Depreciation is provided over the estimated useful lives of the assets utilizing the straight-line method. Assets under capital lease obligations are amortized on the straight-line method over the shorter period of the lease term or estimated useful life of the asset.

A conditional asset retirement obligation is recorded for any legal obligation associated with the retirement of long-lived assets resulting from the acquisition, construction, development and/or normal use of the underlying assets. The associated asset retirement costs are capitalized as part of the carrying amount of the underlying asset and depreciated over the asset's estimated useful life. The liability is accreted through charges to operating expense. If the conditional asset retirement obligation is settled for other than the carrying amount of the liability, it is recognized as a gain (loss) on sale of asset. As of December 31, 2007 and 2006, conditional asset retirement obligations of approximately \$12,961,000 and \$11,172,000, respectively, are included within other liabilities in the consolidated balance sheets.

# **Sisters of St. Francis Health Services, Inc. and Affiliates**

## **Notes to Consolidated Financial Statements**

### **December 31, 2007 and 2006**

---

#### **Intangible Assets**

The excess of acquisition cost over fair value of acquired assets, covenants not to compete, and other intangible assets are amortized on a straight-line basis over periods ranging from 2 to 30 years.

On an ongoing basis, the Corporation evaluates its intangible assets for impairment. In completing this evaluation, the Corporation compares estimated future cash flow to the carrying value of the intangible assets. An impairment loss would be recorded in the period such determination is made based on the fair value.

#### **Deferred Financing Costs**

Deferred financing costs incurred with the Hospital and Health System Revenue Bonds are amortized using the bonds outstanding method. Deferred financing costs are included in other assets in the consolidated balance sheets.

#### **Estimated Insurance Liabilities**

The provision for estimated insurance liability includes actuarial estimates of the ultimate costs for both reported claims and claims incurred but not reported for professional liability, general liability, long-term disability insurance, excess workers' compensation, and amounts self-insured for allocated loss adjustment expenses.

#### **Donor-Restricted Gifts**

Unconditional promises to give cash and other assets to the Corporation are reported at fair value at the date the promise is received. Gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the consolidated financial statements.

#### **Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are those whose use by the Corporation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Corporation in perpetuity.

During 2007 and 2006, net assets of \$5,107,000 and \$5,955,000, respectively, were released from donor restrictions by incurring expenses or capital expenditures satisfying the restricted purposes or by the passage of time.

#### **Excess of Revenues over Expenses**

The consolidated statements of operations include excess of revenues over expenses. Changes in unrestricted net assets that are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on other than trading securities; unrealized loss on cash flow hedges; change in minimum pension liability included in accrued pension liability; deferred portion of pension cost; and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

# **Sisters of St. Francis Health Services, Inc. and Affiliates**

## **Notes to Consolidated Financial Statements**

### **December 31, 2007 and 2006**

---

#### **Net Patient Service Revenue**

The Corporation has agreements with third-party payors that provide for payments to the Corporation at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursable costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive revenue adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

#### **Charity Care**

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

#### **Premium Revenue**

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

#### **Income Taxes**

The Corporation has established its status as an organization exempt from income taxes under the Internal Revenue Code (the "Code") Section 501(c)(3) and the laws of the states in which it operates. Certain divisions and affiliates are subject to federal and state income taxes; however, such amounts are not significant to the consolidated financial statements.

The Corporation accounts for and discloses income tax liabilities and expenses under Statement of Financial Accounting Standards ("SFAS") No. 109, or SFAS 109 "Accounting for Income Taxes." Effective for fiscal years beginning after December 15, 2006, the Financial Accounting Standards Board ("FASB") issued Financial Interpretation No. 48, or FIN 48 "Accounting for Uncertainty in Income Taxes," which clarifies the accounting for the uncertainty in income taxes recognized in an organization's financial statements. FIN 48 prescribes a more-likely-than-not recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken. In addition, FIN 48 provides guidance on derecognition, classification, disclosure and transition using a consistent criteria and the disclosure provision requires more information to be disclosed about the uncertainty of income taxes and liabilities. The Corporation adopted the provisions of FIN 48 in 2007; however, the impact was not significant.

#### **Derivative Financial Instruments**

The Corporation accounts for derivatives under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 requires that all derivative financial instruments that qualify for hedge accounting be recognized in the financial statements and measured at fair value regardless of the purpose or intent for holding them. Changes in fair value of derivative financial instruments are recognized in excess of revenues over expenses and changes in net assets. The Corporation has reflected the fair market value of its swap contracts in long-term debt on the consolidated balance sheet.

# **Sisters of St. Francis Health Services, Inc. and Affiliates**

## **Notes to Consolidated Financial Statements**

### **December 31, 2007 and 2006**

---

#### **Consolidated Statements of Cash Flows**

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

Cash paid during the year for interest, net of amounts capitalized, amounted to \$37,342,000 and \$34,014,000 for the years ended December 31, 2007 and 2006, respectively.

Cash paid for income taxes approximated \$150,000 and \$184,000 for the years ended December 31, 2007 and 2006, respectively.

Included in accounts payable and other liabilities at December 31, 2007 and 2006 are \$14,452,000 and \$3,793,000, respectively, of costs related to construction in progress and the acquisition of property, plant, and equipment.

#### **Adoption of New Accounting Standards**

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R)." SFAS 158 requires plan sponsors of defined benefit pension and other postretirement benefit plans to recognize the funded status of their postretirement benefit plans in the statement of financial position, measure the fair value of plan assets and benefit obligations as of the date of the fiscal year end statement of financial position and provide additional disclosures. On December 31, 2007, the Corporation adopted the recognition and disclosure provisions of SFAS 158 and had previously measured the fair value of plan assets and benefit obligations as of its fiscal year end. The effect of adopting SFAS 158 approximated \$69,329,000, which was recognized as a cumulative effect of change in accounting principle within unrestricted net assets in the consolidated statements of operations and changes in net assets as of December 31, 2007. See Note 8 for further discussion of the effect of adopting SFAS 158.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" that defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Corporation is currently assessing the impact of the adoption of this statement on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115." SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is effective for fiscal years that begin after November 15, 2007. The Corporation is currently assessing the impact of the adoption of this statement on its consolidated financial statements.

#### **Reclassifications**

Certain reclassifications were made to the prior year balances to conform to the current year presentation. In 2007, the Corporation reassessed the accounting for several of its investments in affiliates given the Corporation's ability to exert operating control. As a result of this reassessment, the Corporation consolidated various investments in affiliates into its 2006 financial statements. The revision to 2006 increased total assets by \$13,973,000, total liabilities by \$8,218,000, and minority interest in consolidated affiliates by \$5,755,000. The revision increased total unrestricted revenues, gains and other support by \$7,556,000, decreased total operating expenses by

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Notes to Consolidated Financial Statements

### December 31, 2007 and 2006

---

\$1,416,000 and increased investment income by \$50,000 which was offset by minority interest in consolidated affiliates of \$9,022,000. These changes had no impact on excess of revenues over expenses, change in net assets or total net assets previously reported on the Corporation's 2006 consolidated financial statements.

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

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

**Medicare** – Inpatient acute care, outpatient, home health and rehabilitation services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Inpatient psychiatric services, medical education costs, defined capital, and bad debts related to Medicare beneficiaries are paid based on a cost reimbursement methodology, subject to certain limitations. The Corporation is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of an annual cost report by the Corporation and audits thereof by the Medicare fiscal intermediary.

**Medicaid** – Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services are reimbursed on a fee for service basis from predetermined fee schedules.

The Corporation has also entered into payment agreements with certain commercial insurance carriers, HMO's, and preferred provider organizations. The basis of payment to the Corporation under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined per diem rates.

Provisions have been made in the consolidated financial statements for estimated contractual adjustments, representing the difference between the established charges for services and estimated total payments to be received from third-party payors. For the years ended December 31, 2007 and 2006, approximately 92% and 91%, respectively, of net patient service revenue is subject to the provisions of Medicare and Medicaid programs and other third-party payor contracts.

Net patient service revenues in 2007 and 2006 have been increased by approximately \$8,299,000 and \$15,960,000, respectively, due to favorable changes in estimates related to adjustments to final settlements. These amounts do not include net patient service revenue recognized during 2007 or 2006 related to the State of Indiana Medicaid Acute Disproportionate Share and Medicaid Safety Net Hospitals ("DSH") Program (see Note 14).

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**December 31, 2007 and 2006**

The Corporation grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at December 31, 2007 and 2006, is as follows:

	<b>2007</b>	<b>2006</b>
Medicare	20 %	23 %
Medicaid	13	14
Other third-party payors	48	48
Patients	<u>19</u>	<u>15</u>
	<u>100 %</u>	<u>100 %</u>

Adjustments to the allowance for doubtful accounts are made after the Corporation has analyzed historical cash collections. Uncollectible accounts are written off against the allowance for doubtful accounts after exhausting collection efforts. Any subsequent recoveries are recorded against the provision for doubtful accounts.

**4. Investments and Assets Limited As to Use**

The composition of investments, including assets limited as to use, at December 31, 2007 and 2006, is as follows:

	<b>2007</b>	<b>2006</b>
	<b>(in thousands)</b>	
Assets held by bond trustees	\$ 197	\$ 63,768
Assets held for estimated insurance liabilities	77,419	57,118
Board designated for services for the poor	3,768	3,590
Board designated funded depreciation and other Board projects	1,242,121	1,146,719
Other restricted assets	<u>39,924</u>	<u>39,477</u>
	1,363,429	1,310,672
Less short-term investments	<u>18,969</u>	<u>19,990</u>
Investments, classified as noncurrent	<u>\$ 1,344,460</u>	<u>\$ 1,290,682</u>

Investments, which include assets limited as to use, at December 31, 2007 and 2006, consist of the following:

	<b>2007</b>	<b>2006</b>
	<b>(in thousands)</b>	
Cash and cash equivalents	\$ 2,777	\$ 7,745
Pooled funds	1,329,914	1,157,144
Obligations of the U. S. Government and its agencies	-	54,797
Bank investment funds	197	63,718
Marketable equity securities	4,036	12,549
Mutual funds	5,969	5,284
Other	<u>20,536</u>	<u>9,435</u>
Totals	<u>\$ 1,363,429</u>	<u>\$ 1,310,672</u>

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**December 31, 2007 and 2006**

At December 31, 2007 and 2006, approximately \$1,330 million and \$1,157 million, respectively, of the Corporation's investments are invested in a pooled account coordinated through Ascension Health's Health System Depository (the "HSD") under an investment management agreement. The custodian-held assets are managed by professional investment firms with an asset allocation of 39% equities, 38% fixed income, 19% alternative investments and 4% cash and cash equivalents at December 31, 2007 and 42% equities, 45% fixed income, 7% alternative investments, and 6% cash and cash equivalents at December 31, 2006.

The HSD operates the investment pool using the market value method. Under this method, net earnings of the HSD are allocated to investing participants on a pro-rata basis. The Corporation's interest in the pooled account is included in the financial statements at the fair value of the underlying investments based on quoted market prices.

Investment returns, change in net unrealized gains and losses, and swap valuation changes included in the consolidated statements of operations and changes in net assets for the years ended December 31, 2007 and 2006, are as follows:

	<b>2007</b>	<b>2006</b>
	<b>(in thousands)</b>	
<b>Unrestricted revenues, gain and other support</b>		
Investment income	\$ 8,383	\$ 4,651
Other operating revenue	<u>176</u>	<u>-</u>
	<u>8,559</u>	<u>4,651</u>
<b>Other income (expense), net</b>		
Investment income	91,379	136,971
Net cumulative unrealized gains transferred to trading securities	51,256	-
Other, net - ineffective portion of cash flow hedges	352	(102)
Realized gain on basis swap contracts	<u>-</u>	<u>3,617</u>
	<u>142,987</u>	<u>140,486</u>
<b>Other changes in unrestricted net assets</b>		
Net cumulative unrealized gains transferred to trading securities	(51,432)	-
Change in net unrealized investments gains and losses on other than trading securities	99	(11,470)
Change in unrealized loss on cash flow hedges	<u>(12,836)</u>	<u>(7,202)</u>
	<u>(64,169)</u>	<u>(18,672)</u>
<b>Temporarily restricted net assets</b>		
Investment income	936	442
Change in net unrealized investments gains and losses	<u>12</u>	<u>(143)</u>
	<u>948</u>	<u>299</u>
<b>Permanently restricted net assets</b>		
Investment income	665	940
Change in net unrealized investment gains and losses	<u>(53)</u>	<u>(13)</u>
	<u>612</u>	<u>927</u>
	<u>\$ 88,937</u>	<u>\$ 127,691</u>

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**December 31, 2007 and 2006**

---

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

A summary of property, plant, and equipment at December 31, 2007 and 2006, is as follows:

	<b>2007</b>	<b>2006</b>
	<b>(in thousands)</b>	
Land and land improvements	\$ 94,199	\$ 90,156
Buildings and building equipment	942,973	874,789
Departmental equipment	940,316	884,815
Construction in progress	<u>125,277</u>	<u>82,123</u>
	2,102,765	1,931,883
Less accumulated depreciation	<u>980,893</u>	<u>893,611</u>
	<u>\$ 1,121,872</u>	<u>\$ 1,038,272</u>

Under general operating lease agreements, the Corporation rents office space, software, medical and office equipment. Management expects that, in the normal course of business, leases that expire will be renewed or replaced by other leases.

Total rental expense for all operating leases was \$21,840,000 and \$19,260,000 at December 31, 2007 and 2006, respectively.

Minimum lease payments under operating leases expiring after December 31, 2007, are as follows: 2008 - \$24,584,000; 2009 - \$24,004,000; 2010 - \$23,967,000; 2011 - \$23,944,000 and 2012 - \$23,954,000.

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**December 31, 2007 and 2006**

**6. Long-Term Debt**

Long-term debt at December 31, 2007 and 2006, consists of the following:

	<b>2007</b>	<b>2006</b>
	<b>(in thousands)</b>	
Tax Exempt Hospital and Health System Revenue Bonds		
Series 2006 A and B, insured variable rate demand bonds, payable through November 2037; interest ranging from 3.06% to 3.99% in 2007 and 3.22% to 3.97% in 2006 swapped to a fixed rate of 3.695% over the life of the bonds	\$ 288,500	\$ 289,825
Series 2006 C and D, insured auction rate bonds, subject to 35-day and 7-day auction periods, respectively, payable through November 2037; interest ranging from 3.45% to 4.50% in 2007 and 3.35% to 3.95% in 2006 swapped to a fixed rate of 3.93% for Series C and 3.684% for Series D over the life of the bonds	161,025	161,025
Series 2006 E and F, insured auction rate bonds, subject to 35-day and 7-day auction periods, respectively, payable through May 2041; interest ranging from 3.40% to 4.50% in 2007 and 3.25% to 4.05% in 2006	165,100	169,350
Series 2003 A through D, insured auction rate bonds, payable through November 2031 for Series A and November 2033 for Series B through D; interest ranging from 3.40% to 4.70% in 2007 and 2.95% to 4.00% in 2006	152,475	152,700
Series 2001, fixed rate uninsured serial bonds, payable through November 2015; interest rates ranging from 4.75% to 5.50%	13,880	15,255
Series 1999, fixed rate insured serial bonds, payable through November 2012; interest rates ranging from 4.125% and 5.25%	18,535	21,785
Series 1997A and B, fixed rate insured serial bonds, payable through November 2010; interest rates ranging from 4.90% to 5.75%	12,690	20,785
Other	<u>24,120</u>	<u>17,941</u>
Total long-term debt	836,325	848,666
Fair value of cash flow hedges	19,686	7,202
Less bond discounts on Hospital and Health System Revenue Bonds	<u>(596)</u>	<u>(720)</u>
Total long-term debt plus fair value of cash flow hedges and bond discounts	855,415	855,148
Less current portion of long-term debt	<u>13,447</u>	<u>15,822</u>
Long-term debt, fair value of cash flow hedges and bond discounts	<u>\$ 841,968</u>	<u>\$ 839,326</u>

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**December 31, 2007 and 2006**

---

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

Years ending December 31	(in thousands)
2008	\$ 13,447
2009	15,544
2010	19,540
2011	17,817
2012	16,772
Thereafter	<u>753,205</u>
Total	<u>\$ 836,325</u>

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

	2007	2006
	(in thousands)	
Interest costs incurred	\$ 36,140	\$ 33,882
Less: capitalized interest	<u>3,072</u>	<u>1,520</u>
Interest expense included in operating income	<u>\$ 33,068</u>	<u>\$ 32,362</u>

The fair value of the Corporation's long-term debt at December 31, 2007 and 2006, approximates \$857,434,000 and \$848,079,000, respectively. The fair values of the Corporation's underlying tax exempt Hospital and Health System Revenue Bonds are based on current traded values for similar types of borrowings.

**Obligated Group and Designated Group Affiliates and Other Requirements** - The Corporation has long-term debt outstanding under a Master Trust Indenture dated November 1, 1997, as amended and supplemented thereto, the Supplemental Master Trust Indenture ("SMTI"). The SMTI permits the Corporation to issue obligations to finance certain activities. Obligations issued under the SMTI are general, unsecured, direct obligations of the Corporation and any future members of the Sisters of St. Francis Health Services, Inc. Obligated Group. All members of the Obligated Group are jointly and severally liable with respect to the payment of each obligation issued under the SMTI. The SMTI provides that certain affiliates of the Corporation may be designated as Designated Group Affiliates from time to time. The Designated Group Affiliates are not members of the Obligated Group and are not directly liable for payments on the obligations. The Corporation has also granted a security interest in gross revenues for the benefit of owners of the obligations upon the occurrence of certain events.

The SMTI includes covenants which require the Corporation to maintain a minimum debt service coverage ratio and limit the Corporation's ability to encumber certain of its assets. In determining whether the Corporation has satisfied such covenants, the SMTI requires the Corporation to include the Corporation and Designated Group Affiliates together in calculating the related ratios and in testing for compliance even though the Designated Group Affiliates are not directly obligated.

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Notes to Consolidated Financial Statements

### December 31, 2007 and 2006

---

**Issuance, Refunding and Defeasance of Long-Term Debt** - In May 2006, the Corporation issued \$620,200,000 in tax exempt variable insured Health System Revenue Bonds ("Series 2006 Bonds") under the SMTI. The proceeds of the bonds were used to refund and defease existing debt, finance and reimburse a portion of costs of constructing, remodeling, improving and equipping the Health Centers and related facilities owned and / or operated by the Corporation and pay for certain costs of issuance including a portion of interest on the Series 2006 Bonds. The refunding and defeasance of prior series of long-term debt of \$468,400,000 resulted in a loss of approximately \$23,460,000 through a legal defeasance which is reflected as other income (expense) on the consolidated statements of operations and changes in net assets. The Corporation purchased U.S. Government obligations and deposited those securities into an irrevocable trust which serves the sole purpose of funding payments of principal and interest through the defeased debt's stated maturity. The defeased debt may not be redeemed prior to maturity.

**Cash Flow Hedges** - In March 2006, the Corporation entered into four forward starting interest rate swap contracts which converted the Series 2006 A through D variable tax exempt Health System Revenue bonds to fixed rates over the life of the bonds. The interest rate swap contracts have been designated as cash flow hedges. At December 31, 2007 and 2006, the cash flow hedges have a negative fair value of \$19,686,000 and \$7,202,000 which is included in long-term debt on the consolidated balance sheets and a corresponding change in unrealized loss on cash flow hedges on the consolidated statements of operations and changes in net assets. The change in the value of the cash flow hedges determined to arise from any ineffectiveness of the instruments, as determined through the change in variable cash flows method, are included in other income (expense) on the consolidated statements of operations and changes in net assets of \$352,000 and \$(102,000) for 2007 and 2006, respectively.

**Liquidity Facilities** - The Corporation has entered into a standby purchase agreement ("SPA") with Citibank, N.A. ("Citibank") on the Series 2006 A and B bonds. The Series 2006 A and B bonds may be put to the Corporation at the option of its holders in connection with certain remarketing dates. In the unlikely event of a failed remarketing, the Corporation has guaranteed the buy back of those bonds secured by the SPA with a term expiring initially on November 1, 2011. The SPA requires Citibank to buy the bonds in the event of a failed remarketing, and in turn, Citibank creates a term-loan with the Corporation to be repaid over five years with the first principal repayment to occur 367 days after the tender. The SPA includes an evergreen clause allowing the Corporation to extend the initial term on an annual basis no less than three years prior to expiration. There were no borrowings through the SPA during 2007 and 2006.

**Credit Market Risks** - The Corporation's auction rate bonds are subject to regular interest rate resets as defined in the debt agreements. Each series has defined maximum interest rates in case of failed auctions which do not exceed 15%. Due to uncertainty in credit markets and rating declines on various bond insurers, the Corporation has experienced increases in its variable interest rates on its Series 2006 auction rate bonds, subsequent to December 31, 2007.

Additionally, changes in credit markets may impact the effectiveness of the Corporation's strategy to manage interest rate risk through the use of cash flow hedges. If a cash flow hedge is no longer highly effective at hedging the defined risk, the Corporation would cease hedge accounting and transfer previously deferred gains or losses to excess of revenue over expenses over the remaining term of the debt. If the debt being hedged by the cash flow hedges is retired, the previously deferred gains or losses would be fully transferred to excess of revenue over expenses at that time.

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**December 31, 2007 and 2006**

---

**Proposed 2008 Plan of Finance** - Subsequent to year end, the Board of Trustees approved a plan to convert or refund certain of the Corporation's outstanding tax exempt Series Health System auction rate bonds to variable rate demand bonds and/or fixed rate serial bonds.

**7. Basis Rate Swap Contract**

In May 2001, the Corporation entered into a 20-year basis rate swap contract with Merrill Lynch Capital Services, Inc. ("MLCS") on the notional amount of \$145,000,000. Under the basis rate swap contract, MLCS paid the Corporation 74.5% of the 1 month LIBOR and the Corporation paid MLCS the Bond Market Association Index ("BMA"). In October 2006, the Corporation terminated the basis rate swap contract. Prior to the termination of the basis rate swap, the Corporation received interest of \$439,000 for 2006 which is included in other income (expense) in the consolidated statements of operations and changes in net assets.

**8. Pension Plan and Postretirement Benefits**

The Corporation has both funded and unfunded noncontributory defined benefit pension plans that together cover substantially all of its employees. The plans provide defined benefits based on years of service and final average salary.

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

On December 31, 2007, the Corporation adopted the recognition provisions of SFAS 158. The incremental effects of the accounting change in the Corporation's consolidated balance sheets at December 31, 2007 are present in the following tables:

	<b>At December 31, 2007</b>		
	<b>(in thousands)</b>		
	<b>Prior to Adopting SFAS 158</b>	<b>Effect of Adopting SFAS 158</b>	<b>As Reported at December 31</b>
Accrued pension liability	\$ 59,241	\$ 69,329	\$ 128,570
Unrestricted net assets	(3,285)	(69,329)	(72,613)

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**December 31, 2007 and 2006**

The change in benefit obligation, change in plan assets, and funded status of the Corporation's pension plans as of December 31, 2007 and 2006, are as follows:

	2007	2006
	(in thousands)	
<b>Change in benefit obligation:</b>		
Benefit obligation, beginning of year	\$ 680,618	\$ 646,328
Service cost	31,096	31,067
Interest cost	40,570	37,203
Plan amendments	-	(1,815)
Actuarial gain	(48,831)	(15,132)
Benefits paid	(17,289)	(17,033)
Benefit obligation, end of year	<u>686,164</u>	<u>680,618</u>
<b>Change in plan assets:</b>		
Fair value of plan assets, beginning of year	463,766	375,739
Actual return on plan assets	46,565	42,047
Employer contributions	64,552	63,013
Benefits paid	(17,289)	(17,033)
Fair value of plan assets, end of year	<u>557,594</u>	<u>463,766</u>
Funded status	<u>\$ (128,570)</u>	(216,852)
Unrecognized net actuarial loss		126,038
Unrecognized prior service cost		<u>15,598</u>
Net amount recognized		<u>\$ (75,216)</u>
<b>Amounts recognized in the consolidated balance sheets:</b>		
Other assets	\$ 4,039	\$ 22,486
Other current liabilities	(115)	-
Accrued pension liability	(132,494)	(150,580)
Total amount recognized	<u>\$ (128,570)</u>	<u>\$ (128,094)</u>
<b>Amounts recognized in unrestricted net assets under SFAS 158 consist of:</b>		
Unrecognized prior service cost	\$ (12,826)	
Unrecognized net actuarial loss	(59,787)	
Total amount recognized	<u>\$ (72,613)</u>	

The accumulated benefit obligation ("ABO") at December 31, 2007 and 2006 was \$600,165,000 and \$591,775,000, respectively. The following information is provided for plans with an ABO in excess of plan assets at December 31, 2007 and 2006:

	2007	2006
	(in thousands)	
Projected benefit obligation	\$ 654,296	\$ 649,179
ABO	568,297	560,335
Fair value of plan assets	521,687	430,218

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**December 31, 2007 and 2006**

---

Components of net periodic pension cost for the years ended December 31, 2007 and 2006, are as follows:

	<b>2007</b>	<b>2006</b>
	<b>(in thousands)</b>	
Service cost	\$ 31,096	\$ 31,067
Interest cost	40,570	37,203
Expected return on plan assets	(36,034)	(30,017)
Net amortization and deferrals	2,772	2,914
Recognized actuarial loss	6,887	11,651
Net periodic pension cost	<u>\$ 45,291</u>	<u>\$ 52,818</u>

The following weighted-average assumptions were used to determine the Corporation's benefit obligations and net periodic pension cost for the year ended December 31:

	<b>2007</b>	<b>2006</b>
<b>Benefit obligation</b>		
Discount rate	6.50 %	6.00 %
Rate of compensation increase	4.50 %	4.50 %
<b>Net periodic pension cost</b>		
Discount rate	6.00 %	5.75 %
Expected rate of return on plan assets	7.75 %	7.75 %
Rate of compensation increase	4.50 %	4.50 %

In developing the expected rate of return on plan assets assumption, the Corporation considered the historical returns and the expectation for future returns on each asset class, as well as the target asset allocation of the pension investment portfolio. The rate of return on plan assets assumption also considers investment and administrative expenses.

The Corporation's weighted average asset allocation by asset category at December 31, 2007 and 2006, is as follows:

	<b>2007</b>	<b>2006</b>
Equity securities	58 %	59 %
Fixed income securities	36 %	34 %
Hedge funds	6 %	7 %

The investment policy reflects the long-term nature of the pension plans' funding obligations. Assets are invested to achieve a rate of return consistent with policy allocation targets, which significantly contributes to meeting the current and future obligations of the plans and helps to ensure solvency of the plans over time. It is expected that this objective can be achieved through a well-diversified asset portfolio and an emphasis on long-term capital appreciation as a primary source of return. The plan utilizes a multi-manager structure of complementary investment styles and classes. Manager performance is judged over an investment market cycle which is generally 3 to 5 years.

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**December 31, 2007 and 2006**

---

Plan assets are exposed to risk and fluctuations in market value from year to year. To minimize risk, each manager is required to maintain adequate portfolio diversification to insulate the plan assets from substantial loss in any single security or market sector. Asset allocation is reviewed monthly for deviations in the allowable range and is rebalanced as necessary. The target mix of plan assets is as follows:

<b>Asset class</b>	<b>Range</b>	<b>Target</b>
Domestic large capitalization securities	21% -39%	26 %
Domestic small capitalization securities	6% -13%	9 %
Domestic mid capitalization securities	2% -6%	3 %
International equity securities	16% -22%	19 %
Fixed income securities	33% -39%	36 %
Hedge funds	4% -10%	7 %
		<u>100 %</u>

**Cash flows**

The Corporation anticipates making contributions of approximately \$57,154,000 in 2008.

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

	<b>(in thousands)</b>
2008	\$ 21,960
2009	24,565
2010	27,084
2011	30,069
2012	33,413
Years 2013-2017	232,855

The Corporation has a nonqualified Supplemental Executive Retirement Plan ("SERP") for certain named executives. The SERP is funded on a pay-as-you-go basis and has a substantial risk of forfeiture. Expenses related to the SERP, included in net periodic pension cost, were \$890,000 and \$2,380,000 in 2007 and 2006, respectively. Benefits accrued under the SERP approximate \$11,067,000 and \$10,302,000 at December 31, 2007 and 2006, respectively.

The Corporation has various 403(b) tax sheltered annuity and 401(k) profit sharing plans covering eligible employees. These employees may contribute a portion of their pre-tax and/or after-tax compensation to the plans, in accordance with specified guidelines. In addition to any discretionary contributions, these plans match a percentage of the employee contributions up to certain limits. Matching and discretionary contributions for the years ended December 31, 2007 and 2006, aggregated \$10,571,000 and \$10,269,000, respectively.

# **Sisters of St. Francis Health Services, Inc. and Affiliates**

## **Notes to Consolidated Financial Statements**

### **December 31, 2007 and 2006**

---

#### **9. Estimated Insurance Liabilities**

Hills Insurance Company, Inc. ("Hills Inc."), the wholly owned captive insurance subsidiary of the Corporation, provides certain professional and general liability coverage for the Health Centers and other corporate entities. In addition, the Corporation has self-insured programs to provide long-term disability and excess workers' compensation coverage for its employees.

Hills Inc. and the self-insured programs have provided for reported losses, and for losses incurred but not reported, based on projections by independent actuaries from information provided by the Corporation's management and insurance consultants. The estimated insurance liabilities, which consist of professional liability, general liability, long-term disability insurance, excess workers' compensation, and amounts self-insured for allocated loss adjustment expenses, approximated \$83 million and \$76 million on an undiscounted basis at December 31, 2007 and 2006, respectively.

Hills Inc. purchases reinsurance coverage which limits the Corporation's exposure on individual claims. In addition, the Corporation has obtained excess insurance coverage from several commercial insurance companies. In the unlikely event that any or all of the insurance or reinsurance companies might be unable to meet their obligations under the existing agreements, the Corporation would be liable for such defaulted amounts.

Claims have been asserted against the Corporation by various claimants. These claims are in various stages of processing and some may ultimately be brought to trial. Counsel is unable to conclude as to the ultimate outcome of the actions. There are known incidents occurring through December 31, 2007 that may result in the assertion of additional claims, and other claims may be asserted arising from services provided to patients in the past. While it is possible that settlement of asserted claims and claims which may be asserted in the future could result in liabilities in excess of amounts provided by the Corporation, management believes that the excess liability, if any, would not materially affect the consolidated financial position of the Corporation at December 31, 2007.

The Corporation has an outstanding property and business interruption claim with Federal Insurance Company, a Chubb Group Company, as primary insurer and RLUI as the excess insurer for a loss incurred at one of its Health Centers. The Corporation has obtained assistance from an external loss claim consultant to estimate the loss, prepare the claims and negotiate settlements with the insurance companies. Management of the Corporation anticipates the claims may be settled in 2008.

# **Sisters of St. Francis Health Services, Inc. and Affiliates**

## **Notes to Consolidated Financial Statements**

### **December 31, 2007 and 2006**

---

#### **10. Investments in Affiliates**

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

##### **Investments in Consolidated Affiliates**

Prior to November 2007, the Corporation was the sole owner of all the membership interests in Physicians Regional Hospital, LLC d/b/a Franciscan Physicians Hospital ("FPH"), an Indiana limited liability company that leases and operates a 63-bed acute care hospital in Northwest Indiana, with the land and buildings having been owned by the Corporation. In November 2007, the Corporation sold and transferred the hospital land and buildings to a newly formed wholly-owned limited liability company, Franciscan Physicians Real Property, LLC ("FPRP"). FPH and FPRP then issued membership units representing equity ownership interests in those companies to various physicians and physician owned entities. At December 31, 2007, the Corporation's ownership in FPH and FPRP was approximately 78% and 89%, respectively, with the Corporation having majority board membership and certain reserve powers.

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

The Corporation has recorded the minority interest in these consolidated affiliates on its consolidated balance sheets and consolidated statements of operations and changes in net assets for 2007 and 2006.

##### **Investments in Unconsolidated Affiliates**

The Corporation has investments in entities that are recorded under the cost or equity method of accounting. At December 31, 2007, the Corporation maintained investments in unconsolidated affiliates which include surgery centers, imaging services, oncology services, a managed care organization, a wellness center, and other health service related investments that support the Corporation's mission having non-controlling ownership interests generally ranging from 20% to 49%.

At December 31, 2007, the Corporation had a 66.5% economic interest in Alverno Clinical Laboratories, LLC ("ACL LLC"), an Indiana limited liability company created to direct, operate, maintain, and manage a centralized clinical laboratory in Hammond, Indiana supporting the Corporation and Provena Health ("Provena"). The Corporation is also an owner of Alverno Provena Hospital Laboratories, LLC ("APHL"), a nonprofit cooperative corporation created to direct, operate, maintain, and manage the on-site laboratories of the Corporation's and Provena's hospitals. Governance of ACL LLC and APHL (referred to as the "Laboratories") is equally shared between the Corporation and Provena. The Corporation accounts for its investment in ACL LLC on the equity method which approximated \$8.5 million and \$8.4 million at December 31, 2007 and 2006, respectively. The Corporation's capital account in APHL approximates \$2.4 million and \$6.1 million at December 31, 2007 and 2006, respectively. Effective January 2, 2008, the Corporation and Provena entered into a member/participant admission agreement with Resurrection Health Care ("Resurrection") whereby Resurrection became an equal member of ACL LLC and a participant in APHL.

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**December 31, 2007 and 2006**

---

The Corporation's share of the equity in earnings of investments in unconsolidated affiliates accounted for on the equity method is \$13,199,000 and \$10,592,000 for the years ended December 31, 2007 and 2006, respectively, which is included in total unrestricted revenues, gains, and other support in the consolidated statements of operations and changes in net assets.

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

	<b>2007</b>	<b>2006</b>
	<b>(in thousands)</b>	
Total assets	\$ 149,968	\$ 149,064
Total liabilities	77,889	55,412
Net assets	72,079	93,652
Total unrestricted revenues, gains and other support	510,537	470,476
Excess of revenues over expenses	29,913	31,334

During 2007 and 2006, the Corporation sold its ownership interests in a collection agency, a managed care company, and a long-term care/assisted living community. The sale of these entities resulted in a gain of approximately \$9.89 million and \$4.70 million for the years ended December 31, 2007 and 2006, respectively, which is reported in other income (expense) in the consolidated statements of operations and changes in net assets.

**11. Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes at December 31, 2007 and 2006:

	<b>2007</b>	<b>2006</b>
	<b>(in thousands)</b>	
Capital expenditures	\$ 9,699	\$ 9,039
Medical education programs	5,946	5,545
Health care programs	844	5,299
Other designations	8,900	3,533
	<u>\$ 25,389</u>	<u>\$ 23,416</u>

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

Medical education programs relate to assets held by the Corporation, its Health Centers and associated foundations which are designated by donors or grantors to be used in specific education programs or for staff education.

Health care programs relate mainly to assets held by the Corporation's Health Centers and associated foundations which are designated by donors or grantors to be used in specific health care programs for medical and patient services.

Other designations relate to assets held by foundations which are designated by donors or grantors to be used for programs such as spiritual care, mission related activities or employee emergencies.

# **Sisters of St. Francis Health Services, Inc. and Affiliates**

## **Notes to Consolidated Financial Statements**

### **December 31, 2007 and 2006**

---

Permanently restricted net assets of \$16.8 million and \$16.6 million at December 31, 2007 and 2006, respectively, are restricted to investments to be held in perpetuity with the income expendable to support the Corporation's mission.

#### **12. Related Party Transactions**

The Corporation's Health Centers incurred clinical laboratory charges from the Laboratories of approximately \$56,434,000 and \$54,362,000 for the years ended December 31, 2007 and 2006, respectively, which is included in other supplies and expenses in the consolidated statements of operations and changes in net assets. The Corporation provides information technology services, central procurement services, and rents the core lab facilities to the Laboratories for which the Corporation had recorded approximately \$1,593,000 and \$1,557,000 in 2007 and 2006, respectively, as other operating revenue on the consolidated statements of operations and changes in net assets.

#### **13. Income Taxes**

##### **Overview of Tax Positions**

The Corporation incurred income tax expense of approximately \$150,000 and \$184,000 for the years ended December 31, 2007 and 2006, respectively. As of December 31, 2007 and 2006, the Corporation had a deferred tax asset of approximately \$7.0 million and \$7.8 million, respectively.

##### **Internal Revenue Service Audit**

The IRS routinely conducts Coordinated Examination Program ("CEP") and Tax Exempt Bond audits. The Corporation had been the subject of an IRS CEP audit for the tax years 1999 and 2000, along with an audit of two series of the Corporation's tax-exempt Hospital Revenue Bonds. The CEP examination, which began in January 2002, was concluded during 2004 with the Corporation continuing to qualify for federal income tax exemption under Section 501(a) of the Code. There are a few unresolved CEP audit matters which are currently under review by the IRS' Appeals Division. The Corporation has recorded an estimate of its potential tax liability and management does not expect any adjustments or payments to have a material adverse effect on the Corporation's consolidated financial position. Further, the Corporation had received notice from the IRS that the examination involving the Corporation's tax-exempt Hospital Revenue Bonds had been closed during 2004 with no tax liability or tax exemption issues noted.

#### **14. Medicaid Disproportionate Share**

Certain of the Corporation's Health Centers qualify as State of Indiana Medicaid Acute Disproportionate Share and Medicaid Safety Net Hospitals ("DSH"). These Health Centers qualified as DSH providers under Indiana law (HEA 1095, Public Law 27-1992), and, as such, are eligible to receive DSH payments linked to the State's fiscal year, which differs from the Corporation's fiscal year. The amount of these additional DSH funds is dependent on regulatory approval by agencies of the federal and state governments, and is determined by the level, extent, and cost of uncompensated care (as defined) and various other factors. The Corporation records such amounts as revenue when payments are received or based upon data from the State of Indiana that payments are determinable and probable of receipt. For the years ended December 31, 2007 and 2006, the Corporation recognized unrestricted revenue of approximately \$36.9 million and \$26.9 million, respectively, related to the DSH program in the consolidated statements of operations and changes in net assets.

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**December 31, 2007 and 2006**

---

**15. Functional Expenses**

The Corporation provides general health care services to residents within its geographic location. Expenses related to providing these services for the years ended December 31, 2007 and 2006, are as follows:

	<b>2007</b>	<b>2006</b>
	<b>(in thousands)</b>	
Health care services	\$ 1,571,868	\$ 1,539,425
General, administrative, and other non-healthcare services	<u>427,678</u>	<u>410,934</u>
	<u>\$ 1,999,546</u>	<u>\$ 1,950,359</u>

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

Board of Trustees  
Sisters of St. Francis Health Services, Inc.  
Mishawaka, Indiana

The report on our audits of the consolidated financial statements of Sisters of St. Francis Health Services, Inc. and Affiliates (collectively referred to as the "Corporation") as of December 31, 2007 and 2006 and for the years then ended appears on page 1 of this document. These audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information (pages 31 through 45) is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual entities. Accordingly, we do not express an opinion on the financial position and results of operations of the individual entities. The other supplemental financial information (pages 46 through 52) is presented for purposes of additional analysis and is not a required part of the basic financial statements. The consolidating information, and the other supplemental financial information, except for that portion marked "unaudited" has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

*PricewaterhouseCoopers LLP*

March 21, 2008

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Supplemental Schedule - Consolidating Balance Sheet**  
**December 31, 2007**  
(In thousands)

	Central Indiana Region	Western Indiana Region	Northern Indiana Region	South Suburban Chicago Region	Corporate & Other	Eliminations	Total
<b>Assets</b>							
Current assets							
Cash and cash equivalents	\$ 37,899	\$ 21,248	\$ 36,361	\$ 7,920	\$ 37,655	\$ -	\$ 141,083
Short-term investments	-	536	-	-	18,433	-	18,969
Patient accounts receivable, net of allowance for doubtful accounts	96,047	70,243	74,248	67,963	-	-	308,501
Inventories of supplies	10,902	5,648	9,121	8,513	211	-	34,395
Other current assets	5,193	3,865	23,489	4,746	40,860	(5,142)	73,011
Total current assets	150,041	101,540	143,219	89,142	97,159	(5,142)	575,959
Investments, including assets limited as to use	3,827	16,618	8,330	1,567	1,314,118	-	1,344,460
Property, plant, and equipment, net	264,833	142,934	448,218	194,017	71,870	-	1,121,872
Investments in unconsolidated affiliates	5,467	18,421	2,472	695	18,814	-	45,869
Intangible assets, net of accumulated amortization	-	35,407	14,516	-	538	-	50,461
Other assets	7,169	6,676	3,551	(84)	70,563	(4,555)	83,320
Total assets	\$ 431,337	\$ 321,596	\$ 620,306	\$ 285,337	\$ 1,573,062	\$ (9,697)	\$ 3,221,941

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Supplemental Schedule - Consolidating Balance Sheet**  
**December 31, 2007**  
(In thousands)

	Central Indiana Region	Western Indiana Region	Northern Indiana Region	South Suburban Chicago Region	Corporate & Other	Eliminations	Total
<b>Liabilities and Net Assets</b>							
Current liabilities							
Current portion of long-term debt	\$ 1,948	\$ 14	\$ 225	\$ -	\$ 11,260	\$ -	\$ 13,447
Accounts payable and accrued expenses	31,676	20,769	50,358	20,567	39,664	(5,142)	157,892
Accrued payroll and related expenses	14,493	13,906	24,870	17,997	10,980	-	82,246
Estimated third-party payor settlements	<u>1,866</u>	<u>1,500</u>	<u>232</u>	<u>4,755</u>	<u>-</u>	<u>-</u>	<u>8,353</u>
Total current liabilities	49,983	36,189	75,685	43,319	61,904	(5,142)	261,938
Long-term debt, net of current portion	9,302	17	8,751	4,555	823,898	(4,555)	841,968
Accrued pension liability	11,430	3,687	34,886	9,127	73,364	-	132,494
Estimated insurance liabilities	540	261	302	-	81,876	-	82,979
Other liabilities	<u>5,473</u>	<u>2,040</u>	<u>4,424</u>	<u>1,110</u>	<u>10,838</u>	<u>-</u>	<u>23,885</u>
Total liabilities	<u>76,728</u>	<u>42,194</u>	<u>124,048</u>	<u>58,111</u>	<u>1,051,880</u>	<u>(9,697)</u>	<u>1,343,264</u>
Minority interest in consolidated affiliates	11,446	16,016	6,951	-	-	-	34,413
Net assets							
Unrestricted	336,976	246,768	480,977	225,659	511,713	-	1,802,093
Temporarily restricted	5,239	11,807	6,227	1,567	549	-	25,389
Permanently restricted	<u>948</u>	<u>4,811</u>	<u>2,103</u>	<u>-</u>	<u>8,920</u>	<u>-</u>	<u>16,782</u>
Total net assets	<u>343,163</u>	<u>263,386</u>	<u>489,307</u>	<u>227,226</u>	<u>521,182</u>	<u>-</u>	<u>1,844,264</u>
Total liabilities and net assets	<u>\$ 431,337</u>	<u>\$ 321,596</u>	<u>\$ 620,306</u>	<u>\$ 285,337</u>	<u>\$ 1,573,062</u>	<u>\$ (9,697)</u>	<u>\$ 3,221,941</u>

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Supplemental Schedule - Consolidating Balance Sheet – Central Indiana Region**  
**December 31, 2007**  
(In thousands)

	St. Francis Hospital and Health Centers Beech Grove/ Indianapolis/ Mooresville	St. Francis Healthcare Foundation, Inc.	St. Francis Health Network, Inc.	Eliminations	Central Indiana Region
<b>Assets</b>					
Current assets					
Cash and cash equivalents	\$ 29,744	\$ 2,826	\$ 5,329	\$ -	\$ 37,899
Patient accounts receivable, net of allowance for doubtful accounts	96,047	-	-	-	96,047
Inventory of supplies	10,827	75	-	-	10,902
Other current assets	8,059	1,228	54	(4,148)	5,193
Total current assets	144,677	4,129	5,383	(4,148)	150,041
Investments, including assets limited as to use	-	3,827	-	-	3,827
Property, plant, and equipment, net	264,722	105	6	-	264,833
Investments in unconsolidated affiliates	5,467	-	-	-	5,467
Other assets	6,305	864	-	-	7,169
Total assets	<u>\$ 421,171</u>	<u>\$ 8,925</u>	<u>\$ 5,389</u>	<u>\$ (4,148)</u>	<u>\$ 431,337</u>

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Supplemental Schedule - Consolidating Balance Sheet – Central Indiana Region**  
**December 31, 2007**  
(In thousands)

	<b>St. Francis Hospital and Health Centers Beech Grove/ Indianapolis/ Mooresville</b>	<b>St. Francis Healthcare Foundation, Inc.</b>	<b>St. Francis Health Network, Inc.</b>	<b>Eliminations</b>	<b>Central Indiana Region</b>
<b>Liabilities and Net Assets</b>					
<b>Current liabilities</b>					
Current portion of long-term debt	\$ 1,948	\$ -	\$ -	\$ -	\$ 1,948
Accounts payable and accrued expenses	29,555	927	5,342	(4,148)	31,676
Accrued payroll and related expenses	14,493	-	-	-	14,493
Estimated third-party payor settlements	1,866	-	-	-	1,866
Total current liabilities	47,862	927	5,342	(4,148)	49,983
Long-term debt, net of current portion	9,302	-	-	-	9,302
Accrued pension liability	11,430	-	-	-	11,430
Estimated insurance liabilities	540	-	-	-	540
Other liabilities	5,407	66	-	-	5,473
Total liabilities	74,541	993	5,342	(4,148)	76,728
Minority interest in consolidated affiliates	11,446	-	-	-	11,446
<b>Net assets</b>					
Unrestricted	334,984	1,945	47	-	336,976
Temporarily restricted	200	5,039	-	-	5,239
Permanently restricted	-	948	-	-	948
Total net assets	335,184	7,932	47	-	343,163
Total liabilities and net assets	\$ 421,171	\$ 8,925	\$ 5,389	\$ (4,148)	\$ 431,337

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Supplemental Schedule - Consolidating Balance Sheet – Western Indiana Region**  
**December 31, 2007**  
(In thousands)

	<b>St. Elizabeth Regional Health Lafayette</b>	<b>St. Clare Medical Center Crawfordsville</b>	<b>Eliminations</b>	<b>Western Indiana Region</b>
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 20,207	\$ 1,041	\$ -	\$ 21,248
Short-term investments	536	-	-	536
Patient accounts receivable, net of allowance for doubtful accounts	60,750	9,493	-	70,243
Inventory of supplies	4,415	1,233	-	5,648
Other current assets	4,041	726	(902)	3,865
Total current assets	89,949	12,493	(902)	101,540
Investments, including assets limited as to use	11,958	4,660	-	16,618
Property, plant, and equipment, net	118,547	24,387	-	142,934
Investments in unconsolidated affiliates	18,420	1	-	18,421
Intangible assets, net of accumulated amortization	401	35,006	-	35,407
Other assets	6,676	-	-	6,676
Total assets	<u>\$ 245,951</u>	<u>\$ 76,547</u>	<u>\$ (902)</u>	<u>\$ 321,596</u>

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Supplemental Schedule - Consolidating Balance Sheet – Western Indiana Region**  
**December 31, 2007**  
(In thousands)

	<b>St. Elizabeth Regional Health Lafayette</b>	<b>St. Clare Medical Center Crawfordsville</b>	<b>Eliminations</b>	<b>Western Indiana Region</b>
<b>Liabilities and Net Assets</b>				
Current liabilities				
Current portion of long-term debt	\$ -	\$ 14	\$ -	\$ 14
Accounts payable and accrued expenses	19,433	2,238	(902)	20,769
Accrued payroll and related expenses	13,114	792	-	13,906
Estimated third-party payor settlements	1,147	353	-	1,500
Total current liabilities	33,694	3,397	(902)	36,189
Long-term debt, net of current portion	-	17	-	17
Accrued pension liability	3,250	437	-	3,687
Estimated insurance liabilities	246	15	-	261
Other liabilities	2,040	-	-	2,040
Total liabilities	39,230	3,866	(902)	42,194
Minority interest in consolidated affiliates	16,016	-	-	16,016
Net assets				
Unrestricted	178,746	68,022		246,768
Temporarily restricted	11,622	185		11,807
Permanently restricted	337	4,474		4,811
Total net assets	190,705	72,681	-	263,386
Total liabilities and net assets	\$ 245,951	\$ 76,547	\$ (902)	\$ 321,596

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Supplemental Schedule - Consolidating Balance Sheet – Northern Indiana Region**  
**December 31, 2007**  
(In thousands)

	St. Margaret Mercy Healthcare Centers Hammond/Dyer	St. Anthony Memorial Health Centers Michigan City	St. Anthony Medical Center Crown Point	Franciscan Physicians Hospital, LLC Munster	Franciscan Equipment Holdings	Franciscan Physicians Real Property, LLC	Eliminations	Northern Indiana Region
<b>Assets</b>								
Current assets								
Cash and cash equivalents	\$ 8,540	\$ 16,408	\$ 8,612	\$ 2,205	\$ -	\$ 596	\$ -	\$ 36,361
Patient accounts receivable, net of allowance for doubtful accounts	31,281	16,280	23,493	3,194	-	-	-	74,248
Inventories of supplies	4,273	3,204	1,009	635	-	-	-	9,121
Other current assets	17,914	3,292	2,569	249	3,823	174	(4,532)	23,489
Total current assets	62,008	39,184	35,683	6,283	3,823	770	(4,532)	143,219
Investments, including assets limited as to use	2,730	1,563	4,037	-	-	-	-	8,330
Property, plant, and equipment, net	164,733	85,625	156,768	33,110	7,982	-	-	448,218
Investments in unconsolidated affiliates	6,412	914	742	-	28,744	-	(34,340)	2,472
Intangible assets, net of accumulated amortization	6,002	3,875	3,457	1,082	100	-	-	14,516
Other assets	3,306	-	245	-	-	32,162	(32,162)	3,551
Total assets	\$ 245,191	\$ 131,161	\$ 200,932	\$ 40,475	\$ 40,649	\$ 32,932	\$ (71,034)	\$ 620,306

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Supplemental Schedule - Consolidating Balance Sheet – Northern Indiana Region**  
**December 31, 2007**  
(In thousands)

	St. Margaret Mercy Healthcare Centers Hammond/Dyer	St. Anthony Memorial Health Centers Michigan City	St. Anthony Medical Center Crown Point	Franciscan Physicians Hospital, LLC Munster	Franciscan Equipment Holdings	Franciscan Physicians Real Property, LLC	Eliminations	Northern Indiana Region
<b>Liabilities and Net Assets</b>								
Current liabilities								
Current portion of long-term debt	\$ -	\$ 225	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 225
Accounts payable and accrued expenses	28,280	8,258	10,958	6,592	715	89	(4,534)	50,358
Accrued payroll and related expenses	10,890	6,317	7,228	435	-	-	-	24,870
Estimated third-party payor settlements	498	(365)	99	-	-	-	-	232
Total current liabilities	39,668	14,435	18,285	7,027	715	89	(4,534)	75,685
Long-term debt, net of current portion	-	8,751	-	32,161	-	-	(32,161)	8,751
Accrued pension liability	26,136	6,683	2,067	-	-	-	-	34,886
Estimated insurance liabilities	81	107	114	-	-	-	-	302
Other liabilities	2,664	1,635	125	-	-	-	-	4,424
Total liabilities	68,549	31,611	20,591	39,188	715	89	(36,695)	124,048
Minority interest in consolidated affiliates	-	3,871	-	-	-	-	3,080	6,951
Net assets								
Unrestricted	173,912	94,116	176,304	1,287	39,934	32,843	(37,419)	480,977
Temporarily restricted	2,730	1,448	2,049	-	-	-	-	6,227
Permanently restricted	-	115	1,988	-	-	-	-	2,103
Total net assets	176,642	95,679	180,341	1,287	39,934	32,843	(37,419)	489,307
Total liabilities and net assets	\$ 245,191	\$ 131,161	\$ 200,932	\$ 40,475	\$ 40,649	\$ 32,932	\$ (71,034)	\$ 620,306

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Supplemental Schedule - Consolidating Balance Sheet – Corporate and Other**  
**December 31, 2007**  
(In thousands)

	Corporate	Alverno Information Services	Alverno Clinical Laboratories, Inc.	Franciscan Holding Corporation	Alverno Construction Company, LLC	The Hills Insurance Company, LTD	Hills Insurance Company, Inc.	Eliminations	Corporate & Other
<b>Assets</b>									
Current assets									
Cash and cash equivalents	\$ 17,870	\$ 4,113	\$ 19	\$ 3	\$ 15,206	\$ 168	\$ 276	\$ -	\$ 37,655
Short-term investments	6,034	-	-	109	12,290	-	-	-	18,433
Inventories of supplies	-	-	-	-	211	-	-	-	211
Other current assets	8,557	4,772	38	-	27,189	9	906	(611)	40,860
Total current assets	32,461	8,885	57	112	54,896	177	1,182	(611)	97,159
Investments, including assets limited as to use	1,236,699	-	-	-	-	-	77,419	-	1,314,118
Property, plant, and equipment, net	8,696	59,413	-	-	3,761	-	-	-	71,870
Investments in unconsolidated affiliates	70,562	-	-	27,162	383	-	-	(79,293)	18,814
Intangible assets, net of accumulated amortization	-	-	-	-	538	-	-	-	538
Other assets	49,729	-	-	7,005	448	-	13,381	-	70,563
Total assets	\$ 1,398,147	\$ 68,298	\$ 57	\$ 34,279	\$ 60,026	\$ 177	\$ 91,982	\$ (79,904)	\$ 1,573,062

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Supplemental Schedule - Consolidating Balance Sheet – Corporate and Other**  
**December 31, 2007**  
(In thousands)

	Corporate	Alverno Information Services	Alverno Clinical Laboratories, Inc.	Franciscan Holding Corporation	Alverno Construction Company, LLC	The Hills Insurance Company, LTD	Hills Insurance Company, Inc.	Eliminations	Corporate & Other
<b>Liabilities and Net Assets</b>									
Current liabilities									
Current portion of long-term debt	\$ 10,635	\$ 625	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,260
Accounts payable and accrued expenses	5,314	3,869	370	153	30,237	5	327	(611)	39,664
Accrued payroll and related expenses	5,290	3,993	-	-	1,697	-	-	-	10,980
Total current liabilities	21,239	8,487	370	153	31,934	5	327	(611)	61,904
Long-term debt, net of current portion	820,660	3,238	-	-	-	-	-	-	823,898
Accrued pension liability	68,396	913	2,907	-	1,148	-	-	-	73,364
Estimated insurance liabilities	7,972	6	76	-	-	-	73,822	-	81,876
Other liabilities	10,838	-	-	-	-	-	-	-	10,838
Total liabilities	929,105	12,644	3,353	153	33,082	5	74,149	(611)	1,051,880
Net assets									
Unrestricted	459,573	55,654	(3,296)	34,126	26,944	172	17,833	(79,293)	511,713
Temporarily restricted	549	-	-	-	-	-	-	-	549
Permanently restricted	8,920	-	-	-	-	-	-	-	8,920
Total net assets	469,042	55,654	(3,296)	34,126	26,944	172	17,833	(79,293)	521,182
Total liabilities and net assets	\$ 1,398,147	\$ 68,298	\$ 57	\$ 34,279	\$ 60,026	\$ 177	\$ 91,982	\$ (79,904)	\$ 1,573,062

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Supplemental Schedule - Consolidating Statement of Operations**  
**Year Ended December 31, 2007**  
(In thousands)

	Central Indiana Region	Western Indiana Region	Northern Indiana Region	South Suburban Chicago Region	Corporate & Other	Eliminations	Total
<b>Unrestricted revenues, gains, and other support</b>							
Net patient service revenue	\$ 500,187	\$ 351,548	\$ 584,854	\$ 353,315	\$ -	\$ -	\$ 1,789,904
Premium revenue	87,381	49	22,470	24,718	-	-	134,618
Other operating revenue	14,610	8,328	24,834	16,256	292,715	(231,100)	125,643
Equity in earnings of investments in unconsolidated affiliates	2,169	8,846	835	184	1,165	-	13,199
Net assets released from restrictions used for operations	-	226	741	1,096	87	-	2,150
Total unrestricted revenues, gains, and other support	<u>604,347</u>	<u>368,997</u>	<u>633,734</u>	<u>395,569</u>	<u>293,967</u>	<u>(231,100)</u>	<u>2,065,514</u>
<b>Operating expenses</b>							
Salaries	177,328	125,742	237,598	144,245	60,769	214	745,896
Employee benefits	50,185	32,515	65,127	37,879	20,070	(128)	205,648
Physicians' fees	5,628	7,202	3,204	19,708	-	-	35,742
Utilities	7,550	5,835	13,475	6,486	779	-	34,125
Repairs and maintenance	8,191	7,030	11,702	5,884	684	-	33,491
Drugs and pharmaceuticals	31,070	14,016	20,098	18,610	-	-	83,794
Medical supplies	57,717	42,504	47,693	34,101	-	-	182,015
Insurance	4,831	3,100	7,227	17,086	19,261	(12,931)	38,574
Purchased services	49,395	27,928	45,149	20,589	9,624	131	152,816
Other supplies and expenses	114,187	41,801	89,380	77,056	130,966	(187,658)	265,732
Provision for doubtful accounts	16,493	7,072	17,672	17,135	-	-	58,372
Interest	8,290	5,596	9,854	6,077	33,979	(30,728)	33,068
Depreciation and amortization	29,336	29,474	36,103	16,288	19,072	-	130,273
Total operating expenses	<u>560,201</u>	<u>349,815</u>	<u>604,282</u>	<u>421,144</u>	<u>295,204</u>	<u>(231,100)</u>	<u>1,999,546</u>
Operating income (loss)	<u>44,146</u>	<u>19,182</u>	<u>29,452</u>	<u>(25,575)</u>	<u>(1,237)</u>	<u>-</u>	<u>65,968</u>
<b>Other income (expense)</b>							
Investment income	1,653	1,201	1,679	529	86,317	-	91,379
Net cumulative unrealized gains transferred to trading securities	566	84	65	-	50,541	-	51,256
Gain on sale of investments in unconsolidated affiliates	-	-	-	-	9,891	-	9,891
Gain (loss) on sale/disposal of assets	86	21	7,345	(533)	593	-	7,512
Net assets released from restrictions	2,140	-	-	-	-	-	2,140
Contributions	372	54	17	207	29	-	679
Other, net	(3,365)	-	(105)	29	(225)	-	(3,666)
Total other income (expense), net	<u>1,452</u>	<u>1,360</u>	<u>9,001</u>	<u>232</u>	<u>147,146</u>	<u>-</u>	<u>159,191</u>
Minority interest in consolidated affiliates	<u>(16,735)</u>	<u>(2,300)</u>	<u>(1,424)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(20,459)</u>
Excess (deficiency) of revenues over expenses	<u>28,863</u>	<u>18,242</u>	<u>37,029</u>	<u>(25,343)</u>	<u>145,909</u>	<u>-</u>	<u>204,700</u>
Net cumulative unrealized gains transferred to trading securities	(566)	(84)	(65)	-	(50,717)	-	(51,432)
Change in net unrealized investment gains and losses on other than trading securities	-	10	-	22	67	-	99
Change in unrealized loss on cash flow hedges	-	-	-	-	(12,836)	-	(12,836)
Cumulative effect of change in accounting principle	-	-	-	-	(69,329)	-	(69,329)
Change in minimum pension liability included in accrued pension liability	-	-	-	-	32,611	-	32,611
Other	(299)	-	19	-	(208)	-	(488)
Net assets released from restrictions used for purchase of property, plant, and equipment	132	-	28	657	-	-	817
Equity transfers from (to) affiliates, net	<u>18,310</u>	<u>(11,905)</u>	<u>7,987</u>	<u>25,355</u>	<u>(39,747)</u>	<u>-</u>	<u>-</u>
Increase in unrestricted net assets	<u>\$ 46,440</u>	<u>\$ 6,263</u>	<u>\$ 44,998</u>	<u>\$ 691</u>	<u>\$ 5,750</u>	<u>\$ -</u>	<u>\$ 104,142</u>

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Supplemental Schedule - Consolidating Statement of Operations - Central Indiana Region**  
**Year Ended December 31, 2007**  
**(In thousands)**

	St. Francis Hospital and Health Centers Beech Grove/ Indianapolis/ Mooreville	St. Francis Healthcare Foundation, Inc.	St. Francis Health Network, Inc.	Eliminations	Central Indiana Region
<b>Unrestricted revenues, gains, and other support</b>					
Net patient service revenue	\$ 500,187	\$ -	\$ -	\$ -	\$ 500,187
Premium revenue	39,491	-	86,892	(39,002)	87,381
Other operating revenue	11,919	-	3,668	(977)	14,610
Equity in earnings of investments in unconsolidated affiliates	2,169	-	-	-	2,169
Total unrestricted revenues, gains, and other support	<u>553,766</u>	<u>-</u>	<u>90,560</u>	<u>(39,979)</u>	<u>604,347</u>
<b>Operating expenses</b>					
Salaries	176,419	-	909	-	177,328
Employee benefits	49,899	-	286	-	50,185
Physicians' fees	5,628	-	-	-	5,628
Utilities	7,548	-	2	-	7,550
Repairs and maintenance	8,182	-	9	-	8,191
Drugs and pharmaceuticals	20,743	-	10,327	-	31,070
Medical supplies	57,717	-	-	-	57,717
Insurance	4,794	-	37	-	4,831
Purchased services	46,999	-	2,396	-	49,395
Other supplies and expenses	77,343	-	76,823	(39,979)	114,187
Provision for doubtful accounts	16,493	-	-	-	16,493
Interest	8,290	-	-	-	8,290
Depreciation and amortization	29,333	-	3	-	29,336
Total operating expenses	<u>509,388</u>	<u>-</u>	<u>90,792</u>	<u>(39,979)</u>	<u>560,201</u>
Operating income (loss)	<u>44,378</u>	<u>-</u>	<u>(232)</u>	<u>-</u>	<u>44,146</u>
<b>Other income (expense)</b>					
Investment income	1,039	314	300	-	1,653
Net cumulative unrealized gains (losses) transferred to trading securities	15	661	(110)	-	566
Gain on sale/disposal of assets	86	-	-	-	86
Net assets released from restrictions	-	2,140	-	-	2,140
Contributions	-	372	-	-	372
Other, net	1	(3,366)	-	-	(3,365)
Total other income (expense), net	<u>1,141</u>	<u>121</u>	<u>190</u>	<u>-</u>	<u>1,452</u>
Minority interest in consolidated affiliates	<u>(16,735)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(16,735)</u>
Excess (deficiency) of revenues over expenses	28,784	121	(42)	-	28,863
Net cumulative unrealized (losses) gains transferred to trading securities	(14)	(662)	110	-	(566)
Other	(299)	-	-	-	(299)
Net assets released from restrictions used for purchase of property, plant and equipment	132	-	-	-	132
Equity transfers from affiliates, net	<u>18,310</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,310</u>
Increase (decrease) in unrestricted net assets	<u>\$ 46,913</u>	<u>\$ (541)</u>	<u>\$ 68</u>	<u>\$ -</u>	<u>\$ 46,440</u>

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Supplemental Schedule - Consolidating Statement of Operations - Western Indiana Region**  
**Year Ended December 31, 2007**  
(In thousands)

	St. Elizabeth Regional Health Lafayette	St. Clare Medical Center Crawfordsville	Eliminations	Western Indiana Region
<b>Unrestricted revenues, gains, and other support</b>				
Net patient service revenue	\$ 303,891	\$ 47,657	\$ -	\$ 351,548
Premium revenue	-	49	-	49
Other operating revenue	8,259	628	(559)	8,328
Equity in earnings (losses) of investments in unconsolidated affiliates	8,935	(89)	-	8,846
Net assets released from restrictions used for operations	226	-	-	226
Total unrestricted revenues, gains, and other support	<u>321,311</u>	<u>48,245</u>	<u>(559)</u>	<u>368,997</u>
<b>Operating expenses</b>				
Salaries	112,179	13,563	-	125,742
Employee benefits	28,664	3,851	-	32,515
Physicians' fees	6,204	998	-	7,202
Utilities	5,106	729	-	5,835
Repairs and maintenance	5,675	1,355	-	7,030
Drugs and pharmaceuticals	12,395	1,621	-	14,016
Medical supplies	39,673	2,831	-	42,504
Insurance	2,724	376	-	3,100
Purchased services	24,315	4,168	(555)	27,928
Other supplies and expenses	33,050	8,755	(4)	41,801
Provision for doubtful accounts	5,810	1,262	-	7,072
Interest	4,373	1,223	-	5,596
Depreciation and amortization	24,855	4,619	-	29,474
Total operating expenses	<u>305,023</u>	<u>45,351</u>	<u>(559)</u>	<u>349,815</u>
Operating income	<u>16,288</u>	<u>2,894</u>	<u>-</u>	<u>19,182</u>
<b>Other income</b>				
Investment income	1,137	64	-	1,201
Net cumulative unrealized gains transferred to trading securities	84	-	-	84
Gain on sale/disposal of assets	21	-	-	21
Contributions	54	-	-	54
Total other income, net	1,296	64	-	1,360
Minority interest in consolidated affiliates	(2,300)	-	-	(2,300)
Excess of revenues over expenses	15,284	2,958	-	18,242
Net cumulative unrealized losses transferred to trading securities	(84)	-	-	(84)
Change in net unrealized investment gains on other than trading securities	-	10	-	10
Equity transfers to affiliates, net	(6,998)	(4,907)	-	(11,905)
Increase (decrease) in unrestricted net assets	<u>\$ 8,202</u>	<u>\$ (1,939)</u>	<u>\$ -</u>	<u>\$ 6,263</u>

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Supplemental Schedule - Consolidating Statement of Operations - Northern Indiana Region**  
**Year Ended December 31, 2007**  
(In thousands)

	St. Margaret Mercy Healthcare Centers Hammond/Dyer	St. Anthony Memorial Health Centers Michigan City	St. Anthony Medical Center Crown Point	Franciscan Physicians Hospital, LLC Munster	Franciscan Equipment Holdings	Franciscan Physicians Real Property, LLC	Eliminations	Northern Indiana Region
<b>Unrestricted revenues, gains, and other support</b>								
Net patient service revenue	\$ 271,684	\$ 134,078	\$ 170,082	\$ 9,010	\$ -	\$ -	\$ -	\$ 584,854
Premium revenue	11,567	10,903	-	-	-	-	-	22,470
Other operating revenue	15,330	3,564	4,648	235	1,648	682	(1,273)	24,834
Equity in earnings of investments in unconsolidated affiliates	631	54	150	-	-	-	-	835
Net assets released from restrictions used for operations	672	24	45	-	-	-	-	741
Total unrestricted revenues, gains, and other support	<u>299,884</u>	<u>148,623</u>	<u>174,925</u>	<u>9,245</u>	<u>1,648</u>	<u>682</u>	<u>(1,273)</u>	<u>633,734</u>
<b>Operating expenses</b>								
Salaries	118,142	50,757	63,701	4,998	-	-	-	237,598
Employee benefits	32,493	14,178	17,555	975	-	-	(74)	65,127
Physicians' fees	906	1,014	937	347	-	-	-	3,204
Utilities	6,666	2,559	3,780	470	-	-	-	13,475
Repairs and maintenance	4,399	3,090	3,957	256	-	-	-	11,702
Drugs and pharmaceuticals	9,999	3,458	6,247	394	-	-	-	20,098
Medical supplies	21,973	9,776	14,269	1,675	-	-	-	47,693
Insurance	3,471	1,757	1,764	235	-	-	-	7,227
Purchased services	20,624	11,868	11,987	670	-	-	-	45,149
Other supplies and expenses	36,535	30,265	19,705	2,764	623	-	(512)	89,380
Provision for doubtful accounts	8,818	3,745	3,765	98	1,246	-	-	17,672
Interest	3,677	3,420	2,707	732	-	-	(682)	9,854
Depreciation and amortization	14,375	7,198	11,642	141	2,752	-	(5)	36,103
Total operating expenses	<u>282,078</u>	<u>143,085</u>	<u>162,016</u>	<u>13,755</u>	<u>4,621</u>	<u>-</u>	<u>(1,273)</u>	<u>604,282</u>
Operating income (loss)	<u>17,806</u>	<u>5,538</u>	<u>12,909</u>	<u>(4,510)</u>	<u>(2,973)</u>	<u>682</u>	<u>-</u>	<u>29,452</u>
<b>Other income (expense)</b>								
Investment income	646	546	487	-	-	-	-	1,679
Net cumulative unrealized (losses) gains transferred to trading securities	(38)	(19)	122	-	-	-	-	65
Gain (loss) on sale/disposal of assets	7,288	-	70	-	(13)	-	-	7,345
Contributions	17	-	-	-	-	-	-	17
Other, net	-	-	(105)	-	-	-	-	(105)
Total other income (expense), net	<u>7,913</u>	<u>527</u>	<u>574</u>	<u>-</u>	<u>(13)</u>	<u>-</u>	<u>-</u>	<u>9,001</u>
Minority interest in consolidated affiliates	-	(1,963)	-	-	-	-	539	(1,424)
Excess (deficiency) of revenues over expenses	<u>25,719</u>	<u>4,102</u>	<u>13,483</u>	<u>(4,510)</u>	<u>(2,986)</u>	<u>682</u>	<u>539</u>	<u>37,029</u>
Net cumulative unrealized gains (losses) transferred to trading securities	38	19	(122)	-	-	-	-	(65)
Other	-	19	-	-	-	-	-	19
Net assets released from restrictions used for purchase of property, plant and equipment	-	-	28	-	-	-	-	28
Equity transfers (to) from affiliates, net	(3,317)	(2,372)	11,997	-	1,679	-	-	7,987
Increase (decrease) in unrestricted net assets	<u>\$ 22,440</u>	<u>\$ 1,768</u>	<u>\$ 25,386</u>	<u>\$ (4,510)</u>	<u>\$ (1,307)</u>	<u>\$ 682</u>	<u>\$ 539</u>	<u>\$ 44,998</u>

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Supplemental Schedule - Consolidating Statement of Operations - Corporate and Other**  
**Year Ended December 31, 2007**  
**(In thousands)**

	Corporate	Alverno Information Services	Alverno Clinical Laboratories, Inc.	Franciscan Holding Corporation	Alverno Construction Company, LLC	The Hills Insurance Company, LTD	Hills Insurance Company, Inc.	Eliminations	Corporate & Other
<b>Unrestricted revenues, gains, and other support</b>									
Other operating revenue	\$ 82,795	\$ 62,839	\$ 34	\$ -	\$ 144,314	\$ 7	\$ 17,602	\$ (14,876)	\$ 292,715
Equity in earnings of investments in unconsolidated affiliates	5,136	-	-	5,889	231	-	-	(10,091)	1,165
Net assets released from restrictions used for operations	87	-	-	-	-	-	-	-	87
Total unrestricted revenues, gains, and other support	<u>88,018</u>	<u>62,839</u>	<u>34</u>	<u>5,889</u>	<u>144,545</u>	<u>7</u>	<u>17,602</u>	<u>(24,967)</u>	<u>293,967</u>
<b>Operating expenses</b>									
Salaries	20,689	21,208	-	-	18,923	-	-	(51)	60,769
Employee benefits	7,461	5,217	432	-	6,960	-	-	-	20,070
Utilities	394	282	-	-	103	-	-	-	779
Repairs and maintenance	205	258	(28)	-	249	-	-	-	684
Insurance	(11)	40	11	-	1,166	-	18,055	-	19,261
Purchased services	7,877	1,715	32	-	-	-	-	-	9,624
Other supplies and expenses	6,172	16,032	384	74	111,287	7	-	(2,990)	130,966
Interest	44,620	1,195	-	-	-	-	-	(11,836)	33,979
Depreciation and amortization	1,731	16,892	-	-	449	-	-	-	19,072
Total operating expenses	<u>89,138</u>	<u>62,839</u>	<u>831</u>	<u>74</u>	<u>139,137</u>	<u>7</u>	<u>18,055</u>	<u>(14,877)</u>	<u>295,204</u>
Operating income (loss)	<u>(1,120)</u>	<u>-</u>	<u>(797)</u>	<u>5,815</u>	<u>5,408</u>	<u>-</u>	<u>(453)</u>	<u>(10,090)</u>	<u>(1,237)</u>
<b>Other income (expense)</b>									
Investment income	85,018	286	-	3	1,010	-	-	-	86,317
Net cumulative unrealized gains (losses) transferred to trading securities	50,555	-	(14)	-	-	-	-	-	50,541
Gain on sale of investments in unconsolidated affiliates	9,891	-	-	-	-	-	-	-	9,891
Gain on sale/disposal of assets	535	58	-	-	-	-	-	-	593
Contributions	29	-	-	-	-	-	-	-	29
Other, net	553	-	-	(780)	2	-	-	-	(225)
Total other income (expense), net	<u>146,581</u>	<u>344</u>	<u>(14)</u>	<u>(777)</u>	<u>1,012</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>147,146</u>
Excess (deficiency) of revenues over expenses	145,461	344	(811)	5,038	6,420	-	(453)	(10,090)	145,909
Net unrealized (losses) gains transferred to trading securities	(50,555)	-	14	-	-	-	(176)	-	(50,717)
Change in net unrealized investment gains on other than trading securities	67	-	-	-	-	-	-	-	67
Change in unrealized loss on cash flow hedge	(12,836)	-	-	-	-	-	-	-	(12,836)
Cumulative effect of change in accounting principle	(68,579)	-	-	-	(750)	-	-	-	(69,329)
Change in minimum pension liability included in accrued pension liability	32,611	-	-	-	-	-	-	-	32,611
Other	-	-	-	-	-	-	(208)	-	(208)
Equity transfers (to) from affiliates, net	<u>(41,553)</u>	<u>1,670</u>	<u>136</u>	<u>(1,946)</u>	<u>(1,945)</u>	<u>-</u>	<u>-</u>	<u>3,891</u>	<u>(39,747)</u>
Increase (decrease) in unrestricted net assets	<u>\$ 4,616</u>	<u>\$ 2,014</u>	<u>\$ (661)</u>	<u>\$ 3,092</u>	<u>\$ 3,725</u>	<u>\$ -</u>	<u>\$ (837)</u>	<u>\$ (6,199)</u>	<u>\$ 5,750</u>

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Supplemental Schedule - Patient Accounts Receivable and Related Data**  
**December 31, 2007 and 2006**  
(In thousands, except percentages and average days)

	Patient Accounts Receivable, Net		Increase		Average Day's Charges in Patient Accounts Receivable, Net (Unaudited)	
	2007	2006	Amount	Percentage	2007	2006
St. Francis Hospital and Health Centers, Beech Grove/Indianapolis/Mooresville	\$ 96,047	\$ 83,240	\$ 12,807	15.4 %	70.1	66.3
St. Elizabeth Regional Health, Lafayette	60,750	60,889	(139)	(.2)	73.0	67.8
St. Clare Medical Center, Crawfordsville	9,493	9,869	(376)	(3.8)	72.7	78.1
St. Margaret Mercy Healthcare Centers, Hammond/Dyer	31,281	39,917	(8,636)	(21.6)	42.0	52.3
St. Anthony Memorial Health Centers, Michigan City	16,280	18,240	(1,960)	(10.8)	44.3	51.8
St. Anthony Medical Center, Crown Point	23,493	22,200	1,293	5.8	50.4	52.3
Franciscan Physicians Hospital, LLC, Munster	3,194	-	3,194	100.0	96.1	0.0
South Suburban Chicago Region, Chicago Heights/ Olympia Fields	67,963	69,376	(1,413)	(2.0)	69.7	71.2
Total	<u>\$ 308,501</u>	<u>\$ 303,731</u>	<u>\$ 4,770</u>	<u>1.6 %</u>	<u>62.9</u>	<u>63.4</u>

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Supplemental Schedule - Service Statistics**  
**Year Ended December 31, 2007**  
**(Unaudited)**

	Central Indiana Region	Western Indiana Region			Northern Indiana Region				South Suburban Chicago Region		
	St. Francis Hospital and Health Centers Beech Grove/ Indianapolis/ Mooresville	St. Elizabeth Regional Health Lafayette	St. Clare Medical Center Crawfordsville	Total	St. Margaret Mercy Healthcare Centers Hammond/Dyer	St. Anthony Memorial Health Centers Michigan City	St. Anthony Medical Center Crown Point	Franciscan Physicians Hospital, LLC Munster	Total	Consolidated	
Patient Days											
Medical and Surgical	72,216	46,698	4,789	51,487	56,939	19,605	32,113	1,086	109,743	78,304	311,750
Intensive Care and Coronary Care	9,368	9,605	440	10,045	6,672	2,456	3,406	856	13,390	10,794	43,597
Obstetrical	9,616	6,300	851	7,151	3,506	1,772	3,264	-	8,542	4,603	29,912
Pediatrics	1,090	1,259	-	1,259	4,510	1,406	3,249	-	9,165	2,122	13,636
Psychiatric/Rehabilitation	6,108	3,902	2,319	6,221	13,291	5,669	2,411	-	21,371	6,173	39,873
Skilled Nursing Facility Unit	-	-	3,783	3,783	-	-	-	-	-	-	3,783
Other	3,546	4,382	-	4,382	14,894	-	-	-	14,894	4,761	27,583
<b>Total Patient Days</b>	<b>101,944</b>	<b>72,146</b>	<b>12,182</b>	<b>84,328</b>	<b>99,812</b>	<b>30,908</b>	<b>44,443</b>	<b>1,942</b>	<b>177,105</b>	<b>106,757</b>	<b>470,134</b>
Acute Patient Days	94,579	67,874	6,080	73,954	75,650	25,239	42,032	1,942	144,863	93,701	407,097
Adjusted Patient Days	219,851	132,986	33,039	166,025	169,143	67,252	93,438	4,034	333,867	159,256	878,999
Admissions	22,195	17,704	2,407	20,111	17,167	7,190	10,606	520	35,483	24,620	102,409
Discharges	22,227	17,704	2,408	20,112	17,036	7,181	10,589	518	35,324	23,242	100,905
Medicare Discharges	10,116	7,996	1,456	9,452	7,631	3,225	5,115	325	16,296	10,843	46,707
Acute Discharges	21,594	17,349	1,979	19,328	14,799	6,495	10,361	518	32,173	23,242	96,337
Adjusted Discharges	49,476	32,637	6,531	39,168	28,869	15,625	22,263	1,076	67,833	36,749	193,226
Average Daily Census	279.3	197.7	33.4	231.1	273.5	84.7	121.8	7.2	487.2	292.5	1,290.1
Total Licensed Beds	600	740	120	860	776	310	411	63	1,560	552	3,572
Total Operated Beds	535	401	86	487	504	168	254	32	958	399	2,379
Total Adjusted Occupied Beds	602	364	91	455	463	184	256	5	908	436	2,401
Percentage of Occupancy- Licensed Beds	46.6%	26.7%	27.8%	26.9%	35.2%	27.3%	29.6%	11.4%	31.1%	53.0%	36.1%
Percentage of Occupancy- Operated Beds	52.2%	49.3%	38.8%	47.4%	54.3%	50.4%	47.9%	22.4%	50.7%	73.3%	54.1%
Average Length of Stay (Days)	4.6	4.1	5.1	4.2	5.9	4.3	4.2	3.7	5.0	4.3	4.7
Average Length of Stay (Days) - Acute	4.4	3.9	3.1	3.8	5.1	3.9	4.1	3.7	4.5	4.0	4.2
Average Length of Stay (Days) - SNF	-	-	14.6	14.6	-	-	-	-	-	-	14.6
Average Length of Stay (Days) - Long-term	10.1	-	13.7	13.7	10.2	8.3	9.5	-	9.5	13.1	11.4
Medicare Case Mix Index	1.6	1.6	1.1	1.5	1.5	1.4	1.3	1.3	1.4	1.4	1.5
Case Mix Index	1.3	1.4	1.0	1.3	1.3	1.2	1.1	1.3	1.2	1.2	1.3
Total Emergency Room Visits	80,283	73,496	20,373	93,869	60,181	28,775	27,656	-	116,612	69,779	360,543
Total Outpatient Surgeries	16,033	5,591	740	6,331	7,613	10,284	5,758	2,394	26,049	11,528	59,941
Total Outpatient Clinic Visits	224,334	110,936	38,892	149,828	136,219	230,436	188,306	-	554,961	321,907	1,251,030
Total Outpatient Visits and Surgeries	990,485	356,592	114,467	471,059	315,554	274,925	310,874	4,278	905,631	479,408	2,846,583

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Supplemental Schedule - Service Statistics**  
**Year Ended December 31, 2007**  
**(Unaudited)**

	<u>Central Indiana Region</u>	<u>Western Indiana Region</u>			<u>Northern Indiana Region</u>			<u>South Suburban Chicago Region</u>			
	St. Francis Hospital and Health Centers Beech Grove/ Indianapolis/ Mooresville	St. Elizabeth Regional Health Lafayette	St. Clare Medical Center Crawfordsville	Total	St. Margaret Mercy Healthcare Centers Hammond/Dyer	St. Anthony Memorial Health Centers Michigan City	St. Anthony Medical Center Crown Point	Franciscan Physicians Hospital, LLC Munster	Total	Consolidated	
<b>Nursery</b>											
Patient days	6,582	6,144	671	6,815	2,025	1,517	2,699	-	6,241	4,732	24,370
Admissions	3,128	2,808	296	3,104	892	670	1,418	-	2,980	1,976	11,188
Discharges	3,048	2,822	296	3,118	862	670	1,419	-	2,951	1,976	11,093
Average Daily Crib Capacity	54.0	24.0	11.0	35.0	19.0	20.0	30.0	-	69.0	36.0	194.0
Average Daily Census in Nursery	18.0	16.8	1.8	18.7	5.5	4.2	7.4	-	17.1	13.0	66.8
Average Length of Stay (Days)	2.2	2.2	2.3	2.2	2.3	2.3	1.9	-	2.1	2.0	2.2
Percentage of Occupancy	33.4%	70.1%	16.7%	53.4%	29.2%	20.8%	24.6%	-	24.8%	36.0%	34.4%

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Supplemental Schedule - Gross Revenue Composition by Payor**  
**Year Ended December 31, 2007**  
(in thousands, except percentages)  
(Unaudited)

	Central Indiana Region		Western Indiana Region				Northern Indiana Region						South Suburban Chicago Region		Total			
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%		
	St. Francis Hospital and Health Centers Beech Grove/Indianapolis/Mooresville		St. Elizabeth Regional Health Lafayette		St. Clare Medical Center Crawfordsville		St. Margaret Mercy Healthcare Centers Hammond/Dyer		St. Anthony Memorial Health Centers Michigan City		St. Anthony Medical Center Crown Point		Franciscan Physician Hospital, LLC Munster					
<b>Total</b>	\$ 1,200,159	100.0 %	\$ 737,454	100.0 %	\$ 95,968	100.0 %	\$ 643,505	100.0 %	\$ 283,854	100.0 %	\$ 377,717	100.0 %	\$ 22,617	100.0 %	\$ 976,144	100.0 %	\$ 4,337,418	100.0 %
Medicare	\$ 459,547	38.3 %	\$ 306,246	41.5 %	\$ 43,515	45.3 %	\$ 283,931	44.1 %	\$ 112,211	39.5 %	\$ 155,509	41.2 %	\$ 12,726	56.3 %	\$ 413,645	42.4 %	\$ 1,787,330	41.2 %
Medicaid	113,942	9.5	70,948	9.6	8,487	8.8	121,391	18.9	44,422	15.6	20,977	5.6	1,012	4.5	141,472	14.5	522,651	12.0
Blue Cross	259,675	21.6	92,825	12.6	14,646	15.3	98,484	15.3	57,318	20.2	58,765	15.6	4,013	17.7	190,213	19.5	775,939	17.9
Managed care contracts	256,481	21.4	184,127	25.0	17,724	18.5	78,278	12.2	37,820	13.3	111,497	29.5	206	0.9	143,339	14.7	829,472	19.1
Other commercial	55,440	4.6	20,427	2.8	5,069	5.3	32,488	5.0	12,516	4.4	18,910	5.0	3,979	17.6	42,699	4.4	191,528	4.4
Self-pay and other	55,074	4.6	62,881	8.5	6,527	6.8	28,933	4.5	19,567	6.9	12,059	3.2	681	3.0	44,776	4.6	230,498	5.3

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Supplemental Schedule - Gross Revenue Composition by Payor**  
**Year Ended December 31, 2007**  
(in thousands, except percentages)  
(Unaudited)

	Central Indiana Region		Western Indiana Region				Northern Indiana Region						South Suburban Chicago Region		Total			
	St. Francis Hospital and Health Centers Beech Grove/Indianapolis/Mooresville		St. Elizabeth Regional Health Lafayette		St. Clare Medical Center Crawfordsville		St. Margaret Mercy Healthcare Centers Hammond/Dyer		St. Anthony Memorial Health Centers Michigan City		St. Anthony Medical Center Crown Point		Franciscan Physicians Hospital, LLC Munster					
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%		
<b>Inpatient</b>																		
Medicare	\$ 271,527	50.4 %	\$ 202,071	50.5 %	\$ 22,570	63.8 %	\$ 203,203	53.5 %	\$ 67,810	52.0 %	\$ 101,265	56.4 %	\$ 7,150	65.7 %	\$ 313,723	52.1 %	\$ 1,189,319	52.2 %
Medicaid	56,224	10.4	35,186	8.8	2,209	6.2	74,184	19.5	20,008	15.3	10,632	5.9	243	2.2	91,225	15.2	289,911	12.7
Blue Cross	86,559	16.1	46,269	11.6	4,005	11.3	45,336	11.9	19,115	14.7	19,523	10.9	1,546	14.2	96,126	16.0	318,479	14.0
Managed care contracts	92,152	17.1	88,454	22.1	4,302	12.2	33,513	8.8	15,665	12.0	37,838	21.1	173	1.6	64,397	10.7	336,494	14.8
Other commercial	21,688	4.0	10,291	2.6	1,362	3.8	13,793	3.6	3,755	2.9	7,053	3.9	1,716	15.8	21,614	3.6	81,272	3.6
Self-pay and other	11,015	2.0	17,737	4.4	937	2.6	9,707	2.6	4,103	3.1	3,347	1.9	61	0.6	14,892	2.5	61,799	2.7
	<u>\$ 539,165</u>	<u>100.0 %</u>	<u>\$ 400,008</u>	<u>100.0 %</u>	<u>\$ 35,385</u>	<u>100.0 %</u>	<u>\$ 379,736</u>	<u>100.0 %</u>	<u>\$ 130,456</u>	<u>100.0 %</u>	<u>\$ 179,658</u>	<u>100.0 %</u>	<u>\$ 10,889</u>	<u>100.0 %</u>	<u>\$ 601,977</u>	<u>100.0 %</u>	<u>\$ 2,277,274</u>	<u>100.0 %</u>
<b>Outpatient</b>																		
Medicare	\$ 188,020	28.4 %	\$ 104,175	30.9 %	\$ 20,945	34.6 %	\$ 80,728	30.6 %	\$ 44,401	28.9 %	\$ 54,244	27.4 %	\$ 5,576	47.5 %	\$ 99,922	26.7 %	\$ 598,011	29.0 %
Medicaid	57,718	8.7	35,762	10.6	6,278	10.4	47,207	17.9	24,414	15.9	10,345	5.2	769	6.6	50,247	13.4	232,740	11.3
Blue Cross	173,116	26.2	46,556	13.8	10,641	17.6	53,148	20.1	38,203	24.9	39,242	19.8	2,467	21.0	94,087	25.1	457,460	22.2
Managed care contracts	164,329	24.9	95,673	28.4	13,422	22.2	44,765	17.0	22,155	14.4	73,659	37.2	33	0.3	78,942	21.1	492,978	23.9
Other commercial	33,752	5.1	10,136	3.0	3,707	6.1	18,695	7.1	8,761	5.7	11,857	6.0	2,263	19.3	21,085	5.6	110,256	5.4
Self-pay and other	44,059	6.7	45,144	13.4	5,590	9.2	19,226	7.3	15,464	10.1	8,712	4.4	620	5.3	29,884	8.0	168,699	8.2
	<u>\$ 660,994</u>	<u>100.0 %</u>	<u>\$ 337,446</u>	<u>100.0 %</u>	<u>\$ 60,583</u>	<u>100.0 %</u>	<u>\$ 263,769</u>	<u>100.0 %</u>	<u>\$ 153,398</u>	<u>100.0 %</u>	<u>\$ 198,059</u>	<u>100.0 %</u>	<u>\$ 11,728</u>	<u>100.0 %</u>	<u>\$ 374,167</u>	<u>100.0 %</u>	<u>\$ 2,060,144</u>	<u>100.0 %</u>

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Supplemental Schedule – Full-Time Equivalent Personnel**  
**Years Ended December 31, 2007 and 2006**  
**(Unaudited)**

	Total FTEs		FTEs Per Adjusted Occupied Bed	
	2007	2006	2007	2006
<b>Central Indiana Region</b>				
St. Francis Hospital and Health Centers - Beech Grove/Indianapolis/Mooresville	3,158	3,303	5.1	5.2
St. Francis Healthcare Foundation, Inc.	23	21	-	-
St. Francis Health Network, Inc.	15	15	-	-
Total Central Indiana Region	<u>3,196</u>	<u>3,339</u>	<u>5.1</u>	<u>5.2</u>
<b>Western Indiana Region</b>				
St. Elizabeth Regional Health - Lafayette	2,103	2,200	5.8	5.1
St. Clare Medical Center - Crawfordsville	268	301	3.0	2.9
Total Western Indiana Region	<u>2,371</u>	<u>2,501</u>	<u>5.4</u>	<u>4.8</u>
<b>Northern Indiana Region</b>				
St. Margaret Mercy Healthcare Centers - Hammond/Dyer	2,221	2,238	4.8	4.7
St. Anthony Memorial Health Centers - Michigan City	894	930	4.9	4.5
St. Anthony Medical Center- Crown Point	1,220	1,150	4.8	4.9
Franciscan Physicians Hospital, LLC - Munster	142	-	9.5	-
Total Northern Indiana Region	<u>4,477</u>	<u>4,318</u>	<u>4.9</u>	<u>4.7</u>
<b>South Suburban Chicago Region</b>	<u>2,524</u>	<u>2,528</u>	<u>4.7</u>	<u>5.0</u>
<b>Corporate and Other</b>				
Corporate and other coordinated business functions	232	137	-	-
Alverno Information Services	316	319	-	-
Alverno Construction Company, LLC	290	235	-	-
Total Corporate and Other	<u>838</u>	<u>691</u>		
Totals	<u>13,406</u>	<u>13,377</u>	<u>5.0</u>	<u>4.9</u>

**Sisters of St. Francis Health Services, Inc. and Affiliates**  
**Supplemental Schedule – Medical Staff Complement**  
**Year Ended December 31, 2007 and 2006**  
**(Unaudited)**

	<u>Active</u>		<u>Associate</u>		<u>Other</u>		<u>Total</u>		<u>Average Age</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
<b>Central Indiana Region</b>										
St. Francis Hospital and Health Centers - Beech Grove/Indianapolis/Mooresville	384	369	47	61	287	282	718	712	46	45
<b>Western Indiana Region</b>										
St. Elizabeth Regional Health - Lafayette	333	313	-	0	32	30	365	343	48	46
St. Clare Medical Center - Crawfordsville	49	34	-	0	72	99	121	133	46	47
<b>Northern Indiana Region</b>										
St. Margaret Mercy Healthcare Centers - Hammond/Dyer	376	348	61	78	109	130	546	556	49	48
St. Anthony Memorial Health Centers - Michigan City	134	133	37	10	16	42	187	185	50	49
St. Anthony Medical Center- Crown Point	303	341	34	43	44	47	381	431	48	48
Franciscan Physicians Hospital, LLC - Munster	179	N/A	-	N/A	1	N/A	180	N/A	47	N/A
<b>South Suburban Chicago Region</b>	<u>256</u>	<u>266</u>	<u>325</u>	<u>325</u>	<u>58</u>	<u>58</u>	<u>639</u>	<u>649</u>	<u>49</u>	<u>48</u>
Total/Average	<u>2,014</u>	<u>1,804</u>	<u>504</u>	<u>517</u>	<u>619</u>	<u>688</u>	<u>3,137</u>	<u>3,009</u>	<u>48</u>	<u>47</u>