The Carle Foundation

Consolidated Financial Statements and Supplementary Schedules
December 31, 2011

(With Independent Auditors' Report Thereon)

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KPMG LLP
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777 East Wisconsin Avenue
Milwaukee, WI 53202-5337

Independent Auditors' Report

The Board of Trustees
The Carle Foundation:

We have audited the accompanying consolidated balance sheet of The Carle Foundation (the Foundation) as of December 31, 2011, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of the Foundation as of December 31, 2010, were audited by other auditors whose report thereon dated March 30, 2011, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2011 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Carle Foundation as of December 31, 2011, and the results of their operations and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

April 17, 2012

The Carle Foundation
Consolidated Balance Sheets
December 31, 2011 and 2010
(Dollars in thousands)

Assets		2011	2010
Current assets:			
Cash and cash equivalents		$ 13,112	$ 22,251
Investments	(Notes 4, 5, and 6)	265,903	207,145
Assets limited as to use or restricted	(Notes 4, 5, and 6)	16,558	8,291
Patient receivables, net	(Notes 9 and 20)	95,424	91,447
Premiums receivable	(Note 20)	249,675	198,000
Reinsurance receivable	(Note 16)	3,267	2,804
Other receivables		53,766	40,696
Inventories		6,391	5,694
Prepaid expenses		6,746	10,245
Assets held for sale - discontinued operations	(Note 1)	-	8,611
Total current assets		710,842	595,184
Property and equipment, net	(Note 10)	392,377	367,925
Investments and other assets:			
Investments, net of current portion	(Notes 4, 5, and 6)	435,867	427,443
Assets limited as to use or restricted, net of current portion	(Notes 4, 5, and 6)	371,402	234,062
Interest rate swap agreements	(Notes 5 and 15)	3,297	9,404
Reinsurance receivable, net of current portion	(Note 16)	18,720	18,328
Intangible assets and goodwill	(Note 11)	169,911	180,789
Deferred taxes	(Note 12)	9,478	-
Other assets		8,152	2,583
Total investments and other assets		1,016,827	872,609
Total assets		$ 2,120,046	$ 1,835,718

See accompanying notes to consolidated financial statements.

(Continued)

Liabilities and Net Assets			2011		2010
Current liabilities:					
Accounts payable		$	26,927	$	13,590
Short-term borrowings	(Note 14)		50,000		67,000
Current maturities of long-term debt	(Note 14)		43,294		41,667
Estimated third-party payor settlements	(Note 7)		22,044		26,801
Medical claims payable	(Note 13)		119,427		86,338
Current portion of estimated liability for self-insurance losses	(Note 16)		19,081		16,570
Deferred taxes	(Note 12)		4,440		1,206
Current portion of retirement plan benefits obligation	(Note 17)		24,200		12,000
Compensation and paid leave payable			55,346		48,299
Other accrued liabilities			64,231		66,017
Liabilities related to assets held for sale - discontinued operations	(Note 1)		-		4,045
Total current liabilities			428,990		383,533
Long-term liabilities:					
Long-term debt, net of current maturities	(Note 14)		669,536		478,517
Interest rate swap agreements	(Notes 5 and 15)		23,547		11,090
Asset retirement obligation	(Note 2)		6,566		6,586
Estimated liability for self-insurance losses	(Note 16)		89,846		93,599
Deferred taxes	(Note 12)		-		14,024
Retirement plan benefits obligation	(Note 17)		119,078		65,199
Other accrued liabilities			10,974		11,708
Total long-term liabilities			919,547		680,723
Total liabilities			1,348,537		1,064,256
Net assets:					
Unrestricted			763,579		764,414
Temporarily restricted			6,679		5,876
Permanently restricted			1,251		1,172
Total net assets			771,509		771,462
Total liabilities and net assets		$	2,120,046	$	1,835,718

The Carle Foundation
Consolidated Statement of Operations
Year Ended December 31, 2011
(Dollars in thousands)

Revenue:		
Patient service revenue (net of contractual allowances)		$ 541,964
Provision for bad debts		(44,617)
Net patient service revenue	(Notes 2 and 7)	497,347
Net premium revenue - health insurance		1,062,304
Other revenue:		
Rental income		12,531
Net assets released from restrictions		1,317
Other		35,387
Total revenue		1,608,886
Expenses:		
Salaries and wages		367,795
Employee benefits		87,512
Medical benefits of insured		732,126
Patient care and other supplies		107,331
Purchased services		62,232
General and administrative		81,563
Insurance	(Note 16)	17,565
Depreciation and amortization		50,093
Interest and financing expense	(Note 14)	28,269
Real estate and other taxes	(Note 7)	17,619
Loss on disposal of property and equipment		869
Change in fair value of derivative instruments	(Note 15)	18,564
Total expenses		1,571,538
Income from operations, before discontinued operations		37,348
Gain from discontinued operations (including gain on sale of $6,226)	(Note 1)	3,950
Income from operations		41,298
Nonoperating gains:		
Investment income	(Note 4)	68,723
Excess of revenue over expenses before income taxes		110,021
Provision for income taxes	(Note 12)	17,883
Excess of revenue over expenses		$ 92,138

See accompanying notes to consolidated financial statements.

The Carle Foundation
Consolidated Statement of Changes in Net Assets
Year Ended December 31, 2011
(Dollars in thousands)

Unrestricted net assets:		
Excess of revenue over expenses		$ 92,138
Change in net unrealized gains and losses on other-than-trading securities		(44,082)
Pension related changes other than net period pension costs, net of deferred taxes - $28,848	(Note 17)	(48,972)
Other		81
Increase in unrestricted net assets		(835)
Temporarily restricted net assets:		
Contributions		2,112
Investment Income	(Note 4)	113
Change in net unrealized gains and losses on other-than-trading securities		(105)
Net assets released from restrictions		(1,317)
Increase in temporarily restricted net assets		803
Permanently restricted net assets:		
Contributions		79
Increase in permanently restricted net assets		79
Change in net assets		47
Net assets, beginning of period		771,462
Net assets, end of period		$ 771,509

See accompanying notes to consolidated financial statements.

The Carle Foundation
Consolidated Statement of Cash Flows
Year Ended December 31, 2011
(Dollars in thousands)

Cash flows from operating activities:		
Change in net assets	$	47
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization		50,093
Loss on disposal of property and equipment		869
Provision for bad debts		44,617
Amortization of deferred financing costs and original issue discount/premium		226
Net realized and unrealized gains and losses on investments		7,438
Accretion on asset retirement obligation		(20)
Change in fair value of derivative instruments		18,564
Donated capital and permanently restricted contributions		(160)
Change in retirement plan benefits obligation		66,079
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables		(113,339)
Reinsurance receivable		(855)
Inventories		(697)
Prepaid expenses		3,499
Increase (decrease) in:		
Accounts payable and accrued expenses		17,864
Medical claims payable		33,089
Third-party payor settlements		(4,757)
Self-insurance liability		(1,242)
Deferred taxes		(20,268)
Net cash used in operating activities of discontinued operations		(2,683)
Net cash provided by operating activities		98,364

See accompanying notes to consolidated financial statements.

Cash flows from investing activities:		
Proceeds from maturities and sales of investments		344,182
Purchases of investments		(564,409)
Proceeds from sale of property and equipment		4,063
Purchase and construction of property and equipment		(68,599)
Increase in other assets, excluding bond issuance costs		(1,689)
Net cash provided by investing activities of discontinued operations		7,249
Net cash used in investing activities		(279,203)
Cash flows from financing activities:		
Proceeds from Illinois Finance Authority (IFA) bonds		333,719
Proceeds on short-term borrowings		354,000
Payments on IFA bonds		(5,930)
Payments on long-term debt borrowings		(135,142)
Payments on short-term borrowings		(371,000)
Payment of bond issuance costs		(4,107)
Donated capital and permanently restricted contributions		160
Net cash provided by financing activities		171,700
Net decrease in cash and cash equivalents		(9,139)
Cash and cash equivalents:		
Beginning		22,251
Ending	$	13,112
Supplemental disclosures of cash flow information:		
Cash payments for interest	$	23,166
Net cash payments for taxes	$	4,069

Note 1. Organization

The Carle Foundation (Foundation), headquartered in Urbana, Illinois, is an Illinois not-for-profit corporation engaged in providing health care services to residents of central Illinois.

The Foundation serves as the sole member and elects all of the trustees of, and thereby controls, the following Illinois not-for-profit organizations and affiliates:

a. The Carle Foundation Hospital (Hospital) operates a licensed 325-bed hospital, a certified home health agency, and a certified hospice, all which lease property and equipment from the Foundation. The Hospital also operates Carle Medical Supply (Medical Supply), a provider of medical equipment and supplies to the general public and hospital patients; the Danville Surgery Center and outpatient surgical recovery centers, which are located in Champaign and Danville, Illinois (DASC); and Carle Risk Management Company (Risk Management), which provides professional liability insurance claims processing and management services to the Foundation. The Hospital also operated Rx Express (RX), a multi-outlet retail pharmacy operation, the assets and operations of which were sold for approximately $8,625 with a gain of $6,226. The sale was completed during June 2011.

b. Carle Health Care Incorporated (Health Care) operates Arrow Ambulance, LLC (Arrow), an ambulance transport service; Carle Foundation Physician Services, LLC (Physician Services), a physician practice and Carle Physician Group (Physician Group), which operates as a private, multi-specialty, group medical practice comprised of approximately 347 licensed physicians and surgeons, some of whom are contracted to provide services through other entities; Champaign SurgiCenter, LLC (Surgicenter), a free-standing ambulatory surgery center located in Champaign, Illinois; and Airlife and The Caring Place (Other Entities), air medical transport service and day care center.

c. Carle Retirement Centers, Inc. (Windsor) operates a 174-unit retirement living center.

d. The Carle Development Foundation (Development) is engaged in fund-raising activities and also manages substantially all activity relating to restricted and unrestricted contributions. In addition, Development is the sole member of Carle Community Health Corporation (Community Health), which is engaged in funding charitable, scientific, and educational community-based health care initiatives.

The Foundation serves as the sole stockholder and elects all the directors of, and thereby controls, the following for-profit subsidiaries:

a. Carle Holding Company, Inc. (Carle Holding) is the sole owner of Health Alliance Medical Plans Inc. and its subsidiary (Health Alliance). Health Alliance is a licensed life, accident, and health insurance company in the state of Illinois (State) and is subject to regulation by the Illinois Department of Insurance (DOI). Health Alliance was granted a certificate of authority to transact business as a health maintenance organization (HMO) on November 28, 1989. Health Alliance had approximately 320,800 and 337,500 members at December 31, 2011 and 2010, respectively.

   Health Alliance has the following wholly-owned subsidiaries, Health Alliance-Midwest, Inc. (HAMW), which is incorporated as a licensed HMO to write health insurance policies in the states of Illinois and Iowa, and Health Care Horizons, Inc. (HCH), which was acquired by Health Alliance on July 1, 2008. HCH's principal business is to provide support to its subsidiaries that act as third-party administrators for its client's health plans.

b. Health Systems Insurance, Limited (Health Systems), an off-shore captive insurance company, was established to underwrite the general and professional liability risks of the Foundation.

 (Continued)

Note 2. Summary of Significant Accounting Policies

A summary of the significant accounting policies adopted by the Foundation and its subsidiaries and affiliates is as follows:

Principles of consolidation: The consolidated financial statements include the accounts of the Foundation and its subsidiaries and affiliates. All significant intercompany accounts and transactions have been eliminated.

Change in fiscal year: Effective July 1, 2010, the Board of Trustees authorized a change in the Foundation's fiscal year ending from June 30 to December 31. The purpose of the change was to establish financial reporting cycle consistency amongst all the Foundation’s entities.

Use of estimates: The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements including, among other estimates, third-party settlements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents: Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less at the time of purchase, excluding amounts limited as to use by board designation or other arrangements under trust agreements with third-party payors or donors.

Fair value: The Foundation applies the provisions of Accounting Standards Codification (ASC) ASC No. 820, *Fair Value Measurements and Disclosures* (ASC No. 820), for fair value measurements of financial assets and liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. ASC No. 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC No. 820 establishes a framework for measuring fair value and expands disclosure about fair value measurements (note 5).

Investments: Investments and assets limited as to use or restricted are measured at fair value in the consolidated balance sheets, except as noted below.

The Foundation owns certain joint ventures whose investments are accounted for under the equity method of accounting. The largest of the joint ventures, recorded at $5,502 and $5,813 at December 31, 2011 and 2010, respectively, is The Center for Orthopedic Medicine, LLC (TCOM) that provides a facility for medical professionals to perform outpatient surgical procedures. The Foundation has a 20.0% ownership interest.

All investments are classified as noncurrent with the exception of trading securities, certain intermediate term investments held for operating purposes, and a portion of Health Systems’ investments needed to pay current claims.

The investments held by Health Alliance and the executive benefit plan are designated as trading securities. The investment income including unrealized gains and losses on these securities is included in the excess of revenue over expenses as nonoperating gains (losses).

Investment income (loss) is included in excess of revenue over expenses as nonoperating gains (losses) unless the income or loss is restricted by donors, in which case the investment return is recorded to temporarily or permanently restricted net assets. Unrealized gains and losses on other-than-trading securities are excluded from excess of revenue over expenses but are included as a change in either unrestricted or temporarily restricted net assets.

Note 2. Summary of Significant Accounting Policies (Continued)

Realized gains from the sale of investments are recognized using the first-in, first-out cost basis for sales of marketable equity securities. Gains and losses from sales of debt securities are recognized using the specific identification cost basis.

Investment securities, other than those classified as trading, are regularly evaluated for impairment. When a determination is made that a decline in fair value below the cost basis is other than temporary, the related investment is written down to its estimated fair value and included as a realized loss in the excess of revenue over expenses.

Assets limited as to use or restricted: Assets limited as to use or restricted includes assets over which the Board of Trustees retains ultimate control and assets set aside due to legal or contractual requirements. Amounts required to meet current liabilities have been classified as current assets.

Patient receivables: Patient receivables due from third-party payors are carried at estimated net realizable value determined by the original charge for the service provided, less a related estimate for contractual discounts.

Patient receivables due directly from patients are carried at estimated net realizable value. An allowance for doubtful accounts is recorded and determined by analyzing historic trends. The accounts receivable is written off when payment is determined unlikely and collection efforts cease.

Inventories: Inventories are valued at the lower of cost or market using the average-cost method for the supply storeroom and central distribution inventories and the first-in, first-out method of valuation for all other inventories.

Property and equipment: Property and equipment are carried at cost less accumulated depreciation. Interest expense incurred on borrowed funds is capitalized as a component of the cost of acquiring those assets. Depreciation is computed using the straight-line method over the assets' estimated useful lives. Leasehold improvements are depreciated over the lesser of the life of the lease or the useful life of the improvements.

The Foundation regularly evaluates the recoverability of long-lived assets and the related estimated remaining lives. The Foundation records an impairment charge or changes the useful life if events or changes in circumstances indicate that the carrying amount may not be recoverable or the useful life has changed. During the year ended December 31, 2011, the Foundation recorded insignificant amounts of loss on impairment and project abandonments.

Interest rate swap agreements: The Foundation's derivative financial instruments consist of interest rate swap agreements, which are recognized on the consolidated balance sheets at fair value. Interest rate fluctuations create an unrealized appreciation or depreciation in the market value of the Foundation's debt when compared to its cost. The effect of this unrealized appreciation or depreciation in market value will generally be offset by the underlying derivative instrument income or loss linked to the debt. None of the Foundation’s swaps meet the eligibility requirements for hedge accounting treatment. All changes in fair value are recorded as an operating expense.

Intangible assets and goodwill: Excluding goodwill, the Foundation has intangible assets that represent customer and subscriber relationships, provider networks, and trade name, which are held by Health Alliance. These intangibles are amortized on the straight-line basis over ten years, except for HCH’s customer lists, which are amortized on the straight-line basis over five years.

Goodwill represents the excess of the aggregate purchase price over the fair value of the net assets acquired in a purchase business combination. Goodwill is not amortized but reviewed for impairment at least annually in accordance with the provisions of the ASC Subtopic 350-10, *Intangibles—Goodwill and Other—Overall.* No impairment was recorded in the consolidated statement of operations at December 31, 2011.

Note 2. Summary of Significant Accounting Policies (Continued)

Deferred financing costs: Bond issuance costs are deferred and amortized over the shorter of the term of the related indebtedness or related liquidity facility using the effective-interest method and are included in other assets in the consolidated balance sheets. In the event any of the Variable Rate Demand Bonds are converted into Bank Bonds; the bond issuance costs associated with those bonds would be amortized over the relevant accelerated period.

Bond discounts/premiums: Portions of the IFA Revenue Bonds were issued at a discount and portions were issued at a premium. The discounts and premiums are amortized over the life of the respective bond using the effective-interest method.

Asset retirement obligation: The Foundation recognizes a liability for the fair value of any unconditional asset retirement obligation if the fair value of the liability can be estimated. An obligation is unconditional if there is a legal obligation to perform the retirement. The Foundation determined that an obligation exists with regard to future asbestos removal. The estimated and recorded liability was $6,566 and $6,586 at December 31, 2011 and 2010, respectively.

Net assets: Net assets are classified based upon the existence or absence of donor restrictions. Contributions received without specific restrictions from a donor or that arise as a result of operations of the Foundation are classified as unrestricted net assets. The Foundation reports contributions of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets to a particular time or purpose. When a donor restriction expires, that is, when the stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of operations as net assets released from restrictions. Net assets that are subject to donor restrictions in gift instruments requiring assets to be held in perpetuity are classified as permanently restricted.

Temporarily restricted net assets and earnings on permanently restricted net assets are primarily restricted for medical education, research, construction/equipment, charity, and other health care related activities.

Excess of revenue over expenses: The consolidated statement of operations includes excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from excess of revenue over expenses, consistent with industry practice, include unrealized gains/losses on investments that are not classified as trading, permanent transfers of assets to and from affiliates for other than goods and services, minimum pension liability adjustments, and contributions of long-lived assets (including assets acquired using contributions, which by donor restriction were to be used for the purpose of acquiring such assets).

Net patient service revenue: 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 adjustments under reimbursement agreements with third-party payors. Retroactive adjustments with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. For the uninsured patients that do not qualify for charity care, the Foundation recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of The Foundation's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Foundation records a significant provision for bad debts related to uninsured patients in the period the services are provided.

(Continued)

(Dollars in thousands)

Note 2. Summary of Significant Accounting Policies (Continued)

The net patient service revenue for the year ended December 31, 2011 is as follows:

Gross patient service revenue	$	1,718,768
Less:		
Discounts, allowances, and estimated contractual adjustments under third-party reimbursement programs		1,176,804
Provision for bad debts		44,617
Net patient service revenue	$	497,347
Percentage of net patient service revenue to gross revenue		28.9%

Charity care: The Foundation provides care to patients who meet certain criteria under its Community Care Discount Program (charity care policy) without charge or at amounts significantly less than its established rates. Since the Foundation does not pursue collection of these amounts, they are not reported as revenue.

Insurance-Health Alliance: Health Alliance has negotiated contracts with hospitals, physicians, and other health care providers to satisfy the necessary medical needs of eligible enrollees (members). The contracts are generally structured to pay providers based on capitated amounts per member per month, discounted fee for service, per discharge, and per diem reimbursement arrangements. Health Alliance recognizes premiums from members as revenue in the period to which health care coverage relates. Amounts billed and collected in advance of the period of coverage are recorded as deferred premiums. Amounts due to Health Alliance for provider referrals under these agreements are reported as other receivables in the consolidated balance sheets.

Health Alliance purchases commercial insurance coverage to reinsure risk relating to hospital and physician services for each insured enrollee during the contract period with various retention limits. Reinsurance premiums paid are reported as a reduction of premium revenue. Reinsurance recoveries are recorded as a reduction in medical benefits of insured. Health Alliance remains liable in the event of nonperformance by reinsurers.

Health Alliance estimates and establishes medical claims payable for reported claims, claims incurred but not reported, and related claims adjustment expenses. The estimates are based on multiple factors including historical experience, service mix, pending level of unpaid claims, and other known facts and circumstances. The establishment of appropriate liabilities is an inherently uncertain process and the ultimate cost may vary materially from the recorded amounts. The estimates are regularly reviewed as experience develops and new information becomes known. The estimated liabilities are adjusted, as necessary, with such adjustments reflected in the results from operations. The medical claims payables and related expense are reported net of insured co-pay and deductible amounts and also net of coordination of benefits provisions. The medical claims payables reflect estimated unpaid and incurred claims through December 31, 2011 and 2010, respectively. Reinsurance recoveries are recorded as a reduction of medical claims expense in the consolidated statement of operations.

Guaranty funds and other assessments are accrued at the time the event on which the assessments are expected to be based occurs and are included in other accrued liabilities on the Foundation's consolidated balance sheets.

Insurance-Health Systems: The Foundation formed Health Systems, an off-shore captive insurance company, to underwrite its professional and general liability losses. Health Systems recognizes premiums from underlying insureds as revenue in the period for which liability coverage is provided and earned on a pro rata basis over the life of the policies. The unearned portion at the balance sheet date is transferred to unearned premium reserves. Premiums to Health Systems paid by the Foundation and its subsidiaries and affiliates are eliminated in consolidation.

Note 2. Summary of Significant Accounting Policies (Continued)

Health Systems has purchased commercial insurance products with large deductibles to provide additional excess layers of insurance. Reinsurance premiums ceded are recorded as a reduction in premium revenue in the period in which the related policies are issued on a pro rata basis over the policy periods with the unexpensed portion, if any, recorded as prepaid expense on the consolidated balance sheets.

The Foundation's estimates for self-insurance are comprised of estimates for losses reported by the Foundation, a provision for incurred but not reported losses and adverse loss development determined by the Foundation on the basis of a report prepared by its actuaries. The Foundation records its estimated liabilities for self-insurance gross of any amounts recoverable under reinsurance policies, which amounts, if any, are recorded separately in the consolidated balance sheets as reinsurance receivable.

In the event that the Foundation's reinsurers are unable to meet their obligations under the reinsurance agreements, the Foundation would be liable to pay all claims under the reinsurance assumed but would only receive reimbursement to the extent that the reinsurers can meet their obligations.

The Foundation has elected to self-insure its workers' compensation and employee health insurance claims and purchased excess coverage for large claims. Amounts are charged against income based upon actual losses with a supplemental provision for incurred but not received claims determined by historic trends.

Pension plan: The guidance for accounting for defined benefit pension plans requires the Foundation to recognize the funded status of its pension plan in the consolidated balance sheets with a corresponding charge to net assets. The funded status is the difference between the fair value of plan assets and benefit obligations.

Income taxes: The Foundation and its not-for-profit affiliates, as described in Section 501(c)(3) of the Internal Revenue Code (the Code) are exempt from federal income taxes, pursuant to Section 501(a) of the Code. The Foundation and its not-for-profit affiliates are, however, subject to federal and state income taxes on unrelated business income under the provision of Section 511 of the Code.

Carle Holding is subject to income tax accounting in accordance with Codification Topic 740, *Income Taxes.* Deferred income tax assets and liabilities are recognized for the differences between the financial and income tax reporting basis of assets and liabilities based on enacted tax rates and laws and are accounted for under the asset and liability method. The deferred income tax provision or benefit generally reflects the net change in deferred income tax assets and liabilities during the year. The current income tax provision reflects the tax consequences of revenues and expenses currently taxable or deductible on various income tax returns for the year reported.

The guidance on accounting for uncertainty in income taxes prescribes a more-likely-than-not recognition threshold and measurement attribute for financial statement recognition of a tax position taken or expected to be taken. There were no uncertain tax benefits identified or recorded as a liability as of December 31, 2011 and 2010.

Tax returns filed by the Foundation are subject to examination by the Internal Revenue Service (IRS) up to three years from the extended due date of each return. The IRS performed an examination of the tax and informational returns of the Foundation for years 2002 through 2005. The statute of limitations remains open for tax years 2007 through 2010 on the various not-for-profit entities and for tax years 2005 through 2010 on the for-profit returns.

Reclassifications: To be consistent with the classifications adopted for the year ended December 31, 2011, certain balances on the consolidated financial statements for the year ended December 31, 2010 have been reclassified with no effect on revenues, expenses or net assets, Note 2. Summary of Significant Accounting Policies (Continued)

Adopted accounting pronouncements: In July 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-07, *Health Care Entities (Topic 954) – Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* (ASU No. 2011-07). ASU No. 2011-07 requires health care entities that recognize significant amounts of patient service revenue at the time the services are rendered, even though they do not assess the patient's ability to pay, to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, ASU No. 2011-07 requires those health care entities to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts, disclosures of patient service revenue (net of contractual allowances and discounts) as well as qualitative and quantitative information about changes in the allowance for doubtful accounts.

The provisions are effective for the first annual period ending after December 15, 2012, and interim and annual periods thereafter, with early adoption permitted. The changes to the presentation of the provision for bad debts related to patient service revenue in the statement of operations should be applied retrospectively to all prior periods presented. The disclosures required by ASU No. 2011-07 should be provided for the period of adoption and subsequent reporting periods. The Foundation has adopted this standard in 2011.

In January 2010, the FASB issued ASU No. 2010-06, *Improving Disclosures about Fair Value Measurements* (ASU No. 2010-06). ASU No. 2010-06 amends ASC No. 820 to provide additional disclosure requirements for transfers in and out of Levels 1 and 2 and for activity in Level 3 and to clarify certain other existing disclosure requirements. The Foundation implemented ASU No. 2010-06 for the year ending December 31, 2010, except for the separate disclosures about Level 3 activities that were implemented for the year ending December 31, 2011.

In August 2010, the FASB issued ASU No. 2010-23, *Health Care Entities* (Codification Topic 954): *Measuring Charity Care for Disclosures*, *a consensus of the FASB Emerging Issues Task Force,* which requires that the measurement of charity care for disclosure purposes be based on the direct and indirect costs of providing charity care, as well as disclosing the method(s) used to identify and determine such costs. The update is effective for fiscal years beginning after December 15, 2010, and should be applied retrospectively to all prior periods presented. The Foundation has adopted this standard in 2011.

Also, in August 2010, the FASB issued ASU No. 2010-24, *Health Care Entities* (Codification Topic 954): *Presentation of Insurance Claims and Related Insurance Recoveries, a consensus of the FASB Emerging Issues Task Force,* which clarifies that a health care entity should not net insurance recoveries against a related claim liability. The amendment also states that the amount of the claim liability should be determined without consideration of insurance recoveries. The update is effective for interim or annual financial periods beginning after December 15, 2010. The Foundation has adopted this standard in 2011.

(Dollars in thousands)

Note 3. Business Combination and Purchase Accounting

On April 1, 2010, the Foundation acquired Carle Clinic Association, P.C. and its subsidiaries (Clinic), which includes Health Alliance, a wholly-owned subsidiary of the Clinic. After the purchase, substantially all of the assets and operations of the Clinic were transferred to various Foundation affiliates, while the Clinic retained certain liabilities and their ownership interest in the operations of Health Alliance. The Clinic also converted from a Professional Corporation (PC) to an Illinois corporation and changed its name to Carle Holding Company, Inc. (Carle Holding). The acquisition had a significant impact on the Foundation's nature of operations.

The transaction did not change the members of the Obligated Group and was structured to maintain and continue the not-for-profit status of the Foundation's Section 501(c)(3) exempt entities. Carle Holding and its subsidiaries remain taxable corporations under the merged structure.

The Foundation recorded the transaction as a purchase, consistent with the guidance issued by the FASB, and elected the "push down" accounting method. The fair value of the net assets acquired in excess of the liabilities assumed was approximately $250,000. The acquired assets and assumed liabilities were recorded at fair market value. The difference between the recorded fair value and the purchase price was recognized as goodwill in the amount of $80,769. Substantially all the acquired intangibles including goodwill were recorded by, and attributable to, Health Alliance.

Note 4. Investments and Assets Limited as to Use or Restricted

Investments and assets limited as to use or restricted as of December 31, 2011 and 2010 are as follows:

	2011	2010
Investments not included in assets limited as to use or restricted	$ 701,770	$ 634,588
Assets limited as to use or restricted:		
Assets limited by IFA for capital expenditures	181,778	-
Deposits for self-insurance	109,942	167,482
Assets designated by Board for community health expenditures	56,161	59,045
Deposits limited by bond indentures	21,194	-
Executive benefit plans	8,457	5,985
Donor-restricted investments	7,542	6,994
Deposits for statutory requirements of DOI	2,886	2,847
Total assets limited as to use or restricted	387,960	242,353
Total investments and assets limited as to use or restricted	$ 1,089,730	$ 876,941

(Dollars in thousands)

Note 4. Investments and Assets Limited as to Use or Restricted (Continued)

The composition of investments and assets limited as to use or restricted as of December 31, 2011 and 2010 is as follows:

	2011		2010	
	Cost	Carrying Value	Cost	Carrying Value
Cash and cash equivalents	$ 26,589	$ 26,589	$ 25,987	$ 25,987
Certificates of deposit	731	731	723	723
Fixed income securities	598,335	618,097	372,260	405,768
Marketable equity securities	240,421	265,126	222,310	279,640
Pledge receivable - restricted	1,241	1,241	907	907
Alternative investments:				
Private equity funds of funds	24,764	27,571	16,804	17,372
Hedge fund of funds	344	404	4,258	4,373
	$ 892,425	939,759	$ 643,249	734,770
Investments in joint ventures		5,871		6,971
Trading securities:				
Cash and cash equivalents		4,312		5,283
Fixed income securities		85,947		78,984
Marketable equity securities		45,384		44,948
Mutual funds:				
Executive benefit plans		8,457		5,985
		$ 1,089,730		$ 876,941

The gross unrealized gains (losses) on investments and assets limited as to use or restricted as of December 31, 2011 and 2010 are as follows:

	2011	2010
Gross unrealized gains	$ 59,128	$ 94,330
Gross unrealized losses	(11,794)	(2,809)
	$ 47,334	$ 91,521

Investment income for the year ended December 31, 2011 is comprised of the following:

Interest and dividend income	$ 34,339
Investment management fees	(2,252)
Net realized gains on sales of investments	35,725
Net realized and unrealized gains on trading securities	1,024
	$ 68,836

Note 4. Investments and Assets Limited as to Use or Restricted (Continued)

Investment income has been recorded in the consolidated statement of operations and of changes in net assets for the year ended December 31, 2011 as follows:

Nonoperating gains:	
Investment income	68,723
Other changes in temporarily restricted net assets:	
Investment income	113
	$ 68,836

The uncertainty that continues in the United States and global financial markets has resulted in substantial volatility in the valuations of financial securities and the perceived stability of the banking system. These and other economic events have from time to time had a significant impact on the valuation of investment portfolios. As a result, the fair value of the Foundation's investments may differ substantially at the time of publication of these statements from the values presented herein.

Note 5. Fair Value Measurements

The carrying amount reported in the consolidated balance sheets for the Foundation's financial instruments approximates fair value because of the short maturities of these instruments. The Foundation's financial instruments consist of cash and cash equivalents, patient receivables, other receivables, and accounts payable.

The Foundation holds certain financial instruments that are required to be measured at fair value on a recurring basis. The valuation techniques used to measure fair value under ASC No. 820 establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values. Assets and liabilities carried at fair value are to be disclosed according to the following levels:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about how other market participants would price an asset or liability.

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is below.

Investments and assets limited as to use or restricted: The fair value of the majority of the Foundation's investments is determined using Level 1 and Level 2 inputs. Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data. Inputs are obtained from various sources, including market participants, dealers, and brokers.

(Dollars in thousands)

Note 5. Fair Value Measurements (Continued)

The remaining portion of the Foundation's investments is measured using Level 3 inputs as follows:

Investments in private equity funds of funds through limited partnerships and the hedge fund of funds are valued at fair value based on the applicable percentage ownership of the underlying funds' net assets as of the measurement date, as determined by the Foundation. In determining fair value, the Foundation utilizes valuations provided by the underlying investment funds. The underlying investment funds value non-exchange listed securities and other financial instruments on a fair value basis of accounting using discounted cash flow methodologies, asset and liability pricing, corroborated pricing, yield curves, and other indices. The estimated fair values of certain investments of the underlying investment funds are determined by the managers of the respective underlying fund and may not reflect amounts that could be realized upon immediate sale, or amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. The fair value of the Foundation's investments in funds generally represents the amount the Foundation would expect to receive if it were to liquidate its investments in funds, excluding any redemption charges that may apply.

Interest rate swap contracts: Quoted prices are obtained from a number of dealer counterparties and other market sources based on the observable interest rates and yield curves for the full term of the asset or liability. These fair values are established using Level 2 inputs.

Assets and liabilities at fair value: The following tables summarize assets and liabilities measured at fair value basis as of December 31, 2011 and 2010:

	2011			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 13,112	$ -	$ -	$ 13,112
Investments and assets limited as to use or restricted:				
Fixed income securities:				
U.S. government and agencies	15,248	45,921	-	61,169
Mortgage-backed and asset-backed securities	-	115,293	-	115,293
Corporate and other	-	155,799	-	155,799
Mutual funds	371,783	-	-	371,783
Marketable equity securities:				
United States	235,858	651	-	236,509
Non-U.S. developed markets	35,134	32,044	-	67,178
Non-U.S. emerging markets	6,823	-	-	6,823
Mutual funds - executive benefit plans	8,457	-	-	8,457
Private equity funds of funds	-	-	27,571	27,571
Hedge fund of funds	-	-	404	404
Interest rate swap agreements	-	3,297	-	3,297
Total assets measured at fair value	$ 686,415	$ 353,005	$ 27,975	$ 1,067,395
Liabilities:				
Interest rate swap agreements	$ -	$ 23,547	$ -	$ 23,547
Other accrued liabilities - executive benefit plans	-	8,457	-	8,457
Total liabilities measured at fair value	$ -	$ 32,004	$ -	$ 32,004

(Dollars in thousands)

Note 5. Fair Value Measurements (Continued)

	2010			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 22,251	$ -	$ -	$ 22,251
Investments and assets limited as to use or restricted:				
Fixed income securities				
U.S. government and agencies	14,201	40,619	-	54,820
Mortgage-backed and asset-backed securities	-	13,392	-	13,392
Corporate and other	-	130,581	-	130,581
Mutual funds	285,959	-	-	285,959
Marketable equity securities				
United States	237,925	810	-	238,735
Non-U.S. developed markets	41,288	35,366	-	76,654
Non-U.S. emerging markets	9,199	-	-	9,199
Mutual funds - executive benefit plans	5,985	-	-	5,985
Private equity funds of funds	-	-	17,372	17,372
Hedge fund of funds	-	-	4,373	4,373
Interest rate swap agreements	-	9,404	-	9,404
Total assets measured at fair value	$ 616,808	$ 230,172	$ 21,745	$ 868,725
Liabilities:				
Interest rate swap agreements	$ -	$ 11,090	$ -	$ 11,090
Other accrued liabilities - executive benefit plans	-	5,985	-	5,985
Total liabilities measured at fair value	$ -	$ 17,075	$ -	$ 17,075

ASU No. 2010-06 amends ASC No. 820 to require disclosure of transfers in and out of Levels 1 and 2. The Foundation had no transfers between Levels 1 and 2 in 2011 and 2010.

The following table sets forth a summary of changes in the fair value of the Foundation's Level 3 assets for the year ended December 31, 2011:

	Private Equity	Hedge Fund of Funds	Total
Balance at December 31, 2010	$ 17,372	$ 4,373	$ 21,745
Purchases	9,702	-	9,702
Sales	(1,074)	(4,015)	(5,089)
Realized gains (losses), interest, and dividends	(668)	101	(567)
Change in unrealized appreciation (depreciation)	2,239	(55)	2,184
Balance at December 31, 2011	$ 27,571	$ 404	$ 27,975

(Dollars in thousands)

Note 5. Fair Value Measurements (Continued)

The following information pertains to those alternative investments recorded at net asset value as of December 31, 2011 and 2010:

	2011				
Investment	Fair Value	Unfunded Commitment	Remaining Life	Redemption Frequency	Redemption Notice Period
Commingled funds investing in:					
Non-U.S. developed markets equity (a)	$ 32,044	NA	NA	Monthly	None
Private equity funds of funds (b)	27,571	$ 42,700	to 2022	NA	NA
Hedge fund of funds (c)	404	NA	NA	Quarterly	90 days
Total	$ 60,019				

	2010				
Investment	Fair Value	Unfunded Commitment	Remaining Life	Redemption Frequency	Redemption Notice Period
Commingled funds investing in:					
Fixed income (d)	$ 80,034	NA	NA	Daily	NA
Non-U.S. developed markets equity (a)	35,366	NA	NA	Monthly	None
Private equity funds of funds (b)	17,372	$ 42,154	to 2022	NA	NA
Hedge fund of funds (c)	4,373	NA	NA	Quarterly	90 days
Total	$ 137,145				

(a) This category represents investments in international public equity securities. Investments are valued at the last business day of the month and contributions can be made and withdrawals may be redeemed as of the first business day of each month.

(b) The Foundation has five private equity investments that are structured as limited partnerships, the purpose of which is to help diversify the risk and return attributes of the Foundation's investment portfolio. These partnerships make investments in leveraged buyout, venture capital, and special situation funds. These investments are recorded at fair value. Income recorded by the limited partnership investments includes interest income, dividends, and realized/unrealized gains and losses of the underlying investments, the net of which is recorded by the Foundation as investment income. The Foundation has committed to make total investments of $69,000 by 2022. The remaining commitment at December 31, 2011 is $42,700. These investments cannot be redeemed during the life of the funds. Instead, distributions are received through the liquidation of the underlying assets of the funds. It is estimated that the underlying funds will be liquidated over the next one to twelve years.

(c) The holdings in this fund represent the Foundation's investment in a portable alpha fund, which incorporates a fund of low-volatility hedge funds, the investments of which are in liquidation. Investments are valued at the last business day of the month and the Foundation has provided its notice of liquidation and continues to await the full liquidation of this investment.

(Dollars in thousands)

Note 5. Fair Value Measurements (Continued)

(d) The holdings in this fund include securities that are issued by the U.S. Government and its agencies, investment grade corporate debt, asset-backed and mortgage-backed securities, and mortgage pass-through securities. Investments are valued daily and contributions can be made and withdrawals may be redeemed daily, at the net asset value based on the fair value of the underlying assets, with one-day notice.

Note 6. Other-Than-Temporary Impairment

Management continually reviews its investment portfolio (excluding trading securities) and evaluates whether the declines in the fair value of securities should be considered an other-than-temporary impairment (OTTI) in value. Factored into this ongoing evaluation are general market conditions, each issuer's financial condition and near-term prospects, conditions in each issuer's industry and competitive factors, the recommendation of advisors including the Foundation's investment consultant, and the length of time and magnitude to which the fair value has been less than cost. During the year ended December 31, 2011, the Foundation did not record any realized losses due to an OTTI.

Unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of December 31, 2011 and 2010 are as follows:

	2011					
	Continuous Unrealized Losses Existing for Less Than 12 Months		Continuous Unrealized Losses Existing for Greater Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Marketable equity securities	$ 53,946	$ 8,127	$ 4,663	$ 1,342	$ 58,609	$ 9,469
Fixed income securities	218,941	1,937	1,488	82	220,429	2,019
Alternative investments	2,694	306	-	-	2,694	306
	$ 275,581	$ 10,370	$ 6,151	$ 1,424	$ 281,732	$ 11,794

	2010					
	Continuous Unrealized Losses Existing for Less Than 12 Months		Continuous Unrealized Losses Existing for Greater Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Marketable equity securities	$ 21,729	$ 1,408	$ 5,040	$ 852	$ 26,769	$ 2,260
Fixed income securities	8,085	197	1,503	14	9,588	211
Alternative investments	352	56	7,513	282	7,865	338
	$ 30,166	$ 1,661	$ 14,056	$ 1,148	$ 44,222	$ 2,809

(Continued)

Note 6. Other-Than-Temporary Impairment (Continued)

The Foundation recognizes the need to prudently manage its investment portfolio. Therefore, its investment philosophy is grounded in fundamental investment principles, incorporating modern portfolio theory, broad diversification among and within asset classes, in-depth analysis, and monitoring. The Foundation's investment portfolio includes investment managers that provide large cap growth, value, and core equity exposure; non-large cap growth and value equity exposure; international growth, value, small cap, and emerging market equity exposure; private equity funds of funds; and core fixed income exposure. Marketable equity securities primarily consist of domestic and foreign equities, exchange traded funds, investments in regulated investment companies, and exchange-traded American Depository Receipts. Fixed income securities include government and agency bonds, corporate bonds, international bonds, asset-backed securities, and less frequently traded agency bonds. Alternative investments include private equity funds of funds.

Note 7. Contractual Arrangements with Third-Party Payors

The Foundation has agreements with third-party payors that provide for reimbursement to the Foundation at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Foundation's established rates for services and amounts reimbursed by third-party payors.

For the year ended December 31, 2011, approximately 46.3% of the Foundation's net patient service revenue was earned under prospective payment, cost and cost-plus reimbursement agreements with Medicare, Medicaid, and Blue Cross. These are subject to audit and adjustment by the administering agencies.

A summary of the payment arrangements with major third-party payors follows:

Medicare: For the year ended December 31, 2011, approximately 27.4% of the Foundation's net patient service revenue was earned under the Medicare and Medicare Advantage programs. The revenues received by the Hospital from Health Alliance for Medicare Advantage have been eliminated upon consolidation. The Foundation is paid for inpatient acute care services rendered to Medicare program beneficiaries under prospectively determined rates-per-discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The prospectively determined classification of patients and the appropriateness of the patients' admissions are subject to validation reviews by a Medicare quality improvement organization, which is under contract to perform such reviews. Outpatient services are paid via the outpatient prospective payment system. Under this system, most outpatient services are paid at predetermined outpatient rates.

Laws and regulations governing the Medicare programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates may change by a material amount in the near term due to changes in the allowances previously estimated that are no longer necessary as a result of final settlements, or other changes due to prior year retroactive adjustments.

Congress passed the Medicare Modernization Act in 2003, which among other things established a demonstration of The Medicare Recovery Audit Contractor (RAC) program, the purpose of which is to identify and correct improper payments to providers. Once a RAC identifies a claim it believes is inaccurate, it makes a deduction from or addition to the provider's Medicare reimbursement in an amount estimated to equal the overpayment or underpayment. The Center for Medicare and Medicaid Services (CMS) has implemented this program nationally and the Foundation is currently under such an audit. Generally, the Foundation fully reserves any overpayment amounts that are assessed under the RAC at the time the RAC notice is received.

The Foundation's Medicare cost reports have been audited and settled by the Medicare fiscal intermediary through June 30, 2007.

Note 7. Contractual Arrangements with Third-Party Payors (Continued)

Medicaid: For the year ended December 31, 2011, approximately 12.5% of the Foundation's net patient service revenue was earned under the State Medicaid programs. The Foundation renders inpatient and outpatient services to Illinois Public Aid patients at prospective rates determined by State reimbursement formulas. These rates are not subject to retroactive adjustment.

During the fiscal year ended June 30, 2007, the CMS approved State legislation for a Medicaid Hospital Assessment Program (Program) for fiscal years ended June 30, 2006, 2007, and 2008. In December 2008, CMS renewed the program for an additional five years. Under the Program, the Foundation receives additional Medicaid reimbursement from the State and pays a related assessment. For the year ended December 31, 2011, the Foundation recognized total reimbursement revenue under the program of approximately $18,218, which is included in net patient service revenue, and incurred assessments of approximately $10,114, which is included in real estate and other taxes expense in the consolidated statement of operations. Related to this program, the Foundation has a prepaid expense of $5,057 and unearned revenue of $9,109 at both December 31, 2011 and 2010. These are reported net in estimated third-party payor settlements.

Blue Cross and other: The majority of Blue Cross covered subscribers are paid under a Preferred Provider Organization (PPO) plan. For the year ended December 31, 2011, approximately 6.4% of the Foundation's net patient service revenue was earned under traditional Blue Cross and Blue Cross PPO plans. The Blue Cross PPO plan reimburses the Foundation for inpatient services based on the lesser of net covered charges or per diem costs from the annual Blue Cross cost report less one hundred dollars. Outpatient services covered under contract are reimbursed based on a specified discount from charges.

Blue Cross processes claims under a uniform payment plan on an interim basis subject to a monthly reconciliation between actual payments received and the agreed-upon contractual amounts. The monthly reconciliation process results in the recognition of a liability that will be liquidated within 90 days.

The Foundation has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Foundation under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Note 8. Community Benefit and Charity Care

The Foundation is committed to providing quality health care to all, regardless of their ability to pay. Under the Foundation's charity care policy, patients meeting certain criteria receive care without charge or with a significant reduction in charges. Because the Foundation does not pursue collection of amounts identified as charity care, they are not reported in net patient service revenues. Charges forgone, based on established rates, totaled $96,487 for the year ended December 31, 2011. The forgone charges represent 5.6% of the gross patient service revenue. The uncompensated cost of charity care is estimated by applying an overall cost to charge ratio to the charges associated with patients who qualify for charity care. Uncompensated costs of charity care totaled $25,245 for the year ended December 31, 2011.

Management believes that the difference between the costs to provide care and the amounts actually received from the Medicaid program, including the net amounts received from the Hospital Assessment Program, should be considered charity care. Using the overall ratio of cost to charges, the costs exceed the reimbursement for the Foundation by $23,595 for the year ended December 31, 2011. This amount comprises 1.1% of gross patient service revenue.

(Dollars in thousands)

Note 8. Community Benefit and Charity Care (Continued)

In addition to providing direct charity health services, the Foundation periodically conducts a comprehensive community needs assessment including active partnering with various community service organizations. The assessment helps identify areas of under-served and under-insured populations and further helps promote a common and joint approach to responding to identified community needs. The Foundation is a key financial supporter of the Frances Nelson Health Center, a federally qualified health center, and also financially supports other health and educational service access for eligible at-risk populations. The Foundation plays a vital role in Champaign County's emergency preparedness and homeland security initiatives. These are in addition to numerous other community health and wellness programs identified by the community needs assessment.

Note 9. Patient Receivables

Patient receivables at December 31, 2011 and 2010 are as follows:

	2011	2010
Patient receivables, gross	$ 470,046	$ 383,992
Less:		
Allowance for estimated contractual adjustments	(302,094)	(213,136)
Allowance for doubtful accounts	(72,528)	(79,409)
Patient receivables, net	$ 95,424	$ 91,447

Accounts receivable are reduced by an allowance for estimated contractual adjustments and an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, The Foundation analyzes its past history and identifies trends. The Foundation records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Foundation's allowance for doubtful accounts for self-pay patients increased from 82.6% of self-pay accounts receivable at December 31, 2010, to 90.6% of self-pay accounts receivable at December 31, 2011. The increase was the result of negative trends experienced in the collection of amounts from self-pay patients in fiscal year 2011. The Foundation's self-pay write-offs were $44,617 for fiscal year 2011. The Foundation has not changed its charity care or uninsured discount policies during fiscal year 2011. The Foundation does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors.

(Dollars in thousands)

Note 10. Property and Equipment

The property and equipment as of December 31, 2011 and 2010 is as follows:

	2011	2010
Land and improvements	$ 43,985	$ 44,981
Buildings and improvements	413,002	405,644
Furniture and equipment	242,860	212,749
Construction in progress	45,288	22,796
	745,135	686,170
Less: accumulated depreciation	(352,758)	(318,245)
	$ 392,377	$ 367,925

The Foundation has a significant construction project underway to expand and modernize the Foundation's current hospital facility. The project consists of a nine-story tower totaling 350,000 square feet of new construction and 40,600 square feet of modernized space in an existing building. The project will enhance cardiovascular, intensive care, rehabilitation, and digestive health services, and also includes the replacement of certain aged facilities. The project is estimated to cost $218,600, inclusive of bond financing and issuance expenses. The digestive health services portion of this project is complete and was capitalized in the amount of $9,885. Ground breaking for the new tower began in spring of 2011 and the project is expected to be completed in fall of 2013. As of December 31, 2011, there is $39,984 in construction in progress related to this project. As a component of this project, the Foundation had entered into Guaranteed Maximum Purchase contracts in the amount of $121,425 for which $100,467 remained unexpended as of December 31, 2011. There are no other significant contractual commitments related to property and equipment. The remaining portion of the construction in progress balance is comprised of smaller projects for information technology, buildings, and equipment. Capitalized interest expense was $584 for the year ended December 31, 2011.

The Foundation leases equipment and office space under long-term noncancelable agreements that expire at various dates through the year 2021. Total future operating lease commitments under long-term, noncancelable equipment and office space leases, exclusive of related-party leases, as of December 31, 2011 are as follows:

Year ending December 31:	
2012	$ 10,929
2013	7,586
2014	3,667
2015	2,896
2016	2,899
Thereafter	4,402
	$ 32,380

Total equipment lease expense under long-term lease agreements and month-to-month leases was approximately $10,321 for the year ended December 31, 2011. Total office space lease expense under long-term lease agreements was approximately $5,649 for the year ended December 31, 2011.

(Dollars in thousands)

Note 11. Intangible Assets and Goodwill

The Foundation acquired intangible assets and goodwill as part of the Clinic acquisition (see Note 3). These assets are primarily held by Health Alliance and are as follows at December 31, 2011 and 2010:

	2011		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets:			
State of Illinois contract	$ 41,500	$ 7,262	$ 34,238
Subscriber relationships	50,082	8,790	41,292
Provider network	6,700	1,172	5,528
Trade name	9,800	1,716	8,084
Subtotal intangible assets	108,082	18,940	89,142
Goodwill	80,769	-	80,769
Total intangible assets and goodwill	$ 188,851	$ 18,940	$ 169,911

	2010		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets:			
State of Illinois contract	$ 41,500	$ 3,113	$ 38,387
Subscriber relationships	50,146	3,775	46,371
Provider network	6,700	503	6,197
Trade name	9,800	735	9,065
Subtotal intangible assets	108,146	8,126	100,020
Goodwill	80,769	-	80,769
Total intangible assets and goodwill	$ 188,915	$ 8,126	$ 180,789

The total amortization expense related to the intangible assets for the year ended December 31, 2011 was $10,814. This is included in depreciation and amortization expense on the consolidated statement of operations. Estimated amortization expense as of December 31, 2011 is as follows:

Year ending December 31:	
2012	$ 10,871
2013	10,796
2014	10,796
2015	10,796
2016	10,796
Thereafter	35,087
	$ 89,142

(Dollars in thousands)

Note 11. Intangible Assets and Goodwill (Continued)

The Foundation periodically reviews the appropriateness of the amortization periods related to its intangible assets and the carrying value of goodwill for impairment evaluation. Tests for possible impairment of intangible assets are conducted whenever events and circumstances indicate that amortizable long-lived assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. When specific assets are determined to be unrecoverable, the cost basis of the asset is reduced to reflect the current fair value. No impairment loss was recorded as of December 31, 2011. The assessment of possible impairment is based on the ability to recover the carrying amount of the asset. Impairments are calculated as the total by which the carrying amount of the asset exceeds its estimated fair value.

Note 12. Income Tax Matters

The Foundation generates “unrelated business” income subject to federal and state income taxes (UBIT). The Foundation recorded insignificant UBIT tax liabilities as of December 31, 2011 and 2010 and a UBIT tax expense of $204 as of December 31, 2011.

Carle Holding and its for-profit subsidiaries file a consolidated federal tax return. In Illinois, Carle Holding and HCH file a unitary state income tax return. Health Alliance and HAMW file separate Illinois and Iowa income tax returns on a unitary basis. A tax allocation agreement between Carle Holding and its subsidiaries requires that taxes be provided for amounts currently due or recoverable. Carle Holding and Health Alliance have agreed that the consolidated tax liability for any given year will be allocated to those entities that have taxable income during such year in proportion to each entity’s relative taxable income. Similarly, the consolidated tax benefit in any given year will be allocated to those entities that have taxable losses, giving rise to the benefit in proportion to each entity’s relative taxable losses. Income taxes due or accrued are payable to the federal government through Carle Holding. Health Alliance directly pays any state taxes payable for its separate state filings to the Illinois Department of Revenue and the Iowa Department of Revenue.

The Foundation recorded a tax liability of as of December 31, 2011 and 2010 of $7,573 and $15,100, respectively, for its for-profit entities. The Foundation recorded a tax receivable as of December 31, 2011 and 2010 of $10,820 and $22,038, respectively. For these entities, income tax expense for the year ended December 31, 2011 consisted of the following:

Current income tax expense	$	9,199
Deferred income tax expense		8,480
Income tax expense	$	17,679

Income tax expense for the for-profit entities attributable to revenues, gains, and other support over expenses differed from the amounts computed by applying the federal income tax rate of 35% to pretax income for the year ended December 31, 2011, as a result of the following:

Computed "expected" tax expense	$	12,978
Increase in income tax expense resulting from:		
State income taxes, net of federal tax benefits		3,074
Nondeductible expenses and other		1,627
	$	17,679

(Dollars in thousands)

Note 12. Income Tax Matters (Continued)

Deferred income taxes result from temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of Carle Holding's deferred tax assets and liabilities at December 31, 2011 and 2010 are as follows:

	2011	2010
Deferred tax assets:		
Retirement plan benefits obligation	$ 50,608	$ 24,839
Net operating loss	1,908	2,770
Accrued compensation and paid leave	1,500	1,922
Accrued liabilities	322	2,783
Retiree health insurance reserve	1,914	1,974
Unrealized gains and losses on investments	643	740
Intangibles	641	715
Other	3,740	3,294
	61,276	39,037
Less: valuation allowance	(9,974)	(6,062)
Total deferred tax assets	51,302	32,975
Deferred tax liabilities:		
Intangibles	36,666	39,706
Unrealized gains and losses on investments	6,187	5,761
Other	3,411	2,738
Total deferred tax liabilities	46,264	48,205
Net deferred tax assets (liabilities)	$ 5,038	$ (15,230)

The net deferred tax assets (liabilities) identified above are classified on the consolidated balance sheets as of December 31, 2011 and 2010 as follows:

	2011	2010
Current	$ (4,440)	$ (1,206)
Long-term	9,478	(14,024)
	$ 5,038	$ (15,230)

(Dollars in thousands)

Note 12. Income Tax Matters (Continued)

In assessing the ultimate realization of gross deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that Carle Holding will realize benefits of these deductible differences. Conversely, a deferred tax valuation allowance was recognized by Carle Holding in the amount of $9,974 related to deemed ineligibility under states' unitary filing methodology. $1,908 of the valuation allowance relates primarily to future tax benefits associated with state net operating loss carryforwards. The state net operating loss carryforward is approximately $93,885 and expires beginning in 2030.

Note 13. Medical Claims Payable

Activity in the medical claims payable related to covered medical services for the year ended December 31, 2011 is summarized as follows:

Medical claims payable at December 31, 2010	$	86,338
Incurred benefits related to the:		
Current year		729,739
Prior years		(3,926)
Total incurred		725,813
Paid benefits related to the:		
Current year		608,727
Prior years		83,997
Total paid		692,724
Medical claims payable at December 31, 2011	$	119,427

The recorded incurred benefits above excludes primarily reinsurance recoveries, pharmacy rebates, incentive payments, network management fees, capitation, and withholds in the amount of $6,313 for the year ended December 31, 2011.

As a result of changes in estimates of insured events in prior years, medical claims payable decreased by $3,926 in 2011, reflecting lower than anticipated cost of claims.

(Continued)

(Dollars in thousands)

Note 14. Long-Term Debt and Other Borrowings

The long-term debt at December 31, 2011 and 2010 is as follows:

	Final Maturity	2011	2010
IFA borrowings:			
Series 2009A; fixed rate, 3.50% to 5.50%	2020	$ 68,115	$ 74,045
Series 2009B; variable rate, 0.02% at 12/31/11	2033	25,000	25,000
Series 2009C; variable rate, 0.01% at 12/31/11	2033	25,000	25,000
Series 2009D; variable rate, 0.03% at 12/31/11	2033	55,000	55,000
Series 2009E; variable rate, 0.01% at 12/31/11	2033	55,000	55,000
Series 2011A; fixed rate, 4.00% to 6.00%	2041	234,735	-
Series 2011B; variable rate, 0.99% at 12/31/11	2033	50,000	-
Series 2011C; variable rate, 1.10% at 12/31/11	2033	50,000	-
Less: unamortized discounts and premiums		(1,221)	(203)
Subtotal IFA borrowings		561,629	233,842
Installment note - Champaign Primary Care Center	2022	13,297	13,580
Installment note - Health Alliance (2008)	2012	2,503	5,091
Installment note - Health Alliance (2009)	2013	2,623	3,902
Installment note - HCH (2001)	2015	742	915
Installment note - HCH (2003)	2012	1,742	1,832
Promissory notes payable	2015	130,294	161,316
Credit facility borrowing		-	87,500
Installment note - Oncology Center		-	8,203
Installment note - Spine Center		-	4,003
Total debt outstanding		712,830	520,184
Current portion		(43,294)	(41,667)
Long-term portion		$ 669,536	$ 478,517

IFA borrowings: The revenue bonds are obligations of The Carle Foundation Obligated Group (Obligated Group), which includes the Foundation, Hospital, Windsor, and Health Care, exclusive of the unconsolidated subsidiaries; Surgicenter, Arrow, and Physician Services.

The Obligated Group entered into a Master Trust Indenture (MTI), as supplemented by the First Supplemental Master Trust Indenture (both are referred to as the Master Trust Indenture) dated March 1, 2009. The purpose of the MTI is to provide a mechanism for the efficient and economical issuance of notes by the members of the Obligated Group using the collective borrowing capacity and credit rating of the Obligated Group. The MTI requires individual members of the Obligated Group to make principal and interest payments on notes issued for their benefit. The MTI also requires Obligated Group members to make payments on notes issued by other members of the Obligated Group if such other members are unable to satisfy their obligations under the MTI.

Note 14. Long-Term Debt and Other Borrowings (Continued)

On March 1, 2009, the IFA issued $239,415 of revenue bonds which were comprised of $79,415 of fixed rate revenue bonds, Series 2009A, and $160,000 of variable rate demand revenue bonds, Series 2009B through Series 2009E (collectively referred to as the Series 2009 Bonds). The IFA issued the Series 2009A and Series 2009 Bonds pursuant to bond trust indentures between the IFA and Wells Fargo Bank, N.A., as bond trustee (Bond Trustee). The Series 2009 Bonds were issued under and secured by separate Bond Trust Indentures. The Series 2009A and Series 2009 Bonds were all issued pursuant to the MTI and have been designated as tax exempt for federal income tax purposes. Effective January 8, 2010, Bank of New York Mellon Trust Company, N.A. became Successor Bond Trustee, replacing Wells Fargo Bank, N.A..

The majority of the bond proceeds were used to repay the short-term loan that enabled the Obligated Group to defease its previously outstanding debt. The remaining proceeds were used to acquire, construct, renovate, remodel, and/or equip certain health care facilities owned by the Foundation, and to pay certain expenses incurred in conjunction with the issuance of the Series 2009A and Series 2009 Bonds.

The Series 2009A Bonds are secured by a pledge of gross receipts (which includes all patient receivables) of the Obligated Group members to the Master Trustee (Wells Fargo Bank, N.A.). Of the Series 2009A Bonds maturing on February 15 of the years 2012 through 2017, principal of $42,000 is guaranteed by a financial guaranty insurance policy issued by Assured Guaranty Corp.

The Northern Trust Company and JPMorgan Chase Bank, N.A. (Banks) provided credit and liquidity facilities to support the Series 2009 Bonds by issuing irrevocable direct-pay letters of credit for each separate bond issue. The letters of credit secure payment of the principal, interest, and purchase price of the Series 2009 Bonds and expire on March 18, 2015 and August 5, 2016, for the respective banks.

The Series 2009 Bonds bear interest at a weekly rate and give the bondholders the option of tendering their bonds for purchase while in the weekly interest rate mode. The Obligated Group has entered into Remarketing Agreements (Agreements) with Goldman Sachs & Co. and Barclays Capital, Inc., which provide for a “best efforts” remarketing of the bonds that are tendered for purchase. If the bonds cannot be remarketed, the tendered bonds will be purchased by the Banks pursuant to the terms of the letter of credit agreements. Upon purchase of the bonds by the Banks, the Banks will be granted all security rights granted to a bondholder under the MTI. In accordance with the Agreements between the Obligated Group and the Banks, if there is no event of default, the Obligated Group will reimburse the Banks for all amounts drawn on the letters of credit. The obligations of the Obligated Group to the Banks under the Agreements are secured by the same rights noted in the Bond Trust Indenture.

On May 19, 2011, the IFA issued $234,735 of fixed rate revenue bonds, Series 2011A, pursuant to bond trust indentures between the IFA and Bank of New York Mellon Trust Company, N.A. as Bond Trustee. On June 16, 2011, the IFA issued $50,000 of variable rate revenue bonds to each of two banks in direct placement transactions with each, Series 2011B and Series 2011C, pursuant to bond trust indentures between the IFA and Bank of New York Mellon Trust Company, N.A. as Bond Trustee. The Series 2011A, Series 2011B, and Series 2011C (collectively referred to as the Series 2011 Bonds) were issued under and secured by separate Bond Trust Indentures. The Series 2011 Bonds are all issued pursuant to the MTI and have been designated as tax exempt for federal income tax purposes.

The majority of the bond proceeds were, or will be, used to acquire, construct, renovate, remodel, and/or equip certain health care facilities owned by the Foundation and to refinance the taxable indebtedness of the Foundation. The proceeds of the taxable indebtedness had been used for the payment of costs of acquiring, constructing, renovating, remodeling, and equipping certain of the Obligated Group members’ health facilities. The remaining proceeds were used to pay a portion of the interest on the Series 2011 Bonds.

Note 14. Long-Term Debt and Other Borrowings (Continued)

The Series 2011 Bonds are secured by a pledge of gross receipts (which includes all patient receivables) of the Obligated Group members to the Master Trustee. Of the Series 2011A Bonds maturing on August 15, 2041, principal of $75,000 is guaranteed by a financial guaranty insurance policy issued by Assured Guaranty Municipal Corp.

The Series 2011B and Series 2011C Bonds bear interest at a monthly rate calculated as a percentage of LIBOR plus a spread. The banks that purchased the bonds agreed to an initial hold period of seven years from the date of issuance. There are certain provisions that allow for the extension of this hold period to a period extending no later than August 15, 2041, subject to notice provisions between the Obligated Group and the bondholders. There are also provisions that allow the bonds to be converted into a different mode in accordance with the bond trust indentures, and remarketed accordingly.

In accordance with the provisions of the loan agreements and direct note obligations between the Obligated Group and the IFA, the Obligated Group is required to make deposits for principal and interest to cover debt service on outstanding obligations as they come due. Such deposits are held by the Bond Trustee and are reported within assets limited as to use or restricted in the consolidated balance sheets.

The Master Trust Indenture, Bond Trust Indentures, and Agreements impose certain restrictive covenants upon the Obligated Group related to maintenance of corporate existence, maintenance of insurance, limitations on transfer of property, furnishing financial reports and other information, maintenance of certain financial ratios and levels, limitations on additional debt and liens, transfers of cash and distributions, and other matters.

Installment note - Champaign Primary Care Center: In 2008, the Clinic completed the construction of a primary care center in southwest Champaign and entered into an installment note payable with Geneva Mortgage for a principal sum of $14,200 and bearing a fixed interest rate of 6.21% on a 15-year note. Monthly installments of principal and interest of $93 are scheduled through July 1, 2022 with a balloon payment of $9,002 due on August 1, 2022. Subject to certain provisions, a prepayment penalty is applicable to principal balances paid prior to their scheduled amortization.

Installment notes payable - Health Alliance: In each of December 2008 and 2009, Health Alliance entered into respective four-year agreements with PNC Equipment Finance, LLC (PNCEF) for the sale and leaseback of software development costs associated with a new claims information system which was subsequently abandoned. For each of these agreements, Health Alliance paid monthly lease fees of $234 and $120, respectively. With the abandonment of the information technology system, the capital leases were transferred to installment notes bearing fixed interest rates of 5.61% and 4.75%, respectively. Monthly installments of principal and interest corresponding to the prior lease fees are scheduled through December 1, 2012, and December 1, 2013, respectively.

On August 31, 2010, the Foundation executed Series 2010B Direct Note Obligation under the Master Trust Indenture dated as of March 1, 2009 to secure the notes payable obligations of Health Alliance to PNCEF in order that certain investment securities would be released from a lien pledge.

Installment note - HCH: HCH entered into an installment note with Busey Bank on August 23, 2001 for $900 with three subsequent changes in terms, the last being September 15, 2008. Monthly installments of principal and interest of $18 are scheduled through September 16, 2015. The interest rate of 5.5% is fixed through September 2013.

(Dollars in thousands)

Note 14. Long-Term Debt and Other Borrowings (Continued)

HCH entered into a second installment note with Busey Bank on March 31, 2003 for $5,200, with three subsequent changes in terms, the last being September 15, 2008. Monthly installments of principal and interest of $16 are scheduled through August 2012 with an interest rate of 5.73%

Promissory notes payable: In connection with the purchase of the Clinic's stock, Carle Holding Company, Inc issued promissory notes to the former shareholders totaling approximately $161,315. The notes bear interest at the rate of 5% and are to be repaid in five annual installments. The first of four installments of approximately $31,022 each began on April 1, 2011 and continues annually thereafter. The fifth installment of approximately $37,226 is due on April 1, 2015.The notes are secured by the outstanding stock of Health Alliance and the guaranty of the Foundation.

Aggregate maturities of long-term debt (net of original issue discount) as of December 31, 2011 are as follows assuming that the Series 2009 Bonds are successfully remarketed:

Year ending December 31:		
2012	$	43,294
2013		39,325
2014		38,388
2015		44,906
2016		7,921
Later years		538,996
	$	712,830

In the event a remarketing agent is unsuccessful in remarketing any of the Variable Rate Demand Bonds, a liquidity draw is prepared and presented to the credit providing Bank by the bond trustee and the bond trustee begins the process to convert those bonds into Bank Bonds. In the event there is a draw against one of the associated Letters of Credit, the Foundation shall pay the principal amount of the liquidity advance in eight substantially equal quarterly principal payments with interest, with the first payment due on the first day of the month that is at least 365 days following the day on which the Bank honored a liquidity drawing. Had the remarketing agent been unsuccessful in remarketing the bonds in the last remarketing of December 2011, up to a total of $160,000 of payments would have been accelerated and due in 2013 and 2014.

The fair value of the variable rate debt approximates the carrying value. The fair value of the Foundation's fixed rate debt is estimated based on the quoted market prices for the same or similar issues or is determined using observable inputs other than quoted market prices. The fair value of the long-term debt at December 31, 2011 was $747,574 compared to a carrying value of $712,830, and the fair value at December 31, 2010 was $539,738 compared to a carrying value of $520,184.

(Dollars in thousands)

Note 14. Long-Term Debt and Other Borrowings (Continued)

The composition of interest and financing expense for the year ended December 31, 2011 is as follows:

Interest expense on IFA revenue bonds	$ 12,749
Interest on credit facility and promissory notes	6,788
Interest on installment notes	4,874
Net interest expense on derivative instruments	2,298
Finance and letter-of-credit fees	1,930
Other	(370)
	$ 28,269

Lines of credit: In December 2011, Health Alliance renewed a $96,000 secured 364-day syndicated revolving credit agreement with PNC Bank, N.A., as the co-lead arranger/administrative agent, which gives Health Alliance the option of choosing LIBOR-based or Prime-based borrowings with a limited number of LIBOR tranches. The rate on each draw will be LIBOR plus 2.5% or Prime plus 1.5% depending on the option chosen. There is also a nonusage fee of 0.25% payable monthly on the average unused portion. This line-of-credit is secured by all Health Alliance receivables, inventory, equipment, and general intangibles. Principal and interest payments are made monthly. Health Alliance is required to limit the amount borrowed under the revolving credit facility to 80% of the eligible accounts receivable that serves as collateral and to maintain cash and cash equivalents as defined in the credit agreement as 125% of the amount borrowed. Both requirements were met as of December 31, 2011 and 2010.

Borrowings under this agreement at December 31, 2011 and 2010 are as follows:

	2011	2010
Prime option; 4.75% at 12/31/11	$ 50,000	$ 37,000
LIBOR Option; 3.25% at 12/31/11	-	30,000
	$ 50,000	$ 67,000

The Foundation has an unsecured line of credit with Busey Bank in the amount of $10,000. There were no outstanding amounts due as of December 31, 2011 and 2010. The line bears various interest rates for short-term periods based on the Foundation’s bank balances and the three-month Treasury bill rate.

Note 15. Interest Rate Swap Agreements

The Foundation maintains an interest-rate risk-management strategy that uses derivative instruments (interest rate swap agreements) to minimize significant, unanticipated earnings fluctuations caused by interest rate volatility. The Foundation's specific goals are (1) to manage interest rate sensitivity by modifying the repricing or maturity characteristics of its variable rate debt and (2) to lower, where possible, the overall cost of its borrowed funds. The interest rate swap agreements involve the periodic exchange of payments without the exchange of the notional amount upon which the payments are based. The Foundation does not use financial instruments for trading purposes, nor does it use leveraged financial instruments. Credit risk related to the derivative financial instruments is considered minimal and is managed by using multiple counterparties, requiring high credit standards for its counterparties and through periodic settlements. The counterparties to these contractual arrangements are financial institutions that carry investment-grade credit ratings. The Foundation is exposed to potential credit loss in the event of nonperformance by these counterparties. To mitigate credit exposure, the swap agreements contain certain collateral and termination provisions applicable to both the Foundation and the counterparties. The Foundation does not anticipate nonperformance by the other parties. The fair value of the swap agreements is included on the consolidated balance sheets.

On November 10, 2004, the Foundation entered into two fixed payer interest rate swaps to convert a portion of its effective variable interest rate exposure to fixed interest rates with UBS AG (original notional $64,300) and Citibank, N.A. (original notional $48,500).

On August 15, 2007, the Foundation entered into an interest rate swap with UBS AG (original notional $64,000), which provides that the Foundation will make weekly scheduled variable payments to the counterparty and receive monthly scheduled variable payments from the counterparty.

On December 16, 2008, the Foundation entered into an interest rate swap with Goldman Sachs Mitsui Marine Derivative Products, L.P. (original notional $50,000) and on February 24, 2009, the Foundation entered into an interest rate swap with Barclays Bank PLC (original notional $50,000). These transactions provide that the Foundation will make quarterly scheduled payments to the counterparty at a variable rate and receive quarterly scheduled payments from the counterparty as follows: (1) for the first three years at a variable rate based upon a percentage of three-month LIBOR plus 0.60%, and (2) subsequently, until swap termination, at a variable rate based upon a percentage of three-month LIBOR without a spread.

None of the Foundation’s swaps meet the eligibility requirements for hedge accounting treatment; all changes in fair value are recorded as operating income or expense.

(Dollars in thousands)

Note 15. Interest Rate Swap Agreements (Continued)

The interest rate swap agreements as of December 31, 2011 and 2010 are as follows:

Counter-Party	Maturity Date	Foundation Pays	Foundation Receives	Notional Value	Fair Value 2011	Fair Value 2010	Change in FV of derivative instruments 2011
UBS AG	2/15/2035	3.537%	65% of 1-Month LIBOR + 0.12%	$ 62,775	$ (17,363)	$ (7,557)	$ (9,806)
Citibank, N.A.	2/15/2028	3.347%	65% of 1-Month LIBOR + 0.12%	41,525	(6,184)	(3,533)	(2,651)
UBS AG	2/15/2035	65% of 1 Month LIBOR + 0.12%	67% of 5-Year LIBOR - 0.295%	62,775	2,233	3,594	(1,361)
Goldman Sachs Mitsui Marine Derivative Products, L.P.	12/15/2028	SIFMA Municipal Swap Index	67% of 3-Month LIBOR + 0.60% (until 12/15/11), then 92.39% of 3-month LIBOR	50,000	35	2,022	(1,986)
Barclays Bank PLC	03/01/2029	SIFMA Municipal Swap Index	67% of 3-Month LIBOR + 0.60% (until 3/01/12), then 97.95% of 3-month LIBOR	50,000	1,029	3,788	(2,760)
				$ 267,075	$ (20,250)	$ (1,686)	$ (18,564)
Recorded on the consolidated balance sheets as:							
Asset					$ 3,297	$ 9,404	
Liability					(23,547)	(11,090)	
					$ (20,250)	$ (1,686)	

Note 16. Professional, General, and Health Insurance

The Foundation formed Health Systems, an off-shore captive insurance company, to underwrite the professional and general liability risks of the Foundation and each member of its subsidiaries and affiliates on a claims-made basis with a retroactive date to January 1, 1986. The Foundation owns 100% of the outstanding common stock of Health Systems. Health Systems determines the liability assessments based upon the recommendations made by the Foundation's independent consulting actuaries.

In February 2011, Health Systems paid a $50,000 dividend to the Foundation. The dividend represents excess capital and has no tax consequences. In addition, Health Systems suspended premiums from August 1, 2010 through January 31, 2012 to the Foundation's insured entities to help reduce Health Systems excess capital.

Effective February 2007, Health Systems underwrites a primary layer of insurance with liability limits of $3,000 per occurrence with no annual aggregate. Health Systems also provides excess layers of insurance (100% reinsured) to its insureds with a combined liability limit of $40,000 per occurrence subject to an annual aggregate of $40,000. The excess insurance is procured through three commercial insurers. Prior to February 2007, Health Systems provided similar coverage except the primary layer was $4,000 per occurrence with no annual aggregate. Prior to 2005, the Health Systems primary layer contained varied annual aggregates.

(Dollars in thousands)

Note 16. Professional, General, and Health Insurance (Continued)

As noted above, Health Systems provides an excess layer of insurance. The amount of reinsurance recoverable on unpaid losses for professional and general liability insurance as of December 31, 2011 and 2010 was $21,665 and $20,980, respectively. Additionally, Health Alliance has contracts with insurance companies to reinsure risk relating to hospital and physician services for each insured enrollee during the contract period with various retention limits. The amount of Health Alliance reinsurance receivable as of December 31, 2011 and 2010 was $322 and $152, respectively. The Foundation had no reinsurance receivable for paid losses as of December 31, 2011 and 2010.

The Foundation has recorded an estimate for incurred but not reported claims for both active and departed physicians as of December 31, 2011 and 2010 of $15,078 and $16,292, respectively. The coverage discussed above is currently arranged through January 31, 2012. There are no assurances that the Foundation and Health Systems will be able to renew existing policies on similar terms.

The Foundation has elected to self-insure a portion of its employee health insurance cost. The Foundation is self-insured annually up to $500 per enrollee and with an unlimited maximum life-time benefit (both in-network provider and out-of-network provider) effective January 1, 2011. Claims in excess of $500 are funded through a commercial stop-loss policy procured by the Foundation.

In the event that the excess loss insurance companies are unable to meet their obligations under existing agreements, the Foundation would be liable for defaulted amounts.

The liability recorded on the consolidated balance sheets for professional and general liability insurance at December 31, 2011 and 2010 and the associated expenses on the consolidated statement of operations for the year ended December 31, 2011 are as follows:

	Liability		Expense
	2011	2010	2011
Health insurance	$ 13,285	$ 13,245	$ 44,223
Professional, general, and other	95,642	96,924	17,565
	108,927	110,169	$ 61,788
Less: reinsurance receivable - unpaid losses	(21,665)	(20,980)	
Insurance reserves, net of reinsurance receivable - unpaid losses	$ 87,262	$ 89,189	

(Dollars in thousands)

Note 16. Professional, General, and Health Insurance (Continued)

Movement in the provision for outstanding losses on professional and general liability insurance for the year ended December 31, 2011 is summarized as follows:

Outstanding losses provision at December 31, 2010	$	96,924
Less: provision for unasserted claims		(16,292)
Balance at December 31, 2010 (excluding provision for unasserted claims)		80,632
Incurred losses (net of recoverables)		12,270
Paid losses (net of recoveries)		(13,023)
Net losses		(753)
Less: reinsurance receivable - unpaid losses at December 31, 2010		(20,980)
Add: reinsurance receivable - unpaid losses at December 31, 2011		21,665
Net balance at December 31, 2011 (excluding provision for unasserted claims)		80,564
Add: provision for unasserted claims		15,078
Balance at December 31, 2011	$	95,642

The movement in incurred losses during the year ended December 31, 2011 in relation to prior periods is as a result of changes in underlying estimates and assumptions inherent in the loss reserving process.

The Foundation has established a provision for outstanding losses based upon recommendations made by the Foundation's independent consulting actuaries, Towers Watson (Actuaries). In their report dated March 8, 2012, the Actuaries estimated that for the general liability risks at December 31, 2011, the required discounted outstanding losses at a 65% confidence level and at a discount rate of 4% for all policy years was $58,900. The Foundation estimated, based on Actuaries report dated March 8, 2012, that at December 31, 2011, the Foundation's outstanding losses for all policy years on an undiscounted basis was $58,601. Independent actuarial reports are received semi-annually at June 30th and December 31st.

Note 17. Pension Plans

The Foundation has a defined contribution pension plan for its employees. Upon meeting eligibility requirements, the Foundation contributes 5% of an employee's salary to the plan. For any eligible employee contributing to a 403(b) or 401(k) plan, the Foundation matches up to 2% of the employee's earnings as well as contributing an additional 2% for earnings above the social security taxable wage base, up to the maximum allowed.

Total expense incurred by the Foundation under the defined contribution plan for the year ended December 31, 2011 was $14,261. The total liabilities at December 31, 2011 and 2010 are $9,600 and $8,233, respectively.

Upon the acquisition of the Clinic, the Foundation acquired the Clinic's qualified noncontributory defined benefit pension plan (Plan). It covers employees formerly employed by the Clinic and hired prior to January 1, 2004 who had reached age 21 and completed 1,000 hours of employment. The benefits are based on years of service and the employee's compensation during the highest five consecutive years of the last 15 years of employment. The Foundation makes annual contributions to the Plan in an amount equal to the current service cost plus amortization of prior service cost as determined by the Plan's consulting actuaries. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. Pension cost is determined using the projected unit credit method. At December 31, 2011, the Foundation froze the participants' accrued benefits.

(Dollars in thousands)

Note 17. Pension Plans (Continued)

The tables below set forth the Defined Benefit Plan's funded status, amounts recognized in the consolidated financial statements, and assumptions at December 31, 2011 as follows:

Change in benefit obligation:	
Benefit obligation at December 31, 2010	$ 287,987
Service cost	5,876
Interest cost	15,166
Actuarial loss	51,462
Benefits paid	(9,297)
Benefit obligation at December 31, 2011	351,194
Change in plan assets:	
Fair value of plan assets at December 31, 2010	210,788
Actual return on plan assets	(10,625)
Employer contribution	17,050
Benefits paid	(9,297)
Fair value of plan assets at December 31, 2011	207,916
Funded status at December 31, 2011, recognized on the balance sheet	$ (143,278)
Unrecognized loss not yet recognized in net periodic pension costs at December 31, 2011	$ 99,190
Accumulated benefit obligation at December 31, 2011	$ 351,194

Components of net periodic benefit cost for the year ended December 31, 2011 are as follows:

Components of net periodic benefit cost:	
Service cost	$ 5,876
Interest cost	15,166
Expected return on plan assets	(15,733)
Net periodic benefit cost	$ 5,309

There was no estimated net loss for the Defined Benefit Plan amortized into net periodic benefit cost for the year ending December 31, 2010.

The discount rate used to determine benefit obligations at December 31, 2011 is 4.22%.

(Continued)

(Dollars in thousands)

Note 17. Pension Plans (Continued)

The weighted average assumptions used to determine net periodic benefit cost at December 31, 2011 are as follows:

Discount rate	5.35%
Expected return on plan assets	7.50%
Rate of compensation increase	2.00%

The Foundation's Investment Policy Committee (the Committee) oversees the investment policy of the Pension Fund. In establishing the investment policy for the Pension Fund, the Committee takes into consideration the long-term nature of the asset pool as well as the participants' needs and assesses the risk and returns characteristics of the various asset classes available to institutional investors and utilizes the guidance of outside investment consultants. The Committee establishes the target asset allocation and permissible ranges of eligible investment asset classes, which are subject to change. The performance objective of the Pension Fund's investment assets is to exceed, after investment management fees, the actuarial assumed rate of return and a customized blended benchmark. The benchmark will consist of a weighted-average of market indices that represent a passive implementation of the investment policy targets.

The Foundation's plan target and actual weighted-average asset allocation at December 31, 2011 is as follows:

	Target Allocation	Actual Allocation
Equity securities	60-80%	67%
Debt securities	20-40%	29%
Other	0%	4%
	100%	100%

The following tables summarize the Plan's assets as of December 31, 2011 and 2010 within the fair value hierarchy (see Note 5). All the plan assets were either Level 1 or Level 2.

	2011		
	Total	Level 1	Level 2
Fixed income securities:			
Mutual funds	$ 60,692	$ 60,692	$ -
Marketable equity securities:			
United States	88,803	65,693	23,110
Non-U.S. developed markets	37,808	15,654	22,154
Non-U.S. emerging markets	12,269	12,269	-
	199,572	$ 154,308	$ 45,264
Cash and cash equivalents	8,344		
Total fair value of plan assets	$ 207,916		

ASU No. 2010-06 amends ASC No. 820 to require disclosure of transfers in and out of Levels 1 and 2. The Plan assets had no transfers between Levels 1 and 2.

(Dollars in thousands)

Note 17. Pension Plans (Continued)

	2010		
	Total	Level 1	Level 2
Fixed income securities:			
Mutual funds	$ 58,103	$ 58,103	$ -
Marketable equity securities:			
United States	81,642	60,381	21,261
Non-U.S. developed markets	41,501	25,460	16,041
Common collective trust	14,109	14,109	-
	195,355	$ 158,053	$ 37,302
Cash and cash equivalents	15,433		
Total fair value of plan assets	$ 210,788		

The Foundation expects to contribute $24,200 to its pension plan in the year ending December 31, 2012.

Following are the estimated future benefit payments as of December 31, 2011:

Year ending December 31:	
2012	$ 10,916
2013	12,170
2014	13,493
2015	14,772
2016	15,954
2017-2021	94,011

Note 18. Commitments and Contingencies

The Foundation and its subsidiaries and affiliates are currently defendants in several lawsuits arising in the normal course of operations. In management's opinion, the estimated costs accrued as of December 31, 2011 are adequate to provide for potential losses.

Health Alliance has entered into capitated risk agreements with physicians and other health care providers to cover certain medical services. Payments made to these entities totaled approximately $396,410 for the year ended December 31, 2011. Health Alliance remains ultimately liable should the capitated entities be unable to meet their obligations.

Health Alliance participates in the Medicare Advantage program administered by the CMS. Under this plan, CMS uses a risk-adjustment model to pay for enrollees, which allows higher payments for those enrollees with higher medical risk. Health Alliance submits diagnosis codes on Medicare Advantage claims and medical records from hospitals or physicians providers to CMS. CMS uses the data to compute the risk-adjusted premium to remit to Health Alliance. CMS continues to perform Risk Adjustment Data Validation Audits (RADV audits) of selected Medicare Advantage plans to validate the accuracy of the data utilized to determine the risk-adjusted payments.

Note 18. Commitments and Contingencies (Continued)

As a result of recently enacted federal health care reform legislation, substantial changes are anticipated in the United States health care system. Such legislation includes numerous provisions affecting the delivery of health care services, the financing of health care costs, reimbursement of health care providers, and the legal obligations of health insurers, providers, and employers. These provisions are currently slated to take effect at specified times over substantially the next decade. To date, this federal health care reform legislation has not materially affected the Foundation's consolidated financial statements.

The DOI and other state and federal agencies routinely conduct regulatory investigations and compliance audits of healthcare providers and health plans. The Foundation is subject to these regulatory efforts. Management is currently unaware of any regulatory matters, which may have a material adverse effect on Foundation's financial position or results of operations.

Carle Holding Co. Inc. is undergoing an audit by the IRS for the tax year ended December 31, 2010. As of the date of this report, management does not anticipate a material impact on the operations of the Foundation as a result of this audit.

Note 19. Risk-Based Capital and Dividend Restrictions

The DOI imposes risk-based capital (RBC) requirements on insurance companies, including Health Alliance. The RBC model serves as a benchmark for the regulation of insurance companies by state insurance regulators. RBC provides for targeted surplus levels based on formulas that specify various weighting factors that are applied to financial balances or various levels of activity based on the perceived degree of risk, and are set forth in the RBC requirements. At December 31, 2011, the total statutory net worth of Health Alliance was approximately $161,004 and its authorized control level RBC was approximately $28,853.

The ability of Health Alliance to pay dividends is dependent upon business conditions, income, cash requirements of Health Alliance, and other relevant factors. The payment of stockholder dividends by insurance companies without prior approval of the DOI is limited to formula amounts based on net income and capital and surplus, determined in accordance with statutory accounting principles, as well as the timing and amount of dividends paid in the preceding 12 months. Health Alliance paid a dividend of $10,000 during the year ended December 31, 2011 to Carle Holding Company, Inc.

Note 20. Concentrations of Credit Risk

A major subscriber of Health Alliance is the membership administered by the State, which includes State of Illinois Employee Group, Local Government Health Plan, Teachers Retirement System, and College Insurance Program. Premium revenue from this subscriber amounted to approximately $476,173 for the year ended December 31, 2011. Premium receivables due from the State at December 31, 2011 and 2010 totaled $240,715 and $192,412, respectively. In addition, interest receivable from the State for premiums past due is approximately $13,885 and $3,792, at December 31, 2011 and 2010, respectively. Health Alliance has a contract with the State through June 2012. Health Alliance expects the Department of Health and Family Services to issue a request for proposal (RFP) for downstate fully insured HMOs. Health Alliance will submit a bid under that RFP. If a contract is awarded, it would be for a four-year contract with five additional one-year renewals.

(Dollars in thousands)

Note 20. Concentrations of Credit Risk (Continued)

The Foundation grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of net patient receivables from patients and third-party payors at December 31, 2011 and 2010 is as follows:

	2011	2010
Commercial insurance and other	33%	38%
Private pay	28%	42%
Medicaid	26%	11%
Medicare	13%	9%
	100%	100%

The Foundation had deposits in local financial institutions which at times exceed Federal Deposit Insurance Corporation limits by material amounts. The Foundation has not experienced any losses in such accounts and believes its cash balances are not exposed to any significant credit risk.

Note 21. Functional Expenses

The Foundation provides comprehensive health care services to the residents of the central Illinois area. Expenses related to providing these services for the year ended December 31, 2011 are as follows:

Health care services	$ 1,488,411
General and administrative	81,563
Fundraising expenses	1,564
	$ 1,571,538

Note 22. Subsequent Events

Subsequent events have been evaluated through April 17, 2012, the date of the issuance of the consolidated financial statements. Through that date, there were no events requiring disclosure other than the items noted below.

Health Alliance: Health Alliance has been a health insurer to the employees and retirees of the State and its dependents (State Employees) for 30 years. The current contract has over 83,900 members with a significant portion located in downstate Illinois. During calendar year 2011, Health Alliance's premium revenue associated with these members was in excess of $476,173.

On April 6, 2011, following a request for proposal (RFP) process, the Illinois Department of Healthcare and Family Services ("HFS") posted a notice of intent to award contracts to four managed care organizations to provide benefits to State Employees commencing July 1, 2011. The selected managed care plans will also provide coverage to members of the Local Government Health Plan, the Teachers' Retirement Insurance Program, and College Insurance Program. The selected managed care plans would replace the incumbent plans, including the Health Alliance plans, whose contracts expired on June 30, 2011. HFS gave notice that it intended to award the contracts for administering HMO services to two plans that are part of BlueCross BlueShield of Illinois, BlueCross BlueShield HMO Illinois, and BlueCross BlueShield Blue Advantage (the BC/BS Plans). A separate RFP process for the State's Open Access Plan (OAP) services led to the selection of HealthLink OAP and PersonalCare OAP. The new contracts would have an initial term of five years, plus the option for five one-year extensions.

Note 22. Subsequent Events (Continued)

On April 8, 2011, Health Alliance filed a protest with HFS challenging various aspects of the process that led to the selection of the new managed care plans. Although the protest failed and HFS continues to maintain its position, Health Alliance continues to pursue the issue through other legal and legislative channels.

Due to these challenges, a 90-day emergency group health insurance program was put in place by HFS from June 30, 2011 through September 28, 2011. On August 16, 2011, those vendors which had been awarded 90-day emergency contracts were given the opportunity to negotiate extensions through June 30, 2012. This, in essence, represents an extension of Health Alliance's expired contract.

In an effort to negotiate a settlement to the lawsuit that Health Alliance filed and was working through the court system, in January 2012, HFS requested comments on a potential supplemental contract for fiscal 2013. At the request of HFS and as part of an agreement to settle Health Alliance's legal challenge to the long-term State contract awards, Commission on Government Forecasting and Accountability voted unanimously to remove any barrier to the previously awarded OAP contracts and to allow for the issuance of supplemental contracts. HFS plans to request contract proposals from traditional insurance companies, such as Health Alliance, for a four-year contract that could be awarded in time for State Employees' open-enrollment period in May 2012. The contract, for coverage that would take effect July 1, 2012, would allow for five additional one-year renewals and could cover up to 241,000 State Employees outside the Chicago area. There is no assurance that Health Alliance will be a successful bidder in the supplemental contract process.

If Health Alliance's contract with the State is not renewed, it could have a material adverse effect on Health Alliance's financial condition. The nature and the full extent of the effect on the Foundation cannot be determined at this time. However, the effect would include the loss of Heath Alliance's premium revenues sourced from the State and the possible change of insured members' health care providers. Management has developed and is refining plans to help mitigate the impact to the Foundation should the contract terminate. Management's plans are based on the facts and circumstances as they currently exist and are known. These facts and circumstances can change and other factors may emerge that could have an important impact, but to an extent that cannot be determined at this time.

Hoopeston Regional Health Center: On March 11, 2011, the Board of Trustees of the Foundation voted to move forward with the purchase of Hoopeston Regional Health Center (HRHC). HRHC controls Hoopeston Community Memorial Hospital (HCMH), which is a 25-bed Critical Access Hospital located approximately 50 miles northeast of the Foundation's main campus. Under the proposed integration, it is expected HCMH will become an independent operating entity of the Foundation. Before integration can be finalized, approvals must be received from each of the two respective organizations' Boards and the Illinois Health Facilities and Services Review Board. If all approvals are met as scheduled, a closing date in October 2012 is anticipated.

Interest Rate Swap Agreements: On January 31, 2012, the Foundation amended its interest rate swap with Barclays Bank PLC (original notation $50,000) such that the Foundation will receive quarterly payments of 67% of three-month LIBOR +0.60% until August 31, 2015, and subsequently, until swap termination, at 93.53% of three-month LIBOR. For the entirety of this period, the Foundation will make quarterly payments based on the SIFMA Municipal Swap Index.

On April 4, 2012, the Foundation terminated its interest rate swap with UBS AG (original notional $64,000) under which the Foundation made weekly scheduled variable payments to the counterparty and received monthly scheduled variable payments from the counterparty. The Foundation received $2,000 from UBS AG in consideration of the termination of the swap and neither the Foundation nor UBS AG will have any remaining obligation to each other as a result of the termination of this interest rate swap. The consideration the Foundation received approximated the carrying value of the swap at the time of termination.

(Continued)

Note 22. Subsequent Events (Continued)

On April 4, 2012, the Foundation novated its fixed pay interest rate swap with UBS AG (original notional $64,300) under which the Foundation made weekly scheduled fixed rate payments to the counterparty and received weekly variable payments from the counterparty to PNC Bank, National Association. Under the terms of the novation agreement, all financial contractual terms and conditions remained the same, and no financial consideration was made between the Foundation and either UBS AG or PNC Bank, National Association.

KPMG LLP
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777 East Wisconsin Avenue
Milwaukee, WI 53202-5337

Independent Auditors' Report on the Supplementary Schedules

The Board of Trustees
The Carle Foundation:

We have audited and reported separately herein on the consolidated financial statements of The Carle Foundation as of and for the year ended December 31, 2011.

Our audit was made for the purpose of forming an opinion on the consolidated financial statements of The Carle Foundation taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and changes in net assets of the individual entities and is not a required part of the basic financial statements. The consolidating information 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.

KPMG LLP

April 17, 2012

The Carle Foundation

Supplementary Information - Consolidating Balance Sheet

December 31, 2011

(Dollars in thousands)

Assets	Foundation Division	Hospital	Health Care	Windsor	Development	Carle Holding	Health Systems	Subtotal	Eliminations	Consolidated Foundation
Current assets:										
Cash and cash equivalents	$ 7,228	$ 124	$ 1,561	$ 2	$ -	$ 4,197	$ -	$ 13,112	$ -	$ 13,112
Investments	133,146	-	-	-	-	132,757	-	265,903	-	265,903
Assets limited as to use or restricted	6,202	-	-	-	-	-	10,356	16,558	-	16,558
Patient receivables, net	-	86,177	29,353	-	-	-	-	115,530	(20,106)	95,424
Premiums receivable	-	-	-	-	-	249,675	-	249,675	-	249,675
Intercompany receivables	2,901	37,704	1	-	291	-	-	40,897	(40,897)	-
Reinsurance receivable	-	-	-	-	-	322	2,945	3,267	-	3,267
Other receivables	593	7,791	17,657	11	160	48,025	-	74,237	(20,471)	53,766
Inventories	-	6,391	-	-	-	-	-	6,391	-	6,391
Prepaid expenses	3,182	1,739	521	6	15	939	344	6,746	-	6,746
Total current assets	153,252	139,926	49,093	19	466	435,915	13,645	792,316	(81,474)	710,842
Property and equipment, net	336,096	42,482	4,161	5,673	766	3,199	-	392,377	-	392,377
Investments and other assets:										
Investments, net of current portion	430,708	-	-	734	4,194	231	-	435,867	-	435,867
Assets limited as to use or restricted, net of current portion	204,516	-	-	-	63,702	3,597	99,587	371,402	-	371,402
Interest rate swap agreements	3,297	-	-	-	-	-	-	3,297	-	3,297
Reinsurance receivable, net of current portion	-	-	-	-	-	-	18,720	18,720	-	18,720
Intangible assets and goodwill	-	-	9,485	-	-	160,426	-	169,911	-	169,911
Deferred taxes	-	-	-	-	-	9,478	-	9,478	-	9,478
Other assets	8,132	55,884	-	-	23	-	-	64,039	(55,887)	8,152
Total investments and other assets	646,653	55,884	9,485	734	67,919	173,732	118,307	1,072,714	(55,887)	1,016,827
Total assets	$ 1,136,001	$ 238,292	$ 62,739	$ 6,426	$ 69,151	$ 612,846	$ 131,952	$ 2,257,407	$ (137,361)	$ 2,120,046

See accompanying notes to supplementary schedules, independent auditors' report, and independent auditors' report on supplementary schedules.

(Continued)

The Carle Foundation

Supplementary Information - Consolidating Balance Sheet

December 31, 2011

(Dollars in thousands)

Liabilities and Net Assets	Foundation Division	Hospital	Healthcare	Windsor	Development	Carle Holding	Health Systems	Subtotal	Eliminations	Consolidated Foundation
Current liabilities:										
Accounts payable	$ 2,282	$ 16,974	$ 732	$ 64	$ 52	$ 6,823	$ -	$ 26,927	$ -	$ 26,927
Intercompany payables	-	-	1,253	-	-	87,079	8,467	96,799	(96,799)	-
Short-term borrowings	-	-	-	-	-	50,000	-	50,000	-	50,000
Current maturities of long-term debt	6,505	-	-	-	-	36,789	-	43,294	-	43,294
Estimated third-party payor settlements	-	22,044	-	-	-	-	-	22,044	-	22,044
Medical claims payable	-	-	-	-	-	154,158	-	154,158	(34,731)	119,427
Current portion of estimated liability for self-insurance losses	8,683	-	-	-	-	-	10,356	19,039	42	19,081
Deferred taxes	-	-	-	-	-	4,440	-	4,440	-	4,440
Current portion of retirement plan benefits obligation	-	-	-	-	-	24,200	-	24,200	-	24,200
Compensation and paid leave payable	12,728	25,459	11,152	225	161	5,621	-	55,346	-	55,346
Other accrued liabilities	23,707	3,518	324	1,177	15	41,170	193	70,104	(5,873)	64,231
Total current liabilities	53,905	67,995	13,461	1,466	228	410,280	19,016	566,351	(137,361)	428,990
Long-term liabilities:										
Long-term debt	568,421	-	-	-	-	101,115	-	669,536	-	669,536
Interest rate swap agreements	23,547	-	-	-	-	-	-	23,547	-	23,547
Asset retirement obligation	6,566	-	-	-	-	-	-	6,566	-	6,566
Estimated liability for self-insurance losses	11,761	3,317	-	-	-	4,560	70,208	89,846	-	89,846
Retirement plan benefits obligation	-	-	-	-	-	119,078	-	119,078	-	119,078
Other accrued liabilities	6,385	-	-	-	256	4,333	-	10,974	-	10,974
Total long-term liabilities	616,680	3,317	-	-	256	229,086	70,208	919,547	-	919,547
Total liabilities	670,585	71,312	13,461	1,466	484	639,366	89,224	1,485,898	(137,361)	1,348,537
Net assets:										
Common stock	-	-	-	-	-	-	1,800	1,800	(1,800)	-
Unrestricted	465,416	166,980	49,278	4,960	60,737	(26,520)	40,928	761,779	1,800	763,579
Temporarily restricted	-	-	-	-	6,679	-	-	6,679	-	6,679
Permanently restricted	-	-	-	-	1,251	-	-	1,251	-	1,251
	465,416	166,980	49,278	4,960	68,667	(26,520)	42,728	771,509	-	771,509
Total liabilities and net assets	$ 1,136,001	$ 238,292	$ 62,739	$ 6,426	$ 69,151	$ 612,846	$ 131,952	$ 2,257,407	$ (137,361)	$ 2,120,046

See accompanying notes to supplementary schedules, independent auditors' report, and independent auditors' report on supplementary schedules.

The Carle Foundation

Schedule 2

Supplementary Information - Consolidating Statement of Operations

Year Ended December 31, 2011

(Dollars in thousands)

	Foundation Division	Hospital	Health Care	Windsor	Development	Carle Holding	Health Systems	Subtotal	Eliminations	Consolidated Foundation
Revenue:										
Patient service revenue (net of contractual allowances)	$ 37	$ 430,198	$ 324,078	$ (28)	$ -	$ -	$ -	$ 754,285	$ (212,321)	$ 541,964
Provision for bad debts	(25)	(26,402)	(18,190)	-	-	-	-	(44,617)	-	(44,617)
Net patient service revenue	12	403,796	305,888	(28)	-	-	-	709,668	(212,321)	497,347
Net premium revenue - health insurance	-	-	-	-	-	1,062,648	-	1,062,648	(344)	1,062,304
Other revenue:										
Rental income	271	5,305	51	6,904	-	-	-	12,531	-	12,531
Net premium (expense) - general and professional liability	-	-	-	-	-	-	(3,469)	(3,469)	3,469	-
Net assets released from restrictions	-	-	-	-	1,317	-	-	1,317	-	1,317
Gain on disposal of property and equipment	-	107	-	-	-	-	-	107	(107)	-
Internal fees	155,981	4,557	87	-	-	-	-	160,625	(160,625)	-
Other	2,805	13,705	3,413	115	274	16,062	-	36,374	(987)	35,387
Total revenue	159,069	427,470	309,439	6,991	1,591	1,078,710	(3,469)	1,979,801	(370,915)	1,608,886
Expenses:										
Salaries and wages	59,654	98,328	178,502	1,830	855	28,950	-	368,119	(324)	367,795
Employee benefits	24,014	25,502	31,509	512	216	7,936	-	89,689	(2,177)	87,512
Medical benefits of insured	-	-	-	-	-	944,218	-	944,218	(212,092)	732,126
Patient care and other supplies	4,704	66,395	32,314	114	28	4,882	-	108,437	(1,106)	107,331
Purchased services	22,104	9,657	4,100	78	75	27,696	-	63,710	(1,478)	62,232
General and administrative	19,319	108,676	78,708	1,841	4,153	26,506	87	239,290	(157,727)	81,563
Insurance	1,451	(174)	(163)	(2)	-	-	12,984	14,096	3,469	17,565
Depreciation and amortization	28,713	5,876	2,980	998	40	11,486	-	50,093	-	50,093
Interest and financing expense	18,175	132	44	537	-	9,848	-	28,736	(467)	28,269
Real estate and other taxes	6,888	10,114	225	392	-	-	-	17,619	-	17,619
Loss on disposal of property and equipment	709	159	50	-	57	-	-	975	(106)	869
Change in fair value of derivative instruments	18,564	-	-	-	-	-	-	18,564	-	18,564
Total expenses	204,295	324,665	328,269	6,300	5,424	1,061,522	13,071	1,943,546	(372,008)	1,571,538
Income (loss) from operations, before discontinued operations	(45,226)	102,805	(18,830)	691	(3,833)	17,188	(16,540)	36,255	1,093	37,348
Gain from discontinued operations	-	4,576	-	-	-	-	-	4,576	(626)	3,950
Income (loss) from operations	(45,226)	107,381	(18,830)	691	(3,833)	17,188	(16,540)	40,831	467	41,298
Nonoperating gains:										
Investment income	27,197	324	28	7	3,827	20,119	17,688	69,190	(467)	68,723
HSIL repatriation dividend	50,000	-	-	-	-	-	-	50,000	(50,000)	-
Nonoperating gains, net	77,197	324	28	7	3,827	20,119	17,688	119,190	(50,467)	68,723
Excess (deficiency) of revenue over expenses, before taxes	31,971	107,705	(18,802)	698	(6)	37,307	1,148	160,021	(50,000)	110,021
Provision for income taxes	565	(336)	-	-	-	17,654	-	17,883	-	17,883
Excess (deficiency) of revenue over expenses	$ 31,406	$ 108,041	$ (18,802)	$ 698	$ (6)	$ 19,653	$ 1,148	$ 142,138	$ (50,000)	$ 92,138

See accompanying notes to supplementary schedules, independent auditors' report, and independent auditors' report on supplementary schedules.

The Carle Foundation

Schedule 3

Supplementary Information - Consolidating Statement of Changes in Net Assets

Year Ended December 31, 2011

(Dollars in thousands)

	Foundation Division	Hospital	Health Care	Windsor	Development	Carle Holding	Health Systems	Subtotal	Eliminations	Consolidated Foundation
Unrestricted net assets:										
Excess (deficiency) of revenue over expenses	$ 31,406	$ 108,041	$ (18,802)	$ 698	$ (6)	$ 19,653	$ 1,148	$ 142,138	$ (50,000)	$ 92,138
Change in net unrealized gains and losses on other-than-trading securities	(27,810)	-	-	-	(4,091)	-	(12,181)	(44,082)	-	(44,082)
Pension related changes other than net period pension costs, net of deferred taxes	-	-	-	-	-	(48,972)	-	(48,972)	-	(48,972)
Equity transfers from (to) affiliates and unconsol subs	27,196	(49,567)	23,634	(1,263)	-	-	-	-	-	-
Other	81	-	-	-	-	-	(50,000)	(49,919)	50,000	81
Increase (decrease) in unrestricted net assets	30,873	58,474	4,832	(565)	(4,097)	(29,319)	(61,033)	(835)	-	(835)
Temporarily restricted net assets:										
Contributions	-	-	-	-	2,112	-	-	2,112	-	2,112
Investment income	-	-	-	-	113	-	-	113	-	113
Change in net unrealized gains and losses other-than-trading securities	-	-	-	-	(105)	-	-	(105)	-	(105)
Net assets released from restrictions	-	-	-	-	(1,317)	-	-	(1,317)	-	(1,317)
Increase in temporarily restricted net assets	-	-	-	-	803	-	-	803	-	803
Permanently restricted net assets:										
Contributions	-	-	-	-	79	-	-	79	-	79
Increase in permanently restricted net assets	-	-	-	-	79	-	-	79	-	79
Change in net assets	30,873	58,474	4,832	(565)	(3,215)	(29,319)	(61,033)	47	-	47
Net assets, beginning of period	434,543	108,506	44,446	5,525	71,882	2,799	103,761	771,462	-	771,462
Net assets, end of period	$ 465,416	$ 166,980	$ 49,278	$ 4,960	$ 68,667	$ (26,520)	$ 42,728	$ 771,509	$ -	$ 771,509

See accompanying notes to supplementary schedules, independent auditors' report, and independent auditors' report on supplementary schedules.

The Carle Foundation

Schedule 4

Supplementary Information - Consolidating Statement of Operations - Carle Foundation Hospital

Year Ended December 31, 2011

(Dollars in thousands)

	Hospital Division	RX	Medical Supply	DASC	Risk Management	Subtotal	Eliminations	Total Hospital
Revenue:								
Patient service revenue (net of contractual allowances)	$ 426,836	$ -	$ 1,261	$ 2,174	$ -	$ 430,271	$ (73)	$ 430,198
Provision for bad debts	(25,956)	-	(368)	(78)	-	(26,402)	-	(26,402)
Net patient service revenue	400,880	-	893	2,096	-	403,869	(73)	403,796
Other revenue:								
Rental income	58	-	5,456	-	-	5,514	(209)	5,305
Gain on disposal of property and equipment	-	-	107	-	-	107	-	107
Internal fees	3,389	-	-	-	1,168	4,557	-	4,557
Other	13,633	-	71	-	1	13,705	-	13,705
Total revenue	417,960	-	6,527	2,096	1,169	427,752	(282)	427,470
Expenses:								
Salaries and wages	95,509	-	1,630	718	471	98,328	-	98,328
Employee benefits	24,652	-	503	211	136	25,502	-	25,502
Patient care and other supplies	63,582	-	2,816	438	4	66,840	(445)	66,395
Purchased services	9,517	-	106	31	3	9,657	-	9,657
General and administrative	106,483	-	834	871	488	108,676	-	108,676
Insurance	(205)	-	20	1	10	(174)	-	(174)
Depreciation and amortization	4,931	-	621	324	-	5,876	-	5,876
Interest and financing expense	21	-	57	54	-	132	-	132
Real estate and other taxes	10,114	-	-	-	-	10,114	-	10,114
Loss on disposal of property and equipment	159	-	-	-	-	159	-	159
Total expenses	314,763	-	6,587	2,648	1,112	325,110	(445)	324,665
Income (loss) from operations, before discontinued operations	103,197	-	(60)	(552)	57	102,642	163	102,805
Gain from discontinued operations	-	4,739	-	-	-	4,739	(163)	4,576
Income (loss) from operations	103,197	4,739	(60)	(552)	57	107,381	-	107,381
Nonoperating gains:								
Investment income	324	-	-	-	-	324	-	324
Excess (deficiency) of revenue over expenses before income taxes	103,521	4,739	(60)	(552)	57	107,705	-	107,705
Provision for income taxes	(313)	-	(48)	-	25	(336)	-	(336)
Excess (deficiency) of revenue over expenses	$ 103,834	$ 4,739	$ (12)	$ (552)	$ 32	$ 108,041	$ -	$ 108,041

See accompanying notes to supplementary schedules, independent auditors’ report, and independent auditors’ report on supplementary schedules.

The Carle Foundation

Supplementary Information - Consolidating Statement of Operations - Carle Health Care Incorporated

Year Ended December 31, 2011

(Dollars in thousands)

	Physician Group	Physician Services	Arrow	Surgicenter	Other Entities	Total	Total Health Care
Revenue:							
Patient service revenue (net of contractual allowances)	$ 271,795	$ 33,027	$ 5,752	$ 13,044	$ 460	$ 324,078	$ 324,078
Provision for bad debts	(15,283)	(1,730)	(835)	(342)	-	(18,190)	(18,190)
Net patient service revenue	256,512	31,297	4,917	12,702	460	305,888	305,888
Other revenue:							
Rental income	50	1	-	-	-	51	51
Internal fees	58	29	-	-	-	87	87
Other	2,128	3	178	-	1,104	3,413	3,413
Total revenue	258,748	31,330	5,095	12,702	1,564	309,439	309,439
Expenses:							
Salaries and wages	166,396	7,081	2,271	1,424	1,330	178,502	178,502
Employee benefits	28,506	1,502	622	440	439	31,509	31,509
Patient care and other supplies	26,743	2,728	374	2,413	56	32,314	32,314
Purchased services	2,010	1,450	365	265	10	4,100	4,100
General and administrative	41,587	33,761	741	2,035	584	78,708	78,708
Insurance	(341)	-	58	-	120	(163)	(163)
Depreciation and amortization	2,107	333	283	181	76	2,980	2,980
Interest and financing expense	-	-	44	-	-	44	44
Real estate and other taxes	49	55	28	63	30	225	225
Loss on disposal of property and equipment	50	-	-	-	-	50	50
Total expenses	267,107	46,910	4,786	6,821	2,645	328,269	328,269
Income (loss) from operations	(8,359)	(15,580)	309	5,881	(1,081)	(18,830)	(18,830)
Nonoperating gains:							
Investment income	28	-	-	-	-	28	28
Excess (deficiency) of revenue over expenses	$ (8,331)	$ (15,580)	$ 309	$ 5,881	$ (1,081)	$ (18,802)	$ (18,802)

See accompanying notes to supplementary schedules, independent auditors' report, and independent auditors' report on supplementary schedules.

The Carle Foundation — Schedule 6

Supplementary Information - Consolidating Statement of Operations - Carle Development Foundation

Year Ended December 31, 2011

(Dollars in thousands)

	Development Division	Community Health	Total Development
Other revenue:			
Net assets released from restrictions	$ 1,317	$ -	$ 1,317
Other	274	-	274
Total revenue	1,591	-	1,591
Expenses:			
Salaries and wages	855	-	855
Employee benefits	216	-	216
Patient care and other supplies	28	-	28
Purchased services	75	-	75
General and administrative	1,526	2,627	4,153
Depreciation	40	-	40
Loss on disposal of property and equipment	57	-	57
Total expenses	2,797	2,627	5,424
Loss from operations	(1,206)	(2,627)	(3,833)
Nonoperating gains:			
Investment income	299	3,528	3,827
Nonoperating gains, net	299	3,528	3,827
Excess (deficiency) of revenue over expenses	$ (907)	$ 901	$ (6)

See accompanying notes to supplementary schedules, independent auditors' report, and independent auditors' report on supplementary schedules.

The Carle Foundation

Schedule 7

Supplementary Information - Consolidating Statements of Operation - Carle Holding Company, Inc.

Year Ended December 31, 2011

(Dollars in thousands)

	Carle Holding	Health Alliance	Total Carle Holding
Revenue:			
Net premium revenue - health insurance	$ -	$ 1,062,648	$ 1,062,648
Other revenue	-	16,062	16,062
Total revenue	-	1,078,710	1,078,710
Expenses:			
Salaries and wages	-	28,950	28,950
Employee benefits	(134)	8,070	7,936
Medical benefits of insured	-	944,218	944,218
Patient care and other supplies	-	4,882	4,882
Purchased services	145	27,551	27,696
General and administrative	-	26,506	26,506
Depreciation and amortization	-	11,486	11,486
Interest and financing expense	6,421	3,427	9,848
Total expenses	6,432	1,055,090	1,061,522
Income (loss) from operations	(6,432)	23,620	17,188
Nonoperating gains:			
Investment income	226	19,893	20,119
Nonoperating gains, net	226	19,893	20,119
Excess (deficiency) of revenue over expenses before income taxes	(6,206)	43,513	37,307
Provision for income taxes	(1,664)	19,318	17,654
Excess (deficiency) of revenue over expenses	$ (4,542)	$ 24,195	$ 19,653

See accompanying notes to supplementary schedules, independent auditors' report, and independent auditors' report on supplementary schedules.

The Carle Foundation

Schedule 8

Supplementary Information - Combining Balance Sheet

December 31, 2011

(Dollars in thousands)

Assets	Obligated Group	Obligated Group Unconsolidated Subsidiaries	Combined Obligated Group	Development	Carle Holding	Health Systems	Eliminations	Consolidated Foundation
Current assets:								
Cash and cash equivalents	$ 1,586	$ 61	$ 1,647	$ -	$ 4,197	$ -	7,268	$ 13,112
Investments	133,146	-	133,146	-	132,757	-	-	265,903
Assets limited as ot use or restricted	6,203	-	6,203	-	-	10,356	-	16,559
Patient receivables, net	108,399	7,131	115,530	-	-	-	(20,106)	95,424
Premiums receivable	-	-	-	-	249,675	-	-	249,675
Intercompany receivables	-	1	1	291	-	-	(292)	-
Current reinsurance receivable	-	-	-	-	322	2,945	-	3,267
Other receivables	65,370	34	65,404	160	48,025	-	(59,823)	53,766
Inventories	6,391	-	6,391	-	-	-	-	6,391
Prepaid expenses	5,385	63	5,448	15	939	344	-	6,746
Total current assets	326,480	7,290	333,770	466	435,915	13,645	(72,953)	710,843
Property and equipment, net	384,729	3,683	388,412	766	3,199	-	-	392,377
Investments and other assets:								
Investments, net of current portion	431,442	-	431,442	4,194	231	-	-	435,867
Assets limited as to use or restricted, net of current portion	204,515	-	204,515	63,702	3,597	99,587	-	371,401
Investment in unconsolidated subsidiaries	18,573	(18,573)	-	-	-	-	-	-
Interest rate swap agreements	3,297		3,297	-	-	-	-	3,297
Reinsurance receivable - unpaid losses	-	-	-	-	-	18,720	-	18,720
Intangible assets and goodwill	-	9,485	9,485	-	160,426	-	-	169,911
Deferred taxes	-	-	-	-	9,478	-	-	9,478
Other assets	64,016	-	64,016	23	-	-	(55,887)	8,152
Total investments and other assets	721,843	(9,088)	712,755	67,919	173,732	118,307	(55,887)	1,016,826
Total assets	$ 1,433,052	$ 1,885	$ 1,434,937	$ 69,151	$ 612,846	$ 131,952	$ (128,840)	$ 2,120,046

See accompanying notes to supplementary schedules, independent auditors' report, and independent auditors' report on supplementary schedules.

(Continued)

The Carle Foundation

Supplementary Information - Combining Balance Sheet

December 31, 2011

(Dollars in thousands)

Liabilities and Net Assets	Obligated Group	Obligated Group Unconsolidated Subsidiaries	Combined Obligated Group	Development	Carle Holding	Health Systems	Eliminations	Consolidated Foundation
Current liabilities:								
Accounts payable	$ 12,391	393	$ 12,784	$ 52	$ 6,823	$ -	$ 7,268	$ 26,927
Intercompany payables	-	-	-	-	87,079	8,467	(95,546)	-
Short-term borrowings	-	-	-	-	50,000	-	-	50,000
Current maturities of long-term debt	6,505	-	6,505	-	36,789	-	-	43,294
Estimated third-party payor settlements	22,044	-	22,044	-	-	-	-	22,044
Medical claims payable	-	-	-	-	154,158	-	(34,731)	119,427
Current portion of estimated liability for self-insurance losses	8,683	-	8,683	-	-	10,356	42	19,081
Deferred taxes	-	-	-	-	4,440	-	-	4,440
Current portion of retirement plan benefits obligation	-	-	-	-	24,200	-	-	24,200
Compensation and paid leave payable	48,270	1,294	49,564	161	5,621	-	-	55,346
Other accrued liabilities	28,492	234	28,726	15	41,170	193	(5,873)	64,231
Total current liabilities	126,385	1,921	128,306	228	410,280	19,016	(128,840)	428,990
Long-term liabilities:								
Long-term debt	568,421	-	568,421	-	101,115	-	-	669,536
Interest rate swap agreements	23,547	-	23,547	-	-	-	-	23,547
Asset retirement obligation	6,566	-	6,566	-	-	-	-	6,566
Estimated liability for self-insurance losses	15,078	-	15,078	-	4,560	70,208	-	89,846
Retirement plan benefits obligation	-	-	-	-	119,078	-	-	119,078
Other accrued liabilities	6,385	-	6,385	256	4,333	-	-	10,974
Total long-term liabilities	619,997	-	619,997	256	229,086	70,208	-	919,547
Total liabilities	746,382	1,921	748,303	484	639,366	89,224	(128,840)	1,348,537
Net assets:								
Common stock	-	-	-	-	-	1,800	(1,800)	-
Unrestricted	686,670	(36)	686,634	60,737	(26,520)	40,928	1,800	763,579
Temporarily restricted	-	-	-	6,679	-	-	-	6,679
Permanently restricted	-	-	-	1,251	-	-	-	1,251
	686,670	(36)	686,634	68,667	(26,520)	42,728	-	771,509
Total liabilities and net assets	$ 1,433,052	$ 1,885	$ 1,434,937	$ 69,151	$ 612,846	$ 131,952	$ (128,840)	$ 2,120,046

See accompanying notes to supplementary schedules, independent auditors’ report, and independent auditors’ report on supplementary schedules.

The Carle Foundation

Schedule 9

Supplementary Information - Combining Statement of Operations

Year Ended December 31, 2011

(Dollars in thousands)

	Obligated Group	Obligated Group Unconsolidated Subsidiaries	Combined Obligated Group	Development	Carle Holding	Health Systems	Eliminations	Consolidated Foundation
Revenue:								
Patient service revenue (net of contractual allowances)	$ 702,322	$ 51,823	$ 754,145	$ -	$ -	$ -	$ (212,181)	$ 541,964
Provision for bad debts	(41,710)	(2,907)	(44,617)	-	-	-	-	(44,617)
Net patient service revenue	660,612	48,916	709,528	-	-	-	(212,181)	497,347
Net premium revenue - patient care	-	-	-	-	1,062,648	-	(344)	1,062,304
Other revenue:				-	-	-		-
Rental income	12,530	1	12,531	-	-	-	-	12,531
Net premium expense - general and professional liability	-	-	-	-	-	(3,469)	3,469	-
Net assets released from restrictions	-	-	-	1,317	-	-	-	1,317
Internal fees	-	1,197	1,197	-	-	-	(1,197)	-
Other	58,958	182	59,140	274	16,062	-	(40,089)	35,387
Total revenue	732,100	50,296	782,396	1,591	1,078,710	(3,469)	(250,342)	1,608,886
Expenses:								
Salaries and wages	327,066	11,248	338,314	855	28,950	-	(324)	367,795
Employee benefits	78,649	2,700	81,349	216	7,936	-	(1,989)	87,512
Medical benefits of insured	-	-	-	-	944,218	-	(212,092)	732,126
Patient care and other supplies	97,052	5,516	102,568	28	4,882	-	(147)	107,331
Purchased services	33,847	2,084	35,931	75	27,696	-	(1,470)	62,232
General and administrative	51,639	37,026	88,665	4,153	26,506	87	(37,848)	81,563
Insurance	1,044	68	1,112	-	-	12,984	3,469	17,565
Depreciation and amortization	37,770	797	38,567	40	11,486	-	-	50,093
Interest and financing expense	18,844	44	18,888	-	9,848	-	(467)	28,269
Real estate and other taxes	17,473	146	17,619	-	-	-	-	17,619
Loss on disposal of property and equipment	811	-	811	57	-	-	1	869
Change in fair value of derivative instruments	18,564	-	18,564	-	-	-	-	18,564
Total expenses	682,759	59,629	742,388	5,424	1,061,522	13,071	(250,867)	1,571,538
Income (loss) from operations, before discontinued operations	49,341	(9,333)	40,008	(3,833)	17,188	(16,540)	525	37,348
Gain from discontinued operations	4,008	-	4,008	-	-	-	(58)	3,950
Income (loss) from operations	53,349	(9,333)	44,016	(3,833)	17,188	(16,540)	467	41,298
Nonoperating gains:								
Investment income	27,556	-	27,556	3,827	20,119	17,688	(467)	68,723
Loss on unconsolidated subsidiaries	(9,390)	9,390	-	-	-	-	-	-
HSIL repatriation dividend	50,000	-	50,000	-	-	-	(50,000)	-
Nonoperating gains, net	68,166	9,390	77,556	3,827	20,119	17,688	(50,467)	68,723
Excess of revenue over expenses, before income taxes	121,515	57	121,572	(6)	37,307	1,148	(50,000)	110,021
Provision for income taxes	204	25	229	-	17,654	-	-	17,883
Excess of revenue over expenses	$ 121,311	$ 32	$ 121,343	$ (6)	$ 19,653	$ 1,148	$ (50,000)	$ 92,138

See accompanying notes to supplementary schedules, independent auditors' report, and independent auditors' report on supplementary schedules.

The accompanying supplementary information represents corporate entities, corporate consolidations, or business lines as defined below and in Note 1 in the Notes to the Consolidated Financial Statements.

Organization:

The Carle Foundation (Foundation) serves as the sole member and elects all of the trustees of, and thereby controls the following Illinois not-for-profit affiliates (Obligated Group):

a. The Carle Foundation Hospital (Hospital) , comprised of the following:
    - Hospital Division, which includes operation of a licensed 325-bed hospital, a certified home health agency, and a certified hospice
    - Carle Medical Supply (Medical Supply), a provider of medical equipment and supplies to the general public and hospital patients
    - Danville Surgery Center and outpatient surgical recovery centers located in Champaign and Danville, Illinois (ASC)
    - Rx Express (RX), a multi-outlet retail pharmacy operation, the assets and operations of which were sold during June 2011
b. Carle Health Care Incorporated (Health Care), comprised of the following:
    - Carle Physician Group (Physician Group), which operates as a private, multi-specialty, group medical practice
    - Airlife, which operates an air medical transport service and The Caring Place day care center (Other)
c. Carle Retirement Centers, Inc. (Windsor) operates a 174-unit retirement living center.

Certain affiliated or controlled entities of the Foundation and certain wholly-owned subsidiaries of the Obligated Group are not members of the Obligated Group and are, therefore, excluded from the Obligated Group. In order to present the financial statements in accordance with GAAP, these entities are required to be consolidated. These entities include:

c. Obligated Group Unconsolidated Subsidiares, comprised of the following:
    - Champaign Surgicenter, LLC (Surgicenter), a free-standing ambulatory surgery center located in Champaign, Illinois
    - Carle Foundation Physician Services, LLC (Physician Services), which operates a physician practice
    - Arrow Ambulance, LLC (Arrow), which operates an ambulance transport
d. Non-Obligated Group Affiliates, comprised of the following:
    - The Carle Development Foundation (Development), which is engaged in fund-raising activities and is the sole corporate member of Carle Community Health Corporation (Community Health), which is engaged in funding charitable, scientific, and educational community-based healthcare initiatives.
    - Carle Holding Company, Inc. (Carle Holding) is the sole owner of Health Alliance Medical Plans, Inc. and its subsidiaries (Health Alliance), which is a licensed life, accident, and health insurance company
    - Health Systems Insurance, Limited (Health Systems) an off-shore captive insurance company, established to underwrite the general and professional liability risks of the Foundation
    - Carle Risk Management Company (Risk Management), which provides professional liability insurance claims processing and management services to the Foundation.

All significant intercompany transactions and balances have been eliminated upon consolidation. The eliminations represent intercompany transactions among Carle Foundation subsidiaries and affiliates.