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Form 990



Department of the Treasury
Internal Revenue Service

Return of Organization Exempt From Income Tax

Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except black lung benefit trust or private foundation)

The organization may have to use a copy of this return to satisfy state reporting requirements

OMB No 1545-0047

2010

Open to Public Inspection

A For the 2010 calendar year, or tax year beginning 07-01-2010 and ending 06-30-2011

B Check if applicable

☐ Address change

☐ Name change

☐ Initial return

☐ Terminated

☐ Amended return

☐ Application pending

C Name of organization

MERCY HEALTH SYSTEM CORPORATION

Doing Business As

Number and street (or P O box if mail is not delivered to street address)

PO BOX 5003 - 1000 MINERAL POINT

Room/suite

City or town, state or country, and ZIP + 4

JANESVILLE, WI 535475003

F Name and address of principal officer

JAVON BEA

PO BOX 5003 - 1000 MINERAL POINT

JANESVILLE, WI 535475003

H(a) Is this a group return for affiliates?

☐ Yes ☒ No

H(b) Are all affiliates included?

☐ Yes ☐ No

If "No," attach a list (see instructions)

H(c) Group exemption number

I Tax-exempt status

☒ 501(c)(3) ☐ 501(c) () ☐ (Insert no) ☐ 4947(a)(1) or ☐ 527

J Website:

WWW.MERCYHEALTHSYSTEM.ORG

K Form of organization

☒ Corporation ☐ Trust ☐ Association ☐ Other

L Year of formation

1972

M State of legal domicile

WI

Part I

Summary

Activities & Governance	1	Briefly describe the organization's mission or most significant activities THE MISSION OF MERCY HEALTH SYSTEM IS TO PROVIDE EXCEPTIONAL HEALTH CARE SERVICES RESULTING IN HEALING IN THE BROADEST SENSE		
Revenue	2	Check this box <input type="checkbox"/> if the organization discontinued its operations or disposed of more than 25% of its net assets		
	3	Number of voting members of the governing body (Part VI, line 1a)	3	9
	4	Number of independent voting members of the governing body (Part VI, line 1b)	4	7
	5	Total number of individuals employed in calendar year 2010 (Part V, line 2a)	5	3,553
	6	Total number of volunteers (estimate if necessary)	6	0
	7a	Total unrelated business revenue from Part VIII, column (C), line 12	7a	10,690,442
	b	Net unrelated business taxable income from Form 990-T, line 34	7b	-53,158
Expenses	8	Contributions and grants (Part VIII, line 1h)	Prior Year	Current Year
	9	Program service revenue (Part VIII, line 2g)	239,288	248,889
	10	Investment income (Part VIII, column (A), lines 3, 4, and 7d)	419,084,944	448,360,006
	11	Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)	658,102	969,845
	12	Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12)	1,891,518	3,692,206
Net Assets or Fund Balances	13	Grants and similar amounts paid (Part IX, column (A), lines 1–3)	421,873,852	453,270,946
	14	Benefits paid to or for members (Part IX, column (A), line 4)	0	0
	15	Salaries, other compensation, employee benefits (Part IX, column (A), lines 5–10)	0	0
	16a	Professional fundraising fees (Part IX, column (A), line 11e)	254,680,596	262,293,640
	b	Total fundraising expenses (Part IX, column (D), line 25) <input type="checkbox"/> 0	0	0
	17	Other expenses (Part IX, column (A), lines 11a–11d, 11f–24f)	150,038,775	165,283,940
	18	Total expenses Add lines 13–17 (must equal Part IX, column (A), line 25)	404,719,371	427,577,580
	19	Revenue less expenses Subtract line 18 from line 12	17,154,481	25,693,366
Signature Block	20	Total assets (Part X, line 16)	Beginning of Current Year	End of Year
	21	Total liabilities (Part X, line 26)	342,696,939	387,688,494
	22	Net assets or fund balances Subtract line 21 from line 20	243,539,510	252,414,775
			99,157,429	135,273,719

Part II

Signature Block

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Sign Here

Signature of officer

2012-05-15

Date

JAVON BEA CEO

Type or print name and title

Paid Preparer Use Only

Print/Type preparer's name

WILLIAM T MURPHY CPA

Preparer's signature

WILLIAM T MURPHY CPA

Date

2012-05-14

Check if self-employed

☐

PTIN

Firm's name

BAKER TILLY VIRCHOW KRAUSE LLP

Firm's EIN

Firm's address

500 MIDLAND COURT PO BOX 8130 JANESVILLE, WI 535478130

Phone no

(608) 752-5835

May the IRS discuss this return with the preparer shown above? (see instructions)

☒ Yes ☐ No

For Paperwork Reduction Act Notice, see the separate instructions.

Cat No 11282Y

Form 990 (2010)

Part III

Statement of Program Service Accomplishments

Check if Schedule O contains a response to any question in this Part III

1

Briefly describe the organization's mission

THE MISSION OF MERCY HEALTH SYSTEM IS TO PROVIDE EXCEPTIONAL HEALTH CARE SERVICES RESULTING IN HEALING IN THE BROADEST SENSE

2

Did the organization undertake any significant program services during the year which were not listed on the prior Form 990 or 990-EZ?

Yes

☒

No

If "Yes," describe these new services on Schedule O

3

Did the organization cease conducting, or make significant changes in how it conducts, any program services?

Yes

☒

No

If "Yes," describe these changes on Schedule O

4

Describe the exempt purpose achievements for each of the organization's three largest program services by expenses

Section 501(c)(3) and 501(c)(4) organizations and section 4947(a)(1) trusts are required to report the amount of grants and allocations to others, the total expenses, and revenue, if any, for each program service reported

4a

(Code) (Expenses \$ 351,580,812 including grants of \$) (Revenue \$ 436,647,657)

HOSPITAL DISCHARGES 9,786, NURSING HOME ADMISSIONS 315, BIRTHS 1,152, OUTPATIENT VISITS 1,132,938

4b

(Code) (Expenses \$ including grants of \$) (Revenue \$)

4c

(Code) (Expenses \$ including grants of \$) (Revenue \$)

4d

Other program services (Describe in Schedule O)

















(Expenses \$ including grants of \$) (Revenue \$)

4e

Total program service expenses \$ 351,580,812

Part IV

Checklist of Required Schedules

		Yes	No
1	Is the organization described in section 501(c)(3) or 4947(a)(1) (other than a private foundation)? <i>If "Yes," complete Schedule A.</i> 	1	Yes
2	Is the organization required to complete Schedule B, Schedule of Contributors (see instruction)? 	2	Yes
3	Did the organization engage in direct or indirect political campaign activities on behalf of or in opposition to candidates for public office? <i>If "Yes," complete Schedule C, Part I.</i>	3	No
4	Section 501(c)(3) organizations. Did the organization engage in lobbying activities, or have a section 501(h) election in effect during the tax year? <i>If "Yes," complete Schedule C, Part II.</i>	4	No
5	Is the organization a section 501(c)(4), 501(c)(5), or 501(c)(6) organization that receives membership dues, assessments, or similar amounts as defined in Revenue Procedure 98-19? <i>If "Yes," complete Schedule C, Part III.</i>	5	
6	Did the organization maintain any donor advised funds or any similar funds or accounts where donors have the right to provide advice on the distribution or investment of amounts in such funds or accounts? <i>If "Yes," complete Schedule D, Part I.</i> 	6	No
7	Did the organization receive or hold a conservation easement, including easements to preserve open space, the environment, historic land areas or historic structures? <i>If "Yes," complete Schedule D, Part II.</i> 	7	No
8	Did the organization maintain collections of works of art, historical treasures, or other similar assets? <i>If "Yes," complete Schedule D, Part III.</i> 	8	No
9	Did the organization report an amount in Part X, line 21, serve as a custodian for amounts not listed in Part X, or provide credit counseling, debt management, credit repair, or debt negotiation services? <i>If "Yes," complete Schedule D, Part IV.</i> 	9	No
10	Did the organization, directly or through a related organization, hold assets in term, permanent, or quasi-endowments? <i>If "Yes," complete Schedule D, Part V.</i> 	10	No
11	If the organization's answer to any of the following questions is 'Yes,' then complete Schedule D, Parts VI, VII, VIII, IX, or X as applicable		
a	Did the organization report an amount for land, buildings, and equipment in Part X, line 10? <i>If "Yes," complete Schedule D, Part VI.</i> 	11a	Yes
b	Did the organization report an amount for investments—other securities in Part X, line 12 that is 5% or more of its total assets reported in Part X, line 16? <i>If "Yes," complete Schedule D, Part VII.</i> 	11b	Yes
c	Did the organization report an amount for investments—program related in Part X, line 13 that is 5% or more of its total assets reported in Part X, line 16? <i>If "Yes," complete Schedule D, Part VIII.</i> 	11c	No
d	Did the organization report an amount for other assets in Part X, line 15 that is 5% or more of its total assets reported in Part X, line 16? <i>If "Yes," complete Schedule D, Part IX.</i> 	11d	No
e	Did the organization report an amount for other liabilities in Part X, line 25? <i>If "Yes," complete Schedule D, Part X.</i> 	11e	Yes
f	Did the organization's separate or consolidated financial statements for the tax year include a footnote that addresses the organization's liability for uncertain tax positions under FIN 48 (ASC 740)? <i>If "Yes," complete Schedule D, Part X.</i> 	11f	No
12a	Did the organization obtain separate, independent audited financial statements for the tax year? <i>If "Yes," complete Schedule D, Parts XI, XII, and XIII.</i> 	12a	Yes
b	Was the organization included in consolidated, independent audited financial statements for the tax year? <i>If "Yes," and if the organization answered 'No' to line 12a, then completing Schedule D, Parts XI, XII, and XIII is optional.</i> 	12b	Yes
13	Is the organization a school described in section 170(b)(1)(A)(ii)? <i>If "Yes," complete Schedule E.</i>	13	No
14a	Did the organization maintain an office, employees, or agents outside of the United States?	14a	No
b	Did the organization have aggregate revenues or expenses of more than \$10,000 from grantmaking, fundraising, business, and program service activities outside the United States? <i>If "Yes," complete Schedule F, Parts I and IV.</i>	14b	No
15	Did the organization report on Part IX, column (A), line 3, more than \$5,000 of grants or assistance to any organization or entity located outside the U S ? <i>If "Yes," complete Schedule F, Parts II and IV.</i>	15	No
16	Did the organization report on Part IX, column (A), line 3, more than \$5,000 of aggregate grants or assistance to individuals located outside the U S ? <i>If "Yes," complete Schedule F, Parts III and IV.</i>	16	No
17	Did the organization report a total of more than \$15,000, of expenses for professional fundraising services on Part IX, column (A), lines 6 and 11e? <i>If "Yes," complete Schedule G, Part I (see instructions)</i>	17	No
18	Did the organization report more than \$15,000 total of fundraising event gross income and contributions on Part VIII, lines 1c and 8a? <i>If "Yes," complete Schedule G, Part II.</i>	18	No
19	Did the organization report more than \$15,000 of gross income from gaming activities on Part VIII, line 9a? <i>If "Yes," complete Schedule G, Part III.</i>	19	No
20a	Did the organization operate one or more hospitals? <i>If "Yes," complete Schedule H.</i> 	20a	Yes
b	If "Yes" to line 20a, did the organization attach its audited financial statement to this return? Note. Some Form 990 filers that operate one or more hospitals must attach audited financial statements (see instructions)	20b	Yes

Part IV

Checklist of Required Schedules (continued)

21	Did the organization report more than \$5,000 of grants and other assistance to governments and organizations in the United States on Part IX, column (A), line 1? <i>If "Yes," complete Schedule I, Parts I and II</i>	21		No
22	Did the organization report more than \$5,000 of grants and other assistance to individuals in the United States on Part IX, column (A), line 2? <i>If "Yes," complete Schedule I, Parts I and III</i>	22		No
23	Did the organization answer "Yes" to Part VII, Section A, questions 3, 4, or 5, about compensation of the organization's current and former officers, directors, trustees, key employees, and highest compensated employees? <i>If "Yes," complete Schedule J</i>	23	Yes	
24a	Did the organization have a tax-exempt bond issue with an outstanding principal amount of more than \$100,000 as of the last day of the year, that was issued after December 31, 2002? <i>If "Yes," answer lines 24b–24d and complete Schedule K. If "No," go to line 25</i>	24a		No
b	Did the organization invest any proceeds of tax-exempt bonds beyond a temporary period exception?	24b		
c	Did the organization maintain an escrow account other than a refunding escrow at any time during the year to defease any tax-exempt bonds?	24c		
d	Did the organization act as an "on behalf of" issuer for bonds outstanding at any time during the year?	24d		
25a	Section 501(c)(3) and 501(c)(4) organizations. Did the organization engage in an excess benefit transaction with a disqualified person during the year? <i>If "Yes," complete Schedule L, Part I</i>	25a		No
b	Is the organization aware that it engaged in an excess benefit transaction with a disqualified person in a prior year, and that the transaction has not been reported on any of the organization's prior Forms 990 or 990-EZ? <i>If "Yes," complete Schedule L, Part I</i>	25b		No
26	Was a loan to or by a current or former officer, director, trustee, key employee, highly compensated employee, or disqualified person outstanding as of the end of the organization's tax year? <i>If "Yes," complete Schedule L, Part II</i>	26		No
27	Did the organization provide a grant or other assistance to an officer, director, trustee, key employee, substantial contributor, or a grant selection committee member, or to a person related to such an individual? <i>If "Yes," complete Schedule L, Part III</i>	27		No
28	Was the organization a party to a business transaction with one of the following parties? (see Schedule L, Part IV instructions for applicable filing thresholds, conditions, and exceptions)			
a	A current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV</i>	28a		No
b	A family member of a current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV</i>	28b	Yes	
c	An entity of which a current or former officer, director, trustee, or key employee (or a family member thereof) was an officer, director, trustee, or direct or indirect owner? <i>If "Yes," complete Schedule L, Part IV</i>	28c		No
29	Did the organization receive more than \$25,000 in non-cash contributions? <i>If "Yes," complete Schedule M</i>	29		No
30	Did the organization receive contributions of art, historical treasures, or other similar assets, or qualified conservation contributions? <i>If "Yes," complete Schedule M</i>	30		No
31	Did the organization liquidate, terminate, or dissolve and cease operations? <i>If "Yes," complete Schedule N, Part I</i>	31		No
32	Did the organization sell, exchange, dispose of, or transfer more than 25% of its net assets? <i>If "Yes," complete Schedule N, Part II</i>	32		No
33	Did the organization own 100% of an entity disregarded as separate from the organization under Regulations sections 301.7701-2 and 301.7701-3? <i>If "Yes," complete Schedule R, Part I</i>	33		No
34	Was the organization related to any tax-exempt or taxable entity? <i>If "Yes," complete Schedule R, Parts II, III, IV, and V, line 1</i>	34	Yes	
35	Is any related organization a controlled entity within the meaning of section 512(b)(13)?	35	Yes	
a	Did the organization receive any payment from or engage in any transaction with a controlled entity within the meaning of section 512(b)(13)? <i>If "Yes," complete Schedule R, Part V, line 2</i> <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No			
36	Section 501(c)(3) organizations. Did the organization make any transfers to an exempt non-charitable related organization? <i>If "Yes," complete Schedule R, Part V, line 2</i>	36		No
37	Did the organization conduct more than 5% of its activities through an entity that is not a related organization and that is treated as a partnership for federal income tax purposes? <i>If "Yes," complete Schedule R, Part VI</i>	37		No
38	Did the organization complete Schedule O and provide explanations in Schedule O for Part VI, lines 11 and 19? Note. All Form 990 filers are required to complete Schedule O	38	Yes	

Part V Statements Regarding Other IRS Filings and Tax Compliance			
Check if Schedule O contains a response to any question in this Part V <input type="checkbox"/>			
		Yes	No
1a	Enter the number reported in Box 3 of Form 1096. Enter -0- if not applicable.	1a	292
b	Enter the number of Forms W-2G included in line 1a. Enter -0- if not applicable.	1b	0
c	Did the organization comply with backup withholding rules for reportable payments to vendors and reportable gaming (gambling) winnings to prize winners?	1c	Yes
2a	Enter the number of employees reported on Form W-3, <i>Transmittal of Wage and Tax Statements</i> filed for the calendar year ending with or within the year covered by this return.	2a	3,553
b	If at least one is reported on line 2a, did the organization file all required federal employment tax returns? Note. If the sum of lines 1a and 2a is greater than 250, you may be required to e-file (see instructions).	2b	Yes
3a	Did the organization have unrelated business gross income of \$1,000 or more during the year?	3a	Yes
b	If "Yes," has it filed a Form 990-T for this year? If "No," provide an explanation in Schedule O.	3b	Yes
4a	At any time during the calendar year, did the organization have an interest in, or a signature or other authority over, a financial account in a foreign country (such as a bank account, securities account, or other financial account)?	4a	No
b	If "Yes," enter the name of the foreign country: _____ See instructions for filing requirements for Form TD F 90-22.1, Report of Foreign Bank and Financial Accounts.		
5a	Was the organization a party to a prohibited tax shelter transaction at any time during the tax year?	5a	No
b	Did any taxable party notify the organization that it was or is a party to a prohibited tax shelter transaction?	5b	No
c	If "Yes" to line 5a or 5b, did the organization file Form 8886-T?	5c	
6a	Does the organization have annual gross receipts that are normally greater than \$100,000, and did the organization solicit any contributions that were not tax deductible?	6a	No
b	If "Yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible?	6b	
7	Organizations that may receive deductible contributions under section 170(c).		
a	Did the organization receive a payment in excess of \$75 made partly as a contribution and partly for goods and services provided to the payor?	7a	No
b	If "Yes," did the organization notify the donor of the value of the goods or services provided?	7b	
c	Did the organization sell, exchange, or otherwise dispose of tangible personal property for which it was required to file Form 8282?	7c	No
d	If "Yes," indicate the number of Forms 8282 filed during the year.	7d	
e	Did the organization receive any funds, directly or indirectly, to pay premiums on a personal benefit contract?	7e	No
f	Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract?	7f	No
g	If the organization received a contribution of qualified intellectual property, did the organization file Form 8899 as required?	7g	
h	If the organization received a contribution of cars, boats, airplanes, or other vehicles, did the organization file a Form 1098-C?	7h	
8	Sponsoring organizations maintaining donor advised funds and section 509(a)(3) supporting organizations. Did the supporting organization, or a donor advised fund maintained by a sponsoring organization, have excess business holdings at any time during the year?	8	
9	Sponsoring organizations maintaining donor advised funds.		
a	Did the organization make any taxable distributions under section 4966?	9a	
b	Did the organization make a distribution to a donor, donor advisor, or related person?	9b	
10	Section 501(c)(7) organizations. Enter		
a	Initiation fees and capital contributions included on Part VIII, line 12.	10a	
b	Gross receipts, included on Form 990, Part VIII, line 12, for public use of club facilities.	10b	
11	Section 501(c)(12) organizations. Enter		
a	Gross income from members or shareholders.	11a	
b	Gross income from other sources (Do not net amounts due or paid to other sources against amounts due or received from them).	11b	
12a	Section 4947(a)(1) non-exempt charitable trusts. Is the organization filing Form 990 in lieu of Form 1041?	12a	
b	If "Yes," enter the amount of tax-exempt interest received or accrued during the year.	12b	
13	Section 501(c)(29) qualified nonprofit health insurance issuers.		
a	Is the organization licensed to issue qualified health plans in more than one state? Note. See the instructions for additional information the organization must report on Schedule O.	13a	
b	Enter the amount of reserves the organization is required to maintain by the states in which the organization is licensed to issue qualified health plans.	13b	
c	Enter the amount of reserves on hand.	13c	
14a	Did the organization receive any payments for indoor tanning services during the tax year?	14a	No
b	If "Yes," has it filed a Form 720 to report these payments? If "No," provide an explanation in Schedule O.	14b	

Part VI

Governance, Management, and Disclosure

For each "Yes" response to lines 2 through 7b below, and for a "No" response to lines 8a, 8b, or 10b below, describe the circumstances, processes, or changes in Schedule O. See instructions.
Check if Schedule O contains a response to any question in this Part VI

Section A. Governing Body and Management

			Yes	No
1a	Enter the number of voting members of the governing body at the end of the tax year	1a	9	
b	Enter the number of voting members included in line 1a, above, who are independent	1b	7	
2	Did any officer, director, trustee, or key employee have a family relationship or a business relationship with any other officer, director, trustee, or key employee?	2		No
3	Did the organization delegate control over management duties customarily performed by or under the direct supervision of officers, directors or trustees, or key employees to a management company or other person?	3		No
4	Did the organization make any significant changes to its governing documents since the prior Form 990 was filed?	4		No
5	Did the organization become aware during the year of a significant diversion of the organization's assets?	5		No
6	Does the organization have members or stockholders?	6		No
7a	Does the organization have members, stockholders, or other persons who may elect one or more members of the governing body?	7a		No
b	Are any decisions of the governing body subject to approval by members, stockholders, or other persons?	7b		No
8	Did the organization contemporaneously document the meetings held or written actions undertaken during the year by the following			
a	The governing body?	8a	Yes	
b	Each committee with authority to act on behalf of the governing body?	8b	Yes	
9	Is there any officer, director, trustee, or key employee listed in Part VII, Section A, who cannot be reached at the organization's mailing address? If "Yes," provide the names and addresses in Schedule O	9		No

Section B. Policies

(This Section B requests information about policies not required by the Internal Revenue Code.)

			Yes	No
10a	Does the organization have local chapters, branches, or affiliates?	10a		No
b	If "Yes," does the organization have written policies and procedures governing the activities of such chapters, affiliates, and branches to ensure their operations are consistent with those of the organization?	10b		
11a	Has the organization provided a copy of this Form 990 to all members of its governing body before filing the form?	11a		No
b	Describe in Schedule O the process, if any, used by the organization to review this Form 990			
12a	Does the organization have a written conflict of interest policy? If "No," go to line 13	12a	Yes	
b	Are officers, directors or trustees, and key employees required to disclose annually interests that could give rise to conflicts?	12b	Yes	
c	Does the organization regularly and consistently monitor and enforce compliance with the policy? If "Yes," describe in Schedule O how this is done	12c	Yes	
13	Does the organization have a written whistleblower policy?	13	Yes	
14	Does the organization have a written document retention and destruction policy?	14	Yes	
15	Did the process for determining compensation of the following persons include a review and approval by independent persons, comparability data, and contemporaneous substantiation of the deliberation and decision?			
a	The organization's CEO, Executive Director, or top management official	15a	Yes	
b	Other officers or key employees of the organization	15b	Yes	
	If "Yes" to line 15a or 15b, describe the process in Schedule O (See instructions)			
16a	Did the organization invest in, contribute assets to, or participate in a joint venture or similar arrangement with a taxable entity during the year?	16a		No
b	If "Yes," has the organization adopted a written policy or procedure requiring the organization to evaluate its participation in joint venture arrangements under applicable federal tax law, and taken steps to safeguard the organization's exempt status with respect to such arrangements?	16b		

Section C. Disclosure

17	List the States with which a copy of this Form 990 is required to be filed	IL , WI
18	Section 6104 requires an organization to make its Form 1023 (or 1024 if applicable), 990, and 990-T (501(c) (3)s only) available for public inspection. Indicate how you make these available. Check all that apply. <input type="checkbox"/> Own website <input type="checkbox"/> Another's website <input checked="" type="checkbox"/> Upon request	
19	Describe in Schedule O whether (and if so, how), the organization makes its governing documents, conflict of interest policy, and financial statements available to the public. See Additional Data Table.	
20	State the name, physical address, and telephone number of the person who possesses the books and records of the organization.	JOHN COOK 1000 MINERAL POINT JANESVILLE, WI 535475003 (608) 756-6642

Part VII

Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors

Check if Schedule O contains a response to any question in this Part VII

Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

1a Complete this table for all persons required to be listed. Report compensation for the calendar year ending with or within the organization's tax year.

- List all of the organization's **current** officers, directors, trustees (whether individuals or organizations), regardless of amount of compensation, and **current** key employees. Enter -0- in columns (D), (E), and (F) if no compensation was paid.
- List all of the organization's **current** key employees, if any. See instructions for definition of "key employee."
- List the organization's five **current** highest compensated employees (other than an officer, director, trustee or key employee) who received reportable compensation (Box 5 of Form W-2 and/or Box 7 of Form 1099-MISC) of more than \$100,000 from the organization and any related organizations.
- List all of the organization's **former** officers, key employees, and highest compensated employees who received more than \$100,000 of reportable compensation from the organization and any related organizations.
- List all of the organization's **former directors or trustees** that received, in the capacity as a former director or trustee of the organization, more than \$10,000 of reportable compensation from the organization and any related organizations.

List persons in the following order: individual trustees or directors; institutional trustees; officers; key employees; highest compensated employees; and former such persons.

☐ Check this box if neither the organization nor any related organization compensated any current officer, director, or trustee

(A) Name and Title	(B) Average hours per week (describe hours for related organizations in Schedule O)	(C) Position (check all that apply)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional Trustee	Officer	Key employee	Highest compensated employee	Former			
(1) ROWLAND MCCLELLAN CHAIRPERSON & DIRECTOR	1.00	X						455	0	0
(2) THOMAS POOL VICE-CHAIRPERSON & DIRECTOR	1.00	X						13,500	0	0
(3) LARRY SQUIRE TREASURER & DIRECTOR	1.00	X						728	0	0
(4) SIMA WEXLER SECRETARY & DIRECTOR	1.00	X						0	0	0
(5) DAVE SYVERSON DIRECTOR	1.00	X						13,500	0	0
(6) MARK GOELZER MD DIRECTOR	1.00	X						0	0	0
(7) ROBERT CONSIGNY DIRECTOR	1.00	X						62	0	0
(8) STEVE VAN GALDER DIRECTOR	1.00	X						728	0	0
(9) KATHERINE SCHACK DIRECTOR	1.00	X						1,062	0	0
(10) BARB BORTNER VICE-PRESIDENT	55.00			X				201,251	0	21,805
(11) DAN COLBY VICE-PRESIDENT	55.00			X				280,650	0	39,562
(12) DAVID KURTZ VICE-PRESIDENT	55.00			X				215,552	0	41,605
(13) JOHN COOK VICE-PRESIDENT	55.00			X				342,847	0	37,355
(14) KATHY HARRIS VICE-PRESIDENT	55.00			X				137,935	0	16,483
(15) RUTH YARBROUGH VICE-PRESIDENT	55.00			X				257,040	0	40,105
(16) RICHARD GRUBER VICE-PRESIDENT	55.00			X				209,385	0	24,078

Part VII

Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees (continued)

(A) Name and Title	(B) Average hours per week (describe hours for related organizations in Schedule O)	(C) Position (check all that apply)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional Trustee	Officer	Key employee	Highest compensated employee	Former			
(17) RALPH TOPINKA VICE-PRESIDENT	55 00			X				382,714	0	39,699
(18) JOSEPH NEMETH FORMER VICE-PRESIDENT	55 00						X	217,326	0	41,498
(19) SUE RIPSCH VICE-PRESIDENT	55 00			X				359,970	0	26,105
(20) JAVON BEA PRESIDENT & DIRECTOR	55 00	X		X				2,269,615	0	1,500,328
(21) BRADLEY FIDELER PHYSICIAN	40 00					X		2,631,159	0	230,080
(22) CAROL NEUMAN PHYSICIAN	40 00					X		1,584,033	0	96,523
(23) CHRISTOPHER STURM PHYSICIAN	40 00					X		1,552,218	0	50,257
(24) JAMES KIRSCHBAUM PHYSICIAN	40 00					X		1,148,906	0	55,440
(25) VIKRAM KHANNA PHYSICIAN	40 00					X		1,065,665	0	55,029
1b Sub-Total										
c Total from continuation sheets to Part VII, Section A										
d Total (add lines 1b and 1c)								12,886,301	0	2,315,952

2 Total number of individuals (including but not limited to those listed above) who received more than \$100,000 in reportable compensation from the organization▶356

		Yes	No
3	Did the organization list any former officer, director or trustee, key employee, or highest compensated employee on line 1a? <i>If "Yes," complete Schedule J for such individual</i>	3 Yes	
4	For any individual listed on line 1a, is the sum of reportable compensation and other compensation from the organization and related organizations greater than \$150,000? <i>If "Yes," complete Schedule J for such individual</i>	4 Yes	
5	Did any person listed on line 1a receive or accrue compensation from any unrelated organization or individual for services rendered to the organization? <i>If "Yes," complete Schedule J for such person</i>	5	No

Section B. Independent Contractors

1 Complete this table for your five highest compensated independent contractors that received more than \$100,000 of compensation from the organization

(A) Name and business address	(B) Description of services	(C) Compensation
MAGILL CONSTRUCTION COMPANY 977 KOOPMAN LANE ELKHORN, WI 53121	CONSTRUCTION	3,605,462
WALSH CONSTRUCTION COMPANY II LLC 929 WEST ADAMS CHICAGO, IL 60607	CONSTRUCTION	3,078,086
ELLERBE BECKET NW 8400 PO BOX 1450 MINNEAPOLIS, MN 554858400	ARCHITECTUAL SERVICES	2,747,922
MANN BROS INC PO BOX 48 ELKHORN, WI 53121	CONSTRUCTION	1,285,571
QUEST DIAGNOSTICS PO BOX 12989 CHICAGO, IL 60693	LAB SERVICES	1,271,089

2 Total number of independent contractors (including but not limited to those listed above) who received more than \$100,000 in compensation from the organization ▶39

Part VIII

Statement of Revenue

				(A) Total revenue	(B) Related or exempt function revenue	(C) Unrelated business revenue	(D) Revenue excluded from tax under sections 512, 513, or 514
Contributions, gifts, grants and other similar amounts	1a	Federated campaigns . . .	1a		248,889		
	b	Membership dues	1b				
	c	Fundraising events	1c				
	d	Related organizations	1d				
	e	Government grants (contributions)	1e				
	f	All other contributions, gifts, grants, and similar amounts not included above	1f	248,889			
	g	Noncash contributions included in lines 1a-1f \$					
	h	Total. Add lines 1a-1f		248,889			
	Program Service Revenue	2a	Business Code				
		PATIENT SERVICE REVENUE		621110	436,647,657	436,647,657	
b		UNRELATED BUSINESS INC		561000	10,690,442		10,690,442
c		CAFETERIA		722210	1,021,907		1,021,907
d							
e							
f		All other program service revenue					
g		Total. Add lines 2a-2f			448,360,006		
Other Revenue		3	Investment income (including dividends, interest and other similar amounts)			861,887	
	4	Income from investment of tax-exempt bond proceeds . .					
	5	Royalties					
	6a	(i) Real		(ii) Personal			
	b	Less rental expenses					
	c	Rental income or (loss)					
	d	Net rental income or (loss)					
	7a	(i) Securities		(ii) Other			
		30,359,980		327,162			
		30,122,316		456,868			
		237,664		-129,706			
	d	Net gain or (loss)			107,958		107,958
	8a	Gross income from fundraising events (not including \$ _____ of contributions reported on line 1c) See Part IV, line 18		a			
	b	Less direct expenses		b			
	c	Net income or (loss) from fundraising events . .					
	9a	Gross income from gaming activities See Part IV, line 19 . .		a			
	b	Less direct expenses		b			
	c	Net income or (loss) from gaming activities . .					
	10a	Gross sales of inventory, less returns and allowances		a			
	b	Less cost of goods sold		b			
c	Net income or (loss) from sales of inventory . .						
Miscellaneous Revenue			Business Code				
11a	OTHER INVESTMENTS		900099	3,458,443		3,458,443	
b	MISCELLANEOUS		900099	233,763		233,763	
c							
d	All other revenue						
e	Total. Add lines 11a-11d			3,692,206			
12	Total revenue. See Instructions			453,270,946	436,647,657	10,690,442	5,683,958

Part IX Statement of Functional Expenses

Section 501(c)(3) and 501(c)(4) organizations must complete all columns.
All other organizations must complete column (A) but are not required to complete columns (B), (C), and (D).

Do not include amounts reported on lines 6b, 7b, 8b, 9b, and 10b of Part VIII.		(A) Total expenses	(B) Program service expenses	(C) Management and general expenses	(D) Fundraising expenses
1	Grants and other assistance to governments and organizations in the U S See Part IV, line 21				
2	Grants and other assistance to individuals in the U S See Part IV, line 22				
3	Grants and other assistance to governments, organizations, and individuals outside the U S See Part IV, lines 15 and 16				
4	Benefits paid to or for members				
5	Compensation of current officers, directors, trustees, and key employees	6,474,119		6,474,119	
6	Compensation not included above, to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B)				
7	Other salaries and wages	208,697,203	169,814,132	38,883,071	
8	Pension plan contributions (include section 401(k) and section 403(b) employer contributions)	9,519,964	6,980,428	2,539,536	
9	Other employee benefits	25,125,177	18,663,168	6,462,009	
10	Payroll taxes	12,477,177	9,529,306	2,947,871	
a	Fees for services (non-employees) Management				
b	Legal	728,812		728,812	
c	Accounting	48,300		48,300	
d	Lobbying				
e	Professional fundraising services See Part IV, line 17				
f	Investment management fees	77,388		77,388	
g	Other	19,088,958	10,139,793	8,949,165	
12	Advertising and promotion	3,170,779	70,186	3,100,593	
13	Office expenses	76,119,009	72,306,642	3,812,367	
14	Information technology	1,090,127	383,195	706,932	
15	Royalties				
16	Occupancy	7,249,665	6,559,497	690,168	
17	Travel	728,008	302,415	425,593	
18	Payments of travel or entertainment expenses for any federal, state, or local public officials				
19	Conferences, conventions, and meetings	1,320,457	931,113	389,344	
20	Interest	5,021,698	4,543,632	478,066	
21	Payments to affiliates				
22	Depreciation, depletion, and amortization	19,596,159	17,712,398	1,883,761	
23	Insurance	5,464,602	4,509,354	955,248	
24	Other expenses Itemize expenses not covered above (List miscellaneous expenses in line 24f If line 24f amount exceeds 10% of line 25, column (A) amount, list line 24f expenses on Schedule O)				
a	BAD DEBTS	20,416,447	20,416,447	0	0
b	WI MEDICAID & OTHER TAX	6,802,235	6,802,235	0	0
c	EQUIPMENT REPAIRS & MAI	5,688,351	3,939,956	1,748,395	0
d	MEMBERSHIPS & DUES	1,219,312	791,996	427,316	0
e	INTER-ENTITY TRANSACTIO	-11,227,652	-2,873,831	-8,353,821	0
f	All other expenses	2,681,285	58,750	2,622,535	
25	Total functional expenses. Add lines 1 through 24f	427,577,580	351,580,812	75,996,768	0
26	Joint costs. Check here <input checked="" type="checkbox"/> if following SOP 98-2 (ASC 958-720) Complete this line only if the organization reported in column (B) joint costs from a combined educational campaign and fundraising solicitation				

Part X

Balance Sheet

					(A)		(B)
					Beginning of year		End of year
Assets	1	Cash—non-interest-bearing			16,320	1	17,070
	2	Savings and temporary cash investments			13,332,054	2	15,650,700
	3	Pledges and grants receivable, net				3	
	4	Accounts receivable, net			67,615,922	4	61,920,944
	5	Receivables from current and former officers, directors, trustees, key employees, and highest compensated employees. Complete Part II of Schedule L				5	
	6	Receivables from other disqualified persons (as defined under section 4958(f)(1)), persons described in section 4958(c)(3)(B), and contributing employers, and sponsoring organizations of section 501(c)(9) voluntary employees' beneficiary organizations (see instructions) Schedule L				6	
	7	Notes and loans receivable, net				7	
	8	Inventories for sale or use			9,501,828	8	9,690,306
	9	Prepaid expenses and deferred charges			4,648,927	9	4,665,485
	10a	Land, buildings, and equipment: cost or other basis. Complete Part VI of Schedule D	10a	394,028,926	173,375,036	10c	218,302,209
	b	Less: accumulated depreciation	10b	175,726,717			
	11	Investments—publicly traded securities				11	
	12	Investments—other securities. See Part IV, line 11			66,794,118	12	71,251,414
	13	Investments—program-related. See Part IV, line 11				13	
	14	Intangible assets				14	
	15	Other assets. See Part IV, line 11			7,412,734	15	6,190,366
16	Total assets. Add lines 1 through 15 (must equal line 34)			342,696,939	16	387,688,494	
Liabilities	17	Accounts payable and accrued expenses			63,452,408	17	65,708,246
	18	Grants payable				18	
	19	Deferred revenue				19	
	20	Tax-exempt bond liabilities			37,224,761	20	40,071,547
	21	Escrow or custodial account liability. Complete Part IV of Schedule D				21	
	22	Payables to current and former officers, directors, trustees, key employees, highest compensated employees, and disqualified persons. Complete Part II of Schedule L				22	
	23	Secured mortgages and notes payable to unrelated third parties				23	
	24	Unsecured notes and loans payable to unrelated third parties				24	
	25	Other liabilities. Complete Part X of Schedule D			142,862,341	25	146,634,982
	26	Total liabilities. Add lines 17 through 25			243,539,510	26	252,414,775
Net Assets or Fund Balances	Organizations that follow SFAS 117, check here <input checked="" type="checkbox"/> and complete lines 27 through 29, and lines 33 and 34.						
	27	Unrestricted net assets			99,157,429	27	135,273,719
	28	Temporarily restricted net assets				28	
	29	Permanently restricted net assets				29	
	Organizations that do not follow SFAS 117, check here <input type="checkbox"/> and complete lines 30 through 34.						
	30	Capital stock or trust principal, or current funds				30	
	31	Paid-in or capital surplus, or land, building or equipment fund				31	
	32	Retained earnings, endowment, accumulated income, or other funds				32	
	33	Total net assets or fund balances			99,157,429	33	135,273,719
	34	Total liabilities and net assets/fund balances			342,696,939	34	387,688,494

Part XI Reconciliation of Net Assets

Check if Schedule O contains a response to any question in this Part XI

1	Total revenue (must equal Part VIII, column (A), line 12)	1	453,270,946
2	Total expenses (must equal Part IX, column (A), line 25)	2	427,577,580
3	Revenue less expenses Subtract line 2 from line 1	3	25,693,366
4	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A))	4	99,157,429
5	Other changes in net assets or fund balances (explain in Schedule O)	5	10,422,924
6	Net assets or fund balances at end of year Combine lines 3, 4, and 5 (must equal Part X, line 33, column (B))	6	135,273,719

Part XII Financial Statements and Reporting

Check if Schedule O contains a response to any question in this Part XII

		Yes	No
1	Accounting method used to prepare the Form 990 <input type="checkbox"/> Cash <input checked="" type="checkbox"/> Accrual <input type="checkbox"/> Other If the organization changed its method of accounting from a prior year or checked "Other," explain in Schedule O		
2a	Were the organization's financial statements compiled or reviewed by an independent accountant?		No
b	Were the organization's financial statements audited by an independent accountant?	Yes	
c	If "Yes," to 2a or 2b, does the organization have a committee that assumes responsibility for oversight of the audit, review, or compilation of its financial statements and selection of an independent accountant? If the organization changed either its oversight process or selection process during the tax year, explain in Schedule O	Yes	
d	If "Yes" to line 2a or 2b, check a box below to indicate whether the financial statements for the year were issued on a separate basis, consolidated basis, or both <input type="checkbox"/> Separate basis <input type="checkbox"/> Consolidated basis <input checked="" type="checkbox"/> Both consolidated and separated basis		
3a	As a result of a federal award, was the organization required to undergo an audit or audits as set forth in the Single Audit Act and OMB Circular A-133?		No
b	If "Yes," did the organization undergo the required audit or audits? If the organization did not undergo the required audit or audits, explain why in Schedule O and describe any steps taken to undergo such audits		

SCHEDULE A

(Form 990 or 990EZ)

Department of the Treasury
Internal Revenue Service

Public Charity Status and Public Support

Complete if the organization is a section 501(c)(3) organization or a section 4947(a)(1) nonexempt charitable trust.

▶ Attach to Form 990 or Form 990-EZ. ▶ See separate instructions.

OMB No 1545-0047

2010

Open to Public
Inspection

Name of the organization MERCY HEALTH SYSTEM CORPORATION	Employer identification number 39-0816848
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Part I

Reason for Public Charity Status (All organizations must complete this part.) See instructions

The organization is not a private foundation because it is (For lines 1 through 11, check only one box)

- 1

☐

A church, convention of churches, or association of churches described in **section 170(b)(1)(A)(i).**
- 2

☐

A school described in **section 170(b)(1)(A)(ii).** (Attach Schedule E)
- 3

☒

A hospital or a cooperative hospital service organization described in **section 170(b)(1)(A)(iii).**
- 4

☐

A medical research organization operated in conjunction with a hospital described in **section 170(b)(1)(A)(iii).** Enter the hospital's name, city, and state
- 5

☐

An organization operated for the benefit of a college or university owned or operated by a governmental unit described in **section 170(b)(1)(A)(iv).** (Complete Part II)
- 6

☐

A federal, state, or local government or governmental unit described in **section 170(b)(1)(A)(v).**
- 7

☐

An organization that normally receives a substantial part of its support from a governmental unit or from the general public described in **section 170(b)(1)(A)(vi)** (Complete Part II)
- 8

☐

A community trust described in **section 170(b)(1)(A)(vi)** (Complete Part II)
- 9

☐

An organization that normally receives (1) more than 33 1/3% of its support from contributions, membership fees, and gross receipts from activities related to its exempt functions—subject to certain exceptions, and (2) no more than 33 1/3% of its support from gross investment income and unrelated business taxable income (less section 511 tax) from businesses acquired by the organization after June 30, 1975 See **section 509(a)(2).** (Complete Part III)
- 10

☐

An organization organized and operated exclusively to test for public safety See**section 509(a)(4).**
- 11

☐

An organization organized and operated exclusively for the benefit of, to perform the functions of, or to carry out the purposes of one or more publicly supported organizations described in section 509(a)(1) or section 509(a)(2) See **section 509(a)(3).** Check the box that describes the type of supporting organization and complete lines 11e through 11h

a

☐

Type I

b

☐

Type II

c

☐

Type III - Functionally integrated

d

☐

Type III - Other
- e

☐

By checking this box, I certify that the organization is not controlled directly or indirectly by one or more disqualified persons other than foundation managers and other than one or more publicly supported organizations described in section 509(a)(1) or section 509(a)(2)
- f

☐

If the organization received a written determination from the IRS that it is a Type I, Type II or Type III supporting organization, check this box
- g

☐

Since August 17, 2006, has the organization accepted any gift or contribution from any of the following persons?

(i)

a person who directly or indirectly controls, either alone or together with persons described in (ii) and (iii) below, the governing body of the the supported organization?

(ii)

a family member of a person described in (i) above?

(iii)

a 35% controlled entity of a person described in (i) or (ii) above?
- h

☐

Provide the following information about the supported organization(s)

	Yes	No
11g(i)		
11g(ii)		
11g(iii)		

(i) Name of supported organization	(ii) EIN	(iii) Type of organization (described on lines 1- 9 above or IRC section (see instructions))	(iv) Is the organization in col (i) listed in your governing document?		(v) Did you notify the organization in col (i) of your support?		(vi) Is the organization in col (i) organized in the U S ?		(vii) Amount of support
			Yes	No	Yes	No	Yes	No	
Total									

Part II

Support Schedule for Organizations Described in Sections 170(b)(1)(A)(iv) and 170(b)(1)(A)(vi)

(Complete only if you checked the box on line 5, 7, or 8 of Part I or if the organization failed to qualify under Part III. If the organization fails to qualify under the tests listed below, please complete Part III.)

Section A. Public Support						
Calendar year (or fiscal year beginning in) ▶	(a) 2006	(b) 2007	(c) 2008	(d) 2009	(e) 2010	(f) Total
1 Gifts, grants, contributions, and membership fees received (Do not include any "unusual grants.")						
2 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf						
3 The value of services or facilities furnished by a governmental unit to the organization without charge						
4 Total. Add lines 1 through 3						
5 The portion of total contributions by each person (other than a governmental unit or publicly supported organization) included on line 1 that exceeds 2% of the amount shown on line 11, column (f)						
6 Public Support. Subtract line 5 from line 4						

Section B. Total Support						
Calendar year (or fiscal year beginning in) ▶	(a) 2006	(b) 2007	(c) 2008	(d) 2009	(e) 2010	(f) Total
7 Amounts from line 4						
8 Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
9 Net income from unrelated business activities, whether or not the business is regularly carried on						
10 Other income Do not include gain or loss from the sale of capital assets (Explain in Part IV)						
11 Total support (Add lines 7 through 10)						
12 Gross receipts from related activities, etc (See instructions)					12	
13 First Five Years If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a 501(c)(3) organization, check this box and stop here ▶						

Section C. Computation of Public Support Percentage						
14 Public Support Percentage for 2010 (line 6 column (f) divided by line 11 column (f))					14	
15 Public Support Percentage for 2009 Schedule A, Part II, line 14					15	
16a 33 1/3% support test—2010. If the organization did not check the box on line 13, and line 14 is 33 1/3% or more, check this box and stop here. The organization qualifies as a publicly supported organization ▶						
b 33 1/3% support test—2009. If the organization did not check the box on line 13 or 16a, and line 15 is 33 1/3% or more, check this box and stop here. The organization qualifies as a publicly supported organization ▶						
17a 10%-facts-and-circumstances test—2010. If the organization did not check a box on line 13, 16a, or 16b and line 14 is 10% or more, and if the organization meets the "facts and circumstances" test, check this box and stop here. Explain in Part IV how the organization meets the "facts and circumstances" test The organization qualifies as a publicly supported organization ▶						
b 10%-facts-and-circumstances test—2009. If the organization did not check a box on line 13, 16a, 16b, or 17a and line 15 is 10% or more, and if the organization meets the "facts and circumstances" test, check this box and stop here. Explain in Part IV how the organization meets the "facts and circumstances" test The organization qualifies as a publicly supported organization ▶						
18 Private Foundation If the organization did not check a box on line 13, 16a, 16b, 17a or 17b, check this box and see instructions ▶						

Part III

Support Schedule for Organizations Described in Section 509(a)(2)
(Complete only if you checked the box on line 9 of Part I or if the organization failed to qualify under Part II. If the organization fails to qualify under the tests listed below, please complete Part II.)

Section A. Public Support						
Calendar year (or fiscal year beginning in) 	(a) 2006	(b) 2007	(c) 2008	(d) 2009	(e) 2010	(f) Total
1 Gifts, grants, contributions, and membership fees received (Do not include any "unusual grants.")						
2 Gross receipts from admissions, merchandise sold or services performed, or facilities furnished in any activity that is related to the organization's tax-exempt purpose						
3 Gross receipts from activities that are not an unrelated trade or business under section 513						
4 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf						
5 The value of services or facilities furnished by a governmental unit to the organization without charge						
6 Total. Add lines 1 through 5						
7a Amounts included on lines 1, 2, and 3 received from disqualified persons						
b Amounts included on lines 2 and 3 received from other than disqualified persons that exceed the greater of \$5,000 or 1% of the amount on line 13 for the year						
c Add lines 7a and 7b						
8 Public Support (Subtract line 7c from line 6)						

Section B. Total Support						
Calendar year (or fiscal year beginning in) 	(a) 2006	(b) 2007	(c) 2008	(d) 2009	(e) 2010	(f) Total
9 Amounts from line 6						
10a Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
b Unrelated business taxable income (less section 511 taxes) from businesses acquired after June 30, 1975						
c Add lines 10a and 10b						
11 Net income from unrelated business activities not included in line 10b, whether or not the business is regularly carried on						
12 Other income. Do not include gain or loss from the sale of capital assets (Explain in Part IV)						
13 Total support (Add lines 9, 10c, 11 and 12)						
14 First Five Years If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a section 501(c)(3) organization, check this box and stop here 						

Section C. Computation of Public Support Percentage		
15 Public Support Percentage for 2010 (line 8 column (f) divided by line 13 column (f))	15	
16 Public support percentage from 2009 Schedule A, Part III, line 15	16	

Section D. Computation of Investment Income Percentage		
17 Investment income percentage for 2010 (line 10c column (f) divided by line 13 column (f))	17	
18 Investment income percentage from 2009 Schedule A, Part III, line 17	18	
19a 33 1/3% support tests—2010. If the organization did not check the box on line 14, and line 15 is more than 33 1/3% and line 17 is not more than 33 1/3%, check this box and stop here . The organization qualifies as a publicly supported organization 		
b 33 1/3% support tests—2009. If the organization did not check a box on line 14 or line 19a, and line 16 is more than 33 1/3% and line 18 is not more than 33 1/3%, check this box and stop here . The organization qualifies as a publicly supported organization 		
20 Private Foundation If the organization did not check a box on line 14, 19a or 19b, check this box and see instructions 		

Part IV

Supplemental Information. Supplemental Information. Complete this part to provide the explanations required by Part II, line 10; Part II, line 17a or 17b; and Part III, line 12. Also complete this part for any additional information. (See instructions).

SCHEDULE D

(Form 990)

Department of the Treasury
Internal Revenue Service

Supplemental Financial Statements

▶ **Complete if the organization answered "Yes," to Form 990, Part IV, line 6, 7, 8, 9, 10, 11, or 12.**
▶ **Attach to Form 990. ▶ See separate instructions.**

OMB No 1545-0047

2010

Open to Public
Inspection

Name of the organization
MERCY HEALTH SYSTEM CORPORATION

Employer identification number
39-0816848

Part I

Organizations Maintaining Donor Advised Funds or Other Similar Funds or Accounts. Complete if the organization answered "Yes" to Form 990, Part IV, line 6.

	(a) Donor advised funds	(b) Funds and other accounts
1	Total number at end of year	
2	Aggregate contributions to (during year)	
3	Aggregate grants from (during year)	
4	Aggregate value at end of year	
5	Did the organization inform all donors and donor advisors in writing that the assets held in donor advised funds are the organization's property, subject to the organization's exclusive legal control?	
	<div><input type="checkbox"/> Yes</div> <div><input type="checkbox"/> No</div>	
6	Did the organization inform all grantees, donors, and donor advisors in writing that grant funds may be used only for charitable purposes and not for the benefit of the donor or donor advisor, or for any other purpose conferring impermissible private benefit	
	<div><input type="checkbox"/> Yes</div> <div><input type="checkbox"/> No</div>	

Part II

Conservation Easements. Complete if the organization answered "Yes" to Form 990, Part IV, line 7.

1

Purpose(s) of conservation easements held by the organization (check all that apply)

☐

Preservation of land for public use (e g , recreation or pleasure)

☐

Protection of natural habitat

☐

Preservation of open space

☐

Preservation of an historically importantly land area

☐

Preservation of a certified historic structure

2

Complete lines 2a–2d if the organization held a qualified conservation contribution in the form of a conservation easement on the last day of the tax year

2a

Total number of conservation easements

2b

Total acreage restricted by conservation easements

2c

Number of conservation easements on a certified historic structure included in (a)

2d

Number of conservation easements included in (c) acquired after 8/17/06

	Held at the End of the Year
2a	
2b	
2c	
2d	

3

Number of conservation easements modified, transferred, released, extinguished, or terminated by the organization during the taxable year ▶_____

4

Number of states where property subject to conservation easement is located ▶_____

5

Does the organization have a written policy regarding the periodic monitoring, inspection, handling of violations, and enforcement of the conservation easements it holds?

☐ Yes

☐ No

6

Staff and volunteer hours devoted to monitoring, inspecting and enforcing conservation easements during the year ▶_____

7

Amount of expenses incurred in monitoring, inspecting, and enforcing conservation easements during the year ▶\$ _____

8

Does each conservation easement reported on line 2(d) above satisfy the requirements of section 170(h)(4)(B)(i) and 170(h)(4)(B)(ii)?

☐ Yes

☐ No

9

In Part XIV, describe how the organization reports conservation easements in its revenue and expense statement, and balance sheet, and include, if applicable, the text of the footnote to the organization's financial statements that describes the organization's accounting for conservation easements

Part III

Organizations Maintaining Collections of Art, Historical Treasures, or Other Similar Assets. Complete if the organization answered "Yes" to Form 990, Part IV, line 8.

1a	If the organization elected, as permitted under SFAS 116, not to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education or research in furtherance of public service, provide, in Part XIV, the text of the footnote to its financial statements that describes these items	
b	If the organization elected, as permitted under SFAS 116, to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education, or research in furtherance of public service, provide the following amounts relating to these items	
	(i) Revenues included in Form 990, Part VIII, line 1	▶ \$ _____
	(ii) Assets included in Form 990, Part X	▶ \$ _____
2	If the organization received or held works of art, historical treasures, or other similar assets for financial gain, provide the following amounts required to be reported under SFAS 116 relating to these items	
a	Revenues included in Form 990, Part VIII, line 1	▶ \$ _____
b	Assets included in Form 990, Part X	▶ \$ _____

Part III Organizations Maintaining Collections of Art, Historical Treasures, or Other Similar Assets *(continued)*

3

Using the organization's accession and other records, check any of the following that are a significant use of its collection items (check all that apply)

a

☐ Public exhibition

b

☐ Scholarly research

c

☐ Preservation for future generations

d

☐ Loan or exchange programs

e

☐ Other

4

Provide a description of the organization's collections and explain how they further the organization's exempt purpose in Part XIV

5

During the year, did the organization solicit or receive donations of art, historical treasures or other similar assets to be sold to raise funds rather than to be maintained as part of the organization's collection?

☐ Yes

☐ No

Part IV Escrow and Custodial Arrangements. Complete if the organization answered "Yes" to Form 990, Part IV, line 9, or reported an amount on Form 990, Part X, line 21.

1a

Is the organization an agent, trustee, custodian or other intermediary for contributions or other assets not included on Form 990, Part X?

☐ Yes

☐ No

b

If "Yes," explain the arrangement in Part XIV and complete the following table

	Amount
1c	
1d	
1e	
1f	

2a

Did the organization include an amount on Form 990, Part X, line 21?

☐ Yes

☐ No

b

If "Yes," explain the arrangement in Part XIV

Part V Endowment Funds. Complete if the organization answered "Yes" to Form 990, Part IV, line 10.

	(a)Current Year	(b)Prior Year	(c)Two Years Back	(d)Three Years Back	(e)Four Years Back
1a	Beginning of year balance				
b	Contributions				
c	Investment earnings or losses				
d	Grants or scholarships				
e	Other expenditures for facilities and programs				
f	Administrative expenses				
g	End of year balance				

2

Provide the estimated percentage of the year end balance held as

a

Board designated or quasi-endowment ▶

b

Permanent endowment ▶

c

Term endowment ▶

3a

Are there endowment funds not in the possession of the organization that are held and administered for the organization by

(i)

unrelated organizations

3a(i)

Yes

No

(ii)

related organizations

3a(ii)

b

If "Yes" to 3a(ii), are the related organizations listed as required on Schedule R?

3b

4

Describe in Part XIV the intended uses of the organization's endowment funds

Part VI Investments—Land, Buildings, and Equipment. See Form 990, Part X, line 10.

Description of investment	(a) Cost or other basis (investment)	(b)Cost or other basis (other)	(c) Accumulated depreciation	(d) Book value
1a Land		26,460,912		26,460,912
b Buildings		168,928,204	76,886,032	92,042,172
c Leasehold improvements		5,207,960	3,272,312	1,935,648
d Equipment		140,844,768	91,232,570	49,612,198
e Other		52,587,082	4,335,803	48,251,279
Total. Add lines 1a-1e (Column (d) should equal Form 990, Part X, column (B), line 10(c).) ▶				218,302,209

Part XI Reconciliation of Change in Net Assets from Form 990 to Financial Statements		
1	Total revenue (Form 990, Part VIII, column (A), line 12)	1453,270,946
2	Total expenses (Form 990, Part IX, column (A), line 25)	2427,577,580
3	Excess or (deficit) for the year Subtract line 2 from line 1	325,693,366
4	Net unrealized gains (losses) on investments	4-71,076
5	Donated services and use of facilities	5
6	Investment expenses	6
7	Prior period adjustments	7
8	Other (Describe in Part XIV)	810,494,000
9	Total adjustments (net) Add lines 4 - 8	910,422,924
10	Excess or (deficit) for the year per financial statements Combine lines 3 and 9	1036,116,290

Part XII Reconciliation of Revenue per Audited Financial Statements With Revenue per Return		
1	Total revenue, gains, and other support per audited financial statements	1453,270,946
2	Amounts included on line 1 but not on Form 990, Part VIII, line 12	
a	Net unrealized gains on investments2a	
b	Donated services and use of facilities2b	
c	Recoveries of prior year grants2c	
d	Other (Describe in Part XIV)2d	
e	Add lines 2a through 2d2e	0
3	Subtract line 2e from line 13	453,270,946
4	Amounts included on Form 990, Part VIII, line 12, but not on line 1	
a	Investment expenses not included on Form 990, Part VIII, line 7b4a	
b	Other (Describe in Part XIV)4b	
c	Add lines 4a and 4b4c	0
5	Total Revenue Add lines 3 and 4c. (This should equal Form 990, Part I, line 12)5	453,270,946

Part XIII Reconciliation of Expenses per Audited Financial Statements With Expenses per Return		
1	Total expenses and losses per audited financial statements	1427,577,580
2	Amounts included on line 1 but not on Form 990, Part IX, line 25	
a	Donated services and use of facilities2a	
b	Prior year adjustments2b	
c	Other losses2c	
d	Other (Describe in Part XIV)2d	
e	Add lines 2a through 2d2e	0
3	Subtract line 2e from line 13	427,577,580
4	Amounts included on Form 990, Part IX, line 25, but not on line 1:	
a	Investment expenses not included on Form 990, Part VIII, line 7b4a	
b	Other (Describe in Part XIV)4b	
c	Add lines 4a and 4b4c	0
5	Total expenses Add lines 3 and 4c. (This should equal Form 990, Part I, line 18)5	427,577,580

Part XIV Supplemental Information		
Complete this part to provide the descriptions required for Part II, lines 3, 5, and 9, Part III, lines 1a and 4, Part IV, lines 1b and 2b, Part V, line 4, Part X, Part XI, line 8, Part XII, lines 2d and 4b, and Part XIII, lines 2d and 4b. Also complete this part to provide any additional information.		
Identifier	Return Reference	Explanation
PART XI, LINE 8 - OTHER ADJUSTMENTS		CHANGES IN PENSION OBLIGATIONS 17,494,000 TRANSFER TO MERCY ALLIANCE, INC -7,000,000

SCHEDULE H
(Form 990)

Department of the Treasury
Internal Revenue Service

Hospitals

▶ **Complete if the organization answered "Yes" to Form 990, Part IV, question 20.**
▶ **Attach to Form 990.** ▶ **See separate instructions.**

OMB No 1545-0047

2010

Open to Public Inspection

Name of the organization
MERCY HEALTH SYSTEM CORPORATION

Employer identification number
39-0816848

Part I

Financial Assistance and Certain Other Community Benefits at Cost

		Yes	No
1a	Did the organization have a financial assistance policy during the tax year? If "No," skip to question 6a	Yes	
1b	If "Yes," is it a written policy?	Yes	
2	If the organization has multiple hospitals, indicate which of the following best describes application of the financial assistance policy to its various hospital facilities during the tax year <input checked="" type="checkbox"/> Applied uniformly to all hospitals <input type="checkbox"/> Applied uniformly to most hospitals <input type="checkbox"/> Generally tailored to individual hospitals		
3	Answer the following based on the the financial assistance eligibility criteria that applied to the largest number of the organization's patients during the tax year a Does the organization use Federal Poverty Guidelines (FPG) to determine eligibility for providing <i>free</i> care to low income individuals? If "Yes," indicate which of the following is the FPG family income limit for eligibility for free care <input type="checkbox"/> 100% <input checked="" type="checkbox"/> 150% <input type="checkbox"/> 200% <input type="checkbox"/> Other _____ % b Does the organization use FPG to determine eligibility for providing <i>discounted</i> care to low income individuals? If "Yes," indicate which of the following is the family income limit for eligibility for discounted care <input type="checkbox"/> 200% <input type="checkbox"/> 250% <input checked="" type="checkbox"/> 300% <input type="checkbox"/> 350% <input type="checkbox"/> 400% <input type="checkbox"/> Other _____ % c If the organization does not use FPG to determine eligibility, describe in Part VI the income based criteria for determining eligibility for free or discounted care Include in the description whether the organization uses an asset test or other threshold, regardless of income, to determine eligibility for free or discounted care 4 Did the organization's financial assistance policy that applied to the largest number of its patients during the tax year provide for free or discounted care to the "medically indigent"?	Yes	
5a	Did the organization budget amounts for free or discounted care provided under its financial assistance policy during the tax year?	Yes	
5b	If "Yes," did the organization's financial assistance expenses exceed the budgeted amount?	Yes	
5c	If "Yes" to line 5b, as a result of budget considerations, was the organization unable to provide free or discounted care to a patient who was eligible for free or discounted care?		No
6a	Does the organization prepare a community benefit report during the tax year?	Yes	
6b	If "Yes," did the organization make it available to the public? Complete the following table using the worksheets provided in the Schedule H instructions Do not submit these worksheets with the Schedule H	Yes	

7

Financial Assistance and Certain Other Community Benefits at Cost

Financial Assistance and Means-Tested Government Programs	(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community benefit expense	(d) Direct offsetting revenue	(e) Net community benefit expense	(f) Percent of total expense
a Financial Assistance at cost (from Worksheets 1 and 2)			4,253,924	0	4,253,924	1 040 %
b Unreimbursed Medicaid (from Worksheet 3, column a)			55,954,751	37,634,292	18,320,459	4 500 %
c Unreimbursed costs—other means-tested government programs (from Worksheet 3, column b)			5,259,927	3,914,793	1,345,134	0 330 %
d Total Financial Assistance and Means-Tested Government Programs			65,468,602	41,549,085	23,919,517	5 870 %
Other Benefits						
e Community health improvement services and community benefit operations (from Worksheet 4)			1,433,214	190,872	1,242,342	0 310 %
f Health professions education (from Worksheet 5)			4,340,733	890,273	3,450,460	0 850 %
g Subsidized health services (from Worksheet 6)			11,127,623	7,711,479	3,416,144	0 840 %
h Research (from Worksheet 7)			0	0		
i Cash and in-kind contributions to community groups (from Worksheet 8)			599,432	0	599,432	0 150 %
j Total Other Benefits			17,501,002	8,792,624	8,708,378	2 150 %
k Total. Add lines 7d and 7j			82,969,604	50,341,709	32,627,895	8 020 %

Part IICommunity Building Activities

during the tax year, and describe in Part VI how its community building activities during the tax year, and describe in Part VI how its community building activities promoted the health of the communities it serves.

	(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community building expense	(d) Direct offsetting revenue	(e) Net community building expense	(f) Percent of total expense
1Physical improvements and housing						
2Economic development						
3Community support			50,000		50,000	0 010 %
4Environmental improvements						
5Leadership development and training for community members						
6Coalition building			25,000		25,000	0 010 %
7Community health improvement advocacy			25,000		25,000	0 010 %
8Workforce development			35,000		35,000	0 010 %
9Other						
10Total			135,000		135,000	0 040 %

Part IIIBad Debt, Medicare, & Collection Practices

Section A. Bad Debt Expense

			Yes	No
1	Did the organization report bad debt expense in accordance with Heathcare Financial Management Association Statement No 15?	1	Yes	
2	Enter the amount of the organization's bad debt expense (at cost)	2	8,787,582	
3	Enter the estimated amount of the organization's bad debt expense (at cost) attributable to patients eligible under the organization's financial assistance policy	3	1,177,536	
4	Provide in Part VI the text of the footnote to the organization's financial statements that describes bad debt expense. In addition, describe the costing methodology used in determining the amounts reported on lines 2 and 3, and rationale for including a portion of bad debt amounts as community benefit			

Section B. Medicare

5	Enter total revenue received from Medicare (including DSH and IME)	5	51,065,944	
6	Enter Medicare allowable costs of care relating to payments on line 5	6	63,840,309	
7	Subtract line 6 from line 5. This is the surplus or (shortfall)	7	-12,774,365	
8	Describe in Part VI the extent to which any shortfall reported in line 7 should be treated as community benefit. Also describe in Part VI the costing methodology or source used to determine the amount reported on line 6. Check the box that describes the method used. <input type="checkbox"/> Cost accounting system <input checked="" type="checkbox"/> Cost to charge ratio <input type="checkbox"/> Other			

Section C. Collection Practices

9a	Does the organization have a written debt collection policy?	9a	Yes	
b	If "Yes," does the organization's collection policy contain provisions on the collection practices to be followed for patients who are known to qualify for charity care or financial assistance? Describe in Part VI	9b	Yes	

Part IVManagement Companies and Joint Ventures

(a) Name of entity	(b) Description of primary activity of entity	(c) Organization's profit % or stock ownership %	(d) Officers, directors, trustees, or key employees' profit % or stock ownership%	(e) Physicians' profit % or stock ownership %
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				

Section A. Hospital Facilities

How many hospital facilities did the organization operate during the tax year? 2

Schedule H (Form 990) 2010

Part V

Facility Information (continued)

Section B. Facility Policies and Practices.

(Complete a separate Section B for each of the hospital facilities listed in Part V, Section A)

Name of Hospital Facility:

MERCY HOSPITAL

Line Number of Hospital Facility (from Schedule H, Part V, Section A):

1

	Yes	No
Community Health Needs Assessment (Lines 1 through 7 are optional for 2010)		
1 During the tax year or any prior tax year, did the hospital facility conduct a community health needs assessment ("Needs Assessment")? If "No," skip to question 8 If "Yes," indicate what the Needs Assessment describes (check all that apply) a <input type="checkbox"/> A definition of the community served by the hospital facility b <input type="checkbox"/> Demographics of the community c <input type="checkbox"/> Existing health care facilities and resources within the community that are available to respond to the health needs of the community d <input type="checkbox"/> How data was obtained e <input type="checkbox"/> The health needs of the community f <input type="checkbox"/> Primary and chronic disease needs and other health issues of uninsured persons, low-income persons, and minority groups g <input type="checkbox"/> The process for identifying and prioritizing community health needs and services to meet the community health needs h <input type="checkbox"/> The process for consulting with persons representing the community's interests i <input type="checkbox"/> Information gaps that limit the hospital facility's ability to assess all of the community's health needs j <input type="checkbox"/> Other (describe in Part VI)	1	
2 Indicate the tax year the hospital facility last conducted a Needs Assessment 20 ____		
3 In conducting its most recent Needs Assessment, did the hospital facility take into account input from persons who represent the community served by the hospital facility? If "Yes," describe in Part VI how the hospital facility took into account input from persons who represent the community, and identify the persons the hospital facility consulted	3	
4 Was the hospital facility's Needs Assessment conducted with one or more other hospital facilities? If "Yes," list the other hospital facilities in Part VI	4	
5 Did the hospital facility make its Needs Assessment widely available to the public? If "Yes," indicate how the Needs Assessment was made widely available (check all that apply) a <input type="checkbox"/> Hospital facility's website b <input type="checkbox"/> Available upon request from the hospital facility c <input type="checkbox"/> Other (describe in Part VI)	5	
6 If the hospital facility addressed needs identified in its most recently conducted Needs Assessment, indicate how (check all that apply) a <input type="checkbox"/> Adoption of an implementation strategy to address the health needs of the hospital facility's community b <input type="checkbox"/> Execution of the implementation strategy c <input type="checkbox"/> Participation in the development of a community-wide community benefit plan d <input type="checkbox"/> Participation in the execution of a community-wide community benefit plan e <input type="checkbox"/> Inclusion of a community benefit section in operational plans f <input type="checkbox"/> Adoption of a budget for provision of services that address the needs identified in the Needs Assessment g <input type="checkbox"/> Prioritization of health needs in the community h <input type="checkbox"/> Prioritization of services that the hospital facility will undertake to meet health needs in its community i <input type="checkbox"/> Other (describe in Part VI)		
7 Did the hospital facility address all of the needs identified in its most recently conducted Needs Assessment? If "No," explain in Part VI which needs it has not addressed together with the reasons why it has not addressed such needs	7	
Financial Assistance Policy		
Did the hospital facility have in place during the tax year a written financial assistance policy that		
8 Explains eligibility criteria for financial assistance, and whether such assistance includes free or discounted care?	8	Yes
9 Used federal poverty guidelines (FPG) to determine eligibility for providing free care to low income individuals? . . . If "Yes," indicate the FPG family income limit for eligibility for free care <u>150 000000000000</u> %	9	Yes

Part V

Facility Information (continued)

		Yes	No
10	Used FPG to determine eligibility for providing <i>discounted</i> care to low income individuals? If "Yes," indicate the FPG family income limit for eligibility for discounted care <u>300 000000000000</u> %	10	Yes
11	Explained the basis for calculating amounts charged to patients? If "Yes," indicate the factors used in determining such amounts (check all that apply) a <input checked="" type="checkbox"/> Income level b <input checked="" type="checkbox"/> Asset level c <input checked="" type="checkbox"/> Medical indigency d <input checked="" type="checkbox"/> Insurance status e <input checked="" type="checkbox"/> Uninsured discount f <input checked="" type="checkbox"/> Medicaid/Medicare g <input type="checkbox"/> State regulation h <input type="checkbox"/> Other (describe in Part VI)	11	Yes
12	Explained the method for applying for financial assistance?	12	Yes
13	Included measures to publicize the policy within the community served by the hospital facility? If "Yes," indicate how the hospital facility publicized the policy (check all that apply) a <input checked="" type="checkbox"/> The policy was posted at all times on the hospital facility's web site b <input type="checkbox"/> The policy was attached to all billing invoices c <input type="checkbox"/> The policy was posted in the hospital facility's emergency rooms or waiting rooms d <input type="checkbox"/> The policy was posted in the hospital facility's admissions offices e <input type="checkbox"/> The policy was provided, in writing, to patients upon admission to the hospital facility f <input checked="" type="checkbox"/> The policy was available upon request g <input checked="" type="checkbox"/> Other (describe in Part VI)	13	Yes

Billing and Collections

14	Did the hospital facility have in place during the tax year a separate billing and collections policy, or a written financial assistance policy that explained actions the hospital facility may take upon non-payment?	14	Yes
15	Check all of the following collection actions against a patient that were permitted under the hospital facility's policies at any time during the tax year a <input checked="" type="checkbox"/> Reporting to credit agency b <input type="checkbox"/> Lawsuits c <input type="checkbox"/> Liens on residences d <input type="checkbox"/> Body attachments e <input type="checkbox"/> Other (describe in Part VI)		
16	Did the hospital facility engage in or authorize a third party to engage in any of the following collection actions during the tax year? If "Yes," check all collection actions in which the hospital facility or a third party engaged (check all that apply) a <input type="checkbox"/> Reporting to credit agency b <input type="checkbox"/> Lawsuits c <input type="checkbox"/> Liens on residences d <input type="checkbox"/> Body attachments e <input type="checkbox"/> Other (describe in Part VI)	16	No
17	Indicate which actions the hospital facility took before initiating any of the collection actions checked in question 16 (check all that apply) a <input type="checkbox"/> Notified patients of the financial assistance policy upon admission b <input type="checkbox"/> Notified patients of the financial assistance policy prior to discharge c <input type="checkbox"/> Notified patients of the financial assistance policy in communications with the patients regarding the patients' bills d <input type="checkbox"/> Documented its determination of whether a patient who applied for financial assistance under the financial assistance policy qualified for financial assistance e <input type="checkbox"/> Other (describe in Part VI)		

Part V

Facility Information (continued)

Policy Relating to Emergency Medical Care

		Yes	No
18	Did the hospital facility have in place during the tax year a written policy relating to emergency medical care that requires the hospital facility to provide, without discrimination, care for emergency medical conditions to individuals regardless of their eligibility under the hospital facility's financial assistance policy? If "No," indicate the reasons why (check all that apply)	Yes	
a	<input type="checkbox"/> The hospital facility did not provide care for any emergency medical conditions		
b	<input type="checkbox"/> The hospital facility did not have a policy relating to emergency medical care		
c	<input type="checkbox"/> The hospital facility limited who was eligible to receive care for emergency medical conditions (describe in Part VI)		
d	<input type="checkbox"/> Other (describe in Part VI)		

Charges for Medical Care

19	Indicate how the hospital facility determined the amounts billed to individuals who did not have insurance covering emergency or other medically necessary care (check all that apply)			
a	<input type="checkbox"/> The hospital facility used the lowest negotiated commercial insurance rate for those services at the hospital facility			
b	<input checked="" type="checkbox"/> The hospital facility used the average of the three lowest negotiated commercial insurance rates for those services at the hospital facility			
c	<input type="checkbox"/> The hospital facility used the Medicare rate for those services			
d	<input type="checkbox"/> Other (describe in Part VI)			
20	Did the hospital facility charge any of its patients who were eligible for assistance under the hospital facility's financial assistance policy, and to whom the hospital facility provided emergency or other medically necessary services, more than the amounts generally billed to individuals who had insurance covering such care? If "Yes," explain in Part VI	20		No
21	Did the hospital facility charge any of its patients an amount equal to the gross charge for services provided to that patient? If "Yes," explain in Part VI	21		No

Part V

Facility Information (continued)

Section B. Facility Policies and Practices.

(Complete a separate Section B for each of the hospital facilities listed in Part V, Section A)

Name of Hospital Facility: MERCY WALWORTH HOSPITAL AND MEDICAL CENT

Line Number of Hospital Facility (from Schedule H, Part V, Section A): 2

	Yes	No
Community Health Needs Assessment (Lines 1 through 7 are optional for 2010)		
1 During the tax year or any prior tax year, did the hospital facility conduct a community health needs assessment ("Needs Assessment")? If "No," skip to question 8 If "Yes," indicate what the Needs Assessment describes (check all that apply)	1	
a <input type="checkbox"/> A definition of the community served by the hospital facility		
b <input type="checkbox"/> Demographics of the community		
c <input type="checkbox"/> Existing health care facilities and resources within the community that are available to respond to the health needs of the community		
d <input type="checkbox"/> How data was obtained		
e <input type="checkbox"/> The health needs of the community		
f <input type="checkbox"/> Primary and chronic disease needs and other health issues of uninsured persons, low-income persons, and minority groups		
g <input type="checkbox"/> The process for identifying and prioritizing community health needs and services to meet the community health needs		
h <input type="checkbox"/> The process for consulting with persons representing the community's interests		
i <input type="checkbox"/> Information gaps that limit the hospital facility's ability to assess all of the community's health needs		
j <input type="checkbox"/> Other (describe in Part VI)		
2 Indicate the tax year the hospital facility last conducted a Needs Assessment 20 ____		
3 In conducting its most recent Needs Assessment, did the hospital facility take into account input from persons who represent the community served by the hospital facility? If "Yes," describe in Part VI how the hospital facility took into account input from persons who represent the community, and identify the persons the hospital facility consulted	3	
4 Was the hospital facility's Needs Assessment conducted with one or more other hospital facilities? If "Yes," list the other hospital facilities in Part VI	4	
5 Did the hospital facility make its Needs Assessment widely available to the public? If "Yes," indicate how the Needs Assessment was made widely available (check all that apply)	5	
a <input type="checkbox"/> Hospital facility's website		
b <input type="checkbox"/> Available upon request from the hospital facility		
c <input type="checkbox"/> Other (describe in Part VI)		
6 If the hospital facility addressed needs identified in its most recently conducted Needs Assessment, indicate how (check all that apply)		
a <input type="checkbox"/> Adoption of an implementation strategy to address the health needs of the hospital facility's community		
b <input type="checkbox"/> Execution of the implementation strategy		
c <input type="checkbox"/> Participation in the development of a community-wide community benefit plan		
d <input type="checkbox"/> Participation in the execution of a community-wide community benefit plan		
e <input type="checkbox"/> Inclusion of a community benefit section in operational plans		
f <input type="checkbox"/> Adoption of a budget for provision of services that address the needs identified in the Needs Assessment		
g <input type="checkbox"/> Prioritization of health needs in the community		
h <input type="checkbox"/> Prioritization of services that the hospital facility will undertake to meet health needs in its community		
i <input type="checkbox"/> Other (describe in Part VI)		
7 Did the hospital facility address all of the needs identified in its most recently conducted Needs Assessment? If "No," explain in Part VI which needs it has not addressed together with the reasons why it has not addressed such needs	7	
Financial Assistance Policy		
Did the hospital facility have in place during the tax year a written financial assistance policy that		
8 Explains eligibility criteria for financial assistance, and whether such assistance includes free or discounted care?	8	Yes
9 Used federal poverty guidelines (FPG) to determine eligibility for providing free care to low income individuals? . . . If "Yes," indicate the FPG family income limit for eligibility for free care <u>150 000000000000</u> %	9	Yes

Part V

Facility Information (continued)

		Yes	No
10	Used FPG to determine eligibility for providing <i>discounted</i> care to low income individuals? If "Yes," indicate the FPG family income limit for eligibility for discounted care <u>300 000000000000</u> %	10	Yes
11	Explained the basis for calculating amounts charged to patients? If "Yes," indicate the factors used in determining such amounts (check all that apply) a <input checked="" type="checkbox"/> Income level b <input checked="" type="checkbox"/> Asset level c <input checked="" type="checkbox"/> Medical indigency d <input checked="" type="checkbox"/> Insurance status e <input checked="" type="checkbox"/> Uninsured discount f <input checked="" type="checkbox"/> Medicaid/Medicare g <input type="checkbox"/> State regulation h <input type="checkbox"/> Other (describe in Part VI)	11	Yes
12	Explained the method for applying for financial assistance?	12	Yes
13	Included measures to publicize the policy within the community served by the hospital facility? If "Yes," indicate how the hospital facility publicized the policy (check all that apply) a <input checked="" type="checkbox"/> The policy was posted at all times on the hospital facility's web site b <input type="checkbox"/> The policy was attached to all billing invoices c <input type="checkbox"/> The policy was posted in the hospital facility's emergency rooms or waiting rooms d <input type="checkbox"/> The policy was posted in the hospital facility's admissions offices e <input type="checkbox"/> The policy was provided, in writing, to patients upon admission to the hospital facility f <input checked="" type="checkbox"/> The policy was available upon request g <input checked="" type="checkbox"/> Other (describe in Part VI)	13	Yes

Billing and Collections

14	Did the hospital facility have in place during the tax year a separate billing and collections policy, or a written financial assistance policy that explained actions the hospital facility may take upon non-payment?	14	Yes
15	Check all of the following collection actions against a patient that were permitted under the hospital facility's policies at any time during the tax year a <input checked="" type="checkbox"/> Reporting to credit agency b <input type="checkbox"/> Lawsuits c <input type="checkbox"/> Liens on residences d <input type="checkbox"/> Body attachments e <input type="checkbox"/> Other (describe in Part VI)		
16	Did the hospital facility engage in or authorize a third party to engage in any of the following collection actions during the tax year? If "Yes," check all collection actions in which the hospital facility or a third party engaged (check all that apply) a <input type="checkbox"/> Reporting to credit agency b <input type="checkbox"/> Lawsuits c <input type="checkbox"/> Liens on residences d <input type="checkbox"/> Body attachments e <input type="checkbox"/> Other (describe in Part VI)	16	No
17	Indicate which actions the hospital facility took before initiating any of the collection actions checked in question 16 (check all that apply) a <input type="checkbox"/> Notified patients of the financial assistance policy upon admission b <input type="checkbox"/> Notified patients of the financial assistance policy prior to discharge c <input type="checkbox"/> Notified patients of the financial assistance policy in communications with the patients regarding the patients' bills d <input type="checkbox"/> Documented its determination of whether a patient who applied for financial assistance under the financial assistance policy qualified for financial assistance e <input type="checkbox"/> Other (describe in Part VI)		

Part V

Facility Information (continued)

Policy Relating to Emergency Medical Care

		Yes	No
18	Did the hospital facility have in place during the tax year a written policy relating to emergency medical care that requires the hospital facility to provide, without discrimination, care for emergency medical conditions to individuals regardless of their eligibility under the hospital facility's financial assistance policy? If "No," indicate the reasons why (check all that apply)	Yes	
a	<input type="checkbox"/> The hospital facility did not provide care for any emergency medical conditions		
b	<input type="checkbox"/> The hospital facility did not have a policy relating to emergency medical care		
c	<input type="checkbox"/> The hospital facility limited who was eligible to receive care for emergency medical conditions (describe in Part VI)		
d	<input type="checkbox"/> Other (describe in Part VI)		

Charges for Medical Care

19	Indicate how the hospital facility determined the amounts billed to individuals who did not have insurance covering emergency or other medically necessary care (check all that apply)			
a	<input type="checkbox"/> The hospital facility used the lowest negotiated commercial insurance rate for those services at the hospital facility			
b	<input checked="" type="checkbox"/> The hospital facility used the average of the three lowest negotiated commercial insurance rates for those services at the hospital facility			
c	<input type="checkbox"/> The hospital facility used the Medicare rate for those services			
d	<input type="checkbox"/> Other (describe in Part VI)			
20	Did the hospital facility charge any of its patients who were eligible for assistance under the hospital facility's financial assistance policy, and to whom the hospital facility provided emergency or other medically necessary services, more than the amounts generally billed to individuals who had insurance covering such care? If "Yes," explain in Part VI	20		No
21	Did the hospital facility charge any of its patients an amount equal to the gross charge for services provided to that patient? If "Yes," explain in Part VI	21		No

Part V

Facility Information (continued)

Section C. Other Facilities That Are Not Licensed, Registered, or Similarly Recognized as a Hospital Facility

(list in order of size, measured by total revenue per facility, from largest to smallest)

How many non-hospital facilities did the organization operate during the tax year? 46

Name and address	Type of Facility (Describe)
1 See Additional Data Table	
1	
2	
3	
4	
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10	

Part VI

Supplemental Information

Complete this part to provide the following information

- 1
- Required descriptions.** Provide the description required for Part I, lines 3c, 6a, and 7, Part II, Part III, lines 4, 8, and 9b, and Part V, Section B, lines 1j, 3, 4, 5c, 6l, 7, 11h, 13g, 15e, 16e, 17e, 18d, 19d, 20, and 21
- 2
- Needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any needs assessments reported in Part V, Section B
- 3
- Patient education of eligibility for assistance.** Describe how the organization informs and educates patients and persons who may be billed for patient care about their eligibility for assistance under federal, state, or local government programs or under the organization's financial assistance policy
- 4
- Community information.** Describe the community the organization serves, taking into account the geographic area and demographic constituents it serves
- 5
- Promotion of community health.** Provide any other information important to describing how the organization's hospital facilities or other health care facilities further its exempt purpose by promoting the health of the community (e g, open medical staff, community board, use of surplus funds, etc)
- 6
- Affiliated health care system.** If the organization is part of an affiliated health care system, describe the respective roles of the organization and its affiliates in promoting the health of the communities served
- 7
- State filing of community benefit report.** If applicable, identify all states with which the organization, or a related organization, files a community benefit report

Identifier	ReturnReference	Explanation
		PART I, LINE 6A MERCY HEALTH SYSTEM, CORP (MHS) SUBMITS AN ANNUAL COMMUNITY BENEFIT STATEMENT TO THE WISCONSIN HOSPITAL ASSOCIATION PERIODICALLY, IT PUBLISHES A PAMPHLET EXPLAINING THE COMMUNITY BENEFITS THAT MERCY HEALTH SYSTEM CORP, AND THE RELATED ORGANIZATIONS OF MHS PROVIDE TO THE COMMUNITIES THEY SERVE MHS HAS SUPPLIED SUPPLEMENTAL COMMUNITY BENEFIT STATEMENT INFORMATION WITH ITS 990 TAX RETURN SINCE FISCAL YEAR 2006 (TAX FORM 2005)

Identifier	ReturnReference	Explanation
		PART I, LINE 7 A COST-TO-CHARGE RATIO METHODOLOGY WAS USED TO DETERMINE COSTS ASSOCIATED WITH CHARITY CARE, UNREIMBURSED MEDICAID, AND OTHER MEANS TESTED GOVERNMENT PROGRAMS THE COST-TO-CHARGE RATIO WAS DERIVED FROM IRS WORKSHEET 2 RATIO OF PATIENT CARE COST-TO-CHARGE THE COST OF THE OTHER BENEFITS REFERENCED IN THE TABLE OF LINE 7 (COMMUNITY HEALTH IMPROVEMENT SERVICES AND COMMUNITY BENEFIT OPERATIONS, HEALTH PROFESSIONS EDUCATION, SUBSIDIZED HEALTH SERVICES, CASH AND IN-KIND CONTRIBUTIONS) WERE DETERMINED USING ACTUAL DEPARTMENT/SERVICE SPECIFIC DATA AND/OR COST ACCOUNTING DERIVED DATA

Identifier	ReturnReference	Explanation
		PART I, LINE 7G THE SUBSIDIZED HEALTH CARE LINE INCLUDES \$2,350,436 OF EXPENSES (COLUMN C) AND \$1,071,319 OF NET EXPENSES (COLUMN E) ATTRIBUTABLE TO THE COSTS OF TRAUMA SURGEONS THESE SURGEONS STAFF THE LEVEL II TRAUMA PROGRAM OF MERCY HEALTH SYSTEM CORPORATION 24/7

Identifier	ReturnReference	Explanation
		PART I, L7 COL(F) BAD DEBT EXPENSE OF \$20,416,447 INCLUDED ON FORM 990, PART IX, LINE 25, WAS EXCLUDED FROM EXPENSES WHEN CALCULATING THE PERCENTAGE IN THIS COLUMN

Identifier	ReturnReference	Explanation
		PART II MERCY'S MANY HEALTH IMPROVEMENT AND BENEFIT SERVICES/OPERATIONS WERE THE RESULT OF MERCY FILLING A COMMUNITY NEED MERCY'S COLLABORATIVE EFFORTS AND THE EFFORTS OF ITS RELATED ENTITIES HAVE BROUGHT ASSISTANCE TO THE AREA'S UNDERSERVED (AS DETAILED IN #2 ABOVE)

Identifier	ReturnReference	Explanation
		<p>PART III, LINE 4 BAD DEBT EXPENSE IS ACCOUNTED FOR IN THE FOLLOWING MANNER (AS DETAILED IN NOTE 1 OF THE AUDITED FINANCIAL STATEMENTS OF MERCY HEALTH SYSTEM CORPORATION AND SUBSIDIARIES) THE CARRYING AMOUNTS OF ACCOUNTS RECEIVABLE ARE REDUCED BY ALLOWANCES THAT REFLECT MANAGEMENT'S BEST ESTIMATE OF THE AMOUNTS THAT WILL NOT BE COLLECTED MANAGEMENT PROVIDES FOR PROBABLE UNCOLLECTIBLE AMOUNTS, PRIMARILY UNINSURED PATIENTS AND AMOUNTS PATIENTS ARE PERSONALLY RESPONSIBLE FOR, THROUGH A CHARGE TO OPERATIONS AND A CREDIT TO A VALUATION ALLOWANCE BASED ON ITS ASSESSMENT OF HISTORICAL COLLECTION LIKELIHOOD AND THE CURRENT STATUS OF INDIVIDUAL ACCOUNTS BALANCES THAT ARE STILL OUTSTANDING AFTER MANAGEMENT HAS USED REASONABLE COLLECTION EFFORTS ARE WRITTEN OFF THROUGH A CHARGE TO THE VALUATION ALLOWANCE AND A CREDIT TO PATIENT ACCOUNTS RECEIVABLE THE COST OF BAD DEBT ON LINE 2 PART III WAS DETERMINED BY APPLYING THE COST TO CHARGE RATIO TO THOSE CHARGES ESTIMATED AND EXPENSED AS UNCOLLECTIBLE THE ESTIMATE OF BAD DEBT DOLLARS THAT MAY HAVE BEEN COVERED THROUGH MERCY'S FINANCIAL ASSISTANCE/CHARITY CARE POLICY (HAD THE PROPER PAPER WORK BEEN COMPLETED BY THE INDIVIDUAL NEEDING ASSISTANCE) IS ESTIMATED AT 13.4% THIS FIGURE WAS BASED ON THE PERCENT OF BAD DEBT ACCOUNT DOLLARS THAT ARE RECLASSIFIED FOR CHARITY AND/OR BANKRUPTCY PURPOSES</p>

Identifier	ReturnReference	Explanation
		PART III, LINE 8 DATA FOR LINES 5 & 6 OF PART III AND THE MEDICARE SHORTFALL IS BASED ON MERCY'S TWO HOSPITALS' MEDICARE COST REPORTS

Identifier	ReturnReference	Explanation
		PART III, LINE 9B PATIENTS WHO ARE SELF-PAY, REGARDLESS OF WHETHER THEY QUALIFY FOR MERCY'S COMMUNITY CARE PROGRAM, WILL RECEIVE A 20% DISCOUNT FROM MERCY'S STANDARD FEE SCHEDULE ALL SELF-PAY PATIENTS MEET WITH PATIENT FINANCIAL COUNSELORS AND DISCUSS PAYMENT OPTIONS INCLUDING MERCY'S COMMUNITY CARE PROGRAM PATIENTS MUST APPLY FOR COMMUNITY CARE AND SUPPLY MERCY WITH THE NECESSARY FINANCIAL AND OTHER INFORMATION REQUIRED PATIENTS WHO QUALIFY FOR COMMUNITY CARE BENEFITS WILL RECEIVE A REDUCTION IN THE BALANCE OWED, EXTENDED PAYMENT TERMS, OR BOTH THE AMOUNT OF THE COMMUNITY CARE BENEFIT WILL BE BASED ON THE PATIENT'S ABILITY TO PAY AND THE SIZE OF THE OUTSTANDING BALANCE

Identifier	ReturnReference	Explanation
MERCY HOSPITAL		PART V, SECTION B, LINE 13G AVAILABLE THROUGH PATIENT FINANCIAL COUNSELORS WHO DO PRE- OR POST-FOLLOW UP WITH SELF-PAY PATIENTS

Identifier	ReturnReference	Explanation
MERCY WALWORTH HOSPITAL AND MEDICAL CENT		PART V, SECTION B, LINE 13G AVAILABLE THROUGH PATIENT FINANCIAL COUNSELORS WHO DO PRE- OR POST-FOLLOW UP WITH SELF-PAY PATIENTS

Identifier	ReturnReference	Explanation
		<p>PART VI, LINE 2 MERCY HEALTH SYSTEM CORPORATION DOES COMMUNITY NEEDS ASSESSMENTS IN CONJUNCTION WITH THE PUBLIC HEALTH DEPARTMENTS OF WALWORTH (WI), ROCK (WI), AND MCHENRY (IL) COUNTIES EVERY 18 MONTHS MERCY HAS DEDICATED STAFF THAT WORKS WITH VARIOUS AGENCIES/PROGRAMS OF NEARBY COMMUNITIES TO ASSESS HEALTH NEEDS COLLABORATIVE EXAMPLES OF MERCY AND MERCY'S RELATED ENTITIES INCLUDE I) THE COMMUNITY HEALTH CENTER AT MERCY CLINIC SOUTH PARTNERSHIP WITH THE COMMUNITY HEALTH CENTER, INC OF BELOIT, WI IN 2006, MERCY PARTNERED WITH COMMUNITY HEALTH CENTER, INC TO OPEN THIS CLINIC IN JANESVILLE IT PROVIDES FREE AND LOW-COST CARE TO LOW-INCOME, UNINSURED AND UNDERINSURED PATIENTS THIS FIRST-OF-ITS-KIND PARTNERSHIP IS THE RESULT OF YEARS OF WORK WITH LOCAL PARTNERS AND THE FEDERAL GOVERNMENT TO DESIGN AND DEBUT A NEW MODEL OF CARE FOR THE UNDERSERVED THE CLINIC SEES OVER 200 NEW PATIENTS EACH MONTH, HAS SIGNIFICANTLY IMPROVED PATIENT OUTCOMES, AND HAS SAVED MILLIONS IN UNNECESSARY EMERGENCY DEPARTMENT COSTS II) HEALTHNET FREE CLINIC IN JANESVILLE MERCY PHYSICIANS VOLUNTEER THEIR SERVICES MERCY ALSO DONATES LAB, RADIOLOGY AND OTHER ANCILLARY SERVICES TO PATIENTS III) COOPERATIVE CHILD CARE INSTITUTE COLLABORATION WITH JANESVILLE PUBLIC SCHOOL DISTRICT AND ROCK COUNTY HUMAN SERVICES TO SERVE EMOTIONALLY CHALLENGED CHILDREN IV) FAMILY HEALTH PARTNERSHIP CLINIC AND WELL CHILD CLINIC IN WOODSTOCK, IL AND HARVARD FREE CLINIC IN MCHENRY COUNTY, IL MERCY PHYSICIANS VOLUNTEER THEIR SERVICES V) FAMILY HEALTH PARTNERSHIP CLINIC MCHENRY COUNTY DEPARTMENT OF HEALTH COLLABORATION TO PROVIDE MAMMOGRAMS AT MERCY FACILITIES FOR WOMEN WHO CANNOT OTHERWISE AFFORD THE SERVICE VI) ROCK COUNTY HEALTH DEPARTMENT BIOTERRORISM READINESS PROJECT VII) RED CROSS BLOOD DRIVE AND COOPERATIVE VOLUNTEER EFFORTS VIII) UNITED WAY FUND RAISING CAMPAIGN AND ROCK COUNTY NEEDS ASSESSMENT SURVEY CONTRIBUTOR IX) AREA POLICE AND FIRE DEPARTMENTS PROVIDE PORTABLE DEFIBRILLATORS FOR POLICE VEHICLES AND FREE OR REDUCED-COST PARAMEDIC/EMT EDUCATIONAL OPPORTUNITIES X) COMMUNITY ACTION, INC MERCY LEADERSHIP SERVES ON STRATEGIC PLANNING COMMITTEE AND COMMUNITY ACTION DEVELOPMENT BOARD</p>

Identifier	ReturnReference	Explanation
		PART VI, LINE 3 ALL UNINSURED PATIENTS ARE NOTIFIED OF MERCY'S FINANCIAL AIDE POLICY UPON REGISTRATION INFORMATION IS ALSO AVAILABLE AT THE HEALTH SYSTEM'S WEBSITE, IN OUR EMERGENCY ROOMS, FINANCIAL SERVICES OFFICES, AND WITH THE PATIENT FINANCIAL COUNSELORS APPROPRIATE PERSONNEL HAVE BEEN TRAINED ON HOW TO INTERACT WITH PATIENTS ABOUT FINANCIAL AID AVAILABILITY, AND HOW TO DIRECT PATIENTS TO APPROPRIATE FINANCIAL AID STAFF THE HOSPITALS HAVE TRANSLATION SERVICES AVAILABLE AS NEEDED

Identifier	ReturnReference	Explanation
		<p>PART VI, LINE 4 ONE HOSPITAL OF MERCY HEALTH SYSTEM CORPORATION IS LOCATED IN JANESVILLE, WI IT WAS THE ONLY GENERAL ACUTE CARE HOSPITAL LOCATED IN JANESVILLE, WI, DURING THIS REPORTING PERIOD AND IS THE LARGEST OF SIX HOSPITALS WITHIN A 30-MILE RADIUS IT IS LICENSED FOR 240 BEDS AND IS LOCATED IN ROCK COUNTY, WI, WHERE APPROXIMATELY 11% OF THE POPULATION IS BELOW THE POVERTY LEVEL (BASED ON LAST YEAR'S FIGURES) MEDIAN HOUSEHOLD INCOME IN ROCK CO IS BELOW THE STATE'S AVERAGE ROCK COUNTY'S UNEMPLOYMENT RATE AS OF FEBRUARY, 2010 WAS AT 12.7%, DUE IN LARGE PART TO THE CLOSING OF GENERAL MOTORS ASSEMBLY PLANT IN DECEMBER 2008 GENERAL MOTORS USED TO BE THE LARGEST EMPLOYER IN THE AREA MERCY HEALTH SYSTEM'S SECOND HOSPITAL IS IN WALWORTH COUNTY IT IS DESIGNATED AS A CRITICAL ACCESS 6 BED HOSPITAL WALWORTH COUNTY WAS ALSO ESTIMATED TO HAVE APPROXIMATELY 11% OF THE POPULATION BELOW THE POVERTY LEVEL (BASED ON LAST YEAR'S FIGURES) WALWORTH'S UNEMPLOYMENT RATE AS OF FEBRUARY, 2010 WAS AT 10.7% THE TWO HOSPITALS' PAYOR DEMOGRAPHICS INCLUDED 39.8% MEDICARE, AND 14.6% MEDICAID FOR THE FISCAL YEAR OF JULY 1, 2010 - JUNE 30, 2011 (AS DETERMINED BY CHARGES BILLED)</p>

Identifier	ReturnReference	Explanation
		PART VI, LINE 6 THE HOSPITALS OF MERCY HEALTH SYSTEM HAVE AN OPEN MEDICAL STAFF WITH PRIVILEGES AVAILABLE TO ALL QUALIFIED PHYSICIANS IN THE AREA MERCY HEALTH SYSTEM HAS A GOVERNING BODY IN WHICH INDEPENDENT PERSONS REPRESENTATIVE OF THE COMMUNITY COMPRISE A MAJORITY

Identifier	ReturnReference	Explanation
		<p>PART VI, LINE 7 MERCY HEALTH SYSTEM CORPORATION OPERATES TWO HOSPITALS AND HAS COMMUNITY CLINICS LOCATED THROUGHOUT SIX COUNTIES OF WISCONSIN AND ILLINOIS IT IS PART OF A LARGER INTEGRATED HEALTH SYSTEM AND AFFILIATED WITH OTHER SEPARATELY REPORTED ORGANIZATIONS MERCY ALLIANCE INC IS THE PARENT COMPANY OF MERCY HEALTH SYSTEM CORPORATION, MERCY ASSISTED CARE INC, AND MERCY HARVARD HOSPITAL INC MERCY ASSISTED CARE PROVIDES HOME HEALTH SERVICES AND DME (DURABLE MEDICAL EQUIPMENT) SERVICES, THUS PROVIDING CONTINUATION OF CARE TO MERCY HEALTH SYSTEM PATIENTS AND THE COMMUNITY AS A WHOLE MERCY HARVARD HOSPITAL PROVIDES ACUTE CARE SERVICES IN MCHENRY COUNTY ILLINOIS MERCY HEALTH SYSTEM CORP WORKS WITH THE MERCY FOUNDATION, INC TO OPERATE A HOMELESS SHELTER IN JANESVILLE, WI THE HOUSE OF MERCY HOMELESS CENTER PROVIDES SHELTER, SUPPORT, AND TRAINING TO WOMEN, CHILDREN, AND FAMILIES TO HELP FIGHT HOMELESSNESS IT SHELTERED OVER 4,700 INDIVIDUALS SINCE IT OPENED IN 1996 MERCY HOSPITAL ASSOCIATION OF VOLUNTEERS, INC IS THE ORGANIZATION/TAX ENTITY OF MERCY'S VOLUNTEERS VOLUNTEERS NUMBERED 1,223 IN CALENDAR YEAR 2010 THIS ORGANIZATION NOT ONLY SUPPORTS MERCY'S SERVICES, BUT PROVIDES BENEFITS TO THE COMMUNITY AS A WHOLE IN CONJUNCTION WITH MERCY HEALTH SYSTEM'S MEAL PREPARATION, THE VOLUNTEERS PARTICIPATE IN AND OVERSEE A MEALS ON WHEELS PROGRAM PARTICIPANT/NUTRITION SPECIFIC MEALS ARE PREPARED AND DELIVERED TO THE ELDERLY NEEDING ASSISTANCE IN JANESVILLE THE VOLUNTEER ASSOCIATION RUNS A HOSPITALITY HOUSE IN WHICH FAMILY MEMBERS OF PATIENTS ARE OFFERED FREE HOUSING DURING THEIR LOVED ONES EXTENDED HOSPITAL STAY AND REHABILITATION</p>

Identifier	ReturnReference	Explanation
REPORTS FILED WITH STATES	PART VI, LINE 7	WI

Additional Data

Software ID:

Software Version:

EIN: 39-0816848

Name: MERCY HEALTH SYSTEM CORPORATION

Form 990 Schedule H, Part V Section C. Other Facilities That Are Not Licensed, Registered, or Similarly Recognized as a Hospital Facility

Section C. Other Facilities That Are Not Licensed, Registered, or Similarly Recognized as a Hospital Facility (list in order of size, measured by total revenue per facility, from largest to smallest)	
How many non-hospital facilities did the organization operate during the tax year? 46	
Name and address	Type of Facility (Describe)
MERCY MANOR TRANSITION CENTER 1000 MINERAL POINT AVENUE JANESVILLE,WI 53548	SKILLED NURSING/SUB-ACUTE CARE FACILITY
MERCY REGIONAL CANCER CENTER 1000 MINERAL POINT AVENUE JANESVILLE,WI 53548	RADIATION ONCOLOGY CLINIC/RADIATION THERAPY FACILITY
HOUSE OF MERCY HOMELESS SHELTER 320 LINCOLN STREET JANESVILLE,WI 53548	HOMELESS CENTER
MERCY ALGONQUIN MEDICAL CENTER 2401 HARNISH DRIVE SUITE 101 ALGONQUIN,WI 60102	OUTPATIENT PHYSICIAN CLINIC
MERCY BARIATRIC WELLNESS CENTER 250 E CENTER DRIVE SUITE 201 VERNON HILLS,WI 60061	OUTPATIENT PHYSICIAN CLINIC
MERCY BARRINGTON MEDICAL CENTER 500 WEST HIGHWAY 22 BARRINGTON,WI 60010	OUTPATIENT PHYSICIAN CLINIC
MERCY BELOIT MEDICAL CENTER 2825 PRAIRIE AVENUE BELOIT,WI 53511	OUTPATIENT PHYSICIAN CLINIC/URGENT CARE FACILITY
MERCY BRODHEAD MEDICAL CENTER 2310 FIRST CENTER AVENUE BRODHEAD,WI 53520	OUTPATIENT PHYSICIAN CLINIC
MERCY CENTER FOR CORRECTIVE EYE SURGERY 5400 W ELM STREET SUITE 120 MCHENRY,IL 60050	OUTPATIENT PHYSICIAN CLINIC
MERCY CENTER FOR CORRECTIVE EYE SURGERY 8780 W GOLF ROAD STE 304 NILES,IL 60714	OUTPATIENT PHYSICIAN CLINIC
MERCY CLINIC EAST 3524 EAST MILWAUKEE STREET JANESVILLE,WI 53546	OUTPATIENT PHYSICIAN CLINIC/URGENT CARE FACILITY
MERCY CLINIC EAST PHARMACY 3524 EAST MILWAUKEE STREET JANESVILLE,WI 53546	RETAIL PHARMACY
MERCY CLINIC SOUTH 849 KELLOGG AVENUE JANESVILLE,WI 53546	RESIDENCY PROGRAM / OUTPATIENT PHYSICIAN CLINIC
MERCY CLINIC WEST 1000 MINERAL POINT AVENUE JANESVILLE,WI 53548	OUTPATIENT PHYSICIAN CLINIC & MEDICAL ONCOLOGY
MERCY CLINIC WEST PHARMACY 1000 MINERAL POINT AVENUE JANESVILLE,WI 53548	RETAIL PHARMACY
MERCY CRYSTAL LAKE CHIROPRACTIC AND REHA 330 W TERRA COTTA ROAD RTE 176 CRYSTAL LAKE,IL 60014	CHIROPRACTOR
MERCY CRYSTAL LAKE MEDICAL CENTER EAST 390 CONGRESS PARKWAY CRYSTAL LAKE,IL 60014	OUTPATIENT PHYSICIAN CLINIC
MERCY CRYSTAL LAKE MEDICAL CENTER WEST 350 CONGRESS PARKWAY CRYSTAL LAKE,IL 60014	OUTPATIENT PHYSICIAN CLINIC
MERCY CRYSTAL LAKE OBGYN 750 E TERRA COTTA STE B CRYSTAL LAKE,IL 60014	OUTPATIENT PHYSICIAN CLINIC
MERCY CRYSTAL LAKE MEDICAL CENTER SOUTH 415-A CONGRESS PARKWAY CRYSTAL LAKE,IL 60014	OUTPATIENT PHYSICIAN CLINIC
MERCY DELAVAN MEDICAL CENTER 1038 E GENEVA ST DELAVAN,WI 53115	OUTPATIENT PHYSICIAN CLINIC
MERCY EDGERTON MEDICAL CENTER 217 N MAIN STREET EDGERTON,WI 53534	OUTPATIENT PHYSICIAN CLINIC
MERCY EVANSVILLE MEDICAL CENTER 300 UNION STREET EVANSVILLE,WI 53536	OUTPATIENT PHYSICIAN CLINIC
MERCY HARVARD CLINIC SOUTH 348 S DIVISION HARVARD,IL 60033	OUTPATIENT PHYSICIAN CLINIC
MERCY HEALTH MALL 1010 NORTH WASHINGTON JANESVILLE,WI 53548	OUTPATIENT PHYSICIAN CLINIC/URGENT CARE FACILITY
MERCY HEALTH MALL PHARMACY 1010 NORTH WASHINGTON JANESVILLE,WI 53548	RETAIL PHARMACY
MERCY LAKE GENEVA MEDICAL CENTER 350 PELLER ROAD LAKE GENEVA,WI 53147	OUTPATIENT PHYSICIAN CLINIC
MERCY LAKESIDE ORTHOPAEDICS 352 PELLER ROAD LAKE GENEVA,WI 53147	OUTPATIENT PHYSICIAN CLINIC
MERCY MCHENRY INTERNAL MEDICINE CENTER 633 RIDGEVIEW DRIVE MCHENRY,IL 60050	OUTPATIENT PHYSICIAN CLINIC
MERCY MCHENRY MEDICAL CENTER 3922 MERCY DRIVE MCHENRY,IL 60050	OUTPATIENT PHYSICIAN CLINIC
MERCY MILTON MEDICAL CENTER 725 SOUTH JANESVILLE STREET MILTON,WI 53563	OUTPATIENT PHYSICIAN CLINIC
MERCY MILTON PHARMACY 725 SOUTH JANESVILLE STREET MILTON,WI 53563	RETAIL PHARMACY
MERCY NORTHWEST WOMEN'S GROUP 47 WEST ACORN LANE LAKE IN THE HILLS,IL 601564804	OUTPATIENT PHYSICIAN CLINIC
MERCY OPTIONS-COOPERATIVE CHILDCARE INST 20 EAST COURT STREET JANESVILLE,WI 53548	TREATMENT FACILITY FOR ADOLESCENTS
MERCY OPTIONS-JANESVILLE 903 MINERAL POINT AVENUE JANESVILLE,WI 53548	PHYSICIAN & THERAPIST SERVICES MENTAL HEALTH & ADDICTION TREATMENT
MERCY REGIONAL DIALYSIS CENTER 903 MINERAL POINT AVENUE JANESVILLE,WI 53548	DIALYSIS CENTER
MERCY REGIONAL LUNG CENTER 903 MINERAL POINT AVENUE JANESVILLE,WI 53548	PHYSICIANS CLINIC & SLEEP DISORDER CENTER
MERCY RICHMOND MEDICAL CENTER 9715 PRAIRIE RIDGE RICHMOND,IL 60071	OUTPATIENT PHYSICIAN CLINIC
MERCY SHARON MEDICAL CENTER 118 PLAIN STREET SHARON,WI 53585	OUTPATIENT PHYSICIAN CLINIC
MERCY SPORTS MEDICINE AND REHABILITATION 557 NORTH WASHINGTON JANESVILLE,WI 53548	OUTPATIENT PHYSICIAN CLINIC AND REHABILITATION FACILITY
MERCY TERRACE 510 N TERRACE STREET JANESVILLE,WI 53548	OUTPATIENT PHYSICIAN CLINIC
MERCY WALWORTH PHARMACY N2950 STATE ROAD 67 LAKE GENEVA,WI 53147	RETAIL PHARMACY
MERCY WHITEWATER MEDICAL CENTER 507 WEST MAIN STREET WHITEWATER,WI 53190	OUTPATIENT PHYSICIAN CLINIC
MERCY WHITEWATER SPORTS MEDICINE & REHAB 519 WEST MAIN STREET WHITEWATER,WI 53190	OUTPATIENT PHYSICIAN CLINIC AND REHABILITATION FACILITY
MERCY WOODSTOCK MEDICAL CENTER 2000 LAKE AVENUE WOODSTOCK,IL 60098	OUTPATIENT PHYSICIAN CLINIC/URGENT CARE FACILITY
MERCY WOODSTOCK PHARMACY 2000 LAKE AVENUE WOODSTOCK,IL 60098	RETAIL PHARMACY

Schedule J
(Form 990)

Compensation Information

OMB No 1545-0047

2010

Open to Public Inspection

For certain Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

▶ Complete if the organization answered "Yes" to Form 990, Part IV, question 23.

▶ Attach to Form 990. ▶ See separate instructions.

Name of the organization
MERCY HEALTH SYSTEM CORPORATION

Employer identification number
39-0816848

Part I

Questions Regarding Compensation

		Yes	No
1a	Check the appropriate box(es) if the organization provided any of the following to or for a person listed in Form 990, Part VII, Section A, line 1a Complete Part III to provide any relevant information regarding these items		
	<div><div><input type="checkbox"/> First-class or charter travel</div><div><input checked="" type="checkbox"/> Housing allowance or residence for personal use</div></div> <div><div><input type="checkbox"/> Travel for companions</div><div><input checked="" type="checkbox"/> Payments for business use of personal residence</div></div> <div><div><input type="checkbox"/> Tax idemnification and gross-up payments</div><div><input checked="" type="checkbox"/> Health or social club dues or initiation fees</div></div> <div><div><input type="checkbox"/> Discretionary spending account</div><div><input checked="" type="checkbox"/> Personal services (e g , maid, chauffeur, chef)</div></div>		
b	If any of the boxes in line 1a are checked, did the organization follow a written policy regarding payment or reimbursement or provision of all the expenses described above? If "No," complete Part III to explain	1b	Yes
2	Did the organization require substantiation prior to reimbursing or allowing expenses incurred by all officers, directors, trustees, and the CEO/Executive Director, regarding the items checked in line 1a?	2	Yes
3	Indicate which, if any, of the following the organization uses to establish the compensation of the organization's CEO/Executive Director Check all that apply		
	<div><div><input checked="" type="checkbox"/> Compensation committee</div><div><input checked="" type="checkbox"/> Written employment contract</div></div> <div><div><input checked="" type="checkbox"/> Independent compensation consultant</div><div><input checked="" type="checkbox"/> Compensation survey or study</div></div> <div><div><input checked="" type="checkbox"/> Form 990 of other organizations</div><div><input checked="" type="checkbox"/> Approval by the board or compensation committee</div></div>		
4	During the year, did any person listed in Form 990, Part VII, Section A, line 1a with respect to the filing organization or a related organization		
a	Receive a severance payment or change-of-control payment from the organization or a related organization?	4a	No
b	Participate in, or receive payment from, a supplemental nonqualified retirement plan?	4b	Yes
c	Participate in, or receive payment from, an equity-based compensation arrangement?	4c	No
	If "Yes" to any of lines 4a-c, list the persons and provide the applicable amounts for each item in Part III		
	Only 501(c)(3) and 501(c)(4) organizations only must complete lines 5-9.		
5	For persons listed in form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the revenues of		
a	The organization?	5a	No
b	Any related organization?	5b	No
	If "Yes," to line 5a or 5b, describe in Part III		
6	For persons listed in form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the net earnings of		
a	The organization?	6a	No
b	Any related organization?	6b	No
	If "Yes," to line 6a or 6b, describe in Part III		
7	For persons listed in Form 990, Part VII, Section A, line 1a, did the organization provide any non-fixed payments not described in lines 5 and 6? If "Yes," describe in Part III	7	No
8	Were any amounts reported in Form 990, Part VII, paid or accrued pursuant to a contract that was subject to the initial contract exception described in Regs section 53 4958-4(a)(3)? If "Yes," describe in Part III	8	No
9	If "Yes" to line 8, did the organization also follow the rebuttable presumption procedure described in Regulations section 53 4958-6(c)?	9	

Part II Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees. Use duplicate copies if additional space is needed.

For each individual whose compensation must be reported in Schedule J, report compensation from the organization on row (i) and from related organizations, described in the instructions on row (ii) Do not list any individuals that are not listed on Form 990, Part VII

Note. The sum of columns (B)(i)-(iii) must equal the applicable column (D) or column (E) amounts on Form 990, Part VII, line 1a

(A) Name		(B) Breakdown of W-2 and/or 1099-MISC compensation			(C) Retirement and other deferred compensation	(D) Nontaxable benefits	(E) Total of columns (B)(i)-(D)	(F) Compensation reported in prior Form 990 or Form 990-EZ
		(i) Base compensation	(ii) Bonus & incentive compensation	(iii) Other reportable compensation				
(1) BARB BORTNER	(i) (ii)	133,222 0	65,374 0	2,655 0	0 0	21,805 0	223,056 0	0 0
(2) DAN COLBY	(i) (ii)	181,560 0	89,884 0	9,206 0	0 0	39,562 0	320,212 0	0 0
(3) DAVID KURTZ	(i) (ii)	133,222 0	71,762 0	10,568 0	0 0	41,605 0	257,157 0	0 0
(4) JOHN COOK	(i) (ii)	231,079 0	103,500 0	8,268 0	0 0	37,355 0	380,202 0	0 0
(5) KATHY HARRIS	(i) (ii)	87,107 0	46,340 0	4,488 0	0 0	16,483 0	154,418 0	0 0
(6) RUTH YARBROUGH	(i) (ii)	155,768 0	86,880 0	14,392 0	0 0	40,105 0	297,145 0	0 0
(7) RICHARD GRUBER	(i) (ii)	133,222 0	71,889 0	4,274 0	0 0	24,078 0	233,463 0	0 0
(8) RALPH TOPINKA	(i) (ii)	250,000 0	125,884 0	6,830 0	0 0	39,699 0	422,413 0	0 0
(9) JOSEPH NEMETH	(i) (ii)	135,784 0	72,929 0	8,613 0	0 0	41,498 0	258,824 0	0 0
(10) SUE RIPSCH	(i) (ii)	237,610 0	119,314 0	3,046 0	0 0	26,105 0	386,075 0	0 0
(11) JAVON BEA	(i) (ii)	846,616 0	772,088 0	650,911 0	1,459,323 0	41,005 0	3,769,943 0	0 0
(12) BRADLEY FIDELER	(i) (ii)	1,188,523 0	0 0	1,442,636 0	198,950 0	31,130 0	2,861,239 0	0 0
(13) CAROL NEUMAN	(i) (ii)	270,783 0	71,477 0	1,241,773 0	71,450 0	25,073 0	1,680,556 0	0 0
(14) CHRISTOPHER STURM	(i) (ii)	658,345 0	877,373 0	16,500 0	18,950 0	31,307 0	1,602,475 0	0 0
(15) JAMES KIRSCHBAUM	(i) (ii)	475,603 0	139,287 0	534,016 0	18,950 0	36,490 0	1,204,346 0	0 0
(16) VIKRAM KHANNA	(i) (ii)	468,996 0	580,169 0	16,500 0	18,950 0	36,079 0	1,120,694 0	0 0

Part IIISupplemental Information

Complete this part to provide the information, explanation, or descriptions required for Part I, lines 1a, 1b, 4c, 5a, 5b, 6a, 6b, 7, and 8. Also complete this part for any additional information.

Identifier	Return Reference	Explanation
	PART I, LINE 1A	RESIDENCE FOR PERSONAL USE - THE CEO IS PROVIDED WITH A RESIDENCE. THE COST OF RENTING THE RESIDENCE IS TREATED AS TAXABLE COMPENSATION. PAYMENTS FOR BUSINESS USE OF PERSONAL RESIDENCE - THE CEO IS REIMBURSED FOR INTERNET ACCESS AND COMMUNICATION COSTS USED FOR BUSINESS PURPOSES AT HIS PERSONAL RESIDENCE. THE REIMBURSEMENT IS TREATED AS TAXABLE COMPENSATION. HEALTH CLUB DUES - THE CEO IS REIMBURSED FOR HEALTH CLUB DUES. THIS IS TREATED AS TAXABLE COMPENSATION. PERSONAL SERVICES - THE CEO IS REIMBURSED FOR INCOME TAX PREPARATION SERVICES. THIS IS TREATED AS TAXABLE COMPENSATION.

Software ID:
Software Version:
EIN: 39-0816848
Name: MERCY HEALTH SYSTEM CORPORATION

Form 990, Schedule J, Part II - Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

(A) Name		(B) Breakdown of W-2 and/or 1099-MISC compensation			(C) Deferred compensation	(D) Nontaxable benefits	(E) Total of columns (B)(i)-(D)	(F) Compensation reported in prior Form 990 or Form 990-EZ
		(i) Base Compensation	(ii) Bonus & incentive compensation	(iii) Other compensation				
BARB BORTNER	(i)	133,222	65,374	2,655	0	21,805	223,056	0
	(ii)	0	0	0	0	0	0	0
DAN COLBY	(i)	181,560	89,884	9,206	0	39,562	320,212	0
	(ii)	0	0	0	0	0	0	0
DAVID KURTZ	(i)	133,222	71,762	10,568	0	41,605	257,157	0
	(ii)	0	0	0	0	0	0	0
JOHN COOK	(i)	231,079	103,500	8,268	0	37,355	380,202	0
	(ii)	0	0	0	0	0	0	0
KATHY HARRIS	(i)	87,107	46,340	4,488	0	16,483	154,418	0
	(ii)	0	0	0	0	0	0	0
RUTH YARBROUGH	(i)	155,768	86,880	14,392	0	40,105	297,145	0
	(ii)	0	0	0	0	0	0	0
RICHARD GRUBER	(i)	133,222	71,889	4,274	0	24,078	233,463	0
	(ii)	0	0	0	0	0	0	0
RALPH TOPINKA	(i)	250,000	125,884	6,830	0	39,699	422,413	0
	(ii)	0	0	0	0	0	0	0
JOSEPH NEMETH	(i)	135,784	72,929	8,613	0	41,498	258,824	0
	(ii)	0	0	0	0	0	0	0
SUE RIPSCH	(i)	237,610	119,314	3,046	0	26,105	386,075	0
	(ii)	0	0	0	0	0	0	0
JAVON BEA	(i)	846,616	772,088	650,911	1,459,323	41,005	3,769,943	0
	(ii)	0	0	0	0	0	0	0
BRADLEY FIDELER	(i)	1,188,523	0	1,442,636	198,950	31,130	2,861,239	0
	(ii)	0	0	0	0	0	0	0
CAROL NEUMAN	(i)	270,783	71,477	1,241,773	71,450	25,073	1,680,556	0
	(ii)	0	0	0	0	0	0	0
CHRISTOPHER STURM	(i)	658,345	877,373	16,500	18,950	31,307	1,602,475	0
	(ii)	0	0	0	0	0	0	0
JAMES KIRSCHBAUM	(i)	475,603	139,287	534,016	18,950	36,490	1,204,346	0
	(ii)	0	0	0	0	0	0	0
VIKRAM KHANNA	(i)	468,996	580,169	16,500	18,950	36,079	1,120,694	0
	(ii)	0	0	0	0	0	0	0

Schedule L
(Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

Transactions with Interested Persons
▶ Complete if the organization answered
"Yes" on Form 990, Part IV, lines 25a, 25b, 26, 27, 28a, 28b, or 28c,
or Form 990-EZ, Part V lines 38a or 40b.
▶ Attach to Form 990 or Form 990-EZ. ▶ See separate instructions.

OMB No 1545-0047
2010
Open to Public Inspection

Name of the organization
MERCY HEALTH SYSTEM CORPORATION

Employer identification number
39-0816848

Part I Excess Benefit Transactions (section 501(c)(3) and section 501 (c)(4) organizations only).
Complete if the organization answered "Yes" on Form 990, Part IV, line 25a or 25b, or Form 990-EZ, Part V, line 40b

1	(a) Name of disqualified person	(b) Description of transaction	(c) Corrected?	
			Yes	No

2 Enter the amount of tax imposed on the organization managers or disqualified persons during the year under section 4958 ▶ \$

3 Enter the amount of tax, if any, on line 2, above, reimbursed by the organization ▶ \$

Part II Loans to and/or From Interested Persons.
Complete if the organization answered "Yes" on Form 990, Part IV, line 26, or Form 990-EZ, Part V, line 38a

(a) Name of interested person and purpose	(b) Loan to or from the organization?		(c) Original principal amount	(d) Balance due	(e) In default?		(f) Approved by board or committee?		(g) Written agreement?	
	To	From			Yes	No	Yes	No	Yes	No
Total ▶ \$										

Part III Grants or Assistance Benefitting Interested Persons.
Complete if the organization answered "Yes" on Form 990, Part IV, line 27.

(a) Name of interested person	(b) Relationship between interested person and the organization	(c) Amount of grant or type of assistance

Part IV Business Transactions Involving Interested Persons.

Complete if the organization answered "Yes" on Form 990, Part IV, line 28a, 28b, or 28c.

(a) Name of interested person	(b) Relationship between interested person and the organization	(c) Amount of transaction	(d) Description of transaction	(e) Sharing of organization's revenues?	
				Yes	No
(1) KRISTEN GOELZER	FAMILY MEMBER OF MARK GOELZER, DIRECTOR	291,325	EMPLOYMENT - PHYSICIAN		No
(2) JAMIE KURTZ	FAMILY MEMBER OF DAVID KURTZ, OFFICER	34,111	EMPLOYMENT - PATIENT ACCOUNT REPRESENTATIVE		No
(3) JAMES NEMETH	FAMILY MEMBER OF JOSEPH NEMETH, FORMER OFFICER	27,830	EMPLOYMENT - FINANCE MANAGER		No
(4) JOANNA BEA	FAMILY MEMBER OF JAVON BEA, PRESIDENT & DIRECTOR	80,998	EMPLOYMENT - MANAGER ARCHITECTURAL & INTERIOR DESIGN		No
(5) MEGAN KRAUSE	FAMILY MEMBER OF SUE RIPSCH, OFFICER	54,599	EMPLOYMENT - REVENUE CYCLE COORDINATOR		No

Part V Supplemental Information

Complete this part to provide additional information for responses to questions on Schedule L (see instructions)

Identifier	Return Reference	Explanation
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SCHEDULE O

(Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

Supplemental Information to Form 990 or 990-EZ

Complete to provide information for responses to specific questions on
Form 990 or to provide any additional information.
▶ Attach to Form 990 or 990-EZ.

OMB No 1545-0047

2010

Open to Public
Inspection

Name of the organization MERCY HEALTH SYSTEM CORPORATION	Employer identification number 39-0816848
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Identifier	Return Reference	Explanation
FORM 990, PART VI, SECTION B, LINE 11		NO REVIEW WAS OR WILL BE CONDUCTED

Identifier	Return Reference	Explanation
	FORM 990, PART VI, SECTION B, LINE 12C	OFFICERS, DIRECTORS, AND KEY EMPLOYEES ARE REQUIRED TO REPORT ALL CONFLICTS OF INTEREST THE COMPLIANCE OFFICER IS RESPONSIBLE FOR INVESTIGATING ALL CONFLICTS AND REPORTING TO THE BOARD

Identifier	Return Reference	Explanation
	FORM 990, PART VI, SECTION B, LINE 15	THE MERCY ALLIANCE COMPENSATION COMMITTEE IS COMPRISED OF THE BOARD CHAIRPERSON, SECRETARY, AND THE TREASURER. THE COMPENSATION COMMITTEE IS ASSISTED BY INDEPENDENT LEGAL COUNCIL AND AN INDEPENDENT COMPENSATION CONSULTANT. THE COMPENSATION COMMITTEE, LEGAL COUNCIL, AND THE COMPENSATION CONSULTANT MEET THROUGHOUT THE YEAR AND REPORT DIRECTLY TO THE BOARD OF DIRECTORS ANNUALLY. THIS PROCESS WAS COMPLETED FOR 2011.

Identifier	Return Reference	Explanation
	FORM 990, PART VI, SECTION C, LINE 19	GOVERNING DOCUMENTS, CONFLICT OF INTEREST POLICY & FINANCIAL STATEMENTS ARE AVAILABLE UPON REQUEST

Identifier	Return Reference	Explanation
CHANGES IN NET ASSETS OR FUND BALANCES	FORM 990, PART XI, LINE 5	NET UNREALIZED LOSSES ON INVESTMENTS -71,076 CHANGES IN PENSION OBLIGATIONS 17,494,000 TRANSFER TO MERCY ALLIANCE, INC -7,000,000 TOTAL TO FORM 990, PART XI, LINE 5 10,422,924

Identifier	Return Reference	Explanation
TOTAL NUMBER OF VOLUNTEERS	FORM 990, PART I, LINE 6	MERCY HEALTH SYSTEM CORPORATION HAS REPORTED ZERO FOR THE TOTAL NUMBER OF VOLUNTEERS THIS IS DUE TO THE FACT THAT ALL 1,209 VOLUNTEERS FOR THE MERCY HEALTH SYSTEM CORPORATION ARE TECHNICALLY VOLUNTEERS OF THE MERCY HEALTH SYSTEM ASSOCIATION OF VOLUNTEERS AND AS SUCH HAVE BEEN REPORTED ON THEIR TAX RETURN PLEASE SEE THE MERCY HEALTH SYSTEM ASSOCIATION OF VOLUNTEERS TAX RETURN FOR MORE INFORMATION ON MERCY VOLUNTEER ACTIVITIES

SCHEDULE R (Form 990)	<div>Related Organizations and Unrelated Partnerships</div> <div>▶ Complete if the organization answered "Yes" to Form 990, Part IV, line 33, 34, 35, 36, or 37. ▶ Attach to Form 990. ▶ See separate instructions.</div>	OMB No 1545-0047
		2010
		Open to Public Inspection

Department of the Treasury
Internal Revenue Service

Name of the organization MERCY HEALTH SYSTEM CORPORATION	Employer identification number 39-0816848
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Part I

Identification of Disregarded Entities (Complete if the organization answered "Yes" on Form 990, Part IV, line 33.)

(a) Name, address, and EIN of disregarded entity	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Total income	(e) End-of-year assets	(f) Direct controlling entity

Part II

Identification of Related Tax-Exempt Organizations (Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related tax-exempt organizations during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Exempt Code section	(e) Public charity status (if section 501(c)(3))	(f) Direct controlling entity	(g) Section 512(b)(13) controlled organization	
						Yes	No
(1) MERCY ALLIANCE INC 1000 MINERAL POINT JANESVILLE, WI 535475003 39-1679859	MANAGEMENT OF HEALTHCARE ORGANIZATIONS	WI	501(C)(3)	11A	N/A		No
(2) MERCY FOUNDATION INC 1000 MINERAL POINT JANESVILLE, WI 535475003 23-7275336	TO SUPPORT MERCY HEALTH SYSTEM & THE HOUSE OF MERCY	WI	501(C)(3)	11A	MERCY HEALTH SYSTEM CORPORATION		No
(3) MERCY HEALTH SYSTEM ASSOCIATION OF VOLUNTEERS 1000 MINERAL POINT JANESVILLE, WI 535475003 39-0912682	TO SUPPORT MERCY HEALTH SYSTEM CORPORATION	WI	501(C)(3)	11C	MERCY HEALTH SYSTEM CORPORATION		No
(4) MERCY ASSISTED CARE INC 901 MINERAL POINT JANESVILLE, WI 535475003 39-1035110	HOME HEALTH CARE & SERVICES	WI	501(C)(3)	9	MERCY ALLIANCE INC		No
(5) MERCY ALLIANCE INC 901 GRANT STREET HARVARD, IL 60033 31-1551871	MEDICAL HEALTHCARE	IL	501(C)(3)	3	MERCY ALLIANCE INC		No
(6) HARVARD MEMORIAL HOSPITAL FOUNDATION 901 GRANT STREET HARVARD, IL 60033 36-4308662	TO SUPPORT MERCY HARVARD HOSPITAL, INC	IL	501(C)(3)	11A	MERCY HARVARD HOSPITAL INC		No
(7) MERCY CRYSTAL LAKE HOSPITAL AND MEDICAL CENTER 1000 MINERAL POINT JANESVILLE, WI 535475003 20-1673011	NONE	IL	501(C)(3)	3	MERCY ALLIANCE INC		No

Part III

Identification of Related Organizations Taxable as a Partnership (Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related organizations treated as a partnership during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Predominant income (related, unrelated, excluded from tax under sections 512- 514)	(f) Share of total income	(g) Share of end-of-year assets	(h) Dispropportionate allocations?		(i) Code V—UBI amount in box 20 of Schedule K-1 (Form 1065)	(j) General or managing partner?		(k) Percentage ownership
							Yes	No		Yes	No	

Part IV

Identification of Related Organizations Taxable as a Corporation or Trust (Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related organizations treated as a corporation or trust during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Type of entity (C corp, S corp, or trust)	(f) Share of total income	(g) Share of end-of-year assets	(h) Percentage ownership
(1) JANESVILLE MEDICAL CENTER INC 1000 MINERAL POINT JANESVILLE, WI535475003 39-1520130	MANAGEMENT ENTITY OF UNION EMPLOYEES	WI	MERCY HEALTH SYSTEM CORPORATION	C		11,634	100 000 %
(2) MERCYCARE INSURANCE COMPANY 3430 PALMER DRIVE JANESVILLE, WI53545 39-1768192	INSURANCE COMPANY	WI	MERCY HEALTH SYSTEM CORPORATION	C	113,057,915	46,298,632	100 000 %
(3) MERCYCARE HMO INC - CONSOLIDATED WITH MERCYCARE INSURANCE CO 3430 PALMER DRIVE JANESVILLE, WI53545 20-1482553	INSURANCE COMPANY	WI	MERCY HEALTH SYSTEM CORPORATION	C			100 000 %

Part V

Transactions With Related Organizations (Complete if the organization answered "Yes" on Form 990, Part IV, line 34, 35, 35A, or 36.)

Note. Complete line 1 if any entity is listed in Parts II, III or IV

1

During the tax year, did the organization engage in any of the following transactions with one or more related organizations listed in Parts II-IV?

a

Receipt of (i) interest (ii) annuities (iii) royalties (iv) rent from a controlled entity

b

Gift, grant, or capital contribution to other organization(s)

c

Gift, grant, or capital contribution from other organization(s)

d

Loans or loan guarantees to or for other organization(s)

e

Loans or loan guarantees by other organization(s)

f

Sale of assets to other organization(s)

g

Purchase of assets from other organization(s)

h

Exchange of assets

i

Lease of facilities, equipment, or other assets to other organization(s)

j

Lease of facilities, equipment, or other assets from other organization(s)

k

Performance of services or membership or fundraising solicitations for other organization(s)

l

Performance of services or membership or fundraising solicitations by other organization(s)

m

Sharing of facilities, equipment, mailing lists, or other assets

n

Sharing of paid employees

o

Reimbursement paid to other organization for expenses

p

Reimbursement paid by other organization for expenses

q

Other transfer of cash or property to other organization(s)

r

Other transfer of cash or property from other organization(s)

Yes

No

1a

Yes

1b

No

1c

No

1d

No

1e

Yes

1f

No

1g

No

1h

No

1i

Yes

1j

Yes

1k

No

1l

No

1m

Yes

1n

Yes

1o

No

1p

Yes

1q

Yes

1r

No

2

If the answer to any of the above is "Yes," see the instructions for information on who must complete this line, including covered relationships and transaction thresholds

(a) Name of other organization	(b) Transaction type(a-r)	(c) Amount involved	(d) Method of determining amount involved
(1) MERCYCARE INSURANCE COMPANY	P	5,877,834	COST OF SERVICES PROVIDED
(2)			
(3)			
(4)			
(5)			
(6)			

Provide the following information for each entity taxed as a partnership through which the organization conducted more than five percent of its activities (measured by total assets or gross revenue) that was not a related organization. See instructions regarding exclusion for certain investment partnerships.

[illegible]

Part VII **Supplemental Information**

Complete this part to provide additional information for responses to questions on Schedule R (see instructions)

Identifier	Return Reference	Explanation
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Software ID:
Software Version:
EIN: 39-0816848
Name: MERCY HEALTH SYSTEM CORPORATION

Form 990, Schedule R, Part II - Identification of Related Tax-Exempt Organizations

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Exempt Code section	(e) Public charity status (if section 501 (c)(3))	(f) Direct controlling entity	(g) Section 512 (b)(13) controlled organization	
						Yes	No
MERCY ALLIANCE INC 1000 MINERAL POINT JANESVILLE, WI535475003 39-1679859	MANAGEMENT OF HEALTHCARE ORGANIZATIONS	WI	501(C)(3)	11A	N/A		No
MERCY FOUNDATION INC 1000 MINERAL POINT JANESVILLE, WI535475003 23-7275336	TO SUPPORT MERCY HEALTH SYSTEM & THE HOUSE OF MERCY	WI	501(C)(3)	11A	MERCY HEALTH SYSTEM CORPORATION		No
MERCY HEALTH SYSTEM ASSOCIATION OF VOLUNTEERS 1000 MINERAL POINT JANESVILLE, WI535475003 39-0912682	TO SUPPORT MERCY HEALTH SYSTEM CORPORATION	WI	501(C)(3)	11C	MERCY HEALTH SYSTEM CORPORATION		No
MERCY ASSISTED CARE INC 901 MINERAL POINT JANESVILLE, WI535475003 39-1035110	HOME HEALTH CARE & SERVICES	WI	501(C)(3)	9	MERCY ALLIANCE INC		No
MERCY ALLIANCE INC 901 GRANT STREET HARVARD, IL60033 31-1551871	MEDICAL HEALTHCARE	IL	501(C)(3)	3	MERCY ALLIANCE INC		No
HARVARD MEMORIAL HOSPITAL FOUNDATION 901 GRANT STREET HARVARD, IL60033 36-4308662	TO SUPPORT MERCY HARVARD HOSPITAL, INC	IL	501(C)(3)	11A	MERCY HARVARD HOSPITAL INC		No
MERCY CRYSTAL LAKE HOSPITAL AND MEDICAL CENTER 1000 MINERAL POINT JANESVILLE, WI535475003 20-1673011	NONE	IL	501(C)(3)	3	MERCY ALLIANCE INC		No

Mercy Health System Corporation and Subsidiaries

Janesville, Wisconsin

Consolidated Financial Statements
and Consolidating Information

Years Ended June 30, 2011 and 2010

Mercy Health System Corporation and Subsidiaries

Consolidated Financial Statements and Consolidating Information

Years Ended June 30, 2011 and 2010

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Independent Auditor's Report

Board of Directors
Mercy Health System Corporation
Janesville, Wisconsin

We have audited the accompanying consolidated balance sheets of Mercy Health System Corporation and Subsidiaries (the "Corporation") as of June 30, 2011 and 2010, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mercy Health System Corporation and Subsidiaries at June 30, 2011 and 2010, and the results of their operations, changes in their net assets, and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

A handwritten signature in black ink that reads "Wipfli LLP".

Wipfli LLP

August 15, 2011
Milwaukee, Wisconsin

Mercy Health System Corporation and Subsidiaries

Consolidated Balance Sheets

June 30, 2011 and 2010

<i>Assets</i>	(In Thousands)	
	2011	2010
Current assets		
Cash and cash equivalents	\$ 22,541	\$ 17,411
Patient accounts receivable - Net	60,651	66,026
Supplies	9,690	9,502
Prepaid expenses	3,245	3,220
Due from third-party payors	-	384
Due from related party	124	82
Other receivables	5,853	7,444
Total current assets	102,104	104,069
Assets limited as to use	78,028	73,526
Property and equipment - Net	218,302	173,375
Other assets		
Unamortized debt issuance costs - Net	1,700	2,133
Other	1,918	1,456
Total other assets	3,618	3,589
TOTAL ASSETS	\$ 402,052	\$ 354,559

<i>Liabilities and Net Assets</i>	(In Thousands)	
	2011	2010
Current liabilities		
Current maturities of long-term debt	\$ 1,040	\$ 244
Accounts payable		
Trade	5,959	9,016
Construction	8,385	-
Salaries, wages, and payroll taxes	22,932	25,900
Due to related party	4,534	4,721
Due to third-party payors	600	-
Other accrued expenses	48,460	44,911
Total current liabilities	91,910	84,792
Long-term liabilities		
Long-term debt, less current maturities	39,264	37,031
Deferred compensation	9,098	13,004
Pension liability	17,924	35,515
Due to related party	107,218	83,808
Total long-term liabilities	173,504	169,358
Total liabilities	265,414	254,150
Total net assets - Unrestricted	136,638	100,409
TOTAL LIABILITIES AND NET ASSETS	\$ 402,052	\$ 354,559

Mercy Health System Corporation and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

Years Ended June 30, 2011 and 2010

	(In Thousands)	
	2011	2010
Revenue		
Net patient service revenue	\$ 373,726	\$ 348,776
Premium revenue	90,296	85,089
Other revenue	2,116	1,464
Total revenue	466,138	435,329
Expenses		
Salaries and wages	214,844	207,894
Employee benefits	33,968	33,196
Professional fees and purchased services	21,179	21,877
Medical claims and capitation payments	26,536	25,445
Medical supplies, other supplies, and drugs	72,068	64,761
Utilities	5,092	4,755
Insurance	5,465	6,536
Other	21,020	20,876
Provision for bad debts	20,416	11,840
Depreciation and amortization	19,596	17,965
Interest	5,022	5,191
Total expenses	445,206	420,336
Income from operations	20,932	14,993
Nonoperating income - Net	1,844	941
Excess of revenue over expenses	22,776	15,934
Other changes in unrestricted net assets		
Change in net unrealized gains and losses on investments other than trading securities	2,959	1,849
Changes in pension obligation other than pension expense	17,494	(6,950)
Transfers to affiliates - Net	(7,000)	(27,300)
Change in unrestricted net assets	36,229	(16,467)
Unrestricted net assets at beginning	100,409	116,876
Unrestricted net assets at end	\$ 136,638	\$ 100,409

See accompanying notes to consolidated financial statements

Mercy Health System Corporation and Subsidiaries

Consolidated Statements of Cash Flows

Years Ended June 30, 2011 and 2010

	(In Thousands)	
	2011	2010
Increase (decrease) in cash and cash equivalents		
Cash flows from operating activities		
Change in net assets	\$ 36,229	\$ (16,467)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Transfers to affiliates	7,000	27,300
Changes in pension obligation other than pension expense	(17,494)	6,950
Change in net unrealized gains and losses on investments other than trading securities	(2,959)	(1,849)
Provision for bad debts	20,416	11,840
Net realized gains and losses from sales of investments	(280)	(124)
Depreciation and amortization	19,596	17,965
Loss on sale of property and equipment	130	136
Loss on early retirement of debt	165	290
Changes in operating assets and liabilities		
Patient accounts receivable	(15,041)	(1,215)
Supplies and other current assets	1,336	703
Accounts payable	(3,057)	959
Accrued liabilities and other	(2,952)	4,797
Due from/to third-party payors	984	(588)
Net cash provided by operating activities	44,073	50,697
Cash flows from investing activities		
Increase in assets limited as to use	(1,263)	(25,758)
Capital expenditures	(56,260)	(22,930)
Proceeds from sale of property and equipment	327	-
Decrease in other assets	(488)	1,873
Net cash used in investing activities	(57,684)	(46,815)

Mercy Health System Corporation and Subsidiaries

Consolidated Statements of Cash Flows (Continued)

Years Ended June 30, 2011 and 2010

	(In Thousands)	
	2011	2010
Cash flows from financing activities		
Proceeds from issuance of long-term debt	\$ 3,618	\$ -
Principal payments on long-term debt	(630)	(1,339)
Early retirement of long-term debt	-	(16,735)
Net change in borrowings from Mercy Alliance, Inc	22,753	38,429
Payments for financing costs	-	(1,599)
Transfers to affiliates	(7,000)	(27,300)
Net cash provided by (used in) financing activities	18,741	(8,544)
Net increase (decrease) in cash and cash equivalents	5,130	(4,662)
Cash and cash equivalents at beginning	17,411	22,073
Cash and cash equivalents at end	\$ 22,541	\$ 17,411
Supplemental cash flow information		
Cash paid for interest, excluding related-party interest	\$ 2,123	\$ 2,488
Capital expenditures in accounts payable	\$ 8,385	\$ -

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies

The Entity and Principles of Consolidation

The consolidated financial statements include the accounts and operations of Mercy Health System Corporation and its wholly owned or controlled subsidiaries (collectively, the "Corporation"). The Corporation's sole member is Mercy Alliance, Inc. (MAI). A brief description of each organization follows:

- Mercy Health System Corporation (MHSC)
Operates a 240-bed hospital (licensed beds) in Janesville, Wisconsin, approximately 39 physician clinics in southern Wisconsin and northern Illinois, a skilled nursing facility (SNF) that operates as a subacute care unit of the hospital building, and Mercy Walworth Hospital and Medical Center (MWH), a 6-bed hospital facility in Walworth County, Wisconsin. MWH is reimbursed by Medicare as a critical access hospital (CAH).
- Mercy Foundation, Inc. (MFI)
MFI's primary activity is fund-raising for MHSC and its programs in accordance with its bylaws.
- MercyCare Insurance Company (MCIC)
An indemnity insurance company that contracts with local employers. MCIC has a wholly owned subsidiary, MercyCare HMO, which operates as a health maintenance organization (HMO) under Wisconsin statutes. MCIC and its subsidiary contract for services with MHSC and other MAI affiliates.

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

Financial Statement Presentation

The Corporation follows accounting standards set by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The ASC is the single source of authoritative accounting principles generally accepted in the United States (GAAP) to be applied to nongovernmental entities in the preparation of financial statements in conformity with GAAP.

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Use of Estimates in Preparation of Financial Statements

The preparation of the accompanying consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that directly affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

Cash Equivalents

Highly-liquid debt instruments with an original maturity of three months or less are considered to be cash equivalents, excluding amounts limited as to use.

Patient Accounts Receivables and Credit Policy

Patient accounts receivable are uncollateralized patient obligations that are stated at the amount management expects to collect from outstanding balances. These obligations are primarily from local residents, most of whom are insured under third-party payor agreements. MHSC bills third-party payors on the patients' behalf, or if a patient is uninsured, the patient is billed directly. Once claims are settled with the primary payor, any secondary insurance is billed, and patients are billed for copay and deductible amounts that are the patients' responsibility. Payments on accounts receivable are applied to the specific claim identified on the remittance advice or statement. MHSC does not have a policy to charge interest on past due accounts.

The carrying amounts of accounts receivable are reduced by allowances that reflect management's best estimate of the amounts that will not be collected. Management provides for contractual adjustments under terms of third-party reimbursement agreements through a reduction of gross revenue and a credit to patient accounts receivable. In addition, management provides for probable uncollectible amounts, primarily uninsured patients and amounts patients are personally responsible for, through a charge to operations and a credit to a valuation allowance based on its assessment of historical collection likelihood and the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to patient accounts receivable.

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Patient Accounts Receivables and Credit Policy (Continued)

Accounts receivable are recorded in the accompanying consolidated balance sheets net of contractual adjustments and allowances for doubtful accounts

Supplies

Supplies are valued at the lower of cost, determined on the first-in, first-out (FIFO) method, or market

Assets Limited as to Use

Assets limited as to use include assets the Board of Directors have designated for future plant replacement and expansion over which the Board retains control and may at its discretion subsequently use for other purposes, amounts set aside for compensation agreements, amounts restricted for regulatory compliance, and assets held by a trustee under the Wisconsin Health and Educational Facilities Authority Revenue Bonds indenture agreements

Investments included in assets limited as to use are measured at fair value in the accompanying consolidated balance sheets. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in nonoperating income unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from excess of revenue over expenses unless the investments are trading securities. Realized gains and losses are determined by specific identification.

The Corporation monitors the difference between the cost and fair value of its investments. A decline in market value of an individual investment security below cost that is deemed to be other-than-temporary results in an impairment and the Corporation reduces the investment's carrying value to fair value. A new cost basis is established for the investment and any impairment loss is recorded as a realized loss in investment income.

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Fair Value Measurements

The Corporation measures fair value of its financial instruments, including assets within the defined benefit noncontributory retirement plan, using a three-tier hierarchy which prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of fair value hierarchy are as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Corporation has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets,
- Quoted prices for identical or similar assets in inactive markets,
- Inputs, other than quoted prices, that are observable for the asset or liability,
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Donated property and equipment are recorded at fair market value at the date of donation, which is then treated as cost. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets, net of any earnings on these funds. Estimated useful lives range from 2 to 20 years for land improvements, 5 to 20 years for leasehold improvements, 5 to 25 years for buildings and improvements, and 3 to 20 years for major moveable equipment.

Unamortized Debt Issuance Costs and Bond Discounts

Bond issuance costs and original issue discounts related to the issuance of long-term debt are amortized over the life of the related debt using the straight-line method.

Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If impairment has occurred, a loss will be recognized. No impairment losses were recognized in 2011 or 2010.

Asset Retirement Obligation

ASC Topic 410-20, *Accounting for Conditional Asset Retirement Obligation*, clarifies when an entity is required to recognize a liability for a conditional asset retirement obligation. Management has considered ASC Topic 410-20, specifically as it relates to its legal obligation to perform asset retirement activities, such as asbestos removal, on its existing properties. Management believes that there is an indeterminate settlement date for the asset retirement obligations because the range of time over which the Corporation may settle the obligation is unknown and cannot be estimated. As a result, management cannot reasonably estimate the liability related to these asset retirement activities as of June 30, 2011 and 2010.

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

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. Revenue under third-party payor agreements is subject to audit and retroactive adjustments. Provisions for estimated third-party payor settlements and adjustments are estimated in the period the related services are rendered and adjusted in future periods as final settlements are determined. Management believes that adequate provision has been made in the accompanying consolidated financial statements for any adjustments that may result from final settlements.

Premium Revenue and Claims Payable

Premiums are billed monthly for coverage in the following month and are recognized as revenue in the month for which insurance protection is provided. Claims payable, included in other accrued expenses, are determined using statistical analyses and represent estimates of the ultimate net cost of all reported and unreported claims that are unpaid at the end of each accounting period. Although it is not possible to measure the degree of variability inherent in such estimates, management believes that the liabilities for claims are adequate. The estimates are reviewed periodically and, as adjustments to these liabilities become necessary, such adjustments are reflected in current operations. The Corporation has recorded a provision of \$9,332,000 and \$9,212,000 at June 30, 2011 and 2010, respectively, for claims payable.

Hospital Assessments

During the year ended June 30, 2010, the Wisconsin state legislature enacted legislation under which eligible hospitals are required to pay the state an annual assessment. The assessment period is the state's fiscal year, which runs from July 1 to June 30. The assessment is based on each hospital's gross revenues, as defined. The revenue generated from the assessment is to be used, in part, to increase overall reimbursement under the Wisconsin Medicaid program. The Corporation's assessment expense was approximately \$6,799,000 and \$6,066,000 for the years ended June 30, 2011 and 2010, respectively, and is included in other expense in the accompanying consolidated statements of operations and changes in net assets. Increases in reimbursement from Medicaid are included in net patient service revenue.

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Excess of Revenue Over Expenses

The accompanying consolidated statements of operations and changes in net assets include excess of revenue over expenses, which is considered the operating indicator. Changes in unrestricted net assets which are excluded from the operating indicator include unrealized gains and losses on investments other than trading securities, changes in pension obligation other than pension expense, permanent transfer of assets to and from affiliates for other than goods and services, and contributions of long-lived assets.

Charity Care and Community Benefit

The Corporation provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the collection is not pursued on amounts determined to qualify as charity care, these amounts are not included in net patient service revenue in the accompanying consolidated statements of operations and changes in net assets. The Corporation also gives discounts from established charges to patients who are uninsured and considers these discounts a part of their community benefit.

Charges foregone under the Corporation's charity care and community benefit policy, based on established rates, approximated \$9,978,000 and \$18,073,000 for the years ended June 30, 2011 and 2010, respectively.

Contributions and Unconditional Promises to Give

Contributions are considered to be available for unrestricted uses unless specifically restricted by the donor.

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is deemed unconditional. The gifts are reported as either temporarily restricted or permanently restricted support if they are received with donor stipulations that limit the use of donated assets. Donor-imposed contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying consolidated financial statements.

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Advertising Costs

Advertising costs are expensed as incurred

Income Taxes

MHSC and MFI are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. MHSC and MFI are also exempt from state income taxes on related income.

Federal and state income taxes are paid on nonexempt unrelated business income in accordance with the Code.

MCIC and MercyCare HMO are taxable entities for both federal and Wisconsin income tax purposes and file a consolidated return. Deferred income taxes have been provided under the liability method. Deferred tax assets and liabilities are determined based upon the difference between the financial statement and tax bases of assets and liabilities, as measured by the enacted tax rates, which are expected to be in effect when these differences are expected to reverse.

In order to account for any uncertain tax positions, the Corporation determines whether it is more likely than not that a tax position will be sustained upon examination on the technical merits of the position, assuming the taxing authority has full knowledge of all information. If the tax position does not meet the more likely than not recognition threshold, the benefit of that position is not recognized in the financial statements. The Corporation recorded no assets or liabilities related to uncertain tax positions in 2011 and 2010. Tax returns for the years ended June 30, 2008 and beyond remain subject to examination by the Internal Revenue Service.

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements

In July 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and Allowance for Doubtful Accounts for Certain Health Care Entities*. This ASU amends ASC Topic 954 and requires health care entities 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. Entities are also required to enhance disclosures about their policies for recognizing revenue and assessing bad debts. Additionally, this guidance requires disclosure of qualitative and quantitative information about changes in the allowance for doubtful accounts. This ASU is effective for the Corporation's fiscal year ending June 30, 2013, with early adoption permitted.

In August 2010, the FASB issued ASU No. 2010-23, *Measuring Charity Care for Disclosure*. This ASU amends ASC Topic 954 and requires entities to use cost as the measurement basis for charity care disclosures, including both direct and indirect costs. Entities are also required to disclose the method used to determine these costs, such as directly from a costing system or through an estimation process. This ASU is effective for the Corporation's fiscal year ending June 30, 2012.

Subsequent Events

Subsequent events have been evaluated through August 15, 2011, which is the date the financial statements were issued.

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 2 Reimbursement Arrangements With Third-Party Payors

Agreements are maintained with third-party payors that provide for reimbursement at amounts which vary from its established rates. A summary of the basis of reimbursement with major third-party payors follows:

Government Payors

MHSC

Medicare - Inpatient hospital acute care services provided by MHSC are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient, clinic, and subacute care services are reimbursed primarily on a prospective payment methodology based upon a patient classification system or fixed fee schedules.

Medicaid - Inpatient and outpatient services are reimbursed primarily based upon prospectively determined rates.

MWH

Under the CAH designation, inpatient and outpatient hospital services rendered to Medicare and Medicaid beneficiaries are paid based on a cost-reimbursement methodology.

Other Payors

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

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 2 Reimbursement Arrangements With Third-Party Payors (Continued)

Accounting for Contractual Arrangements

Certain Medicare and Medicaid services are cost reimbursed and are reimbursed at tentative rates, with final settlements determined after audit of the related annual cost reports. The cost reports have been audited by the Medicare and Medicaid fiscal intermediaries through June 30, 2007.

Compliance

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, particularly those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Allegations concerning possible violations by health care providers of regulations could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenue from patient services. Management believes that the Corporation is in substantial compliance with current laws and regulations.

The Centers for Medicare and Medicaid Services (CMS) has implemented a new project using Recovery Audit Contractors (RACs) as part of CMS's further efforts to ensure accurate payments under the Medicare program. CMS is using RACs to search for potentially inaccurate Medicare payments that may have been made to health care providers and that were not detected through existing CMS program integrity efforts. Once a RAC identifies a claim it believes is inaccurate, the RAC makes a deduction from or addition to the provider's Medicare reimbursement in an amount estimated to equal the overpayment or underpayment. The provider will then have the opportunity to appeal the adjustment before final settlement of the claim is made. As of June 30, 2011, the Corporation has received notice from the RAC of certain claims identified by the RAC as overpaid, however, management believes any reimbursement adjustments related to these claims will not be significant.

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 3 Patient Accounts Receivable

Patient accounts receivable consisted of the following at June 30, 2011 and 2010

	(In Thousands)	
	2011	2010
Patient accounts receivable	\$ 132,749	\$ 138,732
Less		
Allowance for contractual adjustments	55,586	60,144
Allowance for doubtful accounts	16,512	12,562
Patient accounts receivable - Net	\$ 60,651	\$ 66,026

Note 4 Assets Limited as to Use

Assets limited as to use are invested as follows at June 30, 2011 and 2010

	(In Thousands)	
	2011	2010
Certificate of deposit	\$ 1,202	\$ 1,202
Money market funds	14,530	20,930
Government and agency obligations	14,872	15,203
Municipal obligations	190	126
Corporate obligations	7,347	6,872
Foreign obligations	752	657
Equity mutual funds	20,102	20,131
Pooled separate funds		
Fixed income	18,465	7,989
Domestic equity	568	416
Total assets limited as to use	\$ 78,028	\$ 73,526

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 4 Assets Limited as to Use (Continued)

The composition of assets limited as to use at June 30, 2011 and 2010, are as follows

	(In Thousands)	
	2011	2010
Held by trustee under bond indenture agreements	\$ 16,231	\$ 17,184
Held by Treasurer of State of Wisconsin for regulatory requirements	3,917	3,948
Internally designated		
Deferred compensation	9,098	13,004
Expansion and capital improvements	25,202	19,330
Regulatory compliance	23,580	20,060
Total assets limited as to use	\$ 78,028	\$ 73,526

Investment income (loss), which includes investments earnings on cash equivalents and assets limited as to use, was comprised of the following for the years ended June 30

	(In Thousands)	
	2011	2010
Interest and dividend income	\$ 1,351	\$ 1,026
Net realized gains on sales of investments	280	124
Total investment income	1,631	1,150
Change in net unrealized gains and losses on investments other than trading securities	2,959	1,849
Totals	\$ 4,590	\$ 2,999

Investments, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of certain investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial statements.

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 4 Assets Limited as to Use (Continued)

Management assesses individual investment securities as to whether declines in market value are other-than-temporary and result in an impairment. For equity securities, the Corporation considers whether it has the ability and intent to hold the investment until a market price recovery. Evidence considered in this includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year-end, the issuer's financial condition, and the general market condition in the geographic area or industry the investee operates in. For debt securities, if the Corporation has made a decision to sell the security, or if it's more likely than not the Corporation will sell the security before the recovery of the security's cost basis, an other-than-temporary impairment is considered to have occurred. If the Corporation has not made a decision or does not have an intent to sell the debt security, but the debt security is not expected to recover its value due to a credit loss, an other-than temporary impairment is considered to have occurred.

Because the Corporation has the intent and the ability to hold investment securities until a market price recovery or maturity, investment securities at June 30, 2011 and 2010 are not other-than temporarily impaired. No impairment losses were recognized by the Corporation during 2011 and 2010.

Note 5 Fair Value Measurements

Following is a description of the valuation methodologies used for assets measured at fair value, including assets held in the Corporation's defined benefit retirement plan (Note 10).

Money market funds are valued using a net asset value (NAV) of \$1. Equity mutual funds are valued at quoted market prices, which represent the NAV of shares held by the Corporation at year-end. Government and agency obligations, municipal obligations, corporate obligations, and foreign obligations are valued using quotes from pricing vendors based on recent trading activity and other observable market data. Common stocks are valued using quoted market prices. Pooled separate accounts with investments in a single mutual fund determine the NAV based on the quoted market price of the underlying mutual funds. Those with multiple investments are determined based on the quoted market prices of the underlying funds, or by using various pricing models, when quoted prices are unavailable.

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 5 Fair Value Measurements (Continued)

The common trust fund is valued at the NAV of shares held by the Plan at year-end as provided by the administrator of the fund. The NAV is based on the market value of the underlying assets of the fund.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Corporation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Corporation's assets at fair value as of June 30.

	(In Thousands)			
	2011			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 11,892	\$ 20,004	\$ -	\$ 31,896
Government and agency obligations	-	14,872	-	14,872
Municipal obligations	-	190	-	190
Corporate obligations	-	7,347	-	7,347
Foreign obligations	-	752	-	752
Equity mutual funds	20,102	-	-	20,102
Pooled separate funds				
Fixed income	18,465	-	-	18,465
Domestic equity	568	-	-	568
Total assets at fair value	\$ 51,027	\$ 43,165	\$ -	\$ 94,192

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 5 Fair Value Measurements (Continued)

	(In Thousands)			
	2010			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 17,184	\$ 3,746	\$ -	\$ 20,930
Government and agency obligations	-	15,203	-	15,203
Municipal obligations	-	126	-	126
Corporate obligations	-	6,872	-	6,872
Foreign obligations	-	657	-	657
Equity mutual funds	20,131	-	-	20,131
Pooled separate funds				
Fixed income	7,989	-	-	7,989
Domestic equity	416	-	-	416
Total assets at fair value	\$ 45,720	\$ 26,604	\$ -	\$ 72,324

The following table sets forth additional disclosures of the Corporation's investments whose fair value is estimated at net asset value per share as of June 30, 2011

Investment	(In Thousands) Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Pooled separate accounts				
Fixed income funds (a)	\$ 18,465	-	Continuously	N/A
Domestic equities (b)	568	-	Continuously	N/A

(a) This class invests primarily in single fixed income mutual funds

(b) This class invests primarily in single equity mutual funds

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 6 Property and Equipment

Property and equipment consisted of the following at June 30, 2011 and 2010

	(In Thousands)	
	2011	2010
Land	\$ 26,461	\$ 26,451
Land improvements	5,841	5,360
Leasehold improvements	5,208	5,208
Buildings and improvements	168,928	160,628
Major movable equipment	140,845	119,093
Total property and equipment	347,283	316,740
Less - Accumulated depreciation	175,727	157,799
Net depreciated value	171,556	158,941
Construction in progress	46,746	14,434
Property and equipment - Net	\$ 218,302	\$ 173,375

The Corporation is in the process of a construction project to expand and renovate MWH. The total project is estimated to be approximately \$45,000,000. The Corporation has a commitment of approximately \$31,500,000 million for a fixed price construction contract as of June 30, 2011. Construction in progress at June 30, 2011 includes approximately \$31,100,000 related to the construction project. The project is estimated to be completed in fiscal year 2013.

The Corporation is also in the process of renovating and expanding a physician clinic. The cost for this project is estimated to be approximately \$9,000,000 with approximately \$7,300,000 in construction in progress at June 30, 2011. This project will be completed in fiscal 2012.

The remaining amounts in construction in progress relate to routine capital projects for renovating and updating the Corporation's facilities.

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 7 Long-Term Debt

Long-term debt consisted of the following at June 30, 2011 and 2010

	(In Thousands)	
	2011	2010
Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 1999, dated August 1, 1999, payable in annual installments including principal and varying interest (5.13% to 5.50%) through August 2025	\$ 37,600	\$ 37,810
Equipment loans and other	3,248	50
Totals	40,848	37,860
Less		
Unamortized bond discounts	544	585
Current maturities	1,040	244
Long-term portion	\$ 39,264	\$ 37,031

The bond indenture agreements require that certain funds be held by a trustee for payment of bond principal and interest. These funds, which are not available for general purposes, are classified as assets limited as to use under bond indenture agreements.

The bond agreements require maintenance of certain debt service coverage ratios, limit additional borrowings, and require compliance with various other restrictive covenants. Management believes that the Corporation is in compliance with debt covenants at June 30, 2011.

The carrying value of long-term debt approximates its fair value.

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 7 Long-Term Debt (Continued)

Scheduled payments of principal on long-term debt at June 30, 2011, including current maturities, are summarized as follows

	(In Thousands)
2012	\$ 1,040
2013	1,078
2014	934
2015	814
2016	568
Thereafter	36,414
Total	\$ 40,848

Note 8 Related-Party Transactions

The Corporation had the following receivables (payables) with affiliated entities at June 30, 2011 and 2010

	(In Thousands)	
	2011	2010
MAI	\$ (111,529)	\$ (88,529)
MAC	124	82
MHH	(223)	-
Total related-party payables - Net	\$ (111,628)	\$ (88,447)

Beginning with the year ended June 30, 2005, long-term borrowings are done by MAI. The Obligated Group for these borrowings includes MHSC and MAI, along with Mercy Assisted Care, Inc (MAC) and Mercy Harvard Hospital, Inc (MHH), affiliated entities. All members of the Obligated Group are jointly and severally liable for the debt, and the Obligated Group has pledged as security for long-term debt substantially all of its property, equipment, and revenue.

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 8 Related-Party Transactions (Continued)

The proceeds from debt issued by MAI is loaned to affiliated entities, at interest rates from 4.65% to 4.75%, through intercompany payables. The portion of the revenue bond proceeds allocated to the Corporation that have not yet been expended are included in assets limited as to use. The above payable to MAI includes \$111,282,000 and \$88,529,000 related to long-term borrowings at June 30, 2011 and 2010, respectively. Current maturities of these borrowings were \$4,064,000 and \$4,721,000 at June 30, 2011 and 2010, respectively, and are included in current liabilities in the accompanying consolidated balance sheets. Interest expense includes \$2,129,000 and \$2,387,000 for the years ended June 30, 2011 and 2010, respectively, related to these intercompany borrowings. In addition, the Corporation capitalized \$797,000 and \$182,000 of interest expense during 2011, and 2010, respectively, related to these borrowings.

MHSC transferred cash of \$7,000,000 and \$27,300,000 to MAI during the years ended June 30, 2011 and 2010, respectively.

Note 9 Net Patient Service Revenue

The following table sets forth the detail of net patient service revenue for the years ended June 30, 2011 and 2010.

	(In Thousands)	
	2011	2010
Gross patient service revenue	\$ 817,568	\$ 745,438
Revenue deductions		
Medicare contractual allowances	(188,034)	(159,030)
Medicaid contractual allowances	(76,571)	(73,885)
Managed care allowances	(49,662)	(45,125)
Commercial and other	(129,575)	(118,622)
<u>Net patient service revenue</u>	<u>\$ 373,726</u>	<u>\$ 348,776</u>

During the years ended June 30, 2011 and 2010, approximately 30.1% and 29.3% of the Corporation's net patient service revenue related to patients participating in the Medicare and Medicaid programs.

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 10 Retirement Plans

The Corporation has a defined benefit noncontributory retirement plan (the "Plan") which covers its employees who work more than 1,000 hours annually in addition to meeting certain eligibility requirements as specified in the Plan. All assets of the Plan, principally marketable securities, are held in a separate bank-administered trust. The funding policy is to contribute amounts sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974.

The following table provides further information about the Plan as of the Plan years ended June 30, 2011 and 2010.

	(In Thousands)	
	2011	2010
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 95,280	\$ 80,711
Service cost	7,142	6,563
Interest cost	4,901	5,065
Benefits paid	(4,608)	(5,102)
Actuarial (gain) loss	(8,662)	8,043
Benefit obligation at end of year	94,053	95,280
Change in plan assets		
Fair value of plan assets at beginning of year	54,055	47,563
Actual return on plan assets	13,149	5,970
Employer contributions	7,708	5,624
Benefits paid	(4,608)	(5,102)
Fair value of plan assets at end of year	70,304	54,055
Funded status	\$ (23,749)	\$ (41,225)
Accumulated benefit obligation	\$ 90,106	\$ 88,001

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 10 Retirement Plans (Continued)

Amounts recognized in the accompanying consolidated balance sheets at June 30, 2011 and 2010, consisted of

	(In Thousands)	
	2011	2010
Current liability - Other accrued expenses	\$ 5,825	\$ 5,710
Long-term liability	17,924	35,515
Total	\$ 23,749	\$ 41,225
Total net assets - Unrestricted		
Prior service cost	\$ 728	\$ 835
Net actuarial loss	12,592	29,979
Total amount recognized in net assets	\$ 13,320	\$ 30,814

Pension expense for the years ended June 30, 2011 and 2010, was comprised of the following

	(In Thousands)	
	2011	2010
Pension expense		
Service cost	\$ 7,142	\$ 6,563
Interest cost	4,901	5,065
Expected return on assets	(5,295)	(5,019)
Amortization of prior service cost	107	107
Amortization of unrecognized actuarial loss	871	35
Total pension expense	7,726	6,751
Other changes in plan assets and benefit obligations recognized in other changes in net assets		
Net actuarial loss (gain)	(17,387)	7,057
Prior service cost	(107)	(107)
Total recognized in other changes in net assets	(17,494)	6,950
Total recognized as pension expense and other changes in net assets	\$ (9,768)	\$ 13,701

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 10 Retirement Plans (Continued)

The estimated prior service cost and actuarial loss that will be amortized from net assets into pension expense over the next fiscal year is \$403,000

Weighted average assumptions used as of June 30, the measurement date, in developing the benefit obligation are as follows

	2011	2010
Discount rate for obligation	5.30%	5.30%
Discount rate for net periodic cost	5.30%	6.50%
Expected long-term return on plan assets	7.50%	8.00%
	1.0% grading to	
Rate of compensation increase for obligation	2.5%	3.00%
Rate of compensation increase for net periodic cost	3.00%	4.50%

To develop the expected long-term rate of return on assets assumption, the Corporation considered the historical returns and future expectations for returns in each asset class, as well as targeted asset allocation percentages within the Plan portfolio

The Corporation intends to provide an appropriate range of investment options that span the risk/return spectrum. The investment options allow for an investment portfolio consistent with Plan circumstances, goals, time horizons, and tolerance for risk.

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 10 Retirement Plans (Continued)

The Corporation's asset allocations at June 30, are as follows

	2011	2010
Asset category		
Cash and cash equivalents	1 9%	1 1%
Government and agency obligations	2 4%	6 4%
Corporate obligations	0 5%	3 3%
Foreign bonds	0 6%	1 2%
Pooled separate funds		
Fixed income	12 6%	21 0%
Domestic equity	41 3%	17 2%
International equity	14 3%	15 1%
Common stocks	8 6%	29 9%
Common trust fund	17 8%	4 8%
Totals	100 0%	100 0%

The following table sets forth by level, within the fair value hierarchy, the Corporation's Plan assets at fair values as of June 30, 2011 and 2010

	(In Thousands)			
	2011			Total
	Level 1	Level 2	Level 3	
Cash equivalents	\$ -	\$ 1,363	\$ -	\$ 1,363
Government and agency obligations	-	1,696	-	1,696
Corporate obligations	-	365	-	365
Foreign bonds	-	426	-	426
Pooled separate funds				
Fixed income	8,840			8,840
Domestic equity	29,069			29,069
International equity	10,034			10,034
Common stocks	6,077	-	-	6,077
Common trust fund	-	-	12,434	12,434
Total assets at fair value	\$ 54,020	\$ 3,850	\$ 12,434	\$ 70,304

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 10 Retirement Plans (Continued)

	(In Thousands)			
	2010			
	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ -	\$ 573	\$ -	\$ 573
Government and agency obligations	-	3,447	-	3,447
Municipal obligations	-	326	-	326
Corporate obligations	-	1,799	-	1,799
Foreign bonds	-	644	-	644
Pooled separate funds				
Fixed income	11,328			11,328
Domestic equity	9,289			9,289
International equity	8,177			8,177
Common stocks	16,167	-	-	16,167
Common trust fund	-	-	2,305	2,305
Total assets at fair value	\$ 44,961	\$ 6,789	\$ 2,305	\$ 54,055

The table below sets forth a summary of changes in the fair value of the Corporation's level 3 assets for the year ended June 30, 2011

	(In Thousands)	
	2011	2010
Balance, beginning of year	\$ 2,305	\$ -
Realized and unrealized gains	637	-
Purchases	12,056	2,305
Sales	(2,564)	-
Balance, end of year	\$ 12,434	\$ 2,305

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 10 Retirement Plans (Continued)

The following table sets forth additional disclosures of the Corporation's investments whose fair value is estimated at net asset value per share as of June 30, 2011

Investment	(In Thousands) Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Pooled separate accounts				
Fixed income funds (a)	\$ 8,840	-	Continuously	N/A
Domestic equities (b)	29,069	-	Continuously	N/A
International equities (c)	10,034	-	Continuously	N/A

(a) This class invests primarily in single fixed income mutual funds

(b) This class invests primarily in single equity mutual funds

(c) This class invests primarily in single international equity mutual funds

The Corporation expects to contribute \$10,288,000 to the Plan in fiscal 2012

Benefit payments are expected to be paid as follows

	(In Thousands)
2011	\$ 5,825
2012	\$ 6,623
2013	\$ 6,989
2014	\$ 8,230
2015	\$ 8,884
Years 2016 through 2020	\$ 50,807

The Corporation also participates in a contributory tax-deferred annuity plan, which covers all employees at least 18 years of age with one year of service. Employees may contribute up to 4% of compensation to the annuity plan on a tax-deferred basis, plus additional amounts subject to a regulatory limit. The Corporation may contribute discretionary amounts up to 50% of employees' tax-deferred contribution, up to 4% of compensation. The Corporation contributed \$1,140,000 and \$1,165,000 to the annuity plan for the years ended June 30, 2011 and 2010, respectively.

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 10 Retirement Plans (Continued)

The Corporation also contributes to a multi-employer defined benefit plan which covers employees pursuant to the terms of collective bargaining agreements. The Corporation contributed \$202,000 and \$228,000 to the defined benefit plan for the years ended June 30, 2011 and 2010, respectively. The Corporation also contributes to a 401(k) plan for this same group of employees an amount, based on a matching percentage of participant contributions, set by the terms of collective bargaining agreements. The Corporation contributed \$46,000 and \$71,000 to the 401(k) plan for the years ended June 30, 2011 and 2010, respectively.

The Corporation also sponsors deferred compensation programs covering certain physicians and officers. Investments and corresponding liabilities totaling \$9,098,000 and \$13,004,000 at June 30, 2011 and 2010, respectively, are included in the accompanying consolidated balance sheets. Total deferred compensation expense was \$3,654,000 and \$2,200,000 in 2011 and 2010, respectively.

Note 11 Operating Leases

The Corporation leases office space, office equipment, and certain medical equipment from unrelated organizations. Total rental expense was approximately \$3,034,000 and \$2,890,000 in 2011 and 2010, respectively. Future minimum lease payments, by year and in the aggregate, under these non-cancelable lease agreements are summarized as follows:

	(In Thousands)	
2012	\$	1,063
2013		893
2014		629
2015		123
Total minimum lease payments	\$	2,708

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 12 Malpractice Insurance

During 2005, the Corporation began a self-insurance program for its professional liability on a claims made basis. The Corporation retains the first \$1,000,000 per occurrence and \$3,000,000 per year for Wisconsin claims. Coverage against losses in excess of these amounts is maintained through mandatory participation in the Patients' Compensation Fund of the State of Wisconsin. For Illinois claims, the Corporation retains the first \$2,100,000 of loss per claim and has purchased an umbrella policy that provides excess coverage.

The Corporation has provided a reserve of \$24,250,000 and \$22,300,000 for potential claims for services provided to patients through June 30, 2011 and 2010, respectively, which have not yet been asserted. These amounts are included in other accrued expenses in the accompanying consolidated balance sheets.

Note 13 Concentration of Credit Risk

Financial instruments that potentially subject the Corporation to credit risk consist principally of accounts receivable and cash deposits in excess of insured limits in financial institutions.

The mix of receivables from patients and third-party payors is as follows at June 30, 2011 and 2010:

	2011	2010
Medicare	24%	22%
Medicaid	10%	12%
Other third-party payors	38%	41%
Patients	28%	25%
Totals	100%	100%

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 13 Concentration of Credit Risk (Continued)

The Corporation maintains depository relationships with area financial institutions that are Federal Deposit Insurance Corporation (FDIC) insured institutions. On November 9, 2010, the FDIC issued a final rule implementing section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act that provides for unlimited insurance coverage of noninterest-bearing transaction accounts through December 31, 2012. In addition, the Corporation maintains cash in interest-bearing accounts at these institutions which are insured by the FDIC up to \$250,000. At June 30, 2011, the Corporation's deposits exceeded the insured limits by approximately \$17,648,000.

Note 14 Functional Expenses

The Corporation provides general health care services to residents within its geographic location and contracts with various health care providers to provide medical services to members insured by MCIC. Expenses related to providing these services for the years ended June 30, 2011 and 2010 are as follows:

	(In Thousands)	
	2011	2010
Health care services	\$ 335,445	\$ 315,746
General and administrative	109,761	104,590
Total expenses	\$ 445,206	\$ 420,336

Consolidating Information



Independent Auditor's Report on Consolidating Information

Board of Directors
Mercy Health System Corporation
Janesville, Wisconsin

Our report on our audits of the basic consolidated financial statements of Mercy Health System Corporation and Subsidiaries for the years ended June 30, 2011 and 2010, appears on page 1. Those audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating information appearing on pages 36 through 39 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, changes in net assets, and cash flows of the individual organizations. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly presented in all material respects in relation to the consolidated financial statements for the years ended June 30, 2011 and 2010, taken as a whole.

A handwritten signature in black ink that reads "Wipfli LLP".

Wipfli LLP

August 15, 2011
Milwaukee, Wisconsin

Mercy Health System Corporation and Subsidiaries

Consolidating Balance Sheet

June 30, 2011

<i>Assets</i>	(In Thousands)				
	Mercy Health System Corporation	MercyCare Insurance Company	Mercy Foundation, Inc	Eliminations	Mercy Health System Corporation Consolidated
Current assets					
Cash and cash equivalents	\$ 14,466	\$ 7,981	\$ 94	\$ -	\$ 22,541
Patient accounts receivable - Net	61,921	-	-	(1,270)	60,651
Supplies	9,690	-	-	-	9,690
Prepaid expenses	4,665	-	-	(1,420)	3,245
Due from related party	270	-	29	(175)	124
Other receivables	4,668	1,185	-	-	5,853
Total current assets	95,680	9,166	123	(2,865)	102,104
Assets limited as to use	53,506	23,161	1,361	-	78,028
Property and equipment - Net	218,302	-	-	-	218,302
Other assets					
Unamortized debt issuance costs - Net	1,700	-	-	-	1,700
Investment in subsidiary	17,641	-	-	(17,641)	-
Other	1,358	560	-	-	1,918
Total other assets	20,699	560	-	(17,641)	3,618
TOTAL ASSETS	\$ 388,187	\$ 32,887	\$ 1,484	\$ (20,506)	\$ 402,052
<i>Liabilities and Net Assets</i>					
Current liabilities					
Current maturities of long-term debt	\$ 1,040	\$ -	\$ -	\$ -	\$ 1,040
Accounts payable					
Trade	5,959	-	-	-	5,959
Construction	8,385	-	-	-	8,385
Salaries, wages, and payroll taxes	22,932	-	-	-	22,932
Due to related party	4,563	26	120	(175)	4,534
Due to third-party payors	600	-	-	-	600
Other accrued expenses	35,930	15,220	-	(2,690)	48,460
Total current liabilities	79,409	15,246	120	(2,865)	91,910
Long-term liabilities					
Long-term debt, less current maturities	39,264	-	-	-	39,264
Deferred compensation	9,098	-	-	-	9,098
Pension liability	17,924	-	-	-	17,924
Due to related party	107,218	-	-	-	107,218
Total long-term liabilities	173,504	-	-	-	173,504
Total liabilities	252,913	15,246	120	(2,865)	265,414
Total net assets - Unrestricted	135,274	17,641	1,364	(17,641)	136,638
TOTAL LIABILITIES AND NET ASSETS	\$ 388,187	\$ 32,887	\$ 1,484	\$ (20,506)	\$ 402,052

Mercy Health System Corporation and Subsidiaries

Consolidating Balance Sheet (Continued)

June 30, 2010

<i>Assets</i>	(In Thousands)				
	Mercy Health System Corporation	MercyCare Insurance Company	Mercy Foundation, Inc	Eliminations	Mercy Health System Corporation Consolidated
Current assets					
Cash and cash equivalents	\$ 12,146	\$ 5,194	\$ 71	\$ -	\$ 17,411
Patient accounts receivable - Net	67,616	-	-	(1,590)	66,026
Supplies	9,502	-	-	-	9,502
Prepaid expenses	4,649	-	-	(1,429)	3,220
Due from third-party payors	384	-	-	-	384
Due from related party	105	54	-	(77)	82
Other receivables	4,714	2,730	-	-	7,444
Total current assets	99,116	7,978	71	(3,096)	104,069
Assets limited as to use	52,533	19,805	1,188	-	73,526
Property and equipment - Net	173,375	-	-	-	173,375
Other assets					
Unamortized debt issuance costs - Net	2,133	-	-	-	2,133
Investment in subsidiary	14,183	-	-	(14,183)	-
Other	1,358	98	-	-	1,456
Total other assets	17,674	98	-	(14,183)	3,589
TOTAL ASSETS	\$ 342,698	\$ 27,881	\$ 1,259	\$ (17,279)	\$ 354,559
<i>Liabilities and Net Assets</i>					
Current liabilities					
Current maturities of long-term debt	\$ 244	\$ -	\$ -	\$ -	\$ 244
Accounts payable	9,016	-	-	-	9,016
Salaries, wages, and payroll taxes	25,900	-	-	-	25,900
Due to related party	4,775	16	7	(77)	4,721
Other accrued expenses	34,248	13,682	-	(3,019)	44,911
Total current liabilities	74,183	13,698	7	(3,096)	84,792
Long-term liabilities					
Long-term debt, less current maturities	37,031	-	-	-	37,031
Deferred compensation	13,004	-	-	-	13,004
Pension liability	35,515	-	-	-	35,515
Due to related party	83,808	-	-	-	83,808
Total long-term liabilities	169,358	-	-	-	169,358
Total liabilities	243,541	13,698	7	(3,096)	254,150
Total net assets - Unrestricted	99,157	14,183	1,252	(14,183)	100,409
TOTAL LIABILITIES AND NET ASSETS	\$ 342,698	\$ 27,881	\$ 1,259	\$ (17,279)	\$ 354,559

Mercy Health System Corporation and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets

Year Ended June 30, 2011

	(In Thousands)				
	Mercy Health System Corporation	MercyCare Insurance Company	Mercy Foundation, Inc	Eliminations	Mercy Health System Corporation Consolidated
Revenue					
Net patient service revenue	\$ 444,701	\$ -	\$ -	\$ (70,975)	\$ 373,726
Premium revenue	-	103,778	-	(13,482)	90,296
Other revenue	2,116	-	-	-	2,116
Total revenue	446,817	103,778	-	(84,457)	466,138
Expenses					
Salaries and wages	\$ 214,844	-	-	-	214,844
Employee benefits	47,450	-	-	(13,482)	33,968
Professional fees and purchased services	20,403	776	-	-	21,179
Medical claims and capitation payments	-	97,511	-	(70,975)	26,536
Medical supplies, other supplies, and drugs	72,068	-	-	-	72,068
Utilities	5,092	-	-	-	5,092
Insurance	5,465	-	-	-	5,465
Other	15,261	5,759	-	-	21,020
Provision for bad debts	20,416	-	-	-	20,416
Depreciation and amortization	19,596	-	-	-	19,596
Interest	5,022	-	-	-	5,022
Total expenses	425,617	104,046	-	(84,457)	445,206
Income (loss) from operations	21,200	(268)	-	-	20,932
Nonoperating income - Net	4,494	803	5	(3,458)	1,844
Excess of revenue over expenses	25,694	535	5	(3,458)	22,776
Other changes in unrestricted net assets					
Change in net unrealized gains and losses on investments other than trading securities	(71)	2,923	107	-	2,959
Changes in pension obligation other than pension expense	17,494	-	-	-	17,494
Transfers to affiliates - Net	(7,000)	-	-	-	(7,000)
Change in unrestricted net assets	36,117	3,458	112	(3,458)	36,229
Unrestricted net assets at beginning	99,157	14,183	1,252	(14,183)	100,409
Unrestricted net assets at end	\$ 135,274	\$ 17,641	\$ 1,364	\$ (17,641)	\$ 136,638

Mercy Health System Corporation and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets (Continued)

Year Ended June 30, 2010

	(In Thousands)				
	Mercy Health System Corporation	MercyCare Insurance Company	Mercy Foundation, Inc	Eliminations	Mercy Health System Corporation Consolidated
Revenue					
Net patient service revenue	\$ 416,295	\$ -	\$ -	\$ (67,519)	\$ 348,776
Premium revenue	-	98,666	-	(13,577)	85,089
Other revenue	1,464	-	-	-	1,464
Total revenue	417,759	98,666	-	(81,096)	435,329
Expenses					
Salaries and wages	207,894	-	-	-	207,894
Employee benefits	46,773	-	-	(13,577)	33,196
Professional fees and purchased services	21,159	718	-	-	21,877
Medical claims and capitation payments	-	92,964	-	(67,519)	25,445
Medical supplies, other supplies, and drugs	64,761	-	-	-	64,761
Utilities	4,755	-	-	-	4,755
Insurance	6,536	-	-	-	6,536
Other	15,844	5,032	-	-	20,876
Provision for bad debts	11,840	-	-	-	11,840
Depreciation and amortization	17,965	-	-	-	17,965
Interest	5,191	-	-	-	5,191
Total expenses	402,718	98,714	-	(81,096)	420,336
Income (loss) from operations	15,041	(48)	-	-	14,993
Nonoperating income - Net	2,113	405	58	(1,635)	941
Excess of revenue over expenses	17,154	357	58	(1,635)	15,934
Other changes in unrestricted net assets					
Change in net unrealized gains and losses on investments other than trading securities	432	1,278	139	-	1,849
Changes in pension obligation other than pension expense	(6,950)	-	-	-	(6,950)
Transfers to affiliates - Net	(27,300)	-	-	-	(27,300)
Change in unrestricted net assets	(16,664)	1,635	197	(1,635)	(16,467)
Unrestricted net assets at beginning	115,821	12,548	1,055	(12,548)	116,876
Unrestricted net assets at end	\$ 99,157	\$ 14,183	\$ 1,252	\$ (14,183)	\$ 100,409