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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 <input type="checkbox"/> Address change <input type="checkbox"/> Name change <input type="checkbox"/> Initial return <input type="checkbox"/> Terminated <input type="checkbox"/> Amended return <input type="checkbox"/> Application pending	C Name of organization Mercy Hospital Iowa City Iowa	D Employer identification number 42-0680391
	Doing Business As	E Telephone number (319) 339-0300
	Number and street (or P O box if mail is not delivered to street address) 500 East Market Street	Room/suite
	G Gross receipts \$ 186,763,232	
	City or town, state or country, and ZIP + 4 Iowa City, IA 52245	
	F Name and address of principal officer Michael G Heinrich 500 East Market Street Iowa City, IA 52245	H(a) Is this a group return for affiliates? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No H(b) Are all affiliates included? <input type="checkbox"/> Yes <input type="checkbox"/> No If "No," attach a list (see instructions) H(c) Group exemption number ▶
I Tax-exempt status <input checked="" type="checkbox"/> 501(c)(3) <input type="checkbox"/> 501(c) () ◀ (Insert no) <input type="checkbox"/> 4947(a)(1) or <input type="checkbox"/> 527		
J Website: ▶ www.mercyiowacity.org		
K Form of organization <input checked="" type="checkbox"/> Corporation <input type="checkbox"/> Trust <input type="checkbox"/> Association <input type="checkbox"/> Other ▶		L Year of formation 1873
M State of legal domicile IA		

Part I	Summary
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Activities & Governance	1 Briefly describe the organization's mission or most significant activities To heal and comfort the sick and improve the health of the community in the spirit of Jesus Christ		
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	13	
4 Number of independent voting members of the governing body (Part VI, line 1b)	4	12	
5 Total number of individuals employed in calendar year 2010 (Part V, line 2a)	5	1,325	
6 Total number of volunteers (estimate if necessary)	6	461	
7a Total unrelated business revenue from Part VIII, column (C), line 12	7a	2,129,659	
b Net unrelated business taxable income from Form 990-T, line 34	7b	-330,219	
Revenue	8 Contributions and grants (Part VIII, line 1h)	Prior Year	Current Year
	9 Program service revenue (Part VIII, line 2g)	641,893	628,872
	10 Investment income (Part VIII, column (A), lines 3, 4, and 7d)	139,027,638	139,782,498
	11 Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)	1,412,313	7,219,828
	12 Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12)	1,710,827	2,053,325
		142,792,671	149,684,523
Expenses	13 Grants and similar amounts paid (Part IX, column (A), lines 1–3)	164,192	161,366
	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)	80,458,816	74,776,974
	16a Professional fundraising fees (Part IX, column (A), line 11e)	0	0
	b Total fundraising expenses (Part IX, column (D), line 25) ▶ ⁰		
	17 Other expenses (Part IX, column (A), lines 11a–11d, 11f–24f)	61,873,140	65,664,439
	18 Total expenses Add lines 13–17 (must equal Part IX, column (A), line 25)	142,496,148	140,602,779
	19 Revenue less expenses Subtract line 18 from line 12	296,523	9,081,744
Net Assets or Fund Balances		Beginning of Current Year	End of Year
	20 Total assets (Part X, line 16)	275,560,202	269,627,417
	21 Total liabilities (Part X, line 26)	137,974,454	122,320,945
	22 Net assets or fund balances Subtract line 21 from line 20	137,585,748	147,306,472

Part II	Signature Block
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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	2012-05-11 Date			
	MICHAEL G HEINRICH Executive VP of Finance & CFO Type or print name and title				
Paid Preparer Use Only	Print/Type preparer's name Anne Fulton	Preparer's signature Anne Fulton	Date	Check if self-employed <input type="checkbox"/>	PTIN
	Firm's name ▶ DELOITTE TAX LLP				Firm's EIN ▶
	Firm's address ▶ 50 SOUTH SIXTH STREET STE 2800 MINNEAPOLIS, MN 554021538				Phone no ▶ (612) 397-4000

May the IRS discuss this return with the preparer shown above? (see instructions) ☒ Yes ☐ No

Part IIISTatement 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

Mercy Iowa City ("Mercy") heals and comforts the sick and works to improve the health of the community in the spirit of Jesus Christ and the Catholic tradition of the Sisters of Mercy

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 \$ 100,143,981 including grants of \$) (Revenue \$ 139,856,081)

Hospital Services In keeping with our mission of healing and comforting the sick, providing hospital medical services is at the heart of what we do These services are provided in inpatient and outpatient settings in situations that may be emergent, acute, or chronic Services include a 24-hour emergency unit, intensive care, cardiovascular care and the services of a cardiac cath lab, maternity unit and newborn nursery, surgical services, cancer care, orthopedic care, telemetry monitored care, medical care, stroke care, behavioral health care, and skilled nursing

4b

(Code) (Expenses \$ 751,892 including grants of \$) (Revenue \$ 250,148)

Education The ongoing education of Mercy staff members is critical in the fast-changing field of health care and is necessary in many cases to meet regulation and certification In addition to the efforts designed for staff members, Mercy provides a setting for many students who are considering or pursuing health care careers For high school students, a health careers class is offered to give students insight into possible careers and options, it also prepares students for the certified nursing assistant exam Mercy also works with students from Kirkwood Community College, and other local colleges, offering such options as a paid summer nursing internship program, a lab student rotation opportunity, and job shadow opportunity in anesthesiology

4c

(Code) (Expenses \$ 3,569,628 including grants of \$ 161,366) (Revenue \$)

Community Benefit Mercy's community benefits take many forms, beginning with traditional charity care of \$1.3 million, the unpaid cost of Medicaid (\$1.2 million), and subsidized health services related to Mercy's provision of a community hospice facility (\$58,000) Other examples are varied, they include cash donations to community non-for-profits such as the Free Medical Clinic, free meeting space to valued community organizations, leadership time and skills that further the work of community non-for-profits, first aid booths provided at public events These efforts are detailed in Mercy's community benefit report, prepared annually As a trusted, longtime member of the community, Mercy plays an important role not only in furthering community health but the general community good

4d

Other program services (Describe in Schedule O)

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



















4e

Total program service expenses

\$ 104,465,501

Form 990 (2010)

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)? If "Yes," complete Schedule A 	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? If "Yes," complete Schedule C, Part 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? If "Yes," complete Schedule C, Part II 	4 Yes	
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? If "Yes," complete Schedule C, Part III	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? If "Yes," complete Schedule D, Part 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? If "Yes," complete Schedule D, Part II 	7	No
8 Did the organization maintain collections of works of art, historical treasures, or other similar assets? If "Yes," complete Schedule D, Part III 	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? If "Yes," complete Schedule D, Part IV 	9	No
10 Did the organization, directly or through a related organization, hold assets in term, permanent, or quasi-endowments? If "Yes," complete Schedule D, Part V 	10 Yes	
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? If "Yes," complete Schedule D, Part VI. 	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? If "Yes," complete Schedule D, Part VII. 	11b	No
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? If "Yes," complete Schedule D, Part VIII. 	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? If "Yes," complete Schedule D, Part IX. 	11d Yes	
e Did the organization report an amount for other liabilities in Part X, line 25? If "Yes," complete Schedule D, Part X. 	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)? If "Yes," complete Schedule D, Part X. 	11f Yes	
12a Did the organization obtain separate, independent audited financial statements for the tax year? If "Yes," complete Schedule D, Parts XI, XII, and XIII 	12a	No
b Was the organization included in consolidated, independent audited financial statements for the tax year? If "Yes," and if the organization answered 'No' to line 12a, then completing Schedule D, Parts XI, XII, and XIII is optional 	12b Yes	
13 Is the organization a school described in section 170(b)(1)(A)(ii)? If "Yes," complete Schedule E	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? If "Yes," complete Schedule F, Parts I and IV	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 ? If "Yes," complete Schedule F, Parts II and IV	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 ? If "Yes," complete Schedule F, Parts III and IV	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? If "Yes," complete Schedule G, Part I (see instructions)	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? If "Yes," complete Schedule G, Part II	18	No
19 Did the organization report more than \$15,000 of gross income from gaming activities on Part VIII, line 9a? If "Yes," complete Schedule G, Part III	19	No
20a Did the organization operate one or more hospitals? If "Yes," complete Schedule H 	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	Yes	
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	Yes	
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	Yes	
b	Did the organization invest any proceeds of tax-exempt bonds beyond a temporary period exception?	24b		No
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		No
d	Did the organization act as an "on behalf of" issuer for bonds outstanding at any time during the year?	24d		No
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	Yes	
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		No
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>			
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	53
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	1,325
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	13	
b	Enter the number of voting members included in line 1a, above, who are independent	1b	12	
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	Yes	
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	Yes	
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	Yes	
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	Yes	
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		No
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	Yes	
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	Yes	

Section C. Disclosure

17	List the States with which a copy of this Form 990 is required to be filed▶
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 ▶ Jean Berge 500 East Market Street Iowa City, IA 52245 (319) 339-3238

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) Geraldine Felton Board Member	1 00	X						0	0	0
(2) Scott Fisher Board Member	1 00	X						0	0	0
(3) Nyle Kauffman MD Board Member	1 00	X						0	0	0
(4) SR Sharon Kerrigan Board Member	1 00	X						0	0	0
(5) Tim Krumm Board Member	1 00	X						0	0	0
(6) Tom McLaughlin Board Member	1 00	X						0	0	0
(7) SR Patricia Murphy Board Member	1 00	X						0	0	0
(8) Dick Oberman Board Member	1 00	X						0	0	0
(9) Mark Phillips Board Member	1 00	X						0	0	0
(10) Cyndie Schmeiser Board Member	1 00	X						0	0	0
(11) Mary Westabrook Board Member	1 00	X						0	0	0
(12) SR Margaret Wright Board Member	1 00	X						0	0	0
(13) Ronald R Reed President & CEO	40 00	X		X				497,226	0	82,951
(14) Jean M Berge Director, Fiscal Mgmt	40 00			X				145,944	0	39,750
(15) Michael G Heinrich Executive VP & CFO	40 00			X				298,681	0	55,536
(16) Cindy Penney VP Nursing	40 00			X				155,942	0	39,674

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) Andrew R Ashby MD Physician	40 00					X		512,872	0	40,774
(18) Martin Izakovic MD Physician	40 00					X		339,198	0	34,970
(19) Peter McDonnell MD Physician	40 00					X		393,734	0	33,590
(20) Stephen J Scheckel MD ECU Medical Director	40 00					X		337,176	0	30,780
(21) Eric J Stenberg MD Physician	40 00					X		300,252	0	43,400
1b Sub-Total										
c Total from continuation sheets to Part VII, Section A										
d Total (add lines 1b and 1c)								2,981,025	0	401,425

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▶60

	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>		No
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>	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>		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
	Rohrbach Associates PC 325 E Washington Iowa City, IA 52244	Engineering/Architecture	598,589
	Cross Medical Laboratories 2406 Towncrest Drive Iowa City, IA 52244	Laboratory Services	365,944
	Deloitte & Touche LLP 50 South Sixth Street Suite 2800 Minneapolis, MN 55402	Auditing Services	157,398
	Phelan Tucker Mullen Walker Tucker & Gel Box 2150 Iowa City, IA 52244	Legal Services	147,969
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 ▶4		

Part VIII

Statement of Revenue

			(A)	(B)	(C)	(D)	
			Total revenue	Related or exempt function revenue	Unrelated business revenue	Revenue excluded from tax under sections 512, 513, or 514	
Contributions, gifts, grants and other similar amounts	1a	Federated campaigns 1a					
	b	Membership dues 1b					
	c	Fundraising events 1c					
	d	Related organizations 1d	564,391				
	e	Government grants (contributions) 1e	64,481				
	f	All other contributions, gifts, grants, and similar amounts not included above 1f					
	g	Noncash contributions included in lines 1a-1f \$					
	h	Total. Add lines 1a-1f	628,872				
	Program Service Revenue	2a	Patient Serv Revenue	Business Code 621400	81,319,770	81,319,770	
b		Medicare/Medicaid	621400	51,958,043	51,958,043		
c		Program Relat Revenue	621400	709,855	709,855		
d		Purchase Discounts	621400	350,831	350,831		
e		Contract Lab Revenue	621500	326,211	326,211		
f		All other program service revenue		5,117,788	2,988,129	2,129,659	
g		Total. Add lines 2a-2f	139,782,498				
Other Revenue		3	Investment income (including dividends, interest and other similar amounts)		4,222,235		4,222,235
		4	Income from investment of tax-exempt bond proceeds				
	5	Royalties					
	6a	Gross Rents	(i) Real 2,119,819	(ii) Personal			
	b	Less rental expenses	1,131,183				
	c	Rental income or (loss)	988,636				
	d	Net rental income or (loss)		988,636		988,636	
	7a	Gross amount from sales of assets other than inventory	(i) Securities 38,703,576	(ii) Other 241,543			
	b	Less cost or other basis and sales expenses	35,833,744	113,782			
	c	Gain or (loss)	2,869,832	127,761			
	d	Net gain or (loss)		2,997,593		2,997,593	
	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	Cafeteria Income	722210	725,468		725,468		
b	Access	621400	100,755	100,755			
c	Miscellaneous revenue	900099	46,538	46,538			
d	All other revenue		191,928	176,438	15,490		
e	Total. Add lines 11a-11d		1,064,689				
12	Total revenue. See Instructions		149,684,523	137,976,570	2,129,659	8,949,422	

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	142,325	142,325		
2	Grants and other assistance to individuals in the U S See Part IV, line 22	19,041	19,041		
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	1,302,296	588,307	713,989	
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	54,600,710	42,047,558	12,553,152	
8	Pension plan contributions (include section 401(k) and section 403(b) employer contributions)	6,271,001	4,649,947	1,621,054	
9	Other employee benefits	8,626,757	6,345,478	2,281,279	
10	Payroll taxes	3,976,210	2,999,622	976,588	
a	Fees for services (non-employees)				
	Management				
b	Legal	223,854		223,854	
c	Accounting	150,993		150,993	
d	Lobbying	28,592		28,592	
e	Professional fundraising services See Part IV, line 17				
f	Investment management fees				
g	Other	4,037,845	3,009,294	1,028,551	
12	Advertising and promotion	1,152,099	5,731	1,146,368	
13	Office expenses	25,896,079	21,605,287	4,290,792	
14	Information technology	2,981,635	438,780	2,542,855	
15	Royalties				
16	Occupancy	2,048,875	68,368	1,980,507	
17	Travel	300,741	179,132	121,609	
18	Payments of travel or entertainment expenses for any federal, state, or local public officials				
19	Conferences, conventions, and meetings				
20	Interest	2,378,305	1,392,759	985,546	
21	Payments to affiliates				
22	Depreciation, depletion, and amortization	10,404,064	9,124,422	1,279,642	
23	Insurance	1,368,600		1,368,600	
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 Debt Expense	5,430,293	5,430,293	0	0
b	Pharmacy Supplies	2,993,818	2,993,818	0	0
c	Food Expense	1,026,534	1,026,534	0	0
d	Blood Bank Fees	772,208	772,208	0	0
e	Collection Fees	630,945	323	630,622	0
f	All other expenses	3,838,959	1,626,274	2,212,685	
25	Total functional expenses. Add lines 1 through 24f	140,602,779	104,465,501	36,137,278	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			7,639,588	1	2,831,957
	2	Savings and temporary cash investments			2,258,443	2	2,379,090
	3	Pledges and grants receivable, net				3	
	4	Accounts receivable, net			23,982,485	4	20,402,245
	5	Receivables from current and former officers, directors, trustees, key employees, and highest compensated employees. Complete Part II of Schedule L			47,498	5	54,373
	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			3,725,191	8	3,969,188
	9	Prepaid expenses and deferred charges			1,992,917	9	1,968,027
	10a	Land, buildings, and equipment: cost or other basis. Complete Part VI of Schedule D	10a	214,990,567			
	b	Less: accumulated depreciation	10b	139,781,035	69,174,323	10c	75,209,532
	11	Investments—publicly traded securities			125,823,927	11	139,357,794
	12	Investments—other securities. See Part IV, line 11				12	
	13	Investments—program-related. See Part IV, line 11			26,335,732	13	5,800,378
	14	Intangible assets				14	
	15	Other assets. See Part IV, line 11			14,580,098	15	17,654,833
	16	Total assets. Add lines 1 through 15 (must equal line 34)			275,560,202	16	269,627,417
Liabilities	17	Accounts payable and accrued expenses			13,086,521	17	15,358,510
	18	Grants payable				18	
	19	Deferred revenue				19	
	20	Tax-exempt bond liabilities			63,313,168	20	62,073,856
	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			549,246	23	304,211
	24	Unsecured notes and loans payable to unrelated third parties				24	
	25	Other liabilities. Complete Part X of Schedule D			61,025,519	25	44,584,368
	26	Total liabilities. Add lines 17 through 25			137,974,454	26	122,320,945
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			137,585,748	27	147,306,472
	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			137,585,748	33	147,306,472
	34	Total liabilities and net assets/fund balances			275,560,202	34	269,627,417

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	149,684,523
2	Total expenses (must equal Part IX, column (A), line 25)	2	140,602,779
3	Revenue less expenses Subtract line 2 from line 1	3	9,081,744
4	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A))	4	137,585,748
5	Other changes in net assets or fund balances (explain in Schedule O)	5	638,980
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	147,306,472

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 checked="" type="checkbox"/> Consolidated basis <input 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 Hospital Iowa City Iowa

Employer identification number
42-0680391

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 IIIPart 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 C
(Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

Political Campaign and Lobbying Activities

For Organizations Exempt From Income Tax Under section 501(c) and section 527
▶ **Complete if the organization is described below.**
▶ **Attach to Form 990 or Form 990-EZ. ▶ See separate instructions.**

OMB No 1545-0047

2010

Open to Public Inspection

If the organization answered “Yes,” to Form 990, Part IV, Line 3, or Form 990-EZ, Part V, line 46 (Political Campaign Activities), then

- Section 501(c)(3) organizations Complete Parts I-A and B Do not complete Part I-C
- Section 501(c) (other than section 501(c)(3)) organizations Complete Parts I-A and C below Do not complete Part I-B
- Section 527 organizations Complete Part I-A only

If the organization answered “Yes,” to Form 990, Part IV, Line 4, or Form 990-EZ, Part VI, line 47 (Lobbying Activities), then

- Section 501(c)(3) organizations that have filed Form 5768 (election under section 501(h)) Complete Part II-A Do not complete Part II-B
- Section 501(c)(3) organizations that have NOT filed Form 5768 (election under section 501(h)) Complete Part II-B Do not complete Part II-A

If the organization answered “Yes,” to Form 990, Part IV, Line 5 (Proxy Tax) or Form 990-EZ, Part V, line 35a (Proxy Tax), then

- Section 501(c)(4), (5), or (6) organizations Complete Part III

Name of the organization Mercy Hospital Iowa City Iowa	Employer identification number 42-0680391
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Part I-A Complete if the organization is exempt under section 501(c) or is a section 527 organization.

1	Provide a description of the organization’s direct and indirect political campaign activities in Part IV	
2	Political expenditures	▶ \$ _____
3	Volunteer hours	_____

Part I-B Complete if the organization is exempt under section 501(c)(3).

1	Enter the amount of any excise tax incurred by the organization under section 4955	▶ \$ _____
2	Enter the amount of any excise tax incurred by organization managers under section 4955	▶ \$ _____
3	If the organization incurred a section 4955 tax, did it file Form 4720 for this year?	<input type="checkbox"/> Yes <input type="checkbox"/> No
4a	Was a correction made?	<input type="checkbox"/> Yes <input type="checkbox"/> No
b	If “Yes,” describe in Part IV	

Part I-C Complete if the organization is exempt under section 501(c) except section 501(c)(3).

1	Enter the amount directly expended by the filing organization for section 527 exempt function activities	▶ \$ _____
2	Enter the amount of the filing organization's funds contributed to other organizations for section 527 exempt funtion activities	▶ \$ _____
3	Total exempt function expenditures Add lines 1 and 2 Enter here and on Form 1120-POL, line 17b	▶ \$ _____
4	Did the filing organization file Form 1120-POL for this year?	<input type="checkbox"/> Yes <input type="checkbox"/> No
5	Enter the names, addresses and employer identification number (EIN) of all section 527 political organizations to which the filing organization made payments For each organization listed, enter the amount paid from the filing organization’s funds Also enter the amount of political contributions received that were promptly and directly delivered to a separate political organization, such as a separate segregated fund or a political action committee (PAC) If additional space is needed, provide information in Part IV	

(a) Name	(b) Address	(c) EIN	(d) Amount paid from filing organization's funds If none, enter -0-	(e) Amount of political contributions received and promptly and directly delivered to a separate political organization If none, enter -0-

Part II-A

Complete if the organization is exempt under section 501(c)(3) and filed Form 5768 (election under section 501(h)).

A

Check

☒

if the filing organization belongs to an affiliated group

B

Check

☐

if the filing organization checked box A and "limited control" provisions apply

Limits on Lobbying Expenditures (The term "expenditures" means amounts paid or incurred.)		(a) Filing Organization's Totals	(b) Affiliated Group Totals												
1a Total lobbying expenditures to influence public opinion (grass roots lobbying)															
b Total lobbying expenditures to influence a legislative body (direct lobbying)															
c Total lobbying expenditures (add lines 1a and 1b)															
d Other exempt purpose expenditures															
e Total exempt purpose expenditures (add lines 1c and 1d)															
f Lobbying nontaxable amount Enter the amount from the following table in both columns															
<table><thead><tr><th>If the amount on line 1e, column (a) or (b) is:</th><th>The lobbying nontaxable amount is:</th></tr></thead><tbody><tr><td>Not over \$500,000</td><td>20% of the amount on line 1e</td></tr><tr><td>Over \$500,000 but not over \$1,000,000</td><td>\$100,000 plus 15% of the excess over \$500,000</td></tr><tr><td>Over \$1,000,000 but not over \$1,500,000</td><td>\$175,000 plus 10% of the excess over \$1,000,000</td></tr><tr><td>Over \$1,500,000 but not over \$17,000,000</td><td>\$225,000 plus 5% of the excess over \$1,500,000</td></tr><tr><td>Over \$17,000,000</td><td>\$1,000,000</td></tr></tbody></table>		If the amount on line 1e, column (a) or (b) is:	The lobbying nontaxable amount is:	Not over \$500,000	20% of the amount on line 1e	Over \$500,000 but not over \$1,000,000	\$100,000 plus 15% of the excess over \$500,000	Over \$1,000,000 but not over \$1,500,000	\$175,000 plus 10% of the excess over \$1,000,000	Over \$1,500,000 but not over \$17,000,000	\$225,000 plus 5% of the excess over \$1,500,000	Over \$17,000,000	\$1,000,000		
If the amount on line 1e, column (a) or (b) is:	The lobbying nontaxable amount is:														
Not over \$500,000	20% of the amount on line 1e														
Over \$500,000 but not over \$1,000,000	\$100,000 plus 15% of the excess over \$500,000														
Over \$1,000,000 but not over \$1,500,000	\$175,000 plus 10% of the excess over \$1,000,000														
Over \$1,500,000 but not over \$17,000,000	\$225,000 plus 5% of the excess over \$1,500,000														
Over \$17,000,000	\$1,000,000														
g Grassroots nontaxable amount (enter 25% of line 1f)															
h Subtract line 1g from line 1a If zero or less, enter -0-															
i Subtract line 1f from line 1c If zero or less, enter -0-															
j If there is an amount other than zero on either line 1h or line 1i, did the organization file Form 4720 reporting section 4911 tax for this year?		<input type="checkbox"/> Yes <input type="checkbox"/> No													

4-Year Averaging Period Under Section 501(h)
(Some organizations that made a section 501(h) election do not have to complete all of the five columns below. See the instructions for lines 2a through 2f on page 4.)

Lobbying Expenditures During 4-Year Averaging Period					
Calendar year (or fiscal year beginning in)	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) Total
2a Lobbying non-taxable amount					
b Lobbying ceiling amount (150% of line 2a, column(e))					
c Total lobbying expenditures					
d Grassroots non-taxable amount					
e Grassroots ceiling amount (150% of line 2d, column (e))					
f Grassroots lobbying expenditures					

Part II-B Complete if the organization is exempt under section 501(c)(3) and has NOT filed Form 5768 (election under section 501(h)).

		(a)		(b)
		Yes	No	Amount
1	During the year, did the filing organization attempt to influence foreign, national, state or local legislation, including any attempt to influence public opinion on a legislative matter or referendum, through the use of			
a	Volunteers?		No	
b	Paid staff or management (include compensation in expenses reported on lines 1c through 1i)?		No	
c	Media advertisements?		No	
d	Mailings to members, legislators, or the public?		No	
e	Publications, or published or broadcast statements?		No	
f	Grants to other organizations for lobbying purposes?		No	
g	Direct contact with legislators, their staffs, government officials, or a legislative body?		No	
h	Rallies, demonstrations, seminars, conventions, speeches, lectures, or any similar means?		No	
i	Other activities? If "Yes," describe in Part IV	Yes		28,592
j	Total lines 1c through 1i			28,592
2a	Did the activities in line 1 cause the organization to be not described in section 501(c)(3)?		No	
b	If "Yes," enter the amount of any tax incurred under section 4912			
c	If "Yes," enter the amount of any tax incurred by organization managers under section 4912			
d	If the filing organization incurred a section 4912 tax, did it file Form 4720 for this year?			

Part III-A Complete if the organization is exempt under section 501(c)(4), section 501(c)(5), or section 501(c)(6).

		Yes	No
1	Were substantially all (90% or more) dues received nondeductible by members?	1	
2	Did the organization make only in-house lobbying expenditures of \$2,000 or less?	2	
3	Did the organization agree to carryover lobbying and political expenditures from the prior year?	3	

Part III-B Complete if the organization is exempt under section 501(c)(4), section 501(c)(5), or section 501(c)(6) if BOTH Part III-A, lines 1 and 2 are answered "No" OR if Part III-A, line 3 is answered "Yes".

1	Dues, assessments and similar amounts from members	1	
2	Section 162(e) non-deductible lobbying and political expenditures (do not include amounts of political expenses for which the section 527(f) tax was paid).		
a	Current year	2a	
b	Carryover from last year	2b	
c	Total	2c	
3	Aggregate amount reported in section 6033(e)(1)(A) notices of nondeductible section 162(e) dues	3	
4	If notices were sent and the amount on line 2c exceeds the amount on line 3, what portion of the excess does the organization agree to carryover to the reasonable estimate of nondeductible lobbying and political expenditure next year?	4	
5	Taxable amount of lobbying and political expenditures (see instructions)	5	

Part IV Supplemental Information

Complete this part to provide the descriptions required for Part I-A, line 1, Part I-B, line 4, Part I-C, line 5, and Part II-B, line 1i. Also, complete this part for any additional information.

Identifier	Return Reference	Explanation
Explanation of Other Lobbying Activities	Part II-B, Line 1i	Mercy Hospital, Iowa City, Iowa is a member of the Iowa Hospital Association (IHA) A percentage of membership dues paid to IHA relate to lobbying activities

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 Hospital Iowa City Iowa

Employer identification number
42-0680391

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 <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 <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)

☐ Preservation of an historically importantly land area

☐ Protection of natural habitat

☐ Preservation of a certified historic structure

☐ Preservation of open space

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

	Held at the End of the Year
a	Total number of conservation easements
b	Total acreage restricted by conservation easements
c	Number of conservation easements on a certified historic structure included in (a)
d	Number of conservation easements included in (c) acquired after 8/17/06

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	10,653,690	9,665,745	12,302,591	
b	Contributions	451,005	140,749	36,954	
c	Investment earnings or losses	2,031,685	1,003,105	-2,231,983	
d	Grants or scholarships	184,488	155,909	441,817	
e	Other expenditures for facilities and programs				
f	Administrative expenses				
g	End of year balance	12,951,892	10,653,690	9,665,745	

2

Provide the estimated percentage of the year end balance held as

a

Board designated or quasi-endowment ▶ 82 000 %

b

Permanent endowment ▶ 18 000 %

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

(ii) related organizations

b

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

	Yes	No
3a(i)		No
3a(ii)	Yes	
3b	Yes	

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		6,379,393		6,379,393
b Buildings		111,214,319	70,317,875	40,896,444
c Leasehold improvements		589,029	555,196	33,833
d Equipment		63,443,205	49,641,246	13,801,959
e Other		33,364,621	19,266,718	14,097,903
Total. Add lines 1a-1e (Column (d) should equal Form 990, Part X, column (B), line 10(c).)				75,209,532

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)	1
2	Total expenses (Form 990, Part IX, column (A), line 25)	2
3	Excess or (deficit) for the year Subtract line 2 from line 1	3
4	Net unrealized gains (losses) on investments	4
5	Donated services and use of facilities	5
6	Investment expenses	6
7	Prior period adjustments	7
8	Other (Describe in Part XIV)	8
9	Total adjustments (net) Add lines 4 - 8	9
10	Excess or (deficit) for the year per financial statements Combine lines 3 and 9	10

Part XII Reconciliation of Revenue per Audited Financial Statements With Revenue per Return		
1	Total revenue, gains, and other support per audited financial statements	1
2	Amounts included on line 1 but not on Form 990, Part VIII, line 12	
a	Net unrealized gains on investments	2a
b	Donated services and use of facilities	2b
c	Recoveries of prior year grants	2c
d	Other (Describe in Part XIV)	2d
e	Add lines 2a through 2d	2e
3	Subtract line 2e from line 1	3
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 7b	4a
b	Other (Describe in Part XIV)	4b
c	Add lines 4a and 4b	4c
5	Total Revenue Add lines 3 and 4c. (This should equal Form 990, Part I, line 12)	5

Part XIII Reconciliation of Expenses per Audited Financial Statements With Expenses per Return		
1	Total expenses and losses per audited financial statements	1
2	Amounts included on line 1 but not on Form 990, Part IX, line 25	
a	Donated services and use of facilities	2a
b	Prior year adjustments	2b
c	Other losses	2c
d	Other (Describe in Part XIV)	2d
e	Add lines 2a through 2d	2e
3	Subtract line 2e from line 1	3
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 7b	4a
b	Other (Describe in Part XIV)	4b
c	Add lines 4a and 4b	4c
5	Total expenses Add lines 3 and 4c. (This should equal Form 990, Part I, line 18)	5

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
Description of Intended Use of Endowment Funds	Part V, Line 4	All Restricted Endowed Funds are used for the benefit of Mercy Hospital Iowa City - capital equipment, employee grants, scholarships, etc
Description of Uncertain Tax Positions Under FIN 48	Part X	Mercy adopted the provisions of FIN No. 48 in fiscal 2008. As a result of the implementation of FIN No. 48, and as of June 30, 2011, Mercy recorded no liabilities for unrecognized tax benefits.

SCHEDULE H
(Form 990)

Department of the Treasury
Internal Revenue Service

Hospitals

OMB No 1545-0047

2010

Open to Public Inspection

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

Name of the organization
Mercy Hospital Iowa City Iowa

Employer identification number
42-0680391

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 type="checkbox"/> 150% <input checked="" 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 checked="" type="checkbox"/> 200% <input type="checkbox"/> 250% <input 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)			1,259,008	0	1,259,008	0 930 %
b Unreimbursed Medicaid (from Worksheet 3, column a)			5,942,936	3,994,649	1,948,287	1 440 %
c Unreimbursed costs—other means-tested government programs (from Worksheet 3, column b)			18,146	10,993	7,153	0 010 %
d Total Financial Assistance and Means-Tested Government Programs			7,220,090	4,005,642	3,214,448	2 380 %
Other Benefits						
e Community health improvement services and community benefit operations (from Worksheet 4)			1,069,191	96,416	972,775	0 720 %
f Health professions education (from Worksheet 5)			136,628	19,976	116,652	0 090 %
g Subsidized health services (from Worksheet 6)			3,030,019	2,485,961	544,058	0 400 %
h Research (from Worksheet 7)						
i Cash and in-kind contributions to community groups (from Worksheet 8)			364,265	0	364,265	0 270 %
j Total Other Benefits			4,600,103	2,602,353	1,997,750	1 480 %
k Total. Add lines 7d and 7j			11,820,193	6,607,995	5,212,198	3 860 %

Part II

Community 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
1	Physical improvements and housing					
2	Economic development		52,402		52,402	0.040 %
3	Community support		80,025		80,025	0.060 %
4	Environmental improvements					
5	Leadership development and training for community members					
6	Coalition building		1,047		1,047	0 %
7	Community health improvement advocacy					
8	Workforce development					
9	Other					
10	Total		133,474		133,474	0.100 %

Part III

Bad Debt, Medicare, & Collection Practices

Section A. Bad Debt Expense

		Yes	No
1	Did the organization report bad debt expense in accordance with Healthcare Financial Management Association Statement No. 15?	1	No
2	Enter the amount of the organization's bad debt expense (at cost)	2	1,915,264
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	30,546
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	39,319,291
6	Enter Medicare allowable costs of care relating to payments on line 5	6	54,653,475
7	Subtract line 6 from line 5. This is the surplus or (shortfall).	7	-15,334,184
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
9b	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 IV

Management 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 1 Iowa City Ambulatory Surgery Center	Outpatient Surgery Center	62.500 %		37.500 %
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? 1

Schedule H (Form 990) 2010

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? 1

Name and address		Type of Facility (Describe)
1	Mercy Home Health Care 500 East Market Street Iowa City, IA 52245	Home Health & Private Duty Nursing
2		
3		
4		
5		
6		
7		
8		
9		
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, 6i, 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 7 Amounts in the table were derived using a cost accounting system that addresses all patient segments A cost to charge ratio derived from completing IRS worksheet 2 was used to determine the amounts in Part I, Line 7a, 7b, 7c, and 7g

Identifier	ReturnReference	Explanation
		Part I, L7 Col(f) Bad debt expense of \$5,430,293 was subtracted for purposes of calculating the percentage in Schedule H, Part I, Line 7, column (f)

Identifier	ReturnReference	Explanation
		<p>Part II Mercy provides cash donations to area organizations at work in the areas of economic development, community support, environmental improvements, and leadership development and training for community members (community building activities) The majority of these amounts are listed in Part I, line 71 as cash and in-kind contributions</p> <p>Economic developmentMercy works extensively with such groups at the Iowa City Area Chamber of Commerce and the Iowa City Area Development Group to support the business community, welcome innovation to the area, and develop the workforce Mercy's own growth benefits the community as well, particularly when Mercy's recruiting efforts attract new professionals to the area</p> <p>Community supportMercy has provided extensive support for many years to United Way of Johnson County Mercy holds its own campaign for employees each autumn (typically raising more than \$120,000) and provides much staff time and support to the local United Way organization For example, in 2008 Mercy President and CEO Ronald R Reed served as co-chair of the county-wide United Way campaign, which raised more than \$2.6 million</p> <p>Environmental improvementsMercy has been a good neighbor for its closest neighbors by maintaining its buildings and landscaping at a high level Mercy also pursues recycling and programs that reduce energy consumption, primarily as cost saving measures, but these programs benefit the entire community</p> <p>Leadership development and training for community membersMercy is involved on a regular basis with the Iowa City Area Chamber of Commerce annual Community Leadership Program In this nine-month program, 24 members of the civic community receive an in-depth look at the workings of local government, public works, education system, health care, arts community, and more This program gives participants a better understanding and appreciation of the entire community and develops fellowship among members from diverse backgrounds and settings Mercy is also involved with the Chamber's similar Youth Leadership Program</p> <p>Coalition buildingMercy is involved in many ways with local citizens and groups that are working to afford all members of our community a good quality of life and to improve the overall quality of life Mercy is a cosponsor of and provides leadership for the 17-year-old Johnson County Safe Kids Coalition, a grass-roots effort to reduce unintentional injuries to children from birth to age 14 Since its inception, the coalition has been active in promoting bike helmet sales and bike safety and safety education events The coalition is particularly active in providing free car seat check clinics to parents Mercy staff members also participate in local coalitions Johnson County Liveable Communities and Johnson County Consortium on Successful Aging (focused on elderly living issues)</p> <p>Community health improvement advocacyHealthy Kids Community Care is a school-based clinic that provides health care to children who have no other access to it Mercy made a large cash donation to this initiative and provided key leadership as the program developed In 2010 the clinic served 271 unduplicated patients/students during the 2009-2010 school year Mercy also provides financial support to the Free Medical Clinic, which saw 2,600 unduplicated patients in 2010 Those who seek care of the Free Medical Clinic typically have no other access to health care services</p> <p>Workforce developmentKirkwood Foundation, Workplace Learning Connection</p>

Identifier	ReturnReference	Explanation
		Part III, Line 4 We do not currently have a footnote to our financial statements that describes bad debt expense The amount on line 2 was derived from taking actual bad debt write-offs and applying the cost to charge ratio of 3527 to that amount Mercy Hospital does not include bad debt amounts as part of community benefit An estimate of bad debt attributable to patients eligible for charity care has been estimated to be \$30,546 This estimate was derived by using the outstanding patient balance of accounts recommended for presumptive charity at cost that were reviewed and denied The presumptive charity program was implemented on October 1, 2010

Identifier	ReturnReference	Explanation
		Part III, Line 8 Mercy Hospital does not include Medicare shortfalls as part of it's community benefit Total revenue was determined using charges per the CMS Provider Statistical Reimbursement System reports for Fee Reimbursed Services for the fiscal year ended 6/30/11 Costs calculated using the Cost to Charge Ratio for the appropriate services from the submitted Medicare Cost Report form 2552-96 for the fiscal year ended 6/30/11

Identifier	ReturnReference	Explanation
		Part III, Line 9b Mercy Hospital has two policies related to debt collection The Financial Assistance Policy provides guidelines for forgiving all or part of a patient's financial responsibility for healthcare services received at Mercy Hospital Patients may be given a financial assistance application at the time of service, be offered financial assistance during the normal collection process or learn of the option on the Hospital website All patients with no insurance are offered financial assistance via billing statements & follow up telephone calls Any patient that is known to qualify for financial assistance is provided assistance The payment plan policy enables those who qualify for partial financial assistance to establish payment plans of the remaining balance of their bill

Identifier	ReturnReference	Explanation
		<p>Part VI, Line 2 Historically, a community health needs assessment is conducted every 5-10 years The most recent assessment was conducted in 2008 The organization engaged Professional Research Consultants to conduct the assessment The community health survey is a systematic, data-driven approach to determining the health status, behaviors and needs of residents in the communities the organization serves The survey instrument used for the assessment is based largely on the Centers for Disease Control and Prevention (CDC) Behavioral Risk Factor Surveillance System (BRFSS), as well as various other public health surveys and customized questions addressing gaps in indicator data relative to national health promotion and disease prevention objectives and other recognized health issues The results of the survey are used to improve health status, elevate overall quality of life, reduce health disparities, and increase accessibility to preventive services for all community residents Examples of areas of opportunity for community health improvement included diabetes (an area where Mercy offers a support group), heart disease and stroke (support groups and education provided), nutrition and overweight (cooking demonstrations and public access televised cooking show), barriers to accessing healthcare services (Mercy provides support to the local Free Medical Clinic and Healthy Kids Community Care school-based clinics), and bicycle safety (Mercy provides much support to the Johnson County SAFE KIDS Coalition)</p>

Identifier	ReturnReference	Explanation
		Part VI, Line 3 Evaluation for Medicaid, disability, & other types of coverage is provided for uninsured patients This service is provided for inpatient stays as well as high dollar outpatient services The evaluation is conducted during the patient stay or by a phone call to the patients home Financial Assistance information & applications are available at the point of registration in the hospital as well as at Mercy affiliated clinics The first statement sent to patients with no insurance explains that financial assistance is available & provides information about how to inquire about financial assistance Subsequent statements also contain infomation about who to contact for financial assistance Financial assistance is offered to all patients with no insurance on the first telephone contact During the collection process for insured patients, if the patient expresses concern about payment they are offered financial assistance and/or payment plan options Full or partial assistance is available If partial assistance is received the balance may be set up on a payment plan if needed

Identifier	ReturnReference	Explanation
		<p>Part VI, Line 4 Mercy Hospital is located in the community of Iowa City, Iowa, in Johnson County in the east central part of the state The county's population is approximately 128,000 From 2000 to 2008 Johnson County experienced strong population growth of 15.4 percent, compared to 2.6 percent for the entire state Johnson County's population is projected to increase by another 9.5 percent by the year 2014 Mercy Hospital serves 10 counties in southeast Iowa, with the primary service area being Johnson County The secondary service area includes Cedar, Iowa, Muscatine and Washington counties The tertiary service area includes Henry, Jefferson, Keokuk, Lee and Louisa counties The population of the service area is approximately 325,168 Iowa City is home to the University of Iowa, which has an enrollment of 30,893 for the 2011-2012 academic year Johnson County is well-educated, of individuals 25 and older, 93.7 are high school graduates and 47.6 percent hold a bachelor's degree or higher The University of Iowa also provides the foundation for an economy that has particular strengths in education, health care, services, technology, agribusiness, and manufacturing University of Iowa Hospitals and Clinics and the Iowa City VA Medical Center are also located in Iowa City UIHC is a 700-bed comprehensive academic medical center that draws patients from the entire region ICVAMC cares for more than 40,000 military veterans in eastern Iowa and western Illinois According to the U S Census Bureau, 15.5 percent of the Johnson County population lived below the poverty line in 2007</p>

Identifier	ReturnReference	Explanation
		Part VI, Line 6 Mercy Iowa City is a faith-based institution that provides services based on the ethical and religious directives of the Catholic Church. An important part of Mercy's mission is to improve the health of the community. Mercy does so by: Ensuring that the medical staff is open to all qualified physicians, ensuring that the hospital is accredited and in good standing with The Joint Commission, ensuring that the board of directors is comprised of diverse, independent individuals, not employees of the hospital, representing the community and also providing necessary expertise, establishing and carrying out a conflict of interest policy, providing a site for clinical experience for a variety of health care professionals, providing charity care and financial assistance with medical bills as needed to community members, participating in such programs as Medicare, Medicaid, and hawk-i, an insurance program for needy Iowa children, absorbing unreimbursed costs for such government programs, ensuring that account collections are carried out in compliance with state and federal guidelines, providing emergency room services and working with local and state officials in community preparedness issues, treating emergency patients according to EMTALA guidelines and serving all patients regardless of their ability to pay, investing surplus funds in services, technology, and personnel that will further the benefit of the community.

Identifier	ReturnReference	Explanation
Reports Filed With States	Part VI, Line 7	IA

Schedule I
(Form 990)

Department of the Treasury
Internal Revenue Service

Name of the organization
Mercy Hospital Iowa City Iowa

Grants and Other Assistance to Organizations,
Governments and Individuals in the United States

Complete if the organization answered "Yes," to Form 990, Part IV, line 21 or 22.
▶ Attach to Form 990

OMB No 1545-0047

2010

Open to Public
Inspection

Employer identification number
42-0680391

Part I

General Information on Grants and Assistance

- 1 Does the organization maintain records to substantiate the amount of the grants or assistance, the grantees' eligibility for the grants or assistance, and the selection criteria used to award the grants or assistance? ☒ Yes ☐ No
- 2 Describe in Part IV the organization's procedures for monitoring the use of grant funds in the United States

Part II

Grants and Other Assistance to Governments and Organizations in the United States. Complete if the organization answered "Yes" to Form 990, Part IV, line 21 for any recipient that received more than \$5,000. Check this box if no one recipient received more than \$5,000. Part II can be duplicated if additional space is needed. ☐

1 (a) Name and address of organization or government	(b) EIN	(c) IRC Code section if applicable	(d) Amount of cash grant	(e) Amount of non-cash assistance	(f) Method of valuation (book, FMV, appraisal, other)	(g) Description of non-cash assistance	(h) Purpose of grant or assistance
(1) Iowa City Free Medical Clinic2440 Towncrest Drive Iowa City,IA 52240	42-0960955	501(c)(3)	15,500				General Support
(2) American Heart Association-Midwest AffiliatePO Box 4002902 Des Moines,IA 503402902	13-5613797	501(c)(3)	13,000				Iowa City Events Sponsor 10-11
(3) Community Foundation of Johnson County325 East Washington Street Iowa City,IA 52240	42-1508117	501(c)(3)	100,000				Healthy Kids Fund

2 Enter total number of section 501(c)(3) and government organizations 3

3 Enter total number of other organizations 0

Part III

Grants and Other Assistance to Individuals in the United States. Complete if the organization answered "Yes" to Form 990, Part IV, line 22.
Use Schedule I-1 (Form 990) if additional space is needed.

(a)Type of grant or assistance	(b)Number of recipients	(c)Amount of cash grant	(d)Amount of non-cash assistance	(e)Method of valuation (book, FMV, appraisal, other)	(f)Description of non-cash assistance
(1) Temporary Assistance Program	33	19,041			

Part IV

Supplemental Information. Complete this part to provide the information required in Part I, line 2, and any other additional information.

Identifier	Return Reference	Explanation
Procedure for Monitoring Grants in the U S	Part I, Line 2	Schedule I, Part I, Line 2 All organizations Mercy provides assistance to are local organizations Therefore, Mercy is in frequent contact with the organizations and is generally aware of their use of Mercy's assistance However, there is no formal mechanism in place to track specific uses of the assistance Mercy Hospital offers a Temporary Assistance Program (TAP) for emergency financial needs that employees may have This confidential program offers crisis assistance and health benefit assistance

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 Hospital Iowa City Iowa	Employer identification number 42-0680391
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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		
<input type="checkbox"/> First-class or charter travel		
<input type="checkbox"/> Travel for companions		
<input type="checkbox"/> Tax idemnification and gross-up payments		
<input type="checkbox"/> Discretionary spending account		
<input type="checkbox"/> Housing allowance or residence for personal use		
<input type="checkbox"/> Payments for business use of personal residence		
<input checked="" type="checkbox"/> Health or social club dues or initiation fees		
<input type="checkbox"/> Personal services (e g , maid, chauffeur, chef)		
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		
<input checked="" type="checkbox"/> Compensation committee		
<input checked="" type="checkbox"/> Independent compensation consultant		
<input checked="" type="checkbox"/> Form 990 of other organizations		
<input checked="" type="checkbox"/> Written employment contract		
<input checked="" type="checkbox"/> Compensation survey or study		
<input checked="" type="checkbox"/> Approval by the board or compensation committee		
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) Ronald R Reed	(i)	399,732	0	97,494	37,212	45,739	580,177	76,185
	(ii)	0	0	0	0	0	0	0
(2) Jean M Berge	(i)	142,128	0	3,816	21,702	18,048	185,694	0
	(ii)	0	0	0	0	0	0	0
(3) Michael G Heinrich	(i)	263,183	0	35,498	13,790	41,746	354,217	29,440
	(ii)	0	0	0	0	0	0	0
(4) Cindy Penney	(i)	154,238	0	1,704	8,152	31,522	195,616	0
	(ii)	0	0	0	0	0	0	0
(5) Andrew R Ashby MD	(i)	297,718	214,894	260	0	40,774	553,646	0
	(ii)	0	0	0	0	0	0	0
(6) Martin Izakovic MD	(i)	280,730	58,248	220	4,949	30,021	374,168	0
	(ii)	0	0	0	0	0	0	0
(7) Peter McDonnell MD	(i)	392,424	0	1,310	0	33,590	427,324	0
	(ii)	0	0	0	0	0	0	0
(8) Stephen J Scheckel MD	(i)	315,863	20,000	1,313	0	30,780	367,956	0
	(ii)	0	0	0	0	0	0	0
(9) Eric J Stenberg MD	(i)	299,925	0	327	0	43,400	343,652	0
	(ii)	0	0	0	0	0	0	0
(10)								
(11)								
(12)								
(13)								
(14)								
(15)								
(16)								

Part III **Supplemental 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	Health club membership dues were paid for Mercy's CEO, Ronald Reed in the amount of \$898.80 and were included as taxable income on his W-2.
	Part I, Line 4b	Mercy established an IRC Section 457(f) plan as a way of retaining executives, officers and select groups of highly compensated employees with supplemental retirement benefits. The following individuals participated in and received payments from the plan: - Michael Heinrich - \$29,440 - Ronald Reed - \$76,185 - Cindy Penney - \$0.

Schedule K
(Form 990)

Supplemental Information on Tax Exempt Bonds

OMB No 1545-0047

2010

Open to Public Inspection

Department of the Treasury
Internal Revenue Service

Name of the organization
Mercy Hospital Iowa City Iowa

Employer identification number
42-0680391

Part I Bond Issues											
(a) Issuer Name	(b) Issuer EIN	(c) CUSIP #	(d) Date Issued	(e) Issue Price	(f) Description of Purpose	(g) Defeased		(h) On Behalf of Issuer		(i) Pool financing	
						Yes	No	Yes	No	Yes	No
A City of Hills Iowa	42-0920947	431669AA8	04-29-2008	39,235,000	Refund 2005 Bonds & Certain Issuance Costs (10/19/05)		X		X		X

Part II Proceeds									
		A		B		C		D	
1	Amount of bonds retired								
2	Amount of bonds legally defeased								
3	Total proceeds of issue	39,235,000							
4	Gross proceeds in reserve funds								
5	Capitalized interest from proceeds								
6	Proceeds in refunding escrow								
7	Issuance costs from proceeds	375,139							
8	Credit enhancement from proceeds								
9	Working capital expenditures from proceeds								
10	Capital expenditures from proceeds								
11	Other spent proceeds	38,859,861							
12	Other unspent proceeds								
13	Year of substantial completion	2008							
		Yes	No	Yes	No	Yes	No	Yes	No
14	Were the bonds issued as part of a current refunding issue?	X							
15	Were the bonds issued as part of an advance refunding issue?		X						
16	Has the final allocation of proceeds been made?	X							
17	Does the organization maintain adequate books and records to support the final allocation of proceeds?	X							

Part III Private Business Use											
				A		B		C		D	
				Yes	No	Yes	No	Yes	No	Yes	No
1	Was the organization a partner in a partnership, or a member of an LLC, which owned property financed by tax-exempt bonds?				X						
2	Are there any lease arrangements that may result in private business use of bond-financed property?				X						

Part IIIPrivate Business Use (Continued)

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
3a	Are there any management or service contracts that may result in private business use?		X						
b	Are there any research agreements that may result in private business use of bond-financed property?		X						
c	Does the organization routinely engage bond counsel or other outside counsel to review any management or service contracts or research agreements relating to the financed property?	X							
4	Enter the percentage of financed property used in a private business use by entities other than a section 501(c)(3) organization or a state or local government	0 %							
5	Enter the percentage of financed property used in a private business use as a result of unrelated trade or business activity carried on by your organization, another section 501(c)(3) organization, or a state or local government	0 %							
6	Total of lines 4 and 5	0 %							
7	Has the organization adopted management practices and procedures to ensure the post-issuance compliance of its tax-exempt bond liabilities?	X							

Part IVArbitrage

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
1	Has a Form 8038-T, Arbitrage Rebate, Yield Reduction and Penalty in Lieu of Arbitrage Rebate, been filed with respect to the bond issue?		X						
2	Is the bond issue a variable rate issue?	X							
3a	Has the organization or the governmental issuer entered into a hedge with respect to the bond issue?		X						
b	Name of provider								
c	Term of hedge								
d	Was the hedge superintegrated?								
e	Was a hedge terminated?								
4a	Were gross proceeds invested in a GIC?		X						
b	Name of provider								
c	Term of GIC								
d	Was the regulatory safe harbor for establishing the fair market value of the GIC satisfied?								
5	Were any gross proceeds invested beyond an available temporary period?		X						
6	Did the bond issue qualify for an exception to rebate?	X							

Part VSupplemental Information

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

Identifier	Return Reference	Explanation

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 Hospital Iowa City Iowa

Employer identification number
42-0680391

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
(1) Michael G Heinrich										
Split Dollar Life Insurance Policy		X	16,081	16,081		No		No		No
(2) Ronald R Reed										
Split Dollar Life Insurance Policy		X	38,292	38,292		No		No		No
Total ▶				\$ 54,373						

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

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 Hospital Iowa City Iowa

Employer identification number

42-0680391

Identifier	Return Reference	Explanation
Form 990, Part VI, Section A, line 2		Sister Sharon Kerrigan, boardmember, Sister Patricia Murphy, board member, and Sister Margaret Wright, board member are all members of the Sisters of Mercy of the Americas West Midwest Community

Identifier	Return Reference	Explanation
Form 990, Part VI, Section A, line 6		Mercy's sole member is the Sisters of Mercy of the Americas West Midwest Community, Inc

Identifier	Return Reference	Explanation
Form 990, Part VI, Section A, line 7b		Mercy's sole member, Sisters of Mercy of the Americas West Midwest Community, Inc , maintains a number of "reserved powers" including but not limited to approval of annual budgets, approval of amendments to the articles of incorporation and bylaws, approval of real property transactions and approval of long term borrowing

Identifier	Return Reference	Explanation
Form 990, Part VI, Section B, line 11		The Form 990 is prepared and reviewed by Mercy Hospital management and is also reviewed by Deloitte Tax LLP. The Audit Committee reviews the 990 and their review process shall be intended to reasonably verify that the Form 990 has been fully and accurately completed, including but not limited to, all inquiries therein relating to corporate governance. After completing its review, the Audit Committee, on the Board's behalf, shall have the authority to authorize the filing of the annual Form 990. A copy of the Form 990 is made available to all board members.

Identifier	Return Reference	Explanation
	Form 990, Part VI, Section B, line 12c	A conflict of interest statement is signed at the beginning of Board members term and on an annual basis there after Any abstention from a vote is recorded in Board minutes After the fiscal year end a "look back" questionnaire is distributed to all Board members to disclose any conflicts of interest that may have taken place in the previous year Form 990, Part VI, Section B, Line 13 Per IRS guidance, because the board had not formally adopted the whistleblower policy as of 6/30/11, the organization has answered "No" to this question Mercy has an Administrative team "A Team" which is made up of Vice Presidents and the CEO that has been delegated by the board of directors to manage and approve policies The A Team has approved the whistleblower's policy

Identifier	Return Reference	Explanation
	Form 990, Part VI, Section B, line 15	Compensation for all executives and other key employees is determined based on national or regional market data for comparable positions at comparatively sized hospitals. The Executive Committee of the Board of Directors uses this market-based information to set the President and CEO's compensation. In turn, the CEO uses the same information to set compensation for officers and key employees, which is also approved by the board.

Identifier	Return Reference	Explanation
	Form 990, Part VI, Section C, line 19	An annual statement of "Financial Highlights" is published in Mercy's annual report. It provides annual Funds Available and Funds Applied in the form of percentages of Mercy's total budget. The annual report is produced in print form and appears on Mercy's Website, www.mercyliowacity.org , as a PDF. Mercy's governing documents and conflict of interest policy are not available to the public.

Identifier	Return Reference	Explanation
	Form 990, Part VII	<p>The following individuals held positions at both Mercy Hospital and the Mercy Hospital, low a City, low a Self Insurance Plan and Trust The hours listed on Part VII are the average hours per week these individuals devoted to the Hospital during the year In addition, these individuals also devoted the following average hours per week to the Trust - Ronald R Reed - 1 0 hour - Michael Heinrich - 1 0 hour</p> <p>The following individuals held positions at both Mercy Hospital and Mercy Foundation The hours listed on Part VII are the average hours per week these individuals devoted to the Hospital during the year In addition, these individuals also devoted the following average hours per week to Mercy Foundation - Ronald R Reed - 2 0 hours - Michael Heinrich - 2 0 hours - Jean Berge - 1 0 hour - Scott Fisher - 1 0 hour</p>

Identifier	Return Reference	Explanation
Changes in Net Assets or Fund Balances	Form 990, Part XI, line 5	Net unrealized gains on investments 11,347,305 Change in Unrecognized Pension Actuarial Loss 13,329,269 Change in Beneficial Interest in Foundation 2,149,925 Transfer to Mercy Hospital Self Insurance Plan & Trust -712,500 Change in Beneficial Interest in Services -25,475,019 Total to Form 990, Part XI, Line 5 638,980

SCHEDULE R
(Form 990)

Department of the Treasury
Internal Revenue Service

Related Organizations and Unrelated Partnerships

▶ 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.

OMB No 1545-0047

2010

Open to Public Inspection

Name of the organization
Mercy Hospital Iowa City Iowa

Employer identification number
42-0680391

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 Foundation 500 East Market Street Iowa City, IA 52245 23-7040506	Foundation/Fundraising	IA	501(c)(3)	11-I	N/A	Yes	
(2) Mercy Hospital Iowa City Iowa Self Insurance Plan & Trust 500 East Market Street Iowa City, IA 52245 42-6591803	Self Insurance	IA	501(c)(3)	11-I	N/A	Yes	
(3) Sisters of Mercy of the Americas West Midwest Community Inc 7262 Mercy Road Omaha, NE 68124 26-2400800	Religious Order	NE	501(c)(3)		N/A		No
(4) Mercy Hospital Guild 500 East Market Street Iowa City, IA 52245 42-6099912	Fundraising	IA	501(c)(3)	11-III-FI	N/A		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) Disproportionate 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	
(1) Cancer Care of Iowa City LLC 613 East Bloomington Suite 100 Iowa City, IA52245 42-1460774	Oncology Services	IA	N/A	Related	-204,499	801,215		No			No	58 550 %
(2) Iowa City Ambulatory Surgical Center LLC 2963 Northgate Drive Iowa City, IA52245 20-8503424	Outpatient Surgery	IA	N/A	Related	3,752,087	7,203,159		No		Yes		62 500 %

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) Mercy Services Iowa City Inc 500 East Market Street Iowa City, IA52245 42-1241044	Medical Clinic Services	IA	N/A	C	-3,876,665	8,294,006	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

Yes

1c

Yes

1d

Yes

1e

No

1f

No

1g

No

1h

No

1i

No

1j

No

1k

No

1l

No

1m

No

1n

No

1o

No

1p

Yes

1q

No

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)			
See Additional Data Table			
(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
------------	------------------	-------------

Software ID:

Software Version:

EIN: 42-0680391

Name: Mercy Hospital Iowa City Iowa

Form 990, Schedule R, Part V - Transactions With Related Organizations

(a) Name of other organization	(b) Transaction type(a-r)	(c) Amount Involved (\$)	(d) Method of determining amount involved
(1) MERCY SERVICES IOWA CITY	A	709,495	Cost
(2) CANCER CARE OF IOWA CITY	A	124,472	Cost
(3) MERCY FOUNDATION	C	564,391	Cost
(4) MERCY HOSPITAL SELF INSURANCE PLAN & TRUST	B	712,500	Cost
(5) MERCY SERVICES IOWA CITY	P	1,485,300	Cost
(6) CANCER CARE OF IOWA CITY	P	669,190	Cost
(7) MERCY FOUNDATION	P	366,936	Cost
(8) MERCY SERVICES IOWA CITY	D	800,000	Cost

Form

4562

Depreciation and Amortization
(Including Information on Listed Property)

OMB No 1545-0172

2010

Attachment
Sequence No 67

Department of the Treasury
Internal Revenue Service (99)

See separate instructions.

Attach to your tax return.

Name(s) shown on return Mercy Hospital Iowa City Iowa	Business or activity to which this form relates Form 990 Page 10	Identifying number 42-0680391
--	---	--------------------------------------

Part I Election To Expense Certain Property Under Section 179

Note: If you have any listed property, complete Part V before you complete Part I.

1	Maximum amount See the instructions for a higher limit for certain businesses	1	500,000
2	Total cost of section 179 property placed in service (see instructions)	2	
3	Threshold cost of section 179 property before reduction in limitation (see instructions)	3	2,000,000
4	Reduction in limitation Subtract line 3 from line 2 If zero or less, enter -0-	4	
5	Dollar limitation for tax year Subtract line 4 from line 1 If zero or less, enter -0- If married filing separately, see instructions	5	
6	(a) Description of property	(b) Cost (business use only)	(c) Elected cost
7	Listed property Enter the amount from line 29	7	
8	Total elected cost of section 179 property Add amounts in column (c), lines 6 and 7	8	
9	Tentative deduction Enter the smaller of line 5 or line 8	9	
10	Carryover of disallowed deduction from line 13 of your 2009 Form 4562	10	
11	Business income limitation Enter the smaller of business income (not less than zero) or line 5 (see instructions)	11	
12	Section 179 expense deduction Add lines 9 and 10, but do not enter more than line 11	12	
13	Carryover of disallowed deduction to 2011 Add lines 9 and 10, less line 12 .	13	

Note: Do not use Part II or Part III below for listed property. Instead, use Part V.

Part II Special Depreciation Allowance and Other Depreciation (Do not include listed property) (See instructions)

14	Special depreciation allowance for qualified property (other than listed property) placed in service during the tax year (see instructions)	14	
15	Property subject to section 168(f)(1) election	15	
16	Other depreciation (including ACRS)	16	

Part III MACRS Depreciation (Do not include listed property.) (See instructions.)

Section A

17	MACRS deductions for assets placed in service in tax years beginning before 2010	17	
18	If you are electing to group any assets placed in service during the tax year into one or more general asset accounts, check here		

Section B—Assets Placed in Service During 2010 Tax Year Using the General Depreciation System

(a) Classification of property	(b) Month and year placed in service	(c) Basis for depreciation (business/investment use only—see instructions)	(d) Recovery period	(e) Convention	(f) Method	(g) Depreciation deduction
19a 3-year property						
b 5-year property						
c 7-year property						
d 10-year property						
e 15-year property						
f 20-year property						
g 25-year property			25 yrs		S/L	
h Residential rental property			27 5 yrs	MM	S/L	
			27 5 yrs	MM	S/L	
i Nonresidential real property			39 yrs	MM	S/L	
				MM	S/L	

Section C—Assets Placed in Service During 2010 Tax Year Using the Alternative Depreciation System

20a Class life				S/L	
b 12-year			12 yrs	S/L	
c 40-year			40 yrs	MM	S/L

Part IV Summary (see instructions)

21	Listed property Enter amount from line 28	21	
22	Total. Add amounts from line 12, lines 14 through 17, lines 19 and 20 in column (g), and line 21 Enter here and on the appropriate lines of your return Partnerships and S corporations—see instructions	22	0
23	For assets shown above and placed in service during the current year, enter the portion of the basis attributable to section 263A costs	23	

Part V

Listed Property (Include automobiles, certain other vehicles, certain computers, and property used for entertainment, recreation, or amusement.)
Note: For any vehicle for which you are using the standard mileage rate or deducting lease expense, complete **only** 24a, 24b, columns (a) through (c) of Section A, all of Section B, and Section C if applicable.

Section A—Depreciation and Other Information (Caution: See the instructions for limits for passenger automobiles.)

24a Do you have evidence to support the business/investment use claimed? <input type="checkbox"/> Yes <input type="checkbox"/> No						24b If "Yes," is the evidence written? <input type="checkbox"/> Yes <input type="checkbox"/> No			
(a) Type of property (list vehicles first)	(b) Date placed in service	(c) Business/ investment use percentage	(d) Cost or other basis	(e) Basis for depreciation (business/investment use only)	(f) Recovery period	(g) Method/ Convention	(h) Depreciation/ deduction	(i) Elected section 179 cost	
25Special depreciation allowance for qualified listed property placed in service during the tax year and used more than 50% in a qualified business use (see instructions)							25		
26 Property used more than 50% in a qualified business use									
		%							
		%							
		%							
27 Property used 50% or less in a qualified business use									
		%				S/L -			
		%				S/L -			
		%				S/L -			
28 Add amounts in column (h), lines 25 through 27 Enter here and on line 21, page 1						28			
29 Add amounts in column (i), line 26 Enter here and on line 7, page 1							29		

Section B—Information on Use of Vehicles

Complete this section for vehicles used by a sole proprietor, partner, or other "more than 5% owner," or related person
If you provided vehicles to your employees, first answer the questions in Section C to see if you meet an exception to completing this section for those vehicles

30 Total business/investment miles driven during the year (do not include commuting miles)	(a) Vehicle 1		(b) Vehicle 2		(c) Vehicle 3		(d) Vehicle 4		(e) Vehicle 5		(f) Vehicle 6	
31 Total commuting miles driven during the year												
32 Total other personal(noncommuting) miles driven												
33 Total miles driven during the year Add lines 30 through 32												
34 Was the vehicle available for personal use during off-duty hours?	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No
35 Was the vehicle used primarily by a more than 5% owner or related person?												
36 Is another vehicle available for personal use?												

Section C—Questions for Employers Who Provide Vehicles for Use by Their Employees

Answer these questions to determine if you meet an exception to completing Section B for vehicles used by employees who **are not** more than 5% owners or related persons (see instructions)

37 Do you maintain a written policy statement that prohibits all personal use of vehicles, including commuting, by your employees?	Yes	No
38 Do you maintain a written policy statement that prohibits personal use of vehicles, except commuting, by your employees? See the instructions for vehicles used by corporate officers, directors, or 1% or more owners		
39 Do you treat all use of vehicles by employees as personal use?		
40 Do you provide more than five vehicles to your employees, obtain information from your employees about the use of the vehicles, and retain the information received?		
41 Do you meet the requirements concerning qualified automobile demonstration use? (See instructions)		
Note: If your answer to 37, 38, 39, 40, or 41 is "Yes," do not complete Section B for the covered vehicles		

Part VI Amortization

(a) Description of costs	(b) Date amortization begins	(c) Amortizable amount	(d) Code section	(e) Amortization period or percentage	(f) Amortization for this year
42 Amortization of costs that begins during your 2010 tax year (see instructions)					
43 Amortization of costs that began before your 2010 tax year				43	
44 Total. Add amounts in column (f) See the instructions for where to report				44	

Mercy Iowa City and Subsidiaries

Consolidated Financial Statements and
Supplemental Schedules as of and for the
Years Ended June 30, 2011 and 2010, and
Independent Auditors' Report



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Mercy Iowa City and Subsidiaries
Iowa City, Iowa

We have audited the accompanying consolidated statements of financial position of Mercy Hospital Iowa City a.k.a. Mercy Iowa City and Subsidiaries (collectively, the "Company") as of June 30, 2011 and 2010, and the related consolidated statements of operations and changes in net assets and of cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of June 30, 2011 and 2010, and the consolidated results of its operations and changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for the noncontrolling interest in Iowa City Ambulatory Surgical Center (ICASC).

Our audits were conducted for the purpose of expressing an opinion on the basic consolidated financial statements taken as a whole. The supplemental schedules listed in the foregoing table of contents are presented for purposes of additional analysis of the basic consolidated financial statements rather than to present the consolidated financial position or consolidated results of operations of the individual organizations and are not a required part of the basic consolidated financial statements. The supplemental schedules are the responsibility of the Company's management. Such supplemental schedules have been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements and, in our opinion, are fairly stated, in all material respects, when considered in relation to the basic consolidated financial statements taken as a whole.

October 14, 2011

MERCY IOWA CITY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2011 AND 2010

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 6,333,193	\$ 10,428,176
Current portion of investments held for self-insurance program (Note 7)	770,938	796,106
Accounts receivable		
Patient — net of allowances for doubtful accounts of \$2,197,740 and \$2,566,803 in 2011 and 2010, respectively	23,632,515	26,297,506
Other	714,548	886,374
Estimated third-party payor settlements receivable	467,514	93,964
Investments (Note 2)	35,734,476	30,612,347
Inventories	4,350,241	4,072,490
Other	2,408,617	2,282,191
Total current assets	<u>74,412,042</u>	<u>75,469,154</u>
ASSETS LIMITED AS TO USE (Note 7)		
Investments designated by the Board for future capital improvements	116,232,795	105,897,094
Investments held for self-insurance program	1,464,467	1,729,058
Donor-restricted investments	3,153,271	2,638,459
Total assets limited as to use	<u>120,850,533</u>	<u>110,264,611</u>
PROPERTY, PLANT, AND EQUIPMENT — Net (Note 3)	<u>85,224,449</u>	<u>79,432,222</u>
INVESTMENTS IN JOINT VENTURES (Note 1)	<u>1,789,445</u>	<u>2,284,076</u>
OTHER	<u>3,782,257</u>	<u>2,341,323</u>
TOTAL	<u>\$286,058,726</u>	<u>\$269,791,386</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of long-term debt (Note 5)	\$ 2,069,953	\$ 1,829,646
Trade accounts payable	5,348,210	3,494,220
Accrued salaries and employee benefits	9,703,091	9,145,457
Other accrued expenses	3,976,994	3,820,479
Total current liabilities	21,098,248	18,289,802
ACCRUED PROFESSIONAL LIABILITY CLAIMS (Note 11)	3,098,961	3,439,442
PENSION BENEFIT LIABILITY (Note 9)	43,282,112	59,363,410
LONG-TERM DEBT — Net of current portion (Note 5)	68,429,716	70,569,615
FAIR VALUE OF INTEREST RATE SWAP (Note 5)	1,302,256	1,656,089
OTHER LONG-TERM LIABILITIES	<u>611</u>	<u>7,664</u>
Total liabilities	<u>137,211,904</u>	<u>153,326,022</u>
COMMITMENTS AND CONTINGENCIES (Notes 6, 10, 11, and 14)		
NET ASSETS		
Net assets	146,037,466	114,746,000
Noncontrolling interest in ICASC (Note 1)	<u>2,809,356</u>	<u>1,719,364</u>
Total net assets	<u>148,846,822</u>	<u>116,465,364</u>
TOTAL	<u>\$286,058,726</u>	<u>\$269,791,386</u>

See notes to consolidated financial statements

MERCY IOWA CITY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
REVENUE:		
Net patient service revenue	\$ 166,115,332	\$ 158,739,104
Other revenue	<u>6,931,919</u>	<u>6,026,610</u>
Total revenue	<u>173,047,251</u>	<u>164,765,714</u>
EXPENSES:		
Salaries	68,489,916	64,915,331
Defined benefit pension	3,132,971	7,466,023
Other employee benefits	19,587,978	20,355,536
Supplies and other	63,165,602	54,871,322
Provision for uncollectible accounts	5,697,232	4,768,115
Interest	2,851,934	2,911,410
Depreciation and amortization	<u>12,569,959</u>	<u>13,441,488</u>
Total expenses	<u>175,495,592</u>	<u>168,729,225</u>
LOSS FROM OPERATIONS	<u>(2,448,341)</u>	<u>(3,963,511)</u>
NONOPERATING GAINS (LOSSES):		
Investment income (Notes 1 and 7)	7,489,180	1,563,066
Net unrealized gain on investments	13,317,628	12,864,405
Income on investments accounted for under the equity method	111,433	501,745
Other	<u>974,568</u>	<u>(228,284)</u>
Total nonoperating gains	<u>21,892,809</u>	<u>14,700,932</u>
EXCESS OF REVENUE AND NONOPERATING GAINS (LOSSES) OVER EXPENSES	19,444,468	10,737,421
CHANGE IN UNRECOGNIZED PENSION ACTUARIAL LOSS	<u>13,329,269</u>	<u>(3,382,416)</u>
INCREASE IN NET ASSETS	32,773,737	7,355,005
INCREASE IN NET ASSETS ATTRIBUTABLE TO NONCONTROLLING INTEREST IN ICASC	<u>(1,482,271)</u>	<u>(1,044,032)</u>
INCREASE IN NET ASSETS ATTRIBUTABLE TO MERCY IOWA CITY	<u>31,291,466</u>	<u>6,310,973</u>
NET ASSETS — Beginning of year	<u>114,746,000</u>	<u>108,435,027</u>
NET ASSETS — End of year	<u>\$ 146,037,466</u>	<u>\$ 114,746,000</u>

See notes to consolidated financial statements.

MERCY IOWA CITY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 32,773,737	\$ 7,355,005
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Net realized (gains) losses on investments	(7,312,283)	2,915,810
Net unrealized gains on investments	(13,317,628)	(12,864,405)
Change in pension benefit liability	(16,081,298)	6,128,440
Depreciation and amortization	12,569,959	13,441,488
(Loss) income on investments accounted for under the equity method — net of distributions received	494,631	(340,372)
Provision for uncollectible accounts	5,697,232	4,768,115
Change in interest rate swap valuation	(353,833)	535,042
Loss on disposal of property, plant, and equipment	104,122	43,263
Changes in accounts affecting operations:		
Accounts receivable — patient	(3,032,241)	(6,689,351)
Other receivables, inventories, and other assets	(1,637,598)	24,246
Trade accounts payable	1,836,723	1,049,264
Estimated third-party payor settlements receivable/payable	(373,550)	(142,265)
Accrued expenses, other liabilities, and accrued professional liability claims	302,635	879,921
Net cash provided by operating activities	11,670,608	17,104,201
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sales and maturities of investments	38,732,307	92,381,735
Purchases of investments	(33,785,279)	(96,415,157)
Additions to property, plant, and equipment	(18,365,486)	(5,222,418)
Net cash used in investing activities	(13,418,458)	(9,255,840)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of long-term debt	(1,954,854)	(2,040,629)
Noncontrolling interest distributions, net of proceeds from shares sold	(392,279)	(650,488)
Net cash used in financing activities	(2,347,133)	(2,691,117)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(4,094,983)	5,157,244
CASH AND CASH EQUIVALENTS — Beginning of year	10,428,176	5,270,932
CASH AND CASH EQUIVALENTS — End of year	\$ 6,333,193	\$ 10,428,176
SUPPLEMENTAL DATA — Cash paid for interest	\$ 2,924,388	\$ 2,857,074

See notes to consolidated financial statements.

MERCY IOWA CITY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization — Mercy Hospital Iowa City (the “Hospital” or “Mercy Iowa City”) is a nonprofit Iowa corporation functioning as an independent operating unit sponsored by the Sisters of Mercy Regional Community of Chicago (“Sisters of Mercy”) through June 30, 2008. Effective July 1, 2008, the Sisters of Mercy joined other regional communities to form the Sisters of Mercy West Midwest Community. The Hospital is the sole owner/member of Mercy Services Iowa City, Inc. (“Services”); Mercy Outreach Iowa City, Inc. (an inactive subsidiary); and Mercy Hospital Foundation (the “Foundation”). The Hospital owns a majority interest in Iowa City Ambulatory Surgical Center (ICASC). The consolidated financial statements include the accounts of the Hospital, the Foundation, Services, and ICASC (collectively, the “Company”). All significant intercompany accounts and transactions have been eliminated in consolidation.

The Hospital is a 234-bed facility located in Iowa City, Iowa, and provides inpatient, outpatient, emergency care, and skilled nursing services to residents of Iowa City and surrounding communities. The Hospital also provides many related services and education programs to meet the ongoing needs of the communities. In addition, the Hospital owns, maintains, and rents various real estate properties. Significant real estate holdings consist of medical office buildings, parking ramps, and clinic buildings, of which some are rented to Services.

Services is a for-profit organization that owns and operates 16 primary care and four specialty care clinics in southeastern Iowa.

The Foundation is a nonprofit organization whose purpose is to solicit and receive gifts in order to develop, maintain, and increase the facilities and services of the Hospital.

ICASC is a for-profit limited liability company established to develop, own, and operate an ambulatory surgical center that provides a variety of outpatient surgical services to the residents of Iowa City and the surrounding communities. The Hospital originally owned 70% of ICASC and a group of local surgeons, through an independent limited liability company, owned the remaining 30%. On June 15, 2010, 2.5% of the shares were sold by the Hospital to the surgeons, bringing the Hospital ownership to 67.5% at June 30, 2010. The Hospital recorded a gain of \$302,040 on the sale of the shares. On May 1, 2011, another 5.0% of the shares were sold by the Hospital to the surgeons, bringing the Hospital ownership to 62.5%. There was no gain(loss) recognized on the sale of these shares in fiscal 2011. Proceeds from the sale of the shares of \$749,915 in fiscal 2011 are presented net of noncontrolling interest distributions in the consolidated statements of cash flows. The taxable earnings of ICASC pass through to its owners. The Operating Agreement provides the surgeon inventors with annual opportunities through June 2014 to purchase additional shares from the Hospital up to a maximum total ownership percentage of 49%.

Basis of Accounting — The consolidated financial statements are prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Use of Estimates — The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of

contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates made by management include contractual allowances, allowance for doubtful accounts, benefit obligations, and accrued salaries and employee benefit costs.

Derivative Instruments and Hedging Activities — The Company makes use of an interest rate swap agreement to hedge against the variability of cash flows related to interest payments on its variable rate long-term debt (see Note 5). Management has reviewed the requirements of accounting guidance for derivative instruments and has determined that the Company has no other freestanding or embedded derivatives. The Company's investment policy prohibits trading of derivative instruments on a speculative or leveraged basis.

Net Assets — Net assets include temporarily and permanently restricted net assets. Permanently restricted net assets have been restricted by donors to be maintained by the Company in perpetuity. Temporarily restricted net assets are those whose use has been limited by the donor to a specific time period or use. At June 30, 2011 and 2010, net assets included \$824,143 and \$662,070, respectively, of temporarily restricted net assets and \$2,431,945 and \$2,198,960, respectively, of permanently restricted net assets.

The Company has interpreted Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Company classifies as permanently restricted net assets (a) the original value of gifts donated, (b) the original value of subsequent gifts, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. The remaining portion of the donor-restricted endowment fund is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Company.

The Company has adopted investment and spending policies for endowment assets that attempt to provide a stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. Under this policy, the endowment assets are invested in a manner that is intended to produce results that are comparable to other endowment funds on a risk-adjusted basis.

Cash and Cash Equivalents — The Company considers all highly liquid, undesignated, and unrestricted investments purchased with original maturities of three months or less to be cash and cash equivalents.

Assets Limited as to Use — Assets limited as to use include investments set aside by the Board of Directors (the "Board") for future capital improvements, over which the Board retains control and which it may subsequently use at its discretion for other purposes; assets held for the self-insurance program; and assets restricted by donors or grantors. Assets limited as to use that are required for obligations classified as current liabilities are reported as current assets.

Investments — The Company has adopted authoritative guidance on fair value measurements and on the fair value option for financial assets and financial liabilities. The authoritative guidance gives entities the irrevocable option to measure many financial assets and liabilities at fair value (the "fair value option") with changes in unrealized gains and losses recorded in investment income (loss). The guidance defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States of America, and expands disclosures about fair value measurements.

The Company has elected the fair value option for its debt and equity investments and assets limited as to use to improve financial reporting. The election of the fair value option results in these investments being recorded at fair value with unrealized gains and losses being recorded in investment income (loss).

Investments are recorded at fair value as of June 30, 2011 and 2010. Investment income on proceeds of borrowings that are held by a trustee, to the extent not capitalized, and on the professional liability trust is included in other operating revenue. Investment income from all other unrestricted investments is included in nonoperating income. Realized gains and losses are computed by the specific identification method at the time of disposition and are included as a component of investment income.

The Company invests in various securities, including corporate stocks, bonds and notes, and U.S. government and federal agency obligations with original maturities in excess of three months. The Company also invests in various mutual funds and cash equivalents. These investments will be used to support current operations. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall price volatility. Due to the level of risk associated with certain securities, it is reasonably possible that changes in the values of various investment positions will occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial statements.

The Company records purchases and sales of investments on a settlement-date basis.

Investments in Joint Ventures

Investment — Progressive Rehabilitation Associates, L.L.C. (PRA) — Services owns a 25% interest in PRA, a taxable Iowa limited liability company. PRA commenced operations in December 1995 and provides rehabilitation services. The investment is accounted for under the equity method of accounting.

Investment — Melrose Meadows, L.L.C. (“Melrose”) — Services owns a 50% interest in Melrose, a taxable Iowa limited liability company. Melrose commenced operations in July 2002 and provides retirement housing for seniors. The investment is accounted for under the equity method of accounting.

Investment — Cancer Care of Iowa City, L.L.C. (CCIC) — The Hospital owns a 50% interest in CCIC, a taxable Iowa limited liability company. CCIC commenced operations in October 1996 and provides hematology, medical oncology, and internal medicine services. The investment is accounted for under the equity method of accounting.

Summarized financial information of the entities for which the Company accounts for under the equity method as of June 30, 2011 and 2010, includes the following:

	2011	2010
Assets	\$ 13,883,523	\$ 14,670,044
Liabilities	<u>11,099,054</u>	<u>11,173,129</u>
Equity	<u>\$ 2,784,469</u>	<u>\$ 3,496,915</u>
Revenue	\$ 14,281,686	\$ 14,843,539
Expenses	<u>13,524,072</u>	<u>13,683,602</u>
Net income	<u>\$ 757,614</u>	<u>\$ 1,159,937</u>

Inventories — Inventories are valued at the lower of cost or market, with cost determined by methods approximating first-in, first-out.

Property, Plant, and Equipment — Property, plant, and equipment are stated at cost, less accumulated depreciation. Major renewals and improvements are charged to the property accounts and depreciated accordingly. Replacements, maintenance, and repairs that do not improve or extend the lives of the assets are expensed as incurred. Depreciation is recorded on a straight-line basis over the estimated useful lives of the property. The estimated useful lives are as follows:

Land improvements	15–25 years
Buildings and improvements	20–30 years
Major movable equipment	3–10 years

Whenever events or changes in circumstances indicate that the carrying amount of the property and equipment may not be recoverable, the Company will determine if an impairment has occurred based on the future undiscounted cash flows expected to be generated from the property and equipment, less the carrying amount of the property and equipment. If an impairment has occurred, a loss will be recognized based on the fair market value of the property and equipment based on future discounted cash flows compared to the carrying amount.

Other Assets — Other assets consist principally of deferred financing costs and the cash surrender value of life insurance. Deferred financing costs are amortized over the period the obligation is outstanding, using the straight-line method.

Net Patient Service Revenue — The Company has agreements with third-party payors that provide for payments to the Company at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, discounted charges, and per diem payments. In fiscal 2011, net revenue from two of these arrangements accounted for 36% and 32% of net patient service revenue. In fiscal 2010, net revenue from two of these arrangements accounted for 36% and 31% of net patient service revenue.

Net patient service revenue is reported at the estimated net realizable amounts from patients; third-party payors, including Medicare and Medicaid programs; and others for services provided, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period that the related services are provided and then adjusted in future periods as final settlements are determined.

Charity and Uncompensated Care — The Company 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 Company does not pursue collection of amounts determined to qualify as charity care, those amounts are not reported as revenue. The direct patient care provided under the Company's charity care policy does not include programs offered to benefit broader community and other governmental reimbursement programs. Charges identified as foregone were approximately \$3,569,628 and \$2,976,115 for fiscal 2011 and 2010, respectively. The Company also participates in public payment programs, primarily Medicare and Medicaid, which resulted in foregone reimbursements for services provided.

In addition, the Company provides a variety of benefits to the community, including health education programs, health promotion activities, civic involvement, community funding, and charity and subsidized services. The Company maintains records to identify and monitor the level of community services it provides and those records include management's estimate of cost of services, supplies, and hours of time provided for community service programs. The cost of these community services for the years ended June 30, 2011 and 2010, was \$1,596,519 and \$1,671,584, respectively.

Tax Status — The Internal Revenue Service (IRS) has determined that the Hospital and the Foundation 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. Services is a taxable entity with net operating loss carryforwards and temporary differences between financial reporting and tax reporting bases for certain assets and liabilities. The entire tax asset balance is offset by a valuation allowance (see Note 4).

Excess of Revenue and Nonoperating Gains (Losses) Over Expenses — The consolidated statements of operations and changes in net assets include the excess of revenue and nonoperating gains (losses) over expenses, which includes all revenue and expenses, investment income on investments for the self-insurance program, rental income, contributions and investment income, and realized investment gains and losses. Changes in net assets attributable to the Company that are excluded from the excess of revenue and nonoperating gains (losses) over expenses include the change in the unrecognized pension actuarial loss and the change attributable to noncontrolling interest in ICASC.

Consolidated Statements of Cash Flows — Supplemental Disclosure of Cash Flow Information — Noncash transactions during fiscal 2011 and 2010, which affected the Company’s consolidated financial position but did not affect cash flow, constitute \$17,266 and \$363,495, respectively, of purchases of property, plant, and equipment included in accounts payable.

Subsequent Events — The Company has evaluated subsequent events through October 14, 2011, the date the consolidated financial statements were available to be issued.

New Accounting Pronouncements — In December 2007, the Financial Accounting Standards Board (FASB) issued new accounting guidance, which establishes accounting and reporting standards that require the ownership interest in subsidiaries held by parties other than the parent be clearly identified and presented in the consolidated statements of financial position within net assets, but separate from the parent’s net assets; the amount of consolidated increase in net assets attributable to the parent and the noncontrolling interest be clearly identified and presented on the face of the consolidated statements of operations and changes in net assets; and that changes in a parent’s ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently as net asset transactions. The Company adopted this guidance in the current fiscal year and has classified noncontrolling interest (previously minority interest) as a component of net assets for all periods presented.

In January 2010, the FASB issued new guidance and additional clarification related to fair value measurements and disclosures. Specifically, this new guidance requires the disclosure of significant transfers in and out of Level 1 and 2 fair value measurements and the reasons for such transfers and requires that the rollforward of Level 3 activity include gross purchases, sales, issuances, and settlements. The new guidance also clarifies that an organization should provide fair value measurements for each class of assets and liabilities and the valuation techniques and inputs used to measure fair values for Level 1 and 2. The Company has adopted the provisions of the new guidance in the current period.

In August 2010, the FASB issued revised accounting guidance which establishes accounting and reporting standards in order to clarify that a health care entity should not net insurance recoveries against a related claim liability. The amount of the claim liability should be determined without consideration of insurance recoveries. This statement is effective for the Company in fiscal 2012. The Company does not expect the adoption of this guidance to have a material impact on the consolidated financial statements.

In August 2010, the FASB also issued accounting guidance which establishes accounting and reporting standards, which requires that cost be used as the measurement basis for charity care disclosure purposes and that cost be identified as the direct and indirect costs of providing the charity care. This guidance is effective for the Company in fiscal 2012. The Company does not expect the adoption of this guidance to have a material impact on the consolidated financial statements.

In May 2011, the FASB amended and issued clarification of the fair value guidance. The new guidance results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with accounting principles generally accepted in the United States of America. The guidance is effective for the Company in fiscal 2013. The Company does not expect the adoption of this guidance to have a material impact on the consolidated financial statements.

In July 2011, the FASB issued guidance related to the transparency about a health care entity's net patient service revenue and the related allowance for doubtful accounts. The guidance requires health care entities that recognize significant amounts of patient service revenue at the time the services are rendered even though they do not assess the patient's ability to pay to present the provisions for bad debts related to patient service revenue as a deduction from patient service revenue on their statement of operations. The guidance is effective for the Company in fiscal 2013. The Company does not expect the adoption of this guidance to have a material impact on the consolidated financial statements.

2. FAIR VALUE OF FINANCIAL INSTRUMENTS

Authoritative guidance establishes a framework for measuring fair value by creating a hierarchy for observable independent market inputs and unobservable market assumptions and expands disclosures about fair value measurements. Considerable judgment may be required in interpreting market data used to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value. The three levels of the fair value hierarchy under authoritative guidance are described below.

Level 1 — Inputs represent unadjusted quoted prices for identical assets or liabilities exchanged in active markets.

Level 2 — Inputs include directly or indirectly observable inputs other than Level 1 inputs, such as quoted prices for similar assets or liabilities exchanged in active or inactive markets; quoted prices for identical assets or liabilities exchanged in inactive markets; other inputs that are considered in fair value determinations of the assets or liabilities, such as interest rates and yield curves that are observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 — Inputs include unobservable inputs used in the measurement of assets and liabilities. Management is required to use its own assumptions regarding unobservable inputs because there is little, if any, market activity in the assets or liabilities or related observable inputs that can be corroborated at the measurement date. Unobservable inputs reflect the Company's own judgment about the assumptions that market participants would use in pricing the asset or liability. Level 3 assets include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include money market funds, common stocks, equity mutual funds, and fixed-income mutual funds. Level 2 investments represent pooled funds invested primarily in debt securities, mortgage-backed securities, and corporate bonds. The fair value of such Level 2 investments are generally based on net asset values per fund share (the unit of account), derived from the quoted prices in inactive markets of the underlying securities. Level 3 funds represent an investment in a multi-strategy hedge fund of funds. The fair value of Level 3 investments are based on net asset values per share (the unit of account), derived from discounted cash flows of the underlying investments. The fair value of the interest rate swap is based on observable inputs as of the valuation date, including prices of instruments with similar maturities and characteristics, interest rate yield curves, and measures of interest rate volatility.

In fiscal 2011, the Company transferred corporate bonds and notes and federal agency obligations from Level 1 to Level 2 based on a re-evaluation of the observable inputs used in the fair value calculation.

Financial assets and liabilities measured at fair value on a recurring basis at June 30, 2011 and 2010, by type of inputs applicable to the fair value measurements, are as follows:

Description	2011			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments:				
Cash and cash equivalents	\$ 506,460	\$ -	\$ -	\$ 506,460
Debt securities				
U S. Treasury obligations	214,340			214,340
Federal agency obligations		9,935,460		9,935,460
Corporate bonds and notes		6,299,889		6,299,889
Accrued interest	78,760			78,760
Common stock:				
Domestic — predominantly Large Cap	6,514,629			6,514,629
Foreign	2,640,812			2,640,812
Mutual funds				
Mortgage-backed	1,534,837			1,534,837
Stock index	5,253,693			5,253,693
Other	2,755,596			2,755,596
Total investments	<u>\$ 19,499,127</u>	<u>\$ 16,235,349</u>	<u>\$ -</u>	<u>\$ 35,734,476</u>
Assets limited as to use:				
Cash and cash equivalents	\$ 2,914,201	\$ -	\$ -	\$ 2,914,201
Corporate bonds and notes		19,405,409	10,345	19,415,754
Common stock:				
Large Cap	9,681,458			9,681,458
Mid Cap	6,409,098			6,409,098
Small Cap	7,987,395			7,987,395
Foreign	1,486,156			1,486,156
U S Treasury obligations	15,386,941			15,386,941
Federal agency obligations		12,820,342		12,820,342
Mutual funds				
Mortgage-backed	11,834,980			11,834,980
Stock index	8,997,510			8,997,510
International equities	14,394,721			14,394,721
Inflation protected fixed income	3,274,811			3,274,811
Multi-strategy hedge fund-of-funds			6,302,919	6,302,919
Other	295,045			295,045
Accrued interest	200,911			200,911
Other	219,229			219,229
Total assets limited as to use	<u>\$ 83,082,456</u>	<u>\$ 32,225,751</u>	<u>\$ 6,313,264</u>	<u>\$ 121,621,471</u>
Other assets — deferred compensation plan consisting of mutual funds and other investments	<u>\$ 573,928</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 573,928</u>
Other assets — cash surrender value of life insurance	<u>\$ -</u>	<u>\$ 396,058</u>	<u>\$ -</u>	<u>\$ 396,058</u>
Other liabilities — interest rate swap	<u>\$ -</u>	<u>\$ 1,302,256</u>	<u>\$ -</u>	<u>\$ 1,302,256</u>

Description	2010			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments:				
Cash and cash equivalents	\$ 387,209	\$ -	\$ -	\$ 387,209
Debt securities				
U S Treasury obligations	135,639			135,639
Federal agency obligations	11,092,433			11,092,433
Corporate bonds and notes	5,427,140			5,427,140
Accrued interest	156,526			156,526
Common stock				
Domestic --- predominantly Large Cap	4,836,336			4,836,336
Foreign	1,933,322			1,933,322
Mutual funds				
Mortgage-backed	481,062			481,062
Stock index	3,995,766			3,995,766
Other	2,166,914			2,166,914
Total investments	<u>\$ 30,612,347</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,612,347</u>
Assets limited as to use				
Cash and cash equivalents	\$ 2,731,091	\$ -	\$ -	\$ 2,731,091
Corporate bonds and notes	32,365,660			32,365,660
Common stock				
Large Cap	4,923,332			4,923,332
Mid Cap	4,557,352			4,557,352
Small Cap	8,604,507			8,604,507
Foreign	926,815			926,815
U S. Treasury obligations	16,986,475			16,986,475
Federal agency obligations	8,124,038			8,124,038
Mutual funds				
Stock index	6,762,745			6,762,745
International equities	7,436,270			7,436,270
Inflation protected fixed income	3,072,653			3,072,653
Equities - predominantly Large Cap	4,416,424			4,416,424
Growth	3,436,520			3,436,520
Multi-strategy hedge fund-of-funds			5,867,431	5,867,431
Other	382,067			382,067
Accrued interest	213,088			213,088
Other	254,249			254,249
Total assets limited as to use	<u>\$ 105,193,286</u>	<u>\$ -</u>	<u>\$ 5,867,431</u>	<u>\$ 111,060,717</u>
Other assets — deferred compensation plan consisting of mutual funds and other investments	<u>\$ 808,695</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 808,695</u>
Other assets — cash surrender value of life insurance	<u>\$ -</u>	<u>\$ 352,008</u>	<u>\$ -</u>	<u>\$ 352,008</u>
Other liabilities — interest rate swap	<u>\$ -</u>	<u>\$ 1,656,089</u>	<u>\$ -</u>	<u>\$ 1,656,089</u>

A rollforward of assets measured at fair value (consisting of an investment in a multi-strategy hedge fund of funds) on a recurring basis with the use of significant unobservable inputs (Level 3) for the years ended June 30, 2011 and 2010, is summarized in the following table:

	2011	2010
Beginning balance	\$ 5,867,431	\$ 4,435,513
Additional investment		1,000,000
Net gains unrealized	435,488	431,918
Other	<u>10,345</u>	<u></u>
Ending balance	<u>\$ 6,313,264</u>	<u>\$ 5,867,431</u>

The fair market value of the Company's fixed-rate long-term debt is determined based on the current borrowing rates available to management for similar types of debt issues. As of June 30, 2011 and 2010, the fair market values of the Series 1998 Bonds were \$24,666,060 and \$25,518,197, respectively. As of June 30, 2011 and 2010, the carrying value of variable rate debt, capital leases, and the ICASC note payable approximated fair value based on the current borrowing rates available for similar type issues.

3. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment as of June 30, 2011 and 2010, consisted of the following:

	2011	2010
Land	\$ 7,258,393	\$ 7,113,374
Land improvements	644,023	640,023
Buildings and improvements	120,142,334	119,050,942
Major movable equipment	<u>93,963,851</u>	<u>93,180,565</u>
Property, plant, and equipment — gross	222,008,601	219,984,904
Less accumulated depreciation and amortization	<u>(146,730,955)</u>	<u>(141,091,625)</u>
Property, plant, and equipment — net excluding construction in progress	75,277,646	78,893,279
Construction in progress	<u>9,946,803</u>	<u>538,943</u>
Property, plant, and equipment — net	<u>\$ 85,224,449</u>	<u>\$ 79,432,222</u>

There was no interest expense capitalized for the years ended June 30, 2011 and 2010.

At June 30, 2011, a commitment to undertake the electronic health record project of approximately \$13,000,000 was outstanding. As of the date of this report, the Hospital had incurred costs of approximately \$6,000,000 related to this project.

Gross property and equipment capitalized under capital lease obligations was \$1,919,050 and \$1,905,495 as of June 30, 2011 and 2010, respectively. Accumulated amortization for property and equipment under capital lease obligations was \$1,650,086 and \$1,382,297 at June 30, 2011 and 2010, respectively.

4. INCOME TAXES

The IRS has determined that the Hospital and the Foundation are not-for-profit corporations. Services, a for-profit corporation, has deferred income taxes due to temporary differences between financial reporting and tax reporting bases of certain assets and liabilities. Deferred tax assets of \$7,823,177 and \$6,723,863 at June 30, 2011 and 2010, respectively, resulted primarily from net operating loss carryforwards and depreciation expense. Due to expected continuing non-operating losses, the net deferred tax assets were fully offset by valuation allowances at June 30, 2011 and 2010.

At June 30, 2011, Services had net operating loss carryforwards of approximately \$17,572,949 for federal income tax purposes. The net operating losses expire between the fiscal 2012 and 2029.

As of June 30, 2011 and 2010, the Company recorded no liabilities for unrecognized tax benefits.

5. LONG-TERM DEBT

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

	2011	2010
Hospital Revenue Refunding Bonds, Series 1998, 4.85% to 5%, maturing in varying annual installments through 2028	\$ 24,650,000	\$ 25,485,000
Hospital Variable Rate Revenue Bonds, Series 2008, 2.5% and 0.75%, at June 30, 2011 and 2010, respectively, maturing in varying annual installments through 2035	38,035,000	38,475,000
Capital lease obligations, due in monthly installments to June 2012, interest at 8.25%	304,211	549,246
ICASC notes payable	8,121,602	8,536,847
Less unamortized bond discount	<u>(611,144)</u>	<u>(646,832)</u>
Total debt	70,499,669	72,399,261
Less current portion	<u>(2,069,953)</u>	<u>(1,829,646)</u>
Long-term portion	<u>\$ 68,429,716</u>	<u>\$ 70,569,615</u>

In July 1998, the Company issued \$32,605,000 of Hospital Revenue Refunding Bonds, Series 1998 (the "1998 Bonds"), with a portion of the proceeds used to refinance the Hospital Facility Refunding Revenue Bonds, Series 1986, and the Hospital Facility Revenue Bonds, Series 1992. The 1998 Bonds master trust indenture and related loan agreements have certain financial and nonfinancial covenants with which the Company must comply during and at the end of each fiscal year. The Company was in compliance with the financial covenants at June 30, 2011 and 2010.

In April 2008, the Company issued \$39,235,000 of City of Hills, Iowa, Variable Rate Demand Health Facilities Revenue Bonds, Mercy Hospital Project, Series 2008 (the "2008 Bonds"). The proceeds of the 2008 Bonds were used to refund 2005 bonds and pay certain costs of issuance. The 2008 Bonds are secured by a letter of credit provided by U.S. Bank. The letter of credit extends to August 10, 2013. The 2008 Bond documents include certain financial and nonfinancial covenants with which the Company must comply during and at the end of each fiscal year. The Company was in compliance with the financial covenants at June 30, 2011 and 2010.

As of June 30, 2011, ICASC had real estate and equipment notes payable totaling \$5,682,818 and \$2,438,784, respectively. As of June 30, 2010, ICASC had real estate and equipment notes payable totaling \$5,835,670 and \$2,701,177, respectively. The real estate notes were for the construction of the surgical center. The notes are secured by the real estate and building. Upon completion of the facility in September 2008, the note converted to permanent financing with interest at 6.39% for the first five years. The interest rate will be adjusted at January 5, 2014, based on the then-current market conditions. However, this rate adjustment will be limited to 150 basis points above or below the initial rate of 6.39%. The new rate will be in effect for years six through 10. Principal and interest payments began in December 2008 and continue for 10 years, at which time all unpaid principal and accrued interest will be due.

The equipment note was used to purchase equipment and furnishings for the surgical center. The equipment note is collateralized by a security interest in substantially all the business assets of ICASC. Upon completion of the facility, the note converted to permanent financing with interest at 6.39% for the term of the note through January 2014.

Maturities of the Company's long-term debt, excluding capital lease obligations, are as follows:

**Years Ending
June 30**

2012	\$ 1,849,359
2013	1,945,703
2014	2,037,326
2015	2,140,259
2016	3,022,676
Thereafter	<u>59,811,280</u>
	<u>\$ 70,806,602</u>

The Company's capital lease obligation is payable as follows:

**Years Ending
June 30**

2012	\$ 276,445
2013	<u>38,672</u>
Total	315,117
Less amounts representing interest	<u>(10,906)</u>
Present value of net minimum lease payments	304,211
Less current portion	<u>(265,903)</u>
Long-term portion	<u>\$ 38,308</u>

Interest Rate Swap — In June 2005, the Company entered into an interest rate swap agreement to manage interest rate risk associated with the Company's variable-rate long-term debt. The swap agreement was effective August 1, 2005. Under this agreement, a notional amount of \$12 million of variable-rate tax-exempt debt is effectively converted to a fixed rate of 3.57%. This agreement expires on August 1, 2032. Management has designated the interest rate swap as a cash flow hedge under authoritative guidance. The Company is exposed to credit risk in the event of nonperformance by the counterparty to the interest rate swap agreement.

The fair value of the interest rate swap was recognized in the consolidated statements of financial position as a long-term liability of \$1,302,256 and \$1,656,089 as of June 30, 2011 and 2010, respectively. The interest rate swap is no longer designated as a hedging instrument. As a result, the changes in the fair value of \$353,834 and \$(535,043) are recorded in other nonoperating gains (losses) in the consolidated statements of operations and changes in net assets for fiscal 2011 and 2010, respectively.

6. SHORT-TERM BORROWINGS

The Company has an unsecured \$5,000,000 revolving line of credit agreement. Payments are due on demand, with variable interest calculated using prime (3.25% at June 30, 2011), less a margin of 0.75%, with a floor of 5%, resulting in a current rate of 5%. There were no outstanding borrowings on the line of credit at June 30, 2011 and 2010. The Company renewed the line of credit agreement in September 2011. The expiration date of the line of credit is September 30, 2012.

In January 2009, ICASC executed a \$1,850,000 revolving line of credit agreement with variable interest rate coming due on September 30, 2010. The line of credit was updated on December 28, 2010, reducing the amount to \$600,000, with variable interest rate coming due on April 30, 2011. The line of credit was then renewed on March 14, 2011, for \$500,000, with variable interest rate due on April 30, 2012. There were no outstanding borrowings as of June 30, 2011 and 2010.

7. ASSETS LIMITED AS TO USE

Assets limited as to use that are required for obligations classified as current liabilities are reported as other current assets. The composition of assets limited as to use as of June 30, 2011 and 2010, is as follows:

	2011	2010
Investments designated by the Board for future capital donor-restricted investments:		
Cash and cash equivalents	\$ 2,689,765	\$ 2,438,575
Corporate bonds and notes	19,086,809	20,617,806
Common stock — domestic and foreign	25,564,107	18,460,789
U.S. treasury obligations	14,953,433	12,367,621
Federal agency obligations	12,250,047	11,727,315
Mutual funds	44,433,224	42,472,708
Accrued interest	189,452	196,490
Other	<u>219,229</u>	<u>254,249</u>
Total long-term investments	119,386,066	108,535,553
Less donor-restricted investments	<u>(3,153,271)</u>	<u>(2,638,459)</u>
Investments designated by the Board for future capital improvements	<u>\$ 116,232,795</u>	<u>\$ 105,897,094</u>
Investments held for self-insurance program (Note 11):		
Cash and cash equivalents	\$ 224,436	\$ 292,515
Corporate bonds and notes	328,945	649,256
Common stock — domestic and foreign	666,762	551,217
U.S. treasury obligations	433,508	494,403
Federal agency obligations	570,295	521,175
Accrued interest	<u>11,459</u>	<u>16,598</u>
Total investments	2,235,405	2,525,164
Less current portion	<u>(770,938)</u>	<u>(796,106)</u>
Long-term portion	<u>\$ 1,464,467</u>	<u>\$ 1,729,058</u>

The investment return and its classification in the consolidated statements of operations and changes in net assets for investments and assets limited as to use for the years ended June 30, 2011 and 2010, are as follows:

	2011	2010
Investment income	\$ 4,377,176	\$ 4,478,876
Net realized gain (loss) on sales of investments	3,112,004	(2,915,810)
Net unrealized gain (loss) on interest rate swap	353,834	(535,043)
Net unrealized gain on investments	<u>13,317,628</u>	<u>12,864,405</u>
Total gain on investments	<u>\$21,160,642</u>	<u>\$ 13,892,428</u>
Reported as:		
Nonoperating gains (losses) — other	\$ 353,834	\$ (535,043)
Nonoperating gains — investment income	7,489,180	1,563,066
Net unrealized gain on investments	<u>13,317,628</u>	<u>12,864,405</u>
	<u>\$21,160,642</u>	<u>\$ 13,892,428</u>

8. ACCOUNTS RECEIVABLE BY PAYOR

The Company grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from patients and third-party payors (calculated at gross) as of June 30, 2011 and 2010, was as follows:

	2011	2010
Medicare	43 %	50 %
Medicaid	3	4
Insurers	37	30
Patients	15	14
Other	<u>2</u>	<u>2</u>
	<u>100 %</u>	<u>100 %</u>

9. EMPLOYEE BENEFIT PLANS AND EMPLOYMENT BENEFIT OBLIGATIONS

Pension Plan — The Company maintains a defined benefit pension plan that covers certain employees. The benefits are based on years of credited service and the employee's average monthly compensation over the five consecutive years that produce the highest total compensation. The Company makes annual contributions to meet the Employee Retirement Income Security Act of 1974 minimum funding requirements. The Company contributed \$5,885,000 and \$4,720,000 to the plan in fiscal 2011 and 2010, respectively.

The defined benefit pension plan was amended effective during April 4, 2010, to freeze benefits for certain plan participants. This change eliminated future benefit accruals for a significant number of employees, which meets the criteria for a curtailment as defined by authoritative accounting guidance. Accordingly, pension plan assets and liabilities were remeasured as of April 4, 2010, resulting in a change to unrestricted net assets of \$10,226,739.

Information regarding the plan as of and for the years ended June 30, 2011 and 2010, is as follows:

	2011	2010
Change in benefit obligation:		
Obligation — beginning of year	\$ 145,314,273	\$ 127,850,254
Service cost	1,489,479	3,108,396
Interest cost	7,947,867	8,385,156
Demographic (gain) loss	(1,075,350)	19,183,806
Curtailment gains		(10,226,739)
Benefit payments	<u>(3,578,575)</u>	<u>(2,986,600)</u>
Obligation — end of year	<u>150,097,694</u>	<u>145,314,273</u>
Change in plan assets:		
Fair value of plan assets — beginning of year	85,950,863	74,615,284
Employer contributions	5,885,000	4,720,000
Benefit payments	(3,578,575)	(2,986,600)
Actual gain on plan assets	<u>18,558,294</u>	<u>9,602,179</u>
Fair value of plan assets — end of year	<u>106,815,582</u>	<u>85,950,863</u>
Funded status — end of year — net amount recognized, included in long-term liabilities	<u>\$ (43,282,112)</u>	<u>\$ (59,363,410)</u>

Components of net periodic benefit cost for the plan for fiscal 2011 and 2010 are as follows:

	2011	2010
Service cost	\$ 1,489,479	\$ 3,108,396
Interest cost	7,947,867	8,385,156
Expected return on plan assets	(7,338,526)	(6,978,588)
Amortization of net loss	<u>1,034,151</u>	<u>2,951,060</u>
Net periodic pension cost	<u>\$ 3,132,971</u>	<u>\$ 7,466,024</u>

The recorded actuarial loss included in changes in unrestricted net assets, but not yet recognized as a component of net periodic benefit cost for the plan for fiscal 2011 and 2010 are as follows:

	2011	2010
Amount disclosed — beginning of year	\$ 47,265,394	\$ 43,882,978
Change during year due to plan curtailment		(10,226,739)
Unrecognized actuarial (gain) loss arising during the year	(12,295,118)	16,560,215
Amortization of unrecognized actuarial loss	<u>(1,034,151)</u>	<u>(2,951,060)</u>
Amount disclosed — end of year	<u>\$ 33,936,125</u>	<u>\$ 47,265,394</u>

The estimated unrecognized actuarial loss that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year is \$578,081.

The accumulated benefit obligation for the plan as of June 30, 2011 and 2010, was \$143,591,559 and \$136,011,134, respectively.

Weighted-average assumptions used to determine the benefit obligations as of June 30, 2011 and 2010, are as follows:

	2011	2010
Discount rate	5.72 %	5.57 %
Rate of compensation increase	3.00	4.00

Weighted-average assumptions used to determine the net periodic benefit cost as of June 30, 2011 and 2010, are as follows:

	2011	2010
Discount rate — July 1	5.57 %	6.55 %
Discount rate — April 1	N/A	6.25
Expected long-term return on plan assets — July 1	8.50	9.00
Expected long-term return on plan assets — April 1	N/A	8.50
Rate of compensation increase	4.00	4.00

Estimated future benefit as of June 30, 2011, payments are as follows:

2012	\$ 4,141,000
2013	4,573,000
2014	5,455,000
2015	6,085,000
2016	6,615,000
2017–2021	43,852,000

The Company's pension plan weighted-average asset allocation as of June 30, 2011 and 2010, by asset category, is as follows:

	2011	2010
Debt securities	32 %	36 %
Equity securities	66	55
Other	<u>2</u>	<u>9</u>
	<u>100 %</u>	<u>100 %</u>

The fair value of plan assets by level within the fair value hierarchy by asset category at June 30, 2011 and 2010, is as follows:

As of June 30, 2011	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 1,689,409	\$ -	\$ -	\$ 1,689,409
Fixed Income Securities:				
U.S. Treasury obligations	2,316,801			2,316,801
Federal agency obligations		777,768		777,768
Corporate bonds and notes		17,566,791		17,566,791
Mortgage/asset-backed securities		12,459,268		12,459,268
Municipal bond funds	418,845			418,845
Other	169,214			169,214
Common stock:				
Large Cap	22,260,023			22,260,023
Mid Cap	8,010,936			8,010,936
Small Cap	8,877,129			8,877,129
Foreign	4,545,431			4,545,431
Mutual funds:				
Stock index	10,384,179			10,384,179
International equities	16,467,166			16,467,166
Other	872,622			872,622
Total	<u>\$ 76,011,755</u>	<u>\$ 30,803,827</u>	<u>\$ -</u>	<u>\$ 106,815,582</u>
As of June 30, 2010	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 1,803,645	\$ -	\$ -	\$ 1,803,645
Pooled, common and collective fund	6,036,255			6,036,255
Fixed Income Securities:				
U.S. Treasury obligations	2,084,138			2,084,138
Federal agency obligations		1,172,296		1,172,296
Corporate bonds and notes		15,311,307		15,311,307
Mortgage/asset-backed securities		12,086,203		12,086,203
Municipal bond funds	75,769			75,769
Common stock:				
Large Cap	15,305,175			15,305,175
Mid Cap	5,391,800			5,391,800
Small Cap	8,975,928			8,975,928
Foreign	3,347,432			3,347,432
Mutual funds:				
Stock index	1,878,294			1,878,294
International equities	12,291,495			12,291,495
Other	191,127			191,127
Total	<u>\$ 57,381,057</u>	<u>\$ 28,569,806</u>	<u>\$ -</u>	<u>\$ 85,950,863</u>

The Company expects to contribute \$5 million to the plan in fiscal 2012.

Savings Plan — For employees eligible for the defined benefit pension plan, the Company has a contributory employee retirement and savings plan, which is qualified under Section 401(k) of the Code. Matching contributions are made to employees who meet certain eligibility and service requirements. The Company's matching contribution is equal to 25% of the first 4% of an eligible employee's pay with a maximum employer match of 1% of pay.

For employees not eligible for the defined benefit pension plan, the Company established a contributory employee retirement and savings plan, which is qualified under Section 401(k) of the Code. Matching and profit-sharing contributions are made to employees who meet certain eligibility and service requirements. The safe harbor matching contribution is equal to 100% of the first 1% and 50% of the next 5% of an eligible employee's pay with a maximum employer match of 3.5%. The Company has the right to make a discretionary or fixed profit-sharing contribution.

Total employer contribution expense under the plans was \$3,138,030 and \$2,832,639 for fiscal 2011 and 2010, respectively.

10. SELF-INSURED EMPLOYEE HEALTH BENEFITS PROGRAM

Substantially all employees of the Company are covered by an unfunded self-insured employee health and dental benefits program. Under this program, the Company pays the claims as incurred on a daily basis. A reinsurance contract limits the Company's liability for each participant to annual foreign claims (defined as those claims paid to hospitals other than the Hospital) of \$450,000 for fiscal 2011 and 2010, with a specific lifetime stop loss per covered individual of \$1,550,000 for fiscal 2011 and 2010. Total claims, which include both paid and incurred claims, were \$6,996,999 and \$9,056,245 for fiscal 2011 and 2010, respectively. Included in accrued expenses — other was \$865,000 and \$940,000 for estimated unprocessed claims and claims incurred but not reported at June 30, 2011 and 2010, respectively.

11. PROFESSIONAL AND GENERAL LIABILITY PROGRAM

The Company is self-insured for claims up to \$1,000,000 per occurrence and \$3,000,000 annual aggregate for the years ended June 30, 2011 and 2010, and has established a trust fund for self-insurance payments. Investment income earned on the professional liability trust of \$62,170 and \$74,840 for fiscal 2011 and 2010, respectively, is included in other revenue. The Company's payments to the trust fund and accrued provision for related losses are based on actuarial estimates of funding and expected ultimate loss levels. The Company has recorded a liability for incurred claims and for claims incurred, but not reported in the amount of \$3,546,494 and \$3,861,683 as of June 30, 2011 and 2010, respectively. The long-term portion of this liability is recorded in accrued professional liability claims; the current portion is included within accrued expenses — other. The discount rate used in determining the present value of the recorded obligation was 6% and 6.5% at June 30, 2011 and 2010, respectively.

Liability claims in excess of primary limits were insured up to \$10,000,000 per occurrence and in the annual aggregate for the years ended June 30, 2011 and 2010. Premium expense related to this coverage totaled \$338,350 for both fiscal 2011 and 2010.

Services purchases claims made professional and general liability insurance through commercial insurance policies. The policy terms coincide with the fiscal year and cover claims up to \$1,000,000 per occurrence and \$2,000,000 in the aggregate. Premiums expensed under the policies were \$271,388 and \$189,809 during fiscal 2011 and 2010, respectively.

12. LEASES

The Company leases office and clinic space under operating leases to other parties. Rental receipts were \$1,383,500 and \$1,405,200 for fiscal 2011 and 2010, respectively, and are recorded within other revenue. Rental income earned by the Hospital from its subsidiaries has been eliminated in consolidation. Future expected minimum lease receipts for the next five years are as follows:

**Years Ending
June 30**

2012	\$ 1,460,700
2013	990,500
2014	587,200
2015	459,400
2016	<u>163,600</u>
	<u>\$ 3,661,400</u>

The Company leases medical equipment, buildings, and parking space under operating leases. Rental expenses were \$588,300 and \$491,800 for fiscal 2011 and 2010, respectively. The Company is not a lessee under any noncancelable operating leases.

13. FUNCTIONAL EXPENSES

The Company provides general health care services to residents within its geographic location. Expenses related to providing these services included in the consolidated statements of operations and changes in net assets as of June 30, 2011 and 2010, are as follows:

	2011	2010
Health care services	\$ 129,866,738	\$ 126,546,919
General and administrative	<u>45,628,854</u>	<u>42,182,306</u>
Total expenses	<u>\$ 175,495,592</u>	<u>\$ 168,729,225</u>

14. CONTINGENCIES

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations can be subject to government review and interpretation as well as regulatory actions unknown and unasserted at this time. Government activity has increased with respect to investigations and allegations concerning possible violations of regulations by health care providers, which could result in the imposition of significant fines and penalties as well as significant repayments of previously billed and collected revenues for patient services. The Company has a corporate compliance plan designed in accordance with federal guidelines. As a part of this plan, the Company performs periodic internal reviews of its compliance with laws and regulations. As part of the Company's compliance efforts, the Company investigates and attempts to resolve and remedy all reported or suspected incidents of noncompliance with applicable laws, regulations, or policies on a timely basis. Management of the Company believes that the Company's compliance programs and procedures lead to substantial compliance with current laws and regulations.

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