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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 10-01-2010 and ending 09-30-2011		
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 SHANNON MEDICAL CENTER	D Employer identification number 75-2559845
	Doing Business As	E Telephone number (325) 481-8644
	Number and street (or P O box if mail is not delivered to street address) 120 E HARRIS AVENUE	Room/suite
	City or town, state or country, and ZIP + 4 SAN ANGELO, TX 76903	
	F Name and address of principal officer BRYAN HORNER 120 E HARRIS AVENUE SAN ANGELO, TX 76903	
		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: ▶ SHANNONHEALTH.COM		
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 1994
		M State of legal domicile TX

Part I	Summary
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Activities & Governance	1 Briefly describe the organization's mission or most significant activities OUR MISSION, IN FULFILLING OUR LEGACY, IS TO CREATE AN ENVIRONMENT COMMITTED TO THE VALUES OF ACCOUNTABILITY, SERVICE, PRIDE, INTEGRITY, RESPECT AND EXCELLENCE CONTINUED ON SCHEDULE O		
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	14	
4 Number of independent voting members of the governing body (Part VI, line 1b)	4	11	
5 Total number of individuals employed in calendar year 2010 (Part V, line 2a)	5	2,011	
6 Total number of volunteers (estimate if necessary)	6	135	
7a Total unrelated business revenue from Part VIII, column (C), line 12	7a	279,833	
b Net unrelated business taxable income from Form 990-T, line 34	7b	-83,419	
Revenue	8 Contributions and grants (Part VIII, line 1h)	Prior Year	Current Year
	9 Program service revenue (Part VIII, line 2g)	688,760	87,802
	10 Investment income (Part VIII, column (A), lines 3, 4, and 7d)	215,025,470	226,867,384
	11 Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)	1,586,435	2,070,667
	12 Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12)	3,218,314	3,616,606
		220,518,979	232,642,459
Expenses	13 Grants and similar amounts paid (Part IX, column (A), lines 1–3)	5,833	243,804
	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)	82,846,919	88,378,080
	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)	106,549,525	110,114,453
	18 Total expenses Add lines 13–17 (must equal Part IX, column (A), line 25)	189,402,277	198,736,337
	19 Revenue less expenses Subtract line 18 from line 12	31,116,702	33,906,122
Net Assets or Fund Balances		Beginning of Current Year	End of Year
	20 Total assets (Part X, line 16)	236,180,979	264,993,302
	21 Total liabilities (Part X, line 26)	41,908,132	49,297,983
	22 Net assets or fund balances Subtract line 21 from line 20	194,272,847	215,695,319

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	2012-08-15 Date			
	SHANE PLYMELL CFO Type or print name and title				
Paid Preparer Use Only	Print/Type preparer's name M Paige Gerich	Preparer's signature M Paige Gerich	Date	Check if self-employed <input type="checkbox"/>	PTIN
	Firm's name ▶ BKD LLP				Firm's EIN ▶
	Firm's address ▶ 2800 Post Oak Blvd Ste 3200 HOUSTON, TX 77056				Phone no ▶ (713) 499-4600

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

Part III

Statement of Program Service Accomplishments

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

1

Briefly describe the organization’s mission

OUR MISSION, IN FULFILLING OUR LEGACY, IS TO CREATE AN ENVIRONMENT COMMITTED TO THE VALUES OF ACCOUNTABILITY, SERVICE, PRIDE, INTEGRITY, RESPECT AND EXCELLENCE CONTINUED ON SCHEDULE O

2

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

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?

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 \$ 155,378,321 including grants of \$ 156,002) (Revenue \$ 230,204,157)

PROVIDING TOTAL MEDICAL CARE TO THE CITIZENS OF WEST TEXAS

4b

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

4c

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

4d

Other program services (Describe in Schedule O)

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

4e

Total program service expenses \$ 155,378,321

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.	Yes	
2	Is the organization required to complete Schedule B, Schedule of Contributors (see instruction)?		No
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.		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.		No
5	Is the organization a section 501(c)(4), 501(c)(5), or 501(c)(6) organization that receives membership dues, assessments, or similar amounts as defined in Revenue Procedure 98-19? If "Yes," complete Schedule C, Part III.		
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.		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.		No
8	Did the organization maintain collections of works of art, historical treasures, or other similar assets? If "Yes," complete Schedule D, Part III.		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.		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.		No
11	If the organization's answer to any of the following questions is 'Yes,' then complete Schedule D, Parts VI, VII, VIII, IX, or X as applicable.		
a	Did the organization report an amount for land, buildings, and equipment in Part X, line 10? If "Yes," complete Schedule D, Part VI.	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.		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.		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.	Yes	
e	Did the organization report an amount for other liabilities in Part X, line 25? If "Yes," complete Schedule D, Part X.	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.		No
12a	Did the organization obtain separate, independent audited financial statements for the tax year? If "Yes," complete Schedule D, Parts XI, XII, and XIII.		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.	Yes	
13	Is the organization a school described in section 170(b)(1)(A)(ii)? If "Yes," complete Schedule E.		No
14a	Did the organization maintain an office, employees, or agents outside of the United States?		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.		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.		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.		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).		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.		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.		No
20a	Did the organization operate one or more hospitals? If "Yes," complete Schedule H.	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).	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		No
23	Did the organization answer "Yes" to Part VII, Section A, questions 3, 4, or 5, about compensation of the organization's current and former officers, directors, trustees, key employees, and highest compensated employees? <i>If "Yes," complete Schedule J</i>	23	Yes	
24a	Did the organization have a tax-exempt bond issue with an outstanding principal amount of more than \$100,000 as of the last day of the year, that was issued after December 31, 2002? <i>If "Yes," answer lines 24b–24d and complete Schedule K. If "No," go to line 25</i>	24a		No
b	Did the organization invest any proceeds of tax-exempt bonds beyond a temporary period exception?	24b		
c	Did the organization maintain an escrow account other than a refunding escrow at any time during the year to defease any tax-exempt bonds?	24c		
d	Did the organization act as an "on behalf of" issuer for bonds outstanding at any time during the year?	24d		
25a	Section 501(c)(3) and 501(c)(4) organizations. Did the organization engage in an excess benefit transaction with a disqualified person during the year? <i>If "Yes," complete Schedule L, Part I</i>	25a		No
b	Is the organization aware that it engaged in an excess benefit transaction with a disqualified person in a prior year, and that the transaction has not been reported on any of the organization's prior Forms 990 or 990-EZ? <i>If "Yes," complete Schedule L, Part I</i>	25b		No
26	Was a loan to or by a current or former officer, director, trustee, key employee, highly compensated employee, or disqualified person outstanding as of the end of the organization's tax year? <i>If "Yes," complete Schedule L, Part II</i>	26		No
27	Did the organization provide a grant or other assistance to an officer, director, trustee, key employee, substantial contributor, or a grant selection committee member, or to a person related to such an individual? <i>If "Yes," complete Schedule L, Part III</i>	27		No
28	Was the organization a party to a business transaction with one of the following parties? (see Schedule L, Part IV instructions for applicable filing thresholds, conditions, and exceptions)			
a	A current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV</i>	28a		No
b	A family member of a current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV</i>	28b	Yes	
c	An entity of which a current or former officer, director, trustee, or key employee (or a family member thereof) was an officer, director, trustee, or direct or indirect owner? <i>If "Yes," complete Schedule L, Part IV</i>	28c		No
29	Did the organization receive more than \$25,000 in non-cash contributions? <i>If "Yes," complete Schedule M</i>	29		No
30	Did the organization receive contributions of art, historical treasures, or other similar assets, or qualified conservation contributions? <i>If "Yes," complete Schedule M</i>	30		No
31	Did the organization liquidate, terminate, or dissolve and cease operations? <i>If "Yes," complete Schedule N, Part I</i>	31		No
32	Did the organization sell, exchange, dispose of, or transfer more than 25% of its net assets? <i>If "Yes," complete Schedule N, Part II</i>	32		No
33	Did the organization own 100% of an entity disregarded as separate from the organization under Regulations sections 301.7701-2 and 301.7701-3? <i>If "Yes," complete Schedule R, Part I</i>	33		No
34	Was the organization related to any tax-exempt or taxable entity? <i>If "Yes," complete Schedule R, Parts II, III, IV, and V, line 1</i>	34	Yes	
35	Is any related organization a controlled entity within the meaning of section 512(b)(13)?	35	Yes	
a	Did the organization receive any payment from or engage in any transaction with a controlled entity within the meaning of section 512(b)(13)? <i>If "Yes," complete Schedule R, Part V, line 2</i> <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No			
36	Section 501(c)(3) organizations. Did the organization make any transfers to an exempt non-charitable related organization? <i>If "Yes," complete Schedule R, Part V, line 2</i>	36		No
37	Did the organization conduct more than 5% of its activities through an entity that is not a related organization and that is treated as a partnership for federal income tax purposes? <i>If "Yes," complete Schedule R, Part VI</i>	37		No
38	Did the organization complete Schedule O and provide explanations in Schedule O for Part VI, lines 11 and 19? Note. All Form 990 filers are required to complete Schedule O	38	Yes	

Part V Statements Regarding Other IRS Filings and Tax Compliance			
Check if Schedule O contains a response to any question in this Part V <input type="checkbox"/>			
		Yes	No
1a	Enter the number reported in Box 3 of Form 1096. Enter -0- if not applicable.	1a	130
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	2,011
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	No
h	If the organization received a contribution of cars, boats, airplanes, or other vehicles, did the organization file a Form 1098-C?	7h	No
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		
1b	Enter the number of voting members included in line 1a, above, who are independent		
2	Did any officer, director, trustee, or key employee have a family relationship or a business relationship with any other officer, director, trustee, or key employee?	2	No
3	Did the organization delegate control over management duties customarily performed by or under the direct supervision of officers, directors or trustees, or key employees to a management company or other person?	3	No
4	Did the organization make any significant changes to its governing documents since the prior Form 990 was filed?	4	No
5	Did the organization become aware during the year of a significant diversion of the organization's assets?	5	No
6	Does the organization have members or stockholders?	6	Yes
7a	Does the organization have members, stockholders, or other persons who may elect one or more members of the governing body?	7a	Yes
7b	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		
8a	The governing body?	8a	Yes
8b	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
10b	If "Yes," does the organization have written policies and procedures governing the activities of such chapters, affiliates, and branches to ensure their operations are consistent with those of the organization?	10b	
11a	Has the organization provided a copy of this Form 990 to all members of its governing body before filing the form?	11a	No
11b	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
12b	Are officers, directors or trustees, and key employees required to disclose annually interests that could give rise to conflicts?	12b	Yes
12c	Does the organization regularly and consistently monitor and enforce compliance with the policy? If "Yes," describe in Schedule O how this is done	12c	Yes
13	Does the organization have a written whistleblower policy?	13	Yes
14	Does the organization have a written document retention and destruction policy?	14	Yes
15	Did the process for determining compensation of the following persons include a review and approval by independent persons, comparability data, and contemporaneous substantiation of the deliberation and decision?		
15a	The organization's CEO, Executive Director, or top management official	15a	Yes
15b	Other officers or key employees of the organization If "Yes" to line 15a or 15b, describe the process in Schedule O (See instructions)	15b	Yes
16a	Did the organization invest in, contribute assets to, or participate in a joint venture or similar arrangement with a taxable entity during the year?	16a	No
16b	If "Yes," has the organization adopted a written policy or procedure requiring the organization to evaluate its participation in joint venture arrangements under applicable federal tax law, and taken steps to safeguard the organization's exempt status with respect to such arrangements?	16b	

Section C. Disclosure

17	List the States with which a copy of this Form 990 is required to be filed ▶
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 ▶ SHANNON MEDICAL CENTER 120 E HARRIS AVENUE SAN ANGELO, TX 76903 (325) 653-6741

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) BRYAN HORNER CEO/PRESIDENT	32.0	X		X				522,768	0	69,570
(2) LEN MERTZ CHAIRMAN	2.0	X		X				33,992	109,650	6,588
(3) JAMES JOHNSON SECRETARY/TREASURER	2.0	X		X				30,371	31,558	288
(4) JOE HENDERSON INDIVIDUAL TRUSTEE	2.0	X						31,685	33,615	396
(5) ORAN BERRY III INDIVIDUAL TRUSTEE	2.0	X						28,937	29,000	6,588
(6) VIRGINIA NOELKE DIRECTOR	2.0	X						20,350	0	0
(7) MIKE BOYD INDIVIDUAL TRUSTEE	2.0	X						1,368	0	0
(8) MIKE OLIPHANT INDIVIDUAL TRUSTEE	2.0	X						28,850	30,000	5,292
(9) STEVE CECIL INDIVIDUAL TRUSTEE	2.0	X						28,750	29,000	8,328
(10) JOANNA RICE DIRECTOR	2.0	X						22,000	0	0
(11) JIM BOB BRAME MD DIRECTOR	2.0	X						22,500	0	0
(12) PAMELA TALLEY DIRECTOR	2.0	X						24,350	0	0
(13) EMMETE FLYNN MD DIRECTOR	2.0	X						20,000	521,150	89,738
(14) MICHELLE SNUGGS MD DIRECTOR	2.0	X						20,350	574,831	111,615
(15) KELLY SHANE PLYMELL CFO	32.0			X				262,412	0	42,479
(16) DR IRVIN ZEITLER MEDICAL DIRECTOR	37.0			X				425,732	1,763	67,700

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) WILMA STUART CNO	40 0			X				239,827	0	37,953
(18) PATRICIA TIPTON NURSE ANESTHETIST	40 0					X		276,497	0	34,261
(19) MARVIN HILL NURSE ANESTHETIST	40 0					X		271,261	0	35,376
(20) LANCE KEILERS ADMINISTRATOR	40 0					X		150,572	0	22,377
(21) TIMOTHY HARTIN CCO	40 0					X		240,004	0	52,644
(22) Pauline James Nurse Anesthetist	40 0					X		156,356	0	21,831
1b Sub-Total										
c Total from continuation sheets to Part VII, Section A										
d Total (add lines 1b and 1c)								2,858,932	1,360,567	613,024

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▶52

	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
SAN ANGELO EMERGENCY PHYSICIANS PA PO BOX 62566 SAN ANGELO, TX 76906	PHYSICIAN GROUP	874,346
CARDIOTHORACIC VASCULAR SURGEONS 1010 W 40TH ST AUSTIN, TX 78756	PHYSICIAN GROUP	772,447
SIEMENS MEDICAL SOLUTIONS INC PO BOX 120001 DALLAS, TX 75312	REPAIRS/MAINTENANCE	501,746
ENVISION TELEPHARMACY 503 E HANCOCK ALPINE, TX 79830	CONTRACT LABOR	563,128
EXECUTIVE HEALTH RESOURCES PO BOX 822688 PHILADELPHIA, PA 19182	CONSULTING GROUP	465,886
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 15		

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				
	e	Government grants (contributions)	1e				
	f	All other contributions, gifts, grants, and similar amounts not included above	1f	87,802			
	g	Noncash contributions included in lines 1a-1f \$					
	h	Total. Add lines 1a-1f		87,802			
	Program Service Revenue	2a	Net Patient Revenue	Business Code 621990	226,450,315	226,225,963	224,352
b		Rental Income	532000	417,069	417,069		
c							
d							
e							
f		All other program service revenue					
g		Total. Add lines 2a–2f		226,867,384			
Other Revenue		3	Investment income (including dividends, interest and other similar amounts)		1,920,733		1,920,733
	4	Income from investment of tax-exempt bond proceeds . . .		0			
	5	Royalties		0			
	6a	Gross Rents	(i) Real	(ii) Personal			
		b	Less rental expenses				
		c	Rental income or (loss)				
		d	Net rental income or (loss)				
	7a	Gross amount from sales of assets other than inventory	(i) Securities	(ii) Other			
		b	Less cost or other basis and sales expenses				
		c	Gain or (loss)				
		d	Net gain or (loss)		149,934		149,934
	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 . . .		0		
	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 . . .		0		
	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 . . .		0		
Miscellaneous Revenue		Business Code					
11a	Cafeteria	900099	1,421,325	1,421,325			
	b	Regional Cancer Treatment	900099	732,273	732,273		
	c	All Other Misc Revenue		1,463,008	1,407,527	55,481	
	d	All other revenue					
	e	Total. Add lines 11a–11d		3,616,606			
12	Total revenue. See Instructions		232,642,459	230,204,157	279,833	2,070,667	

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	243,804	243,804		
2	Grants and other assistance to individuals in the U S See Part IV, line 22	0			
3	Grants and other assistance to governments, organizations, and individuals outside the U S See Part IV, lines 15 and 16	0			
4	Benefits paid to or for members	0			
5	Compensation of current officers, directors, trustees, and key employees	1,981,942		1,981,942	
6	Compensation not included above, to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B)	125,916	125,916		
7	Other salaries and wages	68,586,394	53,078,459	15,507,935	
8	Pension plan contributions (include section 401(k) and section 403(b) employer contributions)	4,446,900	3,442,119	1,004,781	
9	Other employee benefits	8,108,090	6,273,934	1,834,156	
10	Payroll taxes	5,128,838	3,876,416	1,252,422	
a	Fees for services (non-employees)				
	Management	312,420		312,420	
b	Legal	136,705		136,705	
c	Accounting	120,934		120,934	
d	Lobbying	0			
e	Professional fundraising services See Part IV, line 17	0			
f	Investment management fees	0			
g	Other	13,418,383	8,395,367	5,023,016	
12	Advertising and promotion	1,032,805	38,192	994,613	
13	Office expenses	4,849,986	418,035	4,431,951	
14	Information technology	1,974,553	211,574	1,762,979	
15	Royalties	0			
16	Occupancy	2,774,724	454,774	2,319,950	
17	Travel	378,512	215,179	163,333	
18	Payments of travel or entertainment expenses for any federal, state, or local public officials	0			
19	Conferences, conventions, and meetings	0			
20	Interest	0			
21	Payments to affiliates	0			
22	Depreciation, depletion, and amortization	9,567,205	4,946,939	4,620,266	
23	Insurance	181,468	2,696	178,772	
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	Medical Supplies	45,949,299	45,917,217	32,082	
b	Bad Debt	24,509,013	24,509,013		
c	Equipment Costs	3,123,017	2,409,636	713,381	
d	Collection Fees	873,667		873,667	
e	LAB FEES	510,579	510,579		
f	All other expenses	401,183	308,472	92,711	
25	Total functional expenses. Add lines 1 through 24f	198,736,337	155,378,321	43,358,016	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				12,626,800	1	1,535,892
	2	Savings and temporary cash investments				3,739,591	2	28,424
	3	Pledges and grants receivable, net					3	
	4	Accounts receivable, net				18,485,033	4	19,062,834
	5	Receivables from current and former officers, directors, trustees, key employees, and highest compensated employees. Complete Part II of Schedule L					5	
	6	Receivables from other disqualified persons (as defined under section 4958(f)(1)), persons described in section 4958(c)(3)(B), and contributing employers, and sponsoring organizations of section 501(c)(9) voluntary employees' beneficiary organizations (see instructions). Schedule L					6	
	7	Notes and loans receivable, net				248,950	7	359,171
	8	Inventories for sale or use				3,557,054	8	3,786,391
	9	Prepaid expenses and deferred charges				1,693,874	9	1,636,804
	10a	Land, buildings, and equipment: cost or other basis. Complete Part VI of Schedule D	10a	198,017,669				
	b	Less: accumulated depreciation	10b	137,593,918	59,075,699	10c	60,423,751	
	11	Investments—publicly traded securities			46,531,901	11	54,677,848	
	12	Investments—other securities. See Part IV, line 11			2,048,449	12	2,628,842	
	13	Investments—program-related. See Part IV, line 11				13		
	14	Intangible assets			784,536	14	784,536	
	15	Other assets. See Part IV, line 11			87,389,092	15	120,068,809	
	16	Total assets. Add lines 1 through 15 (must equal line 34)			236,180,979	16	264,993,302	
Liabilities	17	Accounts payable and accrued expenses			21,736,914	17	25,473,229	
	18	Grants payable				18		
	19	Deferred revenue			2,025	19	2,025	
	20	Tax-exempt bond liabilities				20		
	21	Escrow or custodial account liability. Complete Part IV of Schedule D				21		
	22	Payables to current and former officers, directors, trustees, key employees, highest compensated employees, and disqualified persons. Complete Part II of Schedule L				22		
	23	Secured mortgages and notes payable to unrelated third parties				23		
	24	Unsecured notes and loans payable to unrelated third parties				24		
	25	Other liabilities. Complete Part X of Schedule D			20,169,193	25	23,822,729	
	26	Total liabilities. Add lines 17 through 25			41,908,132	26	49,297,983	
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			115,558,229	27	103,636,284	
	28	Temporarily restricted net assets			78,714,618	28	112,059,035	
	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			194,272,847	33	215,695,319	
	34	Total liabilities and net assets/fund balances			236,180,979	34	264,993,302	

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	232,642,459
2	Total expenses (must equal Part IX, column (A), line 25)	2	198,736,337
3	Revenue less expenses Subtract line 2 from line 1	3	33,906,122
4	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A))	4	194,272,847
5	Other changes in net assets or fund balances (explain in Schedule O)	5	-12,483,650
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	215,695,319

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
SHANNON MEDICAL CENTER

Employer identification number
75-2559845

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 IIISupport Schedule for Organizations Described in Section 509(a)(2)

(Complete only if you checked the box on line 9 of Part I or if the organization failed to qualify under Part II. If the organization fails to qualify under the tests listed below, please complete Part II.)

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

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

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

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

Part IV

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

SCHEDULE D
(Form 990)

Supplemental Financial Statements

OMB No 1545-0047

2010

Open to Public Inspection

Department of the Treasury
Internal Revenue Service

▶ 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.

Name of the organization
SHANNON MEDICAL CENTER

Employer identification number
75-2559845

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				
b	Contributions				
c	Investment earnings or losses				
d	Grants or scholarships				
e	Other expenditures for facilities and programs				
f	Administrative expenses				
g	End of year balance				

2

Provide the estimated percentage of the year end balance held as

a

Board designated or quasi-endowment ▶

b

Permanent endowment ▶

c

Term endowment ▶

3a

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

(i)

unrelated organizations

3a(i)

☐ Yes

☐ No

(ii)

related organizations

3a(ii)

☐ Yes

☐ No

b

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

3b

☐ Yes

☐ No

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		5,122,978		5,122,978
b Buildings		69,803,989	46,226,194	23,577,795
c Leasehold improvements				
d Equipment		119,941,693	88,393,353	31,548,340
e Other		3,149,009	2,974,372	174,637
Total. Add lines 1a-1e (Column (d) should equal Form 990, Part X, column (B), line 10(c).) ▶				60,423,750

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	232,642,459
2	Total expenses (Form 990, Part IX, column (A), line 25)	2	198,736,337
3	Excess or (deficit) for the year Subtract line 2 from line 1	3	33,906,122
4	Net unrealized gains (losses) on investments	4	-1,418,503
5	Donated services and use of facilities	5	
6	Investment expenses	6	
7	Prior period adjustments	7	
8	Other (Describe in Part XIV)	8	-39,789
9	Total adjustments (net) Add lines 4 - 8	9	-1,458,292
10	Excess or (deficit) for the year per financial statements Combine lines 3 and 9	10	32,447,830

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	230,940,363
2	Amounts included on line 1 but not on Form 990, Part VIII, line 12		
a	Net unrealized gains on investments	2a	-1,418,503
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	-1,418,503
3	Subtract line 2e from line 1	3	232,358,866
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	283,593
c	Add lines 4a and 4b	4c	283,593
5	Total Revenue Add lines 3 and 4c. (This should equal Form 990, Part I, line 12)	5	232,642,459

Part XIII

Reconciliation of Expenses per Audited Financial Statements With Expenses per Return

1	Total expenses and losses per audited financial statements	1	198,492,533
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	198,492,533
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	243,804
c	Add lines 4a and 4b	4c	243,804
5	Total expenses Add lines 3 and 4c. (This should equal Form 990, Part I, line 18)	5	198,736,337

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
FORM 990, PART XI, LINE 8	OTHER CHANGES	INTEREST SWAP \$ 39,789 ----- \$ 39,789
FORM 990, PART XII, LINE 4B	INCOME ON FORM 990 NOT ON BOOKS	INTEREST SWAP \$ 39,789 GRANTS INCLUDED IN REVENUE ON AUDIT 243,804 ----- \$ 283,593
FORM 990, PART XIII, LINE 4B	EXPENSES INCLUDED IN FORM 990 NOT ON BOOKS	GRANTS INCLUDED IN REVENUE ON AUDIT \$ 243,804 ----- \$ 243,804
UNCERTAIN TAX POSITIONS	SCHEDULE D, PART XIV	MANAGEMENT HAS EVALUATED THEIR INCOME TAX POSITIONS UNDER THE GUIDANCE INCLUDED IN ASC 740 BASED ON THEIR REVIEW, MANAGEMENT HAS NOT IDENTIFIED ANY MATERIAL UNCERTAIN TAX POSITIONS TO BE RECORDED OR DISCLOSED IN THE FINANCIAL STATEMENTS

SCHEDULE H
(Form 990)

Department of the Treasury
Internal Revenue Service

Hospitals

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

OMB No 1545-0047

2010

Open to Public Inspection

Name of the organization
SHANNON MEDICAL CENTER

Employer identification number
75-2559845

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 <div><input type="checkbox"/> Applied uniformly to all hospitals</div> <div><input type="checkbox"/> Applied uniformly to most hospitals</div> <div><input type="checkbox"/> Generally tailored to individual hospitals</div>		
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 <div><input type="checkbox"/> 100% <input type="checkbox"/> 150% <input checked="" type="checkbox"/> 200% <input type="checkbox"/> Other _____%</div> 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 <div><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 _____%</div> 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?	Yes	
	Complete the following table using the worksheets provided in the Schedule H instructions Do not submit these worksheets with the Schedule H		

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)			14,203,824		14,203,824	8 160 %
b Unreimbursed Medicaid (from Worksheet 3, column a)			23,657,654	57,233,004	-33,575,350	0 %
c Unreimbursed costs—other means-tested government programs (from Worksheet 3, column b)			433,417	338,585	94,833	0 050 %
d Total Financial Assistance and Means-Tested Government Programs			38,294,895	57,571,589	-19,276,693	8 210 %
Other Benefits						
e Community health improvement services and community benefit operations (from Worksheet 4)			45,399		45,399	0 030 %
f Health professions education (from Worksheet 5)			348,628		348,628	0 200 %
g Subsidized health services (from Worksheet 6)						
h Research (from Worksheet 7)						
i Cash and in-kind contributions to community groups (from Worksheet 8)			410,860	0	410,860	0 240 %
j Total Other Benefits			804,887	0	804,887	0 470 %
k Total. Add lines 7d and 7j			39,099,782	57,571,589	-18,471,806	8 680 %

Part IICommunity Building Activities

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

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

Part IIIBad 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	Yes
2	Enter the amount of the organization's bad debt expense (at cost)	2	5,951,612
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	
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	74,569,120
6	Enter Medicare allowable costs of care relating to payments on line 5	6	46,977,697
7	Subtract line 6 from line 5. This is the surplus or (shortfall)	7	27,591,423
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 IVManagement Companies and Joint Ventures

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

Section A. Hospital Facilities

How many hospital facilities did the organization operate during the tax year? 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? 3

Name and address		Type of Facility (Describe)
1	SHANNON SURGERY CENTER 120 E HARRIS AVENUE SAN ANGELO, TX 76903	AMBULATORY SURGERY CENTER
2	SHANNON SURGERY CENTER 120 E HARRIS AVENUE SAN ANGELO, TX 76903	AMBULATORY SURGERY CENTER
3	SHANNON SURGERY CENTER 120 E HARRIS AVENUE SAN ANGELO, TX 76903	AMBULATORY SURGERY CENTER
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, 6l, 7, 11h, 13g, 15e, 16e, 17e, 18d, 19d, 20, and 21
- 2
- Needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any needs assessments reported in Part V, Section B
- 3
- Patient education of eligibility for assistance.** Describe how the organization informs and educates patients and persons who may be billed for patient care about their eligibility for assistance under federal, state, or local government programs or under the organization's financial assistance policy
- 4
- Community information.** Describe the community the organization serves, taking into account the geographic area and demographic constituents it serves
- 5
- Promotion of community health.** Provide any other information important to describing how the organization's hospital facilities or other health care facilities further its exempt purpose by promoting the health of the community (e g, open medical staff, community board, use of surplus funds, etc)
- 6
- Affiliated health care system.** If the organization is part of an affiliated health care system, describe the respective roles of the organization and its affiliates in promoting the health of the communities served
- 7
- State filing of community benefit report.** If applicable, identify all states with which the organization, or a related organization, files a community benefit report

Identifier	ReturnReference	Explanation
PART 1, LINE 3C		SHANNON MEDICAL CENTER USES FPG TO DETERMINE ELIGIBILITY FOR FREE AND DISCOUNTED CARE

Identifier	ReturnReference	Explanation
PART I, LINE 7G		NOT APPLICABLE

Identifier	ReturnReference	Explanation
PART I, LINE 7, COLUMN F		BAD DEBT EXPENSE WAS INCLUDED ON FORM 990, PART IX, LINE 25, COLUMN (A) BuT WAS SUBTRACTED FROM TOTAL EXPENSE FOR THE CALCULATION OF "PERCENT OF TOTAL EXPENSE" IN THIS COLUMN

Identifier	ReturnReference	Explanation
PART I, LINE 7		COSTS FOR LINE 7 WERE CALCULATED USING AN OVERALL COST TO CHARGE RATIO CALCULATED BY THE HOSPITAL'S COST ACCOUNTING SYSTEM

Identifier	ReturnReference	Explanation
PART III, LINE 4	FOOTNOTE DISCLOSURE REGARDING THE TREATMENT OF BAD DEBTS IS AS FOLLOWS	The System reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The System provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a service to the patient, the System bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account. AMOUNT REPORTED ON LINE 2 IS BASED ON BAD DEBTS PER THE AUDITED FINANCIAL STATEMENTS AFTER APPLYING THE COST TO CHARGE RATIO. THE ORGANIZATION IS UNABLE TO ESTIMATE THE AMOUNT FOR LINE 3 AND HAS ELECTED TO LEAVE IT BLANK.

Identifier	ReturnReference	Explanation
PART III, LINE 8		THE RATIO OF COST TO CHARGES USED IN THE CALCULATION OF COSTS FOR MEDICARE WAS TAKEN FROM THE MEDICARE COST REPORT

Identifier	ReturnReference	Explanation
PART III, LINE 9B		<p>CHARITY CARE AND DISCOUNTING FOR UNINSURED PATIENTS PATIENTS WHO ARE NOT ELIGIBLE FOR GOVERNMENT HEALTH CARE PROGRAMS AND WHOSE FINANCIAL CONDITION IS SUCH THAT THEY ARE NOT ABLE TO PAY FOR HOSPITAL SERVICES MAY BE ELIGIBLE FOR ASSISTANCE UNDER THE SHANNON MEDICAL CENTER CHARITY CARE PROGRAM PATIENTS WHO ARE UNINSURED, DO NOT QUALIFY FOR COVERAGE UNDER GOVERNMENT HEALTH CARE PROGRAMS, MAY BE ELIGIBLE FOR A 50% DISCOUNT OFF THE TOTAL BILL FOR HOSPITAL SERVICES, IF THE SERVICES ARE PAID FOR WHEN RECEIVED OR WITHIN 30 DAYS OF DISCHARGE COLLECTION OF ACCOUNTS RECEIVABLE PATIENTS / GUARANTOR WILL BE RESPONSIBLE FOR PAYMENT OF SERVICES RECEIVED AT SHANNON MEDICAL CENTER PATIENTS / GUARANTORS WILL BE RESPONSIBLE FOR FULL CHARGES, OR PATIENT PORTION NOT COVERED BY INSURANCE PAYMENT WILL BE REQUESTED PRIOR TO OR ON THE DATE OF SCHEDULED ELECTIVE SERVICES FULL CHARGES OR PATIENT PORTION NOT COVERED BY INSURANCE FOR URGENT / EMERGENT SERVICES WILL BE COLLECTED UPON DISCHARGE PATIENTS WHO ARE UNABLE TO PAY THE FULL AMOUNT OF THEIR RESPONSIBILITY AT THE TIME OF SERVICE CAN MAKE PAYMENT ARRANGEMENTS UNDER THE FOLLOWING GUIDELINES A BALANCE OF OUTPATIENT SERVICES MUST BE PAID WITHIN SIX (6) MONTHS FROM THE DATE OF SERVICE UNLESS INDIGENT STATUS IS PROVEN B BALANCE OF INPATIENT SERVICES MUST BE PAID WITHIN TWELVE (12) MONTHS FROM THE DATE OF DISCHARGE UNLESS INDIGENT STATUS IS PROVEN MONTHLY STATEMENTS WILL BE SENT THROUGHOUT THE COLLECTION CYCLE COLLECTION LETTERS WILL BE UTILIZED AT THE DISCRETION OF THE PATIENT ACCOUNT REPRESENTATIVE ACCOUNTS WILL BE REVIEWED FOR OUTSIDE COLLECTION AGENCY PLACEMENT ANYTIME FOLLOWING 90 DAYS FROM THE DATE OF SERVICE MEDICARE ACCOUNTS WILL NOT BE CONSIDERED FOR PLACEMENT UNTIL 120 DAYS FROM THE FIRST NOTICE OF PATIENT RESPONSIBILITY IN ACCORDANCE WITH MEDICARE REGULATIONS ANY OVERPAYMENT OF AN ACCOUNT WILL BE REVIEWED FOR REFUND WITHIN 30 DAYS FROM THE DATE THE CREDIT BALANCE IS CREATED BY THE OVERPAYMENT CREDIT BALANCES ON MEDICARE ACCOUNTS WILL BE PROCESSED THROUGH THE NORMAL CREDIT BALANCE PROCESS AND REPORTED ON A QUARTERLY BASIS IN COMPLIANCE WITH MEDICARE REGULATIONS</p>

Identifier	ReturnReference	Explanation
PART V		IN ADDITION TO ROUTINE HOSPITAL AND SURGERY CENTER OPERATIONS SHANNON MEDICAL CENTER OPERATES ONE DIAGNOSTIC CENTER, ONE WOMEN'S IMAGING CENTER, ONE SKILLED NURSING FACILITY, AND SIX REHABILITATION UNITS

Identifier	ReturnReference	Explanation
NEEDS ASSESSMENT		<p>A IN 2004, THE UNITED WAY OF THE CONCHO VALLEY CONDUCTED A COMPREHENSIVE NEEDS ASSESSMENT OF TOM GREEN COUNTY AND 13 OTHER SURROUNDING COUNTIES COUNTIES INCLUDED IN THE NEEDS ASSESSMENT ARE AS FOLLOWS COKE, CONCHO, CROCKETT, IRION, KIMBLE, MASON, MCCULLOCH, MENARD, REAGAN, RUNNELS, SCHLEICHER, STERLING, SUTTON, AND TOM GREEN SAN ANGELO AND TOM GREEN COUNTY SERVE AS THE HUB FOR THESE COUNTIES FOR TRADE AS WELL AS MEDICAL SERVICES THIRTEEN OF THE FOURTEEN COUNTIES ARE CONSIDERED RURAL OR "FRONTIER" BASED ON POPULATION AND PERSONS PER SQUARE MILE (SOURCE UW NEEDS ASSESSMENT 2004)</p> <p>THE RESULTS OF THE 2004 UNITED WAY NEEDS ASSESSMENT CONFIRM THAT SOCIAL AND HEALTH CONCERN ISSUES STATED IN THE SHANNON NEEDS ASSESSMENT 1994, CONTINUE TO RANK HIGH IN IMPORTANCE MANY YEARS LATER</p> <p>1 SOCIAL CONCERNS (TOM GREEN COUNTY - COMMUNITY CONCERNS) MORE THAN HALF THE RESPONDENTS IN THE UNITED WAY 2004 COMMUNITY NEEDS ASSESSMENT NAMED THE FOLLOWING CONCERNS AS MAJOR OR MODERATE ISSUES OF CONCERN</p> <p>A TEEN PREGNANCY 77% B FAMILY VIOLENCE, ABUSE OF CHILDREN OR ADULTS 71% C LACK OF AFFORDABLE CARE FOR CHILDREN 65% D LACK OF AFFORDABLE CARE FOR THE ELDERLY 59% E RACIAL OR ETHNIC DISCRIMINATION 56%</p> <p>2 HEALTH CONCERNS (TOM GREEN COUNTY COMMUNITY CONCERNS)</p> <p>A ALCOHOL/DRUG USE 82% B MENTAL ILLNESS OR EMOTIONAL ISSUES 56% C LACK OF AFFORDABLE MEDICAL CARE 79% D LACK OF ADEQUATE AFFORDABLE MEDICAL CARE 51% E HIV/AIDS 46%</p> <p>3 TOP FIVE MAJOR ISSUES OVERALL (TOM GREEN COUNTY - HOUSEHOLD CONCERNS)</p> <p>A NOT HAVING ENOUGH MONEY TO PAY THE DOCTOR, BUY PRESCRIPTIONS, MEDICATIONS OR GET MEDICAL INSURANCE 43% B FINDING IT DIFFICULT TO BUDGET 40% C HAVING A LOT OF ANXIETY, STRESS OR DEPRESSION 36% D NOT BEING ABLE TO FIND WORK 31% E CHILDREN OR TEENAGERS EXPERIENCING BEHAVIOR OR EMOTIONAL ISSUES 29%</p> <p>B IN 2010, THE POPULATION OF TOM GREEN COUNTY HAD A HIGHER PERCENTAGE OF ELDERLY - 65 YEARS OR OLDER - THAN THE STATE AVERAGE 13.8% AND 10.3% RESPECTIVELY</p> <p>IN ADDITION, THE MEDIAN HOUSEHOLD INCOME LEVEL \$41,398 AND \$49,646 RESPECTIVELY</p> <p>THE INCIDENCE OF A MORE ELDERLY POPULATION AND LOWER INCOME POPULATION IN TOM GREEN COUNTY AS COMPARED TO THE NATIONAL LEVEL HAS BECOME A STATISTICAL TREND OVER THE LAST SEVERAL YEARS</p> <p>POVERTY LEVELS AND THE AGE OF THE POPULATION HAVE CONTRIBUTED TO AN INCREASE OF 20% IN THE CHARITY CARE CONTRIBUTION MADE BY SHANNON IN THE PAST TWELVE MONTHS ALONE (SOURCE U.S. CENSUS BUREAU STATE & COUNTY QUICKFACTS, 2010)</p>

Identifier	ReturnReference	Explanation
PATIENT EDUCATION OF ELIGIBILITY FOR ASSISTANCE		FINANCIAL ASSISTANCE BROCHURES ARE AVAILABLE IN EACH OF THE REGISTRATION AREAS THAT OUTLINE ACCESS TO INFORMATION ABOUT ASSISTANCE PROGRAMS WE ALSO HAVE CONTRACTED ELIGIBILITY WORKERS WHO SCREEN PATIENTS FOR ALL SOCIAL SERVICE PROGRAMS AND ASSIST WITH THE APPLICATION PROCESS IF NEEDED

Identifier	ReturnReference	Explanation
COMMUNITY INFORMATION		<p>SHANNON, A NON-PROFIT HEALTH SYSTEM ESTABLISHED IN THE 1930'S, PROVIDES THE COMMUNITIES OF WEST CENTRAL TEXAS WITH A VARIETY OF MEDICAL SERVICES DEDICATED TO THE REGION'S HEALTH AND WELL-BEING, THE CENTER OFFERS DIVERSE CLINICAL SERVICES, INCLUDING A NATIONALLY-RECOGNIZED CARDIAC CARE PROGRAM, NATIONALLY-RECOGNIZED ICU, THE REGION'S ONLY LEVEL III TRAUMA FACILITY AND AIRMED 1 AIR AMBULANCE SERVING A 200-MILE RADIUS OF SAN ANGELO, A DEDICATED WOMEN'S & CHILDREN'S HOSPITAL WHICH IS HOME TO THE CHILDREN'S MIRACLE NETWORK, AND THE MOST EXTENSIVE SENIOR HEALTH SERVICES IN THE CONCHO VALLEY THE ESTIMATED POPULATION FOR ALL THE COUNTIES AS OF 2010, INCLUDING TOM GREEN COUNTY, IS 267,557 THE OUTER COUNTIES ARE BROWN, COKE, COLEMAN, CONCHO, CROCKETT, IRION, KIMBLE, MASON, MCCULLOCH, MENARD, MILLS, REAGAN, RUNNELS, SAN SABA, SCHLEICHER, STERLING, SUTTON, AND VAL VERDE (SOURCE U S CENSUS BUREAU, STATE, & COUNTY QUICKFACTS) OUR GOAL IS TO PROVIDE OUR PATIENTS WITH THE MOST COMPASSIONATE AND EFFICIENT SERVICE WHILE ENSURING THE HIGHEST QUALITY CARE TOM GREEN COUNTY'S POPULATION IN 2010 IS REPORTED AT 110,224 THE CITY OF SAN ANGELO SERVES AS THE COUNTY SEAT AND POPULATION CENTER OF TOM GREEN COUNTY, WITH AN ESTIMATED POPULATION IN 2010 OF 93,200 A BREAKDOWN OF TOM GREEN COUNTY DEMOGRAPHICS IS AS FOLLOWS (SOURCE U S CENSUS BUREAU, STATE & COUNTY QUICKFACTS, THE COUNTY INFORMATION PROJECT, TEXAS ASSOCIATION OF COUNTIES) A TOM GREEN COUNTY AGE DISTRIBUTION 1 UNDER 18 YEARS OLD - 24 1% (26,564) 2 18-64 YEARS OLD - 62 1% (68,449) 3 65 YEARS AND OLDER - 13 8% (15,211) B TOM GREEN COUNTY ETHNIC DISTRIBUTION (MORE THAN ONE CATEGORY MAY BE SELF-REPORTED) 1 CAUCASIAN - 57 9% (63,820) 2 HISPANIC - 35 7% (39,350) 3 BLACK - 4% (4,409) 4 OTHER - 2 4% (2,645) C TOM GREEN COUNTY (HOUSEHOLD) 1 MEDIAN HOUSEHOLD INCOME - \$41,398 (TEXAS \$49,646) 2 PERSONS LIVING BELOW POVERTY LEVEL - 16 8% (TEXAS 16 8%) D TOM GREEN COUNTY HEALTH INDEX 1 TOM GREEN COUNTY UNINSURED - 25 7% (TEXAS 26 3%, UNITED STATES 16 3%) (SOURCE U S CENSUS BUREAU, SMALL AREA HEALTH INSURANCE ESTIMATES, 2009, U S CENSUS BUREAU, INCOME, POVERTY, AND HEALTH COVERAGE IN THE UNITED STATES 2009)</p>

Identifier	ReturnReference	Explanation
PROMOTION OF COMMUNITY HEALTH		<p>A TRAUMA PREVENTION SHANNON MEDICAL CENTER'S TRAUMA SERVICE DEPARTMENT COORDINATES THE ANNUAL GUS ECKHARDT TRAUMA SYMPOSIUM THIS IS A FULL DAY OF TRAUMA RELATED EDUCATION FOR ALL HEALTH CARE PRACTITIONERS IN THE REGION APPROXIMATELY 150 PHYSICIANS, NURSES, EMTS, STUDENTS, AND ALLIED HEALTH PROFESSIONALS ATTENDED THE 2011 SYMPOSIUM INJURY PREVENTION MATERIAL COVERING TOPICS SUCH AS BICYCLE SAFETY, CHILD PASSENGER SAFETY, FALL PREVENTION, AND HOME SAFETY TIPS ARE CONTINUALLY PROVIDED BY HEALTH CARE PROFESSIONALS TO TAKE AND DISTRIBUTE AT THEIR PRACTICE AND THEIR COMMUNITY THE COST TO PUT ON THE SYMPOSIUM IS \$8,989 IN 2011, THE TRAUMA SERVICES DEPARTMENT CONDUCTED A BICYCLE RODEO AT SUNSET MALL OVER 500 HELMETS WERE PURCHASED WITH GRANT FUNDS CHILDREN WERE GIVEN AN APPROPRIATELY SIZED HELMET AND TAUGHT HOW TO CORRECTLY WEAR IT AFTER RECEIVING A HELMET, THE KIDS NAVIGATED AN OBSTACLE COURSE THAT TAUGHT SAFE CYCLING SKILLS THE DEPARTMENT CONTINUES TO EDUCATE ON PREVENTING CHILD DEATHS DUE TO BEING LEFT IN HOT VEHICLES "BEAT THE HEAT AND CHECK THE BACKSEAT" IS A PROGRAM DEVELOPED IN-HOUSE AT SHANNON THAT PROVIDES INFORMATION ON THE DANGERS OF CHILDREN BEING LEFT IN VEHICLES A SIMPLE PREVENTION TOOL WITH INSTRUCTIONS ON USE HAS BEEN PURCHASED AND DISTRIBUTED TO MULTIPLE VENUES THROUGHOUT THE CONCHO VALLEY B COMMUNITY HEALTH EDUCATION SHANNON PHYSICIANS AND MEDICAL STAFF PROVIDED EDUCATION TO THE COMMUNITY ON A VARIETY OF TOPICS THROUGH THEIR HEALTH BEAT TV SEGMENTS, NEWSLETTER AND HEALTH BEAT LIVE EVENTS TOPICS INCLUDED PREVENTION FOR WOMEN'S HEALTH, CANCER TREATMENT AND PREVENTION, HEART AND CARDIOVASCULAR TESTING, AND MEDICATION SAFETY IN 2010-2011, THEY HELD 43 SESSIONS WITH A TOTAL OF 1,387 ATTENDEES SHANNON CONTRIBUTED \$45,377 AS COMMUNITY BENEFIT FOR THESE PROGRAMS C HARPER HEALTH INFORMATION CENTER (HHIC) SHANNON MEDICAL CENTER COMMITTED TO MAINTAIN RESOURCES FOR ITS HEALTH INFORMATION CENTER FOR CANCER AND CARDIOVASCULAR DISEASE PATIENTS, THEIR FAMILIES, AND THE COMMUNITY DURING THIS PAST YEAR, 662 PEOPLE VISITED THE CENTER TO OBTAIN HEALTH-RELATED INFORMATION AND RESOURCES INFORMATION IN THE CENTER HAS EXPANDED TO INCLUDE PREVAILING HEALTH CONCERNS SUCH AS DIABETES, ASTHMA, SMOKING CESSATION, AND DIET AND EXERCISE HHIC IS ALSO THE MEETING PLACE FOR SOME SHANNON DEPARTMENTS, REHAB CLASSES, AND SUPPORT GROUPS</p>

Identifier	ReturnReference	Explanation
AFFILIATED HEALTH CARE SYSTEM		<p>A DONATIONS TO ORGANIZATIONS 1 PERSONNEL SHANNON ASSOCIATES PROVIDE 2,118 HOURS OF LEADERSHIP ON VOLUNTEER BOARDS AND IN VOLUNTEER ACTIVITIES WITH A PERSONNEL VALUE OF \$128,622 FOR ORGANIZATIONS SUCH AS AGING ADVOCATES GROUP, AMERICAN CANCER SOCIETY, AMERICAN HEART ASSOCIATION, BENEVOLENCE COOK-OFF, ASU FIT, BIG BROTHER - BIG SISTER, WEST TEXAS BOYS RANCH, CANCER WARRIORS/SURVIVOR SISTERS, CHILDREN'S ADVOCACY CENTER OF SAN ANGELO, CATWALK FOR A CURE, TEE-OFF FOR TATAS, CENTRAL CULINARY HS PROGRAM, CHAMBER OF COMMERCE, CHILDREN'S MIRACLE NETWORK, CHRISTIANS IN ACTION, CLAYBIRD SHOOT, CONCHO VALLEY WATERSHED ASSOCIATION, CRISIS INTERVENTION/DOMESTIC VIOLENCE GROUP, DIABETES SUPPORT GROUP, DIABETES UPDATE, DME DONORSHIP DRIVE, FAMILY CRISIS SHELTER, FLU SHOT CLINICS, CONCHO VALLEY FOODBANK, FORT CONCHO, CAREGIVER RESEARCH INSTITUTE, GOODFELLOW AIRFORCE BASE, HOWARD COLLEGE, KIDNEY SUPPORT GROUP, KIDS' MARATHON, KIMBLE COUNTY FAIR, LIONS CLUB, MEALS FOR THE ELDERLY, MOSAIC TRAILS THERAPEUTIC RIDING, ANGELO STATE PHYSICAL THERAPY PROGRAM, PINK RIBBON RUN, RELAY FOR LIFE, RIO CONCHO MANOR STROKE PROGRAM, STOCK SHOW AND RODEO, ROTARY CLUB, SADIE'S RESCUE, SAFE KIDS COALTION CARSEAT CHECK, SALVATION ARMY, SAN ANGELO BROADWAY ACADEMY, SAN ANGELO CLAYBIRD ASSOCIATION SAFETY COMMITTEE, SAN ANGELO STATE SCHOOL, TAYLOR COUNTY MENTAL HEALTH TASK FORCE, TEXAS MEDICAL BOARD, TEXAS CHEFS' CHAPTER, TEXAS PRENATAL ASSOCIATION REGIONAL CONFERENCE, TEXAS REALTORS ASSOCIATION, TEXAS STATE BAR HEALTH LAW COUNCIL, TOM GREEN COUNTY ACUTE MENTAL HEALTH PROVIDERS, TOM GREEN COUNTY AREA AGENCY ON AGING, TPAPN, 4-H, TEXAS PEER ASSISTANCE PROGRAM FOR NURSES, UNITED BLOOD SERVICES, UNITES WAY OF THE CONCHO VALLEY, VISION CAMP, YMCA AND NUMEROUS OTHER ACTIVITIES 2 USE OF FACILITIES SHANNON MEDICAL CENTER PROVIDED SPACE FOR 160 MEETINGS FOR 49 OUTSIDE COMMUNITY GROUPS/ORGANIZATIONS IN THE 2010 -2011 FISCAL YEAR 3 FOOD AND NUTRITION SERVICES 2010 SHANNON MEDICAL CENTER PROVIDED FOOD AND REFRESHMENTS FOR MANY COMMUNITY ORGANIZATIONS FOR EXAMPLE, \$2,091 IN FOOD WAS DONATED TO CENTRAL HIGH SCHOOL (DEBATE TEAM & BAND), SONRISAS, UNITED WAY AGENCY FAIR, THE CIVIC BALLET & THE SAN ANGELO SYMPHONY, PROJECT GRADUATION, SA STATE PARK & GRAPE CREEK DARE GRADUATION 4 COMMUNITY BUILDING SHANNON MEDICAL CENTER CONTRIBUTED \$243,804 TO THE SAN ANGELO YMCA FOR THE CONSTRUCTION OF ITS NEW CARDIO WING 5 CASH AND GIFTS a SHANNON DONATED A TOTAL OF \$36,343 IN SPONSORSHIPS TO THE COMMUNITY FOR NUMEROUS PROGRAMS INCLUDING i ALL VETERANS' COUNCIL - \$100 ii AMERICAN CANCER SOCIETY RELAY FOR LIFE - \$2,000 iii ANGELO STATE ATHLETIC FOUNDATION - \$500 iv AMERICAN HEART ASSOCIATION GO RED - \$17,305 v AMERICAN HEART ASSOCIATION HEART WALK - \$1,000 vi AREA AGENCY ON AGING - \$425 vii CATWALK FOR A CURE/TEE OFF FOR TA-TA'S - \$5,000 viii CONCHO VALLEY AREA AGENCY ON AGING CAREGIVER SEMINAR - \$750 ix CROCKETT COUNTY DEERFEST ASSOCIATION - \$500 x D E S K - \$100 xi DADDY/DAUGHTER, MOTHER/SON DATE NIGHT - \$400 xii DIABETES ALERT DAY - \$13 xiii GIRL SCOUTS - \$500 xiv HEALTHY FAMILIES - \$1,500 xv JUNIOR LEAGUE OF SA, PROGRAM TO FEED HUNGRY CHILDREN - \$500 xvi ROAD LIZARDS - \$800 xvii SAN ANGELO CHAMBER OF COMMERCE GAFB APPRECIATION DAY - \$1,000 xviii SAN ANGELO INDEPENDENT SCHOOL DISTRICT RELAYS - \$3,000 xix SAN ANGELO SCHOOLS FOUNDATION - \$500 xx UNITED WAY OF THE CONCHO VALLEY - \$100 xxi VOLUNTEER SERVICE COUNCIL STATE SUPPORTED LIVING CENTER - \$350</p>

Identifier	ReturnReference	Explanation
STATE FILING OF COMMUNITY BENEFIT REPORT		TEXAS

Schedule I
(Form 990)

Department of the Treasury
Internal Revenue Service

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

Name of the organization
SHANNON MEDICAL CENTER

Employer identification number
75-2559845

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) SAN ANGELO YMCA 353 S RANDOLPH SAN ANGELO,TX 76903	75-0800698	501 (3) (C)	243,804				CONSTRUCTION OF NEW CARDIO WING

2

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

1

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

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
PROCEDURES FOR MONITORING USE OF GRANT FUNDS	SCHEDULE I, PART I, QUESTION 2	THE ORGANIZATION EVALUATES AND MONITORS DONEES BASED ON PUBLIC AND PRIVATY DATA

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 SHANNON MEDICAL CENTER	Employer identification number 75-2559845
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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 type="checkbox"/> Compensation committee		
<input checked="" type="checkbox"/> Independent compensation consultant		
<input 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) BRYAN HORNER	(i)	446,787	70,859	5,122	30,380	39,190	592,338	0
	(ii)	0	0	0	0	0	0	0
(2) LEN MERTZ	(i)	33,992	0	0	0	0	33,992	0
	(ii)	109,650	0	0	0	6,588	116,238	0
(3) EMMETE FLYNN MD	(i)	20,000	0	0	0	0	20,000	0
	(ii)	521,150	0	0	72,783	16,955	610,888	0
(4) MICHELLE SNUGGS MD	(i)	20,350	0	0	0	0	20,350	0
	(ii)	574,831	0	0	92,043	19,572	686,446	0
(5) KELLY SHANE PLYMELL	(i)	227,965	34,447	0	30,380	12,099	304,891	0
	(ii)	0	0	0	0	0	0	0
(6) DR IRVIN ZEITLER	(i)	328,755	50,844	46,133	55,205	12,495	493,432	0
	(ii)	1,763	0	0	0	0	1,763	0
(7) WILMA STUART	(i)	207,342	32,485	0	29,340	8,613	277,780	0
	(ii)	0	0	0	0	0	0	0
(8) PATRICIA TIPTON	(i)	276,497	0	0	30,380	3,881	310,758	0
	(ii)	0	0	0	0	0	0	0
(9) MARVIN HILL	(i)	271,261	0	0	30,380	4,996	306,637	0
	(ii)	0	0	0	0	0	0	0
(10) LANCE KEILERS	(i)	144,237	6,335	0	14,447	7,930	172,949	0
	(ii)	0	0	0	0	0	0	0
(11) TIMOTHY HARTIN	(i)	199,573	32,473	7,958	45,305	7,339	292,648	0
	(ii)	0	0	0	0	0	0	0
(12) Pauline James	(i)	156,356	0	0	16,842	4,989	178,187	0
	(ii)	0	0	0	0	0	0	0
(13)								
(14)								
(15)								
(16)								

Part IIISupplemental Information

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

Identifier	Return Reference	Explanation
NAMES, AMOUNTS, AND DETAILS OF ARRANGEMENTS	PART 1, QUESTION 4	SERP DETAIL NAME AMOUNT BRYAN HORNER NONE 457(F) DETAIL NAME AMOUNT BRYAN HORNER 5,122 TIMOTHY HARTIN 7,958 DR. IRVIN ZEITLER 46,133
PROVIDED HEALTH, SOCIAL DUES OR INITIATION FEES	SCHEDULE J, PART I, QUESTION 1A	BRYAN HORNER & KELLY SHANE PLYMELL RECEIVE MEMBERSHIP TO BENTWOOD COUNTRY CLUB EXCLUSIVELY FOR BUSINESS USE. ANY PERSONAL USE IS REIMBURSED BY THE OFFICER AND THEREFORE NO AMOUNTS ARE REPORTABLE ON THEIR FORM W-2'S.

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
SHANNON MEDICAL CENTER

Employer identification number
75-2559845

Part I

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

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

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

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

Part II

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

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

Part III

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

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

Part IV Business Transactions Involving Interested Persons.

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

(a) Name of interested person	(b) Relationship between interested person and the organization	(c) Amount of transaction	(d) Description of transaction	(e) Sharing of organization's revenues?	
				Yes	No
(1) DIANE ZEITLER	IRVIN ZEITLER'S SPOUSE	125,916	EMPLOYED BY SMC		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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<div>SCHEDULE O</div> <div>(Form 990 or 990-EZ)</div> <div>Department of the Treasury</div> <div>Internal Revenue Service</div>	<div>Supplemental Information to Form 990 or 990-EZ</div> <div>Complete to provide information for responses to specific questions on Form 990 or to provide any additional information.</div> <div>▶ Attach to Form 990 or 990-EZ.</div>	OMB No 1545-0047
		2010
	<div>Name of the organization</div> <div>SHANNON MEDICAL CENTER</div>	<div>Employer identification number</div> <div>75-2559845</div>

Identifier	Return Reference	Explanation
PROCESS FOR MONITORING COMPLIANCE WITH CONFLICT OF INTEREST POLICY	FORM 990, PART VI, QUESTION 12C	WE REGULARLY AUDIT FOR CONFLICT OF INTEREST STATEMENTS IN THE EMPLOYEES RECORDS PROCEDURE FOR MONITORING 1 WITHIN 90 DAYS OF BECOMING AN AFFECTED INDIVIDUAL, THAT INDIVIDUAL MUST REVIEW THIS POLICY AND COMPLETE AN SMC CONFLICT OF INTEREST DISCLOSURE FORM 2 AT LEAST ANNUALLY THEREAFTER, AFFECTED INDIVIDUALS MUST REVIEW THIS POLICY AND COMPLETE A CONFLICT OF INTEREST DISCLOSURE FORM 3 THE CONFLICT OF INTEREST DISCLOSURE FORM SHOULD BE SENT TO THE SMC COMPLIANCE OFFICER 4 AT ANY TIME WHEN AN ACTUAL, POTENTIAL, OR PERCEIVED CONFLICT OF INTEREST ARISES, THE AFFECTED INDIVIDUAL MUST REVISE HIS OR HER CONFLICT OF INTEREST DISCLOSURE FORM AND CONTACT THE SMC COMPLIANCE OFFICER THE RESPONSIBILITY TO PROMPTLY REPORT SUCH ACTUAL OR POTENTIAL CONFLICTS RESTS WITH THE AFFECTED INDIVIDUAL 5 THE SMC COMPLIANCE OFFICER WILL REVIEW DISCLOSURES AND DETERMINE WHICH REQUIRE FURTHER ACTION WITH THE SMC GENERAL COUNSEL AND APPROPRIATE SMC EXECUTIVE STAFF

Identifier	Return Reference	Explanation
REVIEW OF COMPENSATION	FORM 990, PART VI, QUESTION 15A & 15B	INTEGRATED HEALTH STRATEGIES DID AN EXECUTIVE COMPENSATION STUDY IN JUNE 2010 AND IT COVERED ALL EXECUTIVE SALARIES. EXECUTIVE COMPENSATION IS REVIEWED ANNUALLY BY THE BOARD OF TRUSTEES' OPERATIONS COMMITTEE, WHICH CONSULTS COMPARABILITY DATA AND KEEPS CONTEMPORANEOUS RECORDS OF ITS DECISIONS.

Identifier	Return Reference	Explanation
GOVERNING DOCUMENTS AVAILABLE TO THE PUBLIC	FORM 990, PART VI, QUESTION 19	THE ORGANIZATIONS GOVERNING DOCUMENTS, CONFLICT OF INTEREST POLICY, AND FINANCIAL STATEMENTS ARE AVAILABLE TO THE PUBLIC UPON REQUEST

Identifier	Return Reference	Explanation
ORGANIZATIONS MISSION CONTINUED	FORM 990 PART I QUESTION 1 & PART III QUESTION 1	WE WILL FOSTER GROWTH TOWARD THE HIGHEST QUALITY OF CARE AND CUSTOMER SERVICE AND WILL STRIVE FOR EFFICIENT FINANCIAL PERFORMANCE. WE WILL HIRE AND DEVELOP THE BEST PEOPLE TO ACCOMPLISH THE TASKS

Identifier	Return Reference	Explanation
SOLE MEMBER	FORM 990 PART VI, QUESTION 6	MARGARET SHANNON ESTATE, A TESTAMENTARY TRUST, IS THE SOLE MEMBER OF THE ORGANIZATION

Identifier	Return Reference	Explanation
BOARD OF DIRECTORS ELECTION ABILITIES	FORM 990 PART VI, QUESTION 7A	THE BOARD OF DIRECTORS SHALL CONSIST OF EACH OF THE SEVEN TRUSTEES OF THE MARGARET SHANNON ESTATE, A TESTAMENTARY TRUST THE OTHER DIRECTORS SHALL CONSIST OF REPRESENTATIVES OF THE COMMUNITY AND MEMBERS OF THE MEDICAL STAFF OF THE HOSPITAL, TO NUMBER IN AGGREGATE NOT MORE THAN SEVEN WHO ARE APPOINTED BY THE MEMBER AND THE CHIEF EXECUTIVE OFFICER OF THE CORPORATION

Identifier	Return Reference	Explanation
REVIEW OF FORM 990	FORM 990 PART VI QUESTION 11A	THE ORGANIZATION ENGAGES AN OUTSIDE ACCOUNTING FIRM TO PREPARE FORM 990. ONCE PREPARED, THE FORM IS REVIEWED BY THE ORGANIZATION'S INTERNAL ACCOUNTANTS PRIOR TO FILING. THE ORGANIZATION'S FINANCE COMMITTEE WILL REVIEW AFTER THE FORM IS FILED.

Identifier	Return Reference	Explanation
DECISIONS OF THE GOVERNING BODY SUBJECT TO APPROVAL	FORM 990, PART VI, QUESTION 7B	APPROVAL OF THE SOLE MEMBER, THE TRUSTEES OF SHANNON WEST TEXAS MEMORIAL HOSPITAL, IS REQUIRED FOR BUDGETS, LARGE FINANCIAL EXPENDITURES THAT DEVIATE FROM BUDGET, SALE OF PROPERTY , MERGER, ACQUISITION, OR CONSOLIDATION, BORROWING OF MONEY , SEEKING OR GIVING GRANTS, SETTLEMENT OF CLAIMS OR LITIGATION, A MENDMENT OF BY LAWS, AND CONTRACT IN WHICH THE CORPORATION ASSUMES FINANCIAL RISK

Identifier	Return Reference	Explanation
OTHER CHANGES IN NET ASSETS OR FUND BALANCES	FORM 990, PART XI, LINE 5	Contributions Recorded to Fund Balance \$ 128,329 Change in Additional Minimum Pension Liability (2,452,583) Transfers to/from Affiliates (48,605,313) Net Assets released from restriction 6,559,640 Change in Shannon Trust Net Assets 33,344,417 Gain/Loss on Interest Rate Swap Agreement (39,789) Unrealized Gain/Loss (1,418,503) Other 152 ----- (12,483,650)

Identifier	Return Reference	Explanation
HOURS DEVOTED FOR RELATED ORGANIZATION	FORM 990 PART VII	NAME BRYAN HORNER TITLE CEO/PRESIDENT HOURS 12

Identifier	Return Reference	Explanation
HOURS DEVOTED FOR RELATED ORGANIZATION	FORM 990 PART VII	NAME LEN MERTZ TITLE CHAIRMAN HOURS 22

Identifier	Return Reference	Explanation
HOURS DEVOTED FOR RELATED ORGANIZATION	FORM 990 PART VII	NAME JAMES JOHNSON TITLE SECRETARY/TREASURER HOURS 14

Identifier	Return Reference	Explanation
HOURS DEVOTED FOR RELATED ORGANIZATION	FORM 990 PART VII	NAME JOE HENDERSON TITLE INDIVIDUAL TRUSTEE HOURS 14

Identifier	Return Reference	Explanation
HOURS DEVOTED FOR RELATED ORGANIZATION	FORM 990 PART VII	NAME ORAN BERRY III TITLE INDIVIDUAL TRUSTEE HOURS 14

Identifier	Return Reference	Explanation
HOURS DEVOTED FOR RELATED ORGANIZATION	FORM 990 PART VII	NAME VIRGINIA NOELKE TITLE DIRECTOR HOURS 6

Identifier	Return Reference	Explanation
HOURS DEVOTED FOR RELATED ORGANIZATION	FORM 990 PART VII	NAME MIKE BOYD TITLE INDIVIDUAL TRUSTEE HOURS 14

Identifier	Return Reference	Explanation
HOURS DEVOTED FOR RELATED ORGANIZATION	FORM 990 PART VII	NAME MIKE OLIPHANT TITLE INDIVIDUAL TRUSTEE HOURS 14

Identifier	Return Reference	Explanation
HOURS DEVOTED FOR RELATED ORGANIZATION	FORM 990 PART VII	NAME STEVE CECIL TITLE INDIVIDUAL TRUSTEE HOURS 14

Identifier	Return Reference	Explanation
HOURS DEVOTED FOR RELATED ORGANIZATION	FORM 990 PART VII	NAME JOANNA RICE TITLE DIRECTOR HOURS 6

Identifier	Return Reference	Explanation
HOURS DEVOTED FOR RELATED ORGANIZATION	FORM 990 PART VII	NAME JIM BOB BRAME MD TITLE DIRECTOR HOURS 6

Identifier	Return Reference	Explanation
HOURS DEVOTED FOR RELATED ORGANIZATION	FORM 990 PART VII	NAME PAMELA TALLEY TITLE DIRECTOR HOURS 6

Identifier	Return Reference	Explanation
HOURS DEVOTED FOR RELATED ORGANIZATION	FORM 990 PART VII	NAME EMMETE FLYNN MD TITLE DIRECTOR HOURS 40

Identifier	Return Reference	Explanation
HOURS DEVOTED FOR RELATED ORGANIZATION	FORM 990 PART VII	NAME MICHELLE SNUGGS MD TITLE DIRECTOR HOURS 40

Identifier	Return Reference	Explanation
HOURS DEVOTED FOR RELATED ORGANIZATION	FORM 990 PART VII	NAME KELLY SHANE PLYMELL TITLE CFO HOURS 7

Identifier	Return Reference	Explanation
HOURS DEVOTED FOR RELATED ORGANIZATION	FORM 990 PART VII	NAME DR IRVIN ZEITLER TITLE MEDICAL DIRECTOR HOURS 5

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

Department of the Treasury Internal Revenue Service	
Name of the organization SHANNON MEDICAL CENTER	Employer identification number 75-2559845

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) TRUSTEES SHANNON WEST TEXAS HOSPITAL PO BOX 49 SAN ANGELO, TX 76902 75-0800679	TRUST	TX	501(C)(3)	11B	NA		
(2) SHANNON RURAL HEALTH CLINICS INC 120 E HARRIS AVE SAN ANGELO, TX 76903 75-2940211	HEALTHCARE	TX	501(C)(3)	11C	SMC		
(3) SHANNON REAL ESTATE SERVICES INC 120 E HARRIS AVE SAN ANGELO, TX 76903 27-0075630	SUPPORT SVCS	TX	501(C)(3)	11B	SMC		
(4) SHANNON HEALTH SYSTEM 120 E HARRIS AVE SAN ANGELO, TX 76903 75-2602411	SUPPORT SVCS	TX	501(C)(3)	11A	NA		
(5) SHANNON CLINIC 120 E HARRIS AVE SAN ANGELO, TX 76903 75-2600873	HEALTHCARE	TX	501(C)(3)	9	SMC		
(6) SHANNON BUSINESS SERVICES INC 120 E HARRIS AVE SAN ANGELO, TX 76903 43-2038769	SUPPORT SVCS	TX	501(C)(3)	11B	SMC		
(7) SHANNON MEDICAL MANAGEMENT 120 E HARRIS AVE SAN ANGELO, TX 76903 20-8367966	SUPPORT SVCS	TX	501(C)(3)	9	SHS		

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) REGIONAL CANCER TREATMENT CENTER 102 N MAGDALEN STE 120 SAN ANGELO, TX76903 75-2225955	RADIOTHERAPY	TX	NA	RELATED	144,752	2,410,497		No	0	Yes		37 970 %

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) LEGACY HEALTH PLAN INC 2018 PULLIAM ST SAN ANGELO, TX76903 75-2838410	HEALTH PLAN	TX	NA	C	0	0	0 %
(2) LEGACY MANAGEMENT SERVICES 2018 PULLIAM ST SAN ANGELO, TX76903 75-2544450	MANAGEMENT	TX	NA	C	0	0	0 %
(3) LEGACY HEALTH SOLUTIONS 2018 PULLIAM ST SAN ANGELO, TX76903 20-0720762	MED INSURANCE	TX	NA	C	0	0	0 %

Part V

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

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

1

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

a

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

b

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

c

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

d

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

e

Loans or loan guarantees by other organization(s)

f

Sale of assets to other organization(s)

g

Purchase of assets from other organization(s)

h

Exchange of assets

i

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

j

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

k

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

l

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

m

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

n

Sharing of paid employees

o

Reimbursement paid to other organization for expenses

p

Reimbursement paid by other organization for expenses

q

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

r

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

Yes

No

1a

Yes

1b

No

1c

Yes

1d

No

1e

No

1f

No

1g

No

1h

Yes

1i

Yes

1j

Yes

1k

Yes

1l

No

1m

Yes

1n

Yes

1o

Yes

1p

Yes

1q

Yes

1r

Yes

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
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Software ID:
Software Version:
EIN: 75-2559845
Name: SHANNON MEDICAL CENTER

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

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Exempt Code section	(e) Public charity status (if section 501(c) (3))	(f) Direct controlling entity	(g) Section 512 (b)(13) controlled organization	
						Yes	No
TRUSTEES SHANNON WEST TEXAS HOSPITAL PO BOX 49 SAN ANGELO, TX76902 75-0800679	TRUST	TX	501(C)(3)	11B	NA		
SHANNON RURAL HEALTH CLINICS INC 120 E HARRIS AVE SAN ANGELO, TX76903 75-2940211	HEALTHCARE	TX	501(C)(3)	11C	SMC		
SHANNON REAL ESTATE SERVICES INC 120 E HARRIS AVE SAN ANGELO, TX76903 27-0075630	SUPPORT SVCS	TX	501(C)(3)	11B	SMC		
SHANNON HEALTH SYSTEM 120 E HARRIS AVE SAN ANGELO, TX76903 75-2602411	SUPPORT SVCS	TX	501(C)(3)	11A	NA		
SHANNON CLINIC 120 E HARRIS AVE SAN ANGELO, TX76903 75-2600873	HEALTHCARE	TX	501(C)(3)	9	SMC		
SHANNON BUSINESS SERVICES INC 120 E HARRIS AVE SAN ANGELO, TX76903 43-2038769	SUPPORT SVCS	TX	501(C)(3)	11B	SMC		
SHANNON MEDICAL MANAGEMENT 120 E HARRIS AVE SAN ANGELO, TX76903 20-8367966	SUPPORT SVCS	TX	501(C)(3)	9	SHS		

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)	SHANNON CLINIC	O	2,938,133	
(2)	SHANNON BUSINESS SERVICES	P	10,340,255	
(3)	SHANNON REAL ESTATE SERVICES	R	505,192	
(4)	SHANNON CLINIC	K	684,214	
(5)	SHANNON REAL ESTATE SERVICES	J	266,605	
(6)	SHANNON BUSINESS SERVICES	C	128,329	
(7)	SHANNON MEDICAL MENAGEMENT	Q	20,393,345	
(8)	SHANNON CLINIC	I	80,348	
(9)	SHANNON BUSINESS SERVICES	I	63,719	
(10)	SHANNON BUSINESS SERVICES	R	8,596,008	
(11)	SHANNON CLINIC	P	1,851,526	
(12)	SHANNON MEDICAL MANAGEMENT	P	5,450,787	
(13)	SHANNON REAL ESTATE SERVICES	Q	2,585,970	
(14)	SHANNON REAL ESTATE SERVICES	P	6,461,618	

Shannon Health System

Accountants' Reports and Combined Financial Statements

September 30, 2011 and 2010



Shannon Health System

September 30, 2011 and 2010

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Independent Accountants' Report

Board of Trustees
Shannon Health System
San Angelo, Texas

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

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

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Shannon Health System as of September 30, 2011 and 2010, and the results of its operations, the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the System's basic combined financial statements taken as a whole. The accompanying supplementary combining information is presented for purposes of additional analysis of the basic combined financial statements rather than to present the financial position, results of operations, changes in net assets and cash flows of the individual entities, and is not a required part of the basic combined financial statements. The combining information has been subjected to the procedures applied in the audits of the basic combined financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic combined financial statements taken as a whole.

BKD, LLP

February 3, 2012

Shannon Health System

Combined Balance Sheets

September 30, 2011 and 2010

Assets

	2011	2010
Current Assets		
Cash and cash equivalents	\$ 1,564,316	\$ 15,738,827
Short-term investments	15,734,835	7,782,259
Assets limited as to use, current	2,517,374	2,889,009
Patient accounts receivable, net of allowance, 2011 – \$17,936,000, 2010 – \$18,268,000	33,226,274	30,382,776
Prepaid expenses and other	9,033,845	7,773,409
	<hr/>	<hr/>
Total current assets	62,076,644	64,566,280
	<hr/>	<hr/>
Assets Whose Use is Limited or Restricted		
Restricted gift funds	2,225,189	1,810,770
Held by trustee, bond indenture agreement	-	3,538,552
Held by trustee, deferred compensation	8,922,321	7,489,938
Held by trustee, malpractice funding arrangement	7,228,443	7,814,718
	<hr/>	<hr/>
	18,375,953	20,653,978
	<hr/>	<hr/>
Less amount required to meet current obligations	2,517,374	2,889,009
	<hr/>	<hr/>
	15,858,579	17,764,969
	<hr/>	<hr/>
Investments	38,809,807	38,673,257
	<hr/>	<hr/>
Property and Equipment, At Cost		
Land and land improvements	9,684,664	8,926,794
Buildings and leasehold improvements	105,694,940	100,354,222
Equipment	136,762,119	121,535,456
Construction in progress	167,357	4,647,980
	<hr/>	<hr/>
	252,309,080	235,464,452
	<hr/>	<hr/>
Less accumulated depreciation	162,204,248	150,439,925
	<hr/>	<hr/>
	90,104,832	85,024,527
	<hr/>	<hr/>
Other Assets		
Interest in net assets of Shannon West Texas Memorial Hospital (Shannon Trust)	112,059,035	78,714,618
Other noncurrent assets	3,413,378	3,140,315
	<hr/>	<hr/>
	115,472,413	81,854,933
	<hr/>	<hr/>
Total assets	<u>\$ 322,322,275</u>	<u>\$ 287,883,966</u>

See Notes to Combined Financial Statements

Liabilities and Net Assets

	2011	2010
Current Liabilities		
Current maturities of long-term debt	\$ 121.713	\$ 1.731.633
Accounts payable	14.124.069	10.691.661
Accrued expenses and other liabilities	21.685.670	22.066.979
Estimated amounts due to third party-payers	4.838.382	1.884.222
Current portion of estimated malpractice costs	292.185	554.758
Total current liabilities	41.062.019	36.929.253
Estimated Malpractice Costs	4.082.926	4.155.592
Long-term Debt	361.708	17.647.446
Other Liabilities		
Accrued pension liability	15.642.855	13.867.853
Interest rate swap agreement	-	509.095
Other noncurrent liabilities	11.213.331	7.749.406
Total liabilities	72.362.839	80.858.645
Net Assets		
Unrestricted	135.675.212	126.499.933
Temporarily restricted	114.284.224	80.525.388
Total net assets	249.959.436	207.025.321
Total liabilities and net assets	\$ 322.322.275	\$ 287.883.966

Shannon Health System
Combined Statements of Operations
Years Ended September 30, 2011 and 2010

	2011	2010
Unrestricted Revenues, Gains and Other Support		
Net patient service revenue	\$ 329,885,357	\$ 311,383,094
Other	5,187,217	6,453,935
Total unrestricted revenues, gains and other support	<u>335,072,574</u>	<u>317,837,029</u>
Expenses and Losses		
Salaries, wages and employee benefits	190,461,928	176,591,734
Supplies and other	97,253,112	96,935,915
Depreciation and amortization	11,964,601	11,391,601
Interest	1,027,028	1,351,419
Provision for bad debts	30,752,613	27,132,385
Total expenses and losses	<u>331,459,282</u>	<u>313,403,054</u>
Income from Operations	<u>3,613,292</u>	<u>4,433,975</u>
Other Income (Expense)		
Investment return	2,177,585	1,982,250
Unrealized gains and losses on trading securities	(1,418,503)	2,527,165
Other income	855,628	334,621
Loss on extinguishment of debt	(178,050)	-
Change in fair value of interest rate swap agreement	(39,789)	(26,777)
Total other income (expense)	<u>1,396,871</u>	<u>4,817,259</u>
Excess of Revenues Over Expenses	5,010,163	9,251,234
Loss from discontinued operations	(6,995)	(39,074)
Change in net unrealized gains (losses) on other-than-trading securities	(58,334)	138,613
Contributions for acquisition of property and equipment	128,329	290,251
Change in pension liability	(2,452,583)	(2,735,374)
Transfer to Shannon Trust	-	(4,269,168)
Net assets released from restriction used for purchase of property and equipment	<u>6,554,699</u>	<u>6,834,665</u>
Increase in Unrestricted Net Assets	<u><u>\$ 9,175,279</u></u>	<u><u>\$ 9,471,147</u></u>

Shannon Health System

Combined Statements of Changes in Net Assets

Years Ended September 30, 2011 and 2010

	2011	2010
Unrestricted Net Assets		
Excess of revenues over expenses	\$ 5,010,163	\$ 9,251,234
Loss from discontinued operations	(6,995)	(39,074)
Change in net unrealized losses on other-than-trading securities	(58,334)	138,613
Contributions for acquisition of property and equipment	128,329	290,251
Change in pension liability	(2,452,583)	(2,735,374)
Transfer to Shannon Trust	-	(4,269,168)
Net assets released from restriction used for purchase of property and equipment	6,554,699	6,834,665
	<u>9,175,279</u>	<u>9,471,147</u>
Temporarily Restricted Net Assets		
Change in interest in net assets of Shannon Trust	39,496,505	18,248,602
Contributions	880,316	785,124
Net assets released from restriction	(6,617,985)	(6,834,665)
	<u>33,758,836</u>	<u>12,199,061</u>
Change in Net Assets	42,934,115	21,670,208
Net Assets, Beginning of Year	<u>207,025,321</u>	<u>185,355,113</u>
Net Assets, End of Year	<u><u>\$ 249,959,436</u></u>	<u><u>\$ 207,025,321</u></u>

Shannon Health System

Combined Statements of Cash Flows

Years Ended September 30, 2011 and 2010

	2011	2010
Operating Activities		
Change in net assets	\$ 42,934,115	\$ 21,670,208
Items not requiring (providing) cash		
Change in interest in Shannon Trust	(33,344,417)	(12,074,271)
Change in pension liability	1,775,002	2,418,255
Depreciation and amortization	11,964,601	11,391,601
Equity in earnings of unconsolidated subsidiary	(732,273)	(221,192)
Net (gain) loss on investments	1,324,469	(2,715,263)
Transfers from Shannon Trust	(6,554,699)	(6,834,665)
Transfer to Shannon Trust	-	4,269,168
Contributions for property and equipment	(128,329)	(290,251)
Provision for uncollectible accounts	30,752,613	27,132,385
Change in fair value of interest rate swap agreements	39,789	26,777
Changes in		
Patient accounts receivable, net	(33,596,111)	(26,554,859)
Estimated amounts due from and to third-party payers	2,954,160	1,698,356
Accounts payable and accrued expenses	5,990,921	2,950,167
Other current assets and liabilities	(1,260,436)	206,172
Net cash provided by operating activities	<u>22,119,405</u>	<u>23,072,588</u>
Investing Activities		
Purchase of property and equipment	(16,500,534)	(15,554,994)
Purchase of investments	(25,596,266)	(11,715,997)
Proceeds from disposition of investments	18,460,696	5,150,000
Dividend received from unconsolidated subsidiary	152,880	287,283
Other investing activities	-	136,341
Net cash used in investing activities	<u>(23,483,224)</u>	<u>(21,697,367)</u>
Financing Activities		
Contributions received from Shannon Trust and other donors	6,554,699	6,834,665
Transfer to Shannon Trust	-	(4,269,168)
Proceeds from contributions for acquisition of property and equipment	128,329	290,251
Repayment of interest rate swap	(520,375)	-
Principal payments on long-term debt	(18,973,345)	(1,302,168)
Net cash provided by (used in) financing activities	<u>(12,810,692)</u>	<u>1,553,580</u>
Increase (Decrease) in Cash and Cash Equivalents	(14,174,511)	2,928,801
Cash and Cash Equivalents, Beginning of Year	15,738,827	12,810,026
Cash and Cash Equivalents, End of Year	<u>\$ 1,564,316</u>	<u>\$ 15,738,827</u>
Supplemental Cash Flows Information		
Interest paid	\$ 1,508,296	\$ 1,375,289
Property and equipment included in accounts payable	120,710	276,958
Property and equipment acquired with capital lease obligations	-	625,113

Shannon Health System

Notes to Combined Financial Statements

September 30, 2011 and 2010

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The combined financial statements of Shannon Health System (the System) include the accounts of the following entities

<u>Entity</u>	<u>Description</u>	<u>Tax Status</u>
Shannon Medical Center (the Medical Center)	Acute care hospital	Tax-exempt
Shannon Clinic (the Clinic)	Multi-specialty physician services	Tax-exempt
Shannon Medical Management	Management services	Tax-exempt
Shannon Business Services	Ancillary services	Tax-exempt
Shannon Real Estate Services	Property management	Tax-exempt
Shannon Rural Health Clinics	Physician clinical services	Tax-exempt

The Trustees of Shannon West Texas Memorial Hospital (the Shannon Trust), a testamentary trust, is the sole corporate member of the System and the Medical Center. The ownership structure of the combined group is as follows:

- **Shannon Health System** – The System's sole member is the Shannon Trust. The System owns or controls Shannon Medical Management.
- **Shannon Medical Center** – The Medical Center's sole member is the Shannon Trust. The Medical Center is the sole member or owns 100% of Shannon Clinic, Shannon Business Services, Shannon Real Estate Services and Shannon Rural Health Clinics.

The financial statements have been presented on a combined basis due to the significant financial interest between the System and the Medical Center. The operations and accounts of the System and the Medical Center are collectively referred to as the "System" for purposes of the combined financial statement footnotes.

The System primarily earns revenues through the provision of inpatient, outpatient, emergency care and physician services to residents in San Angelo, Texas and surrounding areas of west Texas.

Principles of Combination

The combined financial statements of the System include the System, the Medical Center and their respective controlled entities. All significant intercompany accounts and transactions have been eliminated in combination.

Shannon Health System

Notes to Combined Financial Statements

September 30, 2011 and 2010

Interest in Net Assets of the Shannon Trust

The Shannon Trust and the Medical Center are financially interrelated organizations. The Medical Center is the named beneficiary of the Shannon Trust and accounts for its interest in the net assets of the Shannon Trust (Interest) in a manner similar to the equity method. Changes in the Interest are included in change in net assets. Transfers of assets between the Shannon Trust and the Medical Center are recognized as increases or decreases in the Interest.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The System considers all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2011 and 2010, cash equivalents consisted primarily of money market accounts with brokers.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. The investment in equity investee is reported on the equity method of accounting. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income, realized and unrealized gains and losses on investments carried at fair value, and realized gains and losses on other investments. Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets.

Other investment return is reflected in the combined statements of operations and changes in net assets as unrestricted or temporarily restricted based upon the existence and nature of any donor or legally imposed restrictions.

Assets Whose Use is Limited or Restricted

Assets whose use is limited or restricted include (1) assets held by the trustees under bond indenture agreements, (2) assets held by trustees under deferred compensation arrangements, (3) assets restricted by donors for specific purposes and (4) assets held by trustees under self-insurance trust arrangements. Amounts required to meet current liabilities of the System are included in current assets.

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Patient Accounts Receivable

The System reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The System provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a service to the patient, the System bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

Self-insured Employee Health Claims

The System is self-insured for its exposure to risk of loss from employee health claims. An estimated liability is accrued for employee health claims at September 30, 2011 and 2010, and includes an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Supplies

The System states supply inventories at the lower of cost, determined using the average cost method or market.

Property and Equipment

Property and equipment acquisitions are recorded at cost and are depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets, unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

Long-lived Asset Impairment

The System evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended September 30, 2011 and 2010.

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Goodwill

During 2008, the System purchased a surgery center. The transaction resulted in goodwill of approximately \$871,000, which was being amortized over an estimated useful life of 30 years. Accumulated amortization amounted to approximately \$86,000 at September 30, 2010.

The System adopted Accounting Standards Codification (ASC) 958-805, *Not-for-profit Entities, Mergers and Acquisitions*, in fiscal year 2011. Upon adoption of ASC 958-805, goodwill ceases to be amortized and is tested annually for impairment. If the implied fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the financial statements. No impairment was recognized during 2011 and 2010.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by the System has been limited by donors to a specific time period or purpose.

Net Patient Service Revenue

The System has agreements with third-party payers that provide for payments to the System at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, and include estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The System provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the System does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Contributions

Gifts received with donor stipulations are reported at estimated fair value as either temporarily or permanently restricted support. When a donor restriction expires (*i.e.*, when a time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified and reported as an increase in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions.

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Estimated Malpractice and General Liability Costs

An annual estimated provision is accrued for the self-insured portion of medical malpractice and general liability claims, and includes an estimate of the ultimate costs for both reported claims and claims incurred but not reported

Workers' Compensation Costs

The Medical Center is a self-insured subscriber to the Texas Workers' Compensation Insurance Program. An annual estimated provision is accrued for the self-insured portion of employee injury claims, and includes an estimate of the ultimate costs for both reported claims and claims incurred but not reported, based on the System's loss history.

Income Taxes

The Medical Center has been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the System is subject to federal income tax on any unrelated business taxable income. Subsidiaries that are not exempt from income taxes had no material tax liability.

The System files tax returns in the U.S. federal jurisdiction. With a few exceptions, the System is no longer subject to U.S. federal examinations by tax authorities for years before 2008.

Excess of Revenues Over Expenses

The combined statements of operations include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include discontinued operations, unrealized gains and losses on investments other-than-trading securities, certain changes in pension liabilities, transfers to affiliates and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

Reclassifications

Certain reclassifications have been made to the 2010 combined financial statements to conform to the 2011 combined financial statements presentation. These reclassifications had no effect on the change in net assets.

Shannon Health System

Notes to Combined Financial Statements

September 30, 2011 and 2010

Note 2: Net Patient Service Revenue

The System has agreements with third-party payers that provide for payments to the System at amounts different from its established rates. These payment arrangements include:

- **Medicare** – Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates or fee schedule amounts. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The System is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicare administrative contractor. Physician and related services provided to Medicare beneficiaries are reimbursed under a fee schedule methodology.
- **Medicaid** – Inpatient services rendered to Medicaid program beneficiaries are reimbursed under a prospective payment system. Outpatient services are reimbursed based on a mixture of fee schedules and reimbursed costs. The System is reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicaid program. Physician services are reimbursed based on fee schedule amounts.

Approximately 39% 40% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended September 30, 2011 and 2010, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Medical Center participates in the State of Texas' Disproportionate Share Program (Dispro) and Upper Payment Limit (UPL) private programs. Under the private UPL program, various governmental agencies make intergovernmental transfers (IGT) on behalf of the Medical Center. These transfers are used by the state of Texas Medicaid program to draw down federal funding for the Medical Center based on its UPL gap, which is approximately equal to the difference in what Medicare would have paid and what Medicaid actually paid. The state generally remits these amounts to the Medical Center on a quarterly basis, and such UPL receipts are included in net patient service revenue. Total UPL and Dispro funds received during the years ended September 30, 2011 and 2010, were approximately \$17,207,000 and \$15,353,000 respectively.

On December 12, 2011, the United States Department of Health and Human Services approved a Medicaid Section 1115(a) waiver demonstration project entitled "Texas Health Transformation Quality Improvement Program." This demonstration will expand existing Medicaid managed care programs to additional counties and will establish two funding pools that will assist providers with uncompensated care costs and promote health system transformation. The demonstration project is effective from December 12, 2011 to September 30, 2016, and may have a material impact on the amount of DSH and UPL funding received by the System.

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

Note 3: Concentration of Credit Risk

Accounts Receivable

The System grants credit without collateral to its patients, most of who are area residents and are insured under third-party payer agreements. The mix of net receivables from patients and third-party payers at September 30, 2011 and 2010, is

	<u>2011</u>	<u>2010</u>
Medicare	27%	28%
Medicaid	6%	4%
Other third-party payers	49%	48%
Patients	<u>18%</u>	<u>20%</u>
	<u>100%</u>	<u>100%</u>

Bank Balances

The financial institution holding the System's cash accounts is participating in the FDIC's Transaction Account Guarantee Program. Under that program, through December 31, 2010, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. At September 30, 2011, the System's cash accounts did not exceed federally insured limits.

Shannon Health System
Notes to Combined Financial Statements
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Note 4: Investments and Investment Return

Assets Limited as to Use

Assets limited as to use include the following

	<u>2011</u>	<u>2010</u>
Internally designated for self-insurance program		
Cash and cash equivalents	\$ 461,722	\$ 518,584
Equity securities	1,771,605	1,924,380
Fixed income mutual funds	621,089	445,258
Equity mutual funds	207,917	693,189
Corporate bonds	4,166,110	4,233,307
	<u>\$ 7,228,443</u>	<u>\$ 7,814,718</u>
Held by trustee, bond indenture agreement		
Cash and cash equivalents	\$ -	\$ 914,165
Municipal bonds	-	1,971,713
U S Treasury and Agency obligations	-	597,123
Interest receivable	-	55,551
	<u>\$ -</u>	<u>\$ 3,538,552</u>
Held by trustee, retirement plan		
Cash and cash equivalents	\$ 1,510,392	\$ 1,116,005
Fixed income mutual funds	2,644,516	2,466,240
Equity mutual funds	4,767,413	3,907,693
	<u>\$ 8,922,321</u>	<u>\$ 7,489,938</u>

Restricted gift funds are comprised of cash or cash equivalents at September 30, 2011 and 2010

Shannon Health System
Notes to Combined Financial Statements
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Other Investments

Other investments include the items shown on the following

	2011	2010
Corporate bonds	\$ 31,093,017	\$ 30,305,344
Fixed income mutual funds	8,063,897	6,216,504
Equity mutual funds	6,570,107	2,953,092
U S Treasury and Agency obligations	8,817,621	6,980,576
	<u>54,544,642</u>	<u>46,455,516</u>
Less short-term investments	<u>15,734,835</u>	<u>7,782,259</u>
	<u><u>\$ 38,809,807</u></u>	<u><u>\$ 38,673,257</u></u>

Total investment return is comprised of the following

	2011	2010
Interest and dividend income	\$ 2,025,217	\$ 1,932,765
Net realized gains on investments	152,368	49,485
Change in net unrealized gains (losses) on investments	<u>(1,476,837)</u>	<u>2,665,778</u>
	<u><u>\$ 700,748</u></u>	<u><u>\$ 4,648,028</u></u>

Total investment return is reflected in the combined statements of operations and changes in net assets as follows

	2011	2010
Unrestricted net assets		
Other nonoperating income	\$ 759,082	\$ 4,509,415
Changes in unrestricted net assets	<u>(58,334)</u>	<u>138,613</u>
	<u><u>\$ 700,748</u></u>	<u><u>\$ 4,648,028</u></u>

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Note 5: Investment in and Advances to Equity Investee

The Medical Center has a 37.97% ownership interest in the Regional Cancer Treatment Center. Total income from equity method investments during the years ended September 30, 2011 and 2010, was approximately \$732,000 and \$221,000, respectively. These amounts are included in other income in the combined statements of operations. A dividend of approximately \$153,000 and \$287,000 was received from the investee in 2011 and 2010, respectively. Unaudited financial position and results of operations of the investee are summarized as follows:

	2011	2010
Total assets	\$ 7,033,000	\$ 5,442,000
Total liabilities	112,000	49,000
Equity	6,921,000	5,392,000
Net income	1,625,000	539,000
Carrying value of investment	\$ 2,626,000	\$ 2,047,000

Note 6: Risk Management

Medical Malpractice Claims

The System is self-insured for medical malpractice risks. The Medical Center purchases excess loss insurance for losses up to varying amounts per claim and aggregate claim limits. Losses from asserted and unasserted claims identified under the System's incident reporting system are accrued based on estimates that incorporate the System's past experience, as well as other considerations, including the nature of each claim or incident and relevant trend factors. Accrued malpractice losses have been estimated by professional insurance consultants and have been discounted at a rate of 3.0% in 2011 and 2010. The System has accrued estimated losses totaling approximately \$4,375,000 and \$4,710,000 at September 30, 2011 and 2010, respectively. It is reasonably possible that the System's estimate of losses will change by a material amount in the near term.

Employee Health Insurance

The System is self-insured for employee health claims, subject to certain reinsurance limits. A reserve has been established for unpaid claims and claims incurred but not reported based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. The System had recorded a reserve for employee health claims of approximately \$1,555,000 and \$1,307,000 at September 30, 2011 and 2010, respectively, which is included with accrued expenses and other liabilities on the accompanying combined balance sheets. It is reasonably possible that the System's estimate will change by a material amount in the near term.

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Workers' Compensation

The Medical Center is a self-insured subscriber to the Texas Workers' Compensation Insurance Program. The Medical Center accrues its estimate of all incurred and reported claims plus estimated incurred but not reported claims based on the Medical Center's loss history. It is reasonably possible that the Medical Center's estimate will change by a material amount in the near term.

General Liability

The System is self-insured for general liability risks. The System purchases excess loss insurance. The System accrues its estimate of all incurred and reported claims plus estimated incurred but not reported claims based on the System's loss history. As of September 30, 2011 and 2010, no amount had been accrued based on such experience. It is reasonably possible that the System's estimate will change by a material amount in the near term.

Note 7: Promise Payable

The System has promised to support indigent activities in certain counties and as a result has recorded a promise payable of approximately \$2,284,000 which is included in accrued expenses on the combined balance sheet at September 30, 2011. No promise payable was recorded at September 30, 2010.

Note 8: Long-term Debt

	2011	2010
Series 2001 term bonds (A)	\$ -	\$ 14,660,000
Note payable, Shannon Trust (B)	-	4,184,531
Capital lease obligations (C)	483,421	612,235
	<u>483,421</u>	<u>19,456,766</u>
Less unamortized bond discount	-	77,687
Less current maturities	<u>121,713</u>	<u>1,731,633</u>
	<u><u>\$ 361,708</u></u>	<u><u>\$ 17,647,446</u></u>

(A) \$25,000,000 original issue Series 2001 Tom Green County Hospital Health Facilities Development Corporation Revenue Bonds (the Bonds), interest rates ranging from 5.60% to 6.75%, interest payments payable semi-annually and principal payable annually in varying amounts, including mandatory sinking fund payments, through May 15, 2021. The proceeds

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were used to finance the costs of renovation and equipping the Medical Center or other qualified System entities, fund a debt service reserve account and pay a portion of the costs of issuance of the Bonds. Secured by certain assets, revenue and receipts of the System and the Medical Center.

During 2011, the remaining Bonds with a face value of \$14,660,000 were repaid on the call date of May 15, 2011. A 1% premium and other fees were paid to retire the Bonds resulting in a loss on extinguishment of debt of \$178,050.

- (B) Note payable to Shannon Trust, due in monthly installments of principal and interest through January 1, 2019, interest at 6%, secured by rental income on certain property. The Medical Center entered into this note with the Shannon Trust to obtain funds to purchase various properties in San Angelo, Texas, including the Clinic building. During 2011, the note was repaid in full.
- (C) Capital lease obligations at various rates of imputed interest due through 2015, secured by equipment.

Aggregate annual maturities on capital lease obligations at September 30, 2011, are as follows:

	Capital Lease Obligations
2012	\$ 134,208
2013	134,208
2014	134,208
2015	124,315
	<hr/> 526,939
Less amount representing interest	<hr/> 43,518
Present value of future minimum lease payments	483,421
Less current maturities	<hr/> 121,713
Noncurrent portion	<hr/> <hr/> \$ 361,708

Note 9: Derivative Financial Instruments

Concho Surgical Swap

In 2004, the Concho Surgical Partnership (CSP) entered a forward starting interest rate swap agreement (Concho swap) related to certain debt issued by CSP. The Concho swap's cash flows started on July 1, 2009. The System pays the counterparty a fixed rate of 8.47% and receives a floating amount equal to the prime rate minus 0.65% based on an amortizing notional amount of \$3,073,380. The swap agreement terminates on June 4, 2014. The System has not applied hedge accounting to the Concho swap. During 2011, the System paid \$520,375 to the counterparty to terminate the swap agreement.

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The table below presents certain information regarding the System's interest rate swap agreement

	2011	2010
Fair value of swap agreement	\$ -	\$ (509,095)
Balance sheet location of fair value amount	Other long-term liabilities	Other long-term liabilities
Loss recognized in combined statements of operations	\$ (39,789)	\$ (26,777)
Location of loss recognized in combined statements of operations	Other income (expense)	Other income (expense)

Note 10: Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purpose or periods

	2011	2010
Health care services and purchases of equipment	\$ 2,225,189	\$ 1,810,770
For periods after September 30, 2011	<u>112,059,035</u>	<u>78,714,618</u>
	<u><u>\$ 114,284,224</u></u>	<u><u>\$ 80,525,388</u></u>

Note 11: Charity Care

The System, through its Medical Center and Clinic operations, provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. These amounts are not reported as revenue because the System does not pursue collection of amounts determined to qualify as charity care. Approximate charges foregone for services and supplies furnished under the System's charity care policy were as follows for the years ended 2011 and 2010

	2011	2010
Shannon Medical Center	\$ 58,492,000	\$ 55,352,000
Shannon Clinic	<u>6,653,000</u>	<u>6,294,000</u>
	<u><u>\$ 65,145,000</u></u>	<u><u>\$ 61,646,000</u></u>

In addition to uncompensated charges, the System also commits significant time and resources to endeavors and critical services which meet otherwise unfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable. Such programs include health screening and assessments, prenatal education and care, community educational services and various support groups.

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Note 12: Functional Expenses

The System provides health care services primarily to residents within its geographic area. Expenses related to providing these services are as follows:

	2011	2010
Health care services	\$ 242,165,795	\$ 229,057,179
General and administrative	89,293,487	84,345,875
	<u>\$ 331,459,282</u>	<u>\$ 313,403,054</u>

Note 13: Pension Plan

The Medical Center has a noncontributory defined benefit pension plan covering all employees who meet the eligibility requirements (the Employee Plan). The Employee Plan was frozen on July 1, 2005. The Medical Center anticipates terminating the plan during 2012 upon receiving approval from the appropriate regulatory agencies. The Medical Center's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the Medical Center may determine to be appropriate from time to time. The Medical Center expects to contribute approximately \$955,000 to the Employee Plan in 2012.

The Medical Center also has a Supplemental Executive Retirement Plan (SERP) covering certain members of management. The System's funding policy is to contribute the amount of pension benefit payments at the time the benefit is paid. The Medical Center does not expect to contribute to the SERP in 2012.

The System's measurement date is September 30.

Information about the plans' funded status is shown below:

	Employee Plan		SERP	
	2011	2010	2011	2010
Benefit obligation	\$ (37,574,059)	\$ (36,670,699)	\$ (1,180,308)	\$ (981,758)
Fair value of plan assets	<u>23,111,512</u>	<u>23,860,989</u>	<u>-</u>	<u>-</u>
Funded status	<u>\$ (14,462,547)</u>	<u>\$ (12,809,710)</u>	<u>\$ (1,180,308)</u>	<u>\$ (981,758)</u>

Shannon Health System
Notes to Combined Financial Statements
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Assets and liabilities recognized in the System's combined balance sheets follow

	Employee Plan		SERP	
	2011	2010	2011	2010
Noncurrent liabilities	<u>\$ 14,462,547</u>	<u>\$ 12,809,710</u>	<u>\$ 1,180,308</u>	<u>\$ 981,758</u>

Amounts recognized in the System's unrestricted net assets not yet recognized as components of net periodic benefit cost consist of

	Employee Plan		SERP	
	2011	2010	2011	2010
Net loss	<u>\$ 18,389,961</u>	<u>\$ 15,880,868</u>	<u>\$ 445,548</u>	<u>\$ 502,058</u>

The accumulated benefit obligation compared to plan assets is as follows

	Employee Plan		SERP	
	2011	2010	2011	2010
Accumulated benefit obligation	<u>\$ (37,574,059)</u>	<u>\$ (36,670,699)</u>	<u>\$ (1,143,568)</u>	<u>\$ (923,227)</u>
Fair value of plan assets	<u>\$ 23,111,512</u>	<u>\$ 23,860,989</u>	<u>\$ 0</u>	<u>\$ 0</u>

Other significant balances and costs are

	Employee Plan		SERP	
	2011	2010	2011	2010
Employer contributions	\$ 972,757	\$ 342,932	\$ -	\$ -
Benefits paid	1,299,075	1,193,000	-	-
Benefit costs	116,501	(184,923)	255,060	210,656

Shannon Health System

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The following amounts have been recognized in the System's combined statements of operations and changes in net assets for the years ended September 30, 2011 and 2010

	Employee Plan		SERP	
	2011	2010	2011	2010
Amounts arising during the period				
Net loss (gain)	\$ 3,052,924	\$ 3,329,261	\$ 35,806	\$ (242,912)
Amounts reclassified as components of net periodic benefit cost of the period				
Net gain	(543,831)	(285,452)	(92,316)	(65,523)

No plan assets are expected to be returned to the employer during the 12 months ending September 30, 2012

The estimated net loss for the Employee Plan and SERP that will be amortized from unrestricted net assets into net periodic benefit costs over the next fiscal year is \$854,591 and \$97,042, respectively

Significant assumptions include

	Employee Plan		SERP	
	2011	2010	2011	2010
Weighted-average assumptions used to determine benefit obligations				
Discount rate	5.33%	4.91%	7.00%	7.00%
Rate of compensation increase	N/A	N/A	3.80%	3.80%

	Employee Plan		SERP	
	2011	2010	2011	2010
Weighted-average assumptions used to determine benefit costs				
Discount rate	4.91%	5.52%	7.00%	4.26%
Expected return on plan assets	7.50%	7.50%	N/A	N/A
Rate of compensation increase	N/A	N/A	3.80%	3.80%

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The System has estimated the long-term rate of return on plan assets based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information

The benefit payments, shown below, which reflect expected future service, as appropriate, are expected to be paid by the System as of September 30, 2011

	Employee Plan	SERP
2012	\$ 1,715,756	\$ -
2013	1,801,270	-
2014	1,907,049	262,564
2015	2,051,836	-
2016	2,139,075	1,644,910
2017-2020	12,600,667	-

Plan assets of the Employee Plan are held in trust under the direction of the plan trustee, Goldman Sachs & Co. The investment objectives for the trust are to provide returns, which improve the funded status of the System's plans over time and reduce pension costs, and to receive favorable performance from the pension fund's active managers in exchange for the fees paid to the investment management fund

Based on the risk posture of the trustee, the trustee has developed the following asset mix targets which reflect holdings of the System at September 30, 2011

Cash	4%
Equity securities	40%
Debt securities	46%
Other	10%

A non-qualified plan trust has been created for the purpose of funding SERP obligations. However, certain rights are retained by general creditors of the System with respect to assets held in trust and, therefore, the trust assets would not be treated as sufficiently separated from the employer to constitute plan assets under accounting principles generally accepted in the United States of America. The assets held in this trust are reported on the combined balance sheets as a component of internally designated assets limited as to use.

Pension Plan Assets

Following is a description of the valuation methodologies and inputs used for pension plan assets measured at fair value on a recurring basis and recognized in the accompanying combined balance sheets, as well as the general classification of pension plan assets pursuant to the valuation hierarchy.

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Where quoted market prices are available in an active market, plan assets are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of plan assets with similar characteristics or discounted cash flows. Level 2 plan assets include U S Treasury and Agency obligations and hedge fund. The System did not hold any Level 3 securities in pension plans at September 30, 2011 and 2010.

The fair values of the pension plan assets at September 30, 2011 and 2010, are as follows:

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Fair Value			
September 30, 2011				
Money market mutual funds	\$ 985,480	\$ 985,480	\$ -	\$ -
Fixed income mutual funds	6,719,508	6,719,508	-	-
Equity mutual funds	3,809,363	3,809,363	-	-
Equity securities	5,454,753	5,454,753	-	-
U S treasury and agency obligations	4,000,065	-	4,000,065	-
Hedge funds	2,142,343	-	2,155,136	-
September 30, 2010				
Money market mutual funds	\$ 110,789	\$ 110,789	\$ -	\$ -
Fixed income mutual funds	6,826,954	6,826,954	-	-
Equity mutual funds	2,533,885	2,533,885	-	-
Equity securities	7,828,767	7,828,767	-	-
U S treasury and agency obligations	4,418,251	-	4,418,251	-
Hedge funds	2,142,343	-	2,142,343	-

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Defined Contribution Plan

The System maintains a defined contribution retirement plan in which employees who have completed at least three months of service are eligible to participate. Participants may contribute up to 50% of pre-tax compensation. For each eligible participant, the System will make the following matching contributions: (1) 100% of the employee's contribution not in excess of 3% of the employee's compensation, plus (2) 50% of the employee's contribution between 3% and 5% of the employee's compensation. The System makes additional contributions ranging from 2.8% to 13.2% depending on the employee's total compensation. Employees are fully vested in the System's matching contributions when they are paid, while additional contributions are vested over a six-year period. The System recognized approximately \$8,724,000 and \$8,463,000 in expense related to this plan during the years ended September 30, 2011 and 2010, respectively.

Deferred Compensation Plan

Beginning October 1, 2007, the System offers a nonqualified deferred compensation plan for certain physicians and executives. Benefits generally vest over a period of five years. Amounts accrued related to this plan were approximately \$8,847,000 and \$7,446,000 at September 30, 2011 and 2010, respectively.

Note 14: Related-party Transactions

The System receives contributions, which are listed as assets released from restrictions on the combined statements of changes in net assets, from the Shannon Trust. The System also received contributions for property and equipment from the Shannon Trust of approximately \$6,152,000 and \$6,174,000 for the years ended September 30, 2011 and 2010, respectively. These amounts are included as other changes in net assets on the combined statements of operations and combined statements of changes in net assets. During 2010, the System made a contribution of approximately \$4,269,000 to the Shannon Trust which is recorded as a transfer to affiliate included in other changes in net assets on the combined statements of operations and combined statements of changes in net assets.

Included in long-term debt in the combined balance sheets are notes payable to the Shannon Trust totaling approximately \$4,185,000 at September 30, 2010. During 2011 this debt was repaid in full to the Shannon Trust.

The System holds a non-controlling membership interest in the Service Organization of Concho Valley (the Organization). Organized in 2010, the Organization's primary purpose is to improve the health care of residents in west Texas through multiple means. A member of management of the System serves on the Board of Directors of the Organization. The System contributed \$3,150,000 and \$1,875,000 to the Organization in 2011 and 2010, respectively.

Shannon Health System

Notes to Combined Financial Statements

September 30, 2011 and 2010

Note 15: Disclosures About Fair Value of Assets and Liabilities

Accounting Standards Codification Topic 820, *Fair Value Measurements* (Topic 820), defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Topic 820 describes three levels of inputs that may be used to measure fair value as follows:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

The following is a description of the inputs and valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy:

Investments and Assets Limited as to Use

Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. Level 1 investments include money market funds, exchange traded mutual funds and equity securities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of investments with similar characteristics or discounted cash flows. Level 2 investments include corporate bonds, municipal bonds, and U.S. Treasury and Agency Obligations. In certain cases where Level 1 or Level 2 inputs are not available, investments are classified within Level 3 of the hierarchy. The System does not hold any Level 3 investments.

Quoted market prices are used to determine the fair value of Level 1 items. For Level 2 investments, inputs include maturity and coupon rates and/or closing prices of similar securities from comparable industry financial data.

Interest Rate Swap Agreement

The fair value is estimated using forward-looking interest rate curves and discounted cash flows that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

Shannon Health System

Notes to Combined Financial Statements

September 30, 2011 and 2010

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying combined balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2011 and 2010

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		Fair Value		
September 30, 2011				
Money market mutual funds	\$ 4,197,303	\$ 4,197,303	\$ -	\$ -
Fixed income mutual funds	11,329,502	11,329,502	-	-
Equity mutual funds	11,545,437	11,545,437	-	-
Equity securities	1,771,605	1,771,605	-	-
U S treasury and agency obligations	8,817,621	-	8,817,621	-
Corporate bonds	35,259,127	-	35,259,127	-
September 30, 2010				
Money market mutual funds	\$ 7,273,620	\$ 7,273,620	\$ -	\$ -
Fixed income mutual funds	9,128,002	9,128,002	-	-
Equity mutual funds	7,553,974	7,553,974	-	-
Equity securities	1,924,380	1,924,380	-	-
U S treasury and agency obligations	7,577,699	-	7,577,699	-
Municipal bonds	2,027,264	-	2,027,264	-
Corporate bonds	34,538,651	-	34,538,651	-
Interest rate swap liability	509,095	-	509,095	-

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying balance sheets at amounts other than fair value

Cash and Cash Equivalents

The carrying amount approximates fair value

Interest in Shannon Trust

The fair value is estimated using the fair value of the assets held by the Shannon Trust trustees

Shannon Health System

Notes to Combined Financial Statements

September 30, 2011 and 2010

Notes Payable and Long-term Debt

Fair value is estimated based on the borrowing rates currently available to the System for bank loans with similar terms and maturities

The following table presents estimated fair values of the System's financial instruments not previously disclosed at September 30, 2011 and 2010

	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	\$ 1,564,316	\$ 1,564,316	\$ 15,738,827	\$ 15,738,827
Investments				
Corporate bonds	31,093,017	31,093,017	30,305,344	30,305,344
Fixed income mutual funds	8,063,897	8,063,897	6,216,504	6,216,504
Equity mutual funds	6,570,107	6,570,107	2,953,092	2,953,092
U S Treasury and Agency obligations	8,817,621	8,817,621	6,980,576	6,980,576
Assets limited as to use				
Money market mutual funds	4,197,303	4,197,303	4,359,524	4,359,524
Corporate bonds	4,166,110	4,166,110	4,233,307	4,233,307
Fixed income mutual funds	3,265,605	3,265,605	2,911,498	2,911,498
Equity mutual funds	4,975,330	4,975,330	4,600,882	4,600,882
Equity securities	1,771,605	1,771,605	1,924,380	1,924,380
U S Treasury and Agency obligations	-	-	597,123	597,123
Municipal bonds	-	-	2,027,264	2,027,264
Interest in Shannon Trust	112,059,035	112,059,035	78,714,618	78,714,618
Financial Liabilities				
Interest rate swap agreement	-	-	509,095	509,095
Note payable to bank and long-term debt	483,421	483,421	19,379,079	19,742,177

Note 16: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in Notes 1 and 2.

Shannon Health System

Notes to Combined Financial Statements

September 30, 2011 and 2010

Investments and Assets Limited as to Use

The System invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying combined balance sheets.

General Liability and Malpractice Claims

Estimates related to the accrual for general liability and medical malpractice claims are described in *Notes 1 and 6*.

Litigation

In the normal course of business, the System is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the System's self-insurance program (discussed elsewhere in these notes) or by commercial insurance, for example, allegations regarding employment practices or performance of contracts. The System evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Health Care Reform

During 2010, Congress passed legislation that will significantly reform the United States health care system. The legislation will require certain changes through 2014 to private and public health care insurance plans, including the Texas Medicaid program. While the impact of these regulatory changes cannot currently be determined, it is reasonably possible that these changes will negatively impact the System's net patient service revenues.

Asset Retirement Obligation

As discussed in *Note 17*, the System has recorded a liability for its conditional asset retirement obligations (ARO) related to asbestos contained in buildings that the System owns.

Pension Benefit Obligations

The Medical Center has two noncontributory defined benefit pension plans, whereby it agrees to provide certain postretirement benefits to eligible employees. The benefit obligation is the actuarial present value of all benefits attributed to service rendered prior to the valuation date. It is reasonably possible that events could occur that would change the estimated amount of this liability materially in the near term.

Shannon Health System

Notes to Combined Financial Statements

September 30, 2011 and 2010

Current Economic Conditions

The current protracted economic decline continues to present hospitals with difficult circumstances and challenges, which, in some cases, have resulted in large and unanticipated declines in the fair value of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The accompanying combined financial statements have been prepared using values and information currently available to the System.

Current economic conditions, including the elevated unemployment rate, have made it difficult for certain patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the System's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the combined financial statements could change rapidly, resulting in material future adjustments in investment values, including defined benefit pension plan investments, and allowances for accounts receivable that could negatively impact the System's ability to maintain sufficient liquidity.

Note 17: Asset Retirement Obligation

Accounting principles generally accepted in the United States of America require that an ARO associated with the retirement of a tangible long-lived asset be recognized as a liability in the period in which it is incurred or becomes determinable (as defined by the standard) even when the timing and/or method of settlement may be conditional on a future event. The System's conditional ARO is primarily related to asbestos contained in buildings that the System owns. Environmental regulations exist that require the System to handle and dispose of asbestos in a special manner if a building undergoes major renovations or is demolished.

The amount of ARO recorded at September 30, 2011 and 2010, is \$729,900 and \$695,143, respectively. A summary of changes in AROs for the years ended September 30, 2011 and 2010, is included in the table below.

	2011	2010
Liability, beginning of year	\$ 695,143	\$ 662,041
Accretion expense	34,757	33,102
Liability, end of year	<u>\$ 729,900</u>	<u>\$ 695,143</u>

Shannon Health System
Notes to Combined Financial Statements
September 30, 2011 and 2010

Note 18: Subsequent Events

Subsequent events have been evaluated through February 3, 2012, which is the date the combined financial statements were available to be issued

Supplementary Information

Shannon Health System

Balance Sheet Information – Combining Schedule

September 30, 2011

	Shannon Medical Center	Shannon Clinic	Eliminations	Consolidated Shannon Medical Center	Shannon Health System	Shannon Medical Management	Legacy Management Services, Inc	Legacy Health Plan, Inc	Legacy Health Solutions, Inc	Eliminations	Combined
Assets											
Current Assets											
Cash and cash equivalents	\$ 1,564,316	\$ -	\$ -	\$ 1,564,316	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,564,316
Short-term investments	15,734,835	-	-	15,734,835	-	-	-	-	-	-	15,734,835
Assets limited as to use - current	2,517,374	-	-	2,517,374	-	-	-	-	-	-	2,517,374
Patient accounts receivable	19,387,243	13,839,031	-	33,226,274	-	-	-	-	-	-	33,226,274
Prepaid expenses and other	7,131,498	1,709,969	-	8,841,467	58,745	133,633	-	-	-	-	9,033,845
Total current assets	46,335,266	15,549,000	-	61,884,266	58,745	133,633	-	-	-	-	62,076,644
Assets Whose Use is Limited or Restricted											
Net of Current Portion											
Restricted gift funds	2,225,189	-	-	2,225,189	-	-	-	-	-	-	2,225,189
Held by trustee - deferred compensation	481,987	8,369,581	-	8,851,568	-	70,753	-	-	-	-	8,922,321
Held by trustee - malpractice funding arrangement trust	7,228,443	-	-	7,228,443	-	-	-	-	-	-	7,228,443
Less amount required to meet current obligations	9,935,619	8,369,581	-	18,305,200	-	70,753	-	-	-	-	18,375,953
	2,517,374	-	-	2,517,374	-	-	-	-	-	-	2,517,374
	7,418,245	8,369,581	-	15,787,826	-	70,753	-	-	-	-	15,858,579
Investments	38,809,807	-	-	38,809,807	-	-	-	-	-	-	38,809,807
Property and Equipment - At Cost											
Land and land improvements	9,684,664	-	-	9,684,664	-	-	-	-	-	-	9,684,664
Buildings and leasehold improvements	105,828,165	-	-	105,828,165	-	-	-	-	-	(133,225)	105,694,940
Equipment	120,852,031	11,499,070	-	132,351,101	-	4,411,018	-	-	-	-	136,762,119
Construction in progress	167,357	-	-	167,357	-	-	-	-	-	-	167,357
	236,532,217	11,499,070	-	248,031,287	-	4,411,018	-	-	-	(133,225)	252,309,080
Less accumulated depreciation	149,769,468	8,547,757	-	158,317,225	-	3,887,023	-	-	-	-	162,204,248
	86,762,749	2,951,313	-	89,714,062	-	523,995	-	-	-	(133,225)	90,104,832
Other Assets											
Interest in net assets of Shannon Trust	112,059,035	-	-	112,059,035	-	-	-	-	-	-	112,059,035
Other noncurrent assets	3,413,378	-	-	3,413,378	-	-	-	-	-	-	3,413,378
	115,472,413	-	-	115,472,413	-	-	-	-	-	-	115,472,413
Total assets	<u>\$ 294,798,480</u>	<u>\$ 26,869,894</u>	<u>\$ -</u>	<u>\$ 321,668,374</u>	<u>\$ 58,745</u>	<u>\$ 728,381</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (133,225)</u>	<u>\$ 322,322,275</u>

Shannon Health System

Balance Sheet Information – Combining Schedule (Continued)

September 30, 2011

	Shannon Medical Center	Shannon Clinic	Eliminations	Consolidated Shannon Medical Center	Shannon Health System	Shannon Medical Management	Legacy Management Services, Inc	Legacy Health Plan, Inc	Legacy Health Solutions, Inc	Eliminations	Combined
Current Liabilities											
Current maturities of long-term debt	\$ -	\$ 121,713	\$ -	\$ 121,713	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 121,713
Accounts payable	12,375,322	1,667,249	-	14,042,571	5,193	76,305	-	-	-	-	14,124,069
Accrued expenses and other liabilities	11,891,389	7,549,614	-	19,441,003	160,213	2,084,454	-	-	-	-	21,685,670
Estimated amounts due to third-party payers	4,838,382	-	-	4,838,382	-	-	-	-	-	-	4,838,382
Current portion of estimated malpractice costs	292,185	-	-	292,185	-	-	-	-	-	-	292,185
Total current liabilities	29,397,278	9,338,576	-	38,735,854	165,406	2,160,759	-	-	-	-	41,062,019
Estimated Malpractice Costs	1,807,868	2,275,058	-	4,082,926	-	-	-	-	-	-	4,082,926
Long-term Debt	-	361,708	-	361,708	-	-	-	-	-	-	361,708
Other Liabilities											
Accrued pension liability	15,642,855	-	-	15,642,855	-	-	-	-	-	-	15,642,855
Interest rate swap agreements	-	-	-	-	-	-	-	-	-	-	-
Other noncurrent liabilities	1,241,439	9,901,139	-	11,142,578	-	70,753	-	-	-	-	11,213,331
Total liabilities	48,089,440	21,876,481	-	69,965,921	165,406	2,231,512	-	-	-	-	72,362,839
Net Assets (Deficit)											
Unrestricted	132,424,816	4,993,413	-	137,418,229	(106,661)	(1,503,131)	-	-	-	(133,225)	135,675,212
Temporarily restricted	114,284,224	-	-	114,284,224	-	-	-	-	-	-	114,284,224
Total net assets (deficit)	246,709,040	4,993,413	-	251,702,453	(106,661)	(1,503,131)	-	-	-	(133,225)	249,959,436
Total liabilities and net assets	\$ 294,798,480	\$ 26,869,894	\$ -	\$ 321,668,374	\$ 58,745	\$ 728,381	\$ -	\$ -	\$ -	\$ (133,225)	\$ 322,322,275

Shannon Health System

Statement of Operations and Changes in Net Assets Information – Combining Schedule

Year Ended September 30, 2011

	Shannon Medical Center	Shannon Clinic	Eliminations	Consolidated Shannon Medical Center	Shannon Health System	Shannon Medical Management	Legacy Management Services, Inc	Legacy Health Plan, Inc	Legacy Health Solutions, Inc	Eliminations	Combined
Unrestricted Revenues, Gains and Other Support											
Net patient service revenue	\$ 232,145,122	\$ 99,412,962	\$ (2,938,133)	\$ 328,619,951	\$ -	\$ 68,118	\$ -	\$ -	\$ -	\$ 1,197,288	\$ 329,885,357
Other	9,348,722	(34,606,398)	(4,133,486)	(29,391,162)	24,290	36,173,237	-	-	-	(1,619,148)	5,187,217
Total unrestricted revenues, gains and other support	241,493,844	64,806,564	(7,071,619)	299,228,789	24,290	36,241,355	-	-	-	(421,860)	335,072,574
Expenses and Losses											
Salaries, wages and employee benefits	91,192,832	75,349,995	(728,562)	165,814,265	-	24,647,663	-	-	-	-	190,461,928
Supplies and other	82,265,938	12,080,937	(6,341,702)	88,005,173	60,528	9,609,271	-	-	-	(421,860)	97,253,112
Depreciation and amortization	10,631,880	1,092,527	-	11,724,407	-	240,194	-	-	-	-	11,964,601
Interest	-	15,265	-	15,265	1,011,763	-	-	-	-	-	1,027,028
Provision for bad debts	24,532,413	6,217,502	-	30,749,915	-	2,698	-	-	-	-	30,752,613
Total expenses and losses	208,623,063	94,756,226	(7,070,264)	296,309,025	1,072,291	34,499,826	-	-	-	(421,860)	331,459,282
Income (Loss) From Operations	32,870,781	(29,949,662)	(1,355)	2,919,764	(1,048,001)	1,741,529	-	-	-	-	3,613,292
Other Income (Expense)											
Investment return	2,063,656	-	-	2,063,656	113,375	554	-	-	-	-	2,177,585
Unrealized gains and losses on trading securities	(1,418,503)	-	-	(1,418,503)	-	-	-	-	-	-	(1,418,503)
Other income	841,198	13,075	1,355	855,628	-	-	-	-	-	-	855,628
Loss on extinguishment of debt	-	-	-	-	(178,050)	-	-	-	-	-	(178,050)
Change in fair value of interest rate swap agreements	(39,789)	-	-	(39,789)	-	-	-	-	-	-	(39,789)
	1,446,562	13,075	1,355	1,460,992	(64,675)	554	-	-	-	-	1,396,871
Excess (Deficiency) of Revenues Over Expenses	34,317,343	(29,936,587)	-	4,380,756	(1,112,676)	1,742,083	-	-	-	-	5,010,163
Gain (Loss) from discontinued operations	-	-	-	-	-	-	(1,501)	(5,494)	(3,129)	3,129	(6,995)
Change in net unrealized gains on other-than-trading securities	-	-	-	-	(58,334)	-	-	-	-	-	(58,334)
Contributions for acquisition of property and equipment	128,329	-	-	128,329	-	-	-	-	-	-	128,329
Change in additional minimum pension liability for defined benefit plans	(2,452,583)	-	-	(2,452,583)	-	-	-	-	-	-	(2,452,583)
Transfers to (from) affiliates	(42,188,831)	32,011,382	-	(10,177,449)	12,218,767	(1,970,919)	(1,653)	(68,746)	46,026	(46,026)	-
Transfer to Shannon Trust	-	-	-	-	-	-	-	-	-	-	-
Net assets released from restriction used for purchase of property and equipment	6,554,699	-	-	6,554,699	-	-	-	-	-	-	6,554,699
Increase (decrease) in unrestricted net assets	(3,641,043)	2,074,795	-	(1,566,248)	11,047,757	(228,836)	(3,154)	(74,240)	42,897	(42,897)	9,175,279
Temporarily Restricted Net Assets											
Change in interest in net assets of Shannon Trust	39,496,505	-	-	39,496,505	-	-	-	-	-	-	39,496,505
Contributions	880,316	-	-	880,316	-	-	-	-	-	-	880,316
Net assets released from restrictions	(6,617,985)	-	-	(6,617,985)	-	-	-	-	-	-	(6,617,985)
Increase in temporarily restricted net assets	33,758,836	-	-	33,758,836	-	-	-	-	-	-	33,758,836
Change in Net Assets	30,117,793	2,074,795	-	32,192,588	11,047,757	(228,836)	(3,154)	(74,240)	42,897	(42,897)	42,934,115
Net Assets (Deficit) Beginning of Year	216,591,247	2,918,618	-	219,509,865	(11,154,418)	(1,274,295)	3,154	74,240	(42,897)	(90,328)	207,025,321
Net Assets (Deficit) End of Year	\$ 246,709,040	\$ 4,993,413	\$ -	\$ 251,702,453	\$ (106,661)	\$ (1,503,131)	\$ -	\$ -	\$ -	\$ (133,225)	\$ 249,959,436