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Form 990

Return of Organization Exempt From Income Tax

2011

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

Open to Public Inspection

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

A For the 2011 calendar year, or tax year beginning 07-01-2011 and ending 06-30-2012

B Check if applicable

C Name of organization
MERCY HEALTH SYSTEM CORPORATION

D Employer identification number

39-0816848

Address change

Doing Business As

E Telephone number

(608) 756-6000

Name change

Number and street (or P O box if mail is not delivered to street address) Room/suite
PO BOX 5003 - 1000 MINERAL POINT

G Gross receipts \$ 519,602,818

Initial return

City or town, state or country, and ZIP + 4
JANESVILLE, WI 535475003F Name and address of principal officer
JAVON BEA
PO BOX 5003 - 1000 MINERAL POINT
JANESVILLE, WI 535475003H(a) Is this a group return for affiliates?
 Yes NoI Tax-exempt status 501(c)(3) 501(c) () (insert no) 4947(a)(1) or 527H(b) Are all affiliates included? Yes No
If "No," attach a list (see instructions)

J Website: ► WWW MERCYHEALTHSYSTEM.ORG

H(c) Group exemption number ►

K Form of organization Corporation Trust Association Other ► L Year of formation 1972 M State of legal domicile WI

Part I Summary

1 Briefly describe the organization's mission or most significant activities

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

2 Check this box ► 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 11

4 Number of independent voting members of the governing body (Part VI, line 1b)

4 9

5 Total number of individuals employed in calendar year 2011 (Part V, line 2a)

5 3,768

6 Total number of volunteers (estimate if necessary)

6 0

7a Total unrelated business revenue from Part VIII, column (C), line 12

7a 11,582,430

b Net unrelated business taxable income from Form 990-T, line 34

7b 0

		Revenue	
		Prior Year	Current Year
8	Contributions and grants (Part VIII, line 1h)	248,889	269,195
9	Program service revenue (Part VIII, line 2g)	448,360,006	464,397,477
10	Investment income (Part VIII, column (A), lines 3, 4, and 7d)	969,845	465,256
11	Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)	3,692,206	-2,530,008
12	Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12)	453,270,946	462,601,920

		Expenses	
		Prior Year	Current Year
13	Grants and similar amounts paid (Part IX, column (A), lines 1-3)	0	0
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)	262,293,640	274,568,874
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-24e)	165,283,940	172,508,843
18	Total expenses Add lines 13-17 (must equal Part IX, column (A), line 25)	427,577,580	447,077,717
19	Revenue less expenses Subtract line 18 from line 12	25,693,366	15,524,203

		Net Assets or Fund Balances	
		Beginning of Current Year	End of Year
20	Total assets (Part X, line 16)	387,688,494	453,287,213
21	Total liabilities (Part X, line 26)	252,414,775	319,217,698
22	Net assets or fund balances Subtract line 21 from line 20	135,273,719	134,069,515

Part II Signature Block

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

Sign Here	***** Signature of officer	2013-05-09
	JAVON BEA CEO Type or print name and title	Date

Paid Preparer's Use Only	Preparer's signature ► WILLIAM T MURPHY CPA	Date 2013-05-09	Check if self-employed ► <input type="checkbox"/>	Preparer's taxpayer identification number (see instructions) P00074580
	Firm's name (or yours if self-employed), address, and ZIP + 4 ► BAKER TILLY VIRCHOW KRAUSE LLP 500 MIDLAND COURT PO BOX 8130 JANESVILLE, WI 535478130			EIN ► 39-0859910 Phone no ► (608) 752-5835

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:

y describe the organization's mission

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

2 Did the organization undertake any significant program services during the year which were not listed on the prior Form 990 or 990-EZ? Yes No

If "Yes," describe these new services on Schedule C.

Yes No

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

Yes No

If "Yes," describe these changes on Schedule O

4 Describe the organization's program service accomplishments for each of its three largest program services, as measured 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 \$ 362,336,834 including grants of \$) (Revenue \$ 463,223,881)
HOSPITAL DISCHARGES 9,038, NURSING HOME ADMISSIONS 287, BIRTHS 1,062, OUTPATIENT VISITS 1,148,129

HOSPITAL DISCHARGES 9,038, NURSING HOME ADMISSIONS 287, BIRTHS 1,062, OUTPATIENT VISITS 1,148,129

4b (Code) (Expenses \$ including grants of \$) (Revenue \$

4c (Code) (Expenses \$ including grants of \$) (Revenue \$)

4d Other program services (Describe in Schedule Q)

4e Total program service expenses **-\$ 362 336 834**

Part IV Checklist of Required Schedules

1 Is the organization described in section 501(c)(3) or 4947(a)(1) (other than a private foundation)? If "Yes," complete Schedule A

2 Is the organization required to complete Schedule B, *Schedule of Contributors* (see instructions)?

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

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

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 for which 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

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

8 Did the organization maintain collections of works of art, historical treasures, or other similar assets? If "Yes," complete Schedule D, Part III

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

10 Did the organization, directly or through a related organization, hold assets in temporarily restricted endowments, permanent endowments, or quasi-endowments? If "Yes," complete Schedule D, Part V

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

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

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

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

e Did the organization report an amount for other liabilities in Part X, line 25? If "Yes," complete Schedule D, Part X

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

12a Did the organization obtain separate, independent audited financial statements for the tax year? If "Yes," complete Schedule D, Parts XI, XII, and XIII

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

13 Is the organization a school described in section 170(b)(1)(A)(ii)? If "Yes," complete Schedule E

14a Did the organization maintain an office, employees, or agents outside of the United States?

b Did the organization have aggregate revenues or expenses of more than \$10,000 from grantmaking, fundraising, business, investment, and program service activities outside the United States, or aggregate foreign investments valued at \$100,000 or more? If "Yes," complete Schedule F, Part I

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, Part II and IV

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, Part III and IV

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

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

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

20a Did the organization operate one or more hospitals? If "Yes," complete Schedule H

b If "Yes" to line 20a, did the organization attach its audited financial statement to this return? **Note.** All Form 990 filers that operated one or more hospitals must attach audited financial statements

	Yes	No
1	Yes	
2	Yes	
3		No
4		No
5		No
6		No
7		No
8		No
9		No
10		No
11a	Yes	
11b	Yes	
11c		No
11d		No
11e	Yes	
11f		No
12a	Yes	
12b	Yes	
13		No
14a		No
14b		No
15		No
16		No
17		No
18		No
19		No
20a	Yes	
20b	Yes	

Part IV Checklist of Required Schedules (continued)

21	Did the organization report more than \$5,000 of grants and other assistance to governments and organizations in the United States on Part IX, column (A), line 1? If "Yes," complete Schedule I, Parts I and II	21		No
22	Did the organization report more than \$5,000 of grants and other assistance to individuals in the United States on Part IX, column (A), line 2? If "Yes," complete Schedule I, Parts I and III	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? If "Yes," complete Schedule J	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? If "Yes," answer questions 24b-24d and complete Schedule K. If "No," go to line 25	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? If "Yes," complete Schedule L, Part 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? If "Yes," complete Schedule L, Part 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? If "Yes," complete Schedule L, Part II	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? If "Yes," complete Schedule L, Part III	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)	28a		No
a	A current or former officer, director, trustee, or key employee? If "Yes," complete Schedule L, Part IV	28b	Yes	
b	A family member of a current or former officer, director, trustee, or key employee? If "Yes," complete Schedule L, Part IV	28c		No
c	An entity of which a current or former officer, director, trustee, or key employee (or a family member thereof) was an officer, director, trustee, or owner? If "Yes," complete Schedule L, Part IV	29		No
30	Did the organization receive more than \$25,000 in non-cash contributions? If "Yes," complete Schedule M	30		No
31	Did the organization liquidate, terminate, or dissolve and cease operations? If "Yes," complete Schedule N, Part I	31		No
32	Did the organization sell, exchange, dispose of, or transfer more than 25% of its net assets? If "Yes," complete Schedule N, Part II	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? If "Yes," complete Schedule R, Part I	33		No
34	Was the organization related to any tax-exempt or taxable entity? If "Yes," complete Schedule R, Parts II, III, IV, and V, line 1	34	Yes	
35a	Is any related organization a controlled entity of the filing organization within the meaning of section 512(b)(13)?	35a	Yes	
b	Did the organization receive any payment from or engage in any transaction with a controlled entity within the meaning of section 512(b)(13)? If "Yes," complete Schedule R, Part V, line 2	35b		No
36	Section 501(c)(3) organizations. Did the organization make any transfers to an exempt non-charitable related organization? If "Yes," complete Schedule R, Part V, line 2	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? If "Yes," complete Schedule R, Part VI	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

		Yes	No
1a	Enter the number reported in Box 3 of Form 1096. Enter -0- if not applicable	1a	399
b	Enter the number of Forms W-2G included in line 1a. Enter -0- if not applicable	1b	0
c	Did the organization comply with backup withholding rules for reportable payments to vendors and reportable gaming (gambling) winnings to prize winners?	1c	Yes
2a	Enter the number of employees reported on Form W-3, <i>Transmittal of Wage and Tax Statements</i> filed for the calendar year ending with or within the year covered by this return	2a	3,768
b	If at least one is reported on line 2a, did the organization file all required federal employment tax returns?	2b	Yes
Note. If the sum of lines 1a and 2a is greater than 250, you may be required to e-file (see instructions)			
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 or securities 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).	7a	No
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?	7b	
b	If "Yes," did the organization notify the donor of the value of the goods or services provided?	7c	No
c	Did the organization sell, exchange, or otherwise dispose of tangible personal property for which it was required to file Form 8282?	7d	
d	If "Yes," indicate the number of Forms 8282 filed during the year	7e	No
e	Did the organization receive any funds, directly or indirectly, to pay premiums on a personal benefit contract?	7f	No
f	Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract?	7g	
g	If the organization received a contribution of qualified intellectual property, did the organization file Form 8899 as required?	7h	
h	If the organization received a contribution of cars, boats, airplanes, or other vehicles, did the organization file a Form 1098-C?	8	
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?	9a	
9	Sponsoring organizations maintaining donor advised funds.	9b	
a	Did the organization make any taxable distributions under section 4966?	10a	
b	Did the organization make a distribution to a donor, donor advisor, or related person?	10b	
10	Section 501(c)(7) organizations. Enter		
a	Initiation fees and capital contributions included on Part VIII, line 12	11a	
b	Gross receipts, included on Form 990, Part VIII, line 12, for public use of club facilities	11b	
11	Section 501(c)(12) organizations. Enter	12a	
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?	12b	
b	If "Yes," enter the amount of tax-exempt interest received or accrued during the year		
13	Section 501(c)(29) qualified nonprofit health insurance issuers.	13a	
a	Is the organization licensed to issue qualified health plans in more than one state? Note. All 501(c)(29) organizations must list in Schedule O each state in which they are licensed to issue qualified health plans, the amount of reserves required by each state, and the amount of reserves the organization allocated to each state	13b	
b	Enter the aggregate amount of reserves the organization is required to maintain by the states in which the organization is licensed to issue qualified health plans	13c	
c	Enter the aggregate amount of reserves on hand		
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

1a Enter the number of voting members of the governing body at the end of the tax year

1a	11
1b	9

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?

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?

4 Did the organization make any significant changes to its governing documents since the prior Form 990 was filed?

5 Did the organization become aware during the year of a significant diversion of the organization's assets?

6 Did the organization have members or stockholders?

7a Did the organization have members, stockholders, or other persons who had the power to elect or appoint one or more members of the governing body?

b Are any governance decisions of the organization reserved to (or subject to approval by) members, stockholders, or persons other than the governing body?

8 Did the organization contemporaneously document the meetings held or written actions undertaken during the year by the following

a The governing body?

b Each committee with authority to act on behalf of the governing body?

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

	Yes	No
1a		
1b		9
2		No
3		No
4		No
5		No
6		No
7a		No
7b		No
8a	Yes	
8b	Yes	
9		No

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

10a Did the organization have local chapters, branches, or affiliates?

b If "Yes," did the organization have written policies and procedures governing the activities of such chapters, affiliates, and branches to ensure their operations are consistent with the organization's exempt purposes?

11a Has the organization provided a complete copy of this Form 990 to all members of its governing body before filing the form?

b Describe in Schedule O the process, if any, used by the organization to review the Form 990

12a Did the organization have a written conflict of interest policy? If "No," go to line 13

b Were officers, directors or trustees, and key employees required to disclose annually interests that could give rise to conflicts?

c Did the organization regularly and consistently monitor and enforce compliance with the policy? If "Yes," describe in Schedule O how this was done

13 Did the organization have a written whistleblower policy?

14 Did the organization have a written document retention and destruction policy?

15 Did the process for determining compensation of the following persons include a review and approval by independent persons, comparability data, and contemporaneous substantiation of the deliberation and decision?

a The organization's CEO, Executive Director, or top management official

b Other officers or key employees of the organization

If "Yes," to line 15a or 15b, describe the process in Schedule O (see instructions)

16a Did the organization invest in, contribute assets to, or participate in a joint venture or similar arrangement with a taxable entity during the year?

b If "Yes," did the organization follow a written policy or procedure requiring the organization to evaluate its participation in joint venture arrangements under applicable federal tax law, and take steps to safeguard the organization's exempt status with respect to such arrangements?

	Yes	No
10a		No
10b		
11a		No
12a	Yes	
12b	Yes	
12c	Yes	
13	Yes	
14	Yes	
15a	Yes	
15b	Yes	
16a		No
16b		

Section C. Disclosure

17 List the States with which a copy of this Form 990 is required to be filed IL, WI

18 Section 6104 requires an organization to make its Form 1023 (or 1024 if applicable), 990, and 990-T (501(c) (3)s only) available for public inspection. Indicate how you made these available. Check all that apply

Own website Another's website Upon request

19 Describe in Schedule O whether (and if so, how), the organization made its governing documents, conflict of interest policy, and financial statements available to the public. See Additional Data Table

20 State the name, physical address, and telephone number of the person who possesses the books and records of the organization

JOHN COOK
1000 MINERAL POINT
JANESVILLE, WI 535475003
(608) 756-6642

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

 Check if Schedule O contains a response to any question in this Part VII
Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

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

• List all of the organization's **current** officers, directors, trustees (whether individuals or organizations), regardless of amount of compensation, and **current** key employees. Enter -0- in columns (D), (E), and (F) if no compensation was paid.

• List all of the organization's **current** key employees, if any. See instructions for definition of "key employee."

• List the organization's five **current** highest compensated employees (other than an officer, director, trustee or key employee) who received reportable compensation (Box 5 of Form W-2 and/or Box 7 of Form 1099-MISC) of more than \$100,000 from the organization and any related organizations.

• List all of the organization's **former** officers, key employees, or 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 organizations compensated any current or former officer, director, or trustee.

(A) Name and Title	(B) Average hours per week (describe hours for related organizations in Schedule O)	(C) Position (do not check more than one box, unless person is both an officer and a director/trustee)					(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
		Or director	Individual trustee	Institutional Trustee	Officer	Key Employee			
(1) ROWLAND MCCLELLAN CHAIRPERSON & DIRECTOR	1 00	X		X			385	0	0
(2) THOMAS POOL VICE-CHAIRPERSON & DIRECTOR	1 00	X		X			15,046	0	0
(3) LARRY SQUIRE SECRETARY/TREAS & DIRECTOR	1 00	X		X			2,580	0	0
(4) DAVE SYVERSON DIRECTOR	1 00	X					15,000	0	0
(5) MARK GOELZER MD DIRECTOR/PHYSICIAN	1 00	X					429,224	0	699,536
(6) ROBERT CONSIGNY DIRECTOR	1 00	X					1,137	0	0
(7) STEVE VAN GALDER DIRECTOR	1 00	X					307	0	0
(8) KATHERINE SCHACK DIRECTOR	1 00	X					3,376	0	0
(9) ELIZABETH HANSCH DIRECTOR	1 00	X					0	0	0
(10) MARK KOPP DIRECTOR	1 00	X					0	0	0
(11) BARB BORTNER VICE-PRESIDENT	55 00			X			197,581	0	32,674
(12) DAN COLBY VICE-PRESIDENT	55 00			X			277,144	0	24,660
(13) DAVID KURTZ VICE-PRESIDENT	55 00			X			210,543	0	25,971
(14) JOHN COOK VICE-PRESIDENT	55 00			X			358,763	0	45,555
(15) RUTH YARBROUGH VICE-PRESIDENT	55 00			X			254,496	0	26,118
(16) RICHARD GRUBER VICE-PRESIDENT	55 00			X			210,752	0	30,131
(17) RALPH TOPINKA VICE-PRESIDENT	55 00			X			445,241	0	26,986

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 (do not check more than one box, unless person is both an officer and a director/trustee)					(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			
(18) JOSEPH NEMETH VICE-PRESIDENT	55 00			X			210,785	0	22,960
(19) KATHY HARRIS VICE-PRESIDENT	55 00			X			144,668	0	25,285
(20) SUE RIPSCH VICE-PRESIDENT	55 00			X			365,038	0	29,508
(21) JAVON BEA PRESIDENT & DIRECTOR	55 00	X		X			4,028,129	0	34,261
(22) CHRISTOPHER STURM PHYSICIAN	40 00				X		1,781,952	0	121,545
(23) JOHN BUSSA PHYSICIAN	40 00				X		1,728,858	0	210,534
(24) VIKRAM KHANNA PHYSICIAN	40 00				X		1,204,985	0	83,027
(25) BRADLEY FIDELER PHYSICIAN	40 00				X		1,146,494	0	183,029
(26) LANDON RIGGS PHYSICIAN	40 00				X		961,107	0	79,809
1b Sub-Total									
c Total from continuation sheets to Part VII, Section A									
d Total (add lines 1b and 1c)							13,993,591	0	1,701,589

2 Total number of individuals (including but not limited to those listed above) who received more than \$100,000 of reportable compensation from the organization **►382**

		Yes	No
3 Did the organization list any former officer, director or trustee, key employee, or highest compensated employee on line 1a? If "Yes," complete Schedule J for such individual	3		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? If "Yes," complete Schedule J for such individual	4	Yes	
5 Did any person listed on line 1a receive or accrue compensation from any unrelated organization or individual for services rendered to the organization? If "Yes," complete Schedule J for such person	5		No

Section B. Independent Contractors

1 Complete this table for your five highest compensated independent contractors that received more than \$100,000 of compensation from the organization. Report compensation for the calendar year ending with or within the organization's tax year

(A) Name and business address	(B) Description of services	(C) Compensation
WALSH CONSTRUCTION COMPANY II LLC 929 WEST ADAMS CHICAGO, IL 60607	CONSTRUCTION	20,341,718
MAGILL CONSTRUCTION COMPANY 977 KOOPMAN LANE ELKHORN, WI 53121	CONSTRUCTION	11,276,909
AECOM TECHNICAL SERVICES 929 WEST ADAMS CHICAGO, IL 60607	ARCHITECTURAL/ENGINEERING	2,205,691
H&H ELECTRIC CO 3201 LATHAM DR MADISON, WI 53713	ELECTRICIANS/ELECTRICAL CONSTR	1,694,558
JP CULLEN & SONS PO BOX 1957 JANESVILLE, WI 53547	CONSTRUCTION	1,590,851
2 Total number of independent contractors (including but not limited to those listed above) who received more than \$100,000 of compensation from the organization ►53		

Part VIII Statement of Revenue

		(A) Total revenue	(B) Related or exempt function revenue	(C) Unrelated business revenue	(D) Revenue excluded from tax under sections 512, 513, or 514
Contributions, gifts, grants and other similar amounts					
1a Federated campaigns	1a				
b Membership dues	1b				
c Fundraising events	1c				
d Related organizations	1d	139,500			
e Government grants (contributions)	1e	78,108			
f All other contributions, gifts, grants, and similar amounts not included above	1f	51,587			
g Noncash contributions included in lines 1a-1f \$ _____					
h Total. Add lines 1a-1f		269,195			
Program Service Revenue		Business Code			
2a PATIENT SERVICE REVENUE		621110	451,641,451	451,641,451	
b UNRELATED BUSINESS INC		561000	11,582,430	11,582,430	
c CAFETERIA		722210	1,173,596		1,173,596
d					
e					
f All other program service revenue					
g Total. Add lines 2a-2f		464,397,477			
Other Revenue					
3 Investment income (including dividends, interest and other similar amounts)					
4 Income from investment of tax-exempt bond proceeds			485,627		485,627
5 Royalties					
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	56,929,501	51,026			
c Gain or (loss)	56,770,347	230,551			
d Net gain or (loss)	159,154	-179,525			
			-20,371		-20,371
8a Gross income from fundraising events (not including \$ _____ of contributions reported on line 1c) See Part IV, line 18	a				
b Less direct expenses	b				
c Net income or (loss) from fundraising events					
9a Gross income from gaming activities See Part IV, line 19	a				
b Less direct expenses	b				
c Net income or (loss) from gaming activities					
10a Gross sales of inventory, less returns and allowances .	a				
b Less cost of goods sold	b				
c Net income or (loss) from sales of inventory					
Miscellaneous Revenue	Business Code				
11a MISCELLANEOUS	900099	567,312			567,312
b OTHER INVESTMENTS	900099	-3,097,320			-3,097,320
c					
d All other revenue					
e Total. Add lines 11a-11d		-2,530,008			
12 Total revenue. See Instructions		462,601,920	451,641,451	11,582,430	-891,156

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)

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

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 United States See Part IV, line 21				
2 Grants and other assistance to individuals in the United States See Part IV, line 22				
3 Grants and other assistance to governments, organizations, and individuals outside the United States See Part IV, lines 15 and 16				
4 Benefits paid to or for members				
5 Compensation of current officers, directors, trustees, and key employees	8,193,840		8,193,840	
6 Compensation not included above, to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B)				
7 Other salaries and wages	219,185,078	178,756,896	40,428,182	
8 Pension plan contributions (include section 401(k) and section 403(b) employer contributions)	8,023,310	5,929,887	2,093,423	
9 Other employee benefits	26,220,058	18,299,135	7,920,923	
10 Payroll taxes	12,946,588	9,741,817	3,204,771	
11 Fees for services (non-employees)				
a Management				
b Legal	1,104,725		1,104,725	
c Accounting	49,000		49,000	
d Lobbying				
e Professional fundraising See Part IV, line 17				
f Investment management fees	51,008		51,008	
g Other	23,368,230	13,479,026	9,889,204	
12 Advertising and promotion	4,992,731	39,843	4,952,888	
13 Office expenses	78,226,748	73,649,320	4,577,428	
14 Information technology	1,045,058	330,211	714,847	
15 Royalties				
16 Occupancy	7,395,119	6,628,245	766,874	
17 Travel	1,042,437	449,437	593,000	
18 Payments of travel or entertainment expenses for any federal, state, or local public officials				
19 Conferences, conventions, and meetings	1,432,642	984,997	447,645	
20 Interest	5,845,089	5,238,953	606,136	
21 Payments to affiliates				
22 Depreciation, depletion, and amortization	22,079,743	19,771,838	2,307,905	
23 Insurance	6,041,969	4,887,184	1,154,785	
24 Other expenses Itemize expenses not covered above (List miscellaneous expenses in line 24f If line 24f amount exceeds 10% of line 25, column (A) amount, list line 24f expenses on Schedule O)				
a BAD DEBTS	16,272,355	16,272,355	0	0
b WI MEDICAID & OTHER TAX	6,694,958	6,694,958	0	0
c EQUIPMENT REPAIRS & MAI	6,054,771	3,981,066	2,073,705	0
d INTER-ENTITY TRANSACTION	-11,238,733	-3,654,619	-7,584,114	0
e				
f All other expenses	2,050,993	856,285	1,194,708	
25 Total functional expenses. Add lines 1 through 24f	447,077,717	362,336,834	84,740,883	0
26 Joint costs. Check here <input 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) Beginning of year	(B) End of year
Assets	1 Cash—non-interest-bearing	17,070	1 21,020
	2 Savings and temporary cash investments	15,650,700	2 5,873,542
	3 Pledges and grants receivable, net	3	
	4 Accounts receivable, net	61,920,944	4 67,719,511
	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)) and persons described in section 4958(c)(3)(B) Complete Part II of Schedule L	6	
	7 Notes and loans receivable, net	7	
	8 Inventories for sale or use	9,690,306	8 10,180,930
	9 Prepaid expenses and deferred charges	4,665,485	9 4,618,871
	10a Land, buildings, and equipment cost or other basis Complete Part VI of Schedule D	10a	486,686,359
	b Less accumulated depreciation	10b	196,959,888
		218,302,209	10c 289,726,471
	11 Investments—publicly traded securities	11	
	12 Investments—other securities See Part IV, line 11	71,251,414	12 68,047,607
	13 Investments—program-related See Part IV, line 11	13	
	14 Intangible assets	14	
	15 Other assets See Part IV, line 11	6,190,366	15 7,099,261
	16 Total assets. Add lines 1 through 15 (must equal line 34)	387,688,494	16 453,287,213
Liabilities	17 Accounts payable and accrued expenses	65,708,246	17 63,856,664
	18 Grants payable	18	
	19 Deferred revenue	19	
	20 Tax-exempt bond liabilities	40,071,547	20 4,853,930
	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 (including federal income tax, payables to related third parties, and other liabilities not included on lines 17-24) Complete Part X of Schedule D	146,634,982	25 250,507,104
	26 Total liabilities. Add lines 17 through 25	252,414,775	26 319,217,698
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	135,273,719	27 134,069,515
	28 Temporarily restricted net assets	28	
	29 Permanently restricted net assets	29	
	Organizations that do not follow SFAS 117, check here <input type="checkbox"/> and complete lines 30 through 34.		
	30 Capital stock or trust principal, or current funds	30	
	31 Paid-in or capital surplus, or land, building or equipment fund	31	
	32 Retained earnings, endowment, accumulated income, or other funds	32	
	33 Total net assets or fund balances	135,273,719	33 134,069,515
	34 Total liabilities and net assets/fund balances	387,688,494	34 453,287,213

Part XI Reconciliation of Net AssetsCheck 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	462,601,920
2	Total expenses (must equal Part IX, column (A), line 25)	2	447,077,717
3	Revenue less expenses Subtract line 2 from line 1	3	15,524,203
4	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A))	4	135,273,719
5	Other changes in net assets or fund balances (explain in Schedule O)	5	-16,728,407
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	134,069,515

Part XII Financial Statements and ReportingCheck 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?		2a
2b Were the organization's financial statements audited by an independent accountant?	2b Yes	No
2c 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		2c Yes
2d If "Yes" to line 2a or 2b, check a box below to indicate whether the financial statements for the year were issued on a separate basis, consolidated basis, or both <input type="checkbox"/> Separate basis <input type="checkbox"/> Consolidated basis <input checked="" type="checkbox"/> Both consolidated and separated basis		
3a As a result of a federal award, was the organization required to undergo an audit or audits as set forth in the Single Audit Act and OMB Circular A-133?		3a
3b 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		No 3b

2011

Open to Public
Inspection**SCHEDULE A**
(Form 990 or 990EZ)**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.

Department of the Treasury
Internal Revenue ServiceName of the organization
MERCY HEALTH SYSTEM CORPORATION

Employer identification number

39-0816848

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 **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

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 IRC 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) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(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) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(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 (Explain in Part IV) Do not include gain or loss from the sale of capital assets						
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 2011 (line 6 column (f) divided by line 11 column (f))	14
15 Public Support Percentage for 2010 Schedule A, Part II, line 14	15
16a 33 1/3% support test—2011. 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—2010. 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—2011. 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—2010. If the organization did not check a box on line 13, 16a, 16b, or 17a and line 15 is 10% or more, and if the organization meets the "facts and circumstances" test, check this box and stop here . Explain in Part IV how the organization meets the "facts and circumstances" test. The organization qualifies as a publicly supported organization	►
18 Private Foundation If the organization did not check a box on line 13, 16a, 16b, 17a or 17b, check this box and see instructions	►

Part III Support Schedule for Organizations Described in IRC 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) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(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) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(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 501(c)(3) organization, check this box and stop here						

Section C. Computation of Public Support Percentage

15 Public Support Percentage for 2011 (line 8 column (f) divided by line 13 column (f))	15
16 Public support percentage from 2010 Schedule A, Part III, line 15	16

Section D. Computation of Investment Income Percentage

17 Investment income percentage for 2011 (line 10c column (f) divided by line 13 column (f))	17
18 Investment income percentage from 2010 Schedule A, Part III, line 17	18
19a 33 1/3% support tests—2011. 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—2010. 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 explanation required by Part II, line 10; Part II, line 17a or 17b; or Part III, line 12. Also complete this part for any additional information. (See instructions).

Facts And Circumstances Test

Explanation

2011

Open to Public
Inspection**SCHEDULE D**
(Form 990)Department of the Treasury
Internal Revenue Service**Supplemental Financial Statements**

► Complete if the organization answered "Yes," to Form 990, Part IV, line 6, 7, 9, 10, 11a, 11b, 11c, 11d, 11e, 11f, 12a, or 12b
 ► Attach to Form 990. ► See separate instructions.

Name of the organization

MERCY HEALTH SYSTEM CORPORATION

Employer identification number

39-0816848

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

	(a) Donor advised funds	(b) Funds and other accounts
1 Total number at end of year		
2 Aggregate contributions to (during year)		
3 Aggregate grants from (during year)		
4 Aggregate value at end of year		

5 Did the organization inform all donors and donor advisors in writing that the assets held in donor advised funds are the organization's property, subject to the organization's exclusive legal control? Yes No

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? Yes No

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
2a	
2b	
2c	
2d	

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

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

5 Does the organization have a written policy regarding the periodic monitoring, inspection, handling of violations, and enforcement of the conservation easements it holds? Yes No

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

7 Amount of expenses incurred in monitoring, inspecting, and enforcing conservation easements during the year

► \$ _____

8 Does each conservation easement reported on line 2(d) above satisfy the requirements of section 170(h)(4)(B)(i) and 170(h)(4)(B)(ii)? Yes No

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

Part III Organizations Maintaining Collections of Art, Historical Treasures, or Other Similar Assets.

Complete if the organization answered "Yes" to Form 990, Part IV, line 8.

1a If the organization elected, as permitted under SFAS 116, not to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education or research in furtherance of public service, provide, in Part XIV, the text of the footnote to its financial statements that describes these items

b If the organization elected, as permitted under SFAS 116, to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education, or research in furtherance of public service, provide the following amounts relating to these items

(i) Revenues included in Form 990, Part VIII, line 1 ► \$ _____

(ii) Assets included in Form 990, Part X ► \$ _____

2 If the organization received or held works of art, historical treasures, or other similar assets for financial gain, provide the following amounts required to be reported under SFAS 116 relating to these items

a Revenues included in Form 990, Part VIII, line 1 ► \$ _____

b Assets included in Form 990, Part X ► \$ _____

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

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

a Public exhibition d Loan or exchange programs
 b Scholarly research e Other
 c Preservation for future generations

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 Yes No

(ii) related organizations Yes No

b If "Yes" to 3a(ii), are the related organizations listed as required on Schedule R? Yes No

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

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

	(a) Cost or other basis (investment)	(b) Cost or other basis (other)	(c) Accumulated depreciation	(d) Book value
1a Land		26,700,912		26,700,912
b Buildings		239,884,726	85,043,817	154,840,909
c Leasehold improvements		5,207,960	3,475,622	1,732,338
d Equipment		162,602,210	103,850,723	58,751,487
e Other		52,290,551	4,589,726	47,700,825
Total. Add lines 1a-1e (Column (d) should equal Form 990, Part X, column (B), line 10(c).)				289,726,471

Part VII Investments—Other Securities. See Form 990, Part X, line 12.

(a) Description of security or category (including name of security)	(b) Book value	(c) Method of valuation Cost or end-of-year market value
(1) Financial derivatives		
(2) Closely-held equity interests		
(3) Other		
(A) INVEST - FUTURE REPLACE OF PROP, PLANT & EQUIPMENT	22,805,909	F
(B) ASSETS UNDER BOND INDENTURE AGREEMENT	4,339,198	F
(C) DEFERRED COMPENSATION	6,123,945	F
(D) INVESTMENT IN MERCYCARE	14,544,109	F
(E) INVESTMENTS - OTHER	4,612,436	F
(F) BOND PROJECT FUND	15,622,010	F
	</	

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	462,601,920
2	Total expenses (Form 990, Part IX, column (A), line 25)	2	447,077,717
3	Excess or (deficit) for the year Subtract line 2 from line 1	3	15,524,203
4	Net unrealized gains (losses) on investments	4	-234,407
5	Donated services and use of facilities	5	
6	Investment expenses	6	
7	Prior period adjustments	7	
8	Other (Describe in Part XIV)	8	-16,494,000
9	Total adjustments (net) Add lines 4 - 8	9	-16,728,407
10	Excess or (deficit) for the year per financial statements Combine lines 3 and 9	10	-1,204,204

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	462,601,920
2	Amounts included on line 1 but not on Form 990, Part VIII, line 12		
a	Net unrealized gains on investments	2a	
b	Donated services and use of facilities	2b	
c	Recoveries of prior year grants	2c	
d	Other (Describe in Part XIV)	2d	
e	Add lines 2a through 2d	2e	0
3	Subtract line 2e from line 1	3	462,601,920
4	Amounts included on Form 990, Part VIII, line 12, but not on line 1		
a	Investment expenses not included on Form 990, Part VIII, line 7b	4a	
b	Other (Describe in Part XIV)	4b	
c	Add lines 4a and 4b	4c	0
5	Total Revenue Add lines 3 and 4c. (This should equal Form 990, Part I, line 12)	5	462,601,920

Part XIII Reconciliation of Expenses per Audited Financial Statements With Expenses per Return

1	Total expenses and losses per audited financial statements	1	447,077,717
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	0
3	Subtract line 2e from line 1	3	447,077,717
4	Amounts included on Form 990, Part IX, line 25, but not on line 1:		
a	Investment expenses not included on Form 990, Part VIII, line 7b	4a	
b	Other (Describe in Part XIV)	4b	
c	Add lines 4a and 4b	4c	0
5	Total expenses Add lines 3 and 4c. (This should equal Form 990, Part I, line 18)	5	447,077,717

Part XIV Supplemental Information

Complete this part to provide the descriptions required for Part II, lines 3, 5, and 9, Part III, lines 1a and 4, Part IV, lines 1b and 2b, Part V, line 4, Part X, Part XI, line 8, Part XII, lines 2d and 4b, and Part XIII, lines 2d and 4b. Also complete this part to provide any additional information

Identifier	Return Reference	Explanation
PART XI, LINE 8 - OTHER ADJUSTMENTS		CHANGES IN PENSION OBLIGATIONS -11,494,000 TRANSFER TO MERCY ALLIANCE, INC -5,000,000 TOTAL TO SCHEDULE D, PART XI, LINE 8 -16,494,000

SCHEDULE H
(Form 990)

Hospitals

OMB No 1545-0047

2011

Open to Public
InspectionDepartment of the Treasury
Internal Revenue Service► Complete if the organization answered "Yes" to Form 990, Part IV, question 20.
► Attach to Form 990. ► See separate instructions.Name of the organization
MERCY HEALTH SYSTEM CORPORATIONEmployer identification number
39-0816848

Part I Charity Care and Certain Other Community Benefits at Cost

1a Did the organization have a charity care policy? If "No," skip to question 6a

	Yes	No
1a	Yes	
1b	Yes	

2 If the organization had multiple hospitals, indicate which of the following best describes application of the charity care policy to the various hospitals

Applied uniformly to all hospitals
 Generally tailored to individual hospitals

Applied uniformly to most hospitals

3 Answer the following based on the charity care eligibility criteria that applies to the largest number of the organization's patients during the tax year

a Did the organization use Federal Poverty Guidelines (FPG) to determine eligibility for providing *free* care? If "Yes," indicate which of the following is the FPG family income limit for eligibility for free care

100% 150% 200% Other _____%

b Did the organization use FPG to determine eligibility for providing *discounted* care? If "Yes," indicate which of the following is the family income limit for eligibility for discounted care

200% 250% 300% 350% 400% Other _____%

c If the organization did 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 policy provide free or discounted care to the "medically indigent"?

4	Yes	
5a	Yes	
5b	Yes	

5a Did the organization budget amounts for free or discounted care provided under its financial assistance policy during the tax year?

5a	Yes	
5b	Yes	
5c	No	

b If "Yes," did the organization's charity care expenses exceed the budgeted amount?

5b	Yes	
5c	No	
6a	Yes	

c 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?

5c	No	
6a	Yes	
6b	Yes	

6a Did the organization prepare a community benefit report during the tax year?

6a	Yes	
6b	Yes	

6b If "Yes," did the organization make it available to the public?
Complete the following table using the worksheets provided in the Schedule H instructions. Do not submit these worksheets with the Schedule H

7 Charity Care and Certain Other Community Benefits at Cost

Charity Care 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 Charity care at cost (from Worksheet 1)			5,687,809	0	5,687,809	1 270 %
b Medicaid (from Worksheet 3, column a)			56,075,602	33,020,180	23,055,422	5 160 %
c Costs of other means-tested government programs (from Worksheet 3, column b)			5,465,153	3,372,765	2,092,388	0 470 %
d Total Charity Care and Means-Tested Government Programs			67,228,564	36,392,945	30,835,619	6 900 %
Other Benefits						
e Community health improvement services and community benefit operations (from Worksheet 4)			1,532,744	196,612	1,336,132	0 300 %
f Health professions education (from Worksheet 5)			4,192,628	882,245	3,310,383	0 740 %
g Subsidized health services (from Worksheet 6)			16,552,327	12,909,444	3,642,883	0 810 %
h Research (from Worksheet 7)			0	0		
i Cash and in-kind contributions for community benefit (from Worksheet 8)			508,354	0	508,354	0 110 %
j Total Other Benefits			22,786,053	13,988,301	8,797,752	1 960 %
k Total. Add lines 7d and 7j			90,014,617	50,381,246	39,633,371	8 860 %

Part II Community Building Activities Complete this table if the organization conducted any community building activities.

	(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community building expense	(d) Direct offsetting revenue	(e) Net community building expense	(f) Percent of total expense
1 Physical improvements and housing						
2 Economic development						
3 Community support			52,000		52,000	0 010 %
4 Environmental improvements						
5 Leadership development and training for community members						
6 Coalition building			32,000		32,000	0 010 %
7 Community health improvement advocacy			20,000		20,000	0 %
8 Workforce development			34,000		34,000	0 010 %
9 Other						
10 Total			138,000		138,000	0 030 %

Part III Bad Debt, Medicare, & Collection Practices
Section A. Bad Debt Expense

1 Did the organization report bad debt expense in accordance with Healthcare Financial Management Association Statement No 15?

2 Enter the amount of the organization's bad debt expense

3 Enter the estimated amount of the organization's bad debt expense attributable to patients eligible under the organization's charity care policy

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

	Yes	No
1	Yes	
2	6,994,860	
3	1,329,023	
5	48,190,786	
6	61,889,748	
7	-13,698,962	
9a	Yes	
9b	Yes	

Section B. Medicare

5 Enter total revenue received from Medicare (including DSH and IME)

6 Enter Medicare allowable costs of care relating to payments on line 5

7 Subtract line 6 from line 5 This is the surplus or (shortfall)

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

Cost accounting system

Cost to charge ratio

Other

Section C. Collection Practices

9a Did the organization have a written debt collection policy during the tax year?

b If "Yes," did the organization's collection policy that applied to the largest number of its patients during the tax year contain provisions on the collection practices to be followed for patients who are known to qualify for financial assistance? Describe in Part VI

9a	Yes
9b	Yes

Part IV Management Companies and Joint Ventures (see instructions)

	(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					

Part V Facility Information

Section A. Hospital Facilities

(list in order of size from largest to smallest)

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

Name and address

Part V Facility Information (continued)**Section B. Facility Policies and Practices.**

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

MERCY HOSPITAL AND TRAUMA CENTER

Name of Hospital Facility: _____

Line Number of Hospital Facility (from Schedule H, Part V, Section A): _____ 1

	Yes	No
Community Health Needs Assessment (Lines 1 through 7 are optional for 2011)		
1 During the tax year or any prior tax year, did the hospital facility conduct a community health needs assessment ("Needs Assessment")? If "No," skip to question 8	1	
If "Yes," indicate what the Needs Assessment describes (check all that apply)		
a <input type="checkbox"/> A definition of the community served by the hospital facility		
b <input type="checkbox"/> Demographics of the community		
c <input type="checkbox"/> Existing health care facilities and resources within the community that are available to respond to the health needs of the community		
d <input type="checkbox"/> How data was obtained		
e <input type="checkbox"/> The health needs of the community		
f <input type="checkbox"/> Primary and chronic disease needs and other health issues of uninsured persons, low-income persons, and minority groups		
g <input type="checkbox"/> The process for identifying and prioritizing community health needs and services to meet those needs		
h <input type="checkbox"/> The process for consulting with persons representing the community's interests		
i <input type="checkbox"/> Information gaps that limit the hospital facility's ability to assess the community's health needs		
j <input type="checkbox"/> Other (describe in Part VI)		
2 Indicate the tax year the hospital facility last conducted a Needs Assessment 20 ____		
3 In conducting its most recent Needs Assessment, did the hospital facility take into account input from persons who represent the community served by the hospital facility? If "Yes," describe in Part VI how the hospital facility took into account input from persons who represent the community, and identify the persons the hospital facility consulted	3	
4 Was the hospital facility's Needs Assessment conducted with one or more other hospital facilities? If "Yes," list the other hospital facilities in Part VI	4	
5 Did the hospital facility make its Needs Assessment widely available to the public?	5	
If "Yes," indicate how the Needs Assessment was made widely available (check all that apply)		
a <input type="checkbox"/> Hospital facility's website		
b <input type="checkbox"/> Available upon request from the hospital facility		
c <input type="checkbox"/> Other (describe in Part VI)		
6 If the hospital facility addressed needs identified in its most recently conducted Needs Assessment, indicate how (check all that apply)		
a <input type="checkbox"/> Adoption of an implementation strategy to address the health needs of the hospital facility's community		
b <input type="checkbox"/> Execution of the implementation strategy		
c <input type="checkbox"/> Development of a community-wide community benefit plan for the facility		
d <input type="checkbox"/> Participation in community-wide community benefit plan		
e <input type="checkbox"/> Inclusion of a community benefit section in operational plans		
f <input type="checkbox"/> Adoption of a budget for provision of services that address the needs identified in the CHNA		
g <input type="checkbox"/> Prioritization of health needs in the community		
h <input type="checkbox"/> Prioritization of services that the hospital facility will undertake to meet health needs in its community		
i <input type="checkbox"/> Other (describe in Part VI)		
7 Did the hospital facility address all of the needs identified in its most recently conducted Needs Assessment? If "No," explain in Part VI which needs it has not addressed together with the reasons why it has not addressed such needs	7	
Financial Assistance Policy		
Did the hospital facility have in place during the tax year a written financial assistance policy that		
8 Explains eligibility criteria for financial assistance, and whether such assistance includes free or discounted care?	8	Yes
9 Used federal poverty guidelines (FPG) to determine eligibility for providing free care?	9	Yes
If "Yes," indicate the FPG family income limit for eligibility for free care 150 000000000000%		
If "No," explain in Part VI the criteria the hospital facility used		

Part V Facility Information (continued)

	Yes	No
10 Used FPG to determine eligibility for providing discounted care?	10 Yes	
If "Yes," indicate the FPG family income limit for eligibility for discounted care <u>300 000000000000%</u> If "No," explain in Part VI the criteria the hospital facility used		
11 Explained the basis for calculating amounts charged to patients?	11 Yes	
If "Yes," indicate the factors used in determining such amounts (check all that apply)		
a <input checked="" type="checkbox"/> Income level		
b <input checked="" type="checkbox"/> Asset level		
c <input checked="" type="checkbox"/> Medical indigency		
d <input checked="" type="checkbox"/> Insurance status		
e <input checked="" type="checkbox"/> Uninsured discount		
f <input checked="" type="checkbox"/> Medicaid/Medicare		
g <input type="checkbox"/> State regulation		
h <input type="checkbox"/> Other (describe in Part VI)		
12 Explained the method for applying for financial assistance?	12 Yes	
13 Included measures to publicize the policy within the community served by the hospital facility?	13 Yes	
If "Yes," indicate how the hospital facility publicized the policy (check all that apply)		
a <input checked="" type="checkbox"/> The policy was posted at all times on the hospital facility's web site		
b <input type="checkbox"/> The policy was attached to all billing invoices		
c <input type="checkbox"/> The policy was posted in the hospital facility's emergency rooms or waiting rooms		
d <input type="checkbox"/> The policy was posted in the hospital facility's admissions offices		
e <input type="checkbox"/> The policy was provided, in writing, to patients upon admission to the hospital facility		
f <input checked="" type="checkbox"/> The policy was available upon request		
g <input checked="" type="checkbox"/> Other (describe in Part VI)		
Billing and Collections		
14 Did the hospital facility have in place during the tax year a separate billing and collections policy, or a written financial assistance policy (FAP) that explained actions the hospital facility may take upon non-payment?	14 Yes	
15 Check all of the following collection actions against an individual that were permitted under the hospital facility's policies during the tax year before making reasonable efforts to determine the patient's eligibility under the facility's FAP		
a <input checked="" type="checkbox"/> Reporting to credit agency		
b <input type="checkbox"/> Lawsuits		
c <input type="checkbox"/> Liens on residences		
d <input type="checkbox"/> Body attachments or arrests		
e <input type="checkbox"/> Other similar actions (describe in Part VI)		
16 Did the hospital facility or an authorized third party perform any of the following actions during the tax year before making reasonable efforts to determine the patient's eligibility under the facility's FAP?	16 No	
If "Yes," check all actions in which the hospital facility or a third party engaged		
a <input type="checkbox"/> Reporting to credit agency		
b <input type="checkbox"/> Lawsuits		
c <input type="checkbox"/> Liens on residences		
d <input type="checkbox"/> Body attachments		
e <input type="checkbox"/> Other similar actions (describe in Part VI)		
17 Indicate which efforts the hospital facility made before initiating any of the actions checked in question 16 (check all that apply)		
a <input type="checkbox"/> Notified patients of the financial assistance policy upon admission		
b <input type="checkbox"/> Notified patients of the financial assistance policy prior to discharge		
c <input type="checkbox"/> Notified patients of the financial assistance policy in communications with the patients regarding the patients' bills		
d <input type="checkbox"/> Documented its determination of whether patients were eligible for financial assistance under the hospital facility's financial assistance policy		
e <input type="checkbox"/> Other (describe in Part VI)		

Part V Facility Information (continued)**Policy Relating to Emergency Medical Care**

18 Did the hospital facility have in place during the tax year a written policy relating to emergency medical care that requires the hospital facility to provide, without discrimination, care for emergency medical conditions to individuals regardless of their eligibility under the hospital facility's financial assistance policy?

If "No," indicate why

- a** The hospital facility did not provide care for any emergency medical conditions
- b** The hospital facility's policy was not in writing
- c** The hospital facility limited who was eligible to receive care for emergency medical conditions (describe in Part VI)
- d** Other (describe in Part VI)

	Yes	No
18	Yes	

Individuals Eligible for Financial Assistance

19 Indicate how the hospital facility determined, during the tax year, the maximum amounts that can be charged to FAP-eligible individuals for emergency or other medically necessary care

- a** The hospital facility used its lowest negotiated commercial insurance rate when calculating the maximum amounts that can be charged
- b** The hospital facility used the average of its three lowest negotiated commercial insurance rates when calculating the maximum amounts that can be charged
- c** The hospital facility used the Medicare rates when calculating the maximum amounts that can be charged
- d** Other (describe in Part VI)

20		No
21		No

20 Did the hospital facility charge any of its patients who were eligible for assistance under the hospital facility's financial assistance policy, and to whom the hospital facility provided emergency or other medically necessary services, more than the amounts generally billed to individuals who had insurance covering such care?

If "Yes," explain in Part VI

21 Did the hospital facility charge any of its FAP-eligible patients an amount equal to the gross charge for services provided to that patient?

If "Yes," explain in Part VI

Part V Facility Information (continued)**Section B. Facility Policies and Practices.**

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

MERCY WALWORTH HOSPITAL AND MEDICAL CENT

Name of Hospital Facility: _____

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

	Yes	No
Community Health Needs Assessment (Lines 1 through 7 are optional for 2011)		
1 During the tax year or any prior tax year, did the hospital facility conduct a community health needs assessment ("Needs Assessment")? If "No," skip to question 8	1	
If "Yes," indicate what the Needs Assessment describes (check all that apply)		
a <input type="checkbox"/> A definition of the community served by the hospital facility		
b <input type="checkbox"/> Demographics of the community		
c <input type="checkbox"/> Existing health care facilities and resources within the community that are available to respond to the health needs of the community		
d <input type="checkbox"/> How data was obtained		
e <input type="checkbox"/> The health needs of the community		
f <input type="checkbox"/> Primary and chronic disease needs and other health issues of uninsured persons, low-income persons, and minority groups		
g <input type="checkbox"/> The process for identifying and prioritizing community health needs and services to meet those needs		
h <input type="checkbox"/> The process for consulting with persons representing the community's interests		
i <input type="checkbox"/> Information gaps that limit the hospital facility's ability to assess the community's health needs		
j <input type="checkbox"/> Other (describe in Part VI)		
2 Indicate the tax year the hospital facility last conducted a Needs Assessment 20 ____		
3 In conducting its most recent Needs Assessment, did the hospital facility take into account input from persons who represent the community served by the hospital facility? If "Yes," describe in Part VI how the hospital facility took into account input from persons who represent the community, and identify the persons the hospital facility consulted	3	
4 Was the hospital facility's Needs Assessment conducted with one or more other hospital facilities? If "Yes," list the other hospital facilities in Part VI	4	
5 Did the hospital facility make its Needs Assessment widely available to the public?	5	
If "Yes," indicate how the Needs Assessment was made widely available (check all that apply)		
a <input type="checkbox"/> Hospital facility's website		
b <input type="checkbox"/> Available upon request from the hospital facility		
c <input type="checkbox"/> Other (describe in Part VI)		
6 If the hospital facility addressed needs identified in its most recently conducted Needs Assessment, indicate how (check all that apply)		
a <input type="checkbox"/> Adoption of an implementation strategy to address the health needs of the hospital facility's community		
b <input type="checkbox"/> Execution of the implementation strategy		
c <input type="checkbox"/> Development of a community-wide community benefit plan for the facility		
d <input type="checkbox"/> Participation in community-wide community benefit plan		
e <input type="checkbox"/> Inclusion of a community benefit section in operational plans		
f <input type="checkbox"/> Adoption of a budget for provision of services that address the needs identified in the CHNA		
g <input type="checkbox"/> Prioritization of health needs in the community		
h <input type="checkbox"/> Prioritization of services that the hospital facility will undertake to meet health needs in its community		
i <input type="checkbox"/> Other (describe in Part VI)		
7 Did the hospital facility address all of the needs identified in its most recently conducted Needs Assessment? If "No," explain in Part VI which needs it has not addressed together with the reasons why it has not addressed such needs	7	
Financial Assistance Policy		
Did the hospital facility have in place during the tax year a written financial assistance policy that		
8 Explains eligibility criteria for financial assistance, and whether such assistance includes free or discounted care?	8	Yes
9 Used federal poverty guidelines (FPG) to determine eligibility for providing free care?	9	Yes
If "Yes," indicate the FPG family income limit for eligibility for free care 150 000000000000%		
If "No," explain in Part VI the criteria the hospital facility used		

Part V Facility Information (continued)

	Yes	No
10 Used FPG to determine eligibility for providing discounted care?	10 Yes	
If "Yes," indicate the FPG family income limit for eligibility for discounted care <u>300 000000000000%</u> If "No," explain in Part VI the criteria the hospital facility used		
11 Explained the basis for calculating amounts charged to patients?	11 Yes	
If "Yes," indicate the factors used in determining such amounts (check all that apply)		
a <input checked="" type="checkbox"/> Income level		
b <input checked="" type="checkbox"/> Asset level		
c <input checked="" type="checkbox"/> Medical indigency		
d <input checked="" type="checkbox"/> Insurance status		
e <input checked="" type="checkbox"/> Uninsured discount		
f <input checked="" type="checkbox"/> Medicaid/Medicare		
g <input type="checkbox"/> State regulation		
h <input type="checkbox"/> Other (describe in Part VI)		
12 Explained the method for applying for financial assistance?	12 Yes	
13 Included measures to publicize the policy within the community served by the hospital facility?	13 Yes	
If "Yes," indicate how the hospital facility publicized the policy (check all that apply)		
a <input checked="" type="checkbox"/> The policy was posted at all times on the hospital facility's web site		
b <input type="checkbox"/> The policy was attached to all billing invoices		
c <input type="checkbox"/> The policy was posted in the hospital facility's emergency rooms or waiting rooms		
d <input type="checkbox"/> The policy was posted in the hospital facility's admissions offices		
e <input type="checkbox"/> The policy was provided, in writing, to patients upon admission to the hospital facility		
f <input checked="" type="checkbox"/> The policy was available upon request		
g <input checked="" type="checkbox"/> Other (describe in Part VI)		
Billing and Collections		
14 Did the hospital facility have in place during the tax year a separate billing and collections policy, or a written financial assistance policy (FAP) that explained actions the hospital facility may take upon non-payment?	14 Yes	
15 Check all of the following collection actions against an individual that were permitted under the hospital facility's policies during the tax year before making reasonable efforts to determine the patient's eligibility under the facility's FAP		
a <input checked="" type="checkbox"/> Reporting to credit agency		
b <input type="checkbox"/> Lawsuits		
c <input type="checkbox"/> Liens on residences		
d <input type="checkbox"/> Body attachments or arrests		
e <input type="checkbox"/> Other similar actions (describe in Part VI)		
16 Did the hospital facility or an authorized third party perform any of the following actions during the tax year before making reasonable efforts to determine the patient's eligibility under the facility's FAP?	16 No	
If "Yes," check all actions in which the hospital facility or a third party engaged		
a <input type="checkbox"/> Reporting to credit agency		
b <input type="checkbox"/> Lawsuits		
c <input type="checkbox"/> Liens on residences		
d <input type="checkbox"/> Body attachments		
e <input type="checkbox"/> Other similar actions (describe in Part VI)		
17 Indicate which efforts the hospital facility made before initiating any of the actions checked in question 16 (check all that apply)		
a <input type="checkbox"/> Notified patients of the financial assistance policy upon admission		
b <input type="checkbox"/> Notified patients of the financial assistance policy prior to discharge		
c <input type="checkbox"/> Notified patients of the financial assistance policy in communications with the patients regarding the patients' bills		
d <input type="checkbox"/> Documented its determination of whether patients were eligible for financial assistance under the hospital facility's financial assistance policy		
e <input type="checkbox"/> Other (describe in Part VI)		

Part V Facility Information (continued)**Policy Relating to Emergency Medical Care**

18 Did the hospital facility have in place during the tax year a written policy relating to emergency medical care that requires the hospital facility to provide, without discrimination, care for emergency medical conditions to individuals regardless of their eligibility under the hospital facility's financial assistance policy?

If "No," indicate why

- a** The hospital facility did not provide care for any emergency medical conditions
- b** The hospital facility's policy was not in writing
- c** The hospital facility limited who was eligible to receive care for emergency medical conditions (describe in Part VI)
- d** Other (describe in Part VI)

	Yes	No
18	Yes	

Individuals Eligible for Financial Assistance

19 Indicate how the hospital facility determined, during the tax year, the maximum amounts that can be charged to FAP-eligible individuals for emergency or other medically necessary care

- a** The hospital facility used its lowest negotiated commercial insurance rate when calculating the maximum amounts that can be charged
- b** The hospital facility used the average of its three lowest negotiated commercial insurance rates when calculating the maximum amounts that can be charged
- c** The hospital facility used the Medicare rates when calculating the maximum amounts that can be charged
- d** Other (describe in Part VI)

20		No
21		No

20 Did the hospital facility charge any of its patients who were eligible for assistance under the hospital facility's financial assistance policy, and to whom the hospital facility provided emergency or other medically necessary services, more than the amounts generally billed to individuals who had insurance covering such care?

If "Yes," explain in Part VI

21 Did the hospital facility charge any of its FAP-eligible patients an amount equal to the gross charge for services provided to that patient?

If "Yes," explain in Part VI

Part V Facility Information (continued)**Section C. Other Facilities That Are Not Licensed, Registered, or Similarly Recognized as a Hospital Facility**
(list in order of size from largest to smallest)How many non-hospital facilities did the organization operate during the tax year? **49**

Name and address	Type of Facility (Describe)
1	See Additional Data Table
2	
3	
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5	
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9	
10	

Part VI Supplemental Information

Complete this part to provide the following information

- 1 **Required descriptions.** Provide the descriptions 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, 9, 10, 11h, 13g, 15e, 16e, 17e, 18d, 19d, 20, and 21
- 2 **Community health needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any community health needs assessments reported in Part V, Section B
- 3 **Patient education of eligibility for assistance.** Describe how the organization informs and educates patients and persons who may be billed for patient care about their eligibility for assistance under federal, state, or local government programs or under the organization's financial assistance policy
- 4 **Community information.** Describe the community the organization serves, taking into account the geographic area and demographic constituents it serves
- 5 **Promotion of community health.** Provide any other information important to describing how the organization's hospital facilities or other health care facilities further its exempt purpose by promoting the health of the community (e.g., open medical staff, community board, use of surplus funds, etc.)
- 6 **Affiliated health care system.** If the organization is part of an affiliated health care system, describe the respective roles of the organization and its affiliates in promoting the health of the communities served
- 7 **State filing of community benefit report.** If applicable, identify all states with which the organization, or a related organization, files a community benefit report

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

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

Identifier	ReturnReference	Explanation
		PART I, LINE 7G THE SUBSIDIZED HEALTH CARE LINE INCLUDES \$2,574,892 OF EXPENSES (COLUMN C) AND \$592,683 OF NET EXPENSES (COLUMN E) ATTRIBUTABLE TO THE COSTS OF TRAUMA SURGEONS THESE SURGEONS STAFF THE LEVEL II TRAUMA PROGRAM OF MERCY HEALTH SYSTEM CORPORATION 24/7 MERCY'S SOUTH - FAMILY PRACTICE CLINIC WAS ALSO INCLUDED IN THIS LINE EXPENSES IN COLUMN C TOTALLED \$3,179,703 AND COLUMN E HAD 148,296 OF NET EXPENSES

Identifier	ReturnReference	Explanation
		PART I, L7 COL(F) BAD DEBT EXPENSE OF \$16,272,355 INCLUDED ON FORM 990, PART IX, LINE 25, WAS EXCLUDED FROM EXPENSES WHEN CALCULATING THE PERCENTAGE IN THIS COLUMN

Schedule H (Form 990) 2011

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

Schedule H (Form 990) 2011

Identifier	ReturnReference	Explanation
		<p>PART III, LINE 4 BAD DEBT EXPENSE IS ACCOUNTED FOR IN THE FOLLOWING MANNER (AS DETAILED IN NOTE 1 OF THE AUDITED FINANCIAL STATEMENTS OF MERCY HEALTH SYSTEM CORPORATION AND SUBSIDIARIES) PATIENT ACCOUNTS RECEIVABLE ARE RECORDED NET OF CONTRACTUAL ADJUSTMENTS AND ALLOWANCE FOR DOUBTFUL ACCOUNTS WHICH REFLECTS MANAGEMENT'S BEST ESTIMATE OF THE AMOUNTS THAT WILL NOT BE COLLECTED IN EVALUATING THE COLLECTIBILITY OF PATIENT ACCOUNTS RECEIVABLE, MHSC ANALYZES HISTORICAL LOSS EXPERIENCE ON REVENUE FOR ALL PAYORS USING THE LOSS EXPERIENCE RATE, MHSC ESTIMATES THE APPROPRIATE ALLOWANCE FOR DOUBTFUL ACCOUNTS AND PROVISION FOR BAD DEBTS THE DIFFERENCE BETWEEN THE STANDARD RATES (OR THE DISCOUNTED RATES IF NEGOTIATED) AND THE AMOUNTS ACTUALLY COLLECTED AFTER ALL REASONABLE COLLECTION EFFORTS HAVE BEEN EXHAUSTED IS CHARGED AGAINST THE ALLOWANCE FOR DOUBTFUL ACCOUNTS THE COST OF BAD DEBT ON LINE 2 PART III WAS DETERMINED BY APPLYING THE COST TO CHARGE RATIO TO THOSE CHARGES ESTIMATED AND EXPENSED AS UNCOLLECTIBLE THE ESTIMATE OF BAD DEBT DOLLARS THAT MAY HAVE BEEN COVERED THROUGH MERCY'S FINANCIAL ASSISTANCE/CHARITY CARE POLICY (HAD THE PROPER PAPER WORK BEEN COMPLETED BY THE INDIVIDUAL NEEDING ASSISTANCE) IS ESTIMATED AT 19% THIS FIGURE WAS BASED ON THE PERCENT OF BAD DEBT ACCOUNT DOLLARS THAT ARE RECLASSIFIED FOR CHARITY AND/OR BANKRUPTCY PURPOSES</p>

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

Schedule H (Form 990) 2011

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

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

Schedule H (Form 990) 2011

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

Schedule H (Form 990) 2011

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

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

Schedule H (Form 990) 2011

Identifier	ReturnReference	Explanation
		<p>PART VI, LINE 4 ONE HOSPITAL OF MERCY HEALTH SYSTEM CORPORATION IS LOCATED IN JANEVILLE, WI IT IS NOW ONE OF TWO ACUTE CARE HOSPITALS LOCATED IN JANEVILLE, WI IT IS LICENSED FOR 240 BEDS AND IS LOCATED IN ROCK COUNTY, WI ABOUT 13% OF ROCK COUNTY RESIDENTS LIVED BELOW THE POVERTY LEVEL IN 2009 THIS PROPORTION EXCEEDS THE STATE AVERAGE (12.4%) BUT IS LESS THAN THE NATIONAL AVERAGE (15.1%) APPROXIMATELY 16% OF CHILDREN LIVE IN POVERTY, WHICH IS GREATER THAN BOTH THE STATE AVERAGE (14%) AND NATIONAL BENCHMARK (11%) MEDIAN HOUSEHOLD INCOME IS \$49,347, WHICH IS LOWER THAN BOTH THE STATE AND NATIONAL AVERAGES OF \$49,994 AND \$51,425, RESPECTIVELY HIGH UNEMPLOYMENT RATES AND A DECREASING LABOR FORCE ARE TWO FACTORS CONTRIBUTING TO THE OVERALL ECONOMIC CLIMATE IN THE COUNTY ROCK COUNTY HAS EXPERIENCED UNEMPLOYMENT RATES GREATER THAN THE STATE AND NATIONAL AVERAGES FOR SEVERAL YEARS, HOWEVER, THE COUNTY'S RATE HAS BEEN ON A DOWNWARD TREND SINCE 2009 WHILE THE LABOR FORCE DECLINED CONSIDERABLY FROM 2006 THROUGH 2010, ECONOMIC DEVELOPMENT EFFORTS HAVE RESULTED IN LABOR FORCE GROWTH IN 2010 AND 2011 ROCK COUNTY'S UNEMPLOYMENT RATE AS OF 2011 WAS AT 9.8% MERCY HEALTH SYSTEM'S SECOND HOSPITAL IS IN WALWORTH COUNTY IT IS DESIGNATED AS A CRITICAL ACCESS 25 BED HOSPITAL WALWORTH COUNTY WAS ALSO ESTIMATED TO HAVE APPROXIMATELY 11% OF THE POPULATION BELOW THE POVERTY LEVEL WALWORTH'S UNEMPLOYMENT RATE AS OF FEBRUARY, 2010 WAS AT 10.7% THE TWO HOSPITALS' PAYOR DEMOGRAPHICS INCLUDED 39.0% MEDICARE, AND 13.8% MEDICAID FOR THE FISCAL YEAR OF JULY 1, 2011 - JUNE 30, 2012 (AS DETERMINED BY CHARGES BILLED)</p>

Identifier	ReturnReference	Explanation
		PART VI, LINE 5 THE HOSPITALS OF MERCY HEALTH SYSTEM HAVE AN OPEN MEDICAL STAFF WITH PRIVILEGES AVAILABLE TO ALL QUALIFIED PHYSICIANS IN THE AREA MERCY HEALTH SYSTEM HAS A GOVERNING BODY IN WHICH INDEPENDENT PERSONS REPRESENTATIVE OF THE COMMUNITY COMPRIZE A MAJORITY

Identifier	ReturnReference	Explanation
		<p>PART VI, LINE 6 MERCY HEALTH SYSTEM CORPORATION OPERATES TWO HOSPITALS AND HAS COMMUNITY CLINICS LOCATED THROUGHOUT SIX COUNTIES OF WISCONSIN AND ILLINOIS IT IS PART OF A LARGER INTEGRATED HEALTH SYSTEM AND AFFILIATED WITH OTHER SEPARATELY REPORTED ORGANIZATIONS MERCY ALLIANCE INC IS THE PARENT COMPANY OF MERCY HEALTH SYSTEM CORPORATION, MERCY ASSISTED CARE INC, AND MERCY HARVARD HOSPITAL INC MERCY ASSISTED CARE PROVIDES HOME HEALTH SERVICES AND DME (DURABLE MEDICAL EQUIPMENT) SERVICES, THUS PROVIDING CONTINUATION OF CARE TO MERCY HEALTH SYSTEM PATIENTS AND THE COMMUNITY AS A WHOLE MERCY HARVARD HOSPITAL PROVIDES ACUTE CARE SERVICES IN MCHENRY COUNTY ILLINOIS MERCY HEALTH SYSTEM CORP WORKS WITH THE MERCY FOUNDATION, INC TO OPERATE A HOMELESS SHELTER IN JANESVILLE, WI THE HOUSE OF MERCY HOMELESS CENTER PROVIDES SHELTER, SUPPORT, AND TRAINING TO WOMEN, CHILDREN, AND FAMILIES TO HELP FIGHT HOMELESSNESS IT OPENED IN 1996, AND NOW SHELTERS AN AVERAGE OF 280 INDIVIDUALS EACH YEAR MERCY HOSPITAL ASSOCIATION OF VOLUNTEERS, INC IS THE ORGANIZATION/TAX ENTITY OF MERCY'S VOLUNTEERS VOLUNTEERS NUMBERED 1,138 IN CALENDAR YEAR 2011 THIS ORGANIZATION NOT ONLY SUPPORTS MERCY'S SERVICES, BUT PROVIDES BENEFITS TO THE COMMUNITY AS A WHOLE IN CONJUNCTION WITH MERCY HEALTH SYSTEM'S MEAL PREPARATION, THE VOLUNTEERS PARTICIPATE IN AND OVERSEE A MEALS ON WHEELS PROGRAM PARTICIPANT/NUTRITION SPECIFIC MEALS ARE PREPARED AND DELIVERED TO THE ELDERLY NEEDING ASSISTANCE IN JANESVILLE THE VOLUNTEER ASSOCIATION RUNS A HOSPITALITY HOUSE IN WHICH FAMILY MEMBERS OF PATIENTS ARE OFFERED FREE HOUSING DURING THEIR LOVED ONES EXTENDED HOSPITAL STAY AND REHABILITATION</p>

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

Schedule H (Form 990) 2011

Additional Data

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

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

Form 990 Schedule H, Part V Section C. Other Facilities That Are Not Licensed, Registered, or Similarly Recognized as a Hospital Facility**Section C. Other Facilities That Are Not Licensed, Registered, or Similarly Recognized as a Hospital Facility**
(list in order of size from largest to smallest)

How many non-hospital facilities did the organization operate during the tax year? 49

Name and address	Type of Facility (Describe)
MERCY MANOR TRANSITION CENTER 1000 MINERAL POINT AVENUE JANESVILLE, WI 53548	SKILLED NURSING/SUB-ACUTE CARE FACILITY
MERCY MANOR TRANSITION CENTER 1000 MINERAL POINT AVENUE JANESVILLE, WI 53548	SKILLED NURSING/SUB-ACUTE CARE FACILITY
MERCY MANOR TRANSITION CENTER 1000 MINERAL POINT AVENUE JANESVILLE, WI 53548	SKILLED NURSING/SUB-ACUTE CARE FACILITY
MERCY MANOR TRANSITION CENTER 1000 MINERAL POINT AVENUE JANESVILLE, WI 53548	SKILLED NURSING/SUB-ACUTE CARE FACILITY
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MERCY MANOR TRANSITION CENTER 1000 MINERAL POINT AVENUE JANESVILLE, WI 53548	SKILLED NURSING/SUB-ACUTE CARE FACILITY
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MERCY MANOR TRANSITION CENTER 1000 MINERAL POINT AVENUE JANESVILLE, WI 53548	SKILLED NURSING/SUB-ACUTE CARE FACILITY
MERCY MANOR TRANSITION CENTER 1000 MINERAL POINT AVENUE JANESVILLE, WI 53548	SKILLED NURSING/SUB-ACUTE CARE FACILITY
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MERCY MANOR TRANSITION CENTER 1000 MINERAL POINT AVENUE JANESVILLE, WI 53548	SKILLED NURSING/SUB-ACUTE CARE FACILITY
MERCY MANOR TRANSITION CENTER 1000 MINERAL POINT AVENUE JANESVILLE, WI 53548	SKILLED NURSING/SUB-ACUTE CARE FACILITY
MERCY MANOR TRANSITION CENTER 1000 MINERAL POINT AVENUE JANESVILLE, WI 53548	SKILLED NURSING/SUB-ACUTE CARE FACILITY
MERCY MANOR TRANSITION CENTER 1000 MINERAL POINT AVENUE JANESVILLE, WI 53548	SKILLED NURSING/SUB-ACUTE CARE FACILITY

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

Section C. Other Facilities That Are Not Licensed, Registered, or Similarly Recognized as a Hospital Facility
(list in order of size from largest to smallest)

How many non-hospital facilities did the organization operate during the tax year? 49

Name and address	Type of Facility (Describe)
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MERCY MANOR TRANSITION CENTER 1000 MINERAL POINT AVENUE JANESVILLE, WI 53548	SKILLED NURSING/SUB-ACUTE CARE FACILITY
MERCY MANOR TRANSITION CENTER 1000 MINERAL POINT AVENUE JANESVILLE, WI 53548	SKILLED NURSING/SUB-ACUTE CARE FACILITY
MERCY MANOR TRANSITION CENTER 1000 MINERAL POINT AVENUE JANESVILLE, WI 53548	SKILLED NURSING/SUB-ACUTE CARE FACILITY
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MERCY MANOR TRANSITION CENTER 1000 MINERAL POINT AVENUE JANESVILLE, WI 53548	SKILLED NURSING/SUB-ACUTE CARE FACILITY
MERCY MANOR TRANSITION CENTER 1000 MINERAL POINT AVENUE JANESVILLE, WI 53548	SKILLED NURSING/SUB-ACUTE CARE FACILITY

Schedule J
(Form 990)**Compensation Information**

OMB No 1545-0047

2011Department of the Treasury
Internal Revenue Service

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.

Open to Public Inspection**Name of the organization**

MERCY HEALTH SYSTEM CORPORATION

Employer identification number

39-0816848

Part I Questions Regarding Compensation

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 checked="" type="checkbox"/> Housing allowance or residence for personal use
<input type="checkbox"/> Travel for companions	<input checked="" type="checkbox"/> Payments for business use of personal residence
<input type="checkbox"/> Tax indemnification and gross-up payments	<input checked="" type="checkbox"/> Health or social club dues or initiation fees
<input type="checkbox"/> Discretionary spending account	<input checked="" 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

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?

3 Indicate which, if any, of the following the organization uses to establish the compensation of the organization's CEO/Executive Director. Check all that apply

<input checked="" type="checkbox"/> Compensation committee	<input checked="" type="checkbox"/> Written employment contract
<input checked="" type="checkbox"/> Independent compensation consultant	<input checked="" type="checkbox"/> Compensation survey or study
<input checked="" type="checkbox"/> Form 990 of other organizations	<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?

b Participate in, or receive payment from, a supplemental nonqualified retirement plan?

c Participate in, or receive payment from, an equity-based compensation arrangement?

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?

b Any related organization?

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?

b Any related organization?

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

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

9 If "Yes" to line 8, did the organization also follow the rebuttable presumption procedure described in Regulations section 53.4958-6(c)?

	Yes	No
1b	Yes	
2	Yes	
4a		No
4b	Yes	
4c		No
5a		No
5b		No
6a		No
6b		No
7		No
8		No
9		

Part II Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees. Use Schedule J-1 if additional space 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) for each listed individual must equal the total amount of Form 990, Part VII, Section A, line 1a, columns (D) and (E) for that individual.

Part III Supplemental Information

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

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

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

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

(A) Name	(B) Breakdown of W-2 and/or 1099-MISC compensation			(C) Deferred compensation	(D) Nontaxable benefits	(E) Total of columns (B)(i)-(D)	(F) Compensation reported in prior Form 990 or Form 990-EZ
	(i) Base Compensation	(ii) Bonus & incentive compensation	(iii) Other compensation				
MARK GOELZER MD	(i) 317,681 (ii) 0	111,543 0	0 0	676,428 0	23,108 0	1,128,760 0	0 0
BARB BORTNER	(i) 130,267 (ii) 0	64,245 0	3,069 0	11,786 0	20,888 0	230,255 0	0 0
DAN COLBY	(i) 181,245 (ii) 0	86,241 0	9,658 0	16,733 0	7,927 0	301,804 0	0 0
DAVID KURTZ	(i) 132,324 (ii) 0	68,407 0	9,812 0	12,213 0	13,758 0	236,514 0	0 0
JOHN COOK	(i) 233,650 (ii) 0	111,435 0	13,678 0	20,837 0	24,718 0	404,318 0	0 0
RUTH YARBROUGH	(i) 158,319 (ii) 0	84,849 0	11,328 0	14,990 0	11,128 0	280,614 0	0 0
RICHARD GRUBER	(i) 132,858 (ii) 0	70,359 0	7,535 0	12,222 0	17,909 0	240,883 0	0 0
RALPH TOPINKA	(i) 249,954 (ii) 0	187,551 0	7,736 0	23,522 0	3,464 0	472,227 0	0 0
JOSEPH NEMETH	(i) 137,053 (ii) 0	65,480 0	8,252 0	12,476 0	10,484 0	233,745 0	0 0
KATHY HARRIS	(i) 85,168 (ii) 0	46,004 0	13,496 0	7,205 0	18,080 0	169,953 0	0 0
SUE RIPSCH	(i) 238,792 (ii) 0	121,676 0	4,570 0	15,014 0	14,494 0	394,546 0	0 0
JAVON BEA	(i) 886,939 (ii) 0	785,800 0	2,355,390 0	15,014 0	19,247 0	4,062,390 0	0 0
CHRISTOPHER STURM	(i) 1,304,631 (ii) 0	477,321 0	0 0	87,576 0	33,969 0	1,903,497 0	0 0
JOHN BUSSA	(i) 1,380,615 (ii) 0	348,243 0	0 0	180,250 0	30,284 0	1,939,392 0	0 0
VIKRAM KHANNA	(i) 529,064 (ii) 0	675,921 0	0 0	44,180 0	38,847 0	1,288,012 0	0 0
BRADLEY FIDELER	(i) 1,100,368 (ii) 0	46,126 0	0 0	148,950 0	34,079 0	1,329,523 0	0 0
LANDON RIGGS	(i) 659,825 (ii) 0	301,282 0	0 0	44,437 0	35,372 0	1,040,916 0	0 0

Schedule L (Form 990 or 990-EZ)

Transactions with Interested Persons

OMB No 1545-0047

2011

Department of the Treasury
Internal Revenue Service

- 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.

Open to Public Inspection

Name of the organization

MERCY HEALTH SYSTEM CORPORATION

Employer identification number

39-081684

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.

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

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.

Part III Grants or Assistance Benefitting Interested Persons.

Complete if the organization answered "Yes" on Form 990, Part IV, line 27

Part IV Business Transactions Involving Interested Persons.

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

(a) Name of interested person	(b) Relationship between interested person and the organization	(c) Amount of transaction	(d) Description of transaction	(e) Sharing of organization's revenues?	
				Yes	No
(1) KRISTEN GOELZER	FAMILY MEMBER OF MARK GOELZER, DIRECTOR	295,578	EMPLOYMENT - PHYSICIAN		No
(2) JAMIE KURTZ	FAMILY MEMBER OF DAVID KURTZ, OFFICER	34,261	EMPLOYMENT - PATIENT ACCOUNT REPRESENTATIVE		No
(3) LAUREN GRUBER	FAMILY MEMBER OF RICH GRUBER, OFFICER	45,227	EMPLOYMENT - RN/HIB		No
(4) MEGAN KRAUSE	FAMILY MEMBER OF SUE RIPSCH, OFFICER	73,833	EMPLOYMENT - MANAGER		No
(5) JOANNA BENNING	FAMILY MEMBER OF JAVON BEA, PRESIDENT & DIRECTOR	89,966	EMPLOYMENT - MANAGER		No
(6) LISA NEMETH	FAMILY MEMBER OF JOSEPH NEMETH, OFFICER	31,565	EMPLOYMENT - REIMBURSEMENT ANALYST		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

SCHEDULE O
(Form 990 or 990-EZ)Department of the Treasury
Internal Revenue Service**Supplemental Information to Form 990 or 990-EZ**

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

2011**Open to Public
Inspection**

Name of the organization

MERCY HEALTH SYSTEM CORPORATION

Employer identification number

39-0816848

Identifier	Return Reference	Explanation
	FORM 990, PART VI, SECTION B, LINE 11	NO REVIEW WAS OR WILL BE CONDUCTED
	FORM 990, PART VI, SECTION B, LINE 12C	OFFICERS, DIRECTORS, AND KEY EMPLOYEES ARE REQUIRED TO REPORT ALL CONFLICTS OF INTEREST THE COMPLIANCE OFFICER IS RESPONSIBLE FOR INVESTIGATING ALL CONFLICTS AND REPORTING TO THE BOARD
	FORM 990, PART VI, SECTION B, LINE 15	THE MERCY ALLIANCE COMPENSATION COMMITTEE IS COMPRISED OF THE BOARD CHAIRPERSON, SECRETARY, AND THE TREASURER THE COMPENSATION COMMITTEE IS ASSISTED BY INDEPENDENT LEGAL COUNCIL AND AN INDEPENDENT COMPENSATION CONSULTANT THE COMPENSATION COMMITTEE, LEGAL COUNCIL, AND THE COMPENSATION CONSULTANT MEET THROUGHOUT THE YEAR AND REPORT DIRECTLY TO THE BOARD OF DIRECTORS ANNUALLY THIS PROCESS WAS COMPLETED FOR 2011
	FORM 990, PART VI, SECTION C, LINE 19	GOVERNING DOCUMENTS, CONFLICT OF INTEREST POLICY & FINANCIAL STATEMENTS ARE AVAILABLE UPON REQUEST
CHANGES IN NET ASSETS OR FUND BALANCES	FORM 990, PART XI, LINE 5	NET UNREALIZED LOSSES ON INVESTMENTS -234,407 CHANGES IN PENSION OBLIGATIONS - 11,494,000 TRANSFER TO MERCY ALLIANCE, INC -5,000,000 TOTAL TO FORM 990, PART XI, LINE 5 -16,728,407
TOTAL NUMBER OF VOLUNTEERS	FORM 990, PART I, LINE 6	MERCY HEALTH SYSTEM CORPORATION HAS REPORTED ZERO FOR THE TOTAL NUMBER OF VOLUNTEERS THIS IS DUE TO THE FACT THAT ALL 1,138 VOLUNTEERS FOR THE MERCY HEALTH SYSTEM CORPORATION ARE TECHNICALLY VOLUNTEERS OF THE MERCY HEALTH SYSTEM ASSOCIATION OF VOLUNTEERS AND AS SUCH HAVE BEEN REPORTED ON THEIR TAX RETURN PLEASE SEE THE MERCY HEALTH SYSTEM ASSOCIATION OF VOLUNTEERS TAX RETURN FOR MORE INFORMATION ON MERCY VOLUNTEER ACTIVITIES

SCHEDULE R
(Form 990)

Related Organizations and Unrelated Partnerships

OMB No 1545-0047

2011

Department of the Treasury
Internal Revenue ServiceOpen to Public
Inspection► 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.Name of the organization
MERCY HEALTH SYSTEM CORPORATIONEmployer identification number
39-0816848

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

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

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

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

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

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

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Type of entity (C corp, S corp, or trust)	(f) Share of total income	(g) Share of end-of-year assets	(h) Percentage ownership
(1) JANESVILLE MEDICAL CENTER INC 1000 MINERAL POINT JANESVILLE, WI 535475003 39-1520130	MANAGEMENT ENTITY OF UNION EMPLOYEES	WI	MERCY HEALTH SYSTEM CORPORATION	C		64,826	100 000 %
(2) MERCYCARE INSURANCE COMPANY 3430 PALMER DRIVE JANESVILLE, WI 53545 39-1768192	INSURANCE COMPANY	WI	MERCY HEALTH SYSTEM CORPORATION	C	112,273,630	38,506,489	100 000 %
(3) MERCYCARE HMO INC - CONSOLIDATED WITH MERCYCARE INSURANCE CO 3430 PALMER DRIVE JANESVILLE, WI 53545 20-1482553	INSURANCE COMPANY	WI	MERCY HEALTH SYSTEM CORPORATION	C			100 000 %

Part V Transactions With Related Organizations (Complete if the organization answered "Yes" on Form 990, Part IV, line 34, 35, 35A, or 36.)**Note.** Complete line 1 if any entity is listed in Parts II, III or IV**1** During the tax year, did the organization engage in any of the following transactions with one or more related organizations listed in Parts II-IV?

- a** Receipt of (i) interest (ii) annuities (iii) royalties (iv) rent from a controlled entity
- b** Gift, grant, or capital contribution to related organization(s)
- c** Gift, grant, or capital contribution from related organization(s)
- d** Loans or loan guarantees to or for related organization(s)
- e** Loans or loan guarantees by related organization(s)
- f** Sale of assets to related organization(s)
- g** Purchase of assets from related organization(s)
- h** Exchange of assets with related organization(s)
- i** Lease of facilities, equipment, or other assets to related organization(s)
- j** Lease of facilities, equipment, or other assets from related organization(s)
- k** Performance of services or membership or fundraising solicitations for related organization(s)
- l** Performance of services or membership or fundraising solicitations by related organization(s)
- m** Sharing of facilities, equipment, mailing lists, or other assets with related organization(s)
- n** Sharing of paid employees with related organization(s)
- o** Reimbursement paid to related organization(s) for expenses
- p** Reimbursement paid by related organization(s) for expenses
- q** Other transfer of cash or property to related organization(s)
- r** Other transfer of cash or property from related organization(s)

	Yes	No
1a	Yes	
1b		No
1c		No
1d		No
1e	Yes	
1f		No
1g		No
1h		No
1i	Yes	
1j	Yes	
1k		No
1l		No
1m	Yes	
1n	Yes	
1o		No
1p	Yes	
1q	Yes	
1r		No

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

(a) Name of other organization	(b) Transaction type(a-r)	(c) Amount involved	(d) Method of determining amount involved
(1) MERCYCARE INSURANCE COMPANY	P	6,857,389	COST OF SERVICES PROVIDED
(2)			
(3)			
(4)			
(5)			
(6)			

Part VI Unrelated Organizations Taxable as a Partnership (Complete if the organization answered "Yes" on Form 990, Part IV, line 37.)

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.

Part VII Supplemental Information

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

Identifier	Return Reference	Explanation
------------	------------------	-------------

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

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

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

Mercy Health System Corporation and Subsidiaries

Janesville, Wisconsin

**Consolidated Financial Statements
and Supplementary Information**

Years Ended June 30, 2012 and 2011

Mercy Health System Corporation and Subsidiaries

Consolidated Financial Statements and Supplementary Information

Years Ended June 30, 2012 and 2011

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Independent Auditor's Report

Board of Directors
Mercy Health System Corporation
Janesville, Wisconsin

We have audited the accompanying consolidated balance sheets of Mercy Health System Corporation and Subsidiaries (the "Corporation") as of June 30, 2012 and 2011, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mercy Health System Corporation and Subsidiaries at June 30, 2012 and 2011, and the results of their operations, changes in their net assets, and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Wipfli LLP

Wipfli LLP

August 10, 2012
Milwaukee, Wisconsin

Mercy Health System Corporation and Subsidiaries

Consolidated Balance Sheets

June 30, 2012 and 2011

<i>Assets</i>	(In Thousands)	
	2012	2011
Current assets		
Cash and cash equivalents	\$ 5,036	\$ 22,541
Patient accounts receivable - Net	66,441	60,651
Supplies	10,181	9,690
Prepaid expenses	2,894	3,245
Due from third-party payors	853	-
Due from related party	405	124
Other receivables	6,591	5,853
Total current assets	92,401	102,104
Assets limited as to use	78,236	78,028
Property and equipment - Net	289,726	218,302
Other assets		
Unamortized debt issuance costs - Net	2,274	1,700
Other	1,707	1,918
Total other assets	3,981	3,618
TOTAL ASSETS	\$ 464,344	\$ 402,052

<i>Liabilities and Net Assets</i>	(In Thousands)	
	2012	2011
Current liabilities		
Current maturities of long-term debt	\$ 1,335	\$ 1,040
Accounts payable		
Trade	5,971	5,959
Construction	3,500	8,385
Salaries, wages, and payroll taxes	23,802	22,932
Due to related party	4,411	4,534
Due to third-party payors	-	600
Other accrued expenses	48,452	48,460
 Total current liabilities	 87,471	 91,910
 Long-term liabilities	 	
Long-term debt, less current maturities	3,849	39,264
Deferred compensation	6,124	9,098
Pension liability	24,889	17,924
Due to related party	206,489	107,218
 Total long-term liabilities	 241,351	 173,504
 Total liabilities	 328,822	 265,414
 Total net assets - Unrestricted	 135,522	 136,638
 TOTAL LIABILITIES AND NET ASSETS	 \$ 464,344	 \$ 402,052

Mercy Health System Corporation and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

Years Ended June 30, 2012 and 2011

	(In Thousands)	
	2012	2011
Revenue		
Patient service revenue (net of contractual allowances and discounts)	\$ 384,622	\$ 373,726
Provision for bad debts	(16,272)	(20,416)
Net patient service revenue	368,350	353,310
Premium revenue	91,574	90,296
Other revenue	6,680	2,116
Total revenue	466,604	445,722
Expenses		
Salaries and wages	227,033	214,844
Employee benefits	33,140	33,968
Professional fees and purchased services	24,865	21,180
Medical claims and capitation payments	29,355	26,536
Medical supplies, other supplies, and drugs	73,937	72,068
Utilities	5,550	5,092
Insurance	6,042	5,465
Other	24,714	21,019
Depreciation and amortization	22,080	19,596
Interest	5,845	5,022
Total expenses	452,561	424,790
Income from operations	14,043	20,932
Nonoperating income - Net	1,951	1,844
Excess of revenue over expenses	15,994	22,776
Other changes in unrestricted net assets		
Change in net unrealized gains and losses on investments other than trading securities	(616)	2,959
Changes in pension obligation other than pension expense	(11,494)	17,494
Transfers to affiliates - Net	(5,000)	(7,000)
Change in unrestricted net assets	(1,116)	36,229
Unrestricted net assets at beginning	136,638	100,409
Unrestricted net assets at end	\$ 135,522	\$ 136,638

Mercy Health System Corporation and Subsidiaries

Consolidated Statements of Cash Flows

Years Ended June 30, 2012 and 2011

	(In Thousands)	
	2012	2011
Increase (decrease) in cash and cash equivalents		
Cash flows from operating activities		
Change in net assets	\$ (1,116)	\$ 36,229
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Transfers to affiliates	5,000	7,000
Changes in pension obligation other than pension expense	11,494	(17,494)
Change in net unrealized gains and losses on investments other than trading securities	616	(2,959)
Provision for bad debts	16,272	20,416
Net realized gains and losses from sales of investments	(156)	(280)
Depreciation and amortization	22,080	19,596
Loss on sale of property and equipment	180	130
Loss on early retirement of debt	985	165
Changes in operating assets and liabilities		
Patient accounts receivable	(22,062)	(15,041)
Supplies and other current assets	(1,159)	1,336
Accounts payable	12	(3,057)
Accrued liabilities and other	(6,077)	(2,952)
Due from/to third-party payors	(1,453)	984
Net cash provided by operating activities	24,616	44,073
Cash flows from investing activities		
Increase in assets limited as to use	(668)	(1,263)
Capital expenditures	(98,324)	(56,260)
Proceeds from sale of property and equipment	51	327
Decrease in other assets	-	(488)
Net cash used in investing activities	(98,941)	(57,684)

Mercy Health System Corporation and Subsidiaries

Consolidated Statements of Cash Flows (Continued)

Years Ended June 30, 2012 and 2011

	(In Thousands)	
	2012	2011
Cash flows from financing activities		
Proceeds from issuance of long-term debt	\$ 3,051	\$ 3,618
Principal payments on long-term debt	(1,335)	(630)
Early retirement of long-term debt	(37,380)	-
Net change in borrowings from Mercy Alliance, Inc	98,769	22,753
Payments for financing costs	(1,285)	-
Transfers to affiliates	(5,000)	(7,000)
Net cash provided by financing activities	56,820	18,741
Net increase (decrease) in cash and cash equivalents	(17,505)	5,130
Cash and cash equivalents at beginning	22,541	17,411
Cash and cash equivalents at end	\$ 5,036	\$ 22,541
Supplemental cash flow information		
Cash paid for interest, excluding related-party interest	\$ 2,926	\$ 2,123
Capital expenditures in accounts payable	\$ 3,500	\$ 8,385

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies

The Entity and Principles of Consolidation

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

- **Mercy Health System Corporation (MHSC)**
Operates a 240-bed hospital (licensed beds) in Janesville, Wisconsin, approximately 42 physician clinics in southern Wisconsin and northern Illinois, a skilled nursing facility (SNF) that operates as a subacute care unit of the hospital building, and Mercy Walworth Hospital and Medical Center (MWH), a 25-bed hospital facility in Walworth County, Wisconsin. MWH is reimbursed by Medicare as a critical access hospital (CAH).
- **Mercy Foundation, Inc (MFI)**
MFI's primary activity is fund-raising for MHSC and its programs in accordance with its bylaws.
- **MercyCare Insurance Company (MCIC)**
An indemnity insurance company that contracts with local employers. MCIC has a wholly owned subsidiary, MercyCare HMO, which operates as a health maintenance organization (HMO) under Wisconsin statutes. MCIC and its subsidiary contract for services with MHSC and other MAI affiliates.

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

Financial Statement Presentation

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

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Use of Estimates in Preparation of Financial Statements

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

The Corporation considers critical accounting estimates to be those that require more significant judgments which include the valuation of accounts receivable (including contractual allowances and provision for doubtful accounts), estimated third-party settlements, reserves for losses and expenses related to self-insurance for employee health care claims and malpractice claims, valuation of the defined benefit plan liability, and reserves for unpaid claims for participants in MCIC insurance programs.

Cash Equivalents

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

Patient Accounts Receivables and Credit Policy

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

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Patient accounts receivable are recorded in the accompanying consolidated balance sheets net of contractual adjustments and allowance for doubtful accounts which reflects management's best estimate of the amounts that will not be collected. Management provides for contractual adjustments under terms of third-party reimbursement agreements through a reduction of gross revenue and a credit to patient accounts receivable. In evaluating the collectibility of patient accounts receivable, MHSC analyzes historical loss experience on revenue from all payors. Using the loss experience rate, MHSC estimates the appropriate allowance for doubtful accounts and provision for bad debts. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged against the allowance for doubtful accounts.

Supplies

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

Assets Limited as to Use and Investment Income

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

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Assets Limited as to Use and Investment Income (Continued)

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

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

Fair Value Measurements

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

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

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Fair Value Measurements (Continued)

Level 2 Inputs to the valuation methodology include

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

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

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

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

Property and Equipment

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

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Unamortized Debt Issuance Costs and Bond Discounts

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

Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If impairment has occurred, a loss will be recognized. No impairment losses were recognized in 2012 or 2011.

Asset Retirement Obligation

ASC Topic 410-20, *Accounting for Conditional Asset Retirement Obligation*, clarifies when an entity is required to recognize a liability for a conditional asset retirement obligation. Management has considered ASC Topic 410-20, specifically as it relates to its legal obligation to perform asset retirement activities, such as asbestos removal, on its existing properties. Management believes that there is an indeterminate settlement date for the asset retirement obligations because the range of time over which the Corporation may settle the obligation is unknown and cannot be estimated. As a result, management cannot reasonably estimate the liability related to these asset retirement activities as of June 30, 2012 and 2011.

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Patient Service Revenue

The Corporation recognizes patient service revenue associated with services provided to patients who have third-party payor coverage primarily on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Corporation recognizes revenue on the basis of discounted rates established under the Corporation's uninsured patient policy. The provision for contractual adjustments (that is, the differences between established rates and expected third-party payor payments) and the discounts (that is, the difference between established rates and the amount billable) are recognized on the accrual basis. These amounts are deducted from gross patient service revenue to determine patient service revenue (net of contractual allowances and discounts). Based on the historical experience of the Corporation, a significant portion of uninsured patients will be unwilling or unable to pay for services provided. Thus, the Corporation records a provision for bad debts related to uninsured patients in the period the services are provided. The provision for bad debts is based on historical loss experience and is deducted from patient service revenue (net of contractual allowances and discounts) to determine net patient service revenue. The Corporation also accrues retroactive adjustments under reimbursement agreements with third-party payors on an estimated basis in the period the related services are provided. Estimates are adjusted in future periods as final settlements are determined.

Premium Revenue and Claims Payable

Premiums are billed monthly for coverage in the following month and are recognized as revenue in the month for which insurance protection is provided. Claims payable, included in other accrued expenses, are determined using statistical analyses and represent estimates of the ultimate net cost of all reported and unreported claims that are unpaid at the end of each accounting period. Although it is not possible to measure the degree of variability inherent in such estimates, management believes that the liabilities for claims are adequate. The estimates are reviewed periodically and, as adjustments to these liabilities become necessary, such adjustments are reflected in current operations. The Corporation has recorded a provision of \$7,609,000 and \$9,332,000 at June 30, 2012 and 2011, respectively, for claims payable.

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Hospital Assessments

Wisconsin state regulations require eligible hospitals to pay the state an annual assessment. The assessment period is the state's fiscal year, which runs from July 1 to June 30. The assessment is based on each hospital's gross revenues, as defined. The revenue generated from the assessment is to be used, in part, to increase overall reimbursement under the Wisconsin Medicaid program. The Corporation's assessment expense was approximately \$6,688,000 and \$6,799,000 for the years ended June 30, 2012 and 2011, respectively, and is included in other expense in the accompanying consolidated statements of operations and changes in net assets. Increases in reimbursement from Medicaid are included in patient service revenue (net of contractual allowances and discounts).

Excess of Revenue Over Expenses

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

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Charity Care

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

The estimated cost of providing care to patients under the Corporation's charity care policy is calculated by multiplying the ratio of cost to gross charges by the gross uncompensated charity care charges. The costs to provide the Corporation's charity care policy was approximately \$5,990,000 and \$4,489,000 for the years ended June 30, 2012 and 2011, respectively.

Contributions and Unconditional Promises to Give

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

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

Advertising Costs

Advertising costs are expensed as incurred.

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Income Taxes

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

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

MCIC and MercyCare HMO are taxable entities for both federal and Wisconsin income tax purposes and file a consolidated return. Deferred income taxes have been provided under the liability method. Deferred tax assets and liabilities are determined based upon the difference between the financial statement and tax bases of assets and liabilities, as measured by the enacted tax rates, which are expected to be in effect when these differences are expected to reverse. Income tax expense is not significant in relation to the financial statements.

In order to account for any uncertain tax positions, the Corporation determines whether it is more likely than not that a tax position will be sustained upon examination on the technical merits of the position, assuming the taxing authority has full knowledge of all information. If the tax position does not meet the more likely than not recognition threshold, the benefit of that position is not recognized in the financial statements. The Corporation recorded no assets or liabilities related to uncertain tax positions in 2012 and 2011. Tax returns for the years ended June 30, 2009 and beyond remain subject to examination by the Internal Revenue Service.

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements

In July 2011, the FASB issued Accounting Standards Update (ASU) No 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and Allowance for Doubtful Accounts for Certain Health Care Entities*. This ASU amends ASC Topic 954 and requires health care entities to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue. Entities are also required to enhance disclosures about their policies for recognizing revenue and assessing bad debts. Additionally, this guidance requires disclosure of qualitative and quantitative information about changes in the allowance for doubtful accounts. The guidance in this ASU is effective for the Corporation's year ending June 30, 2013, however, the Corporation chose to early adopt this new guidance for the year ended June 30, 2012. The presentation of the provision for bad debts for the year ended June 30, 2011, has been reclassified in the accompanying consolidated financial statements in order to conform to the classifications used in 2012.

In August 2010, the FASB issued ASU No 2010-23, *Measuring Charity Care for Disclosure*. This ASU amends ASC Topic 954 and requires entities to use cost as the measurement basis for charity care disclosures, including both direct and indirect costs. Entities are also required to disclose the method used to determine these costs, such as directly from a costing system or through an estimation process. The Corporation adopted the guidance in ASU No 2010-23 for the year ended June 30, 2012. The amount of charity care for the year ended June 30, 2011, has been restated to reflect the estimated cost.

Subsequent Events

Subsequent events have been evaluated through August 10, 2012, which is the date the financial statements were issued.

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 2 Reimbursement Arrangements With Third-Party Payors

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

Government Payors

MHSC

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

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

MWH

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

Other Payors

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

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

Accounting for Contractual Arrangements

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

Compliance

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

The Centers for Medicare and Medicaid Services (CMS) uses Recovery Audit Contractors (RACs) as part of its efforts to ensure accurate payments under the Medicare program. RACs search for potentially inaccurate Medicare payments that may have been made to health care providers and that were not detected through existing CMS program integrity efforts. Once a RAC identifies a claim it believes is inaccurate, the RAC makes a deduction from or addition to the provider's Medicare reimbursement in an amount estimated to equal the overpayment or underpayment. The provider will then have the opportunity to appeal the adjustment before final settlement of the claim is made. As of June 30, 2012, the Corporation has received notice from the RAC of certain claims identified by the RAC as inaccurate. MHSC is appealing a number of these adjustments and management believes any reimbursement adjustments related to these claims will not be significant.

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 3 Patient Accounts Receivable

Patient accounts receivable consisted of the following at June 30, 2012 and 2011

	(In Thousands)	
	2012	2011
Patient accounts receivable	\$ 143,885	\$ 132,749
Less		
Contractual adjustments	57,540	55,586
Allowance for doubtful accounts	19,904	16,512
Patient accounts receivable - Net	<u>\$ 66,441</u>	<u>\$ 60,651</u>

Write-offs as a percentage of gross revenue decreased 25% in 2012 compared to 2011. The Corporation's gross revenue increased approximately 4.9% in 2012 compared to 2011. These factors contributed to the allowance for doubtful accounts increasing from 12.3% of patient accounts receivable at June 30, 2011 to 13.7% of patient accounts receivable at June 30, 2012. The System has not changed its charity care or uninsured discount policies during 2012 or 2011.

Note 4 Assets Limited as to Use

Assets limited as to use are invested as follows at June 30, 2012 and 2011

	(In Thousands)	
	2012	2011
Certificate of deposit	\$ 1,371	\$ 1,202
Money market funds	17,374	14,530
Government and agency obligations	12,021	14,872
Municipal obligations	96	190
Corporate obligations	6,283	7,347
Foreign obligations	388	752
Equity mutual funds	17,255	20,102
Pooled separate funds		
Fixed income	22,902	18,465
Domestic equity	546	568
Total assets limited as to use	<u>\$ 78,236</u>	<u>\$ 78,028</u>

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 4 Assets Limited as to Use (Continued)

The composition of assets limited as to use at June 30, 2012 and 2011, are as follows

	(In Thousands)	
	2012	2011
Held by trustee under bond indenture agreements	\$ 19,961	\$ 16,231
Held by Treasurer of State of Wisconsin for regulatory requirements	4,119	3,917
Internally designated		
Deferred compensation	6,124	9,098
Expansion and capital improvements	24,196	25,202
Regulatory compliance	23,836	23,580
 Total assets limited as to use	 \$ 78,236	 \$ 78,028

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

	(In Thousands)	
	2012	2011
Interest and dividend income	\$ 1,079	\$ 1,351
Net realized gains on sales of investments	156	280
 Total investment income	 1,235	 1,631
Change in net unrealized gains and losses on investments other than trading securities	(616)	2,959
 Totals	 \$ 619	 \$ 4,590

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

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 4 Assets Limited as to Use (Continued)

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

Because the Corporation has the intent and the ability to hold investment securities until a market price recovery or maturity, investment securities at June 30, 2012 and 2011 are not other-than temporarily impaired. No impairment losses were recognized by the Corporation during 2012 and 2011.

Note 5 Fair Value Measurements

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

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

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 5 Fair Value Measurements (Continued)

The common trust fund (Note 10) is valued at the NAV of shares held by the Plan at year-end as provided by the administrator of the fund. The NAV is based on the market value of the underlying assets of the fund.

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

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

	(In Thousands)				Total
	2012				
	Level 1	Level 2	Level 3		
Money market funds	\$ 15,685	\$ 4,701	\$ -	\$ 20,386	
Government and agency obligations	-	12,021	-	12,021	
Municipal obligations	-	96	-	96	
Corporate obligations	-	6,283	-	6,283	
Foreign obligations	-	388	-	388	
Equity mutual funds	17,255	-	-	17,255	
Pooled separate funds					
Fixed income	22,902	-	-	22,902	
Domestic equity	546	-	-	546	
Total assets at fair value	\$ 56,388	\$ 23,489	\$ -	\$ 79,877	

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 5 Fair Value Measurements (Continued)

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

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

Investment	2012			
	Fair Value (In Thousands)	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Pooled separate accounts				
Fixed income funds (a)	\$ 22,902	-	Continuously	N/A
Domestic equities (b)	546	-	Continuously	N/A

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 5 Fair Value Measurements (Continued)

Investment	2011			
	Fair Value (In Thousands)	Unfunded Commitment	Redemption Frequency	Redemption Notice Period

Pooled separate accounts

Fixed income funds (a)	\$ 18,465	-	Continuously	N/A
Domestic equities (b)	568	-	Continuously	N/A

(a) Invests mainly in bonds, or debt of a company or government entity (including U S and non-U S)
(b) Invests in stock or shares of ownership of U S companies

Note 6 Property and Equipment

Property and equipment consisted of the following at June 30, 2012 and 2011

	(In Thousands)	
	2012	2011
Land	\$ 26,701	\$ 26,461
Land improvements	5,844	5,841
Leasehold improvements	5,208	5,208
Buildings and improvements	239,885	168,928
Major movable equipment	162,602	140,845
 Total property and equipment	 440,240	 347,283
Less - Accumulated depreciation	196,960	175,727
 Net depreciated value	 243,280	 171,556
Construction in progress	46,446	46,746
 Property and equipment - Net	 \$ 289,726	 \$ 218,302

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 6 Property and Equipment

The Corporation is in the process of a construction project to expand and renovate MWH. The total project is estimated to be approximately \$70,000,000. During 2012, the Corporation placed approximately \$27,500,000 of costs into service related to the project. Construction in progress at June 30, 2012 includes an additional amount of approximately \$31,100,000 related to the MWH project. The project is estimated to be completed in fiscal year 2013.

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

Note 7 Long-Term Debt

Long-term debt consisted of the following at June 30, 2012 and 2011

	(In Thousands)	
	2012	2011
Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 1999, dated August 1, 1999, refunded in 2012	\$ -	\$ 37,600
Equipment loans and other	5,184	3,248
Totals	5,184	40,848
Less		
Unamortized bond discounts	-	544
Current maturities	1,335	1,040
Long-term portion	\$ 3,849	\$ 39,264

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 7 Long-Term Debt (Continued)

In May 2012, MAI issued its Series 2012 Revenue Bonds. A portion of the proceeds from the issuance were used to refund the Corporation's Series 1999 Revenue Bonds. The amounts were transferred from MAI to the Corporation via an intercompany loan and are included with the due to related party (Note 8) on the accompanying consolidated balance sheets at June 30, 2012.

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

Scheduled payments of principal on long-term debt at June 30, 2012, including current maturities, are summarized as follows:

	(In Thousands)
2013	\$ 1,335
2014	1,224
2015	1,101
2016	868
2017	419
Thereafter	237
 Total	 \$ 5,184

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 8 Related-Party Transactions

The Corporation had the following receivables (payables) with affiliated entities at June 30, 2012 and 2011

	(In Thousands)	
	2012	2011
MAI		
Long-term borrowings	\$ (210,051)	\$ (111,282)
Other	405	(247)
MAC	(272)	124
MHH	(577)	(223)
 Total related-party payables - Net	 \$ (210,495)	 \$ (111,628)

Beginning with the year ended June 30, 2005, substantially all long-term borrowings are done by MAI through the issuance of revenue bonds. The Obligated Group for these borrowings includes MHSC and MAI, along with Mercy Assisted Care, Inc (MAC) and Mercy Harvard Hospital, Inc (MHH), affiliated entities. All members of the Obligated Group are jointly and severally liable for the debt, and the Obligated Group has pledged as security for long-term debt substantially all of its property, equipment, and revenue. The revenue bond agreements contain various restrictive covenants. Management believes the Obligated Group is in compliance with restrictive covenants at June 30, 2012.

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 8 Related-Party Transactions (Continued)

The proceeds from the revenue bonds issued by MAI are loaned to affiliated entities, at interest rates from 4.39% to 4.59%, through intercompany payables. The portion of the revenue bond proceeds allocated to the Corporation that have not yet been expended and an allocation of debt service reserve funds are included in assets limited as to use. The above payable to MAI includes \$210,051,000 and \$111,282,000 related to long-term borrowings at June 30, 2012 and 2011, respectively. Current maturities of these borrowings were \$3,562,000 and \$4,064,000 at June 30, 2012 and 2011, respectively, and are included in current liabilities in the accompanying consolidated balance sheets. Interest expense includes \$2,451,000 and \$2,129,000 for the years ended June 30, 2012 and 2011, respectively, related to these intercompany borrowings. In addition, the Corporation capitalized \$702,000 and \$797,000 of interest expense during 2012, and 2011, respectively, related to these borrowings.

Scheduled principal payments on long-term intercompany borrowings reflect the scheduled maturities of the underlying revenue bonds held by MAI and are as follows at June 30, 2012:

	(In Thousands)
2013	\$ 3,562
2014	3,723
2015	3,903
2016	4,100
2017	4,297
Thereafter	190,466
 Total	 \$ 210,051

MHSC transferred cash of \$5,000,000 and \$7,000,000 to MAI during the years ended June 30, 2012 and 2011, respectively.

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 9 Patient Service Revenue (Net of Contractual Allowances and Discounts)

The following table sets forth the detail of net patient service revenue (net of contractual allowances and discounts) for the years ended June 30, 2012 and 2011

	(In Thousands)	
	2012	2011
Gross patient service revenue	\$ 857,097	\$ 817,568
Deductions - Primarily contractual adjustments and third-party reimbursement agreements		
Medicare	(201,380)	(188,034)
Medicaid	(81,872)	(76,571)
Managed care	(55,239)	(49,662)
Commercial and other	(128,130)	(124,178)
Uninsured patients	(5,854)	(5,397)
Patient service revenue (net of contractual allowances and discounts)	\$ 384,622	\$ 373,726

During 2012 and 2011, approximately 28.0% and 30.1% of the Corporation's patient service revenue (net of contractual allowances and discounts) related to patients participating in the Medicare and Medicaid programs

Patient service revenue (net of contractual allowances and discounts) recognized in the year ended June 30, 2012 from these major payor sources is as follows

	(In Thousands)
Medicare, Medicaid, Managed care, and commercial and other	\$ 365,580
Uninsured patients	19,042
Patient service revenue (net of allowances and discounts)	\$ 384,622

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 10 Retirement Plans

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

The following table provides further information about the Plan as of the Plan years ended June 30, 2012 and 2011.

	(In Thousands)	
	2012	2011
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 94,053	\$ 95,280
Service cost	6,769	7,142
Interest cost	4,833	4,901
Benefits paid	(6,066)	(4,608)
Actuarial (gain) loss	6,824	(8,662)
 Benefit obligation at end of year	 106,413	 94,053
 Change in plan assets		
Fair value of plan assets at beginning of year	70,304	54,055
Actual return on plan assets	497	13,149
Employer contributions	10,288	7,708
Benefits paid	(6,066)	(4,608)
 Fair value of plan assets at end of year	 75,023	 70,304
 Funded status	 \$ (31,390)	 \$ (23,749)
 Accumulated benefit obligation	 \$ 101,513	 \$ 90,106

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 10 Retirement Plans (Continued)

Amounts recognized in the accompanying consolidated balance sheets at June 30, 2012 and 2011, consisted of

	(In Thousands)	
	2012	2011
Current liability - Other accrued expenses	\$ 6,501	\$ 5,825
Long-term liability	24,889	17,924
Total	\$ 31,390	\$ 23,749
 Total net assets - Unrestricted		
Prior service cost	\$ 621	\$ 728
Net actuarial loss	24,193	12,592
Total amount recognized in net assets	\$ 24,814	\$ 13,320

Pension expense for the years ended June 30, 2012 and 2011, was comprised of the following

	(In Thousands)	
	2012	2011
Pension expense		
Service cost	\$ 6,769	\$ 7,142
Interest cost	4,833	4,901
Expected return on assets	(5,567)	(5,295)
Amortization of prior service cost	107	107
Amortization of unrecognized actuarial loss	293	871
Total pension expense	6,435	7,726
 Other changes in plan assets and benefit obligations recognized in other changes in net assets		
Net actuarial loss (gain)	11,601	(17,387)
Prior service cost	(107)	(107)
Total recognized in other changes in net assets	11,494	(17,494)
 Total recognized as pension expense and other changes in net assets	\$ 17,929	\$ (9,768)

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 10 Retirement Plans (Continued)

The estimated prior service cost and actuarial loss that will be amortized from net assets into pension expense over the next fiscal year is \$1,171,000

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

	2012	2011
Discount rate for obligation	4.35%	5.30%
Discount rate for net periodic cost	5.30%	5.30%
Expected long-term return on plan assets	7.50%	7.50%
Rate of compensation increase for obligation	1.5% grading to 2.0% 1.0% grading to	1.0% grading to 2.5%
Rate of compensation increase for net periodic cost	2.5%	3.00%

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

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

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 10 Retirement Plans (Continued)

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

Asset category	2012	2011
Cash and cash equivalents	1 4%	1 9%
Government and agency obligations	2 7%	2 4%
Corporate obligations	1 0%	0 5%
Foreign bonds	0 3%	0 6%
Pooled separate funds		
Fixed income	12 8%	12 6%
Domestic equity	46 1%	41 3%
International equity	10 5%	14 3%
Common stocks	7 4%	8 6%
Common trust fund	17 8%	17 8%
Totals	100 0%	100 0%

The following table sets forth by level, within the fair value hierarchy, the Corporation's Plan assets at fair values as of June 30, 2012 and 2011

	(In Thousands)			
	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ -	\$ 1,033	\$ -	\$ 1,033
Government and agency obligations	-	2,035	-	2,035
Corporate obligations	-	733	-	733
Foreign bonds	-	199	-	199
Pooled separate funds				
Fixed income	9,593			9,593
Domestic equity	34,554			34,554
International equity	7,861			7,861
Common stocks	5,580	-	-	5,580
Common trust fund	-	13,435	-	13,435
Total assets at fair value	\$ 57,588	\$ 17,435	\$ -	\$ 75,023

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 10 Retirement Plans (Continued)

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

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

	(In Thousands)	
	2012	2011
Balance, beginning of year	\$ 12,434	\$ 2,305
Realized and unrealized gains	-	637
Purchases	-	12,056
Sales	-	(2,564)
Reclassifications	(12,434)	-
Balance, end of year	\$ -	\$ 12,434

During 2012, the Plan reclassified an alternative investment within its portfolio from Level 3 to Level 2 based on ASC Topic 820-10-35-58, *Fair Value Measurements and Disclosures*, which provides guidance that the ability to trade the investment at NAV would allow the investment to be classified as a Level 2

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 10 Retirement Plans (Continued)

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

Investment	2012			
	(In Thousands)	Unfunded Fair Value	Redemption Commitment	Redemption Frequency

Pooled separate accounts

Fixed income funds (a)	\$ 9,593	-	Continuously	N/A
Domestic equity (b)	34,554	-	Continuously	N/A
International equity (c)	7,861	-	Continuously	N/A
Common trust fund (a)	13,435	-	Continuously	N/A

2011

Investment	2011			
	(In Thousands)	Unfunded Fair Value	Redemption Commitment	Redemption Frequency

Pooled separate accounts

Fixed income funds (a)	\$ 8,840	-	Continuously	N/A
Domestic equity (b)	29,069	-	Continuously	N/A
International equity (c)	10,034	-	Continuously	N/A
Common trust fund (a)	12,434	-	Continuously	N/A

- (a) Invests mainly in bonds, or debt of a company or government entity (including U S and non-U S)
- (b) Invests in stock or shares of ownership of U S companies
- (c) Invests in stocks or shares of ownership in companies with principal places of business or office outside the U S

The Corporation expects to contribute \$8,035,000 to the Plan in fiscal 2013

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 10 Retirement Plans (Continued)

Benefit payments are expected to be paid as follows

	(In Thousands)
2013	\$ 6,501
2014	\$ 7,030
2015	\$ 8,192
2016	\$ 8,500
2017	\$ 9,195
Years 2018 through 2022	\$ 54,477

The Corporation also participates in a contributory tax-deferred annuity plan, which covers all employees at least 18 years of age with one year of service. Employees may contribute up to 4% of compensation to the annuity plan on a tax-deferred basis, plus additional amounts subject to a regulatory limit. The Corporation may contribute discretionary amounts up to 50% of employees' tax-deferred contribution, up to 4% of compensation. Total contribution expense for the annuity plan was \$1,842,000 and \$1,796,000 for the years ended June 30, 2012 and 2011, respectively.

The Corporation also contributes to a multi-employer defined benefit plan which covers employees pursuant to the terms of collective bargaining agreements. Total contribution expense for the multi-employer defined benefit plan was \$218,000 and \$202,000 for the years ended June 30, 2012 and 2011, respectively. The Corporation also contributes to a 401(k) plan for this same group of employees an amount, based on a matching percentage of participant contributions, set by the terms of collective bargaining agreements. Total contribution expense for the 401(k) plan was \$77,000 and \$80,000 for the years ended June 30, 2012 and 2011, respectively.

The Corporation also sponsors deferred compensation programs covering certain physicians and officers. Investments and corresponding liabilities totaling \$6,124,000 and \$9,098,000 at June 30, 2012 and 2011, respectively, are included in the accompanying consolidated balance sheets. Total deferred compensation expense was \$1,365,000 and \$1,384,000 in 2012 and 2011, respectively.

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 11 Operating Leases

The Corporation leases office space, office equipment, and certain medical equipment from unrelated organizations. Total rental expense was approximately \$3,157,000 and \$3,034,000 in 2012 and 2011, respectively. Future minimum lease payments, by year and in the aggregate, under these non-cancelable lease agreements are summarized as follows:

	(In Thousands)
2013	\$ 1,749
2014	1,190
2015	521
2016	346
2017	275
 Total minimum lease payments	 \$ 4,081

Note 12 Malpractice Insurance

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

The Corporation has provided a reserve of \$26,250,000 and \$24,250,000 for potential claims for services provided to patients through June 30, 2012 and 2011, respectively, which have not yet been asserted. These amounts are included in other accrued expenses in the accompanying consolidated balance sheets.

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 13 Concentration of Credit Risk

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

The mix of receivables from patients and third-party payors is as follows at June 30, 2012 and 2011

	2012	2011
Medicare	22%	24%
Medicaid	11%	10%
Other third-party payors	37%	38%
Patients	30%	28%
Totals	100%	100%

The Corporation maintains depository relationships with area financial institutions that are Federal Deposit Insurance Corporation (FDIC) insured institutions. On November 9, 2010, the FDIC issued a final rule implementing section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act that provides for unlimited insurance coverage of noninterest-bearing transaction accounts through December 31, 2012. In addition, the Corporation maintains cash in interest-bearing accounts at these institutions which are insured by the FDIC up to \$250,000. At June 30, 2012, the Corporation's deposits exceeded the insured limits by approximately \$3,882,000.

Mercy Health System Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 14 Functional Expenses

The Corporation provides general health care services to residents within its geographic location and contracts with various health care providers to provide medical services to members insured by MCIC. Expenses related to providing these services are as follows:

	(In Thousands)	
	2012	2011
Health care services	\$ 334,351	\$ 315,029
General and administrative	118,210	109,761
Total expenses	\$ 452,561	\$ 424,790

Note 15 Reclassifications

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 classifications.

Supplementary Information



Independent Auditor's Report on Supplementary Information

Board of Directors
Mercy Health System Corporation
Janesville, Wisconsin

We have audited the basic consolidated financial statements of Mercy Health System Corporation and Subsidiaries as of and for the years ended June 30, 2012 and 2011, and our report thereon dated August 10, 2012 which expressed an unqualified opinion on those consolidated financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information appearing on pages 41 through 44 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly presented in all material respects in relation to the basic consolidated financial statements taken as a whole.

Wipfli LLP

Wipfli LLP

August 10, 2012
Milwaukee, Wisconsin

Mercy Health System Corporation and Subsidiaries

Consolidating Balance Sheet

June 30, 2012

Assets	(In Thousands)					Mercy Health System Corporation Consolidated
	Mercy Health System Corporation	MercyCare Insurance Company	Mercy Foundation, Inc	Eliminations		
Current assets						
Cash and cash equivalents	\$ 4,524	\$ 373	\$ 139	\$ -	\$ 5,036	
Patient accounts receivable - Net	67,720	-	-	(1,279)	66,441	
Supplies	10,181	-	-	-	10,181	
Prepaid expenses	4,620	-	-	(1,726)	2,894	
Due from third-party payors	853	-	-	-	853	
Due from related party	588	-	88	(271)	405	
Other receivables	3,358	3,233	-	-	6,591	
Total current assets	91,844	3,606	227	(3,276)	92,401	
Assets limited as to use	53,568	23,278	1,390	-	78,236	
Property and equipment - Net	289,726	-	-	-	289,726	
Other assets						
Unamortized debt issuance costs - Net	2,274	-	-	-	2,274	
Investment in subsidiary	14,544	-	-	(14,544)	-	
Other	1,332	375	-	-	1,707	
Total other assets	18,150	375	-	(14,544)	3,981	
TOTAL ASSETS	\$ 453,288	\$ 27,259	\$ 1,617	\$ (17,820)	\$ 464,344	
<i>Liabilities and Net Assets</i>						
Current liabilities						
Current maturities of long-term debt	\$ 1,335	\$ -	\$ -	\$ -	\$ 1,335	
Accounts payable						
Trade	5,971	-	-	-	5,971	
Construction	3,500	-	-	-	3,500	
Salaries, wages, and payroll taxes	23,802	-	-	-	23,802	
Due to related party	4,499	18	165	(271)	4,411	
Other accrued expenses	38,760	12,697	-	(3,005)	48,452	
Total current liabilities	77,867	12,715	165	(3,276)	87,471	
Long-term liabilities						
Long-term debt, less current maturities	3,849	-	-	-	3,849	
Deferred compensation	6,124	-	-	-	6,124	
Pension liability	24,889	-	-	-	24,889	
Due to related party	206,489	-	-	-	206,489	
Total long-term liabilities	241,351	-	-	-	241,351	
Total liabilities	319,218	12,715	165	(3,276)	328,822	
Total net assets - Unrestricted	134,070	14,544	1,452	(14,544)	135,522	
TOTAL LIABILITIES AND NET ASSETS	\$ 453,288	\$ 27,259	\$ 1,617	\$ (17,820)	\$ 464,344	

Mercy Health System Corporation and Subsidiaries

Consolidating Balance Sheet (Continued)

June 30, 2011

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

Mercy Health System Corporation and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets

Year Ended June 30, 2012

	(In Thousands)				
	Mercy Health System Corporation	MercyCare Insurance Company	Mercy Foundation, Inc	Eliminations	Mercy Health System Corporation Consolidated
Revenue					
Patient service revenue (net of contractual allowances and discounts)	\$ 456,797	\$ -	\$ -	\$ (72,175)	\$ 384,622
Provision for bad debts	(16,272)	-	-	-	(16,272)
Net patient service revenue	440,525	-	-	(72,175)	368,350
Premium revenue	-	105,970	-	(14,396)	91,574
Other revenue	6,680	-	-	-	6,680
Total revenue	447,205	105,970	-	(86,571)	466,604
Expenses					
Salaries and wages	227,033	-	-	-	227,033
Employee benefits	47,536	-	-	(14,396)	33,140
Professional fees and purchased services	24,109	756	-	-	24,865
Medical claims and capitation payments	-	101,530	-	(72,175)	29,355
Medical supplies, other supplies, and drugs	73,937	-	-	-	73,937
Utilities	5,550	-	-	-	5,550
Insurance	6,042	-	-	-	6,042
Other	17,585	7,129	-	-	24,714
Depreciation and amortization	22,080	-	-	-	22,080
Interest	5,845	-	-	-	5,845
Total expenses	429,717	109,415	-	(86,571)	452,561
Income (loss) from operations	17,488	(3,445)	-	-	14,043
Nonoperating income (loss) - Net	(1,964)	738	80	3,097	1,951
Excess (deficiency) of revenue over expenses	15,524	(2,707)	80	3,097	15,994
Other changes in unrestricted net assets					
Change in net unrealized gains and losses on investments other than trading securities	(234)	(390)	8	-	(616)
Changes in pension obligation other than pension expense	(11,494)	-	-	-	(11,494)
Transfers to affiliates - Net	(5,000)	-	-	-	(5,000)
Change in unrestricted net assets	(1,204)	(3,097)	88	3,097	(1,116)
Unrestricted net assets at beginning	135,274	17,641	1,364	(17,641)	136,638
Unrestricted net assets at end	\$ 134,070	\$ 14,544	\$ 1,452	\$ (14,544)	\$ 135,522

Mercy Health System Corporation and Subsidiaries

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

Year Ended June 30, 2011

	(In Thousands)			
	Mercy Health System Corporation	MercyCare Insurance Company	Mercy Foundation, Inc	Mercy Health System Corporation Consolidated
Revenue				
Patient service revenue (net of contractual allowances and discounts)	\$ 444,701	\$ -	\$ -	\$ 373,726
Provision for bad debts	(20,416)	-	-	(20,416)
Net patient service revenue	424,285	-	-	353,310
Premium revenue	-	103,778	-	90,296
Other revenue	2,116	-	-	2,116
Total revenue	426,401	103,778	-	445,722
Expenses				
Salaries and wages	214,844	-	-	214,844
Employee benefits	47,450	-	-	33,968
Professional fees and purchased services	20,404	776	-	21,180
Medical claims and capitation payments	-	97,511	-	26,536
Medical supplies, other supplies, and drugs	72,068	-	-	72,068
Utilities	5,092	-	-	5,092
Insurance	5,465	-	-	5,465
Other	15,260	5,759	-	21,019
Depreciation and amortization	19,596	-	-	19,596
Interest	5,022	-	-	5,022
Total expenses	405,201	104,046	-	424,790
Income (loss) from operations	21,200	(268)	-	20,932
Nonoperating income - Net	4,494	803	5	1,844
Excess of revenue over expenses	25,694	535	5	22,776
Other changes in unrestricted net assets				
Change in net unrealized gains and losses on investments other than trading securities	(71)	2,923	107	2,959
Changes in pension obligation other than pension expense	17,494	-	-	17,494
Transfers to affiliates - Net	(7,000)	-	-	(7,000)
Change in unrestricted net assets	36,117	3,458	112	36,229
Unrestricted net assets at beginning	99,157	14,183	1,252	100,409
Unrestricted net assets at end	\$ 135,274	\$ 17,641	\$ 1,364	\$ 136,638