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Form 990



Department of the Treasury
Internal Revenue Service

Return of Organization Exempt From Income Tax

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

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

OMB No 1545-0047

2011

Open to Public Inspection

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

B Check if applicable

☐ Address change

☐ Name change

☐ Initial return

☐ Terminated

☐ Amended return

☐ Application pending

C Name of organization

Mercy Hospital Iowa City Iowa

Doing Business As

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

500 East Market Street

Room/suite

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

Iowa City, IA 52245

F Name and address of principal officer

Michael G Heinrich
500 East Market Street
Iowa City, IA 52245

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

☐ Yes ☒ No

H(b) Are all affiliates included?

☐ Yes ☐ No

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

H(c) Group exemption number

0928

I Tax-exempt status

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

J Website:

www.mercyiowacity.org

K Form of organization

☒ Corporation ☐ Trust ☐ Association ☐ Other

L Year of formation

1873

M State of legal domicile

IA

Part I

Summary

Activities & Governance	1 Briefly describe the organization's mission or most significant activities To heal and comfort the sick and improve the health of the community in the spirit of Jesus Christ		
Revenue	2 Check this box <input type="checkbox"/> if the organization discontinued its operations or disposed of more than 25% of its net assets		
	3 Number of voting members of the governing body (Part VI, line 1a)	3	13
	4 Number of independent voting members of the governing body (Part VI, line 1b)	4	12
	5 Total number of individuals employed in calendar year 2011 (Part V, line 2a)	5	1,326
	6 Total number of volunteers (estimate if necessary)	6	449
	7a Total unrelated business revenue from Part VIII, column (C), line 12	7a	3,648,646
	7b Net unrelated business taxable income from Form 990-T, line 34	7b	-584,174
	8 Contributions and grants (Part VIII, line 1h)	Prior Year	Current Year
		628,872	577,231
		139,782,498	148,788,946
		7,219,828	4,442,057
		2,053,325	2,136,634
	9 Program service revenue (Part VIII, line 2g)		
	10 Investment income (Part VIII, column (A), lines 3, 4, and 7d)		
	11 Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)		
	12 Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12)		
	13 Grants and similar amounts paid (Part IX, column (A), lines 1–3)		
	14 Benefits paid to or for members (Part IX, column (A), line 4)		
	15 Salaries, other compensation, employee benefits (Part IX, column (A), lines 5–10)		
	16a Professional fundraising fees (Part IX, column (A), line 11e)		
	b Total fundraising expenses (Part IX, column (D), line 25) <input type="checkbox"/> 0		
	17 Other expenses (Part IX, column (A), lines 11a–11d, 11f–24e)		
	18 Total expenses Add lines 13–17 (must equal Part IX, column (A), line 25)		
	19 Revenue less expenses Subtract line 18 from line 12		
	20 Total assets (Part X, line 16)	Beginning of Current Year	End of Year
		269,627,417	286,076,441
		122,320,945	163,143,135
		147,306,472	122,933,306

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

Michael G Heinrich Executive VP of Finance & CFO

Date

2013-04-29

Paid Preparer's Use Only

Preparer's signature

Kristina Rasmussen

Date

Check if self-employed

☐

Preparer's taxpayer identification number (see instructions)

P00143920

Firm's name (or yours if self-employed), address, and ZIP + 4

Deloitte Tax LLP
50 South Sixth Street Ste 2800
Minneapolis, MN 554021538

EIN

86-1065772

Phone no

(612) 397-4000

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

☒ Yes ☐ No

For Paperwork Reduction Act Notice, see the separate instructions.

Cat No 11282Y

Form 990 (2011)

Part III

Statement of Program Service Accomplishments

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

1

Briefly describe the organization's mission

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

2

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

Yes

☒ No

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

3

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

Yes

☒ No

If "Yes," describe these changes on Schedule O

4

Describe the 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 \$ 101,451,572 including grants of \$) (Revenue \$ 148,922,011)

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

4b

(Code) (Expenses \$ 858,728 including grants of \$) (Revenue \$ 195,679)

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

4c

(Code) (Expenses \$ 2,855,782 including grants of \$ 158,938) (Revenue \$)

Community Benefit. Mercy's community benefits take many forms, beginning with traditional charity care of \$ 8 million, and the unpaid cost of Medicaid (\$2 million). Other examples are varied; they include cash donations to community non-for-profits such as the Free Medical Clinic, free meeting space to valued community organizations, leadership time and skills that further the work of community non-for-profits, first aid booths provided at public events. These efforts are detailed in Mercy's community benefit report, prepared annually. As a trusted, longtime member of the community, Mercy plays an important role not only in furthering community health but the general community good.

4d

Other program services (Describe in Schedule O)

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





















4e

Total program service expenses \$ 105,166,082

Form 990 (2011)

Part IV

Checklist of Required Schedules

		Yes	No	
1	Is the organization described in section 501(c)(3) or 4947(a)(1) (other than a private foundation)? <i>If "Yes," complete Schedule A.</i> 	1	Yes	
2	Is the organization required to complete <i>Schedule B, Schedule of Contributors</i> (see instructions)? 	2	Yes	
3	Did the organization engage in direct or indirect political campaign activities on behalf of or in opposition to candidates for public office? <i>If "Yes," complete Schedule C, Part I.</i> 	3		No
4	Section 501(c)(3) organizations. Did the organization engage in lobbying activities, or have a section 501(h) election in effect during the tax year? <i>If "Yes," complete Schedule C, Part II.</i> 	4	Yes	
5	Is the organization a section 501(c)(4), 501(c)(5), or 501(c)(6) organization that receives membership dues, assessments, or similar amounts as defined in Revenue Procedure 98-19? <i>If "Yes," complete Schedule C, Part III.</i> 	5		No
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? <i>If "Yes," complete Schedule D, Part I.</i> 	6		No
7	Did the organization receive or hold a conservation easement, including easements to preserve open space, the environment, historic land areas or historic structures? <i>If "Yes," complete Schedule D, Part II.</i> 	7		No
8	Did the organization maintain collections of works of art, historical treasures, or other similar assets? <i>If "Yes," complete Schedule D, Part III.</i> 	8		No
9	Did the organization report an amount in Part X, line 21, serve as a custodian for amounts not listed in Part X, or provide credit counseling, debt management, credit repair, or debt negotiation services? <i>If "Yes," complete Schedule D, Part IV.</i> 	9		No
10	Did the organization, directly or through a related organization, hold assets in temporarily restricted endowments, permanent endowments, or quasi-endowments? <i>If "Yes," complete Schedule D, Part V.</i> 	10	Yes	
11	If the organization's answer to any of the following questions is 'Yes,' then complete Schedule D, Parts VI, VII, VIII, IX, or X as applicable			
a	Did the organization report an amount for land, buildings, and equipment in Part X, line 10? <i>If "Yes," complete Schedule D, Part VI.</i> 	11a	Yes	
b	Did the organization report an amount for investments—other securities in Part X, line 12 that is 5% or more of its total assets reported in Part X, line 16? <i>If "Yes," complete Schedule D, Part VII.</i> 	11b		No
c	Did the organization report an amount for investments—program related in Part X, line 13 that is 5% or more of its total assets reported in Part X, line 16? <i>If "Yes," complete Schedule D, Part VIII.</i> 	11c		No
d	Did the organization report an amount for other assets in Part X, line 15 that is 5% or more of its total assets reported in Part X, line 16? <i>If "Yes," complete Schedule D, Part IX.</i> 	11d	Yes	
e	Did the organization report an amount for other liabilities in Part X, line 25? <i>If "Yes," complete Schedule D, Part X.</i> 	11e	Yes	
f	Did the organization's separate or consolidated financial statements for the tax year include a footnote that addresses the organization's liability for uncertain tax positions under FIN 48 (ASC 740)? <i>If "Yes," complete Schedule D, Part X.</i> 	11f	Yes	
12a	Did the organization obtain separate, independent audited financial statements for the tax year? <i>If "Yes," complete Schedule D, Parts XI, XII, and XIII.</i> 	12a		No
b	Was the organization included in consolidated, independent audited financial statements for the tax year? <i>If "Yes," and if the organization answered 'No' to line 12a, then completing Schedule D, Parts XI, XII, and XIII is optional.</i> 	12b	Yes	
13	Is the organization a school described in section 170(b)(1)(A)(ii)? <i>If "Yes," complete Schedule E.</i>	13		No
14a	Did the organization maintain an office, employees, or agents outside of the United States?	14a		No
b	Did the organization have aggregate revenues or expenses of more than \$10,000 from grantmaking, fundraising, business, investment, and program service activities outside the United States, or aggregate foreign investments valued at \$100,000 or more? <i>If "Yes," complete Schedule F, Part I.</i>	14b		No
15	Did the organization report on Part IX, column (A), line 3, more than \$5,000 of grants or assistance to any organization or entity located outside the U S ? <i>If "Yes," complete Schedule F, Part II and IV.</i>	15		No
16	Did the organization report on Part IX, column (A), line 3, more than \$5,000 of aggregate grants or assistance to individuals located outside the U S ? <i>If "Yes," complete Schedule F, Part III and IV.</i>	16		No
17	Did the organization report a total of more than \$15,000, of expenses for professional fundraising services on Part IX, column (A), lines 6 and 11e? <i>If "Yes," complete Schedule G, Part I.</i>	17		No
18	Did the organization report more than \$15,000 total of fundraising event gross income and contributions on Part VIII, lines 1c and 8a? <i>If "Yes," complete Schedule G, Part II.</i>	18		No
19	Did the organization report more than \$15,000 of gross income from gaming activities on Part VIII, line 9a? <i>If "Yes," complete Schedule G, Part III.</i>	19		No
20a	Did the organization operate one or more hospitals? <i>If "Yes," complete Schedule H.</i> 	20a	Yes	
b	If "Yes" to line 20a, did the organization attach its audited financial statement to this return? Note. All Form 990 filers that operated one or more hospitals must attach audited financial statements 	20b	Yes	

Part IV

Checklist of Required Schedules (continued)

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

Part V Statements Regarding Other IRS Filings and Tax Compliance				
Check if Schedule O contains a response to any question in this Part V <input type="checkbox"/>				
			Yes	No
1a	Enter the number reported in Box 3 of Form 1096. Enter -0- if not applicable.	1a	67	
b	Enter the number of Forms W-2G included in line 1a. Enter -0- if not applicable.	1b	0	
c	Did the organization comply with backup withholding rules for reportable payments to vendors and reportable gaming (gambling) winnings to prize winners?	1c	Yes	
2a	Enter the number of employees reported on Form W-3, <i>Transmittal of Wage and Tax Statements</i> filed for the calendar year ending with or within the year covered by this return	2a	1,326	
b	If at least one is reported on line 2a, did the organization file all required federal employment tax returns? Note. If the sum of lines 1a and 2a is greater than 250, you may be required to e-file (see instructions).	2b	Yes	
3a	Did the organization have unrelated business gross income of \$1,000 or more during the year?	3a	Yes	
b	If "Yes," has it filed a Form 990-T for this year? If "No," provide an explanation in Schedule O	3b	Yes	
4a	At any time during the calendar year, did the organization have an interest in, or a signature or other authority over, a financial account in a foreign country (such as a bank account or securities account)?	4a		No
b	If "Yes," enter the name of the foreign country <input type="text"/> See instructions for filing requirements for Form TD F 90-22.1, Report of Foreign Bank and Financial Accounts			
5a	Was the organization a party to a prohibited tax shelter transaction at any time during the tax year? . . .	5a		No
b	Did any taxable party notify the organization that it was or is a party to a prohibited tax shelter transaction?	5b		No
c	If "Yes" to line 5a or 5b, did the organization file Form 8886-T?	5c		
6a	Does the organization have annual gross receipts that are normally greater than \$100,000, and did the organization solicit any contributions that were not tax deductible?	6a		No
b	If "Yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible?	6b		
7 Organizations that may receive deductible contributions under section 170(c).				
a	Did the organization receive a payment in excess of \$75 made partly as a contribution and partly for goods and services provided to the payor?	7a		No
b	If "Yes," did the organization notify the donor of the value of the goods or services provided?	7b		
c	Did the organization sell, exchange, or otherwise dispose of tangible personal property for which it was required to file Form 8282?	7c		No
d	If "Yes," indicate the number of Forms 8282 filed during the year	7d	0	
e	Did the organization receive any funds, directly or indirectly, to pay premiums on a personal benefit contract?	7e		No
f	Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract? . . .	7f		No
g	If the organization received a contribution of qualified intellectual property, did the organization file Form 8899 as required?	7g		
h	If the organization received a contribution of cars, boats, airplanes, or other vehicles, did the organization file a Form 1098-C?	7h		
8 Sponsoring organizations maintaining donor advised funds and section 509(a)(3) supporting organizations. Did the supporting organization, or a donor advised fund maintained by a sponsoring organization, have excess business holdings at any time during the year?				
8				
9 Sponsoring organizations maintaining donor advised funds.				
a	Did the organization make any taxable distributions under section 4966?	9a		
b	Did the organization make a distribution to a donor, donor advisor, or related person?	9b		
10 Section 501(c)(7) organizations. Enter				
a	Initiation fees and capital contributions included on Part VIII, line 12	10a		
b	Gross receipts, included on Form 990, Part VIII, line 12, for public use of club facilities	10b		
11 Section 501(c)(12) organizations. Enter				
a	Gross income from members or shareholders	11a		
b	Gross income from other sources (Do not net amounts due or paid to other sources against amounts due or received from them)	11b		
12a Section 4947(a)(1) non-exempt charitable trusts. Is the organization filing Form 990 in lieu of Form 1041?				
b	If "Yes," enter the amount of tax-exempt interest received or accrued during the year	12b		
13 Section 501(c)(29) qualified nonprofit health insurance issuers.				
a	Is the organization licensed to issue qualified health plans in more than one state? Note. 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.	13a		
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	13b		
c	Enter the aggregate amount of reserves on hand	13c		
14a Did the organization receive any payments for indoor tanning services during the tax year?				
14a				
b	If "Yes," has it filed a Form 720 to report these payments? If "No," provide an explanation in Schedule O . . .	14b		No

Part VI

Governance, Management, and Disclosure

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

Section A. Governing Body and Management

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

Section B. Policies

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

		Yes	No
10a	Did the organization have local chapters, branches, or affiliates?		No
10b	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?	Yes	
11b	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	Yes	
12b	Were officers, directors or trustees, and key employees required to disclose annually interests that could give rise to conflicts?	Yes	
12c	Did the organization regularly and consistently monitor and enforce compliance with the policy? If "Yes," describe in Schedule O how this was done	Yes	
13	Did the organization have a written whistleblower policy?		No
14	Did the organization have a written document retention and destruction policy?	Yes	
15	Did the process for determining compensation of the following persons include a review and approval by independent persons, comparability data, and contemporaneous substantiation of the deliberation and decision?		
15a	The organization's CEO, Executive Director, or top management official	Yes	
15b	Other officers or key employees of the organization	Yes	
	If "Yes," to line 15a or 15b, describe the process in Schedule O (see instructions)		
16a	Did the organization invest in, contribute assets to, or participate in a joint venture or similar arrangement with a taxable entity during the year?	Yes	
16b	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	

Section C. Disclosure

17	List the States with which a copy of this Form 990 is required to be filed
18	Section 6104 requires an organization to make its Form 1023 (or 1024 if applicable), 990, and 990-T (501(c)(3)s only) available for public inspection. Indicate how you made these available. Check all that apply. <input type="checkbox"/> Own website <input type="checkbox"/> Another's website <input checked="" type="checkbox"/> Upon request
19	Describe in Schedule O whether (and if so, how), the organization 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. Jean Berge 500 East Market Street Iowa City, IA 52245 (319) 339-3238

Part VII

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

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

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

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

- List all of the organization's **current** officers, directors, trustees (whether individuals or organizations), regardless of amount of compensation, and **current** key employees Enter -0- in columns (D), (E), and (F) if no compensation was paid
- List all of the organization's **current** key employees, if any See instructions for definition of "key employee "
- List the organization's five **current** highest compensated employees (other than an officer, director, trustee or key employee) who received reportable compensation (Box 5 of Form W-2 and/or Box 7 of Form 1099-MISC) of more than \$100,000 from the organization and any related organizations
- List all of the organization's **former** officers, key employees, 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
		Individual trustee or director	Institutional Trustee	Officer	Key employee	Highest compensated employee	Former			
(1) Robert Beckman MD Oct 11-June 12 Board Member	1 00	X						0	0	0
(2) Mark Danielson Oct 11-June 12 Board Member	1 00	X						0	0	0
(3) Geraldine Felton Board Member	1 00	X						0	0	0
(4) Scott Fisher Board Member	1 00	X						0	0	0
(5) Nyle Kauffman MD July 11-Oct 11 Board Member	1 00	X						0	0	0
(6) SR Sharon Kerrigan Board Member	1 00	X						0	0	0
(7) Tim Krumm Board Member	1 00	X						0	0	0
(8) Chuck McComas Oct 11-June 12 Board Member	1 00	X						0	0	0
(9) Tom McLaughlin Board Member	1 00	X						0	0	0
(10) SR Patricia Murphy Board Member	1 00	X						0	0	0
(11) Dick Oberman July 11-Oct 11 Board Member	1 00	X						0	0	0
(12) Mark Phillips Board Member	1 00	X						0	0	0
(13) Cyndie Schmeiser Board Member	1 00	X						0	0	0
(14) Mary Westabrook July 11-Oct 11 Board Member	1 00	X						0	0	0
(15) SR Margaret Wright Board Member	1 00	X						0	0	0
(16) Ronald R Reed President & CEO	40 00	X		X				551,156	0	68,149
(17) Jean M Berge Director, Fiscal Mgmt	40 00			X				151,685	0	43,965

Part VII

1b	Sub-Total	▼			
c	Total from continuation sheets to Part VII, Section A	▼			
d	Total (add lines 1b and 1c)	▼	4,153,378	0	406,599

2 Total number of individuals (including but not limited to those listed in Item 1) who received more than \$100,000 of reportable compensation from the organization. 67

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

Section B. Independent Contractors

1 Complete this table for your five highest compensated independent contractors that received more than \$100,000 of compensation from the organization. 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
Rohrbach Associates PC 325 E Washington Iowa City, IA 52244	Engineering/Architecture	1,015,935
Cross Medical Laboratories 2406 Towncrest Drive Iowa City, IA 52244	Laboratory Services	368,557
Deloitte & Touche LLP 50 South 6th Street Suite 2800 Minneapolis, MN 55402	Auditing Services	159,678
Phelan Tucker Mullen Walker Tucker & Gel Box 2150 Iowa City, IA 52244	Legal Services	120,848

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 4

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	568,333				
	e	Government grants (contributions)	1e	8,898				
	f	All other contributions, gifts, grants, and similar amounts not included above	1f					
	g	Noncash contributions included in lines 1a-1f \$ _____						
	h	Total. Add lines 1a-1f		577,231				
Program Service Revenue			Business Code					
	2a	Patient Serv Revenue	621400	87,155,647	87,155,647			
	b	Medicare/Medicaid	621400	53,208,909	53,208,909			
	c	Lab Outreach	621511	3,648,646		3,648,646		
	d	ASC Income	900099	3,108,017	3,108,017			
	e	Program Relat Revenue	621400	833,666	833,666			
	f	All other program service revenue		834,061	834,061			
	g	Total. Add lines 2a-2f		148,788,946				
Other Revenue	3	Investment income (including dividends, interest and other similar amounts)		2,245,408			2,245,408	
	4	Income from investment of tax-exempt bond proceeds . .						
	5	Royalties						
	6a	Gross rents	(i) Real	(ii) Personal				
			2,172,424					
			1,132,042					
			1,040,382					
	d	Net rental income or (loss)		1,040,382			1,040,382	
	7a	Gross amount from sales of assets other than inventory	(i) Securities	(ii) Other				
			32,792,062	122,801				
			30,688,329	29,885				
			2,103,733	92,916				
	d	Net gain or (loss)		2,196,649			2,196,649	
	8a	Gross income from fundraising events (not including \$ _____ of contributions reported on line 1c) See Part IV, line 18	a					
	b	Less direct expenses	b					
	c	Net income or (loss) from fundraising events . .						
	9a	Gross income from gaming activities See Part IV, line 19	a					
	b	Less direct expenses	b					
	c	Net income or (loss) from gaming activities . .						
	10a	Gross sales of inventory, less returns and allowances	a					
b	Less cost of goods sold	b						
c	Net income or (loss) from sales of inventory . .							
Miscellaneous Revenue		Business Code						
11a	Cafeteria Income	722210	753,841			753,841		
b	Access	621400	94,343	94,343				
c	Miscellaneous revenue	900099	39,226	39,226				
d	All other revenue		208,842	195,175		13,667		
e	Total. Add lines 11a-11d		1,096,252					
12	Total revenue. See Instructions		155,944,868	145,469,044	3,648,646	6,249,947		

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	141,270	141,270		
2	Grants and other assistance to individuals in the United States See Part IV, line 22	17,668	17,668		
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	1,277,542	561,677	715,865	
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	56,917,160	43,205,337	13,711,823	
8	Pension plan contributions (include section 401(k) and section 403(b) employer contributions)	4,809,715	3,566,404	1,243,311	
9	Other employee benefits	8,164,868	6,018,664	2,146,204	
10	Payroll taxes	4,075,773	3,057,771	1,018,002	
11	Fees for services (non-employees)				
a	Management				
b	Legal	188,844		188,844	
c	Accounting	153,336		153,336	
d	Lobbying	30,604		30,604	
e	Professional fundraising See Part IV, line 17				
f	Investment management fees				
g	Other	4,640,825	3,551,496	1,089,329	
12	Advertising and promotion	769,910	6,800	763,110	
13	Office expenses	9,678,904	5,017,936	4,660,968	
14	Information technology	3,228,331	443,085	2,785,246	
15	Royalties				
16	Occupancy	2,065,644	56,357	2,009,287	
17	Travel	334,499	217,441	117,058	
18	Payments of travel or entertainment expenses for any federal, state, or local public officials				
19	Conferences, conventions, and meetings				
20	Interest	2,756,874	1,874,766	882,108	
21	Payments to affiliates				
22	Depreciation, depletion, and amortization	10,946,895	9,453,326	1,493,569	
23	Insurance	3,761,822		3,761,822	
24	Other expenses Itemize expenses not covered above (List miscellaneous expenses in line 24f If line 24f amount exceeds 10% of line 25, column (A) amount, list line 24f expenses on Schedule O)				
a	Medical Supplies	15,032,887	15,031,370	1,517	0
b	Bad Debt Expense	6,870,033	6,870,033	0	0
c	Pharmacy Supplies	3,015,690	3,015,690	0	0
d	Food Expense	1,043,297	1,043,297	0	0
e					
f	All other expenses	5,066,671	2,015,694	3,050,977	
25	Total functional expenses. Add lines 1 through 24f	144,989,062	105,166,082	39,822,980	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)		(B)
					Beginning of year		End of year
Assets	1	Cash—non-interest-bearing			2,831,957	1	8,409,921
	2	Savings and temporary cash investments			2,379,090	2	1,597,588
	3	Pledges and grants receivable, net				3	
	4	Accounts receivable, net			20,402,245	4	21,282,928
	5	Receivables from current and former officers, directors, trustees, key employees, and highest compensated employees. Complete Part II of Schedule L			54,373	5	60,992
	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			3,969,188	8	4,062,526
	9	Prepaid expenses and deferred charges			1,968,027	9	2,201,942
	10a	Land, buildings, and equipment: cost or other basis. Complete Part VI of Schedule D	10a	232,227,222			
	b	Less: accumulated depreciation	10b	148,181,315	75,209,532	10c	84,045,907
	11	Investments—publicly traded securities			139,357,794	11	134,034,675
	12	Investments—other securities. See Part IV, line 11				12	
	13	Investments—program-related. See Part IV, line 11			5,800,378	13	3,446,694
	14	Intangible assets				14	
	15	Other assets. See Part IV, line 11			17,654,833	15	26,933,268
	16	Total assets. Add lines 1 through 15 (must equal line 34)			269,627,417	16	286,076,441
Liabilities	17	Accounts payable and accrued expenses			15,358,510	17	15,383,318
	18	Grants payable				18	
	19	Deferred revenue				19	
	20	Tax-exempt bond liabilities			62,073,856	20	81,955,827
	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			304,211	23	734,523
	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			44,584,368	25	65,069,467
	26	Total liabilities. Add lines 17 through 25			122,320,945	26	163,143,135
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			147,306,472	27	122,933,306
	28	Temporarily restricted net assets				28	0
	29	Permanently restricted net assets				29	0
	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			147,306,472	33	122,933,306
	34	Total liabilities and net assets/fund balances			269,627,417	34	286,076,441

Part XI Reconciliation of Net Assets

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

1	Total revenue (must equal Part VIII, column (A), line 12)	1	155,944,868
2	Total expenses (must equal Part IX, column (A), line 25)	2	144,989,062
3	Revenue less expenses Subtract line 2 from line 1	3	10,955,806
4	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A))	4	147,306,472
5	Other changes in net assets or fund balances (explain in Schedule O)	5	-35,328,972
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	122,933,306

Part XII Financial Statements and Reporting

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

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

SCHEDULE A

(Form 990 or 990EZ)

Department of the Treasury
Internal Revenue Service

Public Charity Status and Public Support

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

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

OMB No 1545-0047

2011

Open to Public
Inspection

Name of the organization Mercy Hospital Iowa City Iowa	Employer identification number 42-0680391
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Part I Reason for Public Charity Status

(All organizations must complete this part.) See instructions

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

- 1

☐

A church, convention of churches, or association of churches **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 Se**section 509(a)(4).**
- 11

☐

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

a

☐

Type I

b

☐

Type II

c

☐

Type III - Functionally integrated

d

☐

Type III - Other

e

☐

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

f

☐

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

g

☐

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

(i)

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

(ii)

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

(iii)

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

h

☐

Provide the following information about the supported organization(s)

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

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

Part II

Support Schedule for Organizations Described in 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 IIIPart 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

SCHEDULE C
(Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

Political Campaign and Lobbying Activities

For Organizations Exempt From Income Tax Under section 501(c) and section 527

▶ Complete if the organization is described below.

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

OMB No 1545-0047

2011

Open to Public Inspection

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

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

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

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

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

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

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

1	Provide a description of the organization's direct and indirect political campaign activities on behalf of or in opposition to candidates for public office in Part IV	
2	Political expenditures	▶ \$
3	Volunteer hours	

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

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

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

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

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

Part II-A

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

- A

Check

☒

if the filing organization belongs to an affiliated group (and list in Part IV each affiliated group member's name, address, EIN, expenses, and share of excess lobbying expenditures)
- B

Check

☐

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

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

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

Lobbying Expenditures During 4-Year Averaging Period					
Calendar year (or fiscal year beginning in)	(a) 2008	(b) 2009	(c) 2010	(d) 2011	(e) Total
2a Lobbying non-taxable amount					
b Lobbying ceiling amount (150% of line 2a, column(e))					
c Total lobbying expenditures					
d Grassroots non-taxable amount					
e Grassroots ceiling amount (150% of line 2d, column (e))					
f Grassroots lobbying expenditures					

Part II-B

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

		(a)		(b)
		Yes	No	Amount
1	During the year, did the filing organization attempt to influence foreign, national, state or local legislation, including any attempt to influence public opinion on a legislative matter or referendum, through the use of			
a	Volunteers?		No	
b	Paid staff or management (include compensation in expenses reported on lines 1c through 1i)?		No	
c	Media advertisements?		No	
d	Mailings to members, legislators, or the public?		No	
e	Publications, or published or broadcast statements?	Yes		
f	Grants to other organizations for lobbying purposes?		No	
g	Direct contact with legislators, their staffs, government officials, or a legislative body?	Yes		
h	Rallies, demonstrations, seminars, conventions, speeches, lectures, or any similar means?		No	
i	Other activities? If "Yes," describe in Part IV	Yes		30,604
j	Total lines 1c through 1i			30,604
2a	Did the activities in line 1 cause the organization to be not described in section 501(c)(3)?		No	
b	If "Yes," enter the amount of any tax incurred under section 4912			
c	If "Yes," enter the amount of any tax incurred by organization managers under section 4912			
d	If the filing organization incurred a section 4912 tax, did it file Form 4720 for this year?			

Part III-A

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

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

Part III-B

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

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

Part IV

Supplemental Information

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

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

SCHEDULE D
(Form 990)

Supplemental Financial Statements

OMB No 1545-0047

2011

Open to Public Inspection

Department of the Treasury
Internal Revenue Service

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

Name of the organization Mercy Hospital Iowa City Iowa	Employer identification number 42-0680391
---	--

Part I

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

	(a) Donor advised funds	(b) Funds and other accounts
1	Total number at end of year	
2	Aggregate contributions to (during year)	
3	Aggregate grants from (during year)	
4	Aggregate value at end of year	
5	Did the organization inform all donors and donor advisors in writing that the assets held in donor advised funds are the organization's property, subject to the organization's exclusive legal control?	
	<input type="checkbox"/> Yes <input type="checkbox"/> 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	
	<input type="checkbox"/> Yes <input type="checkbox"/> 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
a	Total number of conservation easements
b	Total acreage restricted by conservation easements
c	Number of conservation easements on a certified historic structure included in (a)
d	Number of conservation easements included in (c) acquired after 8/17/06

3

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

4

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

5

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

☐ Yes ☐ No

6

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

7

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

8

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

☐ Yes ☐ No

9

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

Part III

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

1a

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

b

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

(i)

Revenues included in Form 990, Part VIII, line 1

▶ \$ _____

(ii)

Assets included in Form 990, Part X

▶ \$ _____

2

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

a

Revenues included in Form 990, Part VIII, line 1

▶ \$ _____

b

Assets included in Form 990, Part X

▶ \$ _____

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

3

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

a

☐ Public exhibition

b

☐ Scholarly research

c

☐ Preservation for future generations

d

☐ Loan or exchange programs

e

☐ Other

4

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

5

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

☐ Yes

☐ No

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

1a

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

☐ Yes

☐ No

1b

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

	Amount
1c Beginning balance	
1d Additions during the year	
1e Distributions during the year	
1f Ending balance	

2a

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

☐ Yes

☐ No

2b

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	12,951,892	10,653,690	9,665,745	12,302,591	
1b Contributions	165,736	451,005	140,749	36,954	
1c Investment earnings or losses	-117,757	2,031,685	1,003,105	-2,231,983	
1d Grants or scholarships	455,752	184,488	155,909	441,817	
1e Other expenditures for facilities and programs					
1f Administrative expenses					
1g End of year balance	12,544,119	12,951,892	10,653,690	9,665,745	

2

Provide the estimated percentage of the year end balance held as

a

Board designated or quasi-endowment ▶ 81 000 %

b

Permanent endowment ▶ 19 000 %

c

Term endowment ▶ 0 %

3a

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

(i)

unrelated organizations

3a(i)

☐ Yes

☐ No

(ii)

related organizations

3a(ii)

☐ Yes

☐

b

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

3b

☐ Yes

☐

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.

Description of property	(a) Cost or other basis (investment)	(b)Cost or other basis (other)	(c) Accumulated depreciation	(d) Book value
1a Land		6,379,393		6,379,393
1b Buildings		118,872,579	74,484,017	44,388,562
1c Leasehold improvements		614,410	561,109	53,301
1d Equipment		68,048,011	51,930,936	16,117,075
1e Other		38,312,829	21,205,253	17,107,576
Total. Add lines 1a-1e (Column (d) should equal Form 990, Part X, column (B), line 10(c).) ▶				84,045,907

Part XI Reconciliation of Change in Net Assets from Form 990 to Financial Statements		
1	Total revenue (Form 990, Part VIII, column (A), line 12)	1
2	Total expenses (Form 990, Part IX, column (A), line 25)	2
3	Excess or (deficit) for the year Subtract line 2 from line 1	3
4	Net unrealized gains (losses) on investments	4
5	Donated services and use of facilities	5
6	Investment expenses	6
7	Prior period adjustments	7
8	Other (Describe in Part XIV)	8
9	Total adjustments (net) Add lines 4 - 8	9
10	Excess or (deficit) for the year per financial statements Combine lines 3 and 9	10

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

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

Part XIV Supplemental Information

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

Identifier	Return Reference	Explanation
Description of Intended Use of Endowment Funds	Part V, Line 4	All Restricted Endowed Funds are used for the benefit of Mercy Hospital Iowa City - capital equipment, employee grants, scholarships, etc
Description of Uncertain Tax Positions Under FIN 48	Part X	Mercy adopted the provisions of FIN No. 48 in fiscal 2008. As a result of the implementation of FIN No. 48, and as of June 30, 2012, Mercy recorded no liabilities for unrecognized tax benefits.

SCHEDULE H
(Form 990)

Department of the Treasury
Internal Revenue Service

Hospitals

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

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization
Mercy Hospital Iowa City Iowa

Employer identification number
42-0680391

Part I

Charity Care and Certain Other Community Benefits at Cost

		Yes	No	
1a	Did the organization have a charity care policy? If "No," skip to question 6a	1a	Yes	
b	If "Yes," is it a written policy?	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 <div><input type="checkbox"/> Applied uniformly to all hospitals</div> <div><input type="checkbox"/> Applied uniformly to most hospitals</div> <div><input type="checkbox"/> Generally tailored to individual hospitals</div>			
3	Answer the following based on the 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 <i>free</i> care? If "Yes," indicate which of the following is the FPG family income limit for eligibility for free care <div><input type="checkbox"/> 100% <input type="checkbox"/> 150% <input checked="" type="checkbox"/> 200% <input type="checkbox"/> Other _____%</div> b Did the organization use FPG to determine eligibility for providing <i>discounted</i> care? If "Yes," indicate which of the following is the family income limit for eligibility for discounted care <div><input checked="" type="checkbox"/> 200% <input type="checkbox"/> 250% <input type="checkbox"/> 300% <input type="checkbox"/> 350% <input type="checkbox"/> 400% <input type="checkbox"/> Other _____%</div> c If the organization 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"?	3a	Yes	
5a	Did the organization budget amounts for free or discounted care provided under its financial assistance policy during the tax year?	5a	Yes	
b	If "Yes," did the organization's charity care expenses exceed the budgeted amount?	5b		No
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		
6a	Did the organization prepare a community benefit report during the tax year?	6a	Yes	
6b	If "Yes," did the organization make it available to the public?	6b	Yes	
	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)			806,548	0	806,548	0 580 %
b Medicaid (from Worksheet 3, column a)			5,741,857	3,702,475	2,039,382	1 480 %
c Costs of other means-tested government programs (from Worksheet 3, column b)			22,283	12,431	9,852	0 010 %
d Total Charity Care and Means-Tested Government Programs			6,570,688	3,714,906	2,855,782	2 070 %
Other Benefits						
e Community health improvement services and community benefit operations (from Worksheet 4)			866,413	9,047	857,366	0 620 %
f Health professions education (from Worksheet 5)			77,787	20,901	56,886	0 040 %
g Subsidized health services (from Worksheet 6)			2,008,338	1,408,201	600,137	0 430 %
h Research (from Worksheet 7)						0 %
i Cash and in-kind contributions for community benefit (from Worksheet 8)			574,426	0	574,426	0 420 %
j Total Other Benefits			3,526,964	1,438,149	2,088,815	1 510 %
k Total. Add lines 7d and 7j			10,097,652	5,153,055	4,944,597	3 580 %

Part IICommunity 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
1Physical improvements and housing						
2Economic development			40,737		40,737	0.030 %
3Community support			37,032		37,032	0.030 %
4Environmental improvements						
5Leadership development and training for community members						
6Coalition building						
7Community health improvement advocacy						
8Workforce development						
9Other						
10Total			77,769		77,769	0.060 %

Part IIIBad Debt, Medicare, & Collection Practices

Section A. Bad Debt Expense

		Yes	No
1Did the organization report bad debt expense in accordance with Heathcare Financial Management Association Statement No. 15?	1		No
2Enter the amount of the organization's bad debt expense	2	2,304,896	
3Enter the estimated amount of the organization's bad debt expense attributable to patients eligible under the organization's charity care policy	3	68,642	
4Provide in Part VI the text of the footnote to the organization's financial statements that describes bad debt expense. In addition, describe the costing methodology used in determining the amounts reported on lines 2 and 3, and rationale for including a portion of bad debt amounts as community benefit.			

Section B. Medicare

5Enter total revenue received from Medicare (including DSH and IME)	5	38,992,202	
6Enter Medicare allowable costs of care relating to payments on line 5	6	55,938,516	
7Subtract line 6 from line 5. This is the surplus or (shortfall).	7	-16,946,314	
8Describe in Part VI the extent to which any shortfall reported in line 7 should be treated as community benefit. Also describe in Part VI the costing methodology or source used to determine the amount reported on line 6. Check the box that describes the method used: <input type="checkbox"/> Cost accounting system <input checked="" type="checkbox"/> Cost to charge ratio <input type="checkbox"/> Other			

Section C. Collection Practices

9aDid the organization have a written debt collection policy during the tax year?	9a	Yes	
9bIf "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.	9b	Yes	

Part IVManagement 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 %
11Iowa City Ambulatory Surgery Center	Outpatient Surgery Center	57.500 %		42.500 %
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				

Section A. Hospital Facilities

How many hospital facilities did the organization operate during the tax year? 1

1	Mercy Hospital 500 East Market Street Iowa City, IA 52245
---	---

[illegible]

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 Iowa City Iowa

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 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)	1	
2 Indicate the tax year the hospital facility last conducted a Needs Assessment 20 ____		
3 In conducting its most recent Needs Assessment, did the hospital facility take into account input from persons who represent the community served by the hospital facility? If "Yes," describe in Part VI how the hospital facility took into account input from persons who represent the community, and identify the persons the hospital facility consulted	3	
4 Was the hospital facility's Needs Assessment conducted with one or more other hospital facilities? If "Yes," list the other hospital facilities in Part VI	4	
5 Did the hospital facility make its Needs Assessment widely available to the public? If "Yes," indicate how the Needs Assessment was made widely available (check all that apply) a <input type="checkbox"/> Hospital facility's website b <input type="checkbox"/> Available upon request from the hospital facility c <input type="checkbox"/> Other (describe in Part VI)	5	
6 If the hospital facility addressed needs identified in its most recently conducted Needs Assessment, indicate how (check all that apply) a <input type="checkbox"/> Adoption of an implementation strategy to address the health needs of the hospital facility's community b <input type="checkbox"/> Execution of the implementation strategy c <input type="checkbox"/> 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? If "Yes," indicate the FPG family income limit for eligibility for free care 200 000000000000% If "No," explain in Part VI the criteria the hospital facility used	9	Yes

Part V

Facility Information (continued)

		Yes	No	
10	Used FPG to determine eligibility for providing discounted care? If "Yes," indicate the FPG family income limit for eligibility for discounted care <u>200 000000000000%</u> If "No," explain in Part VI the criteria the hospital facility used	10	Yes	
11	Explained the basis for calculating amounts charged to patients? If "Yes," indicate the factors used in determining such amounts (check all that apply) a <input checked="" type="checkbox"/> Income level b <input checked="" type="checkbox"/> Asset level c <input checked="" type="checkbox"/> Medical indigency d <input checked="" type="checkbox"/> Insurance status e <input checked="" type="checkbox"/> Uninsured discount f <input checked="" type="checkbox"/> Medicaid/Medicare g <input checked="" type="checkbox"/> State regulation h <input type="checkbox"/> Other (describe in Part VI)	11	Yes	
12	Explained the method for applying for financial assistance?	12	Yes	
13	Included measures to publicize the policy within the community served by the hospital facility? If "Yes," indicate how the hospital facility publicized the policy (check all that apply) a <input type="checkbox"/> The policy was posted at all times on the hospital facility's web site b <input type="checkbox"/> The policy was attached to all billing invoices c <input type="checkbox"/> The policy was posted in the hospital facility's emergency rooms or waiting rooms d <input type="checkbox"/> The policy was posted in the hospital facility's admissions offices e <input type="checkbox"/> The policy was provided, in writing, to patients upon admission to the hospital facility f <input checked="" type="checkbox"/> The policy was available upon request g <input checked="" type="checkbox"/> Other (describe in Part VI)	13	Yes	

Billing and Collections

14	Did the hospital facility have in place during the tax year a separate billing and collections policy, or a written financial assistance policy (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 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? 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)	16		No
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

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

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	<input type="checkbox"/> The hospital facility used its lowest negotiated commercial insurance rate when calculating the maximum amounts that can be charged		
b	<input type="checkbox"/> The hospital facility used the average of it's three lowest negotiated commercial insurance rates when calculating the maximum amounts that can be charged		
c	<input type="checkbox"/> The hospital facility used the Medicare rates when calculating the maximum amounts that can be charged		
d	<input type="checkbox"/> Other (describe in Part VI)		
20	Did the hospital facility charge any of its patients who were eligible for assistance under the hospital facility's financial assistance policy, and to whom the hospital facility provided emergency or other medically necessary services, more than the amounts generally billed to individuals who had insurance covering such care? If "Yes," explain in Part VI		No
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		No

Part V

Facility Information (continued)

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

(list in order of size from largest to smallest)

How many non-hospital facilities did the organization operate during the tax year? 1

Name and address		Type of Facility (Describe)
1	Mercy Home Health Care 500 East Market Street Iowa City, IA 52245	Home Health & Private Duty Nursing
2		
3		
4		
5		
6		
7		
8		
9		
10		

Part VI

Supplemental Information

Complete this part to provide the following information

- 1
- Required descriptions.** Provide the 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, 6i, 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 7 Amounts in the table were derived using a cost accounting system that addresses all patient segments A cost to charge ratio derived from completing IRS worksheet 2 was used to determine the amounts in Part I, Line 7a, 7b, 7c, and 7g

Identifier	ReturnReference	Explanation
		Part I, L7 Col(f) Bad debt expense of \$6,870,033 was subtracted for purposes of calculating the percentage in Schedule H, Part I, Line 7, column (f)

Identifier	ReturnReference	Explanation
		<p>Part II Economic development Mercy works with such groups as the Iowa City Area Chamber of Commerce and Iowa City Area Development Group to support the business community, welcome innovation to the area, and develop the workforce Mercy's own growth benefits the community as well, particularly when Mercy's recruiting efforts attract new professionals to the area Community support Mercy has provided extensive support for many years to United Way of Johnson County Mercy holds its own campaign for employees each autumn (typically raising more than \$120,000) and provides much staff time and support to the local United Way organization Environmental improvements Mercy has been a good neighbor for its closest neighbors by maintaining its buildings and landscaping at a high level Mercy also pursues extensive recycling (including newspapers, magazines, office paper, plastics, batteries, cooking oil, construction materials, and more) and programs that reduce energy consumption Mercy regularly holds silent auctions open to employees to sell equipment that is no longer needed, rather than sending it into the trash stream Mercy recently created a Sustainability Committee to further and standardize these efforts Leadership development and training for community members Mercy lends support to the Iowa City Area Chamber of Commerce annual Community Leadership Program In this nine-month program, 24 members of the civic community receive an in-depth look at the workings of local government, public works, education system, health care, arts community, and more This program gives participants a better understanding and appreciation of the entire community and develops fellowship among members from diverse backgrounds and settings Coalition building Mercy is involved in many ways with local citizens and groups that are working to afford all members of our community a good quality of life and to improve the overall quality of life Mercy is a cosponsor of and provides leadership for the 20-year-old Johnson County Safe Kids Coalition, a grass-roots effort to reduce unintentional injuries to children from birth to age 14 Since its inception, the coalition has been active in promoting bike helmet use, bike safety, and safety education events The coalition is particularly active in providing free car seat check clinics to parents Community health improvement advocacy Healthy Kids Community Care is a school-based clinic that provides health care to children who have no other access to it Mercy made large cash donations over a period of five years to help launch this initiative and provided key leadership as the program developed Mercy has also provided financial support to the Free Medical Clinic, which saw almost 2,300 unique patients in FY2012 Those who seek care of the Free Medical Clinic typically have no other access to health care services Workforce development Kirkwood Foundation, Workplace Learning Connection</p>

Identifier	ReturnReference	Explanation
		Part III, Line 4 We do not currently have a footnote to our financial statements that describes bad debt expense The amount on line 2 was derived from taking actual bad debt write-offs and applying the cost to charge ratio of 3355 to that amount Mercy Hospital does not include bad debt amounts as part of community benefit An estimate of bad debt attributable to patients eligible for charity care has been estimated to be \$68,642 This estimate was derived by using the outstanding patient balance of accounts recommended for presumptive charity at cost that were reviewed and denied The presumptive charity program was implemented on October 1, 2010

Identifier	ReturnReference	Explanation
		Part III, Line 8 Mercy Hospital does not include Medicare shortfalls as part of it's community benefit Total revenue was determined using charges per the CMS Provider Statistical Reimbursement System reports for Fee Reimbursed Services for the fiscal year ended 6/30/12 Costs calculated using the Cost to Charge Ratio for the appropriate services from the submitted Medicare Cost Report form 2552-96 for the fiscal year ended 6/30/12

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

Identifier	ReturnReference	Explanation
Mercy Hospital, Iowa City, Iowa		Part V, Section B, Line 13g. A copy of the Financial Assistance Policy Application is available on the Mercy Hospital website. The Financial Assistance Policy is available upon request. If a patient does not have insurance, the invoice states that financial assistance is available.

Identifier	ReturnReference	Explanation
Mercy Hospital, Iowa City, Iowa		Part V, Section B, Line 19d Mercy Hospital determines on an individual basis based on the patient's ability to pay for the maximum amounts that can be charged to FAP-Eligible individuals for emergency and other medically necessary care. Patients, who fall under the 200% Federal Poverty Guidelines, are eligible for free care. Mercy Hospital uses the following factors to determine the amount to charge FAP-eligible patients for individuals who earn more than 200% of the FPG Income level, Asset level, medical indigency, insurance status, uninsured discount, Medicaid/Medicare. In addition to the financial assistance policy, all uninsured patients are eligible for discounts ranging from 30-10% based on timeliness of payment.

Identifier	ReturnReference	Explanation
		Part VI, Line 2 Historically, community health needs assessment is conducted every 5-7 years The most recent assessment was conducted in Fall 2012 The organization engaged Professional Research Consultants to conduct the assessment The community health survey is a systematic, data-driven approach to determining the health status, behaviors and needs of residents in the communities the organization serves The survey instrument used for the assessment is based largely on the Centers for Disease Control and Prevention (CDC) Behavioral Risk Factor Surveillance System (BRFSS), as well as various other public health surveys and customized questions addressing gaps in indicator data relative to national health promotion and disease prevention objectives and other recognized health issues The results of the survey will be used to improve health status, elevate overall quality of life, reduce health disparities, and increase accessibility to services for community residents

Identifier	ReturnReference	Explanation
		Part VI, Line 3 Evaluation for Medicaid, disability, and other types of coverage is provided for uninsured patients for inpatient stays as well as high dollar outpatient services The evaluation is conducted during the patient stay or by a phone call to the patient's home - Financial assistance is available for patients who meet Mercy assistance guidelines Assistance may be available for uninsured, under-insured and catastrophic circumstances Assistance may take the form of forgiving all or part of a bill and/or providing an extended payment option - Meeting financial assistance guidelines involves evaluating family income and assets, using other sources of funds such as insurance or government programs, and other family or social support networks - Financial assistance applications are available at the points of registration Information and applications are also available at Mercy-affiliated clinics - The first statement sent to patients who do not have insurance explains that financial assistance is available and provides information about further inquiry Subsequent statements also contain information about who to contact for financial assistance Financial assistance is offered to all patients with no insurance on the first telephone contact - During the collection process for insured patients, if the patient expresses concern about payment, he/she is offered financial assistance and/or payment plan options Full or partial assistance is available If partial assistance is received, the balance may be set up on a payment plan if needed - The State of Iowa offers a statewide health insurance plan for uninsured children called hawk-i Information about hawk-i is provided at registration points

Identifier	ReturnReference	Explanation
		Part VI, Line 4 Mercy Hospital is located in the community of Iowa City, Iowa, in Johnson County in the east central part of the state The county's population in 2011 was approximately 133,000 From 2000 to 2008 Johnson County experienced strong population growth of 15 4 percent, compared to 2 6 percent for the entire state Johnson County's population is projected to increase by another 9 5 percent by the year 2014 Mercy Hospital serves 10 counties in southeast Iowa, with the primary service area being Johnson County The secondary service area includes Cedar, Iowa, Muscatine and Washington counties The tertiary service area includes Henry, Jefferson, Keokuk, Lee and Louisa counties The population of the service area is approximately 325,168 Iowa City is home to the University of Iowa, which has an enrollment of 31,498 for the 2012-2013 academic year Johnson County is well-educated, of individuals 25 and older, 95 3 percent are high school graduates and 50 6 percent hold a bachelor's degree or higher The University of Iowa also provides the foundation for an economy that has particular strengths in education, health care, services, technology, agribusiness, and manufacturing According to the U S Census Bureau, 17 8 percent of the Johnson County population lived below the poverty line between 2007 and 2011, compared to 11 9 percent for the entire state

Identifier	ReturnReference	Explanation
		Part VI, Line 5 Mercy Iowa City is a faith-based institution that provides services based on the ethical and religious directives of the Catholic Church. An important part of Mercy's mission is to improve the health of the community. Mercy does so by: Ensuring that the medical staff is open to all qualified physicians, ensuring that the hospital is accredited and in good standing with The Joint Commission, ensuring that the board of directors is comprised of diverse, independent individuals, not employees of the hospital, representing the community and also providing necessary expertise, establishing and carrying out a conflict of interest policy, providing a site for clinical experience for a variety of health care professionals, providing charity care and financial assistance with medical bills as needed to community members, participating in such programs as Medicare, Medicaid, and hawk-1, an insurance program for needy Iowa children, absorbing unreimbursed costs for such government programs, ensuring that account collections are carried out in compliance with state and federal guidelines, providing emergency room services and working with local and state officials in community preparedness issues, treating emergency patients according to EMTALA guidelines and serving all patients regardless of their ability to pay, investing surplus funds in services, technology, and personnel that will further the benefit of the community.

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

OMB No 1545-0047

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

Open to Public Inspection

Employer identification number

42-0680391

1 Does the organization maintain records to substantiate the amount of the grants or assistance, the grantees' eligibility for the grants or assistance, and the selection criteria used to award the grants or assistance? ☒ Yes ☐ No

2 Describe in Part IV the organization's procedures for monitoring the use of grant funds in the United States

Part II **Grants and Other Assistance to Governments and Organizations in the United States.** Complete if the organization answered "Yes" to Form 990, Part IV, line 21 for any recipient that received more than \$5,000. Check this box if no one recipient received more than \$5,000. Use Part IV and Schedule I-1 (Form 990) if additional space is needed.

[illegible]

2	Enter total number of section 501(c)(3) and government organizations listed in the line 1 table	3
3	Enter total number of other organizations listed in the line 1 table	0

Part III

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

(a)Type of grant or assistance	(b)Number of recipients	(c)Amount of cash grant	(d)Amount of non-cash assistance	(e)Method of valuation (book, FMV, appraisal, other)	(f)Description of non-cash assistance
(1) Temporary Assistance Program	29	17,668			

Part IV

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

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

Schedule J
(Form 990)

Compensation Information

OMB No 1545-0047

2011

Open to Public Inspection

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

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

▶ Attach to Form 990. ▶ See separate instructions.

Name of the organization Mercy Hospital Iowa City Iowa	Employer identification number 42-0680391
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Part I

Questions Regarding Compensation

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

Part II Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees. Use 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

(A) Name		(B) Breakdown of W-2 and/or 1099-MISC compensation			(C) Retirement and other deferred compensation	(D) Nontaxable benefits	(E) Total of columns (B)(i)-(D)	(F) Compensation reported in prior Form 990 or Form 990-EZ
		(i) Base compensation	(ii) Bonus & incentive compensation	(iii) Other reportable compensation				
(1) Ronald R Reed	(i)	411,388	0	139,768	29,220	38,929	619,305	116,855
	(ii)	0	0	0	0	0	0	0
(2) Jean M Berge	(i)	147,005	0	4,680	23,989	19,976	195,650	0
	(ii)	0	0	0	0	0	0	0
(3) Michael G Heinrich	(i)	274,159	0	32,442	14,342	41,658	362,601	31,302
	(ii)	0	0	0	0	0	0	0
(4) Cindy Penney	(i)	163,618	0	10,033	11,802	33,358	218,811	7,888
	(ii)	0	0	0	0	0	0	0
(5) Andrew R Ashby MD	(i)	359,688	144,096	365	0	38,674	542,823	0
	(ii)	0	0	0	0	0	0	0
(6) RJoe Ewing MD	(i)	646,825	6,344	897	0	40,791	694,857	0
	(ii)	0	0	0	0	0	0	0
(7) Brian O'Meara MD	(i)	648,153	6,242	530	0	24,439	679,364	0
	(ii)	0	0	0	0	0	0	0
(8) Thomas Shreves MD	(i)	640,399	6,050	897	0	45,412	692,758	0
	(ii)	0	0	0	0	0	0	0
(9) Joseph Truszkowski MD	(i)	503,585	5,786	428	0	44,009	553,808	0
	(ii)	0	0	0	0	0	0	0
	(i)							
	(ii)							
	(i)							
	(ii)							
	(i)							
	(ii)							
	(i)							
	(ii)							
	(i)							
	(ii)							
	(i)							
	(ii)							

Part IIISupplemental Information

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

Identifier	Return Reference	Explanation
	Part I, Line 1a	Health club membership dues were paid for Mercy's CEO, Ronald Reed in the amount of \$898.80 and were included as taxable income on his W-2.
	Part I, Line 4b	Mercy established an IRC Section 457(f) plan as a way of retaining executives, officers and select groups of highly compensated employees with supplemental retirement benefits. The following individuals participated in and received payments from the plan: - Michael Heinrich - \$31,302 - Ronald Reed - \$116,855 - Cindy Penney - \$7,888.
	Part I, Line 7	Non-fixed payments were provided to physicians who met stated criteria that included meeting certain RVU (Relative Value Unit) productivity levels, specified CMS/JCAHO performance core indicators and certain patient satisfaction and/or nursing satisfaction survey scores.

Schedule K
(Form 990)

Department of the Treasury
Internal Revenue Service

Supplemental Information on Tax Exempt Bonds

▶ Complete if the organization answered "Yes" to Form 990, Part IV, line 24a. Provide descriptions, explanations, and any additional information in Schedule O (Form 990).
▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization
Mercy Hospital Iowa City Iowa

Employer identification number
42-0680391

Part I Bond Issues

(a) Issuer Name	(b) Issuer EIN	(c) CUSIP #	(d) Date Issued	(e) Issue Price	(f) Description of Purpose	(g) Defeased		(h) On Behalf of Issuer		(i) Pool financing	
						Yes	No	Yes	No	Yes	No
A City of Hills Iowa	42-0920947	431669AA8	04-29-2008	39,235,000	Refund Bonds issued 10/19/2005		X		X		X
B City of Hills Iowa	42-0920947	431669AW0	11-30-2011	44,742,571	Build and Equip Facility, Refund Bonds issued 7/16/1998		X		X		X

Part II Proceeds

		A		B		C		D	
1	Amount of bonds retired	1,660,000							
2	Amount of bonds defeased								
3	Total proceeds of issue	39,235,000		44,743,448					
4	Gross proceeds in reserve funds								
5	Capitalized interest from proceeds								
6	Proceeds in refunding escrow								
7	Issuance costs from proceeds	278,380		589,874					
8	Credit enhancement from proceeds	96,759							
9	Working capital expenditures from proceeds								
10	Capital expenditures from proceeds			10,249,535					
11	Other spent proceeds	38,859,861		24,151,438					
12	Other unspent proceeds			9,752,601					
13	Year of substantial completion								
		Yes	No	Yes	No	Yes	No	Yes	No
14	Were the bonds issued as part of a current refunding issue?	X		X					
15	Were the bonds issued as part of an advance refunding issue?		X		X				
16	Has the final allocation of proceeds been made?	X			X				
17	Does the organization maintain adequate books and records to support the final allocation of proceeds?	X		X					

Part III Private Business Use

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

Part III

Private Business Use (Continued)

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

Part IV

Arbitrage

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

Part V

Procedures To Undertake Corrective Action

Check the box if the organization established written procedures to ensure that violations of federal tax requirements are timely identified and corrected through the voluntary closing agreement program if self-remediation is not available under applicable regulations ☒ Yes ☐ No

Part VI

Supplemental Information

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

Identifier	Return Reference	Explanation
Schedule K, Part II, Line 3		Differences between the issue price (Part I) and total proceeds (Part II, line 3) are due to investment earnings
Schedule K, Part II, Line 4		The amounts shown here consists solely of debt service fund deposits

Schedule L
(Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

Transactions with Interested Persons

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

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization
Mercy Hospital Iowa City Iowa

Employer identification number
42-0680391

Part I Excess Benefit Transactions (section 501(c)(3) and section 501 (c)(4) organizations only).

Complete if the organization answered "Yes" on Form 990, Part IV, line 25a or 25b, or Form 990-EZ, Part V, line 40b

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

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

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

Part II Loans to and/or From Interested Persons.

Complete if the organization answered "Yes" on Form 990, Part IV, line 26, or Form 990-EZ, Part V, line 38a

(a) Name of interested person and purpose	(b) Loan to or from the organization?		(c)Original principal amount	(d)Balance due	(e) In default?		(f) Approved by board or committee?		(g)Written agreement?	
	To	From			Yes	No	Yes	No	Yes	No
(1) Michael G Heinrich										
Split Dollar Life Insurance Policy		X	18,524	18,524		No		No		No
(2) Ronald R Reed										
Split Dollar Life Insurance Policy		X	42,468	42,468		No		No		No
Total ▶ \$ 60,992										

Part III Grants or Assistance Benefitting Interested Persons.

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

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

Part IV

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

(a) Name of interested person	(b) Relationship between interested person and the organization	(c) Amount of transaction	(d) Description of transaction	(e) Sharing of organization's revenues?	
				Yes	No

Part V

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

Identifier	Return Reference	Explanation
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SCHEDULE O

(Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

Supplemental Information to Form 990 or 990-EZ

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

OMB No 1545-0047

2011

Open to Public
Inspection

Name of the organization Mercy Hospital Iowa City Iowa	Employer identification number 42-0680391
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Identifier	Return Reference	Explanation
	Form 990, Part VI, Section A, line 2	Sister Sharon Kerrigan, board member, Sister Patricia Murphy, board member, and Sister Margaret Wright, board member are all members of the Sisters of Mercy of the Americas West Midwest Community

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

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

Identifier	Return Reference	Explanation
	Form 990, Part VI, Section B, line 11	The Form 990 is prepared and reviewed by Mercy Hospital management and is also reviewed by Deloitte Tax LLP. In addition, a board resolution was established that provides that each board member be (i) provided a copy of the Form 990 as it is intended to be filed, and (ii) given a reasonable opportunity before filing to provide to the Audit Committee any comments, corrections, concerns or other input on the proposed Form. The Audit Committee's review process shall be intended to reasonably verify that the Form 990 has been fully and accurately completed, including but not limited to, all inquiries therein relating to corporate governance. After completing its review, the Audit Committee, on the Board's behalf, shall have the authority to authorize the filing of the annual Form 990.

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

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

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

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

Identifier	Return Reference	Explanation
Changes in Net Assets or Fund Balances	Form 990, Part XI, line 5	Net unrealized losses on investments -3,460,572 Change in Unrecognized Pension Actuarial Loss - 22,294,780 Change in Beneficial Interest in Foundation -394,677 Transfer to Mercy Hospital Self Insurance Plan & Trust -3,500,000 Change in Beneficial Interest in Services -4,741,795 Loss on Extinguishment of Debt -1,002,866 Other adjustment 65,718 Total to Form 990, Part XI, Line 5 - 35,328,972

SCHEDULE R
(Form 990)

Department of the Treasury
Internal Revenue Service

Related Organizations and Unrelated Partnerships

OMB No 1545-0047

2011

Open 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 Hospital Iowa City Iowa

Employer identification number

42-0680391

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

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

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

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Exempt Code section	(e) Public charity status (if section 501(c)(3))	(f) Direct controlling entity	(g) Section 512(b)(13) controlled organization	
						Yes	No
(1) Mercy Foundation 500 East Market Street Iowa City, IA 52245 23-7040506	Foundation/Fundraising	IA	501(c)(3)	11-I	Mercy Hospital	Yes	
(2) Mercy Hospital Iowa City Iowa Self Insurance Plan & Trust 500 East Market Street Iowa City, IA 52245 42-6591803	Self Insurance	IA	501(c)(3)	11-I	Mercy Hospital	Yes	
(3) Sisters of Mercy of the Americas West Midwest Community Inc 7262 Mercy Road Omaha, NE 68124 26-2400800	Religious Order	NE	501(c)(3)		N/A		No
(4) Mercy Hospital Guild 500 East Market Street Iowa City, IA 52245 42-6099912	Fundraising	IA	501(c)(3)	11-III-FI	N/A		No

Part III

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

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Predominant income (related, unrelated, excluded from tax under sections 512- 514)	(f) Share of total income	(g) Share of end-of- year assets	(h) Disproportionate allocations?		(i) Code V—UBI amount in box 20 of Schedule K-1 (Form 1065)	(j) General or managing partner?		(k) Percentage ownership
							Yes	No		Yes	No	
(1) Cancer Care of Iowa City LLC 613 East Bloomington Suite 100 Iowa City, IA 52245 42-1460774	Oncology Services	IA	Mercy Hospital	Related	160,243	960,752		No			No	58 950 %
(2) Iowa City Ambulatory Surgical Center LLC 2963 Northgate Drive Iowa City, IA 52245 20-8503424	Outpatient Surgery	IA	Mercy Hospital	Related	3,619,133	6,201,371		No		Yes		57 500 %

Part IV

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

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Type of entity (C corp, S corp, or trust)	(f) Share of total income	(g) Share of end-of-year assets	(h) Percentage ownership
(1) Mercy Services Iowa City Inc 500 East Market Street Iowa City, IA 52245 42-1241044	Medical Clinic Services	IA	Mercy Hospital	C	-4,707,223	7,966,521	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

Yes

1c

Yes

1d

No

1e

No

1f

No

1g

No

1h

No

1i

No

1j

No

1k

No

1l

Yes

1m

No

1n

No

1o

No

1p

Yes

1q

No

1r

No

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

(a) Name of other organization	(b) Transaction type(a-r)	(c) Amount involved	(d) Method of determining amount involved
(1) See Additional Data Table			
(2)			
(3)			
(4)			
(5)			
(6)			

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

[illegible]

Part VII

Supplemental Information

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

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

Software ID:
Software Version:
EIN: 42-0680391
Name: Mercy Hospital Iowa City Iowa

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

(a) Name of other organization	(b) Transaction type(a-r)	(c) Amount Involved (\$)	(d) Method of determining amount involved
(1) Mercy Services Iowa City	A	955,191	Cost
(2) Cancer Care of Iowa City	A	124,472	Cost
(3) Mercy Foundation	C	568,333	Cost
(4) Mercy Hospital Self Insurance Plan & Trust	B	3,500,000	Cost
(5) Mercy Services Iowa City	P	4,290,106	Cost
(6) Cancer Care of Iowa City	P	1,334,544	Cost
(7) Mercy Foundation	P	229,799	Cost
(8) Mercy Services Iowa City	B	4,000,000	Cost

Mercy Iowa City and Subsidiaries

Consolidated Financial Statements and
Supplemental Schedules as of and for the
Years Ended June 30, 2012 and 2011, and
Independent Auditors' Report

MERCY IOWA CITY AND SUBSIDIARIES

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS	
Statements of Financial Position as of June 30, 2012 and 2011	2
Statements of Operations and Changes in Net Assets for the Years Ended June 30, 2012 and 2011	3
Statements of Cash Flows for the Years Ended June 30, 2012 and 2011	4
Notes to Consolidated Financial Statements as of and for the Years Ended June 30, 2012 and 2011	5–25
SUPPLEMENTAL SCHEDULES	
Consolidating Schedules of Financial Position as of June 30, 2012 and 2011	27–30
Consolidating Schedules of Operations for the Years Ended June 30, 2012 and 2011	31–34
Note to Consolidating Schedules as of and for the Years Ended June 30, 2012 and 2011	35
Net Patient Service Revenue for the Year Ended June 30, 2012	36
Property, Plant, and Equipment — Net as of June 30, 2012	37
Investments as of June 30, 2012	38
Assets Limited as to Use as of June 30, 2012	39

INDEPENDENT AUDITORS' REPORT

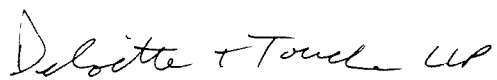
To the Board of Directors of
Mercy Iowa City and Subsidiaries
Iowa City, Iowa

We have audited the accompanying consolidated statements of financial position of Mercy Hospital Iowa City a k a Mercy Iowa City and Subsidiaries (collectively, the "Company") as of June 30, 2012 and 2011, and the related consolidated statements of operations and changes in net assets and of cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of June 30, 2012 and 2011, and the consolidated results of its operations and changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of expressing an opinion on the basic consolidated financial statements taken as a whole. The supplemental schedules listed in the foregoing table of contents are presented for purposes of additional analysis of the basic consolidated financial statements rather than to present the consolidated financial position or consolidated results of operations of the individual organizations and are not a required part of the basic consolidated financial statements. The supplemental schedules are the responsibility of the Company's management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such supplemental schedules have been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such schedules directly to the underlying accounting and other records used to prepare the basic consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such schedules are fairly stated, in all material respects, when considered in relation to the basic consolidated financial statements taken as a whole.



October 31, 2012

MERCY IOWA CITY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2012 AND 2011

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 11,352,642	\$ 6,333,193
Current portion of investments held for self-insurance program (Note 7)	1,750,543	770,938
Accounts receivable		
Patient — net of allowances for doubtful accounts of \$2,406,347 and \$2,197,740 in 2012 and 2011, respectively	23,215,759	23,632,515
Other	1,261,672	714,548
Estimated third-party payor settlements receivable	919,708	467,514
Investments (Note 2)	34,995,266	35,734,476
Inventories	4,466,629	4,350,241
Other	2,565,872	2,408,617
Total current assets	<u>80,528,091</u>	<u>74,412,042</u>
ASSETS LIMITED AS TO USE (Note 7)		
Investments designated by the Board for future capital improvements	120,005,525	116,232,795
Investments held for self-insurance program	1,137,711	1,464,467
Donor-restricted investments	3,245,355	3,153,271
Total assets limited as to use	<u>124,388,591</u>	<u>120,850,533</u>
PROPERTY, PLANT, AND EQUIPMENT — Net (Note 3)	<u>93,076,936</u>	<u>85,224,449</u>
INVESTMENTS IN JOINT VENTURES (Note 1)	<u>1,877,705</u>	<u>1,789,445</u>
OTHER	<u>3,474,444</u>	<u>3,782,257</u>
TOTAL	<u>\$ 303,345,767</u>	<u>\$ 286,058,726</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of long-term debt (Note 5)	\$ 2,712,483	\$ 2,069,953
Trade accounts payable	6,554,216	5,348,210
Accrued salaries and employee benefits	8,180,500	9,703,091
Other accrued expenses	4,238,119	3,976,994
Total current liabilities	21,685,318	21,098,248
ACCRUED PROFESSIONAL LIABILITY CLAIMS (Note 11)	3,235,141	3,098,961
PENSION BENEFIT LIABILITY (Note 9)	62,279,484	43,282,112
LONG-TERM DEBT — Net of current portion (Note 5)	87,574,201	68,429,716
FAIR VALUE OF INTEREST RATE SWAP (Note 5)	2,789,983	1,302,256
OTHER LONG-TERM LIABILITIES	<u>3,731</u>	<u>611</u>
Total liabilities	<u>177,567,858</u>	<u>137,211,904</u>
COMMITMENTS AND CONTINGENCIES (Notes 6, 10, 11, and 14)		
NET ASSETS		
Net assets	122,010,849	146,037,466
Noncontrolling interest in IC ASC (Note 1)	3,767,060	2,809,356
Total net assets	<u>125,777,909</u>	<u>148,846,822</u>
TOTAL	<u>\$ 303,345,767</u>	<u>\$ 286,058,726</u>

See notes to consolidated financial statements

MERCY IOWA CITY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
REVENUE		
Net patient service revenue	\$ 178,430,415	\$ 166,115,332
Other revenue	<u>8,364,945</u>	<u>6,931,919</u>
Total revenue	<u>186,795,360</u>	<u>173,047,251</u>
EXPENSES		
Salaries	79,277,104	72,566,386
Defined benefit pension	1,702,592	3,132,971
Other employee benefits	20,121,085	20,135,876
Supplies and other	62,241,218	58,541,234
Provision for uncollectible accounts	7,396,756	5,697,232
Interest	3,133,583	2,851,934
Depreciation and amortization	<u>13,146,532</u>	<u>12,569,959</u>
Total expenses	<u>187,018,870</u>	<u>175,495,592</u>
LOSS FROM OPERATIONS	<u>(223,510)</u>	<u>(2,448,341)</u>
NONOPERATING GAINS (LOSSES)		
Investment income (Notes 1 and 7)	6,340,422	7,489,180
Loss on extinguishment of debt	(1,002,866)	
Net unrealized (loss) gain on investments	(3,848,011)	13,317,628
Income on investments accounted for under the equity method	108,258	111,433
Other	<u>(1,157,508)</u>	<u>974,568</u>
Total nonoperating gains	<u>440,295</u>	<u>21,892,809</u>
EXCESS OF REVENUE AND NONOPERATING GAINS (LOSSES) OVER EXPENSES	216,785	19,444,468
CHANGE IN UNRECOGNIZED PENSION ACTUARIAL LOSS	<u>(22,294,780)</u>	<u>13,329,269</u>
(DECREASE) INCREASE IN NET ASSETS	(22,077,995)	32,773,737
INCREASE IN NET ASSETS ATTRIBUTABLE TO NONCONTROLLING INTEREST IN ICASC	<u>(1,948,622)</u>	<u>(1,482,271)</u>
(DECREASE) INCREASE IN NET ASSETS ATTRIBUTABLE TO MERCY IOWA CITY	(24,026,617)	31,291,466
NET ASSETS — Beginning of year	<u>146,037,466</u>	<u>114,746,000</u>
NET ASSETS — End of year	<u>\$ 122,010,849</u>	<u>\$ 146,037,466</u>

See notes to consolidated financial statements

MERCY IOWA CITY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
(Decrease) increase in net assets	\$(22,077,995)	\$ 32,773,737
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities		
Net realized gains on investments	(6,372,251)	(7,312,283)
Net unrealized loss (gain) on investments	3,848,011	(13,317,628)
Change in pension benefit liability	18,997,372	(16,081,298)
Depreciation and amortization	13,146,532	12,569,959
(Loss) income on investments accounted for under the equity method — net of distributions received	(88,260)	494,631
Provision for uncollectible accounts	7,396,756	5,697,232
Change in interest rate swap valuation	1,487,727	(353,833)
Loss on disposal of property, plant, and equipment	53,603	104,122
Loss on extinguishment of debt	1,002,866	
Changes in accounts affecting operations		
Accounts receivable — patient	(6,980,000)	(3,032,241)
Other receivables, inventories, and other assets	(477,267)	(1,637,598)
Trade accounts payable	1,197,371	1,836,723
Estimated third-party payor settlements payable	(452,194)	(373,550)
Accrued expenses, other liabilities, and accrued professional liability claims	<u>(1,262,166)</u>	<u>302,635</u>
Net cash provided by operating activities	<u>9,420,105</u>	<u>11,670,608</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales and maturities of investments	34,810,156	38,732,307
Purchases of investments	(36,064,370)	(33,785,279)
Additions to property, plant, and equipment	<u>(20,131,947)</u>	<u>(18,365,486)</u>
Net cash used in investing activities	<u>(21,386,161)</u>	<u>(13,418,458)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from issuance of long-term debt	44,380,826	
Payment of long-term debt	(26,404,403)	(1,954,854)
Noncontrolling interest distributions — net of proceeds from shares sold	<u>(990,918)</u>	<u>(392,279)</u>
Net cash provided by (used in) financing activities	<u>16,985,505</u>	<u>(2,347,133)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,019,449	(4,094,983)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>6,333,193</u>	<u>10,428,176</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 11,352,642</u>	<u>\$ 6,333,193</u>
SUPPLEMENTAL DATA — Cash paid for interest	<u>\$ 3,130,448</u>	<u>\$ 2,924,388</u>

See notes to consolidated financial statements

MERCY IOWA CITY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

ICASC is a for-profit limited liability company established to develop, own, and operate an ambulatory surgical center that provides a variety of outpatient surgical services to the residents of Iowa City and the surrounding communities. The Hospital originally owned 70% of ICASC and a group of local surgeons, through an independent limited liability company, owned the remaining 30%. On June 15, 2010, 2.5% of the shares were sold by the Hospital to the surgeons, bringing the Hospital ownership to 67.5% at June 30, 2010. On May 1, 2011, another 5.0% of the shares were sold by the Hospital to the surgeons, bringing the Hospital ownership to 62.5%. On May 1, 2012, another 5.0% of the shares were sold by the Hospital to the surgeons, resulting in a new Hospital ownership of 57.5%. There was no gain (loss) recognized on the sale of these shares. Proceeds from the sale of the shares of \$1,072,293 and \$749,915 in fiscal 2012 and fiscal 2011, respectively, are presented net of noncontrolling interest distributions in the consolidated statements of cash flows. The taxable earnings of ICASC pass through to its owners. The Operating Agreement provides the surgeon investors with annual opportunities through June 2014 to purchase additional shares from the Hospital up to a maximum total ownership percentage of 49%.

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

Use of Estimates — The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates made by management include contractual allowances, allowance for doubtful accounts, benefit obligations, and accrued salaries and employee benefit costs.

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

Net Assets — Net assets include temporarily and permanently restricted net assets. Permanently restricted net assets have been restricted by donors to be maintained by the Company in perpetuity. Temporarily restricted net assets are those whose use has been limited by the donor to a specific time period or use. At June 30, 2012 and 2011, net assets included \$881,553 and \$824,143, respectively, of temporarily restricted net assets and \$2,471,449 and \$2,431,945, respectively, of permanently restricted net assets.

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

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

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

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

Investments — The Company has adopted authoritative guidance on fair value measurements and on the fair value option for financial assets and financial liabilities. The authoritative guidance gives entities the irrevocable option to measure many financial assets and liabilities at fair value (the "fair value option") with changes in unrealized gains and losses recorded in investment income (loss). The guidance

defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States of America, and expands disclosures about fair value measurements

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

Investments are recorded at fair value as of June 30, 2012 and 2011. Investment income on proceeds of borrowings that are held by a trustee, to the extent not capitalized, and on the professional liability trust is included in other operating revenue. Investment income from all other unrestricted investments is included in nonoperating income. Realized gains and losses are computed by the specific identification method at the time of disposition and are included as a component of investment income.

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

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

Investments in Joint Ventures

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

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

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

Summarized financial information of the entities for which the Company accounts for under the equity method as of June 30, 2012 and 2011, includes the following

	2012	2011
Assets	\$ 14,088,387	\$ 13,883,523
Liabilities	<u>11,059,363</u>	<u>11,099,054</u>
Equity	<u>\$ 3,029,024</u>	<u>\$ 2,784,469</u>
Revenue	\$ 15,111,943	\$ 14,281,686
Expenses	<u>14,787,553</u>	<u>13,524,072</u>
Net income	<u>\$ 324,390</u>	<u>\$ 757,614</u>

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

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

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

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

Capitalized Software Costs — The Company capitalizes software development costs incurred in upgrading computer software and begins capitalization of these costs after technological feasibility has been determined. The capitalized software, once placed in service, is amortized on the straight-line method over the useful life, which ranges from 5 to 10 years.

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

Net Patient Service Revenue — The Company has agreements with third-party payors that provide for payments to the Company at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, discounted charges, and per diem payments. In fiscal 2012, net revenue from two of these arrangements accounted for 36% and 31% of net patient service revenue. In fiscal 2011, net revenue from two of these arrangements accounted for 36% and 32% of net patient service revenue.

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

Charity and Uncompensated Care — The Company provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Company does not pursue collection of amounts determined to qualify as charity care, those amounts are not reported as revenue. The direct patient care provided under the Company's charity care policy does not include programs offered to benefit broader community and other governmental reimbursement programs. Charges identified as foregone were approximately \$831,069 and \$1,271,858 for fiscal 2012 and 2011, respectively. The Company also participates in public payment programs, primarily Medicare and Medicaid, which resulted in foregone reimbursements for services provided.

In addition, the Company provides a variety of benefits to the community, including health education programs, health promotion activities, civic involvement, community funding, and charity and subsidized services. The Company maintains records to identify and monitor the level of community services it provides and those records include management's estimate of cost of services, supplies, and hours of time provided for community service programs. The cost of these community services for the years ended June 30, 2012 and 2011, was \$1,548,683 and \$1,596,519, respectively. The costs of charity care and community services are determined using the ratio of total patient care cost to charges.

Tax Status — The Internal Revenue Service (IRS) has determined that the Hospital and the Foundation are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. Services is a taxable entity with net operating loss carry forwards and temporary differences between financial reporting and tax reporting bases for certain assets and liabilities. The entire tax asset balance is offset by a valuation allowance (see Note 4).

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

Consolidated Statements of Cash Flows — Supplemental Disclosure of Cash Flow Information — Noncash transactions during fiscal 2012 and 2011, which affected the Company's consolidated financial position but did not affect cash flow, constitute \$8,635 and \$17,266, respectively, of purchases of property, plant, and equipment included in accounts payable.

Reclassification and Restatement — Certain fiscal 2011 amounts in the accompanying consolidated statements of operations and changes in net assets have been reclassified to conform with the fiscal 2012 presentation. The previously presented fiscal 2011 statement of operations and changes in net assets incorrectly classified \$4,076,470 of physician salaries and \$547,898 of physician employee benefits expenses as supplies and other expenses. Correction of this classification error had no effect on total operating expenses as previously presented.

Subsequent Events — The Company has evaluated subsequent events through October 31, 2012, the date the consolidated financial statements were issued. On August 28, 2012, the Hospital's Board of Directors approved the terms of an agreement to establish a joint venture diagnostic imaging center in Coralville, Iowa. Under the terms of the agreement, the Hospital will obtain a 51% interest in an existing diagnostic imaging center. The remaining 49% interest will be held by a group of private radiologists. The effective date of the joint venture was October 1, 2012.

New Accounting Pronouncements — In January 2010, the Financial Accounting Standards Board (FASB) issued guidance which amended existing fair value guidance, adding new disclosure requirements to provide Level 3 activity of purchases, sales, issuances, and settlements on a gross basis. The requirement was effective for the Hospital in fiscal 2012. The adoption did not materially affect the consolidated financial statements.

In August 2010, the FASB issued revised accounting guidance which establishes accounting and reporting standards in order to clarify that a health care entity should not net insurance recoveries against a related claim liability. The amount of the claim liability should be determined without consideration of insurance recoveries. This statement was adopted by the Company in fiscal 2012. The adoption had no impact on the Company's financial condition, results of operations or cash flows.

In August 2010, the FASB also issued accounting guidance which establishes accounting and reporting standards, which requires that cost be used as the measurement basis for charity care disclosure purposes and that cost be identified as the direct and indirect costs of providing the charity care. This disclosure guidance was adopted by the Company in fiscal 2012 and did not have a material impact on the consolidated financial statements. The cost of charity care has been disclosed above within Charity and Uncompensated Care.

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

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

In December 2011, the FASB issued new guidance requiring an entity to enhance disclosures about offsetting (netting) assets and liabilities and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. This new guidance is effective for the Company in fiscal 2014. The Company does not expect the adoption of the new guidance will have a material impact on the consolidated financial statements.

2. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

A financial instrument's categorization within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include money market funds, common stocks, equity mutual funds, and fixed-income mutual funds. Level 2 investments represent pooled funds invested primarily in debt securities, mortgage-backed securities, and corporate bonds, and individual investments in corporate bonds. The fair value of such Level 2 investments (including defined benefit pension plan investments disclosed in Note 9) are generally based on net asset values per fund share (the unit of account), derived from the quoted prices in inactive markets of the underlying securities. Level 3 funds represent an investment in a multi-strategy hedge fund of funds. The multi-strategy hedge fund of funds is invested primarily in offshore investment funds, investment partnerships, and pooled investment vehicles (collectively referred to as "Portfolio Funds"). The fair value of the Portfolio Funds are generally at an amount equal to the net asset value of the multi-strategy hedge fund of fund's investment in the Portfolio Funds as determined by each Portfolio Fund's general partner or investment manager. The fair value of the interest rate swap is based on observable inputs as of the valuation date, including prices of instruments with similar maturities and characteristics, interest rate yield curves, and measures of interest rate volatility.

During fiscal 2012, there were no significant transfers in or out of Level 1, 2, or 3. In fiscal 2011, the Company transferred corporate bonds and notes and federal agency obligations from Level 1 to Level 2 based on a re-evaluation of the observable inputs used in the fair value calculation.

Financial assets and liabilities measured at fair value on a recurring basis at June 30, 2012 and 2011, by type of inputs applicable to the fair value measurements, are as follows

Description	2012			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments				
Cash and cash equivalents	\$ 253.659	\$ -	\$ -	\$ 253.659
Debt securities				
US Treasury obligations	57.845			57.845
Federal agency obligations		10,268.692		10,268.692
Corporate bonds and notes		6,198.410		6,198.410
Accrued interest	74.452			74.452
Common stock				
Domestic — predominantly Large Cap	6,198.814			6,198.814
Foreign	2,354.063			2,354.063
Mutual funds				
Mortgage-backed	892.239			892.239
Stock index	4,234.785			4,234.785
International equities	2,742.201			2,742.201
Other	1,720.106			1,720.106
Total investments	<u>\$18,528.164</u>	<u>\$16,467.102</u>	<u>\$ -</u>	<u>\$ 34,995.266</u>
Assets limited as to use				
Cash and cash equivalents	\$12,590.523	\$ -	\$ -	\$ 12,590.523
Corporate bonds and notes		18,996.517		18,996.517
Common stock				
Large Cap	10,521.660			10,521.660
Mid Cap	5,657.230			5,657.230
Small Cap	6,220.420			6,220.420
Foreign	1,363.118			1,363.118
US Treasury obligations	14,014.201			14,014.201
Federal agency obligations		15,419.218		15,419.218
Mutual funds				
Mortgage-backed	11,398.854			11,398.854
Stock index	7,943.479			7,943.479
International equities	11,315.224			11,315.224
Inflation protected fixed income	3,643.179			3,643.179
Multi-strategy hedge fund-of-funds			6,156.219	6,156.219
Other	521.142			521.142
Accrued interest	187.793			187.793
Other	190.357			190.357
Total assets limited as to use	<u>\$85,567.180</u>	<u>\$34,415.735</u>	<u>\$6,156.219</u>	<u>\$126,139.134</u>
Other assets — deferred compensation plan consisting of mutual funds and other investments	<u>\$ 632.918</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 632.918</u>
Other assets — cash surrender value of life insurance	<u>\$ -</u>	<u>\$ 416.782</u>	<u>\$ -</u>	<u>\$ 416.782</u>
Other liabilities — interest rate swap	<u>\$ -</u>	<u>\$ 2,789.983</u>	<u>\$ -</u>	<u>\$ 2,789.983</u>

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

A rollforward of assets measured at fair value (consisting primarily of an investment in a multi-strategy hedge fund of funds) on a recurring basis with the use of significant unobservable inputs (Level 3) for the years ended June 30, 2012 and 2011, is summarized in the following table

	2012	2011
Beginning balance	\$6,313,264	\$5,867,431
Unrealized gain		435,488
Unrealized loss	(146,700)	
Other	<u>(10,345)</u>	<u>10,345</u>
Ending balance	<u>\$6,156,219</u>	<u>\$6,313,264</u>

The fair market value of the Company's fixed-rate long-term debt is determined based on the current borrowing rates available to management for similar types of debt issues. As of June 30, 2012, the fair market value of the Series 2011 Bonds was \$47,047,703. The Series 1998 Bonds were refunded during fiscal 2012. As of June 30, 2011, the fair market value of the Series 1998 Bonds was \$24,666,060. As of June 30, 2012 and 2011, the carrying value of variable rate debt, capital leases, and the ICASC note payable approximated fair value based on the current borrowing rates available for similar type issues.

3. PROPERTY, PLANT, AND EQUIPMENT

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

	2012	2011
Land	\$ 7,258,393	\$ 7,258,393
Land improvements	669,404	644,023
Buildings and improvements	127,771,903	120,142,334
Major movable equipment	<u>109,052,892</u>	<u>93,963,851</u>
Property, plant, and equipment — gross	244,752,592	222,008,601
Less accumulated depreciation and amortization	<u>(157,003,540)</u>	<u>(146,730,955)</u>
Property, plant, and equipment — net excluding construction in progress	87,749,052	75,277,646
Construction in progress	<u>5,327,884</u>	<u>9,946,803</u>
Property, plant, and equipment — net	<u>\$ 93,076,936</u>	<u>\$ 85,224,449</u>

Capitalized interest expense for the years ended June 30, 2012 and 2011, was \$425,634 and \$0, respectively.

Depreciation expense for the years ended June 30, 2012 and 2011, was \$11,328,129 and \$10,908,355, respectively.

At June 30, 2012, a commitment to undertake the electronic health record project of approximately \$13,000,000 was outstanding. As of the date of this report, the Hospital had incurred costs of approximately \$8,500,000 related to this project.

Gross property and equipment capitalized under capital lease obligations was \$2,667,372 and \$1,919,050 as of June 30, 2012 and 2011, respectively. Accumulated amortization for property and equipment under capital lease obligations was \$1,910,218 and \$1,650,086 at June 30, 2012 and 2011, respectively.

4. INCOME TAXES

The IRS has determined that the Hospital and the Foundation are not-for-profit corporations. Services, a for-profit corporation, has deferred income taxes due to temporary differences between financial reporting and tax reporting bases of certain assets and liabilities. Deferred tax assets of \$9,369,079 and \$7,823,177 at June 30, 2012 and 2011, respectively, resulted primarily from net operating loss carry forwards and depreciation expense. Due to expected continuing non-operating losses, the net deferred tax assets were fully offset by valuation allowances at June 30, 2012 and 2011.

At June 30, 2012, Services had net operating loss carry forwards of approximately \$19,907,678 for federal income tax purposes. The net operating losses expire between the fiscal 2013 and 2031.

As of June 30, 2012 and 2011, the Company recorded no liabilities for unrecognized tax benefits.

The Company's tax returns from 2009 forward remain subject to examination by the IRS.

5. LONG-TERM DEBT

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

	2012	2011
Hospital Revenue Refunding Bonds, Series 1998, 4.85% to 5%, refunded	\$ -	\$24,650,000
Hospital Variable Rate Revenue Bonds, Series 2008, 0.17% and 2.5%, at June 30, 2012 and 2011, respectively, maturing in varying annual installments through 2035	37,575,000	38,035,000
Hospital Revenue Bonds, Series 2011, 3% to 5.25% maturing in varying annual installments through 2035	44,615,000	
Capital lease obligations, due in monthly installments to February 2016, interest at 3.25%	734,524	304,211
ICASC notes payable	7,596,334	8,121,602
Add unamortized bond premium	124,214	
Less unamortized bond discount	<u>(358,388)</u>	<u>(611,144)</u>
Total debt	90,286,684	70,499,669
Less current portion	<u>(2,712,483)</u>	<u>(2,069,953)</u>
Long-term portion	<u>\$87,574,201</u>	<u>\$68,429,716</u>

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

In April 2008, the Company issued \$39,235,000 of City of Hills, Iowa, Variable Rate Demand Health Facilities Revenue Bonds, Mercy Hospital Project, Series 2008 (the “2008 Bonds”) The proceeds of the 2008 Bonds were used to refund 2005 bonds and pay certain costs of issuance The 2008 Bonds are secured by a letter of credit provided by U S Bank The letter of credit extends to August 10, 2013 The 2008 Bond documents include certain financial and nonfinancial covenants with which the Company must comply during and at the end of each fiscal year The Company was in compliance with the financial covenants at June 30, 2012 and 2011

In November 2011, the Company issued \$44,615,000 of City of Hills, Iowa, Health Facilities Revenue Bonds, Series 2011 (the “2011 Bonds”) The proceeds of the 2011 Bonds were used to refinance the 1998 Bonds, provide funds for capital investment, and pay certain costs of issuance The 2011 Bond documents include certain financial and nonfinancial covenants with which the Company must comply during and at the end of each fiscal year The Company was in compliance with the financial covenants at June 30, 2012

As of June 30, 2012, ICASC had real estate and equipment notes payable totaling \$5,460,415 and \$2,135,920, respectively As of June 30, 2011, ICASC had real estate and equipment notes payable totaling \$5,682,818 and \$2,438,784, respectively The real estate notes were for the construction of the surgical center The notes are secured by the real estate and building Upon completion of the facility in September 2008, the note converted to permanent financing with interest at 6.39% for the first five years The interest rate will be adjusted at January 5, 2014, based on the then-current market conditions However, this rate adjustment will be limited to 150 basis points above or below the initial rate of 6.39% The new rate will be in effect for years six through 10 Principal and interest payments began in December 2008 and continue for 10 years, at which time all unpaid principal and accrued interest will be due

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

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

Years Ending June 30	
2013	\$ 2,563,337
2014	2,664,680
2015	2,781,256
2016	2,898,363
2017	3,027,937
Thereafter	<u>75,850,761</u>
	<u>\$89,786,334</u>

The Company's capital lease obligations are payable as follows

2013	\$ 227,587
2014	206,088
2015	206,088
2016	<u>137,392</u>
Total	777,155
Less amounts representing interest	<u>(42,631)</u>
Present value of net minimum lease payments	734,524
Less current portion	<u>(208,777)</u>
Long-term portion	<u>\$ 525,747</u>

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

The fair value of the interest rate swap was recognized in the consolidated statements of financial position as a long-term liability of \$2,789,983 and \$1,302,256 as of June 30, 2012 and 2011, respectively. The interest rate swap is no longer considered an effective hedging instrument. As a result, the changes in the fair value of (\$1,487,727) and \$353,834 are recorded in other nonoperating gains (losses) in the consolidated statements of operations and changes in net assets for fiscal 2012 and 2011, respectively.

6. SHORT-TERM BORROWINGS

The Company has an unsecured \$5,000,000 revolving line of credit agreement. Payments are due on demand, with variable interest calculated using prime (3.25% at June 30, 2012), less a margin of 0.75%, with a floor of 5%, resulting in a current rate of 5%. There were no outstanding borrowings on the line of credit at June 30, 2012 and 2011. The Company renewed the line of credit agreement in September 2012. The expiration date of the line of credit is September 30, 2013.

ICASC has a \$500,000 revolving line of credit agreement with variable interest rate. The expiration date of the line of credit is April 30, 2013. There were no outstanding borrowings as of June 30, 2012 and 2011.

7. ASSETS LIMITED AS TO USE

Assets limited as to use that are required for obligations classified as current liabilities are reported as other current assets. The composition of assets limited as to use as of June 30, 2012 and 2011, is as follows:

	2012	2011
Investments designated by the Board for future capital donor-restricted investments		
Cash and cash equivalents	\$ 11,525,573	\$ 2,689,765
Corporate bonds and notes	18,751,565	19,086,809
Common stock — domestic and foreign	23,762,428	25,564,107
U S treasury obligations	13,695,747	14,953,433
Federal agency obligations	14,904,670	12,250,047
Mutual funds	40,240,790	44,433,224
Accrued interest	179,750	189,452
Other	<u>190,357</u>	<u>219,229</u>
Total long-term investments	123,250,880	119,386,066
Less donor-restricted investments	<u>(3,245,355)</u>	<u>(3,153,271)</u>
Investments designated by the Board for future capital improvements	<u>\$ 120,005,525</u>	<u>\$ 116,232,795</u>
Investments held for self-insurance program (Note 11)		
Cash and cash equivalents	\$ 1,065,039	\$ 224,436
Corporate bonds and notes	244,952	328,945
Common stock — domestic and foreign		666,762
U S treasury obligations	318,454	433,508
Federal agency obligations	514,548	570,295
Mutual Funds	737,307	
Accrued interest	<u>7,954</u>	<u>11,459</u>
Total investments	2,888,254	2,235,405
Less current portion	<u>(1,750,543)</u>	<u>(770,938)</u>
Long-term portion	<u>\$ 1,137,711</u>	<u>\$ 1,464,467</u>

The investment return and its classification in the consolidated statements of operations and changes in net assets for investments and assets limited as to use for the years ended June 30, 2012 and 2011, are as follows

	2012	2011
Investment income	\$ 3,979,637	\$ 4,377,176
Net realized gain on sales of investments	2,360,785	3,112,004
Net unrealized (loss) gain on interest rate swap	(1,487,727)	353,834
Net unrealized (loss) gain on investments	<u>(3,848,011)</u>	<u>13,317,628</u>
Total gain on investments	<u>\$ 1,004,684</u>	<u>\$ 21,160,642</u>
Reported as		
Nonoperating (losses) gains — other	\$ (1,487,727)	\$ 353,834
Nonoperating gains — investment income	6,340,422	7,489,180
Net unrealized (loss) gain on investments	<u>(3,848,011)</u>	<u>13,317,628</u>
	<u>\$ 1,004,684</u>	<u>\$ 21,160,642</u>

8. ACCOUNTS RECEIVABLE BY PAYOR

The Company grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from patients and third-party payors (calculated at gross) as of June 30, 2012 and 2011, was as follows

	2012	2011
Medicare	37 %	43 %
Medicaid	4	3
Insurers	40	37
Patients	17	15
Other	<u>2</u>	<u>2</u>
	<u>100 %</u>	<u>100 %</u>

9. EMPLOYEE BENEFIT PLANS AND EMPLOYMENT BENEFIT OBLIGATIONS

Pension Plan — The Company maintains a defined benefit pension plan that covers certain employees. The benefits are based on years of credited service and the employee's average monthly compensation over the five consecutive years that produce the highest total compensation. The Company makes annual contributions to meet the Employee Retirement Income Security Act of 1974 minimum funding requirements. The Company contributed \$5,000,000 and \$5,885,000 to the plan in fiscal 2012 and 2011, respectively.

The defined benefit pension plan was amended effective during April 4, 2010, to freeze benefits for certain plan participants. This change eliminated future benefit accruals for a significant number of employees, which meets the criteria for a curtailment as defined by authoritative accounting guidance.

Information regarding the plan as of and for the years ended June 30, 2012 and 2011, is as follows

	2012	2011
Change in benefit obligation		
Obligation — beginning of year	\$ 150,097,694	\$ 145,314,273
Service cost	1,345,156	1,489,479
Interest cost	8,379,322	7,947,867
Actuarial loss (gain)	13,802,222	(1,075,350)
Benefit payments	<u>(4,193,053)</u>	<u>(3,578,575)</u>
Obligation — end of year	<u>169,431,341</u>	<u>150,097,694</u>
Change in plan assets		
Fair value of plan assets — beginning of year	106,815,582	85,950,863
Employer contributions	5,000,000	5,885,000
Benefit payments	(4,193,053)	(3,578,575)
Actual (loss) gain on plan assets	<u>(470,672)</u>	<u>18,558,294</u>
Fair value of plan assets — end of year	<u>107,151,857</u>	<u>106,815,582</u>
Funded status — end of year — net amount recognized, included in long-term liabilities	<u>\$ (62,279,484)</u>	<u>\$ (43,282,112)</u>

Components of net periodic benefit cost for the plan for fiscal 2012 and 2011 are as follows

	2012	2011
Service cost	\$ 1,345,156	\$ 1,489,479
Interest cost	8,379,322	7,947,867
Expected return on plan assets	(8,573,756)	(7,338,526)
Amortization of net loss	<u>551,870</u>	<u>1,034,151</u>
Net periodic pension cost	<u>\$ 1,702,592</u>	<u>\$ 3,132,971</u>

The recorded actuarial loss included in changes in unrestricted net assets, but not yet recognized as a component of net periodic benefit cost for the plan for fiscal 2012 and 2011 are as follows

	2012	2011
Amount disclosed — beginning of year	\$ 33,936,125	\$ 47,265,394
Unrecognized actuarial loss (gain) arising during the year	22,846,650	(12,295,118)
Amortization of unrecognized actuarial loss	<u>(551,870)</u>	<u>(1,034,151)</u>
Amount disclosed — end of year	<u>\$ 56,230,905</u>	<u>\$ 33,936,125</u>

The estimated unrecognized actuarial loss that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year is \$1,231,206

The accumulated benefit obligation for the plan as of June 30, 2012 and 2011, was \$162,931,655 and \$143,591,559, respectively

Weighted-average assumptions used to determine the benefit obligations as of June 30, 2012 and 2011, are as follows

	2012	2011
Discount rate	5.05 %	5.72 %
Rate of compensation increase	3.00	3.00

Weighted-average assumptions used to determine the net periodic benefit cost as of June 30, 2012 and 2011, are as follows

	2012	2011
Discount rate — July 1	5.72 %	5.57 %
Expected long-term return on plan assets — July 1	8.00	8.50
Rate of compensation increase	3.00	4.00

Estimated future benefit as of June 30, 2012, payments are as follows

2013	\$ 4,728,000
2014	5,512,000
2015	6,126,000
2016	6,629,000
2017	7,257,000
2018–2021	47,604,000

The Company's pension plan weighted-average asset allocation as of June 30, 2012 and 2011, by asset category, is as follows

	2012	2011
Debt securities	32 %	32 %
Equity securities	63	66
Other	<u>5</u>	<u>2</u>
	<u>100 %</u>	<u>100 %</u>

The fair value of plan assets by level within the fair value hierarchy by asset category at June 30, 2012 and 2011, is as follows

As of June 30, 2012	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 5,210,362	\$ -	\$ -	\$ 5,210,362
Fixed income securities				
U S Treasury obligations	3,144,896			3,144,896
Federal agency obligations		302,808		302,808
Corporate bonds and notes		17,870,162		17,870,162
Mortgage/asset-backed securities		11,565,197		11,565,197
Municipal bond funds	579,882			579,882
Other				
Common stock				
Large Cap	20,089,228			20,089,228
Mid Cap	9,656,156			9,656,156
Small Cap	8,296,194			8,296,194
Foreign	4,577,838			4,577,838
Mutual funds				
Stock index	11,011,600			11,011,600
International equities	14,119,790			14,119,790
Other	<u>727,743</u>			<u>727,743</u>
Total	<u>\$ 77,413,690</u>	<u>\$ 29,738,166</u>	<u>\$ -</u>	<u>\$ 107,151,857</u>
As of June 30, 2011	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 1,689,409	\$ -	\$ -	\$ 1,689,409
Fixed income securities				
U S Treasury obligations	2,316,801			2,316,801
Federal agency obligations		777,768		777,768
Corporate bonds and notes		17,566,791		17,566,791
Mortgage/asset-backed securities		12,459,268		12,459,268
Municipal bond funds	418,845			418,845
Other	169,214			169,214
Common stock				
Large Cap	22,260,023			22,260,023
Mid Cap	8,010,936			8,010,936
Small Cap	8,877,129			8,877,129
Foreign	4,545,431			4,545,431
Mutual funds				
Stock index	10,384,179			10,384,179
International equities	16,467,166			16,467,166
Other	<u>872,622</u>			<u>872,622</u>
Total	<u>\$ 76,011,755</u>	<u>\$ 30,803,827</u>	<u>\$ -</u>	<u>\$ 106,815,582</u>

The Company expects to contribute \$5 million to the plan in fiscal 2013

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

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

Total employer contribution expense under the plans was \$3,107,123 and \$3,138,030 for fiscal 2012 and 2011, respectively.

10. SELF-INSURED EMPLOYEE HEALTH BENEFITS PROGRAM

Substantially all employees of the Company are covered by an unfunded self-insured employee health and dental benefits program. Under this program, the Company pays the claims as incurred on a daily basis. A reinsurance contract limits the Company's liability for each participant to annual foreign claims (defined as those claims paid to hospitals other than the Hospital) of \$450,000 for fiscal 2012 and 2011, with no specific lifetime stop loss per covered individual for fiscal 2012 due to healthcare reform guidelines and a specific lifetime stop loss per covered individual of \$1,550,000 for fiscal 2011. Total claims, which include both paid and incurred claims, were \$6,292,858 and \$6,996,999 for fiscal 2012 and 2011, respectively. Employee health claims under the self-insurance plan that are provided by the Hospital or one of its subsidiaries are recognized as employee benefit expense and net patient service revenue in the consolidated statements of operations and changes in net assets. Included in other accrued expenses was \$720,000 and \$865,000 for estimated unprocessed claims and claims incurred but not reported at June 30, 2012 and 2011, respectively.

11. PROFESSIONAL AND GENERAL LIABILITY PROGRAM

The Company is self-insured for claims up to \$1,000,000 per occurrence and \$3,000,000 annual aggregate for the years ended June 30, 2012 and 2011, and has established a trust fund for self-insurance payments. Investment income earned on the professional liability trust of \$91,447 and \$62,170 for fiscal 2012 and 2011, respectively, is included in other revenue. The Company's payments to the trust fund and accrued provision for related losses are based on actuarial estimates of funding and expected ultimate loss levels. The Company has recorded a liability for incurred claims and for claims incurred, but not reported in the amount of \$3,862,997 and \$3,546,494 as of June 30, 2012 and 2011, respectively. The long-term portion of this liability is recorded in accrued professional liability claims; the current portion is included within other accrued expenses. The discount rate used in determining the present value of the recorded obligation was 5% and 6% at June 30, 2012 and 2011, respectively.

Liability claims in excess of primary limits were insured up to \$10,000,000 per occurrence and in the annual aggregate for the years ended June 30, 2012 and 2011. Premium expense related to this coverage totaled \$353,500 and \$338,350 for the years ended June 30, 2012 and 2011.

Services purchases claims made professional and general liability insurance through commercial insurance policies. The policy terms coincide with the fiscal year and cover claims up to \$1,000,000 per

occurrence and \$2,000,000 in the aggregate. Premiums expensed under the policies were \$242,502 and \$271,388 during fiscal 2012 and 2011, respectively.

12. LEASES

The Company leases office and clinic space under operating leases to other parties. Rental receipts were \$1,280,800 and \$1,383,500 for fiscal 2012 and 2011, respectively, and are recorded within other revenue. Rental income earned by the Hospital from its subsidiaries has been eliminated in consolidation. Future expected minimum lease receipts for the next five years are as follows:

Years Ending June 30

2013	\$ 723,000
2014	548,000
2015	413,000
2016	166,000
2017	<u>71,500</u>
	<u>\$ 1,921,500</u>

The Company leases medical equipment, buildings, and parking space under operating leases. Rental expenses were \$877,200 and \$588,300 for fiscal 2012 and 2011, respectively. The Company is not a lessee under any noncancelable operating leases.

13. FUNCTIONAL EXPENSES

The Company provides general health care services to residents within its geographic location. Expenses related to providing these services included in the consolidated statements of operations and changes in net assets as of June 30, 2012 and 2011, are as follows:

	2012	2011
Health care services	\$ 138,393,964	\$ 129,866,738
General and administrative	<u>48,624,906</u>	<u>45,628,854</u>
Total expenses	<u>\$ 187,018,870</u>	<u>\$ 175,495,592</u>

14. CONTINGENCIES

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

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SUPPLEMENTAL SCHEDULES

MERCY IOWA CITY AND SUBSIDIARIES

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION AS OF JUNE 30, 2012

ASSETS	Hospital	Services	Foundation	ICASC	Total Before Eliminating Entries	Eliminating Entries	Consolidated Total
CURRENT ASSETS							
Cash and cash equivalents	\$ 8,409,921	\$ 581,935	\$ 90,447	\$ 2,270,339	\$ 11,352,642	\$ -	\$ 11,352,642
Current portion of investments held for self-insurance program	1,750,543				1,750,543		1,750,543
Accounts receivable							
Patient — net	19,162,540	2,568,021		1,485,198	23,215,759		23,215,759
Due from affiliates	2,155,895				2,155,895	(2,155,895)	-
Other	1,261,672				1,261,672		1,261,672
Estimated third-party payor settlements receivable	919,708				919,708		919,708
Investments	25,348,747	1,572	6,732,179	404,103	32,082,498	2,912,768	34,995,266
Inventories	4,062,526				4,466,629		4,466,629
Other	2,201,942	289,438		74,492	2,565,872		2,565,872
Total current assets	65,273,494	3,440,966	6,822,626	4,234,132	79,771,218	756,873	80,528,091
INVESTMENT IN SERVICES	1,783,186				1,783,186	(1,783,186)	-
BENEFICIAL INTEREST IN NET ASSETS OF THE FOUNDATION	12,960,163				12,960,163	(12,960,163)	-
ASSETS LIMITED AS TO USE							
Investments designated by the Board for future capital improvements	120,005,525				120,005,525		120,005,525
Investments held for self-insurance program	1,137,711		6,158,123		1,137,711		1,137,711
Donor-restricted investments					6,158,123	(2,912,768)	3,245,355
Total assets limited as to use	121,143,236	-	6,158,123	-	127,301,359	(2,912,768)	124,388,591
PROPERTY, PLANT, AND EQUIPMENT — Net	84,045,907	2,163,665	58,879	6,808,485	93,076,936		93,076,936
INVESTMENTS IN JOINT VENTURES	121,687	951,968			1,073,655	804,050	1,877,705
OTHER	3,606,343	1,409,922			5,016,265	(1,541,821)	3,474,444
TOTAL	\$ 288,934,016	\$ 7,966,521	\$ 13,039,628	\$ 11,042,617	\$ 320,982,782	\$ (17,637,015)	\$ 303,345,767

See note to consolidating schedules

(Continued)

MERCY IOWA CITY AND SUBSIDIARIES

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION AS OF JUNE 30, 2012

	Hospital	Services	Foundation	ICASC	Total Before Eliminating Entries	Eliminating Entries	Consolidated Total
LIABILITIES AND NET ASSETS							
CURRENT LIABILITIES							
Current portion of long-term debt	\$ 2,183,651	\$ -	\$ -	\$ 528,832	\$ 2,712,483	\$ -	\$ 2,712,483
Trade accounts payable	6,326,527	195,509	1,074	31,106	6,554,216		6,554,216
Due to affiliates		2,081,235	74,660		2,155,895	(2,155,895)	-
Accrued salaries and employee benefits	6,522,759	1,472,983		184,758	8,180,500		8,180,500
Other accrued expenses	3,078,920	891,787		267,412	4,238,119		4,238,119
Total current liabilities	18,111,857	4,641,514	75,734	1,012,108	23,841,213	(2,155,895)	21,685,318
ACCRUED PROFESSIONAL LIABILITY CLAIMS							
PENSION BENEFIT LIABILITY	3,235,141				3,235,141		3,235,141
LONG-TERM DEBT — Net of current portion	62,279,484				62,279,484		62,279,484
FAIR VALUE OF INTEREST RATE SWAP	80,506,699	1,541,821		7,067,502	89,116,022	(1,541,821)	87,574,201
OTHER LONG-TERM LIABILITIES	2,789,983				2,789,983		2,789,983
Total liabilities	166,923,164	6,183,335	3,731	8,079,610	181,265,574	(3,697,716)	177,567,858
NET ASSETS							
Net assets	122,010,852	1,783,186	12,960,163	2,963,007	139,717,208	(17,706,359)	122,010,849
Noncontrolling interest in ICASC						3,767,060	3,767,060
Total net assets	122,010,852	1,783,186	12,960,163	2,963,007	139,717,208	(13,939,299)	125,777,909
TOTAL	\$ 288,934,016	\$ 7,966,521	\$ 13,039,628	\$ 11,042,617	\$ 320,982,782	\$ (17,637,015)	\$ 303,345,767

See note to consolidating schedules

(Concluded)

MERCY IOWA CITY AND SUBSIDIARIES

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION AS OF JUNE 30, 2011

ASSETS	Hospital	Services	Foundation	ICASC	Total Before Eliminating Entries	Eliminating Entries	Consolidated Total
CURRENT ASSETS							
Cash and cash equivalents	\$ 2,831,957	\$ 811,317	\$ (28,653)	\$ 2,718,572	\$ 6,333,193	\$ -	\$ 6,333,193
Current portion of investments held for self-insurance program	770,938				770,938		770,938
Accounts receivable							
Patient — net	19,274,556	2,770,469		1,587,490	23,632,515		23,632,515
Due from affiliates	1,864,421				1,864,421	(1,864,421)	-
Other	714,548				714,548		714,548
Estimated third-party payor settlements receivable	467,514				467,514		467,514
Investments	25,504,075	1,570	6,895,088		32,400,733	3,333,743	35,734,476
Inventories	3,969,188			381,053	4,350,241		4,350,241
Other	1,968,027	374,665		65,925	2,408,617		2,408,617
Total current assets	57,365,224	3,958,021	6,866,435	4,753,040	72,942,720	1,469,322	74,412,042
INVESTMENT IN SERVICES	2,524,981				2,524,981	(2,524,981)	-
BENEFICIAL INTEREST IN NET ASSETS OF THE FOUNDATION	13,354,839				13,354,839	(13,354,839)	-
ASSETS LIMITED AS TO USE							
Investments designated by the Board for future capital improvements	116,232,795				116,232,795		116,232,795
Investments held for self-insurance program	1,464,467				1,464,467		1,464,467
Donor-restricted investments			6,487,014		6,487,014	(3,333,743)	3,153,271
Total assets limited as to use	117,697,262	-	6,487,014	-	124,184,276	(3,333,743)	120,850,533
PROPERTY, PLANT, AND EQUIPMENT — Net	75,209,531	2,082,284	66,383	7,866,251	85,224,449		85,224,449
INVESTMENTS IN JOINT VENTURES	1,733,576	907,017			2,640,593	(851,148)	1,789,445
OTHER	3,977,394	1,346,684			5,324,078	(1,541,821)	3,782,257
TOTAL	<u>\$ 271,862,807</u>	<u>\$ 8,294,006</u>	<u>\$ 13,419,832</u>	<u>\$ 12,619,291</u>	<u>\$ 306,195,936</u>	<u>\$ (20,137,210)</u>	<u>\$ 286,058,726</u>

See note to consolidating schedules

(Continued)

MERCY IOWA CITY AND SUBSIDIARIES

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION AS OF JUNE 30, 2011

	Hospital	Services	Foundation	ICASC	Total Before Eliminating Entries	Eliminating Entries	Consolidated Total
LIABILITIES AND NET ASSETS							
CURRENT LIABILITIES							
Current portion of long-term debt	\$ 1,565,216	\$ -	\$ -	\$ 504,737	\$ 2,069,953	\$ -	\$ 2,069,953
Trade accounts payable	5,165,827	125,122	1,342	55,919	5,348,210		5,348,210
Due to affiliates		1,801,381	63,040		1,864,421	(1,864,421)	-
Accrued salaries and employee benefits	7,903,399	1,559,795		239,897	9,703,091		9,703,091
Other accrued expenses	2,694,716	740,906		541,372	3,976,994		3,976,994
Total current liabilities	17,329,158	4,227,204	64,382	1,341,925	22,962,669	(1,864,421)	21,098,248
ACCRUED PROFESSIONAL LIABILITY CLAIMS	3,098,961				3,098,961		3,098,961
PENSION BENEFIT LIABILITY	43,282,112				43,282,112		43,282,112
LONG-TERM DEBT — Net of current portion	60,812,851	1,541,821		7,616,865	69,971,537	(1,541,821)	68,429,716
FAIR VALUE OF INTEREST RATE SWAP	1,302,256				1,302,256		1,302,256
OTHER LONG-TERM LIABILITIES			611		611		611
Total liabilities	125,825,338	5,769,025	64,993	8,958,790	140,618,146	(3,406,242)	137,211,904
NET ASSETS							
Net assets	146,037,469	2,524,981	13,354,839	3,660,501	165,577,790	(19,540,324)	146,037,466
Noncontrolling interest in ICASC						2,809,356	2,809,356
Total net assets	146,037,469	2,524,981	13,354,839	3,660,501	165,577,790	(16,730,968)	148,846,822
TOTAL	\$ 271,862,807	\$ 8,294,006	\$ 13,419,832	\$ 12,619,291	\$ 306,195,936	\$ (20,137,210)	\$ 286,058,726

See note to consolidating schedules

(Concluded)

MERCY IOWA CITY AND SUBSIDIARIES

CONSOLIDATING SCHEDULE OF OPERATIONS FOR THE YEAR ENDED JUNE 30, 2012

Ties to the Patient
Service and
Medicare/Medicaid
lines on Part VIII

	Hospital	Services	Foundation	ICASC	Total Before Eliminating Entries	Eliminating Entries	Consolidated Total
REVENUE							
Net patient service revenue	\$ 140,364,556	\$ 24,044,039	\$ -	\$ 14,021,820	\$ 178,430,415	\$ -	\$ 178,430,415
Other revenue	11,811,202	918,571		10,342	12,740,115	(4,375,170)	8,364,945
Total revenue	(A) 152,175,758	24,962,610	-	14,032,162	191,170,530	(4,375,170)	186,795,360
EXPENSES							
Salaries	58,465,052	18,582,749	171,835 *	2,057,468	79,277,104		79,277,104
Defined benefit pension	1,702,592				1,702,592		1,702,592
Other employee benefits	15,077,414	4,417,945	44,104 *	581,622	20,121,085		20,121,085
Supplies and other	53,094,755	5,675,972	719,268	4,582,075	64,072,070	(1,830,852)	62,241,218
Provision for uncollectible accounts	6,870,033	526,723			7,396,756		7,396,756
Interest	2,756,874	76,318		376,709	3,209,901	(76,318)	3,133,583
Depreciation and amortization	11,271,729	489,649	7,504	1,377,650	13,146,532		13,146,532
Total expenses	149,238,449	29,769,356	942,711	8,975,524	188,926,040	(1,907,170)	187,018,870
INCOME (LOSS) FROM OPERATIONS	2,937,309	(4,806,746)	(942,711)	5,056,638	2,244,490	(2,468,000)	(223,510)

See note to consolidating schedules

Total expenses per audit

(Continued)

MERCY IOWA CITY AND SUBSIDIARIES

CONSOLIDATING SCHEDULE OF OPERATIONS FOR THE YEAR ENDED JUNE 30, 2012

	Hospital	Services	Foundation	ICASC	Total Before Eliminating Entries	Eliminating Entries	Consolidated Total
NONOPERATING GAINS (LOSSES)							
Investment income	\$ 5,928,901	\$ -	\$ 487,839	\$ -	\$ 6,416,740	\$ (76,318)	\$ 6,340,422
Loss on extinguishment of debt (Note 5)	(1,002,866) ✓				(1,002,866)		(1,002,866)
Net unrealized loss on investments	(3,436,718)		(411,293)		(3,848,011)		(3,848,011)
(Loss) income on investments accounted for under the equity method	(4,698,487)	64,951			(4,633,536)	4,741,794	108,258
Change in beneficial interest in net assets of the Foundation	(394,676) ✓				(394,676)	394,676	
Other	(1,065,300)		471,489		(593,811)	(563,697)	(1,157,508)
Total nonoperating gains	(4,669,146) (A)	64,951	548,035	-	(4,056,160)	4,496,455	440,295
(DEFICIENCY) EXCESS OF REVENUE AND NONOPERATING GAINS (LOSSES) OVER EXPENSES	(1,731,837)	(4,741,795)	(394,676)	5,056,638	(1,811,670)	2,028,455	216,785
DISTRIBUTIONS				(5,754,132)	(5,754,132)	5,754,132	
CAPITAL CONTRIBUTION		4,000,000			4,000,000	(4,000,000)	
CHANGE IN UNRECOGNIZED PENSION ACTUARIAL GAIN (A)	(22,294,780)	✓			(22,294,780)		(22,294,780)
(DECREASE) INCREASE IN NET ASSETS	(24,026,617)	(741,795)	(394,676)	(697,494)	(25,860,582)	3,782,587	(22,077,995)
INCREASE IN NET ASSETS ATTRIBUTABLE TO NONCONTROLLING INTEREST IN ICASC						(1,948,622)	(1,948,622)
(DECREASE) INCREASE IN NET ASSETS ATTRIBUTABLE TO MERCY IOWA CITY AND SUBSIDIARIES	\$ (24,026,617)	\$ (741,795)	\$ (394,676)	\$ (697,494)	\$ (25,860,582)	\$ 1,833,965	\$ (24,026,617)

See note to consolidating schedules

(Concluded)

(A) = 125,211,832 - Total Revenue per audit

MERCY IOWA CITY AND SUBSIDIARIES

CONSOLIDATING SCHEDULE OF OPERATIONS FOR THE YEAR ENDED JUNE 30, 2011

	Hospital	Services	Foundation	ICASC	Total Before Eliminating Entries	Eliminating Entries	Consolidated Total
REVENUE							
Net patient service revenue	\$133,277,812	\$19,500,108	\$ -	\$13,337,412	\$166,115,332	\$ -	\$166,115,332
Other revenue	9,977,481	612,715		12,286	10,602,482	(3,670,563)	6,931,919
Total revenue	143,255,293	20,112,823	-	13,349,698	176,717,814	(3,670,563)	173,047,251
EXPENSES							
Salaries	56,043,513	14,422,228	182,150	1,918,495	72,566,386		72,566,386
Defined benefit pension	3,132,971				3,132,971		3,132,971
Other employee benefits	15,600,490	3,983,002	18,498	533,886	20,135,876		20,135,876
Supplies and other	49,096,366	5,288,949	699,519	4,684,426	59,769,260	(1,228,026)	58,541,234
Provision for uncollectible accounts	5,430,293	266,939			5,697,232		5,697,232
Interest	2,378,305	65,744		473,629	2,917,678	(65,744)	2,851,934
Depreciation and amortization	10,786,026	520,231	8,005	1,255,697	12,569,959		12,569,959
Total expenses	142,467,964	24,547,093	908,172	8,866,133	176,789,362	(1,293,770)	175,495,592
INCOME (LOSS) FROM OPERATIONS	787,329	(4,434,270)	(908,172)	4,483,565	(71,548)	(2,376,793)	(2,448,341)

See note to consolidating schedules

(Continued)

MERCY IOWA CITY AND SUBSIDIARIES

CONSOLIDATING SCHEDULE OF OPERATIONS FOR THE YEAR ENDED JUNE 30, 2011

	Hospital	Services	Foundation	ICASC	Total Before Eliminating Entries	Eliminating Entries	Consolidated Total
NONOPERATING GAINS (LOSSES)							
Investment income	\$ 6,865,988	\$ -	\$ 491,436	\$ -	\$ 7,357,424	\$ 131,756	\$ 7,489,180
Net unrealized gain on investments	11,514,026		1,803,602		13,317,628		13,317,628
(Loss) income on investments accounted for under the equity method	(4,322,837)	279,363			(4,043,474)	4,154,907	111,433
Change in beneficial interest in net assets of the Foundation	2,149,925				2,149,925	(2,149,925)	-
Other	770,267		763,059		1,533,326	(558,758)	974,568
Total nonoperating gains	16,977,369	279,363	3,058,097	-	20,314,829	1,577,980	21,892,809
EXCESS (DEFICIENCY) OF REVENUE AND NONOPERATING GAINS (LOSSES) OVER EXPENSES	17,764,698	(4,154,907)	2,149,925	4,483,565	20,243,281	(798,813)	19,444,468
DISTRIBUTIONS				(3,602,184)	(3,602,184)	3,602,184	-
CAPITAL CONTRIBUTION		5,200,000			5,200,000	(5,200,000)	-
CHANGE IN UNRECOGNIZED PENSION ACTUARIAL GAIN	13,329,269				13,329,269		13,329,269
INCREASE IN NET ASSETS	31,093,967	1,045,093	2,149,925	881,381	35,170,366	(2,396,629)	32,773,737
INCREASE IN NET ASSETS ATTRIBUTABLE TO NONCONTROLLING INTEREST IN ICASC						(1,482,271)	(1,482,271)
INCREASE (DECREASE) IN NET ASSETS ATTRIBUTABLE TO MERCY IOWA CITY AND SUBSIDIARIES	\$ 31,093,967	\$ 1,045,093	\$ 2,149,925	\$ 881,381	\$ 35,170,366	\$ (3,878,900)	\$ 31,291,466

See note to consolidating schedules

(Concluded)

MERCY IOWA CITY AND SUBSIDIARIES

NOTE TO CONSOLIDATING SCHEDULES AS OF AND FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

BASIS OF PRESENTATION

The consolidating schedules of financial position and results of operations and changes in net assets are presented for additional analysis of the sources and uses of funds within the overall organization. The schedules of operations of the Mercy Hospital Foundation (the "Foundation") reflect the sources and uses of funds raised on behalf of Mercy Hospital Iowa City (the "Hospital") and the schedules of financial position of the Foundation reflect funds held on behalf of the Hospital. All significant intercompany balances and transactions have been eliminated for consolidating purposes.

The Hospital periodically requests funds from the Foundation for various needs. Such requests are received by the Foundation and, if approved, funds are transferred to the Hospital. Such transfers of funds are reported in the consolidating financial schedules as contributions from the Foundation. The Hospital's beneficial interest in the net assets of the Foundation is reported in the consolidating schedules as a noncurrent asset. The Hospital's share of the change in those assets is reported as nonoperating.

The Hospital's investment in Services is accounted for under the equity method of accounting. The Hospital's interest in the excess of revenues over expenses for Services is presented as income (loss) on investments accounted for under the equity method.

MERCY IOWA CITY AND SUBSIDIARIES

NET PATIENT SERVICE REVENUE FOR THE YEAR ENDED JUNE 30, 2012

	Hospital	Services	ICASC	Total
Inpatient service revenue	\$ 201,425,295	\$ -	\$ -	\$ 201,425,295
Outpatient service revenue	<u>166,177,007</u>	<u>40,612,875</u>	<u>33,846,218</u>	<u>240,636,100</u>
Gross patient service revenue	367,602,302	40,612,875	33,846,218	442,061,395
Allowances for contractual adjustments	<u>(227,237,746)</u>	<u>(16,568,836)</u>	<u>(19,824,398)</u>	<u>(263,630,980)</u>
Net patient services revenue	<u>\$ 140,364,556</u>	<u>\$ 24,044,039</u>	<u>\$ 14,021,820</u>	<u>\$ 178,430,415</u>

MERCY IOWA CITY AND SUBSIDIARIES

PROPERTY, PLANT, AND EQUIPMENT — NET AS OF JUNE 30, 2012

	Hos pital	Serv ices	Foundat ion	ICASC	Total
LAND	\$ 6,379,393	\$ 208,820	\$ -	\$ 670,180	\$ 7,258,393
LAND IMPROVEMENTS	614,410	50,994		4,000	669,404
BUILDINGS AND IMPROVEMENTS	119,298,213	1,775,824		6,697,866	127,771,903
MAJOR MOVABLE EQUIPMENT	<u>100,607,323</u>	<u>4,216,240</u>	<u>161,643</u>	<u>4,067,686</u>	<u>109,052,892</u>
Property, plant, and equipment — gross	1 226,899,339	6,251,878	161,643	11,439,732	244,752,592
LESS ACCUMULATED DEPRECIATION	<u>(148,181,316)</u>	<u>(4,088,213)</u>	<u>(102,764)</u>	<u>(4,631,247)</u>	<u>(157,003,540)</u>
Property, plant, and equipment — net — excluding construction in progress	78,718,023	2,163,665	58,879	6,808,485	87,749,052
CONSTRUCTION IN PROGRESS	1 <u>5,327,884</u>				<u>5,327,884</u>
PROPERTY, PLANT, AND EQUIPMENT — Net	<u>\$ 84,045,907</u>	<u>\$ 2,163,665</u>	<u>\$ 58,879</u>	<u>\$ 6,808,485</u>	<u>\$ 93,076,936</u>

Σ **1** = 232,227,223 = Form 990, Part X, Line 10a

MERCY IOWA CITY AND SUBSIDIARIES

INVESTMENTS

AS OF JUNE 30, 2012

	Hos pital	S ervices	Foundation	Total
CASH AND CASH EQUIVALENTS	\$ -	\$ 1,572	\$ 252,087	\$ 253,659
DEBT SECURITIES				
U S Treasury obligations			57,845	57,845
Federal agency obligations	9,916,873		351,819	10,268,692
Corporate bonds and notes	4,866,121		1,332,289	6,198,410
Accrued interest	56,828		17,624	74,452
COMMON STOCK — Domestic and foreign	7,066,036		1,486,841	8,552,877
MUTUAL FUNDS	<u>3,442,889</u>	<u> </u>	<u>6,146,442</u>	<u>9,589,331</u>
TOTAL INVESTMENTS	<u>\$25,348,747</u>	<u>\$ 1,572</u>	<u>\$ 9,644,947</u>	<u>\$34,995,266</u>

MERCY IOWA CITY AND SUBSIDIARIES

ASSETS LIMITED AS TO USE

AS OF JUNE 30, 2012

	Hospital	Foundation	Total
		Form 990, Part X, Line 2	
INVESTMENTS DESIGNATED BY BOARD FOR FUTURE CAPITAL IMPROVEMENTS			
Cash and cash equivalents	\$ 11,319,607	\$ 205,966	\$ 11,525,573
Corporate bonds and notes	18,347,921	403,644	18,751,565
Common stock — domestic and foreign	23,311,959	450,469	23,762,428
U S Treasury obligations	13,678,222	17,525	13,695,747
Federal agency obligations	14,798,079	106,591	14,904,670
Mutual funds	38,378,599	1,862,191	40,240,790
Accrued interest	171,138	8,612	179,750
Other		190,357	190,357
Total long-term investments	120,005,525	3,245,355	123,250,880
LESS DONOR-RESTRICTED INVESTMENTS		(3,245,355)	(3,245,355)
LONG-TERM INVESTMENTS	<u>\$ 120,005,525</u>	<u>\$ -</u>	<u>\$ 120,005,525</u>
INVESTMENTS HELD FOR SELF-INSURANCE PROGRAM			
Cash and cash equivalents	\$ 1,065,039	\$ -	\$ 1,065,039
Corporate bonds and notes	244,952		244,952
U S Treasury obligations	318,454		318,454
Federal agency obligations	514,548		514,548
Mutual funds	737,307		737,307
Accrued interest	7,954		7,954
Total investments	2,888,254	-	2,888,254
LESS CURRENT PORTION	<u>(1,750,543)</u>		<u>(1,750,543)</u>
LONG-TERM PORTION	<u>\$ 1,137,711</u>	<u>\$ -</u>	<u>\$ 1,137,711</u>