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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)	OMB No 1545-0047 2012 Open to Public Inspection
	The organization may have to use a copy of this return to satisfy state reporting requirements	

A For the 2012 calendar year, or tax year beginning 07-01-2012 , 2012, and ending 06-30-2013

B Check if applicable ☐ Address change ☐ Name change ☐ Initial return ☐ Terminated ☐ Amended return ☐ Application pending	C Name of organization ST MARY'S HOSPITAL DECATUR OF THE HOSPITAL SISTERS OF THE THIRD ORDER OF ST FRANCIS		D Employer identification number 37-0661244
	Doing Business As		
	Number and street (or P O box if mail is not delivered to street address) 1800 E LAKE SHORE DRIVE Suite	Room/suite	E Telephone number (217) 464-2966
	City or town, state or country, and ZIP + 4 DECATUR, IL 62521		
			G Gross receipts \$ 145,682,248
F Name and address of principal officer Daniel Perryman 1800 E LAKE SHORE DRIVE DECATUR, IL 62521		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)	
I Tax-exempt status ☒ 501(c)(3) ☐ 501(c) () (Insert no) ☐ 4947(a)(1) or ☐ 527		H(c) Group exemption number ▶ 0928	
J Website: ▶ WWW.STMARYSDECATUR.COM			

Part I Summary

Activities & Governance	1 Briefly describe the organization's mission or most significant activities To participate in the health care ministry of the church and provide a family-centered approach in meeting the community's health care needs regardless of ability to pay		
	2 Check this box ☐ if the organization discontinued its operations or disposed of more than 25% of its net assets		
	3 Number of voting members of the governing body (Part VI, line 1a)	3	12
	4 Number of independent voting members of the governing body (Part VI, line 1b)	4	9
	5 Total number of individuals employed in calendar year 2012 (Part V, line 2a)	5	1,400
6 Total number of volunteers (estimate if necessary)	6	361	
7a Total unrelated business revenue from Part VIII, column (C), line 12	7a	68,097	
b Net unrelated business taxable income from Form 990-T, line 34	7b		
Revenue	8 Contributions and grants (Part VIII, line 1h)	Prior Year	Current Year
	9 Program service revenue (Part VIII, line 2g)	8,923,897	80,762
	10 Investment income (Part VIII, column (A), lines 3, 4, and 7d)	138,284,968	137,908,679
	11 Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)	617,634	191,592
	12 Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12)	1,219,232	6,692,211
		149,045,731	144,873,244
Expenses	13 Grants and similar amounts paid (Part IX, column (A), lines 1–3)	0	0
	14 Benefits paid to or for members (Part IX, column (A), line 4)	0	0
	15 Salaries, other compensation, employee benefits (Part IX, column (A), lines 5–10)	57,551,408	58,555,339
	16a Professional fundraising fees (Part IX, column (A), line 11e)	0	0
	b Total fundraising expenses (Part IX, column (D), line 25) ☐ 0		
	17 Other expenses (Part IX, column (A), lines 11a–11d, 11f–24e)	81,667,446	84,836,503
	18 Total expenses Add lines 13–17 (must equal Part IX, column (A), line 25)	139,218,854	143,391,842
	19 Revenue less expenses Subtract line 18 from line 12	9,826,877	1,481,402
	Net Assets or Fund Balances		Beginning of Current Year
20 Total assets (Part X, line 16)		136,158,575	143,368,741
21 Total liabilities (Part X, line 26)		84,818,413	81,311,630
22 Net assets or fund balances Subtract line 21 from line 20		51,340,162	62,057,111

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			2014-05-11 Date	
	REBECCA COLKER CFO Type or print name and title				
Paid Preparer Use Only	Print/Type preparer's name KPMG LLP		Preparer's signature		Date
	Check ☐ if self-employed			PTIN	
	Firm's name  KPMG LLP			Firm's EIN 	
Firm's address  191 West Nationwide Blvd Ste 500 Columbus, OH 432152568			Phone no (614) 249-2300		

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

Part III

Statement of Program Service Accomplishments

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

☐

1

Briefly describe the organization's mission

The mission of St Mary's Hospital is to reveal and embody Christ's healing love for all people through our high quality Franciscan health care ministry

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 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 \$ 91,333,065 including grants of \$) (Revenue \$ 137,908,679)

SEE SCHEDULE O - Statement of Program Service Accomplishments

4b

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

4c

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

4d

Other program services (Describe in Schedule O)

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

4e

Total program service expenses 91,333,065

Part IV Checklist of Required Schedules

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

Part IV

Checklist of Required Schedules (continued)

21	Did the organization report more than \$5,000 of grants and other assistance to any government or organization in the United States on Part IX, column (A), line 1? <i>If "Yes," complete Schedule I, Parts I and II</i>	21		No
22	Did the organization report more than \$5,000 of grants and other assistance to individuals in the United States on Part IX, column (A), line 2? <i>If "Yes," complete Schedule I, Parts I and III</i>	22		No
23	Did the organization answer "Yes" to Part VII, Section A, line 3, 4, or 5 about compensation of the organization's current and former officers, directors, trustees, key employees, and highest compensated employees? <i>If "Yes," complete Schedule J</i>	23	Yes	
24a	Did the organization have a tax-exempt bond issue with an outstanding principal amount of more than \$100,000 as of the last day of the year, that was issued after December 31, 2002? <i>If "Yes," answer lines 24b through 24d and complete Schedule K. If "No," go to line 25</i>	24a		No
b	Did the organization invest any proceeds of tax-exempt bonds beyond a temporary period exception?	24b		
c	Did the organization maintain an escrow account other than a refunding escrow at any time during the year to defease any tax-exempt bonds?	24c		
d	Did the organization act as an "on behalf of" issuer for bonds outstanding at any time during the year?	24d		
25a	Section 501(c)(3) and 501(c)(4) organizations. Did the organization engage in an excess benefit transaction with a disqualified person during the year? <i>If "Yes," complete Schedule L, Part I</i>	25a		No
b	Is the organization aware that it engaged in an excess benefit transaction with a disqualified person in a prior year, and that the transaction has not been reported on any of the organization's prior Forms 990 or 990-EZ? <i>If "Yes," complete Schedule L, Part I</i>	25b		No
26	Was a loan to or by a current or former officer, director, trustee, key employee, highest compensated employee, or disqualified person outstanding as of the end of the organization's tax year? <i>If "Yes," complete Schedule L, Part II</i>	26		No
27	Did the organization provide a grant or other assistance to an officer, director, trustee, key employee, substantial contributor or employee thereof, a grant selection committee member, or to a 35% controlled entity or family member of any of these persons? <i>If "Yes," complete Schedule L, Part III</i>	27		No
28	Was the organization a party to a business transaction with one of the following parties (see Schedule L, Part IV instructions for applicable filing thresholds, conditions, and exceptions)			
a	A current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV</i>	28a		No
b	A family member of a current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV</i>	28b		No
c	An entity of which a current or former officer, director, trustee, or key employee (or a family member thereof) was an officer, director, trustee, or direct or indirect owner? <i>If "Yes," complete Schedule L, Part IV</i>	28c	Yes	
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	Yes	
34	Was the organization related to any tax-exempt or taxable entity? <i>If "Yes," complete Schedule R, Part II, III, or IV, and Part V, line 1</i>	34	Yes	
35a	Did the organization have a controlled entity within the meaning of section 512(b)(13)?	35a		No
b	If 'Yes' to line 35a, 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		
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 11b and 19? Note. All Form 990 filers are required to complete Schedule O	38	Yes	

Part V

Statements Regarding Other IRS Filings and Tax Compliance

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

		Yes	No
1a	Enter the number reported in Box 3 of Form 1096. Enter -0- if not applicable.	118	
1b	Enter the number of Forms W-2G included in line 1a. Enter -0- if not applicable.	0	
c	Did the organization comply with backup withholding rules for reportable payments to vendors and reportable gaming (gambling) winnings to prize winners?	Yes	
2a	Enter the number of employees reported on Form W-3, Transmittal of Wage and Tax Statements, filed for the calendar year ending with or within the year covered by this return.	1,400	
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).	Yes	
3a	Did the organization have unrelated business gross income of \$1,000 or more during the year?	Yes	
b	If "Yes," has it filed a Form 990-T for this year? If "No," provide an explanation in Schedule O.	Yes	
4a	At any time during the calendar year, did the organization have an interest in, or a signature or other authority over, a financial account in a foreign country (such as a bank account, securities account, or other financial account)?		No
b	If "Yes," enter the name of the foreign country: _____ See instructions for filing requirements for Form TD F 90-22.1, Report of Foreign Bank and Financial Accounts.		
5a	Was the organization a party to a prohibited tax shelter transaction at any time during the tax year?		No
b	Did any taxable party notify the organization that it was or is a party to a prohibited tax shelter transaction?		No
c	If "Yes," to line 5a or 5b, did the organization file Form 8886-T?		
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 as charitable contributions?		No
b	If "Yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible?		
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?		No
b	If "Yes," did the organization notify the donor of the value of the goods or services provided?		
c	Did the organization sell, exchange, or otherwise dispose of tangible personal property for which it was required to file Form 8282?		No
d	If "Yes," indicate the number of Forms 8282 filed during the year.	7d	
e	Did the organization receive any funds, directly or indirectly, to pay premiums on a personal benefit contract?	7e	No
f	Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract?	7f	No
g	If the organization received a contribution of qualified intellectual property, did the organization file Form 8899 as required?	7g	
h	If the organization received a contribution of cars, boats, airplanes, or other vehicles, did the organization file a Form 1098-C?	7h	
8	Sponsoring organizations maintaining donor advised funds and section 509(a)(3) supporting organizations. Did the supporting organization, or a donor advised fund maintained by a sponsoring organization, have excess business holdings at any time during the year?	8	
9	Sponsoring organizations maintaining donor advised funds.		
a	Did the organization make any taxable distributions under section 4966?	9a	
b	Did the organization make a distribution to a donor, donor advisor, or related person?	9b	
10	Section 501(c)(7) organizations. Enter		
a	Initiation fees and capital contributions included on Part VIII, line 12.	10a	
b	Gross receipts, included on Form 990, Part VIII, line 12, for public use of club facilities.	10b	
11	Section 501(c)(12) organizations. Enter		
a	Gross income from members or shareholders.	11a	
b	Gross income from other sources (Do not net amounts due or paid to other sources against amounts due or received from them).	11b	
12a	Section 4947(a)(1) non-exempt charitable trusts. Is the organization filing Form 990 in lieu of Form 1041?	12a	
b	If "Yes," enter the amount of tax-exempt interest received or accrued during the year.	12b	
13	Section 501(c)(29) qualified nonprofit health insurance issuers.		
a	Is the organization licensed to issue qualified health plans in more than one state? Note. See the instructions for additional information the organization must report on Schedule O.	13a	
b	Enter the amount of reserves the organization is required to maintain by the states in which the organization is licensed to issue qualified health plans.	13b	
c	Enter the amount of reserves on hand.	13c	
14a	Did the organization receive any payments for indoor tanning services during the tax year?	14a	No
b	If "Yes," has it filed a Form 720 to report these payments? If "No," provide an explanation in Schedule O.	14b	

Part VI

Governance, Management, and Disclosure

For each "Yes" response to lines 2 through 7b below, and for a "No" response to lines 8a, 8b, or 10b below, describe the circumstances, processes, or changes in Schedule O. See instructions.

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

Section A. Governing Body and Management

		Yes	No
1a	Enter the number of voting members of the governing body at the end of the tax year	12	
If there are material differences in voting rights among members of the governing body, or if the governing body delegated broad authority to an executive committee or similar committee, explain in Schedule O			
1b	Enter the number of voting members included in line 1a, above, who are independent	9	
2	Did any officer, director, trustee, or key employee have a family relationship or a business relationship with any other officer, director, trustee, or key employee?	2	No
3	Did the organization delegate control over management duties customarily performed by or under the direct supervision of officers, directors or trustees, or key employees to a management company or other person?	3	No
4	Did the organization make any significant changes to its governing documents since the prior Form 990 was filed?	4	No
5	Did the organization become aware during the year of a significant diversion of the organization's assets?	5	No
6	Did the organization have members or stockholders?	6	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?	7a	Yes
7b	Are any governance decisions of the organization reserved to (or subject to approval by) members, stockholders, or persons other than the governing body?	7b	Yes
8	Did the organization contemporaneously document the meetings held or written actions undertaken during the year by the following		
8a	The governing body?	8a	Yes
8b	Each committee with authority to act on behalf of the governing body?	8b	Yes
9	Is there any officer, director, trustee, or key employee listed in Part VII, Section A, who cannot be reached at the organization's mailing address? If "Yes," provide the names and addresses in Schedule O	9	No

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

		Yes	No
10a	Did the organization have local chapters, branches, or affiliates?	10a	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?	10b	
11a	Has the organization provided a complete copy of this Form 990 to all members of its governing body before filing the form?	11a	Yes
11b	Describe in Schedule O the process, if any, used by the organization to review this Form 990		
12a	Did the organization have a written conflict of interest policy? If "No," go to line 13	12a	Yes
12b	Were officers, directors, or trustees, and key employees required to disclose annually interests that could give rise to conflicts?	12b	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	12c	Yes
13	Did the organization have a written whistleblower policy?	13	Yes
14	Did the organization have a written document retention and destruction policy?	14	Yes
15	Did the process for determining compensation of the following persons include a review and approval by independent persons, comparability data, and contemporaneous substantiation of the deliberation and decision?		
15a	The organization's CEO, Executive Director, or top management official	15a	Yes
15b	Other officers or key employees of the organization	15b	Yes
If "Yes" to line 15a or 15b, describe the process in Schedule O (see instructions)			
16a	Did the organization invest in, contribute assets to, or participate in a joint venture or similar arrangement with a taxable entity during the year?	16a	No
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?	16b	Yes

Section C. Disclosure

17	List the States with which a copy of this Form 990 is required to be filed	IL
18	Section 6104 requires an organization to make its Form 1023 (or 1024 if applicable), 990, and 990-T (501(c)(3)s only) available for public inspection. Indicate how you made these available. Check all that apply. ☐ Own website ☐ Another's website ☒ Upon request ☐ Other (explain in Schedule O)	
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 during the tax year	
20	State the name, physical address, and telephone number of the person who possesses the books and records of the organization	REBECCA COLKER 1800 E LAKE SHORE DRIVE DECATUR, IL (217) 464-2970

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 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 organization compensated any current officer, director, or trustee

(A) Name and Title	(B) Average hours per week (list any hours for related organizations below dotted line)	(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) REV JOSEPH MOLLOY BOARD MEMBER	1 0	X						0	0	0
(2) SR HELEN PLUMMER OSF BOARD MEMEBER	1 0	X						0	0	0
(3) KEVIN KAST CHIEF EXECUTIVE Officer	60 0	X		X				0	585,194	114,028
(4) JOHN SKEFFINGTON SECRETARY	1 0	X		X				0	0	0
(5) KEVIN BREHENY CHAIRPERSON	1 0	X		X				0	0	0
(6) JON ROBINSON VICE-CHAIRPERSON	1 0	X		X				0	0	0
(7) MARK CHEVIRON BOARD MEMBER	1 0	X						0	0	0
(8) PAT DAWSON BOARD MEMBER	1 0	X						0	0	0
(9) BOB WIESEMANN VICE-CHAIRPERSON	1 0	X		X				0	0	0
(10) CLAUDIA MADDING BOARD MEMBER	1 0	X						0	0	0
(11) ALAN FRIGY MD BOARD MEMBER	1 0	X						0	0	0
(12) MIKE COTTRELL BOARD MEMBER	1 0 59 0	X						0	620,195	120,098
(13) THERESA J RUTHERFORD COO	60 0			X				216,840	0	38,475
(14) ANN M CARR TREASURER	25 59 75			X				0	272,146	138,031
(15) REBECCA COLKER CHIEF FINANCIAL OFFICER	60 0			X				281,970	0	44,141
(16) MARIA GRANZOTTI CHIEF MEDICAL OFFICER	20 0 20 0				X			333,057	0	25,574
(17) MARY HARTMAN CRNA	40 0					X		243,976	0	43,411

Part VII

1b	Sub-Total	▼			
c	Total from continuation sheets to Part VII, Section A	▼			
d	Total (add lines 1b and 1c)	▼	1,912,198	1,477,535	650,926

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. 31

		Yes	No
3	Did the organization list any former officer, director or trustee, key employee, or highest compensated employee on line 1a? <i>If "Yes," complete Schedule J for such individual</i>	3	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)	(B)	(C)
Name and business address	Description of services	Compensation
sodexo , 488 paysphere circle DECATUR IL 60674	cafeteria management	1,867,653
WALSH CONSTRUCTION , 929 WEST ADAMS CHICAGO IL 60607	CONTRACTOR	1,804,620
Central IL Emergency Physicians , PO Box 793 TRAVERSE CITY MI 496850793	Emergency Dept Mgmt	1,131,555
CENTRAL IL ASSOCIATES , 1800 E LAKE SHORE DR DECATUR IL 62521	ANESTHESIA PHY SERV	1,089,634
REHAB CARE , 7733 FORSYTH BOULEVARD ST LOUIS MO 63105	CONTRACTOR	919,092

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 16

Part VIII

Statement of Revenue

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

				(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	80,762				
	e	Government grants (contributions)	1e					
	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		80,762				
Program Service Revenue	2a	NET PROGRAM SERVICE REVENUE	Business Code 900099	137,908,679	137,908,679			
	b							
	c							
	d							
	e							
	f	All other program service revenue						
	g	Total. Add lines 2a-2f		137,908,679				
	Other Revenue	3	Investment income (including dividends, interest, and other similar amounts)		136,022			136,022
4		Income from investment of tax-exempt bond proceeds		0				
5		Royalties		0				
6a		(i) Real		(ii) Personal				
		Gross rents		1,057,714				
		b	Less rental expenses	452,220				
		c	Rental income or (loss)	605,494	0			
d		Net rental income or (loss)		605,494			605,494	
7a		(i) Securities		(ii) Other				
		Gross amount from sales of assets other than inventory		208,252	204,102			
		b	Less cost or other basis and sales expenses		356,784			
		c	Gain or (loss)	208,252	-152,682			
d		Net gain or (loss)		55,570			55,570	
8a		Gross income from fundraising events (not including \$ _____ of contributions reported on line 1c) See Part IV, line 18						
		a						
b		Less direct expenses	b					
c		Net income or (loss) from fundraising events		0				
9a		Gross income from gaming activities See Part IV, line 19						
		a						
b		Less direct expenses	b					
c	Net income or (loss) from gaming activities		0					
10a	Gross sales of inventory, less returns and allowances							
	a							
b	Less cost of goods sold	b						
c	Net income or (loss) from sales of inventory		0					
	Miscellaneous Revenue		Business Code					
11a	REFERENCE LAB	621500	38,016		38,016			
b	PHYSICIAN ANSWERING SERVICES	621500	30,081		30,081			
c	OTHER REVENUE	900099	6,018,620				6,018,620	
d	All other revenue							
e	Total. Add lines 11a-11d		6,086,717					
12	Total revenue. See Instructions		144,873,244	137,908,679	68,097	6,815,706		

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).

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.	0			
2	Grants and other assistance to individuals in the United States. See Part IV, line 22.	0			
3	Grants and other assistance to governments, organizations, and individuals outside the United States. See Part IV, lines 15 and 16.	0			
4	Benefits paid to or for members.	0			
5	Compensation of current officers, directors, trustees, and key employees.	853,447	0	853,447	0
6	Compensation not included above, to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B).	0			
7	Other salaries and wages.	41,317,473	37,628,386	3,689,087	
8	Pension plan accruals and contributions (include section 401(k) and 403(b) employer contributions).	4,432,649	4,432,649		
9	Other employee benefits.	8,899,420	8,841,907	57,513	
10	Payroll taxes.	3,052,350	3,052,350		
11	Fees for services (non-employees):				
a	Management.	734,544	368,361	366,183	
b	Legal.	520,430	575	519,855	
c	Accounting.	0			
d	Lobbying.	62,453		62,453	
e	Professional fundraising services. See Part IV, line 17.	0			
f	Investment management fees.	17,375		17,375	
g	Other (If line 11g amount exceeds 10% of line 25, column (A) amount, list line 11g expenses on Schedule O).	25,271,754	14,709,684	10,562,070	
12	Advertising and promotion.	478,808		478,808	
13	Office expenses.	272,566	4,532	268,034	
14	Information technology.	54,475		54,475	
15	Royalties.	0			
16	Occupancy.	1,938,011	1,891,696	46,315	
17	Travel.	0			
18	Payments of travel or entertainment expenses for any federal, state, or local public officials.	0			
19	Conferences, conventions, and meetings.	232,810	145,334	87,476	
20	Interest.	0			
21	Payments to affiliates.	8,752,497		8,752,497	
22	Depreciation, depletion, and amortization.	8,043,613	82,452	7,961,161	
23	Insurance.	2,132,884	156,759	1,976,125	
24	Other expenses. Itemize expenses not covered above (List miscellaneous expenses in line 24e. If line 24e amount exceeds 10% of line 25, column (A) amount, list line 24e expenses on Schedule O):				
a	SUPPLIES	18,970,892	18,562,303	408,589	
b	BAD DEBT EXPENSE	10,770,090		10,770,090	
c	MEDICAID TAX ASSESSMENT	3,817,932		3,817,932	
d	OTHER	2,120,085	1,453,515	666,570	
e	All other expenses	645,284	2,562	642,722	
25	Total functional expenses. Add lines 1 through 24e.	143,391,842	91,333,065	52,058,777	0
26	Joint costs. Complete this line only if the organization reported in column (B) joint costs from a combined educational campaign and fundraising solicitation. Check here ☐ if following SOP 98-2 (ASC 958-720).				

Part X

Balance Sheet

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

☒

				(A)		(B)
				Beginning of year		End of year
Assets	1	Cash—non-interest-bearing		1,461,109	1	4,394,511
	2	Savings and temporary cash investments		0	2	0
	3	Pledges and grants receivable, net		0	3	0
	4	Accounts receivable, net		24,231,183	4	23,587,110
	5	Loans and other receivables from current and former officers, directors, trustees, key employees, and highest compensated employees Complete Part II of Schedule L		0	5	0
	6	Loans and other receivables from other disqualified persons (as defined under section 4958(f)(1)), persons described in section 4958(c)(3)(B), and contributing employers and sponsoring organizations of section 501(c)(9) voluntary employees' beneficiary organizations (see instructions) Complete Part II of Schedule L		0	6	0
	7	Notes and loans receivable, net		0	7	0
	8	Inventories for sale or use		3,180,631	8	3,136,557
	9	Prepaid expenses and deferred charges		1,089,972	9	711,565
	10a	Land, buildings, and equipment cost or other basis Complete Part VI of Schedule D	10a217,055,665			
	b	Less accumulated depreciation	10b118,513,029	97,423,371	10c	98,542,636
	11	Investments—publicly traded securities		8,461,915	11	10,536,380
	12	Investments—other securities See Part IV, line 11		0	12	0
	13	Investments—program-related See Part IV, line 11		0	13	2,240,654
	14	Intangible assets		0	14	0
	15	Other assets See Part IV, line 11		310,394	15	219,328
	16	Total assets. Add lines 1 through 15 (must equal line 34)		136,158,575	16	143,368,741
Liabilities	17	Accounts payable and accrued expenses		30,968,876	17	27,582,173
	18	Grants payable		0	18	0
	19	Deferred revenue		97,809	19	97,001
	20	Tax-exempt bond liabilities		0	20	0
	21	Escrow or custodial account liability Complete Part IV of Schedule D		0	21	0
	22	Loans and other payables to current and former officers, directors, trustees, key employees, highest compensated employees, and disqualified persons Complete Part II of Schedule L		0	22	0
	23	Secured mortgages and notes payable to unrelated third parties		0	23	0
	24	Unsecured notes and loans payable to unrelated third parties		0	24	0
	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		53,751,728	25	53,632,456
	26	Total liabilities. Add lines 17 through 25		84,818,413	26	81,311,630
Net Assets or Fund Balances	Organizations that follow SFAS 117 (ASC 958), check here ☒ and complete lines 27 through 29, and lines 33 and 34.					
	27	Unrestricted net assets		45,135,891	27	55,076,341
	28	Temporarily restricted net assets		5,003,264	28	5,779,767
	29	Permanently restricted net assets		1,201,007	29	1,201,003
	Organizations that do not follow SFAS 117 (ASC 958), check here ☐ 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		51,340,162	33	62,057,111
	34	Total liabilities and net assets/fund balances		136,158,575	34	143,368,741

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	144,873,244
2	Total expenses (must equal Part IX, column (A), line 25)	2	143,391,842
3	Revenue less expenses Subtract line 2 from line 1	3	1,481,402
4	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A))	4	51,340,162
5	Net unrealized gains (losses) on investments	5	350,101
6	Donated services and use of facilities	6	
7	Investment expenses	7	
8	Prior period adjustments	8	
9	Other changes in net assets or fund balances (explain in Schedule O)	9	8,885,446
10	Net assets or fund balances at end of year Combine lines 3 through 9 (must equal Part X, line 33, column (B))	10	62,057,111

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 ☐ Cash ☒ Accrual ☐ 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? If "Yes," check a box below to indicate whether the financial statements for the year were compiled or reviewed on a separate basis, consolidated basis, or both ☐ Separate basis ☐ Consolidated basis ☐ Both consolidated and separate basis		No
2b	Were the organization's financial statements audited by an independent accountant? If "Yes," check a box below to indicate whether the financial statements for the year were audited on a separate basis, consolidated basis, or both ☐ Separate basis ☒ Consolidated basis ☐ Both consolidated and separate basis	Yes	
2c	If "Yes," to line 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	
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?	Yes	
3b	If "Yes," did the organization undergo the required audit or audits? If the organization did not undergo the required audit or audits, explain why in Schedule O and describe any steps taken to undergo such audits	Yes	

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

2012

Open to Public Inspection

Name of the organization ST MARY'S HOSPITAL DECATUR OF THE HOSPITAL SISTERS OF THE THIRD ORDER OF ST FRANCIS	Employer identification number 37-0661244
--	--

Part I

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

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

- 1

☐

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

☐

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

☒

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

☐

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

☐

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

☐

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

☐

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

☐

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

☐

An organization that normally receives (1) more than 33¹/₃% 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 33¹/₃% of its support from gross investment income and unrelated business taxable income (less section 511 tax) from businesses acquired by the organization after June 30, 1975 See **section 509(a)(2).** (Complete Part III)
- 10

☐

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

☐

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

a

☐

Type I

b

☐

Type II

c

☐

Type III - Functionally integrated

d

☐

Type III - Non-functionally integrated
- 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 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 monetary support
			Yes	No	Yes	No	Yes	No	
Total									

For Paperwork Reduction Act Notice, see the Instructions for Form 990 or 990EZ.

Cat No 11285F

Schedule A (Form 990 or 990-EZ) 2012

Part II

Support Schedule for Organizations Described in Sections 170(b)(1)(A)(iv) and 170(b)(1)(A)(vi)
(Complete only if you checked the box on line 5, 7, or 8 of Part I or if the organization failed to qualify under Part III. If the organization fails to qualify under the tests listed below, please complete Part III.)

Section A. Public Support						
Calendar year (or fiscal year beginning in) ▶	(a) 2008	(b) 2009	(c) 2010	(d) 2011	(e) 2012	(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) 2008	(b) 2009	(c) 2010	(d) 2011	(e) 2012	(f) Total
7 Amounts from line 4						
8 Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
9 Net income from unrelated business activities, whether or not the business is regularly carried on						
10 Other income Do not include gain or loss from the sale of capital assets (Explain in Part IV)						
11 Total support (Add lines 7 through 10)						
12 Gross receipts from related activities, etc (see instructions)					12	
13 First five years. If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a 501(c)(3) organization, check this box and stop here ▶						

Section C. Computation of Public Support Percentage						
14 Public support percentage for 2012 (line 6, column (f) divided by line 11, column (f))		14				
15 Public support percentage for 2011 Schedule A, Part II, line 14		15				
16a 33 1/3% support test—2012. 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—2011. If the organization did not check a 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—2012. 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—2011. If the organization did not check a box on line 13, 16a, 16b, or 17a, and line 15 is 10% or more, and if the organization meets the "facts-and-circumstances" test, check this box and stop here. Explain in Part IV how the organization meets the "facts-and-circumstances" test The organization qualifies as a publicly supported organization						▶
18 Private foundation. If the organization did not check a box on line 13, 16a, 16b, 17a, or 17b, check this box and see instructions						▶

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

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

Section A. Public Support						
Calendar year (or fiscal year beginning in) ▶	(a) 2008	(b) 2009	(c) 2010	(d) 2011	(e) 2012	(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) 2008	(b) 2009	(c) 2010	(d) 2011	(e) 2012	(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 2012 (line 8, column (f) divided by line 13, column (f))	15	
16 Public support percentage from 2011 Schedule A, Part III, line 15	16	

Section D. Computation of Investment Income Percentage		
17 Investment income percentage for 2012 (line 10c, column (f) divided by line 13, column (f))	17	
18 Investment income percentage from 2011 Schedule A, Part III, line 17	18	
19a 33 1/3% support tests—2012. 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—2011. 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.** Complete this part to provide the explanations required by Part II, line 10; Part II, line 17a or 17b; and Part III, line 12. Also complete this part for any additional information. (See instructions).

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

2012

Open to Public Inspection

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

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

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

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

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

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

Name of the organization ST MARY'S HOSPITAL DECATUR OF THE HOSPITAL SISTERS OF THE THIRD ORDER OF ST FRANCIS	Employer identification number 37-0661244
--	--

Part I-A Complete if the organization is exempt under section 501(c) or is a section 527 organization.

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

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

1	Enter the amount of any excise tax incurred by the organization under section 4955	▶ \$
2	Enter the amount of any excise tax incurred by organization managers under section 4955	▶ \$
3	If the organization incurred a section 4955 tax, did it file Form 4720 for this year?	☐ Yes ☐ No
4a	Was a correction made?	☐ Yes ☐ 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 function 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?	☐ Yes ☐ 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?		☐ Yes	☐ 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) 2009	(b) 2010	(c) 2011	(d) 2012	(e) Total
2a Lobbying nontaxable amount					
b Lobbying ceiling amount (150% of line 2a, column(e))					
c Total lobbying expenditures					
d Grassroots nontaxable 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)).

For each "Yes" response to lines 1a through 1i below, provide in Part IV a detailed description of the lobbying activity.		(a)		(b)	
		Yes	No	Amount	
1	During the year, did the filing organization attempt to influence foreign, national, state or local legislation, including any attempt to influence public opinion on a legislative matter or referendum, through the use of				
a	Volunteers?		No		
b	Paid staff or management (include compensation in expenses reported on lines 1c through 1i)?		No		
c	Media advertisements?		No		
d	Mailings to members, legislators, or the public?		No		
e	Publications, or published or broadcast statements?		No		
f	Grants to other organizations for lobbying purposes?		No		
g	Direct contact with legislators, their staffs, government officials, or a legislative body?		No		
h	Rallies, demonstrations, seminars, conventions, speeches, lectures, or any similar means?		No		
i	Other activities?	Yes		62,453	
j	Total. Add lines 1c through 1i.			62,453	
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 carry over 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) and if either (a) BOTH Part III-A, lines 1 and 2, are answered "No" OR (b) Part III-A, line 3, is answered "Yes."

1	Dues, assessments and similar amounts from members.	1	
2	Section 162(e) nondeductible 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, Part II-A (affiliated group list), Part II-A, line 2, and Part II-B, line 1. Also, complete this part for any additional information.

Identifier	Return Reference	Explanation
DESCRIPTION OF OTHER LOBBYING ACTIVITIES	SCHEDULE C, PART II B, QUESTION 11	ST MARY'S HOSPITAL ("THE HOSPITAL") IS A MEMBER OF THE CATHOLIC HEALTH, ILL ASSOCIATION ("CHA"), THE ILLINOIS HEALTH ASSOCIATION ("IHA"), THE NATIONAL ASSOCIATION FOR HOME CARE AND HOSPICE, AND THE AMERICAN HEALTH ASSOCIATION ("AHA") AS A MEMBER OF THESE ORGANIZATIONS, THE HOSPITAL PAYS DUES. A PART OF THESE DUES IS ATTRIBUTABLE TO LOBBYING FEES PAID BY THE ORGANIZATIONS. \$29,453 OF THE AMOUNT LISTED ABOVE IS THE AMOUNT ATTRIBUTABLE TO THE HOSPITAL FROM ITS DUES PAID. THE HOSPITAL PAID \$33,000 DURING THE YEAR TO JULIE CURRY, A PROFESSIONAL LOBBYIST THROUGH ITS LEGAL COUNSEL.

SCHEDULE D
(Form 990)

Supplemental Financial Statements

OMB No 1545-0047

2012

Open to Public Inspection

Department of the Treasury
Internal Revenue Service

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

Name of the organization
ST MARY'S HOSPITAL DECATUR OF THE HOSPITAL
SISTERS OF THE THIRD ORDER OF ST FRANCIS

Employer identification number

37-0661244

Part I

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

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

Part II

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

1

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

☐ Preservation of land for public use (e g , recreation or education)☐ Preservation of an historically important land area
☐ Protection of natural habitat☐ Preservation of a certified historic structure
☐ Preservation of open space

2

Complete lines 2a through 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, and not on a historic structure listed in the National Register

3

Number of conservation easements modified, transferred, released, extinguished, or terminated by the organization during the tax 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 section 170(h)(4)(B)(ii)?

☐ Yes☐ No

9

In Part XIII, 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 (ASC 958), 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 XIII, the text of the footnote to its financial statements that describes these items

b

If the organization elected, as permitted under SFAS 116 (ASC 958), 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 (ASC 958) relating to these items

a

Revenues included in Form 990, Part VIII, line 1

▶ \$ _____

b

Assets included in Form 990, Part X

▶ \$ _____

For Paperwork Reduction Act Notice, see the Instructions for Form 990.

Cat No 52283D

Schedule D (Form 990) 2012

Part III

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

3

Using the organization's acquisition, 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 XIII

5

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

☐ Yes

☐ No

Part IV

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

1a

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

☐ Yes

☐ No

b

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

c

Beginning balance

d

Additions during the year

e

Distributions during the year

f

Ending balance

	Amount
1c	
1d	
1e	
1f	

2a

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

☐ Yes

☐ No

b

If "Yes," explain the arrangement in Part XIII Check here if the explanation has been provided in Part XIII

☐

Part V

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

	(a)Current year	(b)Prior year	b (c)Two years back	(d)Three years back	(e)Four years back
1a Beginning of year balance					
b Contributions					
c Net investment earnings, gains, and losses					
d Grants or scholarships					
e Other expenditures for facilities and programs					
f Administrative expenses					
g End of year balance					

2

Provide the estimated percentage of the current year end balance (line 1g, column (a)) held as

a

Board designated or quasi-endowment

b

Permanent endowment

c

Temporarily restricted endowment

The percentages in lines 2a, 2b, and 2c should equal 100%

3a

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

(i) unrelated organizations

(ii) related organizations

3a(i)

3a(ii)

3b

Yes

No

b

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

4

Describe in Part XIII 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		3,295,160		3,295,160
b Buildings		89,829,360	31,986,489	57,842,871
c Leasehold improvements		42,089,075	26,155,679	15,933,396
d Equipment		78,161,517	60,370,861	17,790,656
e Other		3,680,553		3,680,553
Total. Add lines 1a through 1e (Column (d) must equal Form 990, Part X, column (B), line 10(c).)				98,542,636

Schedule D (Form 990) 2012

Part XI 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 XIII)	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 XIII)	4b	
c	Add lines 4a and 4b	4c	
5	Total revenue Add lines 3 and 4c . (This must equal Form 990, Part I, line 12)	5	

Part XII 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 XIII)	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 XIII)	4b	
c	Add lines 4a and 4b	4c	
5	Total expenses Add lines 3 and 4c . (This must equal Form 990, Part I, line 18)	5	

Part XIII 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, line 2, Part XI, lines 2d and 4b, and Part XII, lines 2d and 4b. Also complete this part to provide any additional information.

Identifier	Return Reference	Explanation
ASC SUBTOPIC 740-10		HSHS has adopted ASC Subtopic 740-10, Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109. ASC Subtopic 740-10 addresses the determination of how tax benefits claimed or expected to be claimed on a tax return should be recorded in the consolidated financial statements. Under ASC Subtopic 740-10, the Obligated Group must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. ASC Subtopic 740-10 also provides guidance on derecognition, classification, interest and penalties on income taxes, and accounting in interim periods, and requires increased disclosures. As of June 30, 2013 and 2012, the Obligated Group does not have a liability 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

2012

Open to Public Inspection

Name of the organization
ST MARY'S HOSPITAL DECATUR OF THE HOSPITAL
SISTERS OF THE THIRD ORDER OF ST FRANCIS

Employer identification number
37-0661244

Part I

Financial Assistance and Certain Other Community Benefits at Cost

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

7

Financial Assistance and Certain Other Community Benefits at Cost

Financial Assistance and Means-Tested Government Programs	(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community benefit expense	(d) Direct offsetting revenue	(e) Net community benefit expense	(f) Percent of total expense
a Financial Assistance at cost (from Worksheet 1)	1	8,234	4,914,169		4,914,169	3 710 %
b Medicaid (from Worksheet 3, column a)	1		8,814,270		8,814,270	6 650 %
c Costs of other means-tested government programs (from Worksheet 3, column b) .	1	2,141	308,562	270,075	38,487	0 020 %
d Total Financial Assistance and Means-Tested Government Programs .	3	10,375	14,037,001	270,075	13,766,926	10 380 %
Other Benefits						
e Community health improvement services and community benefit operations (from Worksheet 4)	60		646,532	411	646,122	0 490 %
f Health professions education (from Worksheet 5)	5		155,171	12,750	142,421	0 110 %
g Subsidized health services (from Worksheet 6)		6,743	49,883,460	47,849,124	2,034,336	1 530 %
h Research (from Worksheet 7)						
i Cash and in-kind contributions for community benefit (from Worksheet 8)	24		209,244		209,244	0 160 %
j Total. Other Benefits	89	6,743	50,894,407	47,862,285	3,032,123	2 290 %
k Total. Add lines 7d and 7j .	92	17,118	64,931,408	48,132,360	16,799,049	12 670 %

Part II

Community Building Activities

Complete this table if the organization conducted any community building activities during the tax year, and describe in Part VI how its community building activities promoted the health of the communities it serves.

	(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community building expense	(d) Direct offsetting revenue	(e) Net community building expense	(f) Percent of total expense
1	Physical improvements and housing					
2	Economic development					
3	Community support	3	56,784		56,784	0.040 %
4	Environmental improvements					
5	Leadership development and training for community members					
6	Coalition building					
7	Community health improvement advocacy					
8	Workforce development					
9	Other					
10	Total	3	56,784		56,784	0.040 %

Part III

Bad Debt, Medicare, & Collection Practices

Section A. Bad Debt Expense

1

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

1

Yes

2

Enter the amount of the organization's bad debt expense. Explain in Part VI the methodology used by the organization to estimate this amount.

2

10,770,090

3

Enter the estimated amount of the organization's bad debt expense attributable to patients eligible under the organization's financial assistance policy. Explain in Part VI the methodology used by the organization to estimate this amount and the rationale, if any, for including this portion of bad debt as community benefit.

3

18,370

4

Provide in Part VI the text of the footnote to the organization's financial statements that describes bad debt expense or the page number on which this footnote is contained in the attached financial statements.

Section B. Medicare

5

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

5

48,231,833

6

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

6

45,557,313

7

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

7

2,674,520

8

Describe in Part VI the extent to which any shortfall reported in line 7 should be treated as community benefit. Also describe in Part VI the costing methodology or source used to determine the amount reported on line 6. Check the box that describes the method used.
☐ Cost accounting system ☒ Cost to charge ratio ☐ Other

Section C. Collection Practices

9a

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

9a

Yes

b

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

9b

Yes

Part IV

Management Companies and Joint Ventures

(owned 10% or more by officers, directors, trustees, key employees, and physicians—see instructions)

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

Part V

Facility Information

Section A. Hospital Facilities

(list in order of size from largest to smallest—see instructions)
How many hospital facilities did the organization operate during the tax year?
1

Name, address, and primary website address

		Licensed hospital	General medical & surgical	Children's hospital	Teaching hospital	Critical access hospital	Research facility	ER-24 hours	ER-other	Other (Describe)	Facility reporting group
1	ST MARY'S HOSPITAL 1700 E LAKE SHORE DR DECATUR,IL 62521	X	X					X			

Part V Facility Information (continued)

Section B. Facility Policies and Practices

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

ST MARY'S HOSPITAL

Name of hospital facility or facility reporting group

For single facility filers only: line Number of Hospital Facility (from Schedule H, Part V, Section A)

	Yes	No
Community Health Needs Assessment (Lines 1 through 8c are optional for tax years beginning on or before March 23, 2012)		
1 During the tax year or either of the two immediately preceding tax years, did the hospital facility conduct a community health needs assessment (CHNA)? If "No," skip to line 9 If "Yes," indicate what the CHNA report describes (check all that apply)	1 Yes	
a ☒ A definition of the community served by the hospital facility		
b ☒ Demographics of the community		
c ☒ Existing health care facilities and resources within the community that are available to respond to the health needs of the community		
d ☒ How data was obtained		
e ☒ The health needs of the community		
f ☒ Primary and chronic disease needs and other health issues of uninsured persons, low-income persons, and minority groups		
g ☒ The process for identifying and prioritizing community health needs and services to meet the community health needs		
h ☒ The process for consulting with persons representing the community's interests		
i ☒ Information gaps that limit the hospital facility's ability to assess the community's health needs		
j ☒ Other (describe in Part VI)		
2 Indicate the tax year the hospital facility last conducted a CHNA 20 <u>12</u>		
3 In conducting its most recent CHNA, did the hospital facility take into account input from representatives of the community served by the hospital facility, including those with special knowledge of or expertise in public health? 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 Yes	
4 Was the hospital facility's CHNA conducted with one or more other hospital facilities? If "Yes," list the other hospital facilities in Part VI	4	No
5 Did the hospital facility make its CHNA report widely available to the public? If "Yes," indicate how the CHNA report was made widely available (check all that apply)	5 Yes	
a ☒ Hospital facility's website		
b ☒ Available upon request from the hospital facility		
c ☐ Other (describe in Part VI)		
6 If the hospital facility addressed needs identified in its most recently conducted CHNA, indicate how (check all that apply to date)		
a ☒ Adoption of an implementation strategy that addresses each of the community health needs identified through the CHNA		
b ☐ Execution of the implementation strategy		
c ☒ Participation in the development of a community-wide plan		
d ☐ Participation in the execution of a community-wide plan		
e ☒ Inclusion of a community benefit section in operational plans		
f ☒ Adoption of a budget for provision of services that address the needs identified in the CHNA		
g ☒ Prioritization of health needs in its community		
h ☒ Prioritization of services that the hospital facility will undertake to meet health needs in its community		
i ☐ Other (describe in Part VI)		
7 Did the hospital facility address all of the needs identified in its most recently conducted CHNA? If "No," explain in Part VI which needs it has not addressed and the reasons why it has not addressed such needs	7	No
8a Did the organization incur an excise tax under section 4959 for the hospital facility's failure to conduct a CHNA as required by section 501(r)(3)?	8a	No
b If "Yes" to line 8a, did the organization file Form 4720 to report the section 4959 excise tax?	8b	
c If "Yes" to line 8b, what is the total amount of section 4959 excise tax the organization reported on Form 4720 for all of its hospital facilities? \$_____		

Part V

Facility Information (continued)

Financial Assistance Policy		Yes	No
9 Did the hospital facility have in place during the tax year a written financial assistance policy that Explained eligibility criteria for financial assistance, and whether such assistance includes free or discounted care?		9	Yes
10 Used federal poverty guidelines (FPG) to determine eligibility for providing <i>free</i> care? If "Yes," indicate the FPG family income limit for eligibility for free care <u>150</u> % If "No," explain in Part VI the criteria the hospital facility used		10	Yes
11 Used FPG to determine eligibility for providing <i>discounted</i> care? If "Yes," indicate the FPG family income limit for eligibility for discounted care <u>300</u> % If "No," explain in Part VI the criteria the hospital facility used		11	Yes
12 Explained the basis for calculating amounts charged to patients? If "Yes," indicate the factors used in determining such amounts (check all that apply)		12	Yes
a ☒ Income level			
b ☒ Asset level			
c ☒ Medical indigency			
d ☒ Insurance status			
e ☒ Uninsured discount			
f ☒ Medicaid/Medicare			
g ☒ State regulation			
h ☐ Other (describe in Part VI)			
13 Explained the method for applying for financial assistance?		13	Yes
14 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)		14	Yes
a ☒ The policy was posted on the hospital facility's website			
b ☐ The policy was attached to billing invoices			
c ☐ The policy was posted in the hospital facility's emergency rooms or waiting rooms			
d ☒ The policy was posted in the hospital facility's admissions offices			
e ☐ The policy was provided, in writing, to patients on admission to the hospital facility			
f ☒ The policy was available upon request			
g ☐ Other (describe in Part VI)			
Billing and Collections			
15 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?		15	Yes
16 Check all of the following 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 ☐ Reporting to credit agency			
b ☐ Lawsuits			
c ☐ Liens on residences			
d ☐ Body attachments			
e ☐ Other similar actions (describe in Part VI)			
17 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		17	No
a ☐ Reporting to credit agency			
b ☐ Lawsuits			
c ☐ Liens on residences			
d ☐ Body attachments			
e ☐ Other similar actions (describe in Part VI)			

Part V

Facility Information (continued)

- 18
- Indicate which efforts the hospital facility made before initiating any of the actions listed in line 17 (check all that apply)
- a

☐

Notified individuals of the financial assistance policy on admission
- b

☐

Notified individuals of the financial assistance policy prior to discharge
- c

☐

Notified individuals of the financial assistance policy in communications with the patients regarding the patients' bills
- d

☐

Documented its determination of whether patients were eligible for financial assistance under the hospital facility's financial assistance policy
- e

☐

Other (describe in Part VI)

Policy Relating to Emergency Medical Care

		Yes	No
19	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?	Yes	
	If "No," indicate why		
a	☐ The hospital facility did not provide care for any emergency medical conditions		
b	☐ The hospital facility's policy was not in writing		
c	☐ The hospital facility limited who was eligible to receive care for emergency medical conditions (describe in Part VI)		
d	☐ Other (describe in Part VI)		

Charges to Individuals Eligible for Assistance under the FAP (FAP-Eligible Individuals)

20	Indicate how the hospital facility determined, during the tax year, the maximum amounts that can be charged to FAP-eligible individuals for emergency or other medically necessary care		
	a ☐ The hospital facility used its lowest negotiated commercial insurance rate when calculating the maximum amounts that can be charged		
	b ☐ The hospital facility used the average of its three lowest negotiated commercial insurance rates when calculating the maximum amounts that can be charged		
	c ☐ The hospital facility used the Medicare rates when calculating the maximum amounts that can be charged		
	d ☒ Other (describe in Part VI)		
21	During the tax year, did the hospital facility charge any FAP-eligible individuals 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?		No
	If "Yes," explain in Part VI		
22	During the tax year, did the hospital facility charge any FAP-eligible individuals an amount equal to the gross charge for any service provided to that individual?		No
	If "Yes," explain in Part VI		

Part V

Facility Information (continued)

Section C. Other Health Care 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 health care facilities did the organization operate during the tax year?

Name and address	Type of Facility (describe)
1	
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, Part V, Section A, and Part V, Section B, lines 1j, 3, 4, 5c, 6i, 7, 10, 11, 12h, 14g, 16e, 17e, 18e, 19c, 19d, 20d, 21, and 22
- 2
- Needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any needs assessments reported in Part V, Section B
- 3
- Patient education of eligibility for assistance.** Describe how the organization informs and educates patients and persons who may be billed for patient care about their eligibility for assistance under federal, state, or local government programs or under the organization's financial assistance policy
- 4
- Community information.** Describe the community the organization serves, taking into account the geographic area and demographic constituents it serves
- 5
- Promotion of community health.** Provide any other information important to describing how the organization's hospital facilities or other health care facilities further its exempt purpose by promoting the health of the community (e g , open medical staff, community board, use of surplus funds, etc)
- 6
- Affiliated health care system.** If the organization is part of an affiliated health care system, describe the respective roles of the organization and its affiliates in promoting the health of the communities served
- 7
- State filing of community benefit report.** If applicable, identify all states with which the organization, or a related organization, files a community benefit report
- 8
- Facility reporting group(s).** If applicable, for each hospital facility in a facility reporting group provide the descriptions required for Part V, Section B, lines 1j, 3, 4, 5c, 6i, 7, 10, 11, 12h, 14g, 16e, 17e, 18e, 19c, 19d, 20d, 21, and 22

Identifier	ReturnReference	Explanation
PART I, LINE 3C		The organization does follow FPG to determine eligibility for providing charity and discounted care to low-income uninsured and underinsured individuals
PART I, LINE 6A		The hospitals community benefit report can be accessed at www.stmarysdecatur.com

Identifier	ReturnReference	Explanation
PART I, LINE 7 COLUMN (F)		The percent of charity care and certain other benefits at cost as a percent of total expenses less bad debt is 12.67%. The amount of bad debt expense removed when calculating the percentages in Part I, Line 7, Column (F) was 10,770,090.
PART I, LINE 7		Costing methodology for amounts reported in table. The common method for estimating the true economic cost of medical services is to adjust the charges through the use of cost-to-charge ratios. Cost-to-charge ratios convert charges for medical services to their true economic costs. Applying cost-to-charge ratios to medical service charges produces average estimates of true costs. The cost-to-charge ratio represents total hospital operating costs divided by total gross billed charges. The exception to the costing methodology described in the preceding paragraph is for the amount for subsidized services on line 7g, for which a costing information system was utilized. More accurate allocations of direct costs are available through the use of that system, and were applied for the subsidized health services. a For FY2013, total charity care written off was \$16,799,049 as reported on the income statement. The net community benefit cost, after applying the cost-to-charge ratio, was \$4,914,169. b For FY2013, estimated cost of Medicaid was \$22,402,821. The net community benefit cost, after applying the cost-to-charge ratio, was \$8,814,270. c The estimated cost is calculated using the cost-to-charge ratio. Actual cost can be traced directly to (or identified with) a specific cost center or cost object such as a department, process, or product. The following other benefits are calculated from the income statement. For FY2013, unreimbursed cost from other means tested government programs realized revenue of \$270,075 and expenses \$308,562. The net community benefit expense was \$38,487. d Total of line 7a through 7c. e For FY2013, community health improvement services and benefit operations realized revenue of \$410 and expenses \$646,532. The net community benefit expense was \$646,122. f For FY2013, health professions education realized revenues of \$12,750 and expense of \$155,171. The net community benefit expense was \$142,421. g For FY2013 subsidized health service costs attributed to \$2,034,336. Subsidized services contribution is calculated by taking total charges less deductions and operating costs. h For FY2013, there were no research costs attributed to community benefit. i For FY2013, cash and in-kind contributions realized expenses of \$209,244. Actual cash contributions of \$195,304 are included and consist of charitable contributions made to organizations in the community. j Total of lines 7e through 7i. k Total of lines 7d and 7j. Decatur Health Coalition. St Mary's Hospital partners with local providers to promote the Learn More Breathe Better campaign, in coordination with the National Heart, Lung and Blood Institute (NHLBI), to educate the community about COPD and other breathing issues, and to promote behaviors that improve health. The Decatur Health Coalition is made up of representatives from American Lung Association, Community Health Improvement Center, Decatur Memorial Hospital, Decatur Community Partnership, Heritage Behavioral Health, Macon County Health Department and St Marys Hospital and its creation was a result of our organization reaching out to the community as part of our COPD Project. The COPD Project is St Marys pursuit of better quality of life for people living with COPD. This would be done primarily through education for both the health providers and the community and through coordination of care across the continuum for better patient outcomes. The Decatur Health Coalition is responsible for organizing two major community health events each year that provides free community health education and screenings, such as genetic COPD, blood pressure, BMI, oxygen saturation, cholesterol and sleep apnea. Due to the large manufacturing industry in Macon County and the poor air quality that results from the toxic agents released, breathing issues are prevalent in our community. Research also shows a correlation between a high percentage of blue collar workers and a high rate of occurrence for COPD. St Marys has researched admissions data related to COPD and has increased education to promote improved health of community members with breathing issues. This model for COPD core measures was shared at national best-practice seminars in order to benefit other communities as well. Obesity Coalition. St Mary's staff participates on the local Obesity Prevention Coalition to help raise awareness and take action in lowering the number of Illinoisans that are considered obese. Local partners on the Macon County Obesity Prevention Coalition include Decatur Day Care, Macon County Health Department, Decatur Public School System #61, Decatur Memorial Hospital, Decatur Community Partnership, Community Health Improvement Center, and many others. The Obesity Prevention Coalition began in 2008 through a grant from the American Academy of Pediatrics to focus on the issue of childhood obesity in Macon County. Since its inception, the group has grown in members, scope and area. The mission of the OPC is to provide a collaborative county-wide network to promote healthy nutrition and physical activity, awareness through education and advocacy to prevent obesity and obesity-related conditions. Obesity has reached epidemic proportions in Illinois 33% of adults in Macon County and 20% of adults in the state. This is considerably higher than the national average of 14%. Given that obesity and overweight are primary determinants of cardiovascular diseases, cancer, respiratory diseases, and diabetes already leading causes of death in Illinois the implications of this epidemic for the health of our state are staggering. Eisenhower High School HUB Initiative. Eisenhower High School is located adjacent to the St Mary's Hospital Campus. The majority of students attending the school are low-income, minority students. The school received a HUB Grant to assist not only in renovating the school, but to help build a strong neighborhood hub. St Mary's colleagues have contributed expertise and resources by providing various health and behavioral workshop topics, such as anger management, drug use and conflict resolution. The goal of this initiative is to improve the neighborhood community by providing safe and fun evening activities, offer events that promote family involvement, and offer education on healthy habits and career choices for the children and families who live there. Lake Shore Connection. The Lake Shore Connection program is focused on individuals age 55 and over. The organization also offers participants free quarterly health screenings, discounts on monthly lunch and learn programs, and other resources to assist participants in staying productive, healthy and independent.

Identifier	ReturnReference	Explanation
PART II		Please see promotion of community health narrative in this Part VI
PART III, LINE 4		Bad debt expense of HSHS is described on pages 18 and 19 of the audited financial statements, a copy of which is attached to this return

Identifier	ReturnReference	Explanation
PART III, LINE 8		The cost report uses the same methodology of cost-to-charge ratio. However, the system used (Compu-Max Micro System) to calculate the costs will include or exclude various expenses. The common method for estimating the true economic cost of medical services is to adjust the charges through the use of cost-to-charge ratios. Cost-to-charge ratios convert charges for medical services to their true economic costs. Applying cost-to-charge ratios to medical service charges produces average estimates of true costs. The cost-to-charge ratio represents total hospital operating costs divided by total gross billed charges.
PART III, LINE 9(B)		The organization has a policy on account resolution that outlines the procedures to be followed in collecting balances on outstanding patient bills. Besides addressing the procedures and follow-up for accounts covered by insurance or governmental programs, the policy discusses situations where the patient may be eligible for financial assistance through our charity care program. If a patient is deemed eligible, reference is made to the organizations charity care policy. Even with the best intentions, patients cannot always meet their responsibility to pay for the care they receive. For a number of reasons, from the loss of a job to temporary hardships, this leaves the organization to cover the unpaid balance or even the entire bill, an expense for the organization referred to as bad debt. In the fiscal year ended June 30, 2013, bad debt expense less recoveries was \$10,770,090 million with no outside source of funding to help compensate for the expense. The cost, after applying the cost to charge ratio, was \$3,695,039 million. This is a growing problem. Bad debt accounted for 7.51% of our total costs in the fiscal year ended June 30, 2013 and constituted a significant community benefit.

Identifier	ReturnReference	Explanation
PART V		The organization does not have any healthcare facilities that are not registered as a healthcare facility under State law
Part V , Section B, Line 1		During fiscal year 2012, St Marys Hospital conducted a health needs assessment of the facilitys service area Macon County makes up the majority of the St Marys Hospital primary service area, with surrounding counties comprising much of the secondary and tertiary areas St Marys Hospital, which is affiliated with Hospital Sisters Health Systems, is one of two acute care hospitals serving this area St Marys Hospital first participated with the Macon County Health Department and other community health providers as part of the Community Health Committee for completion of the Illinois Project for Local Assessment of Needs (IPLAN) St Marys Hospital then supplemented the IPLAN data with primary data from 400 telephone surveys, conducted by Leede Research, to the primary service area

Identifier	ReturnReference	Explanation
Part V , Section B, LINE 3		Assessing the health needs of the community began with the collaboration of health professionals on the Community Health Committee, which was organized by the Macon County Health Department. This committee of 19 members was led by Brandi Binkley, Director of Health Promotion. In addition to 8 representatives from St. Mary's Hospital, members of this committee include representatives from United Way, Decatur Memorial Hospital, Macon County Mental Health Board, Decatur Housing Authority, Decatur Community Partnership, Community Health Improvement Center, Dove Retired Senior Volunteer Program, American Cancer Society, and a Parish Nurse. These community partners bring special knowledge and expertise in the areas of public health, underserved, low-income and minority populations, and chronic disease. The Community Health Plan (IPLAN) for Macon County was created as a result of this group's research. To supplement the work of the Community Health Committee, St. Mary's Hospital sought additional primary data. In November 2011, along with other hospitals in the Hospital Sisters Health System, St. Mary's Hospital contracted with Leede Research to conduct telephone interviews in each local service area. The study consisted of 400 completed telephone interviews utilizing a questionnaire designed by Leede in cooperation with hospital leadership. A proportionate stratified sample was used to provide equal input from all geographic areas. Weighting by age and income was used to more accurately represent the actual population in the area. The goal was to give the survey an accurate representation of the actual service area. Analysis showed that results from Leede survey process aligned with IPLAN data. Since the data was mutually supportive with similar findings, St. Mary's chose to utilize the primary data set for our prioritization process and implementation planning. The facility's parent organization, Hospital Systems Health Systems, has formed a Community Benefit Planning Team that has developed guidelines for consistency in community health needs assessments, implementation planning and guidelines for reporting community benefit. St. Mary's Hospital formed an internal Community Benefit Team consisting of hospital colleagues. The purpose of this group is to provide input, monitor the progress of our community benefit initiative and implementation plan, as well as assist in identifying additional opportunities for addressing the needs of the community. Since December 2009, the St. Mary's Strategic Planning Committee, comprised of hospital leadership, local physicians, community leaders and local Board Members, has been instrumental in examining the St. Mary's Ministry from every vantage point. They provide valuable input on an ongoing basis on the community's healthcare needs. The hospital's Strategic Plan is built from the work of this group, and is updated yearly based on the identified service gaps and needs of our community. Members of our community-based Strategic Planning Committee, hospital volunteers, and our Community Benefit Team were asked to participate in the prioritization process for identified health needs from the Community Health Needs Assessment. In addition, St. Mary's participation in Grow Decatur, a community-based group working toward building a healthier community, lends further perspective into the needs of the community and presents further opportunities for service collaboration among local businesses and service providers. St. Mary's Hospital Representative worked with the group to analyze and prioritize the data gleaned from the group's community assessment and will continue to participate in the improvement process. Input is continuously obtained from the patients we serve through patient satisfaction surveys. Input provided through some of these surveys was taken into consideration in the development of the hospital's master facility plan, which resulted in the major Emergency Room capital project. Part V, Section B, Line 5C The Community Health Needs Assessment was made available on the hospital website at www.stmarysdecatur.com and was distributed to and reviewed by our community-based boards.
Part V , Section B, LINE 7		While the issue of affordable housing was identified in the Community Health Needs Assessment, St. Mary's Hospital is not directly involved in addressing that issue, as this is outside our area of focus or expertise. The Decatur Housing Authority, Energy Assistance Foundation, and Community Investment Corporation of Decatur are all offices in Macon County that offer housing assistance. Part V, Line 12h Yes, the Financial Assistance Policy contains a detailed description of the Purpose, Definitions and Guidelines for financial assistance. Part V, Line 14g Yes, section I of the Financial Assistance Policy describes the Communication of the Financial Assistance Program to Patients in detail. Part V, Section B, Line 20D The hospital automatically gives a 25% uninsured discount to all of its uninsured patients. The hospital also reviews the patient's accounts to ensure they are not charged more than 25% of their annual gross income. Once the charges for a self-pay balance exceed 25% of the patient's annual gross income, the remaining balance is adjusted off to Christian Care.

Identifier	ReturnReference	Explanation
Needs Assessment		As indicated in Part V, Section B, we conducted a Community Health Needs Assessment in our FY2012. In previous years, we assessed community need through involvement on the boards of other community health providers, such as Macon County Health Department, Community Health Improvement Center, and Macon County Mental Health Board. Input from St. Marys Hospitals community-based Board of Directors and Advisory Committee, as well as patient admission data has provided, and continues to provide, valuable information regarding the health needs of our service area. The community needs assessment is available online at https://www.stmarysdecaturn.com/about/community.aspx. Patient Education for eligibility for assistance. The Registration Department provides brochures to patients upon registration regarding the payment assistance programs available to them at St. Marys Hospital. The brochures are also supplied in waiting and ancillary areas for easy access by the patient. Contact numbers for several agencies are listed in the brochure, as well as information about how to read and understand the bill. Information on payment assistance, billing procedures and explanations of Medicare forms are available on the organizations website. The organization has a representative on site to assist patients who may be eligible for Medicaid assistance through the Illinois Department of Public Assistance. They work with patients to determine if they may be eligible, and if so, assist in pulling together the necessary application for submission. Patients are also provided a Fair Billing Act Notification at the point of registration regarding separate physician billing they can expect to receive, plus information about the patients financial responsibility if their insurance plan is out of network. One on one conversation to educate patients about financial assistance often stem from patients receiving a statement or a pre-collection letter. At that point, the customer service representative or cashier, or other qualified staff, will inform/educate the caller about financial assistance options. The first pre-collection letter reminds the patient their account is in delinquent status. It also informs them they may be eligible for financial assistance through the organization's Charity Care program. The letter provides direct contact information to begin the application process for Charity Care. A system called Search America is now being utilized after failed attempts made by the hospital and by our law firm to work out payment arrangements. That system accesses credit and other information and allows us to see the probability of a patient being able to pay their bill. After assessing that information, the hospital makes a determination whether to grant charity or continue collection efforts. Community Information Community Served The population of Macon County is 110,122, based on the United States Census Bureau's Annual Estimate of Population from April 2010 to July 2012. This shows a 6% decline in population, as compared to the population from the 2010 Census reported at 110,768. The county median household income is \$44,415, with 43,604 households. 85% of households are urban and 15% rural. The income for 13.9% of the population falls below poverty level. In the 2011-2012 school year, 48.3% of children qualified for free or reduced-price lunches. Results from the hospitals CHNA showed that 14.1% of the 400 respondents were not covered by health insurance. 56.7% had coverage provided by employers, which is slightly lower than national averages. Unemployment Rate in Macon County was recorded at 11.60% in July of 2012, according to the United States Federal Reserve. The racial makeup of the county in 2011 was 78.1% White, 16.9% African American, with other races comprising the remaining 5%. 30.5% of the Macon County population is age 55 or older. Macon County's adult obesity rate, at 33%, greatly exceeds the Illinois rate of 20%, and the national rate of 14%. Macon County has 580 square miles in land area and a population density of 190.8 per square mile. The town of Decatur, which is where St. Mary's Hospital is located, is the county seat and also the largest city in Macon County. St. Mary's Hospital is one of 2 acute care hospitals serving this area. While our primary service area is not designated as a medically underserved area by the federal government, it is a mental health professional shortage area. Promotion of Community Health St. Mary's Hospital offers hope to our community in the tradition of the Hospital Sisters of St. Francis. As a healing ministry of the Catholic Church and an affiliate of the Hospital Sisters Health System (HSHS), St. Mary's is committed to delivering high quality, compassionate, and cost-effective health care services to all. The hospital was founded over 135 years ago to bring a healing presence and improve the health of our community, especially for people who are sick, poor, and disadvantaged. Because of the hospital's purpose and tradition, it is organized to promote the health of Macon County and surrounding areas. The hospital is governed by a Board of Directors, the majority of which is comprised of persons who reside in the organization's primary service area and who are neither employees nor contractors of the hospital (nor family members thereof). The Board ensures that St. Mary's Hospital is responding to community need. During 2012, for example, the Board reviewed the Community Health Needs Assessment and approved an implementation strategy for addressing selected needs. Also consistent with its exempt purpose, St. Mary's has an open medical staff with privileges available to all qualified physicians in the area. In addition, the hospital operates an emergency department that is open 24 hours/day to all persons regardless of their ability to pay. As a not-for-profit hospital, St. Mary's reinvests surplus funds into the mission of the organization and health of the community rather than distributing them as profits to shareholders or individuals. Funds not committed to ongoing operations are generally used to upgrade facilities, secure new technologies, improve patient care, and support initiatives designed to promote health and ensure access for all. For example, St. Mary's is currently working with its parent organization, Hospital Sisters Health System, to continuously enhance quality and improve coordination of care both inside the hospital and with a growing number of physician partners. Supported by investments in information technology, this "care integration" strategy is designed to better coordinate care, improve health outcomes, create new efficiencies, and help ensure that patients (especially those with chronic conditions) get well and stay well. St. Mary's also devotes significant resources to access for patients who cannot afford care, along with other community benefits. In fiscal year 2013, St. Mary's provided over \$17 million in community benefit services, including charity care at cost, unpaid costs of Medicaid and other public programs, and a range of diverse programs designed to enhance access and improve community health. The range of benefits provided by St. Mary's flows from our mission and long-standing commitment to our community. In many cases, these programs would be unlikely to exist without the leadership role played by St. Mary's, and they often relieve a burden that would otherwise be carried by government. Several of these programs and activities are designed to respond to our FY2012 Community Health Needs Assessment, which surfaced the following priority needs for attention from the hospital in collaboration with other community organizations: Access to Services Mental Health Services St. Mary's Hospital has partnered with the Macon County Mental Health Board, Community Health Improvement Center, Decatur Memorial Hospital, Heritage Behavioral Health Center, Macon County Health Department and SIU School of Medicine to create My Health Care Coordination (MHCC), in response to a state request for innovative programs to improve the health care to Medicaid residents. Through this program, care coordination teams will coordinate the health services, including transportation to appointments, for members receiving Aid to the Aged, Blind and Disabled (AABD) Medicaid benefits, at no cost to the individual. The goals of this program are - To coordinate care across continuum by identifying and spanning gaps in care - Identifying and addressing barriers to care - Assisting individuals in self-management in their chronic conditions through increasing knowledge of their condition and incorporating self-management activities into the daily living habits - By increasing attendance at primary provider appointments, reduce Emergency Room visits and hospitalizations. Any funds that are received from the program are reinvested to provide additional patient care. These funds may be requested from other
AFFILIATED HEALTH CARE SYSTEM		St. Mary's Hospital in Decatur, Illinois is an affiliate of Hospital Sisters Health System (HSHS), a health care ministry that includes 13 hospitals, scores of community-based health centers and clinics, and hundreds of physician partners across Illinois and Wisconsin. The Mission of HSHS is "to reveal and embody Christ's healing love for all people through our high quality Franciscan health care ministry." We live our Mission by providing holistic healing to all who seek our care, as well as through Community Benefit. Working collaboratively with others in the communities we serve, our Community Benefit initiatives are strategically and successfully expanding access to care, improving the health status of residents, and furthering medical education and knowledge. In FY2013, our 13 hospitals responded to needs identified in each of their Community Health Needs Assessments (CHNAs) completed in FY2012. The information gathered from these assessments was used to develop new and enhance existing Community Benefit programs and services that best addressed community needs. Included among the many priority needs identified in our CHNAs were chronic disease prevention and management, obesity, adequate food and nutrition, mental health, and access to health care services. HSHS hospitals are proactively addressing these and other needs through patient, provider and community education, preventative screenings, self-management classes, and new or enhanced clinical services. Across HSHS, we collectively provided \$185.6 million in Community Benefit (or 10.2% of total hospital expenses) in FY2013. Included in this amount was \$45.9 million provided for Financial Assistance (i.e. Charity Care) and \$104.2 million for unreimbursed care provided under the Medicaid program. In addition, HSHS hospitals committed significant resources to care for Medicare patients. The cost of providing services to primarily elderly beneficiaries of the Medicare program - in excess of governmental and managed care contract payments - was \$152.3 million. HSHS hospitals also recorded \$107.1 million in uncollectible accounts. In addition to the dollars invested in our Community Benefit programs, HSHS also continues to reinvest any surplus revenue from operations and investments into new medical technology, facility infrastructure and health care services in our communities. By doing so, we ensure we are able to meet the ongoing demand for high quality, efficient and easily accessible health care. Recognizing that the health care delivery model in the United States is evolving, HSHS remains focused on implementing our Care Integration strategy. Care Integration coordinates the delivery of care around the needs of each patient. During FY2013, we made significant progress with this strategy as we further implemented interoperable health information technologies, expanded the number of Medical Homes, and strengthened our alignment with physicians. Greater access to care As a Franciscan health care ministry, HSHS is deeply committed to serving those who are most in need. We not only provide care to every patient who walks through our doors, but also reach out beyond the walls of our hospitals and clinics to care for those in our communities. Our efforts to ensure residents in the communities we serve receive the right care at the right time in the right setting often involve partnering with others to achieve this goal. Across our two-state System, there are numerous examples of HSHS collaborating with other organizations to enhance access to care for those in need. From 2006 to 2009, the United States saw a 16% increase in individuals seeking dental care at hospital emergency rooms. With the support of St. Mary's Hospital Medical Center and St. Vincent Hospital in Green Bay, Wisconsin, the NEW Dental Clinic on the campus of Northeast Wisconsin Technical College expanded in FY2013 and was able to accommodate up to 6,000 visits. The clinic provides dental services to low-income and uninsured persons including the homeless in Brown County. St. Francis Hospital in Litchfield, Illinois partnered with Lewis & Clark Community College to bring their mobile health unit to the Litchfield area, the unit provides dental exams and screenings, x-rays and dental hygiene to those in need. In western Wisconsin, St. Joseph's Hospital in Chippewa Falls works closely with the Chippewa Health Improvement Partnership (CHIP) to support the Open Door Clinic. The free medical clinic provides health care for those without insurance coverage. This past year, the clinic received a total of 2,672 patient visits, an 11% increase from the prior year. With more than 166 individuals volunteering, the clinic provided more than 6,751 hours (including 753 provider hours and 675 nursing hours) of service to individuals. The Open Door Clinic is an example of HSHS providing leadership and support to a community-based program designed to meet the needs of those less fortunate. In southeast Illinois, area residents can get help filling a prescription through the long-term collaboration between St. Anthony's Memorial Hospital in Effingham and Catholic Charities. Last year, St. Anthony's helped underwrite the cost of prescription medications for more than 280 residents. In southwest Illinois, St. Joseph's Hospital in Highland enhanced their offerings to their senior population based on their CHNA. "Senior Renewal" is an outpatient counseling program for senior adults who may be facing emotional and physical problems unique to the aging process such as feelings of loneliness, isolation and anxiety. Clients receive an intensive level of treatment without inpatient hospitalization through counseling strategies and education. In addition, in collaboration with the Illinois Department of Insurance, St. Joseph's Hospital participates in the Senior Health Insurance Program (SHIP), a free health insurance counseling service for Medicare beneficiaries and their caregivers. In addition to programs such as these, HSHS makes sure that those who need financial assistance for care receive it. Our Financial Assistance (i.e. Charity Care) program covers 100% of hospital charges for individuals and families who earn less than 200% of the federal poverty level. HSHS Financial Assistance programs have a sliding scale, in some instances providing up to a 60% discount on charges for those earning up to 600% of the federal poverty level. Counselors are available in our hospitals to explain our financial assistance policies to patients, provide them with assistance in filling out a simple application form, or help them enroll in publicly funded health care programs. Better community health As part of our Mission to embody Christ's healing love, we understand that we have a responsibility to improve the overall quality of life in our communities by supporting initiatives that promote health and wellness. We recognize we are most successful when we work together with a wide array of public and private organizations that share our commitment to improving lives. By doing so, we maximize our efforts and reduce the duplication of services. HSHS hospitals also understand we need to listen closely to the residents of the communities we serve to ensure the health care needs of all are being met. To that end, each of our 13 hospitals completed Community Health Needs Assessments (CHNA) during FY2012. The information gathered from these assessments is being used to help us develop new, and enhance existing, programs and services that best address the needs of the community. Among the many priority needs identified from the CHNAs include metabolic and cardiovascular disease management, adequate food and nutrition, and mental health. HSHS hospitals are addressing these and other needs by proactively offering educational opportunities, preventative screenings, and new or enhanced clinical services. In partnership with the Sangamon County Health Department (SCHD) and local farmers, St. John's Hospital in Springfield, Illinois took a lead role in bringing a Farmers Market to the east side of Springfield. The East Side Farmers Market addresses three community needs: childhood obesity, childhood poverty (26% of children in Sangamon County live in poverty vs. 18% in the state) and providing fresh produce to persons living in a known "food desert." WIC Cooking Classes are also offered in tandem with the East Side Farmers Market to teach participants how to prepare fresh produce. The Farmers Market and cooking classes are hosted at the SCHD. St. Mary's Hospital in Streator, Illinois teamed up with the Streator YMCA to offer a 12-week weight loss program - Healthy You - to motivate 282 participants (nearly double the participants from last year) to lose weight and maintain a healthy lifestyle. The program included aerobics classes, cooking classes, and a maintenance program to encourage participants to weigh in monthly. A total of 191 participants completed the

Identifier	ReturnReference	Explanation
STATE FILING OF COMMUNITY BENEFIT REPORT	990 SCHEDULE H, PART VI	IL,

Schedule J
(Form 990)

Compensation Information

OMB No 1545-0047

2012

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
ST MARY'S HOSPITAL DECATUR OF THE HOSPITAL SISTERS OF THE THIRD ORDER OF ST FRANCIS

Employer identification number

37-0661244

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 ☐ First-class or charter travel ☐ Travel for companions ☒ Tax idemnification and gross-up payments ☐ Discretionary spending account ☐ Housing allowance or residence for personal use ☐ Payments for business use of personal residence ☐ Health or social club dues or initiation fees ☐ Personal services (e g , maid, chauffeur, chef)		
1b 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 of the expenses described above? If "No," complete Part III to explain		
2 Did the organization require substantiation prior to reimbursing or allowing expenses incurred by all officers, directors, trustees, and the CEO/Executive Director, regarding the items checked in line 1a?		
3 Indicate which, if any, of the following the filing organization used to establish the compensation of the organization's CEO/Executive Director Check all that apply Do not check any boxes for methods used by a related organization to establish compensation of the CEO/Executive Director, but explain in Part III ☒ Compensation committee ☒ Independent compensation consultant ☒ Form 990 of other organizations ☒ Written employment contract ☒ Compensation survey or study ☒ Approval by the board or compensation committee		
4 During the year, did any person listed in Form 990, Part VII, Section A, line 1a with respect to the filing organization or a related organization		
4a Receive a severance payment or change-of-control payment?		No
4b Participate in, or receive payment from, a supplemental nonqualified retirement plan?	Yes	
4c Participate in, or receive payment from, an equity-based compensation arrangement? If "Yes" to any of lines 4a-c, list the persons and provide the applicable amounts for each item in Part III		No
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		
5a The organization?		No
5b Any related organization? If "Yes," to line 5a or 5b, describe in Part III		No
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		
6a The organization?		No
6b Any related organization? If "Yes," to line 6a or 6b, describe in Part III		No
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		No
8 Were any amounts reported in Form 990, Part VII, paid or accrued pursuant to a contract that was subject to the initial contract exception described in Regulations section 53 4958-4(a)(3)? If "Yes," describe in Part III		No
9 If "Yes" to line 8, did the organization also follow the rebuttable presumption procedure described in Regulations section 53 4958-6(c)?		

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

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

Note. The sum of columns (B)(i)-(iii) for each listed individual must equal the total amount of Form 990, Part VII, Section A, line 1a, applicable column (D) and (E) amounts for that individual.

(A) Name and Title		(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 as deferred in prior Form 990
		(i) Base compensation	(ii) Bonus & incentive compensation	(iii) Other reportable compensation				
See Additional Data Table								

Part III Supplemental Information

Complete this part to provide the information, explanation, or descriptions required for Part I, lines 1a, 1b, 3, 4a, 4b, 4c, 5a, 5b, 6a, 6b, 7, and 8, and for Part II. Also complete this part for any additional information.

Identifier	Return Reference	Explanation
TAX INDEMNIFICATION AND GROSS-UP PAYMENTS	SCHEDULE J, PART I, LINE 1A	TAX GROSS-UPS WERE PAID BY HSHS TO ANN CARR FOR \$11 DURING THE YEAR. THE FAIR VALUE OF THIS WAS INCLUDED IN HER ANNUAL REPORTED INCOME. ANN M. CARR SCHEDULE J, PART I, LINE 4B. ANN M. CARR PARTICIPATED IN A SERP PLAN DURING THE YEAR IN THE AMOUNT OF \$42,817.
MIKE COTTRELL	SCHEDULE J, PART I, LINE 4B	MIKE COTTRELL PARTICIPATED IN A SERP PLAN DURING THE YEAR IN THE AMOUNT OF \$10,061.
KEVIN KAST	SCHEDULE J, PART I, LINE 4B	KEVIN KAST PARTICIPATED IN A SERP PLAN DURING THE YEAR IN THE AMOUNT OF \$138,408.
DEFINED BENEFIT PLAN	SCHEDULE J, PART II	THE ACTUARY COMPUTES THE DEFINED BENEFIT AMOUNT FOR ALL OF THE DISCLOSURES. THE REDUCTION DIRECTLY RELATES TO THE IMPROVEMENT IN THE DISCOUNT RATE.

Software ID:

Software Version:

EIN: 37-0661244

Name: ST MARY'S HOSPITAL DECATUR OF THE HOSPITAL
SISTERS OF THE THIRD ORDER OF ST FRANCIS

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

(A) Name		(B) Breakdown of W-2 and/or 1099-MISC compensation			(C) Deferred compensation	(D) Nontaxable benefits	(E) Total of columns (B)(i)-(D)	(F) Compensation reported in prior Form 990 or Form 990-EZ
		(i) Base Compensation	(ii) Bonus & incentive compensation	(iii) Other compensation				
KEVIN KAST	(i)	0	0	0	0	0	0	0
	(ii)	378,897	55,273	151,024	90,300	24,621	700,115	112,204
MIKE COTTRELL	(i)	0	0	0	0	0	0	0
	(ii)	492,349	91,403	36,443	92,874	28,117	741,186	0
THERESA J RUTHERFORD	(i)	199,276	17,564	0	24,541	14,833	256,214	0
	(ii)	0	0	0	0	0	0	0
ANN M CARR	(i)	0	0	0	0	0	0	0
	(ii)	193,454	29,440	49,252	121,170	17,686	411,002	18,215
REBECCA COLKER	(i)	252,162	29,808	0	29,791	15,253	327,014	0
	(ii)	0	0	0	0	0	0	0
MARY HARTMAN	(i)	241,584	2,392	0	27,917	16,340	288,233	0
	(ii)	0	0	0	0	0	0	0
SHEILA HOLLINDEN	(i)	202,284	2,058	0	78,574	8,356	291,272	0
	(ii)	0	0	0	0	0	0	0
BETH MCCOY	(i)	208,128	2,155	0	-4,585	24,697	230,395	0
	(ii)	0	0	0	0	0	0	0
ROBERTA MCBRIDE	(i)	214,985	2,176	0	-18,885	14,780	213,056	0
	(ii)	0	0	0	0	0	0	0
SARAH STAMBAUGH	(i)	202,307	2,116	146	6,292	21,285	232,146	0
	(ii)	0	0	0	0	0	0	0
MARIA GRANZOTTI	(i)	323,957	9,100	0	18,245	8,214	359,516	0
	(ii)	0	0	0	0	0	0	0

Schedule L
(Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

Transactions with Interested Persons

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

OMB No 1545-0047

2012

Open to Public Inspection

Name of the organization ST MARY'S HOSPITAL DECATUR OF THE HOSPITAL SISTERS OF THE THIRD ORDER OF ST FRANCIS	Employer identification number 37-0661244
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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) Relationship between disqualified person and organization	(c) Description of transaction	(d) Corrected?	
				Yes	No

2 Enter the amount of tax incurred by 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-EZ, Part V, line 38a, or Form 990, Part IV, line 26, or if the organization reported an amount on Form 990, Part X, line 5, 6, or 22

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

Part III Grants or Assistance Benefitting Interested Persons.

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

(a) Name of interested person	(b) Relationship between interested person and the organization	(c) Amount of assistance	(d) Type of assistance	(e) Purpose of assistance

Part IV Business Transactions Involving Interested Persons.

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

(a) Name of interested person	(b) Relationship between interested person and the organization	(c) Amount of transaction	(d) Description of transaction	(e) Sharing of organization's revenues?	
				Yes	No
(1) Bolen Robinson Ellis	Board Member	448,736	legal services		No
(2) KMB SC	Board Member	106,167	Lab services		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
BUSINESS TRANSACTIONS INVOLVING INTERESTED PERSONS	FORM 990 SCHEDULE L, PART IV	BOARD MEMBER, JON ROBINSON, IS A 50% PARTNER IN THE BOLEN, ROBINSON LAW FIRM THE FIRM PROVIDES LEGAL SERVICES TO THE ORGANIZATION AND ALL SERVICES WERE CONSIDERED TO BE ARMS-LENGTH TRANSACTIONS
FORM 990 SCHEDULE L, PART IV		BOARD MEMBER, ALAN FRIGY, MD, IS A 33 3% PARTNER IN KMB, S C WHICH PROVIDES LAB SERVICES TO THE ORGANIZATION ALL TRANSACTIONS ARE CONSIDERED TO BE AT ARMS-LENGTH

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

2012

Open to Public Inspection

Name of the organization ST MARY'S HOSPITAL DECATUR OF THE HOSPITAL SISTERS OF THE THIRD ORDER OF ST FRANCIS	Employer identification number 37-0661244
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Identifier	Return Reference	Explanation
STATEMENT OF PROGRAM SERVICE ACCOMPLISHMENTS		ST MARY'S HOSPITAL PROVIDES QUALITY MEDICAL HEALTHCARE REGARDLESS OF RACE, CREED, SEX NATIONAL ORIGIN, HANDICAP, AGE, OR ABILITY TO PAY ALTHOUGH REIMBURSEMENT FOR SERVICES RENDERED IS CRITICAL TO THE OPERATION AND STABILITY OF ST MARY'S HOSPITAL, IT IS RECONGNIZED THAT NOT ALL INDIVIDUALS POSSESS THE ABILITY TO PURCHASE NECESSARY MEDICAL SERVICES INHERENT TO OUR MISSION, WE PROVIDE CARE TO THE POOR, THE ELDERLY, AND THE NEEDY OF THE COMMUNITY THROUGH VARIOUS PROGRAMS AND SERVICES THESE ACTIVITIES INCLUDE COMMUNITY EDUCATION PROGRAMS, WELLNESS PROGRAMS, AND SPECIAL PROGRAMS FOR THE ELDERLY, HANDICAPPED, MEDICALLY UNDERSERVED, AND A VARIETY OF BROAD COMMUNITY SUPPORT ACTIVITIES DURING FISCAL YEAR 2013, ST MARY'S HOSPITAL PROVIDED 44,005 ADULT AND PEDIATRIC DAYS OF CARE AND 160,934 OUTPATIENT REGISTRATIONS DURING THE SAME TIME PERIOD ST MARY'S HOSPITAL PROVIDES BOTH BENEFITS TO THE POOR AND TO THE BROADER COMMUNITY BENEFITS TO THE POOR ARE PROVIDED ON THE FORM OF TRADITIONAL CHARITY CARE FOR THOSE WHO CANNOT AFFORD TO PAY, UNPAID COSTS OF PUBLIC PROGRAMS SUCH AS MEDICAID AND GENERAL RELIEF, NONBILLED SERVICES FOR THE POOR AND MANY IN-KIND DONATIONS THE TOTAL VALUES OF THESE UNREIMBURSED BENEFITS FOR THE POOR WERE \$16,870,386 IN FISCAL YEAR 2013 ST MARY'S HOSPITAL PROVIDES NUMEROUS BENEFITS TO THE BROADER COMMUNITY THIS IS CARRIED OUT THROUGH OUR PARTICIPATION IN THE MEDICARE PROGRAM, PROVIDING MANY PROGRAMS AND SERVICES FREE OR AT A REDUCED PRICE, AND PROVIDING SERVICES THAT BENEFIT THE COMMUNITY BUT HAVE A NEGATIVE MARGIN TOTALED \$14,581,359 DURING FISCAL YEAR 2013 ALL OTHER NONBILLED SERVICES PROVIDED TO THE COMMUNITY AND SERVICES PROVIDED AT LOW OR NEGATIVE MARGINS TOTALED \$1,107,611 FOR THE YEAR ENDED 6/30/2013 BELOW ARE SPECIFIC EXAMPLES OF SERVICES INCLUDED IN THE ABOVE FIGURES THROUGH THE OPERATION OF ITS PRENATAL CLINIC, THE HOSPITAL PROVIDES BOTH PRE AND POST NATAL CARE TO THE POOR THE HOSPITAL ROUTINELY DONATES FOOD TO LOCAL FOOD PANTRIES OBSOLETE EQUIPMENT IS ALSO OCCASIONALLY DONATED TO LOCAL AGENCIES PROVIDE TRAINING TO THE LOCAL PARAMEDICS, FIRST RESPONDER GROUPS, AND FIRE DEPARTMENTS IN ADDITIONAL, AREA ORGANIZATIONS RECEIVE CPR TRAINING THROUGH THE HOSPITAL'S EMS DEPARTMENT the HOSPITAL PARTICIPATES IN THE SECONDARY TRANSITIONAL EXPERIENCE PROGRAM BY PROVIDING EMPLOYMENT OPPORTUNITIES TO HANDICAPPED STUDENTS PASTORAL CARE AND SOCIAL SERVICE DEPARTMENTS PROVIDE ASSISTANCE FOR PATIENT AND FAMILY NEEDS PROVIDED LIFELINE VOICE COMMUNICATORS TO ELDERLY PATIENTS WITH SPECIAL NEEDS EMPLOYEES SERVE AS SPEAKERS AT HEALTH FAIRS, SCHOOLS, AND A VARIETY OF AREA ORGANIZATIONS ASSIST THE UNITED WAY CAMPAIGN BY HAVING STAFF MEMBERS ORGANIZE THE HOSPITAL'S ANNUAL FUND DRIVE PROVIDE A VARIETY OF HEALTH SCREENINGS TO THE PUBLIC IN DIFFERENT LOCATIONS THROUGHOUT THE COMMUNITY TAX EXEMPT BONDS FORM 990, PART IV, QUESTION 24 St Mary's Decatur HOLDS A LIABILITY ON ITS BOOKS FOR TAX-EXEMPT BONDS, WHICH IS AN ALLOCATION FROM ITS SOLE CORPORATE MEMBER, HOSPITAL SISTERS SERVICES, INC AS A RESULT, THIS QUESTION WAS ANSWERED NO, AND SCHEDULE K WILL BE COMPLETED ON THE HOSPITAL SISTERS SERVICES, INC FORM 990 Delegation of management Form 990, Part VI, Line 3 St Mary's Hospital outsources management of the Rehab department to better facilitate the health needs of its patients In doing so, St Mary's hospital is able to focus its efforts in other areas, improving the already exceptional quality provided in those areas

Identifier	Return Reference	Explanation
RIGHTS OF MEMBERS TO ELECT GOVERNING BODY	FORM 990, PART VI, LINES 6 & 7A	THE SENIOR GOVERNING BODY OF ST Mary's HOSPITAL (THE "CORPORATION") IS THE MEMBER OF THE CORPORATION, WHICH IS HOSPITAL SISTERS SERVICES, INC ("HSSI"), AN ILLINOIS NOT FOR PROFIT CORPORATION EXEMPT FROM FEDERAL TAXATION UNDER SECTION 501(C)(3) OF THE INTERNAL REVENUE CODE. PURSUANT TO SECTION 2.3 OF THE CORPORATION'S BYLAWS, HSSI HAS THE RIGHT TO APPOINT AND REMOVE THE CORPORATION'S BOARD OF DIRECTORS, CHAIRPERSON OF THE BOARD AND PRESIDENT.

Identifier	Return Reference	Explanation
MEMBER RESERVED POWERS	FORM 990, PART VI, LINE 7B	Responsibility for the policy and operations of St Mary's Hospital (the "Corporation") is vested in its Board of Directors, except with respect to specific powers reserved in the Corporation's Bylaws to the Corporation's Member, Hospital Sisters Services, Inc ("HSSI"), an Illinois not for profit corporation exempt from federal taxation under Section 501(c)(3) of the Internal Revenue Code The member of HSSI is Hospital Sisters Health System ("HSHS"), an Illinois not for profit corporation exempt from federal taxation under Section 501(c)(3) of the Internal Revenue Code The members of HSHS are the individual sisters who, from time to time, are the duly elected Provincial Superior and Provincial Councilors, respectively of the American Province of the Hospital Sisters of St Francis ("American Province") The American Province is the United States organization of the Congregation of the Hospital Sisters of the Third Order Regular of St Francis, a religious institute of the Roman Catholic Church The governance and operations of the Corporation are subject to HSSI's right to exercise these reserved powers with respect to the Corporation and organizations of which the Corporation is either, directly or indirectly, a controlling member or a controlling shareholder ("Affiliates") HSSI's right to exercise certain of these reserved powers is, in turn, subject to the approval of HSHS and HSHS' members The reserved powers include all rights granted to HSSI by law and the right to (a) Adopt, approve amendments to, or amend any statement of philosophy, mission, mission integration or values, or any name, logo, or mark of the Corporation or of any Affiliate, (b) Adopt, approve amendments to, or amend the Articles of Incorporation of the Corporation or of any Affiliate, (c) Adopt, approve amendments to, or amend the Bylaws of the Corporation or of any Affiliate, (d) Appoint and remove the Board of Directors, any one or more of the Directors of the Corporation or of any Affiliate, and the Chairperson and President of the Corporation or of any Affiliate, (e) Approve the recommendation of the Board of Directors to appoint or remove the Board of Directors, any one or more Directors of the Corporation or of any Affiliate, or the Chairperson and President of the Corporation or of any Affiliate (f) With respect to the Corporation or any Affiliate, approve the purchase, sale, alienation, exchange, lease, or encumbrance of any real property of the Corporation or of any Affiliate, which property has a value in excess of limits set from time to time by HSSI, (g) Approve the operating and capital budgets of the Corporation or of any Affiliate, and any deviations by the Corporation or of any Affiliate from such budgets in an amount or percentage specified by HSSI from time to time, (h) Approve the strategic plan and goals of the Corporation or of any Affiliate, (i) Approve the sale of substantially all of the assets of the Corporation or of any Affiliate, (j) Approve the merger or dissolution of the Corporation or of any Affiliate, (k) Adopt or amend the plan for ministry education and governance for the Corporation and its Affiliates, (l) Approve the Corporation's Mission Accountability Reports and those of any Affiliate, (m) Approve the financial policies and procedures of the Corporation or of any Affiliate, and approve any deviations from such policies and procedures by the Corporation or any Affiliate, and (n) Adopt policies to implement the Reserved Powers of HSSI

Identifier	Return Reference	Explanation
FORM 990 REVIEW PROCESS	FORM 990, PART VI, LINE 11B	The hospital employs KPMG to assist in the overall review and electronic submission of its Form 990. KPMG provides guidance in identifying critical errors in the return submission, and feedback on quantitative and qualitative responses. Additionally, the hospital CFO performs a thorough review of the return and reviews it with the hospital CEO and/or senior leaders before presenting it in its entirety to the hospital Board for questioning and review prior to the return's signing and submission to the IRS.

Identifier	Return Reference	Explanation
CONFLICT OF INTEREST POLICY	FORM 990, PART VI, LINE 12C	The organization is subject to the corporate compliance program and conflict of interest p olicy ("policy") of Hospital Sisters Health System, an Illinois not for profit corporation exempt from federal taxation under section 501(c)(3) of the internal revenue code. A REVISED CORPORATE COMPLIANCE PROGRAM AND CONFLICT OF INTEREST POLICY HAVE BEEN IMPLEMENTED SINCE JANUARY, 2009 TO MANAGE CONFLICTS OF INTEREST USING A SYSTEM-WIDE PROTOCOL FOR DISCLOSURE STATEMENTS. IN ACCORDANCE WITH the organization's CONFLICT OF INTEREST POLICY, ALL COVERED PERSONS HAVE A DUTY TO COMPLY WITH THE CONFLICT OF INTEREST POLICY FOR ANY CONTRACT, TRANSACTION, RELATIONSHIP, OR ACTIVITY CONTEMPLATED, ENTERED INTO, OR CONDUCTED AT HSHS OR ITS AFFILIATES. THE POLICY DEFINES COVERED PERSONS AS BOARD MEMBERS, BOARD COMMITTEE MEMBERS, OFFICERS, BOARD DESIGNEES, SENIOR MANAGEMENT, MEMBERS OF ANY COMMITTEE THAT OVERSEES THE APPROVAL OF PHARMACEUTICALS AND MEDICAL DEVICES, and ANY OTHER INDIVIDUAL WHO HOLDS A POSITION OF TRUST. ON AN ANNUAL BASIS, HSHS DISCLOSES A COPY OF THE CONFLICT OF INTEREST POLICY (AND ALL CORRESPONDING PROCEDURES, GUIDELINES, FORMS, AND TOOLS) TO ALL COVERED PERSONS, AND ADVISES ALL COVERED PERSONS IN WRITING OF ANY SUBSTANTIVE CHANGES TO THIS POLICY AND SUCH RELATED MATERIALS. COVERED PERSONS ARE REQUIRED TO REVIEW AND COMPLETE THE CORRESPONDING CONFLICT OF INTEREST STATEMENT. THE SYSTEM OFFICE VICE PRESIDENT - SYSTEM RESPONSIBILITY, VICE PRESIDENT - RISK & COMPLIANCE, OR MEMBERS OF THE AUDIT AND INTEGRITY COMMITTEE ("COMMITTEE") ARE AVAILABLE TO ANSWER ANY QUESTIONS A COVERED PERSON MAY HAVE. IN ADDITION, IF AT ANY TIME AFTER SUBMITTING AN ANNUAL CONFLICT OF INTEREST STATEMENT, A COVERED PERSON BECOMES AWARE OF AN INTEREST THAT HE OR SHE WOULD HAVE HAD TO DISCLOSE AT THE ANNUAL INTERVAL, THE COVERED PERSON IS REQUIRED PROMPTLY TO DISCLOSE THE INTEREST TO THE COMMITTEE USING THE HSHS CONFLICT OF INTEREST DISCLOSURE STATEMENT. COMPLETED CONFLICT OF INTEREST STATEMENTS ARE SUBMITTED TO THE COMMITTEE, WHICH IS RESPONSIBLE FOR IDENTIFYING, ASSESSING, AND MANAGING CONFLICTS OF INTEREST THAT ARISE IN THE COURSE OF CONDUCTING THE AFFAIRS OF HSHS AND ITS AFFILIATES. IF THE COMMITTEE DETERMINES THAT A CONFLICT OF INTEREST EXISTS, THE CONFLICT OF INTEREST POLICY REQUIRES HSHS NOT TO ENGAGE IN, OR ENTER INTO, A PROPOSED CONTRACT, TRANSACTION, RELATIONSHIP, ARRANGEMENT, OR ACTIVITY UNLESS THE COMMITTEE OR, WHERE NECESSARY, THE BOARD OF DIRECTORS (ACTING THROUGH ITS DISINTERESTED MEMBERS), HAS INVESTIGATED ALTERNATIVES TO THE PROPOSED CONTRACT, TRANSACTION, RELATIONSHIP, ARRANGEMENT, OR ACTIVITY AND, IN THE ABSENCE OF ALTERNATIVES THAT ARE IN THE BEST INTERESTS OF HSHS, HAS DETERMINED 1 THAT, REGARDLESS OF WHETHER THE COVERED PERSON PARTICIPATES IN THE IMPLEMENTATION OF THE PROPOSED CONTRACT, TRANSACTION, RELATIONSHIP, ARRANGEMENT, OR ACTIVITY, 2 THE CONTRACT, TRANSACTION, ARRANGEMENT, OR ACTIVITY IS IN THE BEST INTERESTS OF HSHS, 3 THE CONTRACT, TRANSACTION, ARRANGEMENT, OR ACTIVITY IS FAIR AND REASONABLE FROM THE PERSPECTIVE OF HSHS, AND 4 HSHS CANNOT OBTAIN A MORE ADVANTAGEOUS CONTRACT, TRANSACTION, ARRANGEMENT, OR ACTIVITY WITH REASONABLE EFFORTS UNDER THE CIRCUMSTANCES. IN DETERMINING WHETHER A CONTRACT, TRANSACTION, OR ARRANGEMENT IS FAIR AND REASONABLE TO HSHS, THE COMMITTEE SHALL CONSIDER, WHERE APPLICABLE 1 APPRAISALS OR OTHER INDEPENDENT VALUATIONS OF THE FAIR MARKET VALUE OF THE CONTRACT, TRANSACTION, OR ARRANGEMENT, 2 INFORMATION REGARDING COMPARABLE CONTRACTS, TRANSACTIONS, OR ARRANGEMENTS BETWEEN UNRELATED PARTIES, 3 OFFERS FROM COMPARABLE COMPETING ENTITIES, AND/OR 4 STUDIES OF COMPARABLE COMPENSATION ARRANGEMENTS. IN ANY CASE IN WHICH THE COMMITTEE FINDS, AFTER TAKING THE STEPS DESCRIBED ABOVE, THAT HSHS SHOULD PARTICIPATE IN A PROPOSED TRANSACTION OR ARRANGEMENT DESPITE THE EXISTENCE OF A CONFLICT OF INTEREST, THE COMMITTEE SHALL DEVELOP, IMPLEMENT, MONITOR, AND ENFORCE COMPLIANCE WITH, A CONFLICT MANAGEMENT PLAN FOR MANAGING THE CONFLICT OF INTEREST AS IT CONSIDERS NECESSARY FOR SUCH FINDINGS TO REMAIN VALID THROUGHOUT THE LIFE OF THE CONTRACT, TRANSACTION, RELATIONSHIP, ARRANGEMENT, OR ACTIVITY. ALL CONFLICT MANAGEMENT PLANS SHALL 1 STATE THAT THE COMMITTEE WILL OVERSEE, MONITOR, AND ENFORCE COMPLIANCE WITH THE PLAN THROUGHOUT THE COURSE OF THE STUDY, AND SPECIFY MEANS FOR DOING SO, INCLUDING, WITHOUT LIMITATION, THAT THE APPROPRIATE INDIVIDUALS MUST PROVIDE THE COMMITTEE WITH WRITTEN REPORTS PERTAINING TO COMPLIANCE WITH THE CONFLICT MANAGEMENT PLAN, THAT THE COMMITTEE SHALL HAVE THE RIGHT TO AUDIT THE STUDY FOR SUCH COMPLIANCE, AND THE RIGHT TO IMPOSE SANCTIONS FOR NON-COMPLIANCE, 2 STATE THAT THE PLAN MUST BE SHARED WITH COVERED PERSON WHOSE INTERESTS IT WAS DEVELOPED TO MANAGE, 3 STATE THAT THE PLAN MUST BE SHARED WITH, AND PERIODIC REPORTS ON COMPLIANCE WITH THE PLAN MUST BE PROVIDED TO, THE BOARD, SENIOR MANAGEMENT, AND/OR GOVERNMENT AGENCIES, AND 4 PROVIDE FOR SUCH OTHER MANAGEMENT STEPS AND

Identifier	Return Reference	Explanation
CONFLICT OF INTEREST POLICY	FORM 990, PART VI, LINE 12C	MECHANISMS THE COMMITTEE CONSIDERS NECESSARY AND APPROPRIATE. IN ADDITION TO THE COMMITTEE, THE SYSTEM OFFICE VICE PRESIDENTS OF SYSTEM RESPONSIBILITY AND RISK & COMPLIANCE MAY RETAIN SUCH INDEPENDENT ADVISORS OR EXPERTS AS DEEMED NECESSARY TO ASSIST IN MAKING ITS DETERMINATIONS AND DECISIONS. IF THE COMMITTEE DETERMINES THAT THE CONTEMPLATED TRANSACTION, RELATIONSHIP, ARRANGEMENT, OR ACTIVITY CANNOT PROCEED DUE TO A CONFLICT OF INTEREST, THE COMMITTEE SHALL INFORM THE APPLICABLE COVERED PERSON OR DECISION-MAKING BODY OF SUCH DETERMINATION WITHIN ONE WEEK OF THE COMMITTEE MEETING AT WHICH THE CONTEMPLATED TRANSACTION WAS DISCUSSED. THE COMMITTEE SHALL DOCUMENT ITS REJECTION OF THE CONTEMPLATED TRANSACTION IN THE COMMITTEE'S MEETING MINUTES.

Identifier	Return Reference	Explanation
WHISTLEBLOWER POLICY	FORM 990, PART VI, LINE 13	Provisions within the Corporate Compliance Program and Conflict of Interest Policy provide protections for whistleblower type activities

Identifier	Return Reference	Explanation
COMPENSATION PROCESS	FORM 990, PART VI, LINE 15	The Compensation Committee ("Committee") is comprised of independent members of the Board of Directors. The Committee develops a compensation philosophy for the System and all affiliates. The Committee selects and hires the independent compensation consultant to develop comparability data and advise the Committee during its deliberations regarding all elements of total compensation for all disqualified individuals. Integrated Healthcare Strategies ("IHS"), the consultants utilized by the Committee, use data from multiple tax-exempt peer group sources to determine salary ranges, incentive opportunity ranges, and benefits for the disqualified individuals. IHS then assists the Committee in preparing contemporaneous documentation of all actions. Each Committee meeting is conducted with the intent to create a rebuttable presumption of reasonableness for all elements of executive total compensation for the disqualified individuals. The Chairman makes this declaration and also inquires if there are any conflicts of interest by any attendees. Any conflicts are disclosed and the Committee then acts in a manner to avoid any conflicted individual participating in any manner where a conflict might exist. At the end of the meeting, the Committee prepares contemporaneous minutes that record all actions taken during the meeting. Joint Ventures Form 990, Part VI, Line 16B HOSPITAL SISTERS HEALTH SYSTEM ADOPTED A JOINT VENTURE COMPLIANCE PROGRAM POLICY EFFECTIVE ON JANUARY 1, 2012 FOR ALL SYSTEM HOSPITALS, INCLUDING ST. MARY'S HOSPITAL. THE OVERALL PURPOSE OF THE POLICY IS TO PROVIDE PRACTICAL GUIDELINES FOR ETHICAL BUSINESS CONDUCT, TO ACHIEVE COMPLIANCE, AND TO DETECT AND PREVENT VIOLATIONS OF APPLICABLE LAWS. THE POLICY REQUIRES ST. MARY'S HOSPITAL, AND ALL HSHS HOSPITALS, TO EVALUATE THEIR PARTICIPATION IN JOINT VENTURE ARRANGEMENTS, INCLUDING UNDER APPLICABLE FEDERAL TAX LAWS, AND TO SAFEGUARD ST. MARY'S HOSPITAL'S TAX EXEMPT STATUS WITH RESPECT TO ANY JOINT VENTURE ARRANGEMENTS.

Identifier	Return Reference	Explanation
DOCUMENTS AVAILABLE TO THE PUBLIC	FORM 990, PART VI, LINE 19	Board-approved financial statements are made available to the public upon request. The governing documents and conflict of interest policy are not made available to the general public at this time.

Identifier	Return Reference	Explanation
POOLED INVESTMENT ACCOUNT	FORM 990, PART X, LINE 11	St. Mary's Hospital's cash reserves are invested in a pooled investment account. Participation in the pooled fund is limited to the 501(C)(3) Hospitals and related health services organizations sponsored by the Hospital Sisters Health System. The pooled account consists of cash, and equity and debt securities that are publicly traded. In accordance with the provisions of SFAS No. 124 "Accounting for certain investments held by Not-For-Profit Organizations," investments in equity securities with readily determinable values, and all investments in debt securities, are reported at fair value on the Balance Sheet. Income, realized and unrealized gains and losses are pooled and allocated to the participants. Individual components of assets and revenue are not identified to the participants.

Identifier	Return Reference	Explanation
other changes in net assets	Form 990, Part XI, Line 9	transfer to affiliates (4,926,341) change in pension funded status 10,720,468 change in fair value of interest rate sw aps 3,408,823 sw ap payments (420,160) loss on early extinguishment of debt (368,210) change in temorarily restricted assets 470,866 ----- total 8,885,446 =====

SCHEDULE R
(Form 990)

Department of the Treasury
Internal Revenue Service

Related Organizations and Unrelated Partnerships

▶ Complete if the organization answered "Yes" to Form 990, Part IV, line 33, 34, 35, 36, or 37.
▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

2012

Open to Public Inspection

Name of the organization
ST MARY'S HOSPITAL DECATUR OF THE HOSPITAL
SISTERS OF THE THIRD ORDER OF ST FRANCIS

Employer identification number

37-0661244

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

(a) Name, address, and EIN (if applicable) 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
(1) Springfield Health Partners LLC 4936 Laverna Road springfield, IL 62707 37-1364419	healthcare	IL	0	0	hshs mg
(2) Kiara Clinical Integration Network LLC 4936 Laverna Rd springfield, IL 62707 26-1417684	healthcare	IL	0	0	HSSI
(3) PHYSICIAN CLINICAL INTERGRATION NETWORK 4936 LAVERNA RD SPRINGFIELD, IL 62707 37-1668647	HEALTHCARE	IL	0	0	KCIN

Part II Identification of Related Tax-Exempt Organizations (Complete if the organization answered "Yes" to 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 entity?	
						Yes	No
See Additional Data Table							

Part III

Identification of Related Organizations Taxable as a Partnership (Complete if the organization answered "Yes" to 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	
See Additional Data Table												

Part IV

Identification of Related Organizations Taxable as a Corporation or Trust (Complete if the organization answered "Yes" to 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	(i) Section 512 (b)(13) controlled entity?	
								Yes	No
See Additional Data Table									

Part V

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

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

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 or (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 Dividends from related organization(s)

g Sale of assets to related organization(s)

h Purchase of assets from related organization(s)

i Exchange of assets with related organization(s)

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

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

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

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

n Sharing of facilities, equipment, mailing lists, or other assets with related organization(s)

o Sharing of paid employees with related organization(s)

p Reimbursement paid to related organization(s) for expenses

q Reimbursement paid by related organization(s) for expenses

r Other transfer of cash or property to related organization(s)

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

Yes

No

1a

No

1b

No

1c

No

1d

No

1e

Yes

1f

1g

No

1h

No

1i

No

1j

Yes

1k

No

1l

Yes

1m

No

1n

No

1o

Yes

1p

Yes

1q

Yes

1r

Yes

1s

Yes

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

(a) Name of other organization	(b) Transaction type (a-s)	(c) Amount involved	(d) Method of determining amount involved

Schedule R (Form 990) 2012

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]

Software ID:

Software Version:

EIN: 37-0661244

Name: ST MARY'S HOSPITAL DECATUR OF THE HOSPITAL SISTERS OF THE THIRD ORDER OF ST FRANCIS

Part VII Supplemental Information

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

Identifier	Return Reference	Explanation
transactions with related organizations	schedule r, part v, line 2	The transactions reported on line 1 and not specifically identified on line 2 are between related 501(c)(3) public charities accordingly they are not reported in this section

Form 990, Schedule R, Part III - Identification of Related Organizations Taxable as a Partnership

(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) Disproprtionate allocations?		(i) Code V-UBI amount on Box 20 of K-1	(j) General or Managing Partner?		(k) Percentage ownership
							Yes	No		Yes	No	
Memorial and St Elizabeth's Healthcare 4000 North Illinois Street Swansea, IL 62226 37-1312961	HealthCare	IL	St Elizabeth's	NONE	0	0		No	0		No	
Prairie Heart Institute - Carbondale 800 East Carpenter Street Springfield, IL 62769 37-1321197	HealthCare	IL	St John's	NONE	0	0		No	0		No	
Northeast Wisconsin Radiation Therapy Se 1821 S Webster Avenue STE 300 Green Bay, WI 543079047 26-3749065	HealthCare	WI	HSSI	NONE	0	0		No	0		No	
Pain Center of Wisconsin 4131 W Loomis Road STE 300 Greenfield, WI 53221 26-3155343	HealthCare	WI	St Vincent	NONE	0	0		No	0		No	
Surgery Center of Sheboygan LLC 3141 Saemann Ave Sheboygan, WI 53081 26-0822209	HealthCare	WI	St Nicholas	NONE	0	0		No	0		No	
Prevea Ventures LLC 2710 EXECUTIVE DR Green Bay, WI 54304 20-3775127	HealthCare	WI	HSSI	NONE	0	0		No	0		No	
CARPENTER STREET HOTEL LLC 36-	HOTEL	IL	LASANTE INC	NONE	0	0		No	0		No	
SPRINGFIELD URGENT CARE REAL E	RENT REAL ES	IL	LASANTE INC	NONE	0	0		No	0		No	
Prairie Heart Institute Management LLC 4936 Laverna Road Springfield, IL 62707 26-1417684	Medical	IL	HSHS	Related	0	0		No	0		No	

Form 990, Schedule R, Part IV - Identification of Related Organizations Taxable as a Corporation or Trust

(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	(i) Section 512(b)(13) controlled entity?	
								Yes	No
Kiara Inc 4936 Laverna Rd Springfield, IL 62707 37-1163401	HealthCare	IL	HSHS	C Corp	0	0			
LaSante Wisconsin Inc 4936 Laverna Rd Springfield, IL 62707 39-1572196	HealthCare	IL	Kiara Inc	C Corp	0	0			
LaSante Inc 4936 Laverna Rd Springfield, IL 62707 37-1163400	HealthCare	IL	Kiara Inc	C Corp	0	0			
Prairie Cardiovascular 619 East Mason STE 4P57 Springfield, IL 62701 37-1071858	HealthCare	IL	Kiara Inc	C Corp	0	0			
Prevea Health Services 2710 EXECUTIVE DR Green Bay, WI 54304 39-1839351	HealthCare	WI	HSSI	C Corp	0	0			
Prevea Clinic Inc 2710 EXECUTIVE DR Green Bay, WI 54304 39-1839349	HealthCare	WI	HSSI	C Corp	0	0			
Prevea Health Network 2710 EXECUTIVE DR Green Bay, WI 54304 39-2000537	HealthCare	WI	HSSI	C Corp	0	0			
Renaissance Quality Insurance PO Box 1159 Grand Caymans KY1-1102 CJ 98-0669953	Insurance	CJ	HSSI	c corp	0	0			No
OJV INC 4936 LAVERNA RD SPRINGFIELD, IL 62707 46-0873384	HEALTHCARE	IL	LASANTE INC	C CORP	0	0			No

TY 2012 Affiliate Listing

Name: ST MARY'S HOSPITAL DECATUR OF THE HOSPITAL
SISTERS OF THE THIRD ORDER OF ST FRANCIS

EIN: 37-0661244



HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidated Financial Statements and Supplementary Information

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)



KPMG LLP
Aon Center
Suite 5500
200 East Randolph Drive
Chicago, IL 60601-6436

Independent Auditors' Report

The Board of Directors
Hospital Sisters Health System

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Hospital Sisters Health System and Subsidiaries (HSHS), which comprise the consolidated balance sheets as of June 30, 2013 and 2012, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U S generally accepted accounting principles, this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hospital Sisters Health System as of June 30, 2013 and 2012, and the results of its operations, the changes in its net assets, and its cash flows for the years then ended, in accordance with U S generally accepted accounting principles.



Emphasis of Matter

As described in note 2(n) to the consolidated financial statements, HSHS adopted the provisions of Financial Accounting Standards Board Accounting Standards Update No 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Healthcare Entities*, for the year ended June 30, 2012. As a result of this adoption, HSHS has presented on a separate line the provision for uncollectible accounts as a deduction from net patient service revenue (net of contractual allowances and discounts) and included enhanced disclosures about the entity's policies for recognizing revenue and assessing bad debts. Our opinion is not modified with respect to the matter emphasized.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in schedules 1 through 6 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

October 28, 2013

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES

Springfield, Illinois

Consolidated Balance Sheets

June 30, 2013 and 2012

(Dollars in thousands)

Assets	2013	2012
Current assets		
Cash and cash equivalents	\$ 81,110	90,514
Receivables		
Patients' accounts, less allowance for uncollectible accounts		
of \$129,300 in 2013 and \$107,196 in 2012	294,578	307,814
Due from third-party reimbursement programs	2,813	4,497
Other	23,635	22,088
Total receivables	321,026	334,399
Current portion of assets whose use is limited or restricted	284,142	201,738
Inventories	40,051	40,230
Prepaid expenses	20,305	16,376
Total current assets	746,634	683,257
Assets whose use is limited or restricted, net of current portion	1,523,707	1,446,720
Property, plant, and equipment, net	1,257,517	1,152,063
Other assets	68,208	73,657
Total assets	\$ 3,596,066	3,355,697
Liabilities and Net Assets		
Current liabilities		
Current installments of long-term debt	\$ 17,909	28,517
Long-term debt subject to short-term remarketing agreements	169,508	158,047
Accounts payable	114,093	100,336
Accrued liabilities	133,937	125,848
Estimated payables under third-party reimbursement programs	43,637	41,554
Total current liabilities	479,084	454,302
Long-term debt, excluding current installments	430,669	379,378
Estimated self-insurance liabilities	94,173	81,124
Derivative instruments	41,831	64,437
Accrued benefit liability	251,894	410,039
Other noncurrent liabilities	46,906	47,194
Total liabilities	1,344,557	1,436,474
Net assets		
Unrestricted	2,202,951	1,875,690
Temporarily restricted	25,487	20,783
Permanently restricted	23,071	22,750
Total net assets	2,251,509	1,919,223
Total liabilities and net assets	\$ 3,596,066	3,355,697

See accompanying notes to consolidated financial statements

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES

Springfield, Illinois

Consolidated Statements of Operations

Years ended June 30, 2013 and 2012

(Dollars in thousands)

	<u>2013</u>	<u>2012</u>
Net patient service revenues	\$ 2,012,108	1,981,070
Provision for uncollectible accounts	<u>(107,131)</u>	<u>(111,142)</u>
Net patient service revenue less provision for uncollectible accounts	1,904,977	1,869,928
Other revenues		
Investment income	2,751	786
Net assets released from restrictions used for operations	1,513	1,702
Other	<u>98,325</u>	<u>57,458</u>
Total revenues	<u>2,007,566</u>	<u>1,929,874</u>
Expenses		
Sisters' services	1,275	1,155
Salaries and wages	740,688	722,856
Employee benefits	242,056	205,171
Professional fees	113,362	114,690
Supplies	275,961	275,291
Depreciation and amortization	135,871	143,523
Interest	7,247	6,313
Other	<u>469,542</u>	<u>460,584</u>
Total expenses	<u>1,986,002</u>	<u>1,929,583</u>
Income from operations	21,564	291
Nonoperating gains (losses)		
Investment income	128,782	23,565
Change in fair value of interest rate swaps	22,606	(35,799)
Loss on conversion and early extinguishment of debt	<u>(5,073)</u>	<u>—</u>
Revenues and gains (losses) in excess (deficient) of expenses	167,879	(11,943)
Other changes in unrestricted net assets		
Net assets released from restrictions used for the purchase of property, plant, and equipment	1,237	7,369
Reversal (recognition) of change in pension funded status	<u>158,145</u>	<u>(160,928)</u>
Change in unrestricted net assets	<u><u>\$ 327,261</u></u>	<u><u>(165,502)</u></u>

See accompanying notes to consolidated financial statements

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2013 and 2012

(Dollars in thousands)

	<u>2013</u>	<u>2012</u>
Unrestricted net assets		
Revenues and gains (losses) in excess (deficient) of expenses	\$ 167,879	(11,943)
Other changes in unrestricted net assets		
Net assets released from restrictions used for the purchase of property, plant, and equipment	1,237	7,369
Reversal (recognition) of change in pension funded status	158,145	(160,928)
Change in unrestricted net assets	<u>327,261</u>	<u>(165,502)</u>
Temporarily restricted net assets		
Investment income	1,182	308
Contributions	6,272	8,630
Net assets released from restrictions	(2,750)	(9,071)
Change in temporarily restricted net assets	<u>4,704</u>	<u>(133)</u>
Permanently restricted net assets		
Investment income (loss)	(9)	28
Contributions	330	393
Change in permanently restricted net assets	<u>321</u>	<u>421</u>
Change in net assets	332,286	(165,214)
Net assets at beginning of year	<u>1,919,223</u>	<u>2,084,437</u>
Net assets at end of year	<u>\$ 2,251,509</u>	<u>1,919,223</u>

See accompanying notes to consolidated financial statements

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES

Springfield, Illinois

Consolidated Statements of Cash Flows

Years ended June 30, 2013 and 2012

(Dollars in thousands)

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Change in net assets	\$ 332,286	(165,214)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Loss on conversion and early extinguishment of debt	5,073	—
Recognition (reversal) of change in pension funded status	(158,145)	160,928
Income from equity basis investments	(4,158)	(5,241)
Cash received from equity basis investments, net	4,230	3,944
Net assets released from restrictions and used for operations	1,513	1,702
Restricted contributions and investment return	(7,775)	(9,359)
Amortization of bond issuance costs, included in interest expense	244	197
Depreciation and amortization	135,871	143,523
Provision for uncollectible accounts	107,131	111,142
Change in net unrealized gain and losses on investments	(69,286)	63,563
Net realized gains on sale of investments	(40,538)	(58,743)
Change in the fair value of derivative instruments	(22,606)	35,799
Changes in assets and liabilities		
Patients' accounts receivable	(93,895)	(141,257)
Other receivables	(1,547)	4,488
Inventories	179	(179)
Prepaid expenses	(3,929)	1,642
Net amounts due to third-party reimbursement programs	3,767	6,328
Accounts payable and accrued liabilities	21,846	18,424
Estimated self-insurance liabilities and other noncurrent liabilities	12,761	6,291
Net cash provided by operating activities	<u>223,022</u>	<u>177,978</u>
Cash flows from investing activities		
Acquisition of property, plant, and equipment	(242,210)	(192,020)
Gross purchases of investments	(1,917,036)	(1,828,882)
Gross proceeds from sale or maturity of investments	1,867,469	1,874,143
Change in other assets	5,133	2,908
Net cash used in investing activities	<u>(286,644)</u>	<u>(143,851)</u>
Cash flows from financing activities		
Repayment of long-term debt	(468,900)	(22,130)
Proceeds from issuance of debt	520,720	10,000
Payment of bond issuance cost	(3,864)	—
Net assets released from restrictions and used for operations	(1,513)	(1,702)
Restricted contributions and investment return	7,775	9,359
Net cash provided by (used in) financing activities	<u>54,218</u>	<u>(4,473)</u>
Change in cash and cash equivalents	(9,404)	29,654
Cash and cash equivalents at beginning of year	<u>90,514</u>	<u>60,860</u>
Cash and cash equivalents at end of year	<u>\$ 81,110</u>	<u>90,514</u>
Supplemental disclosure of cash flow information		
Cash paid for interest, net of amounts capitalized	\$ 7,085	4,137
Supplemental disclosure of noncash transactions		
Assets acquired under capital lease	\$ 885	24,332

See accompanying notes to consolidated financial statements

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(1) Organization and Purpose

Hospital Sisters Health System (HSHS), an Illinois not-for-profit corporation, considers all wholly owned or controlled entities as subsidiaries for consolidated financial statement purposes. The accompanying consolidated financial statements include the accounts of HSHS and its subsidiaries. HSHS is the parent corporation for several subsidiary corporations and exerts control through various reserved powers. The subsidiary corporations and controlled entities presented in the accompanying consolidated financial statements include Hospital Sisters Services, Inc. (HSSI), HSHS System Services Center (the SSC), Hospital Sisters of St. Francis Foundation, Inc. (the Foundation), and Kiara, Inc.

HSSI, an Illinois not-for-profit holding company, is the sole member of 13 hospitals in Illinois and Wisconsin (collectively referred to as the Obligated Group), Hospital Sisters Healthcare – West, Inc. (HCW), HSHS Medical Group, Inc., and HSHS Wisconsin Medical Group, Inc. (collectively referred to as the Medical Group), Unity Limited Partnership, Kiara Clinical Integration Network (KCIN), and Renaissance Quality Insurance, Ltd. (RQIL). HSSI and the 13 hospitals have formed an Obligated Group for debt financing purposes through the use of a Master Trust Indenture (MTI) (note 11). The hospitals are organized for the purpose of providing inpatient and outpatient healthcare services. HSSI formed the Medical Group for the purpose of affiliating with physicians. RQIL is a captive insurance company incorporated in the Cayman Islands to provide professional and general liability insurance coverage to HSSI and affiliates. HCW, the Medical Group, Unity Limited Partnership, KCIN, and RQIL are not members of the Obligated Group.

The 13 hospitals who are members of the Obligated Group, along with HSSI, are as follows:

Hospital	Location
	Illinois
St. Elizabeth's Hospital	Belleville
St. Joseph's Hospital	Breese
St. Mary's Hospital	Decatur
St. Anthony's Memorial Hospital	Effingham
St. Joseph's Hospital	Highland
St. Francis Hospital	Litchfield
St. John's Hospital	Springfield
St. Mary's Hospital	Streator
	Wisconsin
St. Joseph's Hospital	Chippewa Falls
Sacred Heart Hospital	Eau Claire
St. Mary's Hospital Medical Center	Green Bay
St. Vincent Hospital	Green Bay
St. Nicholas Hospital	Sheboygan

The SSC administers the Workers Compensation Fund, Health Care Trust Fund, and Flex Plan. The SSC is supported by annual fees paid by the HSHS affiliated hospitals and certain other HSHS controlled entities.

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to the SSC. The SSC utilizes these funds to provide centralized management and information services to the 13 affiliated hospitals, workers' compensation, and employee health administration. In addition, the SSC administers a centralized investment program and defined contribution pension plan on behalf of all HSHS entities.

The Foundation, an Illinois not-for-profit corporation, is an entity whose purpose is to solicit and administer philanthropic funds. The Foundation is structured into 14 separate divisions to administer restricted and unrestricted gifts and bequests at each of the respective hospital locations and the SSC.

Kiara, Inc., an Illinois for-profit corporation, provides a vehicle for joint ventures with physicians and an entry into those health related services, which do not qualify as tax-exempt services, such as pharmacy, durable medical equipment, nonaffiliate electronic health records (EHR) implementations, and real estate holdings. Kiara, Inc. is the holding company of three subsidiary corporations in which it is the sole stockholder, LaSante, Inc., LaSante Wisconsin, Inc., and Prairie Cardiovascular Consultants, Inc. (PCC). The operations of these three wholly owned subsidiaries are consolidated into the financial statements of Kiara, Inc. In connection with the acquisition of PCC, \$3,372 and \$5,059 is still payable at June 30, 2013 and 2012, respectively, and is a component of other noncurrent liabilities in the accompanying consolidated balance sheets.

All significant intercompany transactions have been eliminated in consolidation.

(2) Summary of Significant Accounting Policies

The significant accounting policies of HSHS are as follows:

(a) Presentation

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are reported as revenues and expenses. Peripheral or incidental transactions are reported as nonoperating gains or losses. Nonoperating gains or losses include investment income, other than that which is associated with self-insurance programs, or funds held by trustee under indenture agreements, settlements on derivative instruments, loss on conversion and early extinguishment of debt, and the change in fair value of the interest rate swap agreements.

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Significant estimates include allowances for contractual allowances and bad debts, third-party payor settlements, valuation of investments, recoverability of property, plant, and equipment, self-insurance liabilities, derivative instruments, accrued benefit liability, and other liabilities. Actual results could differ from those estimates.

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(c) *Cash and Cash Equivalents*

Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less when purchased, excluding those amounts included as assets whose use is limited or restricted

(d) *Assets Whose Use is Limited or Restricted*

Assets whose use is limited or restricted include assets set aside by the board of directors for future capital improvements, over which the board of directors retains control and may at its discretion subsequently use for other purposes, assets held by third-party trustees under indenture agreements, and funds temporarily or permanently restricted by donors. Management classifies the current portion of assets whose use is limited or restricted based on the approximate amount of the current portion of long-term debt.

Investments in equity securities with readily determinable values and all investments in debt securities are measured at fair value in the accompanying consolidated balance sheets. Investment income on assets associated with self-insurance programs or assets deposited in funds held by trustee under indenture agreements is reported as other revenues. Investment income from all other investments is reported as nonoperating gains – investment income, unless the income or loss is restricted by donor or law. Changes in net unrealized gains and losses on investments are included in revenues and gains (losses) in excess (deficient) of expenses and losses as all investments are considered to be trading securities.

(e) *Inventories*

Inventories are stated at the lower of cost or market. Cost is determined on a first-in, first-out basis.

(f) *Property, Plant, and Equipment*

Property, plant, and equipment additions are stated at cost or fair value at the date of acquisition or donation. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method of accounting. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Capitalized interest is reduced by the amount of investment income earned on unexpended proceeds from project specific borrowings.

(g) *Long-Lived Assets*

Long-lived assets (including property, plant, and equipment) are periodically assessed for recoverability based on the occurrence of a significant adverse event or change in the environment in which HSHS operates or if the expected future cash flows (undiscounted and without interest) would become less than the carrying amount of the asset. An impairment loss would be recorded in the period such determination is made based on the fair value of the related entity. No impairments were recorded for the years ended June 30, 2013 and 2012.

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(h) Other Assets – Joint Ventures

HSHS invests in various organizations that are not wholly owned or controlled by HSHS. Investments in affiliates in which HSHS has significant influence but does not control are reported on the equity method of accounting, which represents HSHS' equity in the underlying net book value. The equity method of accounting is discontinued when the investment is reduced to zero unless HSHS has guaranteed the obligations of the organization or is committed to provide additional capital support. There were no existing guarantees at June 30, 2013 or 2012.

(i) Loss Reserves

HSHS is self-insured for professional and general liability, workers' compensation, and employee health claims. The provisions for loss reserves include the ultimate cost for both reported losses and losses incurred, but not reported as of the respective consolidated balance sheet dates.

The liability for loss reserves represents an estimate of the ultimate net cost of all such amounts that are unpaid at the consolidated balance sheet dates. The liability is based on projections and the historical claim experience of HSHS and gives effect to estimates of trends. Although management believes that the estimate of the liability for claims is reasonable, it is possible that HSHS' actual incurred claims will not conform to the assumptions' inherent variability with respect to the significant assumptions utilized. Accordingly, the ultimate settlement of claims may vary from the liability for unpaid claims included in the accompanying consolidated financial statements.

(j) Derivative Instruments

HSHS accounts for derivatives and hedging activities in accordance with Financial Accounting Standards Board Accounting Standards Codification (ASC) Subtopic 815-10, *Accounting for Derivative Instruments and Hedging Activities*, which requires that an entity recognize all derivatives as either assets or liabilities in the consolidated balance sheet and measure those instruments at fair value. HSHS is involved in various interest rate swaps. The fair value of the interest rate swap programs is included as derivative instruments in the accompanying consolidated balance sheets. For HSHS, the derivatives are not designated as hedge instruments, and therefore, settlements on derivative instruments and the change in fair values of the interest rate swap agreements are recognized in the consolidated statements of operations as a component of nonoperating gains (losses).

(k) Asbestos Removal Costs

HSHS accounts for asbestos removal costs in accordance with ASC Subtopic 410-20, *Accounting for Conditional Asset Retirement Obligations*. ASC Subtopic 410-20 requires the current recognition of a liability when a legal obligation exists to perform an asset retirement obligation (ARO) in which the timing or method of settlement is conditional on a future event that may or may not be under the control of the entity. ASC Subtopic 410-20 requires an ARO liability be recorded at its net present value with recognition of a related long-lived asset in a corresponding amount. The ARO liability is accreted through periodic charges to depreciation expense. The initially capitalized ARO long-lived

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asset is depreciated over the corresponding long-lived asset's remaining useful life. HSHS is legally liable to remove asbestos from existing buildings prior to future remodeling or demolishing of the existing hospital buildings. The estimated asbestos removal cost at June 30, 2013 and 2012 is \$28,957 and \$28,786, respectively, and is included within other noncurrent liabilities in the accompanying consolidated balance sheets. The net book value of the ARO long-lived asset at June 30, 2013 and 2012 is \$553 and \$742, respectively, and is included within other assets in the accompanying consolidated balance sheets.

(l) Donor-Restricted Net Assets

Net assets and activities are classified into three classes based on the existence or absence of donor-imposed restrictions: unrestricted, temporarily restricted, and permanently restricted. Temporarily restricted net assets represent those net assets whose use by HSHS has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by HSHS in perpetuity.

HSHS classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment, the original value of subsequent gifts to the permanent endowment, and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. Investment returns in excess of spending are classified as increases in temporarily restricted net assets until appropriated for expenditure by HSHS.

HSHS has established a spending policy, which is evaluated and approved by the Foundation board every year. The approved spending rate for fiscal year 2013 and 2012 was 2.30% and 3.45%, respectively. In establishing this policy, the long-term expected return on the endowment is considered. This is consistent with HSHS' objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term.

Endowment funds are commingled with the pooled investment fund administered by HSHS. HSHS relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). HSHS targets a diversified asset allocation of 40.5% fixed income, 44.5% equities, and 15% custom hedge funds to achieve its long-term return objectives within prudent risk constraints.

(m) Gifts, Bequests, and Grants

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, which is then treated as cost. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations as assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are recorded as unrestricted contributions. Unrestricted contributions are included in other revenues.

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Gifts of long-lived assets such as property, plant, and equipment are reported as unrestricted gifts and bequests and are excluded from revenues and gains (losses) in excess (deficient) of expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted contributions. In the absence of explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

(n) Net Patient Service Revenues

Net patient service revenues are reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and amounts received under the Medicaid assessment tax programs. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Effective July 1, 2012, HSHS adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. ASU 2011-07 requires that 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 must present the provision for bad debts related to patient service revenue as a deduction from patient service revenue (net of contractual allowances and discounts) on their statement of operations. The provision for uncollectible accounts on the accompanying consolidated statements of operations for the years ended June 30, 2013 and 2012 has been presented on a separate line as a deduction from net patient service revenue.

(o) Charity Care

HSHS provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Amounts determined to qualify as charity care are not reported as net patient service revenues, since HSHS does not pursue collection of such amounts.

(p) Revenues and Gains (Losses) in Excess (Deficient) of Expenses

The consolidated statements of operations include revenues and gains (losses) in excess (deficient) of expenses. Changes in unrestricted net assets that are excluded from revenues and gains (losses) in excess (deficient) of expenses, consistent with industry practice, include contributions of property, plant, and equipment (including assets acquired using contributions that by donor restrictions or grants were to be used for the purpose of acquiring such assets), nonreciprocal transfer to affiliate for other than goods and services, and (recognition) reversal of change in pension funded status.

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(q) Income Taxes

HSHS and the Foundation are Illinois not-for-profit organizations 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. Kiara, Inc. is an Illinois for-profit corporation that recognizes income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

HSHS has adopted ASC Subtopic 740-10, *Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109*. ASC Subtopic 740-10 addresses the determination of how tax benefits claimed or expected to be claimed on a tax return should be recorded in the consolidated financial statements. Under ASC Subtopic 740-10, HSHS must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. ASC Subtopic 740-10 also provides guidance on derecognition, classification, interest and penalties on income taxes, and accounting in interim periods and requires increased disclosures. As of June 30, 2013 and 2012, HSHS does not have an asset or liability for unrecognized tax benefits.

(r) Fair Value

HSHS has adopted the provisions of ASC Topic 820, *Fair Value Measurements*, for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 also establishes a framework for measuring fair value and expands disclosures about fair value measurements.

In conjunction with the adoption of ASC Topic 820, HSHS adopted the measurement provisions of ASU 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, to certain investments in funds that do not have readily determinable fair values including private investments, hedge funds, real estate, and other funds. This guidance amends ASC Topic 820 and allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value (NAV) per share or its equivalent.

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(s) *EHR Incentive Program*

The EHR Incentive Program (the Program) provides incentive payments to eligible hospitals and professionals as they adopt, implement, upgrade, or demonstrate meaningful use of certified EHR technology in their first year of participation and demonstrate meaningful use for up to five remaining participation years. HSHS accounts for the Program using the grant model. HSHS applies the "ratable recognition" approach, which states that the grant income can be recognized ratably over the entire EHR reporting period once a "reasonable assurance" income recognition threshold is met. For the years ended June 30, 2013 and 2012, HSHS recognized \$31,800 and \$4,181, respectively, as other revenue related to EHR incentives, which have been received or are expected to be received based on certifications prepared by management under the appropriate guidelines for year 1 and year 2 payments.

(3) **Community Benefit**

Consistent with its mission, HSHS provides medical care to all patients regardless of their ability to pay. In addition, HSHS provides services intended to benefit the poor and underserved, including those persons who cannot afford health insurance because of inadequate resources and/or are uninsured or underinsured, and to enhance the health status of the communities in which it operates.

The following summary has been prepared in accordance with the Catholic Health Association of the United States' (CHA) policy document, *A Guide for Planning and Reporting Community Benefit*, released in May 2006. HSHS uses a cost-to-charge ratio to calculate the cost of charity care and the unpaid cost of Medicaid. The amounts in the following table reflect the quantifiable costs of HSHS' community benefit for the years ended June 30, 2013 and 2012.

	2013	2012
Benefits for the poor		
Charity care at cost	\$ 45,974	43,076
Unpaid cost of Medicaid and other public programs	104,232	97,878
Community health services	1,657	1,322
Other	1,798	766
	<u>153,661</u>	<u>143,042</u>
Benefits for the broader community		
Community health services	4,451	4,443
Health professions education	15,558	15,895
Other	13,083	10,772
	<u>33,092</u>	<u>31,110</u>
Total community benefit	<u>\$ 186,753</u>	<u>174,152</u>

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Benefits for the poor represent the cost of services provided to persons who cannot afford healthcare because of inadequate resources and who are uninsured or underinsured

Benefits for the broader community represent the cost of services provided to other needy populations that may not qualify as poor, but that need special services and support. It also includes the cost of services for the general benefit of the communities in which HSHS operates. Many programs are targeted toward populations that may be poor, but also include those areas that may need special health services and support. These programs are not financially self-supporting.

Charity care at cost represents the cost of services provided to patients who cannot afford healthcare services due to inadequate resources. All or a portion of a patient's services may be considered charity care for which no payment is anticipated in accordance with HSHS' established policies.

Unpaid cost of Medicaid and other public programs represents the cost of providing services to beneficiaries of public programs, including state Medicaid and indigent care programs, in excess of payments for those services. (See note 4 for an explanation of changes to the Medicaid reimbursement from the State of Illinois and the State of Wisconsin.)

Community health services are activities and services for which no patient bill exists although there may be nominal patient fees. These services are not expected to be financially self-supporting although some may be partially supported by outside grants or funding.

Health professions education includes the unreimbursed cost of training health professionals, such as medical residents, nursing students, technicians, and students, in allied health professions.

Other benefits include subsidized health services, in-kind donations, and other benefits.

In addition to the amounts reported above, HSHS committed significant resources in serving the Medicare population. The cost (determined using a cost-to-charge ratio) of providing services to primarily elderly beneficiaries of the Medicare program, in excess of governmental and managed care contract payments, was \$152,293 and \$160,570 for the years ended June 30, 2013 and 2012, respectively.

A related organization, the Foundation, funded \$5,885 and \$15,948 for charity care or other operating expenses on behalf of the hospitals during the years ended June 30, 2013 and 2012, respectively. The community benefits reported above are net of the contributions from the Foundation for such benefits.

HSHS also provides a significant amount of uncompensated care for patients, which is not included above, but is reported in the consolidated statements of operations as a provision for uncollectible accounts. Many of those patients are uninsured or underinsured, but did not apply for, or qualify for, charity care.

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(4) Net Patient Service Revenues

HSHS has agreements with third-party payors that provide for payment at amounts different from their established rates. A summary of the payment arrangements with major third-party payors is as follows:

Medicare – Inpatient acute care services rendered to Medicare program beneficiaries are generally paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services and certain outpatient services related to Medicare beneficiaries are paid based upon a cost reimbursement method, prospectively determined rates, established fee screens, or a combination thereof. The hospitals are reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the hospitals and audits by the Medicare fiscal intermediary. Certain outpatient services performed by the hospitals are reimbursed at a prospectively determined rate per service based upon their ambulatory payment classification. Home health services performed by the hospitals are reimbursed at a prospectively determined rate per episodic treatment.

As of June 30, 2013, Medicare cost reports have been audited and final settled through June 30, 2009.

Medicaid – Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates per discharge. Outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon per visit rates. Medicaid payment methodologies and rates for services are based on the amount of funding available to state Medicaid programs. As of June 30, 2013 and 2012, Medicaid receivables aggregate to \$24,764 and \$59,271, respectively, and are valued using historical collection percentages of enacted rates.

HSHS participates in the State of Illinois (the State) provider assessment program that assists in the financing of its Medicaid program. The program has been renewed by the State since its inception in 2004 and was renewed again on December 4, 2008 for the State's fiscal years ending June 30, 2009 through June 30, 2013. Renewal for the period July 1, 2013 to December 31, 2014 has been approved by the State. Pursuant to this program, hospitals within the State are required to remit payment to the State Medicaid program under an assessment formula approved by the Centers for Medicare and Medicaid Services (CMS).

The hospitals have included their related prorated assessments of \$26,772 and \$26,823 in 2013 and 2012, respectively, within other expenses in the accompanying consolidated statements of operations. The assessment program also provides hospitals within the State with additional Medicaid reimbursement based on funding formulas also approved by CMS. The hospitals have included their additional related prorated reimbursement of \$45,564 and \$47,108 in 2013 and 2012, respectively, within net patient service revenues in the accompanying consolidated statements of operations.

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During 2009, the State of Wisconsin enacted an assessment tax on the gross revenues of all Wisconsin hospitals retroactive to July 1, 2008, which is used to increase reimbursements made under its Medicaid program. During the years ended June 30, 2013 and 2012, the HSHS Wisconsin hospitals were assessed \$21,118 and \$20,210, respectively, related to this tax, which is included as a component of other expenses in the accompanying consolidated statements of operations, and received \$24,198 and \$26,513, respectively, in supplemental Medicaid reimbursement, which is included as a component of net patient service revenues in the accompanying consolidated statements of operations.

Other – HSHS has also entered into payment agreements with Blue Cross, certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined per diem rates.

A summary of gross and net patient service revenues for the years ended June 30, 2013 and 2012 is as follows:

	2013	2012
Inpatient revenues	\$ 2,400,777	2,296,455
Outpatient revenues	2,940,995	2,791,571
Less provisions for estimated contractual adjustments under third-party reimbursement programs	3,329,664	3,106,956
Net patient service revenues	<u>\$ 2,012,108</u>	<u>1,981,070</u>

Net patient service revenues for the years ended June 30, 2013 and 2012 include \$8,591 and \$995, respectively, of favorable retrospectively determined prior year settlements with third-party payors. In addition, net patient service revenues include \$15,547 for the year ended June 30, 2012, from Medicare for fiscal years 2007–2011 as settlement of the Rural Floor Budget Neutrality Adjustment Appeal. Additionally, professional fees expense includes \$3,997 for the year ended June 30, 2012, of settlement fees paid as part of the Rural Floor Budget Neutrality Adjustment Appeal.

A summary of Medicare, Medicaid, and managed care/contracted payor utilization percentages, based upon gross patient service revenues, is as follows:

	2013	2012
Medicare	47%	46%
Medicaid	14	14
Managed care/contracted payor	32	32
Self-pay	4	5
Other	3	3

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Patients' accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of patients' accounts receivable, HSHS analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, HSHS analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (e.g., for expected uncollectible deductibles and co-payments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and co-payment balances due for which third-party coverage exists for part of the bill), HSHS records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

HSHS' allowance for uncollectible accounts for self-pay patients increased from 81.0% of self-pay accounts receivable at June 30, 2012, to 81.7% of self-pay accounts receivable at June 30, 2013. In addition, HSHS' self-pay write-offs decreased \$13,604 from \$98,642 for fiscal year 2012 to \$85,038 for fiscal year 2013. Both changes were the result of current trends experienced in the collection of amounts from self-pay patients in fiscal year 2013. HSHS has not substantially changed its charity care or uninsured discount policies during fiscal years 2012 or 2013. HSHS does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant write-offs from third-party payors.

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HSHS recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, HSHS recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of HSHS' uninsured patients will be unable or unwilling to pay for the services provided. Thus, HSHS records a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances and discounts (before the provision for bad debts), is recognized in the period from these major payor sources, as follows:

	<u>2013</u>	<u>2012</u>
Medicare	\$ 709,095	693,335
Medicaid	205,618	213,011
Managed care/contracted payor	935,800	893,712
Self-pay	104,459	111,130
Other	57,136	69,882
Net patient service revenues	<u>\$ 2,012,108</u>	<u>1,981,070</u>

(5) Concentration of Credit Risk

HSHS provides healthcare services through their inpatient and outpatient facilities located in Illinois and Wisconsin. HSHS grants credit to patients, substantially all of whom are local residents. HSHS does not require collateral or other security in extending credit to patients, however, they routinely obtain assignment of (or are otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, Blue Cross, health maintenance organizations, and commercial insurance policies).

The mix of net receivables from patients and third-party payors as of June 30, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Medicare	26%	22%
Medicaid	8	19
Managed care/contracted payor	48	42
Self-pay	10	8
Other	8	8

(6) Investment Composition and Fair Value Measurements

(a) Overall Investment Objective

The overall investment objective of HSHS is to invest its assets in a prudent manner that will achieve an expected rate of return, manage risk exposure, and focus on downside protection. HSHS' invested

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assets will maintain sufficient liquidity to fund a portion of HSHS' annual operating activities and structure the invested assets to maintain a high percentage of available liquidity. HSHS diversifies its investments among various asset classes incorporating multiple strategies and managers. The HSHS board approves the investment policy statement. The Investment Subcommittee oversees the investment program in accordance with investment policy statement.

(b) *Allocation of Investment Strategies*

To manage risk, HSHS invests in fixed income, domestic equities, international equities, and custom hedge funds. HSHS engages outside portfolio managers as follows: 5 fixed income managers, 15 domestic equity managers, 5 international managers, and 2 custom hedge fund portfolio managers. Because of the inherent uncertainties for valuation of some holdings, the estimated fair values may differ from values that would have been used had a ready market existed.

(c) *Basis of Reporting*

Assets whose use is limited or restricted are reported at estimated fair value. If an investment is held directly by HSHS and an active market with quoted prices exists, the market price of an identical security is used as reported fair value. Reported fair values for shares in common and preferred stock and fixed income are based on share prices reported by the funds as of the last business day of the fiscal year. HSHS' interests in alternative investment funds are generally reported at the NAV reported by the fund managers, which is used as a practical expedient to estimate the fair value of the HSHS' interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2013, HSHS had no plans or intentions to sell investments at amounts different from NAV.

(d) *Fair Value of Financial Instruments*

The following methods and assumptions were used by HSHS in estimating the fair value of its financial instruments:

- The carrying amount reported in the consolidated balance sheets for the following approximates fair value because of the short maturities of these instruments: cash and cash equivalents, receivables, accounts payable, accrued liabilities, and estimated payables under third-party reimbursement programs.
- Fair values of HSHS' investments held as assets whose use is limited or restricted are estimated based on prices provided by its investment managers and its custodian bank except for the carrying value of pledges receivable and other, which equals fair value. Fair value for cash and cash equivalents, corporate and preferred stocks, foreign securities, U.S. government securities, corporate bonds, municipal bonds, and commingled mutual funds are measured using quoted market prices at the reporting date multiplied by the quantity held. The carrying value equals fair value.
- HSHS has two hedge fund investments for which quoted market prices are not available. The two hedge fund investments are K2 multistrategy fund and Mesriow multistrategy fund. The

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estimated fair value of these hedge fund investments includes estimates, appraisals, assumptions, and methods provided by external financial advisers and reviewed by HSHS

The investment objective of the K2 multistrategy fund is to achieve equity type returns with reduced volatility and risk. This is achieved through a diversified portfolio targeting allocations of long strategies and low volatility strategies.

The investment objective of the Mesrow multistrategy fund is to achieve positive returns with low volatility and risk. This is achieved through a multimanager, multistrategy, and diversified investment approach.

- Fair value of fixed rate long-term debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to HSHS for debt of the same remaining maturities. For variable rate debt, carrying amounts approximate fair value. Fair value was estimated using quoted market prices based upon HSHS' current borrowing rates for similar types of long-term debt securities.
- Fair value of interest rate swaps is determined using pricing models developed based on the LIBOR swap rate and other observable market data by financial advisers. The value was determined after considering the potential impact of collateralization and netting agreements, adjusted to reflect nonperformance risk of both the counterparty and HSHS. The carrying value equals fair value.

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

The following table presents the carrying amounts and estimated fair values of HSHS' financial instruments not carried at fair value at June 30, 2013.

	2013		2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term debt	\$ 618,086	615,920	565,942	571,456

(e) Fair Value Hierarchy

HSHS has adopted ASC Topic 820 for fair value measurements of financial assets and liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or

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liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements) The three levels of the fair value hierarchy are as follows

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that HSHS has the ability to access at the measurement date
- Level 2 are observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3 inputs are unobservable inputs for the asset or liability

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. There were no transfers between Level 1, Level 2, or Level 3 for the fiscal years ended June 30, 2013 and 2012.

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The following table summarizes HSHS' cash and cash equivalents and assets whose use is limited or restricted by major category in the fair value hierarchy as of June 30, 2013, as well as related strategy, liquidity, and funding commitments

		June 30, 2013			Redemption or liquidation	Days' notice
		Level 1	Level 2	Level 3		
Cash and cash equivalents	\$	81,110	—	—	Daily	One
Assets whose use is limited or restricted excluding accrued interest and other of \$4,491 and pledges receivable and other of \$28,248						
Cash and cash equivalents	\$	93,530	—	—	Daily	One
Common stocks		525,568	—	—	Daily	Three
U.S. government securities		—	162,032	—	Daily	One
Municipal bonds		—	33,890	—	Daily	Two
Corporate bonds		—	269,256	—	Daily	Two
Foreign securities		259,087	25,276	—	Daily	Three
Commingled mutual funds		—	154,378	—	Daily	Three
Hedge funds						
K2 multistrategy fund		—	—	196,551	Monthly	Thirty
Mesirow multifund		—	—	55,542	Monthly	Thirty
Total financial assets	\$	<u>878,185</u>	<u>644,832</u>	<u>252,093</u>		<u>1,775,110</u>
Liabilities						
Derivative instruments	\$	—	41,831	—		41,831

The table below sets forth a summary of changes in the fair value of the HSHS' Level 3 assets for the year ended June 30, 2013

		Level 3 assets, year ended June 30, 2013		
		K2 fund	Mesirow fund	Total funds
Balance, beginning of year	\$	165,890	43,413	209,303
Purchases		11,607	7,738	19,345
Sales		—	—	—
Total net gains		19,054	4,391	23,445
Balance, end of year	\$	<u>196,551</u>	<u>55,542</u>	<u>252,093</u>

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The following table summarizes HSHS' cash and cash equivalents and assets whose use is limited or restricted by major category in the fair value hierarchy as of June 30, 2012, as well as related strategy, liquidity, and funding commitments

		June 30, 2012			Redemption or liquidation	Days' notice	
		Level 1	Level 2	Level 3			Total
Cash and cash equivalents	\$	90,514	—	—	90,514	Daily	One
Assets whose use is limited or restricted excluding accrued interest and other of \$8.666 and pledges receivable and other of \$22.127							
Cash and cash equivalents	\$	114.831	—	—	114.831	Daily	One
Common stocks		443.162	—	—	443.162	Daily	Three
U.S. government securities		—	296.522	—	296.522	Daily	One
Municipal bonds		—	33.879	—	33.879	Daily	Two
Corporate bonds		—	121.931	—	121.931	Daily	Two
Foreign securities		217.740	27.460	—	245.200	Daily	Three
Commingled mutual funds		—	152.837	—	152.837	Daily	Three
Hedge funds							
K2 multi-strategy fund		—	—	165.890	165.890	Monthly	Thirty
Mesirow multifund		—	—	43.413	43.413	Monthly	Thirty
Total financial assets	\$	<u>775.733</u>	<u>632.629</u>	<u>209.303</u>	<u>1.617.665</u>		
Liabilities							
Derivative instruments	\$	—	64.437	—	64.437		

The table below sets forth a summary of changes in the fair value of the HSHS' Level 3 assets for the year ended June 30, 2012

		Level 3 assets, year ended June 30, 2012		
		K2 fund	Mesirow fund	Total funds
Balance, beginning of year	\$	—	—	—
Purchases		166,400	41,600	208,000
Total net gains (losses)		(510)	1,813	1,303
Sales		—	—	—
Balance, end of year	\$	<u>165,890</u>	<u>43,413</u>	<u>209,303</u>

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A summary of assets whose use is limited or restricted as of June 30, 2013 and 2012 is as follows

	2013	2012
Assets whose use is limited or restricted		
By the board for capital improvements	\$ 1,547,405	1,375,077
Funds held by trustee under indenture agreements	—	34,723
Funds held by trustee for self-insurance	90,251	83,710
Funds held by RQIL	73,541	64,051
Funds temporarily restricted by donors	463	425
Investments held at the Foundation	96,189	90,472
Total assets whose use is limited or restricted	<u>\$ 1,807,849</u>	<u>1,648,458</u>

The composition of investment return for the years ended June 30, 2013 and 2012 is as follows

	2013	2012
Investment return		
Interest and dividend income	\$ 22,883	29,548
Net realized gains on sale of investments	40,538	58,743
Change in net unrealized gains and losses	69,286	(63,563)
Total investment return	<u>\$ 132,707</u>	<u>24,728</u>

Investment returns are included in the accompanying consolidated statements of operations and changes in net assets for the years ended June 30, 2013 and 2012 as follows

	2013	2012
Other revenues – investment income	\$ 2,751	786
Nonoperating gains – investment income	128,782	23,565
Temporarily restricted net assets – investment income	1,182	308
Permanently restricted net assets – investment income (loss)	(9)	28
Interest income capitalized as part of construction in progress	1	41
Total investment return	<u>\$ 132,707</u>	<u>24,728</u>

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(7) Derivative Instruments

HSHS has interest-rate related derivative instruments to manage its exposure on its debt instruments. HSHS does not enter into derivative instruments for any purpose other than cash flow hedging purposes, and HSHS does not speculate using derivative instruments.

By using derivative financial instruments to hedge exposures to changes in interest rates, HSHS exposes itself to credit risk, tax risk, and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes HSHS, which creates credit risk for HSHS. When the fair value of a derivative contract is negative, HSHS owes the counterparty, and therefore, it does not possess credit risk. HSHS minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties.

Tax risk is the adverse effect that HSHS takes on to the extent tax law changes impact the rates paid to a variable rate bondholder (either positively or negatively) that would affect the variable rate received from the counterparty under a LIBOR-based swap that may not match the tax-exempt equivalent rate being paid. HSHS minimizes the tax risk in derivative instruments by maintaining sufficient cash reserves to handle potential tax law changes.

Market risk is the adverse effect on the value of the derivative instrument that results from a change in interest rates. The market risk associated with interest rate contracts is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

HSHS is exposed to credit loss in the event of nonperformance by the counterparty to the interest rate swap agreements, however, this is not anticipated. During the years ended June 30, 2013 and 2012, HSHS was not required to post collateral.

HSHS maintains interest rate swap agreements, which effectively change the interest rate exposure on a portion of its variable rate bonds to a fixed rate. HSHS receives the SIFMA Index variable rate and pays a fixed rate of 4.02% and 3.47%. The interest rate swap agreements have notional amounts of \$218.475 at both June 30, 2013 and 2012, which will amortize through March 2036.

HSHS also entered into a fixed spread basis swap in fiscal year 2008 that removes the tax risk from the bondholders and transfers the risk to HSHS. The premium that HSHS receives for taking on this risk is 67.00% of the one-month LIBOR plus a fixed spread of 48 basis points less the SIFMA Index rate. The fixed spread basis swap has a notional amount of \$150,000 with a final maturity in May 2033.

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The following is a summary of the swaps as of June 30, 2013

Type of interest swap	Notional amount	Settlement value	Fair value
Fixed payor	\$ 76.750	(13.409)	(12.627)
Fixed spread basis	150.000	(4.705)	(3.633)
Fixed payor	41.300	(8.011)	(7.448)
Fixed payor	100.425	(19.495)	(18.123)
		<u>\$ (45.620)</u>	<u>(41.831)</u>

The following is a summary of the swaps as of June 30, 2012

Type of interest swap	Notional amount	Settlement value	Fair value
Fixed payor	\$ 76.750	(25.211)	(22.536)
Fixed spread basis	150.000	(3.781)	(2.302)
Fixed payor	41.300	(13.145)	(11.533)
Fixed payor	100.425	(31.996)	(28.066)
		<u>\$ (74.133)</u>	<u>(64.437)</u>

(8) Property, Plant, and Equipment

A summary of property, plant, and equipment at June 30, 2013 and 2012 is as follows

	2013	2012
Land	\$ 49,952	47,294
Land improvements	38,184	37,113
Buildings and permanent fixtures	1,296,440	1,246,834
Equipment and furnishings	1,193,187	1,142,086
	<u>2,577,763</u>	<u>2,473,327</u>
Less accumulated depreciation	<u>1,509,277</u>	<u>1,433,133</u>
	1,068,486	1,040,194
Construction in progress	<u>189,031</u>	<u>111,869</u>
	<u>\$ 1,257,517</u>	<u>1,152,063</u>

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As of June 30, 2013, construction in progress represents various building and remodeling projects. These projects, which have remaining contracted costs at June 30, 2013 of approximately \$84,973, will be financed with board-designated assets or from operations.

A reconciliation of total interest costs, as reported in the accompanying consolidated statements of operations for 2013 and 2012, is as follows:

	<u>2013</u>	<u>2012</u>
Interest cost capitalized	\$ 3,238	3,997
Interest cost charged to expense	<u>7,247</u>	<u>6,316</u>
Total interest cost	<u>\$ 10,485</u>	<u>10,313</u>
Interest income capitalized	\$ 1	41

(9) Self-Insurance

(a) Professional and General Liability

Under the System's professional and general liability self-insurance program through RQIL, claims are reflected based upon actuarial estimation, including both reported and incurred but not reported claims, taking into consideration the severity of incidents and the expected timing of claim payments. At June 30, 2013 and 2012, funds held by RQIL were \$73,541 and \$64,051, respectively. The related estimated self-insurance liabilities for June 30, 2013 and 2012 were \$66,881 and \$51,488, respectively. At June 30, 2013 and 2012, RQIL's estimated self-insurance liability for all future claims payments reflects the actuarially determined outstanding losses at the undiscounted/expected level. The amount included in expenses for professional and general liability insurance by RQIL for 2013 and 2012 was \$19,099 and \$14,267, respectively, and is included in other expense in the consolidated statements of operations. These calculations take into consideration any liability that may be covered under an extended reporting endorsement and considered "tail" liability.

HSHS is involved in litigation arising in the ordinary course of business. Reported claims are in various stages of litigation. Additional claims may be asserted against HSHS arising from services through June 30, 2013. It is the opinion of management that the estimated malpractice liabilities accrued at June 30, 2013 are adequate to provide for potential losses resulting from pending or threatened litigation.

(b) Workers' Compensation and Employee Health

The HSHS self-insurance program provides workers' compensation insurance and health insurance for employees. An independent actuary has been retained to assist management in determining funding requirements for workers' compensation insurance. For health insurance claims, HSHS has developed internal techniques for estimating the ultimate costs. The amounts funded for each program have been placed in separate accounts that are administered by the trustee.

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At June 30, 2013 and 2012, funds held by the trustee and critical access hospitals for workers' compensation liability self-insurance are \$28,790 and \$25,237, respectively, and related estimated self-insurance liabilities are \$15,274 and \$13,005, respectively. The discount rate used to compute the estimated self-insurance liability at June 30, 2013 and 2012 was 4%, for all future claim payments. The amount included in employee benefits for 2013 and 2012 was \$8,256 and \$5,599, respectively, and is included in other expense in the consolidated statements of operations. Subsequently, in July 2013, the estimated workers' compensation liability of \$15,274 was transferred to RQIL to begin to administer this risk program.

At June 30, 2013 and 2012, funds held by the trustee for health insurance liability for employees' self-insurance are \$61,461 and \$58,473, respectively, and are included in assets whose use is limited or restricted. At June 30, 2013 and 2012, related estimated self-insurance liabilities are \$12,018 and \$10,518, respectively.

(10) Pension

HSHS employees participate in The Hospitals Sisters Health System Employees Pension Plan (the Plan). This noncontributory defined benefit pension plan covers substantially all employees of the System who have completed 1,000 hours of employment during any calendar year subsequent to the commencement of employment. The Plan recognizes and funds the costs related to employee service using the projected unit credit actuarial cost method. The information below represents the aggregation of HSHS' pension financial status, which is determined by the consulting actuaries on a member-specific basis.

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The following table sets forth the Plan's funded status, amounts recognized in HSHS' consolidated financial statements, and assumptions at June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 1,293,236	1,057,227
Service cost	49,622	40,998
Interest cost	60,884	58,154
Actuarial loss (gain)	(6,623)	161,114
Expected expenses	(102,258)	(6,061)
Benefits paid	(23,091)	(18,196)
Benefit obligation at end of year	\$ <u>1,271,770</u>	<u>1,293,236</u>
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 883,197	808,116
Actual gain on plan assets	92,864	52,814
Employer contributions	66,906	40,463
Benefits paid	(23,091)	(18,196)
Fair value of plan assets at end of year	\$ <u>1,019,876</u>	<u>883,197</u>
Reconciliation of funded status		
Funded status	\$ (251,894)	(410,039)
Amounts recognized in the accompanying consolidated balance sheets		
Accrued benefit liability	(251,894)	(410,039)
Amounts not yet reflected in net periodic benefit cost and included as an accumulated charge to unrestricted net assets		
Prior service cost	\$ (2,495)	(3,070)
Actuarial loss	(249,399)	(406,969)
	\$ <u>(251,894)</u>	<u>(410,039)</u>

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	<u>2013</u>	<u>2012</u>
Changes recognized in unrestricted net assets		
Net loss (gain) arising during the period	\$ (128.269)	170.762
Amortization of prior service credit	(575)	303
Amortization or settlement recognition of net loss	(29.301)	(10.137)
Total recognized in unrestricted net assets	<u>\$ (158.145)</u>	<u>160.928</u>
Total recognized in net periodic pension cost and unrestricted net assets	\$ (91.239)	201.392
Estimated amounts that will be amortized from unrestricted net assets over the next fiscal year		
Prior service credit	(575)	(575)
Net loss	(16.866)	(28.876)
Accumulated benefit obligation	1,169.337	1,172.307
Components of net periodic benefit cost		
Service cost	\$ 49.622	40.998
Interest cost	60.884	58.154
Expected return on plan assets	(73.476)	(68.522)
Amortization of prior service cost	575	(303)
Amortization of net loss	29.301	10.137
Net periodic benefit cost	<u>\$ 66.906</u>	<u>40.464</u>
	<u>2013</u>	<u>2012</u>
Weighted average assumptions used to determine benefit obligations at June 30		
Discount rate	5 24%	4 75%
Average rate of compensation increase	3 00	3 00
Measurement date	6/30/2013	6/30/2012
Weighted average assumptions used to determine net periodic benefit cost for the year ended June 30		
Discount rate	4 75%	5 69%
Expected long-term return on plan assets	8 25	8 25
Average rate of compensation increase	3 00	3 00
Measurement date	6/30/2012	6/30/2011

The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual assets categories. The return is based exclusively on historical returns, without adjustments.

As of June 30, 2013 and 2012, the Mercer Bond Model was used to determine the discount rate used to measure liabilities of the Plan. HSHS concluded the Mercer Bond Model provided the best estimate of the

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interest rates at which the pension benefits could be effectively settled in accordance with ASC Section 715-30-55-25. The Mercer Bond Model discounts the Plan's cash flow and calculates the Plan's appropriate equivalent single discount rate for the given cash flow based on a hypothetical bond portfolio whose cash flows from coupons and maturities match year-by-year the projected liability benefit payments from the Plan.

HSHS expects to contribute to its pension plan for the 2014 fiscal year the following amount	\$	49,908
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The following benefit payments that reflect expected future service, as appropriate, are expected to be paid

2014	\$	30,401
2015		36,236
2016		42,432
2017		49,385
2018		56,541
2019–2023		384,527

The expected benefits are based on the same assumptions used to measure HSHS' benefit obligation at June 30, 2013 and include estimated future employee service.

The Plan has developed a Pension Plan Investment Policy Statement (the IPS), which is reviewed and approved by the HSHS board of directors. The IPS established goals and objectives of the fund, asset allocations, allowable and prohibited investments, socially responsible guidelines, and asset classifications, as well as specific investment manager guidelines. The IPS dictates that assets should be rebalanced back to target allocation on a quarterly basis. Investments are managed by independent advisers. Management monitors the performance of these managers on a monthly basis.

The table below lists the target asset allocation and acceptable ranges and actual asset allocations as of June 30, 2013 and 2012.

Asset	Target allocation	Acceptable range	Actual allocation at June 30	
			2013	2012
Equities	57%	30%–70%	58%	55%
Debt securities	30	20–70	26	29
Alternative investments	13	0–15	13	12
Cash and cash equivalents	—	0–6	3	4

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(a) Overall Investment Objective

The overall investment objective of the Plan is to invest the Plan's assets in a prudent manner to best serve the participants of the Plan. Plan investment assets are to produce investment results that achieve the Plan's actuarial assumed rate of return, protect the integrity of the Plan, assist HSHS in meeting the obligations to the Plan's participants, manage risk exposures, focus on downside protection, and to maintain enough liquidity in the portfolio to ensure timely cash outflows and beneficiary payments. The Plans' investments are diversified among various asset classes incorporating multiple strategies and managers to exceed a weighted benchmark return based upon policy asset allocation targets and standard index returns. Major investment decisions are authorized by the Board's Retirement Committee, which oversees the Plan's investment program in accordance with established guidelines.

(b) Allocation of Investment Strategies

The Plan maintains a percent of assets in domestic and international equity stocks to achieve the expected rate of return. To manage risk exposure, up to 30% of the Plans' assets are invested in a liability driven investment strategy.

(c) Basis of Reporting

Investments are reported at estimated fair value. If an investment is held directly by HSHS and an active market with quoted prices exists, the market price of an identical security is used as reported fair value. Reported fair values for shares in mutual funds registered with them are based on share prices reported by the funds as of the last business day of the fiscal year. The Plan's interests in alternative investment funds are generally reported at the net asset value reported by the fund managers, which is used as a practical expedient to estimate the fair value of the Plan's interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from net asset value. As of June 30, 2013, the Plan had no plans or intentions to sell investments at amounts different from net asset value.

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The fair values of HSHS' pension plan assets at June 30, 2013, by asset category class, are as follows

	June 30, 2013			Redemption or liquidation	Days' notice
	Level 1	Level 2	Level 3		
Pension plan assets excluding accrued interest of \$2.084					
Cash and cash equivalents	\$ 56.421	—	—	Daily	One
Common stocks	409.767	—	—	Daily	Three
U.S. government securities	—	105.915	—	Daily	One
Commingled mutual funds	—	143.194	—	Daily	One
Municipal bonds	—	2.688	—	Daily	Two
Corporate bonds, notes, and debentures	—	5.794	—	Daily	Two
Foreign securities	154.366	5.092	—	Daily	Three
Hedge funds					
K2 multistrategy fund	—	—	29.679	Monthly	Thirty
Mesrow multistrategy fund	—	—	104.876	Monthly	Thirty
Total assets at fair value	\$ 620.554	262.683	134.555		

The table below sets forth a summary of changes in the fair value of the Plan's Level 3 assets for the year ended June 30, 2013

	Level 3 assets, year ended June 30, 2013		
	K2 fund	Escrow fund	Total funds
Balance, beginning of year	\$ 20.537	86.305	106.842
Purchases	6.657	9.986	16.643
Total net gains	2.485	8.585	11.070
Sales	—	—	—
Balance, end of year	\$ 29.679	104.876	134.555

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The fair values of the HSHS' pension plan assets at June 30, 2012, by asset category class, are as follows

	June 30, 2012			Redemption or liquidation	Days' notice
	Level 1	Level 2	Level 3		
Pension plan assets excluding accrued interest of \$2.017					
Cash and cash equivalents \$	31.627	—	—	Daily	One
Common stocks	342.927	—	—	Daily	Three
U.S. government securities	—	108.654	—	Daily	One
Commingled mutual funds	—	142.355	—	Daily	One
Municipal bonds	—	2.917	—	Daily	Two
Corporate bonds, notes, and debentures	—	11.893	—	Daily	Two
Foreign securities	129.130	4.835	—	Daily	Three
Hedge funds					
K2 multistrategy fund	—	—	20.537	Monthly	Thirty
Mesirow multistrategy fund	—	—	86.305	Monthly	Thirty
Total assets at fair value \$	<u>503.684</u>	<u>270.654</u>	<u>106.842</u>		

The table below sets forth a summary of changes in the fair value of the Plan's Level 3 assets for the year ended June 30, 2012

	Level 3 assets, year ended June 30, 2012		
	K2 fund	Mesirow fund	Total funds
Balance, beginning of year	\$ —	—	—
Purchases	20.600	82.700	103.300
Total net gains (losses)	(63)	3.605	3.542
Sales	—	—	—
Balance, end of year	<u>\$ 20.537</u>	<u>86.305</u>	<u>106.842</u>

(d) Fair Value of Financial Instruments

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2013 and 2012.

- Cash and cash equivalents: Valued at the carrying amount that approximates fair value because of the short-term maturity of these investments.
- Common and preferred stocks, U.S. government securities, commingled mutual funds, and foreign securities: Valued at the closing price reported on the active market on which the individual securities are traded.

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- Municipal bonds, corporate bonds, notes, and debentures. Certain corporate bonds are valued at the closing price reported in the active market in which the bond is traded. Other corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity.

The Plan has certain hedge fund investments for which quoted market prices are not available. The estimated fair value of these hedge fund investments includes estimates, appraisals, assumptions, and methods provided by external financial advisers and reviewed by HSHS.

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

(e) *Fair Value Hierarchy*

The Plan has adopted ASC Subtopic 715-20-50, *Compensation – Retirement Benefits – Defined Benefit Plans – General Disclosures*, for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. ASC Subtopic 715-20-50 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

(11) Long-Term Debt

HSSI and its 13 hospital affiliates are included in the HSSI Obligated Group. Under the terms of the Obligated Group MTI, each member of the Obligated Group is jointly and severally liable for all obligations issued thereunder. Bonds issued are unsecured general obligations, but carry covenants regarding withdrawals from the Obligated Group, issuance of additional debt, and creations of liens on property. Obligations outstanding under the Obligated Group MTI are issued through state health facility authorities and comprise both serial and term bonds with varying maturities.

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As of June 30, 2013, long-term debt consisted of the following

Series	Interest rates	Final maturity dates	2013
Fixed interest rate issues			
2007A	5.00%	March 15, 2028	\$ 72,035
2012B	2.00% to 5.00%	August 15, 2021	76,880
2012C	2.00% to 5.00%	August 15, 2021	68,785
Variable interest rate issues			
2012A	Variable 0.88% at June 30, 2013	June 30, 2041	20,300
2012D	Variable 0.05% at June 30, 2013	August 1, 2040	61,050
2012E	Variable 0.05% at June 30, 2013	August 1, 2040	41,550
2012F	Variable 0.07% at June 30, 2013	August 1, 2040	31,645
2012G	Variable 0.07% at June 30, 2013	August 1, 2040	31,645
2012H	Variable 0.15% and 0.16% at June 30, 2013	August 1, 2040	65,885
2012I	Variable 0.13% to 0.17% at June 30, 2013	August 1, 2040	89,460
2012J	Variable 0.16% at June 30, 2013	August 1, 2040	14,160
Total fixed and variable interest debt			573,395
Other long-term debt			23,974
Plus unamortized bond issue premiums			20,717
Total debt			618,086
Less current installments			17,909
Less long-term debt subject to short-term remarketing agreements			169,508
Total long-term debt, excluding current installments			\$ 430,669

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As of June 30, 2012, long-term debt consisted of the following

Series	Interest rates	Final maturity dates	2012
Fixed interest rate issues			
2007A	5.00%	March 15, 2028	\$ 72,035
Variable interest rate issues			
	Variable 0.50%		
2003A	at June 30, 2012	December 1, 2023	65,550
	Variable 0.25% to 0.37%		
2003B	at June 30, 2012	December 1, 2023	69,850
	Variable 0.35%		
2007B-1	at June 30, 2012	March 15, 2036	76,750
	Variable 0.50%		
2007B-2	at June 30, 2012	March 15, 2036	41,300
	Variable 0.50%		
2007C	at June 30, 2012	March 15, 2036	100,425
	Variable 0.15% to 0.19%		
2008A	at June 30, 2012	June 1, 2029	89,005
	Variable 0.17% to 0.18%		
2008B	at June 30, 2012	June 1, 2029	14,090
			<u>529,005</u>
Other long-term debt			<u>34,318</u>
			563,323
Plus unamortized bond issue premiums			<u>2,619</u>
Total debt			565,942
Less current installments			28,517
Less long-term debt subject to short-term remarketing agreements			<u>158,047</u>
Total long-term debt, excluding current installments			<u>\$ 379,378</u>

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The Obligated Group's effective interest rates for variable debt for the years ended June 30, 2013 and 2012 are as follows

	<u>2013</u>
Variable interest rate issues	
2012A	0.06%
2012D	0.05
2012E	0.05
2012F	0.07
2012G	0.07
2012H	0.16
2012I	0.15
2012J	0.16
	<u>2012</u>
Variable interest rate issues	
2003A	0.26%
2003B	0.32
2007B-1	0.19
2007B-2	0.26
2007C	0.27
2008A	0.16
2008B	0.15

Bond issue premiums and costs are amortized over the term of the related bonds using the bonds outstanding method. Bond issuance costs, net of amortization, are reported as other assets in the accompanying consolidated balance sheets.

HSSI has variable rate bonds, a portion of which have a put option available to the creditor. If the put option is exercised, the bonds are presented to the bank, which in turn draws on the underlying direct pay letter of credit, if available. Self-liquidity bonds are backed by the financial assets of HSSI. The bond series and the underlying credit facility terms are described as follows as of June 30, 2013:

<u>Series</u>	<u>Term</u>
Series 2012 D, E, F, and G	Equal quarterly installments on the first business day of each January, April, July, or October whichever occurs first on or following the 367th day after the purchase date and paid in full no later than the third anniversary of the purchase date.
Series 2012 H, I, and J	Self-liquidity – 270 days

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On October 1, 2012, HSSI issued \$601,475 of Series 2012 bonds of which \$100,115 remain held as bank bonds as of June 30, 2013. HSSI received a bond premium of \$19,360 related to this issuance as part of the proceeds. The proceeds of \$520,720 were used to refund prior outstanding bonds and issue new bonds. As part of this issuance, \$160,415 was issued as new bonds of which \$100,115 remain held as bank bonds. The remaining part of the issuance of \$441,060 was issued as bonds refunding prior outstanding bonds. As a result of this issuance, HSSI incurred a non-cash loss of \$5,073 for previously unamortized bond issue costs.

Scheduled principal repayments on long-term debt based on the variable rate demand notes being put back to HSHS and a corresponding draw being made on the underlying credit facility, if available, are as follows:

Year ending June 30	
2014	\$ 187,417
2015	72,872
2016	71,769
2017	71,649
2018	16,919
Thereafter	176,743
	<u>\$ 597,369</u>

Scheduled principal repayments on the long-term debt based on the scheduled redemptions according to the Obligated Group MTI are as follows:

Year ending June 30	
2014	\$ 17,909
2015	17,575
2016	16,473
2017	16,353
2018	16,919
Thereafter	512,140
	<u>\$ 597,369</u>

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(12) Capital Leases

HSHS leases certain equipment under capital leases. Included with property, plant, and equipment are \$25,184 of assets held under capital leases and \$8,317 of related accumulated amortization at June 30, 2013. A summary of future minimum lease payments and the present value of future minimum lease payments related to capital leases at June 30, 2013 is as follows:

	<u>Amount</u>
Year	
2014	\$ 4,606
2015	3,805
2016	2,251
2017	1,381
2018	1,189
Thereafter	<u>9,882</u>
Total future minimum lease payments	23,114
Less amount representing interest at rates ranging from 5.0% to 6.5%	<u>5,535</u>
Present value of future minimum lease payments	17,579
Less current portion of obligations under capital leases included in current installments of long-term debt	<u>3,684</u>
Obligations under capital leases, excluding current portion included in long-term debt, excluding current installments	<u><u>\$ 13,895</u></u>

(13) Functional Expenses

HSHS provides general healthcare services to residents within its respective geographic regions. Expenses related to providing these services for the years ended June 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Healthcare services	\$ 1,545,042	1,506,246
General and administrative services	440,960	423,337
	<u><u>\$ 1,986,002</u></u>	<u><u>1,929,583</u></u>

(14) Prevea

St. Vincent Hospital (St. Vincent) and St. Mary's Hospital Medical Center (St. Mary's) (collectively referred to as the Green Bay Hospitals), two members of the Obligated Group located in Green Bay, Wisconsin, each have a 25% interest in Prevea Health Systems, Inc. (Prevea). The Green Bay Hospitals held 21,989 (21,989 shares), at June 30, 2013 and 2012, of Prevea preferred stock. Prevea has

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9,000 shares of authorized stock consisting of 900 shares of Class P voting common stock, 3,600 shares of Class P nonvoting, and 4,500 shares of Class H common stock

With respect to all matters upon which shareholders are entitled to vote or give consent, the outstanding shares of Class P voting common stock constitute one voting group and the holders of outstanding shares of Class H common stock constitute a separate voting group. Each voting group gets 50% of the total voting privileges (with each entitled to elect one-half of the total authorized number of directors of the corporation). Based on Prevea numbers as of June 30, there are 100 voting shares for the Hospitals (Class H), 146 voting shares for Physicians (Class P). There are 457 nonvoting shares. The preferred stockholders of Prevea have liquidation preferences to common stockholders, as defined in the Articles of Incorporation of Prevea. The preferred stock entitles the Green Bay Hospitals to receive dividends equal to 7% of the face value of the preferred stock. Additionally, preferred stock dividends are cumulative. The Green Bay Hospitals' policy is to recognize preferred stock dividends when the dividends are declared. Dividends were declared and paid by Prevea totaling \$0 in 2013 and \$500 in 2012. The investment in Prevea is accounted for using the equity method. The carrying value of the Green Bay Hospitals' investment in Prevea, inclusive of preferred stock holdings, is reported as other assets in the accompanying consolidated balance sheets.

Prevea formed a wholly owned subsidiary, Prevea Clinic, Inc. (the Clinic). The Clinic started operations in 1995. The Clinic consists of several medical clinic locations throughout the Green Bay and Sheboygan area with approximately 296 physicians and midlevel providers.

Prevea formed Prevea Regional Services, Inc. (Prevea Regional) in 1997 to develop a regional clinic system throughout the outlying areas of Green Bay. Prevea held all of the voting common stock of Prevea Regional on June 30, 2009. The Green Bay Hospitals held \$5,550 (1,110 shares) at June 30, 2009 of nonvoting preferred stock in Prevea Regional. In August 2009, Prevea Regional was merged into the Clinic by Prevea. Also in August 2009, the Green Bay Hospitals' preferred stock shares of \$5,550 (1,110 shares) in Prevea Regional were exchanged for preferred shares of equal value in Prevea Health Services, Inc.

In September 2009, the Clinic entered into several transactions with St. Vincent. They are summarized as follows:

- Certain assets of the Clinic were sold, transferred, and assigned in the amount of \$31,370 in exchange for the redemption of the appropriate number of shares of preferred stock owned by St. Vincent having the same value.
- Lease arrangements – St. Vincent leased all real property, equipment, furnishings, and other personal property and intellectual property from the Clinic for use in the operations of the Clinic.
- Physician services agreement – St. Vincent entered into physician services agreement with the Clinic whereby the Clinic provides certain professional medical services in connection with the operations of the clinic.
- Managed and staff services agreement – St. Vincent entered into a management and nonphysician staff services agreement with the Clinic in connection with the operations of the clinics whereby the

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Clinic provides certain management and nonphysician staff services in connection with the operations of the Clinic

Since September 2009, St Vincent, with the completion of these transactions, has assumed operations of the Clinic's medical clinic locations, and it is now operating these sites as St Vincent doing business as Prevea Health receiving all of the Clinic's patient revenues and responsible for all of the operating expenses. The expenses directly related to Prevea Health, mainly for the leasing of all employees and doctors, for the years ended June 30, 2013 and 2012 are \$184,806 and \$178,214, respectively, included in other expenses in the consolidated statements of operations.

During the years ended June 30, 2013 and 2012, the Green Bay Hospitals have \$906 and \$930, respectively, of notes receivable for cash advances to Prevea.

The following are Prevea's condensed unaudited financial statement data as of and for the years ended June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Total assets	\$ 86,283	83,914
Total liabilities	50,347	50,458
Total equity	35,935	33,456
Total net revenue	198,779	182,007
Net income	2,682	2,220

The Green Bay Hospitals' equity portion in Prevea at June 30, 2013 and 2012 increased by \$774 and \$1,595, respectively, and is included in other operating income in the accompanying consolidated statements of operations.

During fiscal year 2010, the Obligated Group replaced the St Vincent guarantee whereby the Obligated Group agrees to guarantee the lesser of \$10,500, or 39.92%, of the outstanding notes. The Obligated Group will be paid 1.25% of the lesser of 39.92% of the average outstanding principal amount of \$10,500 the outstanding notes. Included in the guarantee executed in December 2009 are \$2,920 taxable variable rate demand notes of PHP Insurance Plan, Inc. (PHP). PHP, a former health maintenance organization, sold its insurance license, changed its corporate structure, and became Prevea Ventures, LLC (PV). Prevea is the sole corporate member of PV. At June 30, 2013 and 2012, the Clinic has notes outstanding with balances of \$21,291 and \$22,555, respectively. At June 30, 2013 and 2012, PV has notes outstanding of \$2,364 and \$2,505, respectively.

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(15) Joint Ventures

Joint ventures are accounted for using the equity method of accounting and represent \$14,925 and \$18,002 of other long-term assets in the accompanying consolidated balance sheets at June 30, 2013 and 2012, respectively. The most significant of these investments, excluding Prevea (note 14), include

- Protestant Memorial Medical Center and St Elizabeth's Healthcare Services, LLP (held by St Elizabeth's Hospital) – 50% ownership interest
- Northeast Wisconsin Radiation Therapy Services, LLC (held by St Vincent and St Mary's, Green Bay) – each hospital has a 25% ownership interest
- Pain Center of Wisconsin (held by St Vincent) – 50% ownership interest
- Surgery Center of Sheboygan, LLC (held by St Nicholas Hospital) – 50% ownership interest
- Orange Cross Ambulance, Inc (held by St Nicholas Hospital) – 50% ownership interest
- Holy Family (held by St Vincent) – 50% ownership interest
- Wisconsin Upper Peninsula Oncology Management Services, Inc (held by St Vincent) – 50% ownership interest
- Community Memorial Hospital – (held by St Vincent (70%) and St Mary's, Green Bay (30%)) – 24% ownership interest overall, beginning May 17, 2011

For the years ended June 30, 2013 and 2012, HSHS recognized income of \$3,384 and \$4,131, respectively, in investments in affiliated companies. This activity is included as a component of other revenue in the accompanying consolidated statements of operations. During 2013 and 2012, HSHS received cash distributions of \$4,230 and \$4,039, respectively, from the joint ventures. During 2012, HSHS also contributed cash of \$95 to the joint ventures.

The following table summarizes the unaudited aggregated financial information of unconsolidated affiliated companies of HSHS as of June 30, 2013 and 2012.

	<u>2013</u>	<u>2012</u>
Total assets	\$ 51,504	52,613
Total liabilities	17,143	18,411
Total equity	34,361	34,202
Total net revenue	33,489	35,030
Net income	6,590	7,886

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(16) Pledges Receivable

Pledges, net of a present value discount rate, determined in the year the pledge is made, and an allowance for uncollectible pledges are recorded as a component of assets whose use is limited or restricted in the accompanying consolidated financial statements based on their expected collection date

Included in assets whose use is limited or restricted at June 30, 2013 and 2012 are the following unconditional promises to give

	2013	2012
Unconditional promises to give	\$ 7,103	8,291
Less unamortized discount	158	419
	<u>6,945</u>	<u>7,872</u>
Less allowance for uncollectible pledges	260	286
Net pledges receivable	<u>\$ 6,685</u>	<u>7,586</u>
Amounts due in		
Less than one year	\$ 2,487	2,553
One to five years	4,413	4,751
More than five years	203	987
Total	<u>\$ 7,103</u>	<u>8,291</u>

(17) Temporarily and Permanently Restricted Assets

Temporarily restricted assets are available for the following purposes or periods at June 30, 2013 and 2012

	2013	2012
Healthcare services	\$ 11,916	9,475
Capital expenditures	13,109	10,883
Catholic Radio	207	221
College of nursing	255	204
	<u>\$ 25,487</u>	<u>20,783</u>

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As of June 30, 2013 and 2012, HSHS has permanently restricted endowments as follows

	<u>2013</u>	<u>2012</u>
Assets to be held in perpetuity, the income from which is expendable to support nursing schools	\$ 2,430	2,300
Assets to be held in perpetuity, the income from which is expendable to support specific operations of HSHS facilities	<u>20,641</u>	<u>20,450</u>
	<u>\$ 23,071</u>	<u>22,750</u>

As of June 30, 2013 and 2012, HSHS has unrestricted and temporarily restricted funds that represent the unspent accumulation of earnings for endowment funds as follows

	<u>2013</u>	<u>2012</u>
Unspent income from which is expendable to support nursing schools	\$ 324	241
Unspent income from which is expendable to support specific operations of HSHS facilities	<u>8,673</u>	<u>7,334</u>
	<u>\$ 8,997</u>	<u>7,575</u>

(18) Commitments and Contingencies

(a) Operating Leases

HSHS occupies space in certain facilities and leases various pieces of equipment under long-term noncancelable operating lease arrangements. Total equipment rental, asset lease, and facility rental expense in 2013 and 2012 were \$29,053 and \$28,552, respectively.

The following is a schedule by year of future minimum lease payments to be made under operating leases as of June 30, 2013 that have initial or remaining lease terms in excess of one year.

	<u>Amount</u>
Year ending June 30	
2014	\$ 23,278
2015	17,936
2016	15,785
2017	14,600
2018	14,102
Thereafter	17,651

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(b) *Legal, Regulatory, and Other Contingencies and Commitments*

The laws and regulations governing the Medicare, Medicaid, and other government healthcare programs are extremely complex and subject to interpretation, making compliance an ongoing challenge for HSHS and other healthcare organizations. Recently, the federal government has increased its enforcement activity, including audits and investigations related to billing practices, clinical documentation, and related matters. HSHS maintains a compliance program designed to educate employees and to detect and correct possible violations.

(c) *Litigation*

HSHS is involved in litigation arising in the ordinary course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the HSHS's future consolidated financial position or results of operations.

(d) *Unemployment*

The Wisconsin hospitals of HSHS pledged a U.S. Treasury note as collateral for any unpaid unemployment compensation claims with a face value of \$4,000 for 2013 and 2012 to the Wisconsin Unemployment Reserve Fund. The pledged U.S. Treasury note remained unused at June 30, 2013 and 2012.

(e) *The Patient Protection and Affordable Care Act*

The Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (often referred to, collectively, as the Affordable Care Act or the healthcare reform law), was signed into law on March 23, 2010. The statute will change how healthcare services are delivered and reimbursed through a variety of mechanisms. The law contains stronger antifraud enforcement provisions and provides additional funding for enforcement activity.

On May 6, 2011, CMS issued a final rule establishing a value-based purchasing program for acute care hospitals paid under the Medicare Inpatient Prospective Payment System. Beginning in federal fiscal year 2013, incentive payments will be made based on achievement of or improvement in a set of clinical and quality measures designed to foster improved clinical outcomes. HSHS continues to monitor the impact of this ruling as regulations become finalized.

(f) *Tax Exemption for Sales Tax and Property Tax*

Effective June 14, 2012, the Governor of Illinois signed into law, *Public Act 97-0688*, which creates new standards for state sales tax and property tax exemptions in Illinois. The law establishes new standards for the issuance of charitable exemptions, including requirements for a nonprofit hospital to certify annually that in the prior year, it provided an amount of qualified services and activities to low-income and underserved individuals with a value at least equal to the hospital's estimated property tax liability. HSHS certified in 2013 and has not recorded a liability for related property taxes based upon management's current determination of qualified services provided.

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(Dollars in thousands)

(g) *Investment Risk and Uncertainties*

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

(19) Subsequent Events

HSHS evaluated events and transactions through October 28, 2013, the date the consolidated financial statements were issued, noting no subsequent events requiring recording or disclosure.

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidating Balance Sheet Information

June 30, 2013

(Dollars in thousands)

Assets	HSSI – Obligated Group	RQIL	Unity Limited Partnership	KCIN	Healthcare West
Current assets					
Cash and cash equivalents	\$ 55,473	—	3,693	1,666	106
Receivables					
Patients' accounts less allowance for uncollectible accounts of \$129,300	276,021	—	1,932	—	—
Due from third-party reimbursement programs	2,813	—	—	—	—
Other	18,702	—	26	380	—
Total receivables	297,536	—	1,958	380	—
Current portion of assets whose use is limited or restricted	156,825	—	4,048	—	—
Inventories	38,875	—	—	—	—
Prepaid expenses	9,691	—	—	438	—
Total current assets	558,400	—	9,699	2,484	106
Assets whose use is limited or restricted	1,552,282	73,541	317	—	8,571
Property, plant and equipment net	1,058,097	—	5,216	7,495	1,971
Other assets	71,232	—	—	—	—
Total assets	\$ 3,240,011	73,541	15,232	9,979	10,648
Liabilities and Net Assets					
Current liabilities					
Current installments of long-term debt	\$ 14,481	—	—	—	—
Long-term debt subject to short-term remarketing agreements	169,508	—	—	—	—
Accounts payable	96,058	—	1,319	3,005	78
Accrued liabilities	96,804	475	43	721	12
Estimated payables under third-party reimbursement programs	43,637	—	—	—	—
Total current liabilities	420,488	475	1,362	3,726	90
Long-term debt, excluding current installments	474,091	—	—	5,000	—
Estimated self-insurance liabilities	15,274	66,881	—	—	—
Derivative instruments	41,831	—	—	—	—
Accrued benefit liability	232,510	—	—	—	—
Other noncurrent liabilities	30,041	—	6,242	—	411
Total liabilities	1,214,235	67,356	7,604	8,726	501
Net assets					
Unrestricted	1,929,884	6,185	7,628	1,253	10,147
Temporarily restricted	72,821	—	—	—	—
Permanently restricted	23,071	—	—	—	—
Total net assets	2,025,776	6,185	7,628	1,253	10,147
Stockholders' equity	—	—	—	—	—
Total liabilities and net assets	\$ 3,240,011	73,541	15,232	9,979	10,648

See accompanying independent auditors' report

Schedule 1

System Office	HSHS Medical Group	Health Care Trust Fund	Flex Plan	Foundation	Kiara	Eliminations	Total
6 381	7 733	—	762	2 717	5 296	(2 717)	81 110
—	7 829	—	—	—	8 796	—	294 578
—	—	—	—	—	—	—	2 813
14 430	4 588	—	1 983	6 685	4 838	(27 997)	23 635
14 430	12 417	—	1 983	6 685	13 634	(27 997)	321 026
108 645	6 599	—	—	—	8 025	—	284 142
41	—	—	—	—	1 135	—	40 051
9 034	659	—	—	—	483	—	20 305
138 531	27 408	—	2 745	9 402	28 573	(30 714)	746 634
760	—	61 461	—	87 931	—	(261 156)	1 523 707
173 657	6 132	—	—	—	4 949	—	1 257 517
28 223	—	—	—	918	9 989	(42 154)	68 208
341 171	33 540	61 461	2 745	98 251	43 511	(334 024)	3 596 066
3 199	—	—	—	—	229	—	17 909
—	—	—	—	—	—	—	169 508
9 007	1 948	20 558	2 557	—	875	(21 312)	114 093
14 193	10 795	3 351	—	98 251	7 755	(98 463)	133 937
—	—	—	—	—	—	—	43 637
26 399	12 743	23 909	2 557	98 251	8 859	(119 775)	479 084
121 836	—	—	—	—	7 755	(178 013)	430 669
—	—	12 018	—	—	—	—	94 173
—	—	—	—	—	—	—	41 831
15 480	3 405	—	—	—	499	—	251 894
6 237	—	—	—	—	3 975	—	46 906
169 952	16 148	35 927	2 557	98 251	21 088	(297 788)	1 344 557
170 459	17 392	25 534	188	—	—	34 281	2 202 951
760	—	—	—	—	—	(48 094)	25 487
—	—	—	—	—	—	—	23 071
171 219	17 392	25 534	188	—	—	(13 813)	2 251 509
—	—	—	—	—	22 423	(22 423)	—
341 171	33 540	61 461	2 745	98 251	43 511	(334 024)	3 596 066

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidating Statement of Operations Information

Year ended June 30, 2013

(Dollars in thousands)

	<u>HSSI – Obligated Group</u>	<u>RQIL</u>	<u>Unity Limited Partnership</u>	<u>KCIN</u>	<u>Healthcare West</u>
Net patient service revenues	\$ 1 902 152	—	19 777	—	—
Provision for uncollectible accounts	(100 341)	—	—	—	—
Net patient service revenue less provision for uncollectible accounts	1 801 811	—	19 777	—	—
Other revenues					
Investment income	2 036	4 789	—	—	—
Net assets released from restrictions used for operations	1 933	—	—	—	—
Other	65 763	14 310	617	6 922	885
Total revenues and other support	1 871 543	19 099	20 394	6 922	885
Expenses					
Sisters' services	244	—	—	—	—
Salaries and wages	550 241	—	9 649	—	—
Employee benefits	208 683	—	4 094	—	—
Professional fees	96 221	—	211	95	7
Supplies	275 015	—	217	19	44
Depreciation and amortization	102 209	—	430	1 908	322
Interest	7 881	—	—	99	—
Other	570 069	19 099	5 226	9 218	306
Total expenses	1 810 563	19 099	19 827	11 339	679
Income (loss) from operations	60 980	—	567	(4 417)	206
Nonoperating gains (losses)					
Investment income	110 721	—	(26)	4	573
Change in fair value of interest rate swaps	22 606	—	—	—	—
Loss on conversion and early extinguishment of debt	(5 073)	—	—	—	—
Revenues and gains (losses) in excess (deficient) of expenses	189 234	—	541	(4 413)	779
Other changes in unrestricted net assets					
Net assets released from restrictions used for the purchase of property, plant, and equipment	4 218	—	—	—	—
Reversal of change in pension funded status	150 522	—	—	—	—
Transfers from (to) affiliates	(47 095)	—	—	1 500	—
Change in unrestricted net assets	\$ 296 879	—	541	(2 913)	779

See accompanying independent auditors' report

Schedule 2

System Office	HSHS Medical Group	Health Care Trust Fund	Flex Plan	Foundation	Kiara	Eliminations	Total
—	55 862	—	—	—	34 317	—	2 012 108
—	(6 597)	—	—	—	(193)	—	(107 131)
—	49 265	—	—	—	34 124	—	1 904 977
—	—	2 737	1	—	814	(7 626)	2 751
—	—	—	—	2 483	—	(2 903)	1 513
118 304	46 117	140 121	160	2 056	29 745	(326 675)	98 325
118 304	95 382	142 858	161	4 539	64 683	(337 204)	2 007 566
1 031	—	—	—	—	—	—	1 275
48 866	71 081	—	—	—	60 848	3	740 688
13 301	11 200	139 649	126	—	8 054	(143 051)	242 056
7 447	8 417	—	—	—	964	—	113 362
228	3 228	—	—	—	1 148	(3 938)	275 961
28 098	1 211	—	—	—	1 693	—	135 871
3 305	—	—	—	—	256	(4 294)	7 247
38 656	16 599	—	—	9 493	8 631	(207 755)	469 542
140 932	111 736	139 649	126	9 493	81 594	(359 035)	1 986 002
(22 628)	(16 354)	3 209	35	(4 954)	(16 911)	21 831	21 564
15 411	606	—	—	5 683	—	(4 190)	128 782
—	—	—	—	—	—	—	22 606
—	—	—	—	—	—	—	(5 073)
(7 217)	(15 748)	3 209	35	729	(16 911)	17 641	167 879
—	—	—	—	—	—	(2 981)	1 237
4 643	1 264	—	—	—	1 716	—	158 145
28 737	16 858	—	—	(729)	15 195	(14 466)	—
26 163	2 374	3 209	35	—	—	194	327 261

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidating Statement of Changes in Net Assets Information

Year ended June 30, 2013

(Dollars in thousands)

	<u>HSSI – Obligated Group</u>	<u>RQIL</u>	<u>Unity Limited Partnership</u>	<u>KCIN</u>	<u>Healthcare West</u>
Unrestricted net assets					
Revenues and gains (losses) in excess (deficient) of expenses	\$ 189,234	—	541	(4,413)	779
Other changes in unrestricted net assets					
Net assets released from restrictions use for the purchase of property, plant and equipment	4,218	—	—	—	—
Reversal of change in pension funded status	150,522	—	—	—	—
Transfers from (to) affiliates	(47,095)	—	—	1,500	—
Change in unrestricted net assets	<u>296,879</u>	<u>—</u>	<u>541</u>	<u>(2,913)</u>	<u>779</u>
Temporarily restricted net assets					
Investment income	6,118	—	—	—	—
Contributions	5,423	—	—	—	—
Transfers from (to) affiliates	—	—	—	—	—
Net assets released from restrictions	(6,151)	—	—	—	—
Change in temporarily restricted net assets	<u>5,390</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Permanently restricted net assets					
Investment income (loss)	(9)	—	—	—	—
Contributions	330	—	—	—	—
Transfers from (to) affiliates	—	—	—	—	—
Change in permanently restricted net assets	<u>321</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Change in net assets	<u>302,590</u>	<u>—</u>	<u>541</u>	<u>(2,913)</u>	<u>779</u>
Net assets at beginning of year	<u>1,723,186</u>	<u>6,185</u>	<u>7,087</u>	<u>4,166</u>	<u>9,368</u>
Net assets at end of year	<u>\$ 2,025,776</u>	<u>6,185</u>	<u>7,628</u>	<u>1,253</u>	<u>10,147</u>

See accompanying independent auditors' report

Schedule 3

System Office	HSHS Medical Group	Health Care Trust Fund	Flex Plan	Foundation	Kiara	Eliminations	Total
(7 217)	(15 748)	3 209	35	729	(16 911)	17 641	167 879
—	—	—	—	—	—	(2 981)	1 237
4 643	1 264	—	—	—	1 716	—	158 145
28 737	16 858	—	—	(729)	15 195	(14 466)	—
26 163	2 374	3 209	35	—	—	194	327 261
752	—	—	—	1 182	—	(6 870)	1 182
(703)	—	—	—	5 967	—	(4 415)	6 272
—	—	—	—	(4 666)	—	4 666	—
—	—	—	—	(2 483)	—	5 884	(2 750)
49	—	—	—	—	—	(735)	4 704
—	—	—	—	(9)	—	9	(9)
—	—	—	—	329	—	(329)	330
—	—	—	—	(320)	—	320	—
—	—	—	—	—	—	—	321
26 212	2 374	3 209	35	—	—	(541)	332 286
145 007	15 018	22 325	153	—	—	(13 272)	1 919 223
171 219	17 392	25 534	188	—	—	(13 813)	2 251 509

**HOSPITAL SISTERS SERVICES, INC. –
OBLIGATED GROUP**
Springfield, Illinois

Consolidating Balance Sheet Information

June 30, 2013

(Dollars in thousands)

Assets	St. Elizabeth's Belleville, Illinois	St. Joseph's Brees, Illinois	St. Mary's Decatur, Illinois	St. Anthony's Effingham, Illinois	St. Joseph's Highland, Illinois	St. Francis Litchfield, Illinois
Current assets						
Cash and cash equivalents	\$ 2,288	3,540	4,305	5,922	(1,682)	2,382
Receivables						
Patients' accounts, less allowance for uncollectible accounts	24,507	7,720	20,530	18,340	4,110	2,003
Due from third-party reimbursement programs	1,120	—	842	(40)	1	(6)
Other	1,058	35	2,200	470	231	157
Total receivables	26,685	7,755	23,572	18,770	4,342	2,154
Current portion of assets whose use is limited or restricted	3,200	2,572	2,241	8,054	2,385	1,307
Inventories	2,421	628	3,137	4,788	468	387
Prepaid expenses	670	241	712	230	177	298
Total current assets	30,248	14,751	34,072	37,773	5,090	6,528
Assets whose use is limited or restricted, net of current portion	12,708	8,728	10,548	25,057	5,463	22,220
Property, plant, and equipment, net	60,264	22,084	98,543	60,040	42,263	22,542
Other assets	4,540	100	210	153	340	60
Total assets	\$ 113,700	124,220	143,382	354,223	53,702	51,305
Liabilities and Net Assets						
Current liabilities						
Current installments of long-term debt	\$ 810	191	688	948	1,125	07
Long-term debt subject to short-term remarketing agreements	10,080	2,381	8,505	7,100	14,002	1,210
Accounts payable	6,153	1,100	6,647	5,548	2,158	1,083
Accrued liabilities	6,891	2,301	4,930	4,625	1,118	1,487
Estimated payables under third-party reimbursement programs	2,822	3,078	6,752	8,387	825	1,423
Total current liabilities	26,756	9,210	27,582	26,014	19,228	5,300
Long-term debt, excluding current installments	57,546	6,132	32,293	21,338	30,570	8,870
Estimated self-insurance liabilities	3,343	125	1,768	300	468	500
Derivative instruments	34	2,402	12	7007	0	535
Accrued benefit liability	21,630	4,682	17,803	9,468	3,558	6,117
Other noncurrent liabilities	8,488	2,501	1,800	687	1,025	868
Total liabilities	117,800	25,052	81,324	65,414	54,858	22,298
Net assets						
Unrestricted	(10,927)	97,531	55,077	280,710	(6,543)	20,000
Temporarily restricted	6,798	1,640	5,780	1,981	5,447	2,378
Permanently restricted	92	—	1,201	112	—	623
Total net assets	(4,037)	99,171	62,058	288,800	(1,096)	22,000
Total liabilities and net assets	\$ 113,700	124,220	143,382	354,223	53,702	51,305

See accompanying independent auditors' report.

Schedule 4

St John's Springfield, Illinois	St Mary's Streator, Illinois	St Joseph's Chippewa Falls, Wisconsin	Sacred Heart Eau Claire, Wisconsin	St Mary's Green Bay, Wisconsin	St Vincent Green Bay, Wisconsin	St Nicholas Sheboygan, Wisconsin	Hospital Sisters Services, Inc	Eliminations	Total
2 201	(507)	637	858	6 598	19 204	6 211	3 420	—	55 473
90 001	7 078	6 406	23 582	11 830	49 664	10 220	—	—	276 021
—	101	—	—	205	198	302	—	—	2 813
3 350	457	127	715	613	9 004	647	149	(1 438)	18 702
93 360	7 636	6 533	24 207	12 747	58 866	11 169	149	(1 438)	297 536
72 599	3 747	4 674	17 669	6 793	22 970	4 848	700	—	156 825
10 975	922	391	5 100	2 780	5 267	1 611	—	—	38 875
3 608	351	50	677	205	2 305	140	—	—	9 691
182 743	12 149	12 294	48 601	32 123	108 612	23 979	4 269	(1 438)	558 400
273 858	31 599	92 615	342 836	56 429	320 129	40 473	—	—	1 552 282
331 112	37 618	24 610	103 424	74 664	131 919	48 684	—	—	1 058 097
4857	460	93	352	10 355	41 347	1 449	6 826	—	71 232
792 570	81 736	129 612	495 213	173 901	602 007	114 585	11 095	(1 438)	3 240 011
5 399	279	348	1 314	728	1 958	596	—	—	14 481
67 200	3 468	4 326	16 355	9 065	21 262	4 488	—	—	169 598
25 664	2 066	2 963	11 682	5 439	18 338	4 978	3 578	(1 438)	96 058
21 244	2 180	3 583	7 705	3 798	30 898	2 565	3 419	—	96 804
10 394	2 886	1 033	5 321	96	620	—	—	—	43 637
129 901	10 879	12 253	42 377	19 126	73 076	12 627	6 997	(1 438)	420 488
155 455	8 933	11 144	42 129	23 350	60 155	16 167	—	—	474 091
6 461	433	170	870	67	352	288	—	—	15 274
8 092	840	2 271	9 424	1 542	8 614	1 049	—	—	41 831
51 999	9 418	13 966	23 967	15 828	47 025	6 980	—	—	232 510
10 203	1 855	—	500	231	654	582	641	—	30 041
362 111	32 358	39 804	119 267	60 174	189 876	37 693	7 638	(1 438)	1 214 235
402 599	46 957	79 994	368 796	106 744	404 059	69 448	3 457	—	1 929 884
25 458	2 339	3 464	1 813	4 684	5 240	5 793	—	—	72 821
2 492	82	6 350	5 337	2 299	2 832	1 651	—	—	23 071
430 459	49 378	89 808	375 946	113 727	412 131	76 892	3 457	—	2 025 776
792 570	81 736	129 612	495 213	173 901	602 007	114 585	11 095	(1 438)	3 240 011

**HOSPITAL SISTERS SERVICES, INC. –
OBLIGATED GROUP**
Springfield, Illinois

Consolidating Statement of Operations Information

Year ended June 30, 2013

(Dollars in thousands)

	St. Elizabeth's Belleville, Illinois	St. Joseph's Breesee, Illinois	St. Mary's Decatur, Illinois	St. Anthony's Effingham, Illinois	St. Joseph's Highland, Illinois	St. Francis Litchfield, Illinois
Net patient service revenues	\$ 158,547	48,500	137,000	118,705	25,055	33,043
Provision for uncollectible accounts	(17,024)	(785)	(10,770)	(5,230)	(055)	(2,500)
Net patient service revenue less provision for uncollectible accounts	140,923	47,715	126,230	113,400	24,700	31,374
Other revenues						
Investment income	305	25	253	71	0	02
Net assets released from restrictions used for operations	—	0	—	—	—	—
Other	0,512	2,300	0,540	5,440	442	1,193
Total revenues	147,830	50,211	133,932	118,983	25,148	32,629
Expenses						
Sisters' services	2	—	2	—	24	—
Salaries and wages	53,008	10,902	42,100	32,491	8,400	10,710
Employee benefits	10,287	0,007	10,384	14,030	4,201	4,372
Professional fees	4,000	3,012	7,302	0,030	2,525	2,044
Supplies	21,490	4,022	18,071	17,300	2,402	2,051
Depreciation and amortization	0,305	3,310	8,044	0,247	1,005	1,420
Interest	857	135	0,45	511	130	11
Other	54,044	0,271	30,040	24,730	0,980	7,740
Total expenses	103,745	43,325	132,023	101,408	25,850	20,800
Income (loss) from operations	(15,915)	0,880	1,300	17,575	(711)	2,700
Nonoperating gains (loss)						
Investment income (loss)	23	0,150	(281)	18,582	(120)	1,510
Change in fair value of interest rate swap	5,073	(1,007)	3,400	(3,703)	400	010
Loss on conversion and early extinguishment of debt	(370)	(101)	(308)	(230)	(5)	(51)
Revenues and gains (losses) in excess (deficient) of expenses	(10,580)	11,874	4,000	32,125	(385)	5,135
Other changes in unrestricted net assets						
Net assets released from restrictions used for the purchase of property, plant, and equipment	444	—	81	275	115	—
Transfers to affiliate	(0,382)	(1,084)	(4,020)	(2,000)	(705)	(2,308)
Reversal of changes in pension funded status	10,028	3,001	10,720	7,387	2,070	3,500
Change in unrestricted net assets	\$ 401	13,701	0,041	30,707	1,044	0,300

See accompanying independent auditors' report

St John's Springfield, Illinois	St Mary's Streator, Illinois	St Joseph's Chippewa Falls, Wisconsin	Sacred Heart Eau Claire, Wisconsin	St Mary's Green Bay, Wisconsin	St Vincent Green Bay, Wisconsin	St Nicholas Sheboygan, Wisconsin	Hospital Sisters Services, Inc	Eliminations	Total
440 100 (37 485)	48 050 (1 810)	08 022 (952)	215 020 (5 007)	123 130 (4 912)	415 744 (9 743)	07 180 (2 484)	— —	— —	1 902 152 (100 341)
402 081	40 234	07 070	210 922	118 224	400 001	04 000	—	—	1 801 811
810 1 024 20 047	90 — 2 532	18 — 2 401	70 — 5 850	21 — 0 080	120 — 7 293	71 — 4 311	— — 235	— — (5 527)	2 030 1 933 05 703
425 471	48 805	70 080	210 848	124 331	413 420	09 078	235	(5 527)	1 871 543
57 138 423 50 495 41 302 81 948 20 013 2 413 95 757	— 10 037 0 540 5 370 4 834 3 730 155 13 805	— 27 005 10 428 3 407 4 095 2 931 220 14 075	— 72 204 24 785 5 452 32 570 12 812 803 30 700	— 34 141 13 092 3 090 18 493 0 483 537 35 000	150 77 894 30 450 12 347 55 830 10 212 1 183 205 800	— 20 005 7 334 984 9 005 4 583 209 23 925	— — — (200) — — — 872	— — — (2 508) — — — (2 950)	244 550 241 208 083 90 221 275 015 102 209 7 881 570 000
430 408 (11 027)	50 549 (1 084)	04 327 5 702	188 554 28 294	112 054 12 277	300 902 13 518	00 705 2 373	072 (437)	(5 527) —	1 810 503 00 980
23 280 14 771 (1 351)	2 273 092 (141)	0 025 (372) (180)	23 803 (2 224) (094)	3 755 2 440 (421)	23 433 705 (957)	2 243 930 (189)	42 — —	— — —	110 721 22 000 (5 073)
25 073	1 140	11 220	40 170	18 057	30 750	5 303	(395)	—	189 234
41 (18 140) 37 387	00 (1 797) 0 714	512 (1 205) 0 513	734 (2 001) 13 523	494 (1 097) 0 368	555 (3 045) 20 284	901 (023) 0 119	— — —	— — —	4 218 (47 095) 150 522
44 952	0 123	10 980	01 435	20 822	50 953	11 700	(395)	—	290 870

**HOSPITAL SISTERS SERVICES, INC. –
OBLIGATED GROUP**
Springfield, Illinois
Consolidating Statement of Changes in Net Assets Information
Year ended June 30, 2013
(Dollars in thousands)

	St. Elizabeth's Belleville, Illinois	St. Joseph's Breeze, Illinois	St. Mary's Decatur, Illinois	St. Anthony's Effingham, Illinois	St. Joseph's Highland, Illinois	St. Francis Litchfield, Illinois
Unrestricted net assets						
Revenues and gains (losses) in excess (deficient) of expenses	\$ (10,589)	11,874	4,060	32,125	(385)	5,135
Other changes in unrestricted net assets						
Net assets released from restrictions used for the purchase of property, plant, and equipment	444	—	81	275	115	—
Transfers to affiliate	(6,382)	(1,084)	(4,929)	(2,990)	(705)	(2,368)
Reversal of changes in pension funded status	16,928	3,001	10,720	7,387	2,970	3,500
Change in unrestricted net assets	401	13,791	9,941	36,797	1,944	6,367
Temporarily restricted net assets						
Investment income	428	103	307	138	198	165
Contributions	588	5	552	—	1,157	198
Net assets released from restrictions	(444)	(9)	(81)	(275)	(115)	—
Change in temporarily restricted net assets	572	99	778	(130)	1,240	363
Permanently restricted net assets						
Investment loss	—	—	—	—	—	—
Contributions	18	—	—	—	—	—
Change in permanently restricted net assets	18	—	—	—	—	—
Change in net assets	991	13,890	10,719	36,667	3,184	6,730
Net assets at beginning of year	(5,028)	85,287	51,330	252,142	(4,280)	22,338
Net assets at end of year	\$ (4,037)	99,177	62,049	288,809	(1,096)	29,068

See accompanying independent auditors' report

St John's Springfield, Illinois	St Mary's Streator, Illinois	St Joseph's Chippewa Falls, Wisconsin	Sacred Heart Eau Claire, Wisconsin	St Mary's Green Bay, Wisconsin	St Vincent Green Bay, Wisconsin	St Nicholas Sheboygan, Wisconsin	Hospital Sisters Services, Inc	Eliminations	Total
25 073	1 140	11 220	40 170	18 057	30 750	5 303	(305)	—	180 234
41	00	512	734	404	555	001	—	—	4 218
(18 140)	(1 707)	(1 205)	(2 001)	(1 007)	(3 045)	(023)	—	—	(47 005)
37 387	0 714	0 513	13 523	0 308	20 284	0 110	—	—	150 522
44 052	0 123	10 080	01 435	20 822	50 053	11 700	(305)	—	200 870
1 020	104	070	503	481	473	502	—	—	0 118
047	57	230	100	(7)	1 455	08	—	—	5 423
(1 005)	(00)	(512)	(734)	(404)	(555)	(001)	—	—	(0 151)
008	155	304	(71)	(20)	1 373	(271)	—	—	5 300
—	—	—	(0)	—	—	—	—	—	(0)
15	1	10	237	2	28	10	—	—	330
15	1	10	228	2	28	10	—	—	321
45 875	0 270	17 402	01 502	20 804	01 354	11 400	(305)	—	302 500
384 584	43 000	72 400	314 354	80 023	350 777	05 303	3 852	—	1 723 180
430 450	40 378	80 808	375 040	113 727	412 131	70 802	3 457	—	2 025 770