


Form 990  Department of the Treasury Internal Revenue Service	Return of Organization Exempt From Income Tax Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except black lung benefit trust or private foundation) ▶ The organization may have to use a copy of this return to satisfy state reporting requirements	OMB No 1545-0047
		2011
		Open to Public Inspection

A For the 2011 calendar year, or tax year beginning 01-01-2011 and ending 12-31-2011		
B Check if applicable <input type="checkbox"/> Address change <input type="checkbox"/> Name change <input type="checkbox"/> Initial return <input type="checkbox"/> Terminated <input type="checkbox"/> Amended return <input type="checkbox"/> Application pending	C Name of organization Kenmore Mercy Hospital Doing Business As Number and street (or P O box if mail is not delivered to street address) Room/suite 515 Abbott Road No 500 City or town, state or country, and ZIP + 4 Buffalo, NY 142202039	D Employer identification number 16-0762843
		E Telephone number (716) 828-2993
		G Gross receipts \$ 141,316,289
	F Name and address of principal officer Joseph D McDonald 2121 Main Street Buffalo, NY 14214	H(a) Is this a group return for affiliates? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
		H(b) Are all affiliates included? <input type="checkbox"/> Yes <input type="checkbox"/> No If "No," attach a list (see instructions)
I Tax-exempt status <input checked="" type="checkbox"/> 501(c)(3) <input type="checkbox"/> 501(c) () ◀ (insert no) <input type="checkbox"/> 4947(a)(1) or <input type="checkbox"/> 527	H(c) Group exemption number ▶	
J Website: ▶ www.chsbuffalo.org		
K Form of organization <input checked="" type="checkbox"/> Corporation <input type="checkbox"/> Trust <input type="checkbox"/> Association <input type="checkbox"/> Other ▶		L Year of formation 1957
		M State of legal domicile NY

Part I		Summary	
Activities & Governance	1 Briefly describe the organization’s mission or most significant activities The Catholic Health System (CHS) Mission is to provide quality healthcare Services in an acute care setting Committed to a common mission, CHS providers continue the healing ministry of Jesus, seeking to improve the health of individuals and communities We provide high quality service that has reverence, compassion, justice, and excellence The 2011 Community Service Plan can be found at www.chsbuffalo.org 		
	2 Check this box <input checked="" type="checkbox"/> if the organization discontinued its operations or disposed of more than 25% of its net assets		
	3 Number of voting members of the governing body (Part VI, line 1a)	3	21
	4 Number of independent voting members of the governing body (Part VI, line 1b)	4	8
	5 Total number of individuals employed in calendar year 2011 (Part V, line 2a)	5	1,055
	6 Total number of volunteers (estimate if necessary)	6	376
	7a Total unrelated business revenue from Part VIII, column (C), line 12	7a	0
	7b Net unrelated business taxable income from Form 990-T, line 34	7b	0
Revenue	8 Contributions and grants (Part VIII, line 1h)	Prior Year	Current Year
	9 Program service revenue (Part VIII, line 2g)	673,671	73,162
	10 Investment income (Part VIII, column (A), lines 3, 4, and 7d)	140,020,393	137,374,537
	11 Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)	159,371	251,069
	12 Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12)	1,481,465	3,617,521
		142,334,900	141,316,289
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)	73,913,119	77,700,114
	16a Professional fundraising fees (Part IX, column (A), line 11e)	0	0
	b Total fundraising expenses (Part IX, column (D), line 25) <input type="text" value="0"/>		
	17 Other expenses (Part IX, column (A), lines 11a–11d, 11f–24e)	69,468,565	61,867,564
	18 Total expenses Add lines 13–17 (must equal Part IX, column (A), line 25)	143,381,684	139,567,678
	19 Revenue less expenses Subtract line 18 from line 12	-1,046,784	1,748,611
Net Assets or Fund Balances		Beginning of Current Year	End of Year
	20 Total assets (Part X, line 16)	93,746,757	105,666,087
	21 Total liabilities (Part X, line 26)	74,848,782	92,045,822
	22 Net assets or fund balances Subtract line 21 from line 20	18,897,975	13,620,265

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		2012-11-07 Date	
	David P Macholz VP, Finance/Corp Controller Type or print name and title			
Paid Preparer's Use Only	Preparer's signature	Date	Check if self-employed <input type="checkbox"/>	Preparer's taxpayer identification number (see instructions)
	Firm's name (or yours if self-employed), address, and ZIP + 4			EIN
				Phone no
May the IRS discuss this return with the preparer shown above? (see instructions) <input type="checkbox"/> Yes <input type="checkbox"/> 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 Catholic Health System (CHS) Mission is to provide quality healthcare services in an acute care setting. Committed to a common mission, CHS providers continue the healing ministry of Jesus, seeking to improve the health of individuals and communities. We provide high quality service that has reverence, compassion, justice, and excellence. The 2011 Community Service Plan can be found at www.chsbuffalo.org

2

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

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

3

Did the organization cease conducting, or make significant changes in how it conducts, any program services? ☐ Yes ☒ No

If "Yes," describe these changes on Schedule O

4

Describe the organization's program service accomplishments for each of its three largest program services, as measured by expenses. Section 501(c)(3) and 501(c)(4) organizations and section 4947(a)(1) trusts are required to report the amount of grants and allocations to others, the total expenses, and revenue, if any, for each program service reported.

4a

(Code) (Expenses \$ 69,544,028 including grants of \$) (Revenue \$ 96,065,571)

Inpatient services provided 2,607 Inpatient surgery visits, 517 visits for G I Lab, and 118 visits for urology. Inpatient services provided 32,390 acute care patient days and 5,139 medical rehab service days. The Skilled Nursing Facility provided 54,823 days of care.

4b

(Code) (Expenses \$ 28,090,070 including grants of \$) (Revenue \$ 38,802,595)

Outpatient services provides 3,161 outpatient surgery visits, 4,335 G I visits, 2,089 Interventional Radiology visits and 331 Transfusion visits. Outpatient services also provided 21,869 Emergency Department visits net of admissions and 88,105 Referred Ambulatory visits.

4c

(Code) (Expenses \$ 1,814,419 including grants of \$) (Revenue \$ 2,506,371)

Primary Care Centers and Clinics provided 31,591 visits.

4d

Other program services (Describe in Schedule O)

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

4e

Total program service expenses \$ 99,448,517

Part IV Checklist of Required Schedules

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

Part IV

Checklist of Required Schedules (continued)

21	Did the organization report more than \$5,000 of grants and other assistance to governments and organizations in the United States on Part IX, column (A), line 1? <i>If "Yes," complete Schedule I, Parts I and II</i>	21		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, questions 3, 4, or 5, about compensation of the organization's current and former officers, directors, trustees, key employees, and highest compensated employees? <i>If "Yes," complete Schedule J</i>	23	Yes	
24a	Did the organization have a tax-exempt bond issue with an outstanding principal amount of more than \$100,000 as of the last day of the year, that was issued after December 31, 2002? <i>If "Yes," answer questions 24b-24d and complete Schedule K. If "No," go to line 25</i>	24a	Yes	
b	Did the organization invest any proceeds of tax-exempt bonds beyond a temporary period exception?	24b	Yes	
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	Yes	
d	Did the organization act as an "on behalf of" issuer for bonds outstanding at any time during the year?	24d	Yes	
25a	Section 501(c)(3) and 501(c)(4) organizations. Did the organization engage in an excess benefit transaction with a disqualified person during the year? <i>If "Yes," complete Schedule L, Part I</i>	25a		No
b	Is the organization aware that it engaged in an excess benefit transaction with a disqualified person in a prior year, and that the transaction has not been reported on any of the organization's prior Forms 990 or 990-EZ? <i>If "Yes," complete Schedule L, Part I</i>	25b		No
26	Was a loan to or by a current or former officer, director, trustee, key employee, highly compensated employee, or disqualified person outstanding as of the end of the organization's tax year? <i>If "Yes," complete Schedule L, Part II</i>	26		No
27	Did the organization provide a grant or other assistance to an officer, director, trustee, key employee, substantial contributor, or a grant selection committee member, or to a person related to such an individual? <i>If "Yes," complete Schedule L, Part III</i>	27		No
28	Was the organization a party to a business transaction with one of the following parties? (see Schedule L, Part IV instructions for applicable filing thresholds, conditions, and exceptions)			
a	A current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV</i>	28a	Yes	
b	A family member of a current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV</i>	28b	Yes	
c	An entity of which a current or former officer, director, trustee, or key employee (or a family member thereof) was an officer, director, trustee, or owner? <i>If "Yes," complete Schedule L, Part IV</i>	28c		No
29	Did the organization receive more than \$25,000 in non-cash contributions? <i>If "Yes," complete Schedule M</i>	29		No
30	Did the organization receive contributions of art, historical treasures, or other similar assets, or qualified conservation contributions? <i>If "Yes," complete Schedule M</i>	30		No
31	Did the organization liquidate, terminate, or dissolve and cease operations? <i>If "Yes," complete Schedule N, Part I</i>	31		No
32	Did the organization sell, exchange, dispose of, or transfer more than 25% of its net assets? <i>If "Yes," complete Schedule N, Part II</i>	32		No
33	Did the organization own 100% of an entity disregarded as separate from the organization under Regulations sections 301.7701-2 and 301.7701-3? <i>If "Yes," complete Schedule R, Part I</i>	33		No
34	Was the organization related to any tax-exempt or taxable entity? <i>If "Yes," complete Schedule R, Parts II, III, IV, and V, line 1</i>	34	Yes	
35a	Is any related organization a controlled entity of the filing organization within the meaning of section 512(b)(13)?	35a		No
b	Did the organization receive any payment from or engage in any transaction with a controlled entity within the meaning of section 512(b)(13)? <i>If "Yes," complete Schedule R, Part V, line 2</i>	35b		No
36	Section 501(c)(3) organizations. Did the organization make any transfers to an exempt non-charitable related organization? <i>If "Yes," complete Schedule R, Part V, line 2</i>	36		No
37	Did the organization conduct more than 5% of its activities through an entity that is not a related organization and that is treated as a partnership for federal income tax purposes? <i>If "Yes," complete Schedule R, Part VI</i>	37		No
38	Did the organization complete Schedule O and provide explanations in Schedule O for Part VI, lines 11 and 19? Note. All Form 990 filers are required to complete Schedule O	38	Yes	

Part V Statements Regarding Other IRS Filings and Tax Compliance					
Check if Schedule O contains a response to any question in this Part V <input type="checkbox"/>					
		Yes	No		
1a	Enter the number reported in Box 3 of Form 1096 Enter -0- if not applicable	<div><div>1a</div><div>96</div></div>			
b	Enter the number of Forms W-2G included in line 1a <i>Enter -0-</i> if not applicable	<div><div>1b</div><div>0</div></div>			
c	Did the organization comply with backup withholding rules for reportable payments to vendors and reportable gaming (gambling) winnings to prize winners? 	1c			
2a	Enter the number of employees reported on Form W-3, <i>Transmittal of Wage and Tax Statements</i> filed for the calendar year ending with or within the year covered by this return 	<div><div>2a</div><div>1,055</div></div>			
b	If at least one is reported on line 2a, did the organization file all required federal employment tax returns? Note. If the sum of lines 1a and 2a is greater than 250, you may be required to e-file (see instructions)	2b			Yes
3a	Did the organization have unrelated business gross income of \$1,000 or more during the year? 	3a			
b	If "Yes," has it filed a Form 990-T for this year? <i>If "No," provide an explanation in Schedule O</i>	3b			
4a	At any time during the calendar year, did the organization have an interest in, or a signature or other authority over, a financial account in a foreign country (such as a bank account or securities account)? 	4a		No	
b	If "Yes," enter the name of the foreign country ➤ _____ See instructions for filing requirements for Form TD F 90-22.1, Report of Foreign Bank and Financial Accounts				
5a	Was the organization a party to a prohibited tax shelter transaction at any time during the tax year? 	5a		No	
b	Did any taxable party notify the organization that it was or is a party to a prohibited tax shelter transaction?	5b		No	
c	If "Yes" to line 5a or 5b, did the organization file Form 8886-T? 	5c			
6a	Does the organization have annual gross receipts that are normally greater than \$100,000, and did the organization solicit any contributions that were not tax deductible? 	6a		No	
b	If "Yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible? 	6b			
7	Organizations that may receive deductible contributions under section 170(c).				
a	Did the organization receive a payment in excess of \$75 made partly as a contribution and partly for goods and services provided to the payor? 	7a		No	
b	If "Yes," did the organization notify the donor of the value of the goods or services provided? 	7b			
c	Did the organization sell, exchange, or otherwise dispose of tangible personal property for which it was required to file Form 8282? 	7c		No	
d	If "Yes," indicate the number of Forms 8282 filed during the year 	<div><div>7d</div><div></div></div>			
e	Did the organization receive any funds, directly or indirectly, to pay premiums on a personal benefit contract? 	7e		No	
f	Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract? 	7f		No	
g	If the organization received a contribution of qualified intellectual property, did the organization file Form 8899 as required? 	7g		No	
h	If the organization received a contribution of cars, boats, airplanes, or other vehicles, did the organization file a Form 1098-C? 	7h			
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		No	
9	Sponsoring organizations maintaining donor advised funds.				
a	Did the organization make any taxable distributions under section 4966? 	9a		No	
b	Did the organization make a distribution to a donor, donor advisor, or related person? 	9b		No	
10	Section 501(c)(7) organizations. Enter				
a	Initiation fees and capital contributions included on Part VIII, line 12 	<div><div>10a</div><div></div></div>			
b	Gross receipts, included on Form 990, Part VIII, line 12, for public use of club facilities	<div><div>10b</div><div></div></div>			
11	Section 501(c)(12) organizations. Enter				
a	Gross income from members or shareholders 	<div><div>11a</div><div></div></div>			
b	Gross income from other sources (Do not net amounts due or paid to other sources against amounts due or received from them) 	<div><div>11b</div><div></div></div>			
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	<div><div>12b</div><div></div></div>			
13	Section 501(c)(29) qualified nonprofit health insurance issuers.				
a	Is the organization licensed to issue qualified health plans in more than one state? Note. All 501(c)(29) organizations must list in Schedule O each state in which they are licensed to issue qualified health plans, the amount of reserves required by each state, and the amount of reserves the organization allocated to each state	13a			
b	Enter the aggregate amount of reserves the organization is required to maintain by the states in which the organization is licensed to issue qualified health plans	<div><div>13b</div><div></div></div>			
c	Enter the aggregate amount of reserves on hand	<div><div>13c</div><div></div></div>			
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? <i>If "No," provide an explanation in Schedule O</i>	14b			

Part VI

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

Section A. Governing Body and Management

		Yes	No
1a	Enter the number of voting members of the governing body at the end of the tax year		
1a	21		
b	Enter the number of voting members included in line 1a, above, who are independent	1b	8
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
b	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		
a	The governing body?	8a	Yes
b	Each committee with authority to act on behalf of the governing body?	8b	Yes
9	Is there any officer, director, trustee, or key employee listed in Part VII, Section A, who cannot be reached at the organization's mailing address? If "Yes," provide the names and addresses in Schedule O	9	No

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

		Yes	No
10a	Did the organization have local chapters, branches, or affiliates?	10a	No
b	If "Yes," did the organization have written policies and procedures governing the activities of such chapters, affiliates, and branches to ensure their operations are consistent with the organization's exempt purposes?	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
b	Describe in Schedule O the process, if any, used by the organization to review the Form 990		
12a	Did the organization have a written conflict of interest policy? If "No," go to line 13	12a	Yes
b	Were officers, directors or trustees, and key employees required to disclose annually interests that could give rise to conflicts?	12b	Yes
c	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?		
a	The organization's CEO, Executive Director, or top management official	15a	Yes
b	Other officers or key employees of the organization	15b	Yes
	If "Yes," to line 15a or 15b, describe the process in Schedule O (see instructions)		
16a	Did the organization invest in, contribute assets to, or participate in a joint venture or similar arrangement with a taxable entity during the year?	16a	No
b	If "Yes," did the organization follow a written policy or procedure requiring the organization to evaluate its participation in joint venture arrangements under applicable federal tax law, and take steps to safeguard the organization's exempt status with respect to such arrangements?	16b	

Section C. Disclosure

17	List the States with which a copy of this Form 990 is required to be filed ▶ _____
18	Section 6104 requires an organization to make its Form 1023 (or 1024 if applicable), 990, and 990-T (501(c)(3)s only) available for public inspection. Indicate how you made these available. Check all that apply. <input type="checkbox"/> Own website <input type="checkbox"/> Another's website <input checked="" type="checkbox"/> Upon request
19	Describe in Schedule O whether (and if so, how), the organization made its governing documents, conflict of interest policy, and financial statements available to the public. See Additional Data Table.
20	State the name, physical address, and telephone number of the person who possesses the books and records of the organization ▶ David P Macholz VP FinanceCorporate Controller 515 Abbott Road Buffalo, NY 142202039 (716) 828-2974

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

☐ Check this box if neither the organization nor any related organizations compensated any current or former officer, director, or trustee

Form **990** (2011)

Part VIII

Statement of Revenue

				(A) Total revenue	(B) Related or exempt function revenue	(C) Unrelated business revenue	(D) Revenue excluded from tax under sections 512, 513, or 514	
Contributions, gifts, grants and other similar amounts	1a	Federated campaigns . . .	1a					
	b	Membership dues	1b					
	c	Fundraising events	1c					
	d	Related organizations	1d					
	e	Government grants (contributions)	1e					
	f	All other contributions, gifts, grants, and similar amounts not included above	1f	73,162				
	g	Noncash contributions included in lines 1a-1f \$ _____						
	h	Total. Add lines 1a-1f			73,162			
Program Service Revenue			Business Code					
	2a	Patient Service Revenue	900099	93,337,693	93,337,693			
	b	Medicare/Medicaid	900099	44,036,844	44,036,844			
	c							
	d							
	e							
	f	All other program service revenue						
	g	Total. Add lines 2a-2f			137,374,537			
Other Revenue	3	Investment income (including dividends, interest and other similar amounts)			198,621		198,621	
	4	Income from investment of tax-exempt bond proceeds . .						
	5	Royalties						
	6a	(i) Real		(ii) Personal				
		260,262						
		b Less rental expenses		0				
		c Rental income or (loss)		260,262				
	d	Net rental income or (loss)			260,262		260,262	
	7a	(i) Securities		(ii) Other				
		Gross amount from sales of assets other than inventory		52,448				
		b Less cost or other basis and sales expenses		0				
		c Gain or (loss)		52,448				
	d	Net gain or (loss)			52,448		52,448	
	8a	Gross income from fundraising events (not including \$ _____ of contributions reported on line 1c) See Part IV, line 18		a				
	b	Less direct expenses		b				
	c	Net income or (loss) from fundraising events . .						
	9a	Gross income from gaming activities See Part IV, line 19		a				
	b	Less direct expenses		b				
	c	Net income or (loss) from gaming activities . .						
	10a	Gross sales of inventory, less returns and allowances .		a				
	b	Less cost of goods sold		b				
	c	Net income or (loss) from sales of inventory . .						
	Miscellaneous Revenue		Business Code					
11a	Meaningful Use	900099	2,657,136				2,657,136	
b	Cafeteria	900099	238,407				238,407	
c	Shared Services	900099	114,898				114,898	
d	All other revenue		346,818				346,818	
e	Total. Add lines 11a-11d			3,357,259				
12	Total revenue. See Instructions			141,316,289	137,374,537	0	3,868,590	

Part IX Statement of Functional Expenses

Section 501(c)(3) and 501(c)(4) organizations must complete all columns
All other organizations must complete column (A) but are not required to complete columns (B), (C), and (D)
Check if Schedule O contains a response to any question in this Part IX

Do not include amounts reported on lines 6b, 7b, 8b, 9b, and 10b of Part VIII.		(A) Total expenses	(B) Program service expenses	(C) Management and general expenses	(D) Fundraising expenses
1	Grants and other assistance to governments and organizations in the United States See Part IV, line 21				
2	Grants and other assistance to individuals in the United States See Part IV, line 22				
3	Grants and other assistance to governments, organizations, and individuals outside the United States See Part IV, lines 15 and 16				
4	Benefits paid to or for members				
5	Compensation of current officers, directors, trustees, and key employees				
6	Compensation not included above, to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B)				
7	Other salaries and wages	60,112,319	41,925,521	18,186,798	
8	Pension plan contributions (include section 401(k) and section 403(b) employer contributions)	2,973,820	2,074,100	899,720	
9	Other employee benefits	11,098,305	7,740,547	3,357,758	
10	Payroll taxes	3,515,670	2,452,015	1,063,655	
11	Fees for services (non-employees)				
a	Management				
b	Legal	41,708	41,708		
c	Accounting	10,000	10,000		
d	Lobbying				
e	Professional fundraising See Part IV, line 17				
f	Investment management fees				
g	Other	4,591,129	2,181,973	2,409,156	
12	Advertising and promotion	89,900	70,382	19,518	
13	Office expenses	171,476	137,599	33,877	
14	Information technology	178,105	27,415	150,690	
15	Royalties				
16	Occupancy	2,295,911	6,325	2,289,586	
17	Travel	19,946	15,024	4,922	
18	Payments of travel or entertainment expenses for any federal, state, or local public officials				
19	Conferences, conventions, and meetings	24,503	18,015	6,488	
20	Interest	1,287,110	1,287,110		
21	Payments to affiliates				
22	Depreciation, depletion, and amortization	5,877,184	3,255,470	2,621,714	
23	Insurance	1,134,795	653,685	481,110	
24	Other expenses Itemize expenses not covered above (List miscellaneous expenses in line 24f If line 24f amount exceeds 10% of line 25, column (A) amount, list line 24f expenses on Schedule O)				
a	Medical Supplies	27,473,743	27,707,408	-233,665	
b	Purchased Services	9,335,340	4,212,436	5,122,904	
c	Bad Debt	3,593,465	3,593,465		
d	Shared Services & Dues	1,404,648		1,404,648	
e					
f	All other expenses	4,338,601	2,038,319	2,300,282	
25	Total functional expenses. Add lines 1 through 24f	139,567,678	99,448,517	40,119,161	0
26	Joint costs. Check here <input type="checkbox"/> if following SOP 98-2 (ASC 958-720) Complete this line only if the organization reported in column (B) joint costs from a combined educational campaign and fundraising solicitation				

Part X

Balance Sheet

					(A)		(B)
					Beginning of year		End of year
Assets	1	Cash—non-interest-bearing				1	
	2	Savings and temporary cash investments			15,738,719	2	29,570,381
	3	Pledges and grants receivable, net				3	
	4	Accounts receivable, net			19,476,223	4	14,589,083
	5	Receivables from current and former officers, directors, trustees, key employees, and highest compensated employees. Complete Part II of Schedule L				5	
	6	Receivables from other disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B). Complete Part II of Schedule L				6	
	7	Notes and loans receivable, net				7	
	8	Inventories for sale or use			1,454,156	8	1,641,514
	9	Prepaid expenses and deferred charges			1,385,720	9	833,296
	10a	Land, buildings, and equipment, cost or other basis. Complete Part VI of Schedule D	10a	93,502,661	43,869,685		
	b	Less: accumulated depreciation	10b	49,875,114		10c	43,627,547
	11	Investments—publicly traded securities				11	
	12	Investments—other securities. See Part IV, line 11				12	
	13	Investments—program-related. See Part IV, line 11				13	
	14	Intangible assets				14	
	15	Other assets. See Part IV, line 11			11,435,671	15	15,404,268
	16	Total assets. Add lines 1 through 15 (must equal line 34)			93,746,757	16	105,666,087
Liabilities	17	Accounts payable and accrued expenses			20,746,095	17	18,399,995
	18	Grants payable				18	
	19	Deferred revenue				19	
	20	Tax-exempt bond liabilities			13,318,952	20	12,420,239
	21	Escrow or custodial account liability. Complete Part IV of Schedule D				21	
	22	Payables to current and former officers, directors, trustees, key employees, highest compensated employees, and disqualified persons. Complete Part II of Schedule L				22	
	23	Secured mortgages and notes payable to unrelated third parties			11,520,986	23	10,477,175
	24	Unsecured notes and loans payable to unrelated third parties				24	
	25	Other liabilities (including federal income tax, payables to related third parties, and other liabilities not included on lines 17-24). Complete Part X of Schedule D			29,262,749	25	50,748,413
	26	Total liabilities. Add lines 17 through 25			74,848,782	26	92,045,822
Net Assets or Fund Balances	Organizations that follow SFAS 117, check here <input checked="" type="checkbox"/> and complete lines 27 through 29, and lines 33 and 34.						
	27	Unrestricted net assets			18,746,304	27	12,839,819
	28	Temporarily restricted net assets			151,671	28	780,446
	29	Permanently restricted net assets				29	
	Organizations that do not follow SFAS 117, check here <input type="checkbox"/> and complete lines 30 through 34.						
	30	Capital stock or trust principal, or current funds				30	
	31	Paid-in or capital surplus, or land, building or equipment fund				31	
	32	Retained earnings, endowment, accumulated income, or other funds				32	
	33	Total net assets or fund balances			18,897,975	33	13,620,265
	34	Total liabilities and net assets/fund balances			93,746,757	34	105,666,087

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	141,316,289
2	Total expenses (must equal Part IX, column (A), line 25)	2	139,567,678
3	Revenue less expenses Subtract line 2 from line 1	3	1,748,611
4	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A))	4	18,897,975
5	Other changes in net assets or fund balances (explain in Schedule O)	5	-7,026,321
6	Net assets or fund balances at end of year Combine lines 3, 4, and 5 (must equal Part X, line 33, column (B))	6	13,620,265

Part XII Financial Statements and Reporting

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

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

2011

Open to Public
Inspection

Name of the organization Kenmore Mercy Hospital	Employer identification number 16-0762843
--	--

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

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

- 1

☐

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

☐

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

☒

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

☐

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

☐

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

☐

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

☐

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

☐

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

☐

An organization that normally receives (1) more than 33 1/3% of its support from contributions, membership fees, and gross receipts from activities related to its exempt functions—subject to certain exceptions, and (2) no more than 33 1/3% of its support from gross investment income and unrelated business taxable income (less section 511 tax) from businesses acquired by the organization after June 30, 1975 See **section 509(a)(2).** (Complete Part III)
- 10

☐

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

☐

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

a

☐

Type I

b

☐

Type II

c

☐

Type III - Functionally integrated

d

☐

Type III - Other

e

☐

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

f

☐

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

g

☐

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

(i)

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

(ii)

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

(iii)

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

h

☐

Provide the following information about the supported organization(s)

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

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

Part II

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

Section A. Public Support						
Calendar year	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(f) Total
1 Gifts, grants, contributions, and membership fees received (Do not include any "unusual grants.")						
2 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf						
3 The value of services or facilities furnished by a governmental unit to the organization without charge						
4 Total. Add lines 1 through 3						
5 The portion of total contributions by each person (other than a governmental unit or publicly supported organization) included on line 1 that exceeds 2% of the amount shown on line 11, column (f)						
6 Public Support. Subtract line 5 from line 4						

Section B. Total Support						
Calendar year	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(f) Total
7 Amounts from line 4						
8 Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
9 Net income from unrelated business activities, whether or not the business is regularly carried on						
10 Other income (Explain in Part IV) Do not include gain or loss from the sale of capital assets						
11 Total support (Add lines 7 through 10)						

12 Gross receipts from related activities, etc (See instructions)

12

13 First Five Years If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a 501(c)(3) organization, check this box and stop here

Section C. Computation of Public Support Percentage

14 Public Support Percentage for 2011 (line 6 column (f) divided by line 11 column (f))

14

15 Public Support Percentage for 2010 Schedule A, Part II, line 14

15

16a 33 1/3% support test—2011. If the organization did not check the box on line 13, and line 14 is 33 1/3% or more, check this box and stop here. The organization qualifies as a publicly supported organization

b 33 1/3% support test—2010. If the organization did not check the box on line 13 or 16a, and line 15 is 33 1/3% or more, check this box and stop here. The organization qualifies as a publicly supported organization

17a 10%-facts-and-circumstances test—2011. If the organization did not check a box on line 13, 16a, or 16b and line 14 is 10% or more, and if the organization meets the "facts and circumstances" test, check this box and stop here. Explain in Part IV how the organization meets the "facts and circumstances" test The organization qualifies as a publicly supported organization

b 10%-facts-and-circumstances test—2010. If the organization did not check a box on line 13, 16a, 16b, or 17a and line 15 is 10% or more, and if the organization meets the "facts and circumstances" test, check this box and stop here. Explain in Part IV how the organization meets the "facts and circumstances" test The organization qualifies as a publicly supported organization

18 Private Foundation If the organization did not check a box on line 13, 16a, 16b, 17a or 17b, check this box and see instructions

Part IIIPart III

Support Schedule for Organizations Described in IRC 509(a)(2)
(Complete only if you checked the box on line 9 of Part I or if the organization failed to qualify under Part II. If the organization fails to qualify under the tests listed below, please complete Part II.)

Section A. Public Support						
Calendar year (or fiscal year beginning in)	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(f) Total
1 Gifts, grants, contributions, and membership fees received (Do not include any "unusual grants.")						
2 Gross receipts from admissions, merchandise sold or services performed, or facilities furnished in any activity that is related to the organization's tax-exempt purpose						
3 Gross receipts from activities that are not an unrelated trade or business under section 513						
4 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf						
5 The value of services or facilities furnished by a governmental unit to the organization without charge						
6 Total. Add lines 1 through 5						
7a Amounts included on lines 1, 2, and 3 received from disqualified persons						
b Amounts included on lines 2 and 3 received from other than disqualified persons that exceed the greater of \$5,000 or 1% of the amount on line 13 for the year						
c Add lines 7a and 7b						
8 Public Support (Subtract line 7c from line 6)						

Section B. Total Support						
Calendar year (or fiscal year beginning in)	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(f) Total
9 Amounts from line 6						
10a Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
b Unrelated business taxable income (less section 511 taxes) from businesses acquired after June 30, 1975						
c Add lines 10a and 10b						
11 Net income from unrelated business activities not included in line 10b, whether or not the business is regularly carried on						
12 Other income. Do not include gain or loss from the sale of capital assets (Explain in Part IV.)						
13 Total support (Add lines 9, 10c, 11 and 12.)						
14 First Five Years If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a 501(c)(3) organization, check this box and stop here						

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

Section D. Computation of Investment Income Percentage		
17 Investment income percentage for 2011 (line 10c column (f) divided by line 13 column (f))	17	
18 Investment income percentage from 2010 Schedule A, Part III, line 17	18	
19a 33 1/3% support tests—2011. If the organization did not check the box on line 14, and line 15 is more than 33 1/3% and line 17 is not more than 33 1/3%, check this box and stop here. The organization qualifies as a publicly supported organization		
b 33 1/3% support tests—2010. If the organization did not check a box on line 14 or line 19a, and line 16 is more than 33 1/3% and line 18 is not more than 33 1/3%, check this box and stop here. The organization qualifies as a publicly supported organization		
20 Private Foundation If the organization did not check a box on line 14, 19a or 19b, check this box and see instructions		

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

Facts And Circumstances Test

Explanation

Additional Data

Software ID:

Software Version:

EIN: 16-0762843

Name: Kenmore Mercy Hospital

Form 990, Special Condition Description:

Special Condition Description

Form 990, Part VII - Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors

(A) Name and Title	(B) Average hours per week	(C) Position (check all that apply)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional Trustee	Officer	Key employee	Highest compensated employee	Former			
Joseph McDonald President and CEO , CHS	37 50	X		X				0	1,071,254	41,897
Mark Sullivan Executive VP/COO	37 50	X		X				0	499,658	32,323
James Millard Pres & CEO , Kenmore Mercy	37 50	X		X				296,692	0	157,819
David Macholz Treasurer	37 50	X		X				0	220,214	31,882
Dr Michael Albert Director	1 00	X						0	0	0
Dr Joseph Anain Director	1 00	X						0	117,000	0
Brian Beitz Director	1 00	X						0	0	0
Peter Bergmann Director	37 50	X						0	558,756	31,685
Frances Crosby RN PhD Director	1 00	X						0	0	0
Richard Curran MD Director	1 00	X						0	0	0
Dennis Dombek Director	1 00	X						0	0	0
Dr Michael Edbauer Director	25 00	X						0	197,492	43,593
Christine Kluckhohn Pres & CEO Continuing Care	37 50	X			X			0	297,068	116,618
William Lawley Jr Director	1 00	X						0	0	0
James Manzella Director	1 00	X						0	0	0
Dr Paul Mason Director	1 00	X						0	25,000	0
Michael Montante Director	1 00	X						0	0	0
Dr David Serra Director	1 00	X						0	0	0
Charles J Urlaub President and CEO Mercy	37 50	X		X				0	436,009	32,828
Cynthia ZaneEdD Director	1 00	X						0	0	0
Monsignor Robert E Zapfel Director	1 00	X						0	0	0
James A Dunlop Jr Executive VP, Finance/CFO	37 50			X				0	443,085	112,103
Dr Brian D'Arcy Senior VP, Medical Affairs	37 50			X				0	602,143	48,686
Walter Ludwig Chief Operating Officer	37 50			X				197,007	0	27,687
Michael Moley Sr VP, Human Resources	37 50				X			0	394,218	39,695

Form 990, Part VII - Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors

(A) Name and Title	(B) Average hours per week	(C) Position (check all that apply)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional Trustee	Officer	Key employee	Highest compensated employee	Former			
John Stavros Sr VP Marketing/P R	37 50				X			0	248,323	39,012
Maria Foti Senior VP, Planning	37 50				X			0	230,710	30,394
Bartholomew Rodrigues Sr VP, Mission Integration	37 50				X			0	218,184	33,095
Dr Michael Galang Chief Information Officer	37 50				X			0	331,760	25,686
Nancy Sheehan VP Legal Service, General Counsel	37 50				X			0	269,768	27,110
Dr James Fitzpatrick VP Medical Affairs	37 50					X		156,539	0	32,208
Dr Sanford Pleskow Physician	37 50					X		154,919	0	858
Dr Qamrunnisa Rahman Physician	37 50					X		149,667	0	77,936
Dr Suchitra Koneru Physician	37 50					X		135,718	0	31,627
Dr Nadezhda Polataiko Physician	37 50					X		136,950	0	55,339

SCHEDULE D
(Form 990)

Supplemental Financial Statements

OMB No 1545-0047

2011

Open to Public Inspection

Department of the Treasury
Internal Revenue Service

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

Name of the organization
Kenmore Mercy Hospital

Employer identification number
16-0762843

Part I

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

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

Part II

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

1 Purpose(s) of conservation easements held by the organization (check all that apply)
☐ Preservation of land for public use (e g , recreation or pleasure) ☐ Preservation of an historically importantly land area
☐ Protection of natural habitat ☐ Preservation of a certified historic structure
☐ Preservation of open space

2 Complete lines 2a–2d if the organization held a qualified conservation contribution in the form of a conservation easement on the last day of the tax year

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

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

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

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

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

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

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

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

Part III

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

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

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

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

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

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

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

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

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

3

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

a

☐ Public exhibition

b

☐ Scholarly research

c

☐ Preservation for future generations

d

☐ Loan or exchange programs

e

☐ Other

4

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

5

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

☐ Yes

☐ No

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

1a

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

☐ Yes

☐ No

b

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

	Amount
1c	
1d	
1e	
1f	

2a

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

☐ Yes

☐ No

b

If "Yes," explain the arrangement in Part XIV

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

	(a)Current Year	(b)Prior Year	(c)Two Years Back	(d)Three Years Back	(e)Four Years Back
1a	Beginning of year balance				
b	Contributions				
c	Investment earnings or losses				
d	Grants or scholarships				
e	Other expenditures for facilities and programs				
f	Administrative expenses				
g	End of year balance				

2

Provide the estimated percentage of the year end balance held as

a

Board designated or quasi-endowment ▶

b

Permanent endowment ▶

c

Term endowment ▶

3a

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

(i)

unrelated organizations

3a(i)

Yes

No

(ii)

related organizations

3a(ii)

b

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

3b

4

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

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

Description of property	(a) Cost or other basis (investment)	(b)Cost or other basis (other)	(c) Accumulated depreciation	(d) Book value
1a Land	235,852			235,852
b Buildings	56,688,399		34,534,046	22,154,353
c Leasehold improvements	7,051,055		1,524,565	5,526,490
d Equipment	20,886,237		13,423,145	7,463,092
e Other	8,641,118		393,358	8,247,760
Total. Add lines 1a-1e (Column (d) should equal Form 990, Part X, column (B), line 10(c).) ▶				43,627,547

Part XI Reconciliation of Change in Net Assets from Form 990 to Financial Statements		
1	Total revenue (Form 990, Part VIII, column (A), line 12)	1141,316,289
2	Total expenses (Form 990, Part IX, column (A), line 25)	2139,567,678
3	Excess or (deficit) for the year Subtract line 2 from line 1	31,748,611
4	Net unrealized gains (losses) on investments	4
5	Donated services and use of facilities	5
6	Investment expenses	6
7	Prior period adjustments	7
8	Other (Describe in Part XIV)	8-7,026,321
9	Total adjustments (net) Add lines 4 - 8	9-7,026,321
10	Excess or (deficit) for the year per financial statements Combine lines 3 and 9	10-5,277,710

Part XII Reconciliation of Revenue per Audited Financial Statements With Revenue per Return		
1	Total revenue, gains, and other support per audited financial statements	1141,243,127
2	Amounts included on line 1 but not on Form 990, Part VIII, line 12	
a	Net unrealized gains on investments2a	
b	Donated services and use of facilities2b	
c	Recoveries of prior year grants2c	
d	Other (Describe in Part XIV)2d	
e	Add lines 2a through 2d2e	0
3	Subtract line 2e from line 13	141,243,127
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 7b4a	
b	Other (Describe in Part XIV)4b73,162	
c	Add lines 4a and 4b4c	73,162
5	Total Revenue Add lines 3 and 4c. (This should equal Form 990, Part I, line 12)5	141,316,289

Part XIII Reconciliation of Expenses per Audited Financial Statements With Expenses per Return		
1	Total expenses and losses per audited financial statements	1139,567,678
2	Amounts included on line 1 but not on Form 990, Part IX, line 25	
a	Donated services and use of facilities2a	
b	Prior year adjustments2b	
c	Other losses2c	
d	Other (Describe in Part XIV)2d	
e	Add lines 2a through 2d2e	0
3	Subtract line 2e from line 13	139,567,678
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 7b4a	
b	Other (Describe in Part XIV)4b	
c	Add lines 4a and 4b4c	0
5	Total expenses Add lines 3 and 4c. (This should equal Form 990, Part I, line 18)5	139,567,678

Part XIV Supplemental Information

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

Identifier	Return Reference	Explanation
Part XI, Line 8 - Other Adjustments		Change in unrestricted interest in KMH Foundation, Inc - 889,413 Change in Pension Obligation -6,552,184 Distribution from parent 380,275 Change in unrealized loss on interest rate swap -593,774 Change in temporarily restricted interest in KMH Foundation,Inc 628,775 Total to Schedule D, Part XI, Line 8 -7,026,321
Part XII, Line 4b - Other Adjustments		Contributions from Foundation 58,562 HEPP Grant 14,600

SCHEDULE H
(Form 990)

Department of the Treasury
Internal Revenue Service

Hospitals

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

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization
Kenmore Mercy Hospital

Employer identification number
16-0762843

Part I

Charity Care and Certain Other Community Benefits at Cost

		Yes	No	
1a	Did the organization have a charity care policy? If "No," skip to question 6a	1a	Yes	
b	If "Yes," is it a written policy?	1b	Yes	
2	If the organization had multiple hospitals, indicate which of the following best describes application of the charity care policy to the various hospitals <div><input type="checkbox"/> Applied uniformly to all hospitals</div> <div><input type="checkbox"/> Applied uniformly to most hospitals</div> <div><input type="checkbox"/> Generally tailored to individual hospitals</div>			
3	Answer the following based on the charity care eligibility criteria that applies to the largest number of the organization's patients during the tax year a Did the organization use Federal Poverty Guidelines (FPG) to determine eligibility for providing <i>free</i> care? If "Yes," indicate which of the following is the FPG family income limit for eligibility for free care <div><input type="checkbox"/> 100%</div> <div><input type="checkbox"/> 150%</div> <div><input type="checkbox"/> 200%</div> <div><input checked="" type="checkbox"/> Other <u>110.000000000000 %</u></div>	3a	Yes	
b	Did the organization use FPG to determine eligibility for providing <i>discounted</i> care? If "Yes," indicate which of the following is the family income limit for eligibility for discounted care <div><input type="checkbox"/> 200%</div> <div><input type="checkbox"/> 250%</div> <div><input type="checkbox"/> 300%</div> <div><input type="checkbox"/> 350%</div> <div><input type="checkbox"/> 400%</div> <div><input checked="" type="checkbox"/> Other <u>500.000000000000 %</u></div>	3b	Yes	
c	If the organization did not use FPG to determine eligibility, describe in Part VI the income based criteria for determining eligibility for free or discounted care. Include in the description whether the organization uses an asset test or other threshold, regardless of income, to determine eligibility for free or discounted care			
4	Did the organization's policy provide free or discounted care to the "medically indigent"?	4	Yes	
5a	Did the organization budget amounts for free or discounted care provided under its financial assistance policy during the tax year?	5a	Yes	
b	If "Yes," did the organization's charity care expenses exceed the budgeted amount?	5b	Yes	
c	If "Yes" to line 5b, as a result of budget considerations, was the organization unable to provide free or discounted care to a patient who was eligible for free or discounted care?	5c		No
6a	Did the organization prepare a community benefit report during the tax year?	6a	Yes	
6b	If "Yes," did the organization make it available to the public?	6b	Yes	
Complete the following table using the worksheets provided in the Schedule H instructions. Do not submit these worksheets with the Schedule H.				

7

Charity Care and Certain Other Community Benefits at Cost

Charity Care and Means-Tested Government Programs	(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community benefit expense	(d) Direct offsetting revenue	(e) Net community benefit expense	(f) Percent of total expense
a Charnty care at cost (from Worksheet 1)			1,333,566	115,700	1,217,866	0 870 %
b Medicaid (from Worksheet 3, column a)			9,419,136	6,877,133	2,542,003	1 820 %
c Costs of other means-tested government programs (from Worksheet 3, column b)						
d Total Charity Care and Means-Tested Government Programs			10,752,702	6,992,833	3,759,869	2 690 %
Other Benefits						
e Community health improvement services and community benefit operations (from Worksheet 4)			466,447		466,447	0 330 %
f Health professions education (from Worksheet 5)			622,473		622,473	0 450 %
g Subsidized health services (from Worksheet 6)						
h Research (from Worksheet 7)						
i Cash and in-kind contributions for community benefit (from Worksheet 8)			152,145		152,145	0 110 %
j Total Other Benefits			1,241,065		1,241,065	0 890 %
k Total. Add lines 7d and 7j			11,993,767	6,992,833	5,000,934	3 580 %

Part IICommunity Building Activities

Complete this table if the organization conducted any community building activities.

	(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community building expense	(d) Direct offsetting revenue	(e) Net community building expense	(f) Percent of total expense
1Physical improvements and housing						
2Economic development			1,006		1,006	0 %
3Community support			77,917		77,917	0 060 %
4Environmental improvements			4,100		4,100	0 %
5Leadership development and training for community members						
6Coalition building			1,256		1,256	0 %
7Community health improvement advocacy			637		637	0 %
8Workforce development			62,153		62,153	0 040 %
9Other						
10Total			147,069		147,069	0 100 %

Part IIIBad Debt, Medicare, & Collection Practices

Section A. Bad Debt Expense

		Yes	No
1	Did the organization report bad debt expense in accordance with Heathcare Financial Management Association Statement No. 15?	1Yes	
2	Enter the amount of the organization's bad debt expense	21,109,340	
3	Enter the estimated amount of the organization's bad debt expense attributable to patients eligible under the organization's charity care policy	3502,589	
4	Provide in Part VI the text of the footnote to the organization's financial statements that describes bad debt expense. In addition, describe the costing methodology used in determining the amounts reported on lines 2 and 3, and rationale for including a portion of bad debt amounts as community benefit.		

Section B. Medicare

5	Enter total revenue received from Medicare (including DSH and IME)	528,366,716	
6	Enter Medicare allowable costs of care relating to payments on line 5	629,720,848	
7	Subtract line 6 from line 5. This is the surplus or (shortfall)	7-1,354,132	
8	Describe in Part VI the extent to which any shortfall reported in line 7 should be treated as community benefit. Also describe in Part VI the costing methodology or source used to determine the amount reported on line 6. Check the box that describes the method used: <input checked="" type="checkbox"/> Cost accounting system <input type="checkbox"/> Cost to charge ratio <input type="checkbox"/> Other		

Section C. Collection Practices

9a	Did the organization have a written debt collection policy during the tax year?	9aYes	
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	No

Part IVManagement Companies and Joint Ventures (see instructions)

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

Section A. Hospital Facilities

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

Name and address

[illegible]

Part V

Facility Information (continued)

Section B. Facility Policies and Practices.

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

Kenmore Mercy Hospital

Name of Hospital Facility:

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

	Yes	No
Community Health Needs Assessment (Lines 1 through 7 are optional for 2011)		
1 During the tax year or any prior tax year, did the hospital facility conduct a community health needs assessment ("Needs Assessment")? If "No," skip to question 8 If "Yes," indicate what the Needs Assessment describes (check all that apply) a <input type="checkbox"/> A definition of the community served by the hospital facility b <input type="checkbox"/> Demographics of the community c <input type="checkbox"/> Existing health care facilities and resources within the community that are available to respond to the health needs of the community d <input type="checkbox"/> How data was obtained e <input type="checkbox"/> The health needs of the community f <input type="checkbox"/> Primary and chronic disease needs and other health issues of uninsured persons, low-income persons, and minority groups g <input type="checkbox"/> The process for identifying and prioritizing community health needs and services to meet those needs h <input type="checkbox"/> The process for consulting with persons representing the community's interests i <input type="checkbox"/> Information gaps that limit the hospital facility's ability to assess the community's health needs j <input type="checkbox"/> Other (describe in Part VI)	1	
2 Indicate the tax year the hospital facility last conducted a Needs Assessment 20 ____		
3 In conducting its most recent Needs Assessment, did the hospital facility take into account input from persons who represent the community served by the hospital facility? If "Yes," describe in Part VI how the hospital facility took into account input from persons who represent the community, and identify the persons the hospital facility consulted	3	
4 Was the hospital facility's Needs Assessment conducted with one or more other hospital facilities? If "Yes," list the other hospital facilities in Part VI	4	
5 Did the hospital facility make its Needs Assessment widely available to the public? If "Yes," indicate how the Needs Assessment was made widely available (check all that apply) a <input type="checkbox"/> Hospital facility's website b <input type="checkbox"/> Available upon request from the hospital facility c <input type="checkbox"/> Other (describe in Part VI)	5	
6 If the hospital facility addressed needs identified in its most recently conducted Needs Assessment, indicate how (check all that apply) a <input type="checkbox"/> Adoption of an implementation strategy to address the health needs of the hospital facility's community b <input type="checkbox"/> Execution of the implementation strategy c <input type="checkbox"/> Development of a community-wide community benefit plan for the facility d <input type="checkbox"/> Participation in community-wide community benefit plan e <input type="checkbox"/> Inclusion of a community benefit section in operational plans f <input type="checkbox"/> Adoption of a budget for provision of services that address the needs identified in the CHNA g <input type="checkbox"/> Prioritization of health needs in the community h <input type="checkbox"/> Prioritization of services that the hospital facility will undertake to meet health needs in its community i <input type="checkbox"/> Other (describe in Part VI)		
7 Did the hospital facility address all of the needs identified in its most recently conducted Needs Assessment? If "No," explain in Part VI which needs it has not addressed together with the reasons why it has not addressed such needs	7	
Financial Assistance Policy		
Did the hospital facility have in place during the tax year a written financial assistance policy that		
8 Explains eligibility criteria for financial assistance, and whether such assistance includes free or discounted care?	8	Yes
9 Used federal poverty guidelines (FPG) to determine eligibility for providing free care? If "Yes," indicate the FPG family income limit for eligibility for free care <u>110 00000000000000</u> % If "No," explain in Part VI the criteria the hospital facility used	9	Yes

Part V

Facility Information (continued)

		Yes	No	
10	Used FPG to determine eligibility for providing discounted care? If "Yes," indicate the FPG family income limit for eligibility for discounted care <u>500 000000000000%</u> If "No," explain in Part VI the criteria the hospital facility used	10	Yes	
11	Explained the basis for calculating amounts charged to patients? If "Yes," indicate the factors used in determining such amounts (check all that apply) a <input checked="" type="checkbox"/> Income level b <input checked="" type="checkbox"/> Asset level c <input type="checkbox"/> Medical indigency d <input checked="" type="checkbox"/> Insurance status e <input checked="" type="checkbox"/> Uninsured discount f <input checked="" type="checkbox"/> Medicaid/Medicare g <input checked="" type="checkbox"/> State regulation h <input type="checkbox"/> Other (describe in Part VI)	11	Yes	
12	Explained the method for applying for financial assistance?	12	Yes	
13	Included measures to publicize the policy within the community served by the hospital facility? If "Yes," indicate how the hospital facility publicized the policy (check all that apply) a <input checked="" type="checkbox"/> The policy was posted at all times on the hospital facility's web site b <input checked="" type="checkbox"/> The policy was attached to all billing invoices c <input checked="" type="checkbox"/> The policy was posted in the hospital facility's emergency rooms or waiting rooms d <input checked="" type="checkbox"/> The policy was posted in the hospital facility's admissions offices e <input checked="" type="checkbox"/> The policy was provided, in writing, to patients upon admission to the hospital facility f <input checked="" type="checkbox"/> The policy was available upon request g <input checked="" type="checkbox"/> Other (describe in Part VI)	13	Yes	

Billing and Collections

14	Did the hospital facility have in place during the tax year a separate billing and collections policy, or a written financial assistance policy (FAP) that explained actions the hospital facility may take upon non-payment?	14	Yes	
15	Check all of the following collection actions against an individual that were permitted under the hospital facility's policies during the tax year before making reasonable efforts to determine the patient's eligibility under the facility's FAP a <input type="checkbox"/> Reporting to credit agency b <input type="checkbox"/> Lawsuits c <input type="checkbox"/> Liens on residences d <input type="checkbox"/> Body attachments or arrests e <input type="checkbox"/> Other similar actions (describe in Part VI)			
16	Did the hospital facility or an authorized third party perform any of the following actions during the tax year before making reasonable efforts to determine the patient's eligibility under the facility's FAP? If "Yes," check all actions in which the hospital facility or a third party engaged a <input type="checkbox"/> Reporting to credit agency b <input type="checkbox"/> Lawsuits c <input type="checkbox"/> Liens on residences d <input type="checkbox"/> Body attachments e <input type="checkbox"/> Other similar actions (describe in Part VI)	16		No
17	Indicate which efforts the hospital facility made before initiating any of the actions checked in question 16 (check all that apply) a <input type="checkbox"/> Notified patients of the financial assistance policy upon admission b <input type="checkbox"/> Notified patients of the financial assistance policy prior to discharge c <input type="checkbox"/> Notified patients of the financial assistance policy in communications with the patients regarding the patients' bills d <input type="checkbox"/> Documented its determination of whether patients were eligible for financial assistance under the hospital facility's financial assistance policy e <input type="checkbox"/> Other (describe in Part VI)			

Part V

Facility Information (continued)

Policy Relating to Emergency Medical Care

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

Individuals Eligible for Financial Assistance

19	Indicate how the hospital facility determined, during the tax year, the maximum amounts that can be charged to FAP-eligible individuals for emergency or other medically necessary care			
a	<input type="checkbox"/> The hospital facility used its lowest negotiated commercial insurance rate when calculating the maximum amounts that can be charged			
b	<input type="checkbox"/> The hospital facility used the average of it's three lowest negotiated commercial insurance rates when calculating the maximum amounts that can be charged			
c	<input type="checkbox"/> The hospital facility used the Medicare rates when calculating the maximum amounts that can be charged			
d	<input type="checkbox"/> Other (describe in Part VI)			
20	Did the hospital facility charge any of its patients who were eligible for assistance under the hospital facility's financial assistance policy, and to whom the hospital facility provided emergency or other medically necessary services, more than the amounts generally billed to individuals who had insurance covering such care? If "Yes," explain in Part VI	20		No
21	Did the hospital facility charge any of its FAP-eligible patients an amount equal to the gross charge for services provided to that patient? If "Yes," explain in Part VI	21	Yes	

Part V

Facility Information (continued)

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

(list in order of size from largest to smallest)

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

Name and address		Type of Facility (Describe)
1	Ken-Ton Family Care 300 Two Mile Creek Road Tonawanda, NY 14150	Extension Clinic Pediatric O/P, Prenatal O/P, Primary Medical Care O/P
2	Williamsville Diagnostic Center 400 International Drive Williamsville, NY 14221	Extension Clinic Primary Medical Care, PT O/P, Radiology O/P, CT Scan, MRI
3	McAuley Residence 1503 Military Road Kenmore, NY 14217	Long Term Care, Radiology O/P, Clinical Laboratory O/P
4		
5		
6		
7		
8		
9		
10		

Part VI Supplemental Information

Complete this part to provide the following information

- 1
- Required descriptions.** Provide the descriptions required for Part I, lines 3c, 6a, and 7, Part II, Part III, lines 4, 8, and 9b, and Part V, Section B, lines 1j, 3, 4, 5c, 6i, 7, 9, 10, 11h, 13g, 15e, 16e, 17e, 18d, 19d, 20, and 21
- 2
- Community health needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any community health needs assessments reported in Part V, Section B
- 3
- Patient education of eligibility for assistance.** Describe how the organization informs and educates patients and persons who may be billed for patient care about their eligibility for assistance under federal, state, or local government programs or under the organization's financial assistance policy
- 4
- Community information.** Describe the community the organization serves, taking into account the geographic area and demographic constituents it serves
- 5
- Promotion of community health.** Provide any other information important to describing how the organization's hospital facilities or other health care facilities further its exempt purpose by promoting the health of the community (e g , open medical staff, community board, use of surplus funds, etc)
- 6
- Affiliated health care system.** If the organization is part of an affiliated health care system, describe the respective roles of the organization and its affiliates in promoting the health of the communities served
- 7
- State filing of community benefit report.** If applicable, identify all states with which the organization, or a related organization, files a community benefit report

Identifier	ReturnReference	Explanation
		Part I, Line 6a The Kenmore Mercy Hospital Community Benefit Report is contained in a report prepared by the Catholic Health System

Identifier	ReturnReference	Explanation
		Part I, Line 7 Costing is a full step down methodology of cost from non-revenue producing departments to revenue producing departments', with assignment of cost to individual charge items based on volume and charge amount All patient accounts are cost with the same methodology regardless of patient type (inpatient, outpatient, emergency room, etc) or insurance coverage (Medicare, Medicaid, private insurance, uninsured, etc)

Identifier	ReturnReference	Explanation
		Part I, L7 Col(f) Bad debt expenses of \$3,036,432 are included in Part IX, line 25, column (A) but subtracted when calculating the percentage in column (f)

Identifier	ReturnReference	Explanation
		Part II Kenmore Mercy Hospital provided Community Building in the form of Economic Development, Community Support, Environmental Improvements, Coalition Building, Community Health Improvement Advocacy, and Workforce Development which improved community leadership by promoting understanding of community healthcare needs and services at various events throughout the community as well as mentoring and education to students regarding healthcare careers

Identifier	ReturnReference	Explanation
		Part III, Line 4 The amount in Part III line 2 is the actual bad debt expenses of \$ 3,036,432 written down to cost, utilizing the Uninsured Ratio of Cost to Charges (RCC) obtained from the full step down methodology of cost described in Part 1, line 7 The amount in Part III line 3 is the estimate of bad debt from uninsured balance which is developed as follows as policy is to write accounts to bad debt 120 days after discharge, the discharge date period of 10/1/2010 to 9/30/2011 was used to determine the population of uninsured accounts The balance of these accounts was determined and the RCC was applied to develop the estimate in H Part III Line 3 As our determination of eligibility for the Healthcare Assistance Program (HAP) (Charity Care) is based solely on the presentation for care without insurance, which is now for each account, and use of a sophisticated estimator (PARO) of each guarantor's ability to pay an estimate of "the amount that reasonably could be attributable to patients who likely would qualify for financial assistance under the hospital's charity care policy if sufficient information had been available to make a determination of their eligibility" is not relevant The organization's financial statements do not include a footnote that describes bad debt expense, but the financial statements account for bad debt expenses in the statement of operations as actual expenses written off and an estimate of future write-offs less any recoveries

Identifier	ReturnReference	Explanation
		Part III, Line 8 The costing methodology used to determine the Medicare Allowable costs is Cost to Charge The shortfall is not treated as a community benefit

Identifier	ReturnReference	Explanation
		Part V, Section A Audiology O/P, Clinic Part Time Services, Clinical Laboratory Services, Coronary Care, CT Scanner, Emergency Department, Health Fairs O/P, Intensive Care, Medical Social Services, Medical/Surgical, Nuclear Medicine-Diagnostic, Nuclear Medicine-Therapeutic, Pharmaceutical Service, Physical Medical Rehabilitation, Physical Medicine and Rehabilitation O/P, Primary Medical Care O/P, Radiology - Diagnostic, Renal Dialysis - Acute, Respiratory Care, Therapy - Occupational O/P, Therapy - Physical O/P, Therapy - Speech Language, Pathology

Identifier	ReturnReference	Explanation
Kenmore Mercy Hospital		Part V, Section B, Line 13g Includes information in both English and Spanish on all signage and brochures for financial assistance

Identifier	ReturnReference	Explanation
Kenmore Mercy Hospital		Part V, Section B, Line 19d Highest volume commercial payor rate

Identifier	ReturnReference	Explanation
Kenmore Mercy Hospital		Part V, Section B, Line 21. There are instances where the full charges on the account are equal to or less than the highest volume commercial payor rate.

Identifier	ReturnReference	Explanation
		<p>Part VI, Line 2 Kenmore Mercy Hospital, as part of Catholic Health, involved many participants in assessing community health needs including 1 New York State Department of Health Prevention Agenda for the Healthiest State Erie County Department of Health Catholic Health Kaleida Health Erie County Medical Center Sheehan Memorial Hospital 2 Health Consumers 3 Patients/residents/clients A Hospital Inpatients and Outpatients B Nursing Home Residents and Families C Rehabilitation Patients D Primary Care Center Patients E Home Care Clients 4 Physicians 5 External Organizations, such as Academia, Community-based organizations, elected officials, employers and business, Faith based organizations, governmental organizations, media, philanthropists and schools 6 Statistical Resources1 New York State Department of Health Prevention Agenda for the Healthiest State Catholic Health worked in collaboration with the Erie County Department of Health, Kaleida Health, ECMC and Sheehan Memorial on the Erie County DOH Prevention Agenda for the Healthiest State In February 2009, an Erie County Joint Planning Committee formed to identify prevention priorities and strategies to focus on collaboratively over the next 3 years, which included Chronic Disease, Healthy Mothers, Healthy Babies, Healthy Children, Physical Activity and Nutrition and Tobacco Use 2 Health Consumers In creating the Catholic Health and Kenmore Mercy Hospital strategic plan, input was sought from a variety of constituents including consumers In August 2008, eight (8) consumer focus groups were conducted asking consumers what they wanted from their patient care experience These focus groups were created by reaching out to 8,000 area residents who were asked to contact friends/families/neighbors to participate 3 Patients/residents/clients A Hospital Inpatients and Outpatients Kenmore Mercy Hospital continues to participate in a regional patient satisfaction survey through a cooperative effort with the Buffalo Niagara Health Quality Coalition and area hospitals Patient participation is voluntary This survey takes place twice per year Through hospital admission and outpatient ancillary sites, surveys were distributed to individuals to gain an understanding about their healthcare needs and how well their needs were being met 4 Physicians Kenmore Mercy Hospital surveys its medical staff annually Physicians are surveyed on issues relating to the quality and efficiency of services offered throughout Catholic Health including at Kenmore Mercy Hospital 5 External Organizations Catholic Health and Kenmore Mercy Hospital also engaged in the P2 Collaborative (Pursuing Perfection) dedicated to improving the health of people across the region There are more than 200 participant organizations including the provider community, payers, community based organizations, religious organizations, local business, colleges & universities, and governmental agencies Areas of focus include working with physicians and organizations to enhance access to care and improve efficiency of care and empowering all of the Western New York community to take responsibility for and act on their own wellness In an effort to engage health care needs at the grass roots level, Catholic Health and Kenmore Mercy Hospital work closely with the following organizations to assess community health need Niagara Health Quality Coalition, Community Cancer Coalition, American Heart Association, Near East & West Side Task Force, Baker Victory Services, Community Health Center of Buffalo WNY Osteoporosis Resource Center, WNY Health Equity Work Group, Living Healthy Task Force of Erie County, Minority Health Coalition, Buffalo Public Schools Worksite Wellness, Flu Coalition Every Parent Influences Children (EPIC), Tobacco Coalition, WNY Coalition for Diabetes, Community Health Foundation, Erie County Coalition for Diabetes, WNED Public Television, Catholic Charities, Niagara University 6 Statistical Resources Catholic Health and Kenmore Mercy Hospital used PQI (Preventable Quality Indicators) to map specific areas by zip code to better understand needs and target for need We mapped specifically for Congestive Heart Failure, Hypertension, Angina & Diabetes to identify target areas for community education & screening initiatives Other statistical resources used to assess the needs of the communities served included "Buffalo Public Schools Student Body Mass Index", "Erie County Health Assessment Indicators", and "Erie County Health Indicators Profile" Goals/Objectives for the priorities identified for Catholic Health and Kenmore Mercy include -Increase consumer knowledge and adoption of healthy lifestyle behaviors by encouraging frequent physical activity and healthy nutrition, leading to improved health status and reduced chronic disease prevalence for residents of Buffalo and Erie County -Increase participants' ability to identify risk factors for cardiovascular disease -Lower body mass index (BMI)</p>

Identifier	ReturnReference	Explanation
		MI) in youth, early identification of adolescents and adults with high blood pressure, high blood cholesterol and high blood glucose through screening and prevention interventions - Implement a social marketing campaign to positively influence voluntary behavior of target population to take action to maximize health -Restrict the availability of less healthy foods and beverages in public service venues in Buffalo and Erie County, such as schools , community centers and hospitals In addition, Catholic Health and Kenmore Mercy utilize resources to manage their public relations and social marketing initiatives (public facing website, Facebook and Twitter), exponentially increasing the effectiveness of its outreach and the success of its Community Service Plan 2012 Community Education targets 9,000 biometric screenings (5,610 in underserved areas), 240 community programs held, 4,328 people in attendance at community programs Measures of Effectiveness -Number of educational programs held (240) and number of participants (4,328) Number of visits to website (617,380) - Number of program attendees who attended cardiovascular presentations (1,084) -Social media metrics Facebook pages (4), Facebook fans (4,571), Twitter followers (1,325), website visitors (617,380) -Local government facilities, hospitals and school districts adopt policies that limit the portion size of any entree by either reducing the standard portion size of entrees or offering smaller portion sizes in addition to standard portion sizes

Identifier	ReturnReference	Explanation
		Part VI, Line 3 Kenmore Mercy Hospital 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 Catholic Health System Healthcare Assistance Program (HAP) policy For example, Kenmore Mercy Hospital has posters and brochures available which include contact information for the Financial Clearance staff in admissions areas, emergency rooms, primary care and outpatient rehabilitation clinics, Revenue Management Center (RMC) and other areas of the organization's facilities where eligible patients are likely to be present, provides information about financial assistance and HAP contact information to patients as part of the intake process, provides financial assistance and HAP contact information to inpatients either during or within 90 days of discharge of their hospital stay, patient bills include the following language "The Catholic Health System has a Healthcare Assistance Program to assist those in need of financial assistance for qualified patients If you would like to obtain additional information on the Healthcare Assistance Program, please call (716) 601-3600 Thank you Our Customer Service area is our front end team to assist all patients in this process " Additionally, we discuss with the patient the availability of various government benefits, such as Medicaid or state programs, and assist the patient with qualification for such programs, where applicable, and there is information about financial aid posted on the Catholic Health System website

Identifier	ReturnReference	Explanation
		Part VI, Line 4 Kenmore Mercy Hospital serves a mostly suburban partially urban service area which is comprised of 88.5% white (non-Hispanic) and 3.9% African-American (non-Hispanic) households. The service area is more elderly than most with 18% of the population over the age of 65 compared to a national average of 13.3%. The community consists of fewer households than the national average with annual incomes below \$15,000/year at 12.5% compared to a national average of 12.9%. Although Kenmore Mercy Hospital is not located in a designated Health Professional Shortage Area (HPSA), the hospital draws patients from other HPSAs in the region and one of its extension clinics is in a designated HPSA area.

Identifier	ReturnReference	Explanation
		Part VI, Line 5 Catholic Health System's community service activities at the acute facilities include benefits to the broader community, which include non-billed services and provided services paid below costs Charity care and benefits to the community are provided through long term care facilities, home care programs and Catholic Health system-wide community programs These programs touch more than 40,000 Western New York residents through community health education programs, health screenings (including glucose, blood pressure, and cholesterol screenings, and cardiac, stroke, vascular, diabetes, nutrition, stress management, and women's community programming) clinical and support services, clerkships, internships, scholarships, in-kind donations and community support activities Additionally, thousands of people make unique visits to the Catholic Health website seeking information about an individual or family healthcare issue, and follow Catholic Health on Facebook and Twitter where daily posts talk to education and prevention of the priority areas The governing Board of Directors of Kenmore Mercy Hospital is comprised of community representatives from universities, legal communities, & business leaders Religious orders are represented, as well as active and retired medical staff members The Kenmore Mercy Hospital medical staff can be considered an "open" medical staff, as any physician can apply for privileges Each application is reviewed by a vigorous credentialing verification process

Identifier	ReturnReference	Explanation
		Part VI, Line 6 Kenmore Mercy Hospital is affiliated with the Catholic Health System, Inc , a New York State licensed corporation Catholic Health System, located in Buffalo, New York exempt from taxation and a charitable organization described in Section 501(c) (3) of the Internal Revenue Code of 1986 Catholic Health is also the parent company of the following New York State corporations Mercy Hospital of Buffalo, Sisters of Charity Hospital (Main Street Campus) , and Sisters of Charity Hospital (St Joseph Campus) Its outpatient and post-acute facilities (and services) include Mercy Ambulatory Care Center, Mercy Diagnostic and Treatment Center, Mercy Diagnostic Center, Sheridan Health Care Center, Sisters Central Park Diagnostic Center, Williamsville Diagnostic Center, Kenmore Specialty Center, Ken-Ton Family Care Center, Lovejoy/St Vincent Health Center, Mercy Comprehensive Care Center, Mercy OB/GYN Center, OLV Family Care Center, Sisters OB/GYN Center, Springville Primary Care Center, Williamsville Primary Care Center, Catholic Health Home Care, St Elizabeth's Home, St Vincent's Home, Father Baker Manor, McAuley Residence, Mercy Nursing Facility at OLV, St Catherine Laboure Health Care Center, and St Francis of Williamsville

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

Schedule J
(Form 990)

Compensation Information

OMB No 1545-0047

2011

Open to Public Inspection

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

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

▶ Attach to Form 990. ▶ See separate instructions.

Name of the organization Kenmore Mercy Hospital	Employer identification number 16-0762843
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Part I

Questions Regarding Compensation

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

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.

[illegible]

Part III **Supplemental Information**

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

Identifier	Return Reference	Explanation
	Part I, Line 4b	Certain Officers and Key employees participated in a supplemental nonqualified retirement plan per the terms and conditions of their employment arrangement Pension Gap CHE SERP Joseph McDonald \$26,000 \$106,775 Dr Brian D'Arcy \$9,800 \$142,750 Michael Moley \$20,697 Peter Bergmann \$7,334
	Part I, Line 6	The 2011 Incentive payments were dependent upon achieving the Catholic Health System Operating Income target for Catholic Health System participants or the Ministry Operating Income target for Ministry participants. Joseph McDonald \$208,063 Mark Sullivan \$92,715 James A. Dunlop, Jr. \$82,819 Dr. Brian D'Arcy \$60,760 Nancy Sheehan \$43,103 Michael Moley \$58,553 John Stavros \$39,644 Christine Kluckhohn \$55,065 Maria Foti \$36,606 Bartholomew Rodrigues \$34,317 Dr. Michael Galang \$35,389 Dr. Michael Edbauer \$59,284 David Macholz \$23,650 Peter Bergmann \$76,258 James Millard \$43,291 Walter Ludwig \$18,860 Dr. James Fitzpatrick \$16,383 Charles Urlaub \$72,463

Software ID:
Software Version:
EIN: 16-0762843
Name: Kenmore Mercy Hospital

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				
Joseph McDonald	(i)	0	0	0	0	0	0	0
	(ii)	583,131	208,063	280,060	26,855	15,042	1,113,151	0
Mark Sullivan	(i)	0	0	0	0	0	0	0
	(ii)	373,986	92,715	32,957	17,728	14,595	531,981	0
James Millard	(i)	214,698	43,291	38,703	156,544	1,275	454,511	0
	(ii)	0	0	0	0	0	0	0
David Macholz	(i)	0	0	0	0	0	0	0
	(ii)	171,337	23,650	25,227	13,750	18,132	252,096	0
Peter Bergmann	(i)	0	0	0	0	0	0	0
	(ii)	346,695	167,259	44,802	13,217	18,468	590,441	0
Dr Michael Edbauer	(i)	0	0	0	0	0	0	0
	(ii)	96,362	59,284	41,846	16,807	26,786	241,085	0
Christine Kluckhohn	(i)	0	0	0	0	0	0	0
	(ii)	186,796	55,065	55,207	97,902	18,716	413,686	0
Charles J Urlaub	(i)	0	0	0	0	0	0	0
	(ii)	324,839	72,463	38,707	18,124	14,704	468,837	0
James A Dunlop Jr	(i)	0	0	0	0	0	0	0
	(ii)	327,293	82,819	32,973	94,418	17,685	555,188	0
Dr Brian D'Arcy	(i)	0	0	0	0	0	0	0
	(ii)	253,307	60,760	288,076	30,581	18,105	650,829	0
Walter Ludwig	(i)	147,400	18,860	30,747	11,173	16,514	224,694	0
	(ii)	0	0	0	0	0	0	0
Michael Moley	(i)	0	0	0	0	0	0	0
	(ii)	259,903	58,553	75,762	25,222	14,473	433,913	0
John Stavros	(i)	0	0	0	0	0	0	0
	(ii)	169,269	39,644	39,410	21,022	17,990	287,335	0
Maria Foti	(i)	0	0	0	0	0	0	0
	(ii)	161,084	36,606	33,020	23,570	6,824	261,104	0
Bartholomew Rodrigues	(i)	0	0	0	0	0	0	0
	(ii)	145,256	34,317	38,611	15,377	17,718	251,279	0
Dr Michael Galang	(i)	0	0	0	0	0	0	0
	(ii)	265,381	35,389	30,990	20,485	5,201	357,446	0
Nancy Sheehan	(i)	0	0	0	0	0	0	0
	(ii)	187,958	43,103	38,707	21,899	5,211	296,878	0
Dr James Fitzpatrick	(i)	139,650	16,383	506	15,521	16,687	188,747	0
	(ii)	0	0	0	0	0	0	0

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				
Dr Sanford Pleskow	(i)	132,315	0	22,604	0	858	155,777	0
	(ii)	0	0	0	0	0	0	0
Dr Q amrunnisa Rahman	(i)	135,045	0	14,622	71,854	6,082	227,603	0
	(ii)	0	0	0	0	0	0	0
Dr Suchitra Koneru	(i)	121,076	0	14,642	7,498	24,129	167,345	0
	(ii)	0	0	0	0	0	0	0
Dr Nadezhda Polataiko	(i)	136,743	0	207	38,559	16,780	192,289	0
	(ii)	0	0	0	0	0	0	0

<div>Schedule K (Form 990)</div> <div>Department of the Treasury Internal Revenue Service</div>	<div>Supplemental Information on Tax Exempt Bonds</div> <div>▶ Complete if the organization answered "Yes" to Form 990, Part IV, line 24a. Provide descriptions, explanations, and any additional information in Schedule O (Form 990). ▶ Attach to Form 990. ▶ See separate instructions.</div>						OMB No 1545-0047	
							<div>2011</div>	
	Name of the organization Kenmore Mercy Hospital						Employer identification number 16-0762843	

Part I Bond Issues											
(a) Issuer Name	(b) Issuer EIN	(c) CUSIP #	(d) Date Issued	(e) Issue Price	(f) Description of Purpose	(g) Defeased		(h) On Behalf of Issuer		(i) Pool financing	
						Yes	No	Yes	No	Yes	No
A Dormitory Authority of State of New York	14-6000293	64983Q5t2	11-29-2006	16,730,000	Part V		X		X		X

Part II Proceeds									
		A		B		C		D	
1	Amount of bonds retired								
2	Amount of bonds defeased								
3	Total proceeds of issue	16,730,000							
4	Gross proceeds in reserve funds								
5	Capitalized interest from proceeds								
6	Proceeds in refunding escrow								
7	Issuance costs from proceeds	657,688							
8	Credit enhancement from proceeds	99,008							
9	Working capital expenditures from proceeds								
10	Capital expenditures from proceeds	15,973,304							
11	Other spent proceeds								
12	Other unspent proceeds								
13	Year of substantial completion	1998							
		Yes	No						
14	Were the bonds issued as part of a current refunding issue?	X							
15	Were the bonds issued as part of an advance refunding issue?		X						
16	Has the final allocation of proceeds been made?	X							
17	Does the organization maintain adequate books and records to support the final allocation of proceeds?	X							

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

Part III

Private Business Use (Continued)

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

Part IV

Arbitrage

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
1	Has a Form 8038-T, Arbitrage Rebate, Yield Reduction and Penalty in Lieu of Arbitrage Rebate, been filed with respect to the bond issue?		X						
2	Is the bond issue a variable rate issue?	X							
3a	Has the organization or the governmental issuer entered into a hedge with respect to the bond issue?	X							
b	Name of provider	JP Morgan Chase NA							
c	Term of hedge	15 500000000000							
d	Was the hedge superintegrated?		X						
e	Was a hedge terminated?		X						
4a	Were gross proceeds invested in a GIC?		X						
b	Name of provider								
c	Term of GIC								
d	Was the regulatory safe harbor for establishing the fair market value of the GIC satisfied?								
5	Were any gross proceeds invested beyond an available temporary period?		X						
6	Did the bond issue qualify for an exception to rebate?		X						

Part V

Procedures To Undertake Corrective Action

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

Part VI

Supplemental Information

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

Identifier	Return Reference	Explanation
Part I A (f)	Description of Purpose	To refund the New York State Medical Care Facilities Finance Agency FHA - insured mortgage Project Revenue Bonds, 1995 Series B, which were applied to finance the construction of a three floor patient tower and to refinance outstanding indebtedness

Schedule L
(Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

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

OMB No 1545-0047
2011
Open to Public Inspection

Name of the organization
Kenmore Mercy Hospital

Employer identification number
16-0762843

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

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

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

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

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

Part II Loans to and/or From Interested Persons.

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

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

Part III Grants or Assistance Benefitting Interested Persons.

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

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

Part IV Business Transactions Involving Interested Persons.

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

(a) Name of interested person	(b) Relationship between interested person and the organization	(c) Amount of transaction	(d) Description of transaction	(e) Sharing of organization's revenues?	
				Yes	No
(1) Susan Uralub	Wife of Mercy CEO , C J Urlaub	76,045	Corporate Nurse Educator		No
(2) James Manzella	Acute Care Board Member	326,330	Key Employee of Manzella Marketing		No
(3) David Zapfel	Brother of BOD, Msgr Robert Zapfel	62,906	HR Employee of CHS		No
(4) Kathleen Zapfel	Sister-in-law of BOD, Msgr Robert Zapfel	58,749	HR Employee of CHS		No
(5) Susan Gallagher-Stavros	Wife of Key Employee, John Stavros	30,035	Nurse, McAuley Seton Home Care		No
(6) Marie Packard	Daughter of BOD, Dennis Dombek	46,301	Mercy Physical Therapist		No

Part V Supplemental Information

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

Identifier	Return Reference	Explanation
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SCHEDULE O

(Form 990 or 990-EZ)

Department of the Treasury

Internal Revenue Service

Supplemental Information to Form 990 or 990-EZ

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

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization

Kenmore Mercy Hospital

Employer identification number

16-0762843

Identifier	Return Reference	Explanation
	Form 990, Part VI, Section A, line 6	CHS has three members Ascension Health, Catholic Health East, and the Diocese of Buffalo, NY Each member is able to participate equally in electing the governing body, approving significant decisions of the governing body, and in receiving a share of net assets upon dissolution, according to the CHS Bylaws
	Form 990, Part VI, Section A, line 7a	According to the CHS Bylaws, each member is equally allowed to appoint up to three individuals to act as its representatives on the Corporate Member Board, and in undertaking any action in its capacity as a Member
	Form 990, Part VI, Section A, line 7b	Each member is entitled to one vote on each matter properly submitted at any membership meeting, and the members also have reserve powers which allow approval for certain business events and ratification of certain business transactions
	Form 990, Part VI, Section B, line 11	Yes, an electronic copy of the Form 990 was provided to the CHS Boards of Directors before it was filed The CHS Board of Directors has delegated the responsibility to review the 990 to the Audit Committee The CHS Audit Committee reviewed in detail selected information for all CHS entities Reviewed with the Audit Committee 1 Core Form Part IV Checklist of required schedules 2 Core Form Part VI Governance, Management and Disclosure 3 Core Form Part VII Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees and Independent Contractors 4 Schedule H Hospitals 5 Schedule K Supplemental information on Tax Exempt Bonds 6 Schedule J Compensation Information 7 Schedule L Transactions with Interested Persons 8 Schedule R Related Organizations and Unrelated Partnerships 9 Process for which remaining Core Form was completed, utilizing audited financial information
	Form 990, Part VI, Section B, line 12c	All associates on the Merit program, all Physicians and Non Physician Practitioners as well as Physician groups who are independent contractors or employees of CHS, and all board members must complete a Conflict of Interest Disclosure Statement (COIDS) in order to fulfill the annual requirements COIDS are distributed to all parties, as per applicable policy, and once complete are followed up with as follows 1 Associate and Physician completed COIDS are reviewed and signed off by the manager If a disclosure is noted, it is discussed with the manager, and the document is forwarded to the Compliance officer who reviews and follows up as appropriate Once review/follow up is completed the Compliance Officer will sign the COIDS, maintain a copy in the compliance office and return the original to HR for filing in the Personnel file 2 All board member COIDS are returned to Compliance Officer for review and follow up as warranted The compliance officer will sign each COIDS and retain on file in the compliance office in a confidential manner
	Form 990, Part VI, Section B, line 15	In 2011, the Catholic Health System utilized a Compensation Committee of the Board of Directors to monitor the Executive Compensation as per the Executive Compensation Philosophy and Strategy for the CHS CEO, COO, CFO, CEO's for each Ministry, and all Senior Vice Presidents The Compensation Committee provides oversight to management decisions which are based on outlines approved by the committee, and performs a review of data The outcome of these meetings is documented
	Form 990, Part VI, Section C, line 19	We make our form 990 open for public inspection upon request Our website includes an annual report which includes selected financial information Our financial statements, governing documents and conflict of interest policy are provided upon request according to applicable federal and state laws
Changes in Net Assets or Fund Balances	Form 990, Part XI, line 5	Change in unrestricted interest in KMH Foundation, Inc -889,413 Change in Pension Obligation -6,552,184 Distribution from parent 380,275 Change in unrealized loss on interest rate swap -593,774 Change in temporarily restricted interest in KMH Foundation, Inc 628,775 Total to Form 990, Part XI, Line 5 -7,026,321

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

2011

Open to Public Inspection

Name of the organization
Kenmore Mercy Hospital

Employer identification number
16-0762843

Part I

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

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

Part II

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

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Exempt Code section	(e) Public charity status (if section 501(c)(3))	(f) Direct controlling entity	(g) Section 512(b)(13) controlled organization	
						Yes	No
See Additional Data Table							

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

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Predominant income (related, unrelated, excluded from tax under sections 512- 514)	(f) Share of total income	(g) Share of end-of- year assets	(h) Disproportionate allocations?		(i) Code V—UBI amount in box 20 of Schedule K-1 (Form 1065)	(j) General or managing partner?		(k) Percentage ownership
							Yes	No		Yes	No	

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

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Type of entity (C corp, S corp, or trust)	(f) Share of total income	(g) Share of end-of-year assets	(h) Percentage ownership

Part V

Transactions With Related Organizations

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

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

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

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

b Gift, grant, or capital contribution to related organization(s)

c Gift, grant, or capital contribution from related organization(s)

d Loans or loan guarantees to or for related organization(s)

e Loans or loan guarantees by related organization(s)

f Sale of assets to related organization(s)

g Purchase of assets from related organization(s)

h Exchange of assets with related organization(s)

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

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

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

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

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

n Sharing of paid employees with related organization(s)

o Reimbursement paid to related organization(s) for expenses

p Reimbursement paid by related organization(s) for expenses

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

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

Yes

No

1a

1b

1c

1d

1e

1f

1g

1h

1i

1j

1k

1l

1m

1n

1o

1p

1q

1r

No

Yes

No

No

No

No

No

No

No

No

Yes

Yes

Yes

Yes

Yes

Yes

Yes

Yes

2 If the answer to any of the above is "Yes," see the instructions for information on who must complete this line, including covered relationships and transaction thresholds			
(a) Name of other organization	(b) Transaction type(a-r)	(c) Amount involved	(d) Method of determining amount involved
(1)			
(2)			
(3)			
(4)			
(5)			
(6)			

Schedule R (Form 990) 2011

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

[illegible]

Part VII

Supplemental Information

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

Identifier	Return Reference	Explanation	
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Software ID:

Software Version:

EIN: 16-0762843

Name: Kenmore Mercy Hospital

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

(a) Name, address, and EIN of related organization	(b) Primary Activity	(c) Legal Domicile (State or Foreign Country)	(d) Exempt Code section	(e) Public charity status (if 501(c)(3))	(f) Direct Controlling Entity	(g) Section 512 (b)(13) controlled organization	
Catholic Health System Inc 515 Abbott Road Buffalo, NY 14220 22-2565278	Health Care Delivery System	NY	501c	Schedule A line 9			No
Mercy Hospital of Buffalo 565 Abbott Road Buffalo, NY 14220 16-0756336	Acute Care Hospital	NY	501c	Schedule A line 3	Catholic Health System Inc		No
Sisters of Charity Hospital 2157 Main Street Buffalo, NY 14214 16-0743187	Acute Care Hospital	NY	501c	Schedule A line 3	Catholic Health System Inc		No
Nazareth Home of the Franciscan Sisters 291 North Street Buffalo, NY 14201 16-0813142	Skilled Nursing Facility	NY	501c	Schedule A line 9	Catholic Health System Inc		No
St Clare Manor 543 Locust Street Lockport, NY 14094 16-0782647	Skilled Nursing Facility	NY	501c	Schedule A line 9	Catholic Health System Inc		No
St Elizabeth Home for the Aged 5539 Broadway Lancaster, NY 14086 16-0743154	Adult Home	NY	501c	Schedule A line 9	Catholic Health System Inc		No
St Francis Home of Williamsville 147 Reist St Williamsville, NY 14221 16-0743153	Skilled Nursing Facility	NY	501c	Schedule A line 9	Catholic Health System Inc		No
St Francis of Buffalo Inc 34 Benwood Ave Buffalo, NY 14214 16-1523535	Skilled Nursing Facility	NY	501c	Schedule A line 9	Catholic Health System Inc		No
St Joseph Manor 2211 West State Street Olean, NY 14760 16-0796400	Skilled Nursing Facility	NY	501c	Schedule A line 9	Catholic Health System Inc		No
St Luke Manor for the Chronically Ill 17 Wiard St Batavia, NY 14020 16-0794811	Skilled Nursing Facility	NY	501c	Schedule A line 9	Catholic Health System Inc		No
St Mary's Manor 515 6th Street Niagara Falls, NY 14301 16-0924139	Skilled Nursing Facility	NY	501c	Schedule A line 9	Catholic Health System Inc		No
St Vincent Manor 319 Washington Avenue Dunkirk, NY 14048 16-0743167	Adult Home	NY	501c	Schedule A line 9	Catholic Health System Inc		No
WNY Catholic Long Term Care Inc 6400 Powers Rd Orchard Park, NY 14127 16-1434368	Skilled Nursing Facility	NY	501c	Schedule A line 9	Catholic Health System Inc		No
Niagara Homemaker Services (Mercy Home Care) 2875 Union Rd Suite 14 Cheektowaga, NY 14227 16-1317960	Home Care Provider	NY	501c	Schedule A line 9	Catholic Health System Inc		No
McAuley Seton Home Care 2875 Union Rd Suite 14 Cheektowaga, NY 14227 16-1310062	Home Care Provider	NY	501c	Schedule A line 9	Catholic Health System Inc		No
Catholic Health System Infusion Pharmacy Inc 2875 Union Road Suite 14 Cheektowaga, NY 14227 20-0198518	Home Care Infusion Services	NY	501c	Schedule A line 9	Catholic Health System Inc		No
CHS Program of All-Inclusive Care for the Elderly Inc 55 Melroy Avenue Lackawanna, NY 14218 26-1252884	All-inclusive Care for the Elderly	NY	501c	Schedule A line 3	Catholic Health System Inc		No



**Kenmore Mercy Hospital and
Subsidiary (a subsidiary of the
Catholic Health System, Inc.)**

**Consolidated Financial Statements and
Accompanying Information
December 31, 2011 and 2010**

Kenmore Mercy Hospital and Subsidiary

Index

December 31, 2011 and 2010

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Report of Independent Auditors

To the Board of Directors of the
Catholic Health System, Inc

In our opinion, based on our audits and the report of other auditors, the accompanying consolidated balance sheets and the related consolidated statements of operations and changes in net assets and cash flows present fairly, in all material respects, the financial position of Kenmore Mercy Hospital and Subsidiary (the Hospital) at December 31, 2011 and 2010, and the results of their operations, their changes in net assets, and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These consolidated financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of The McAuley Residence, a wholly-owned subsidiary, whose statements reflect total assets of \$17,512,409 and \$16,891,670 as of December 31, 2011 and 2010, respectively, and total revenues of \$17,350,239 and \$15,729,011 for the years ended December 31, 2011 and 2010, respectively. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for The McAuley Residence, is based solely on the reports of the other auditors. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

As discussed in Note 13, the Hospital had significant transactions with related parties

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

May 14, 2012

Kenmore Mercy Hospital and Subsidiary
Consolidated Balance Sheets
December 31, 2011 and 2010

	2011	2010
Assets		
Current assets		
Cash and cash equivalents	\$ 24,203,654	\$ 15,738,717
Patient/resident accounts receivable, net of estimated uncollectibles of \$3,943,000 and \$3,116,000	14,589,083	19,476,223
Other receivables	808,355	659,436
Inventories	1,641,514	1,454,156
Prepaid expenses and other current assets	133,207	622,094
Total current assets	41,375,813	37,950,626
Interest in net assets of affiliated Foundations	3,268,942	3,541,132
Assets limited as to use	5,366,727	5,954,374
Due from affiliates	1,481,621	1,510,280
Property and equipment, net	43,627,547	43,869,686
Other assets	10,545,440	920,657
Total Assets	<u>\$ 105,666,090</u>	<u>\$ 93,746,755</u>
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term obligations	\$ 1,970,872	\$ 2,427,629
Accounts payable	6,231,779	8,189,829
Accrued expenses	6,342,759	5,745,279
Due to third-party payors	5,825,459	6,810,986
Due to affiliates	4,622,180	2,097,753
Total current liabilities	24,993,049	25,271,476
Long-term obligations, net	20,926,542	22,412,308
Long-term portion of insurance liabilities	15,063,072	4,625,841
Pension obligation	28,823,065	21,217,161
Asset retirement obligation	141,809	128,954
Interest rate swap	1,805,747	1,193,040
Other long-term liabilities	292,541	-
Total liabilities	92,045,825	74,848,780
Net assets		
Unrestricted	12,839,819	18,746,304
Temporarily restricted	780,446	151,671
Total net assets	13,620,265	18,897,975
Total Liabilities and Net Assets	<u>\$ 105,666,090</u>	<u>\$ 93,746,755</u>

The accompanying notes are an integral part of these consolidated financial statements

Kenmore Mercy Hospital and Subsidiary
Consolidated Statements of Operations and Changes in Net Assets
Years Ended December 31, 2011 and 2010

	2011	2010
Unrestricted revenues, gains and other support		
Net patient/resident service revenue	\$ 137,374,537	\$ 140,020,393
Other revenue	3,636,454	1,487,921
Total unrestricted revenues, gains and other support	<u>141,010,991</u>	<u>141,508,314</u>
Expenses		
Salaries and wages	60,112,319	58,213,713
Employee benefits	17,587,798	15,699,407
Medical and professional fees	4,642,837	4,293,274
Purchased services	11,960,795	11,977,656
Supplies	29,001,162	37,078,078
Depreciation and amortization	5,877,183	5,980,257
Interest	1,287,111	1,351,805
Insurance	1,134,795	1,058,980
Provision for bad debts	3,593,465	3,328,188
Other expenses	4,370,217	4,400,326
Total expenses	<u>139,567,682</u>	<u>143,381,684</u>
Income (loss) from operations	<u>1,443,309</u>	<u>(1,873,370)</u>
Nonoperating revenues and losses		
Investment income	198,620	156,225
Other	33,515	96,689
Total nonoperating revenues and losses	<u>232,135</u>	<u>252,914</u>
Excess (deficiency) of revenues over expenses	<u>\$ 1,675,444</u>	<u>\$ (1,620,456)</u>

The accompanying notes are an integral part of these consolidated financial statements

Kenmore Mercy Hospital and Subsidiary
Consolidated Statement of Operations and Changes in Net Assets (Continued)
Years Ended December 31, 2011 and 2010

	2011	2010
Unrestricted net assets		
Excess (deficiency) of revenues over expenses	\$ 1,675,444	\$ (1,620,456)
Change in unrestricted interest in		
Kenmore Mercy Foundation, Inc	(889,413)	479,565
Change in pension obligation	(5,948,476)	(1,986,324)
Impact of pension transfers to/ from CHS Subsidiaries	(603,703)	115,088
Distribution from parent	380,275	1,405,384
Change in unrealized loss on interest rate swap	(593,774)	(190,008)
Distributions from Foundation	58,562	573,671
Other	14,600	-
Decrease in unrestricted net assets before	(5,906,485)	(1,223,080)
Temporarily restricted net assets		
Change in temporarily restricted interest in Kenmore	617,223	78,265
Mercy Foundation, Inc		
Other	11,552	-
Increase in temporarily restricted net assets	628,775	78,265
Decrease in net assets	(5,277,710)	(1,144,815)
Net assets, beginning of year	18,897,975	20,042,790
Net assets, end of year	\$ 13,620,265	\$ 18,897,975

The accompanying notes are an integral part of these consolidated financial statements

Kenmore Mercy Hospital and Subsidiary
Consolidated Statement of Cash Flows
Years Ended December 31, 2011 and 2010

	2011	2010
Cash flows from operating activities		
Decrease in net assets	\$ (5,277,710)	\$ (1,144,815)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities		
Depreciation and amortization	5,877,183	5,980,257
Provision for bad debts	3,593,465	3,328,188
Distribution from parent	(380,275)	(1,405,384)
Undistributed portion of change in interest in Affiliated Foundations	272,190	(557,830)
Increase in pension obligation	6,552,179	1,871,236
Discount on issuance	8,787	8,787
Change in unrealized loss on interest rate swap	612,707	196,465
Change in unrealized gain on investments	(8,115)	3,599
Gain on sale of property and equipment	(52,448)	(3,146)
Gain on renewal of capital leases	-	(38,138)
(Increase) decrease in assets		
Patient accounts receivable	1,293,675	(5,871,607)
Other receivables	(148,919)	19,633
Inventories	(187,358)	(1,014,644)
Prepaid expenses	488,887	(273,023)
Other assets	(20,390)	177,447
Due from affiliates	85,672	27,028
Increase (decrease) in liabilities		
Accounts payable	(1,958,051)	1,528,844
Accrued expenses	434,285	346,889
Due to affiliates	2,047,381	(1,376,845)
Due to third-party payors	(985,527)	423,810
Other Liabilities	2,115,568	1,241,062
Net cash provided by operating activities	<u>14,363,186</u>	<u>3,467,813</u>
Cash flows from investing activities		
Purchase of property and equipment	(4,386,707)	(3,849,104)
Proceeds from sale of property and equipment	40,011	900
Sale of assets whose use is limited	595,762	-
Net cash used in investing activities	<u>(3,750,934)</u>	<u>(3,848,204)</u>
Cash flows from financing activities		
Distribution from parent	380,275	1,405,384
Repayments of current and long-term obligations	(2,527,590)	(2,565,528)
Net cash used in financing activities	<u>(2,147,315)</u>	<u>(1,160,144)</u>
Increase (decrease) in cash and cash equivalents	8,464,937	(1,540,535)
Cash and cash equivalents, beginning of year	15,738,717	17,279,252
Cash and cash equivalents, end of year	<u>\$ 24,203,654</u>	<u>\$ 15,738,717</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 1,278,324	\$ 1,343,018
Noncash investing and financing activities		
Assets acquired under capital lease obligations	\$ 576,280	\$ 1,812,810
Other non-cash transaction	\$ 160,484	\$ -

The accompanying notes are an integral part of these consolidated financial statements

Kenmore Mercy Hospital and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

1. Organization

Kenmore Mercy Hospital is a not-for-profit acute care hospital and The McAuley Residence (TMR), whose sole member is Kenmore Mercy Hospital, is a separate corporation operating as a not-for-profit nursing home. All operations are located in Erie County, New York and serve the community of Western New York. The Hospital provides inpatient, outpatient, and emergency services for the residents primarily in and around its surrounding area. Admitting physicians are primarily practitioners in the local area. Kenmore Mercy Hospital is part of the Catholic Health System, Inc (CHS or the System) and its organizational structure is discussed below.

System

Catholic Health System, Inc. and Subsidiaries is an integrated healthcare delivery system in Western New York jointly sponsored by the Sisters of Mercy, Daughters of Charity and the Diocese of Buffalo. Catholic Health East (CHE), Ascension Health System and the Diocese of Buffalo are the corporate members of CHS, with equal ownership interest. CHS is the sole corporate member of the following subsidiaries:

Acute Care Subsidiaries

The Acute Care Subsidiaries include Mercy Hospital of Buffalo (MHB), Kenmore Mercy Hospital including The McAuley Residence (the Hospital or KMH), and Sisters of Charity Hospital (SCH).

Long-Term Care Subsidiaries

The Long-term Care Subsidiaries include St. Francis Geriatric and Healthcare Services, Inc. (closed December 2010), St. Francis Home of Williamsville, Western New York Catholic Long-Term Care, Inc. (Father Baker Manor), St. Elizabeth's Home and St. Vincent's Home for the Aged.

Home Care Subsidiaries and Other

The Home Care and Other Subsidiaries include Mercy Home Care of Western New York, Inc., McAuley Seton Home Care (MSHC), OLV Renaissance Corporation, Catholic Health Infusion Pharmacy, Continuing Care Foundation and Catholic Health System Program of All Inclusive Care for the Elderly, Inc. (LIFE) (commenced operations in December 2010).

2. Significant Accounting Policies

The significant accounting policies applied in preparing the accompanying consolidated financial statements are summarized below.

Principles of Consolidation

The consolidated financial statements of the Hospital include the accounts of TMR. All significant intercompany balances and transactions have been eliminated to reflect the consolidated amounts.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates made by the Hospital include, but are not limited to, the reserves for conditional asset retirement obligations, reserve for bad debts, reserve for third-party payor contractual adjustments and allowances, the provision for estimated receivables and payables for final settlements with those payors, the insurance reserves for worker's compensation, professional and general liability, and actuarial assumptions used in determining pension expense.

Kenmore Mercy Hospital and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

Risks and Uncertainties

Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is at least possible that changes in risks in the near term could materially affect the net assets of the Hospital.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates related to third-party payment matters will change by a material amount in the near term.

Cash and Cash Equivalents

The Hospital considers all highly liquid investments, generally with original maturities of three months or less when purchased, and short term investments (certificates of deposit), excluding amounts limited as to use, to be cash equivalents. The Hospital maintains funds on deposit in excess of amounts insured by the Federal Depository Insurance limits.

Contributions

Contributions received are recorded as unrestricted, temporary restricted or permanently restricted net assets depending on the existence and nature of any donor restrictions. Contributions and pledges that are restricted by the donor are reported as an increase in unrestricted net assets if the restrictions expire, that is, when a stipulated time restriction ends or purpose restriction is accomplished in the reporting period in which the contribution is recognized. All other donor-restricted support is reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets released from restrictions.

Inventory

Inventories are generally stated at the lower of cost (first-in, first-out) or market.

Assets Limited as to Use

Assets limited as to use include assets set aside for debt service as required by trustee or indenture agreements, and assets set aside by the Board of Directors for specific future purposes. The Board retains control of these funds and may at its discretion subsequently use these funds for other purposes.

Prepaid Expenses and Other Assets

Prepaid expense and other assets consist of prepaid general expenses, deferred financing costs, insurance recoveries and other miscellaneous deferred charges. Amortization of the financing costs is provided on the effective interest method over the maturity of the bond issues.

Assets Whose Use is Limited and Investment Income

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in changes in net assets.

Investment returns (including unrealized gains and losses on trading securities, realized gains and losses on investments, interest income and dividends) is included in excess of revenue over expenses unless such earnings are restricted by donor or law. Investment income restricted by donors or law is reported as an increase in temporarily or permanently restricted net assets. Investment income is reported net of investment related expenses.

Kenmore Mercy Hospital and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

Property and Equipment

Property and equipment are stated at cost if purchased, or if contributed, at the fair market value on the date contributed. Depreciation is computed using the straight-line method over useful lives ranging from three to forty years. Equipment under capital lease is amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements.

Gifts of long-lived assets such as land, building, or equipment are reported as unrestricted support 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 support. Absent explicit donor stipulations about how long these long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Impairment of Long-Lived Assets

The Hospital evaluates its long-lived assets for financial impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable.

The Hospital evaluates the recoverability of long-lived assets not held for sale by measuring the carrying amount of the assets against the estimated undiscounted future cash flows associated with them. If such evaluations indicate that the future undiscounted cash flows of certain long-lived assets are not sufficient to recover the carrying value of such assets, the assets are adjusted to their fair values. Based on these evaluations, there were no adjustments to the carrying value of long-lived assets in 2011 and 2010.

Net Patient/Resident Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered including estimated adjustments under various reimbursement agreements with third-party payors. The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Third-party payors retain the right to review and propose adjustments to amounts recorded by the Hospital. Such 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. CHS's Healthcare Assistance Program provides discounts to patients based on need. In addition, the Hospital will also assist patients with the application process for free or low-cost insurance. Those uninsured patients who do not qualify for the Healthcare Assistance Program or low-cost insurance and live in New York State, a state contiguous to New York State, or the state of Ohio, are provided an uninsured discount based on a service specific uninsured rate. This uninsured rate is similar in calculation method and amount to third party payor methods and rates.

Under the New York Health Care Reform Act (NYHCRA), hospitals are authorized to negotiate reimbursement rates with certain nonMedicare payors except for Medicaid, Workers' Compensation and No-fault, which are regulated by New York State. These negotiated rates may take the form of rates per discharge, reimbursed costs, discounted charges or as per diem payments. Reimbursement rates for nonMedicare payors regulated by New York State are determined on a prospective basis. These rates also vary according to a patient classification system defined by NYHCRA that is based on clinical, diagnostic and other factors.

Kenmore Mercy Hospital and Subsidiary

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A summary of the payment arrangements with major third-party payors follows

- **Medicare.** Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor. Cost reports have been audited and finalized by the Medicare Administrative Contractor through December 31, 2006. Effective October 1, 2007, the Centers for Medicare and Medicaid Services (CMS) revised the Medicare patient classification system. The new Medicare severity adjusted diagnosis related groups (MS-DRGs) reflect changes in technology and current methods of care delivery. CMS has expanded the number of DRG's from 538 to 745 and requires identification of conditions that are present upon admission.
- **NonMedicare** The New York Health Care Reform Act of 1996, as updated, governs payments to hospitals in New York State. Under this system, hospitals and all nonMedicare payors, except Medicaid, Workers' Compensation and No-Fault insurance programs, negotiate hospital's payment rates. If negotiated rates are not established, payors are billed at hospitals established charges. Medicaid, Workers' Compensation and No-Fault payors pay hospital rates promulgated by the New York State Department of Health (DOH) on a prospective basis. Adjustments to current and prior years' rates for these payors will continue to be made in the future. Effective December 1, 2009, NYS implemented inpatient reimbursement reform. The reform updated the data utilized to calculate the NYS DRG rates and service intensity weights (SIWS) in order to utilize refined data and more current information in DOH promulgated rates. Similar type outpatient reforms were implemented effective December 1, 2008.

Amounts recognized in 2011 and 2010 related to prior years, including adjustments to prior year estimates and audit settlements, increased revenues approximately \$730,000 and \$590,000, respectively. These changes in estimates related to estimates for prior years cost report reopening, appeals, and tentative final cost reports, some of which are still subject to audit, additional reopening, and/or appeals.

Approximately 52% and 50% of net patient/resident service revenue was generated from services rendered to patients/residents under Medicare and Medicaid programs in 2011 and 2010, respectively. Approximately 26% and 24% of net patient/resident service revenue was generated from services rendered to patients under managed care programs in 2011 and 2010, respectively.

Charity Care

The System provides services to all patients regardless of ability to pay. A patient is classified as a charity patient based on income eligibility criteria as established by the Healthcare Assistance Program (HAP) which is determined by presentation for care without insurance, while using an estimator (PARO) of each guarantor's ability to pay. Free care is determined at 110% of Federal Poverty Guidelines (FPG), whereas discounted care is also provided at 500% FPG.

Of the Hospital's total expenses, an estimated \$1,217,866 and \$878,952 arose from providing services to charity care patients in 2011 and 2010, respectively. Costing is a full step down methodology of cost from non-revenue producing departments to revenue producing departments, with assignment of cost to individual charge items based on volume and charge amount. Additional costs for the Hospitals include required payments for a gross receipts assessment to New York State which is used to fund the New York State Medicaid program and the Health Care Reform Act (HCRA). Revenues that offset the costs of Charity Care include payments from the New York State Uncompensated Care Pools.

Kenmore Mercy Hospital and Subsidiary

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The Hospital provides care to patients at no charge or at a discounted rate who meet eligibility requirements under its Health Care Assistance Policy (charity care). In addition to charity care, the Hospital provides services to patients covered by Medicaid. The payments received for services provided to patients covered by Medicaid may be at or below costs in addition to the cost of care for patients without insurance.

Operating and Nonoperating Revenue and Losses

The Hospital's primary mission is dedicated to meeting the health care needs in the regions in which it operates. The Hospital is committed to providing a broad range of general and specialized health care services including inpatient, primary care, long-term care, outpatient services, and other health care related services. Only those activities directly associated with the furtherance of this mission are considered to be operating activities. Such activities include operation of cafeterias, parking lots, rental real estate and other ancillary activities. Other activities that result in gains or losses unrelated to the Hospital's primary mission are considered to be nonoperating.

Electronic Health Record Incentive Payments

The American Recovery and Reinvestment Act of 2009 provides for Medicare and Medicaid incentive payments beginning in 2011 for eligible hospitals and professionals that adopt and meaningfully use certified electronic health record ("EHR") technology. The Hospital recognizes income related to Medicare and Medicaid incentive payments using a gain contingency model that is based upon when our eligible hospitals have demonstrated meaningful use of certified EHR technology for the applicable period and the cost report information for the full cost report year that will determine the final calculation of the incentive payment is available.

Medicaid EHR incentive calculations and related payment amounts are based upon prior period cost report information available at the time our eligible hospitals adopt, implement or demonstrate meaningful use of certified EHR technology for the applicable period, and are not subject to revision for cost report data filed for a subsequent period. Thus, incentive income recognition occurs at the point the hospital adopts, implements or demonstrates meaningful use of certified EHR technology for the applicable period, as the cost report information for the full cost report year that will determine the final calculation of the incentive payment is known at that time. Medicare EHR incentive calculations and related initial payment amounts are based upon the most current filed cost report information available at the time the hospital demonstrates meaningful use of certified EHR technology for the applicable period. However, unlike Medicaid, this initial payment amount will be adjusted based upon an updated calculation using the annual cost report information for the cost report period that began during the applicable payment year. Thus, incentive income recognition occurs at the point the hospital demonstrates meaningful use of certified EHR technology for the applicable period and the cost report information for the full cost report year that will determine the final calculation of the incentive payment is available.

The Hospital recognized \$2.6 million of electronic health record incentive income related to Medicare incentive programs during the year ended December 31, 2011 which is recorded in Other operating revenue.

Kenmore Mercy Hospital and Subsidiary
Notes to Consolidated Financial Statements
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Other Revenues

The composition of other revenue for the years ended December 31, is set forth in the following table

	2011	2010
Shared services	\$ 115,656	\$ 536,047
Cafeteria revenue	238,407	252,618
Rental income	260,262	287,317
Medicare meaningful use	2,657,136	-
Other	364,993	411,939
	<u>\$ 3,636,454</u>	<u>\$ 1,487,921</u>

Other Expenses

The composition of other expenses for the years ended December 31, is set forth in the following table

	2011	2010
System dues (a)	\$ 1,404,648	\$ 1,150,899
Rental and operating leases	1,096,357	1,059,097
NYS Health Facilities Cash Receipts Assessment Program	468,881	480,180
Catholic Health System other expense	635,100	655,704
Professional fees	241,710	240,375
Other	523,521	814,071
	<u>\$ 4,370,217</u>	<u>\$ 4,400,326</u>

(a) System dues related to the following expenses in 2011 and 2010

	2011	2010
Salaries, wages and employee benefits	\$ 270,768	\$ 260,245
Professional fees and purchased services	256,915	101,689
Due to Catholic Health East	713,683	648,827
Other	163,282	140,138
	<u>\$ 1,404,648</u>	<u>\$ 1,150,899</u>

Excess of Revenues Over Expenses

The statement of operations and changes in net assets includes excess of revenues over expenses, commonly referred to as the performance indicator. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets), and the effective portion of cash flow hedging derivatives.

Kenmore Mercy Hospital and Subsidiary

Notes to Consolidated Financial Statements

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Net Assets

Unrestricted net assets are available for the general operating purposes of the Hospital and are not subject to any donor limitations

Temporarily restricted net assets are those whose use is limited by donors to a specific period or purpose and includes the Hospital's interest in the temporarily restricted net assets of the Kenmore Mercy Hospital Foundation, Inc (the Foundation) Temporarily restricted net assets are released to unrestricted net assets as restrictions are met, which can occur in the same period Gifts whose restrictions are met in the same period in which they are received are recorded as an increase in unrestricted net assets Such restrictions include purpose restrictions where donors have specified the purpose for which the net assets are to be spent, or time restrictions imposed by donors or implied by the nature of the gift, pledges to be paid in future periods, life income funds Investment return is included in unrestricted net assets unless the return is restricted by donor or law

Permanently restricted net assets have been restricted by donors to be maintained by the Hospital in perpetuity

Income Taxes

The financial statements do not include a provision for income taxes, since the Company is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code The tax-exempt organizations are subject to federal taxes on unrelated business income under section 511 of the Internal Revenue Code which are reported as other expenses in these financial statements

Capitalized Software Costs

The Hospital capitalizes certain costs that are incurred to purchase or to create and implement internal-use computer software, which includes software coding, installation, testing and certain data conversion from both internal and external providers in accordance with the accounting standards These capitalized costs are amortized on a straight-line basis over ten years and reviewed for impairment on an annual basis The Hospital capitalized software, computer equipment, and other external costs of \$611,045 and \$605,744 during 2011 and 2010, respectively Capitalized internal project labor costs amounted to \$107,135 and \$258,120 during 2011 and 2010, respectively

Reclassifications

Certain prior year amounts were reclassified to conform to the 2011 consolidated financial statement presentation

Subsequent Events

The Hospital evaluated subsequent events through May 14, 2012 which was the date the financial statements were issued

3. New Authoritative Pronouncements

In August 2010, the FASB issued guidance that requires health care entities to use cost as the measurement basis for charity care disclosures and defines cost as the direct and indirect costs of providing charity care The amended disclosure requirements are effective for fiscal years beginning after December 15, 2010 and must be applied retrospectively Note 2 reflects the amended disclosure requirements Since the new guidance amends disclosure requirements only, its adoption did not impact the Hospital's statement of financial position, statement of operations, or cash flow statement

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In August 2010, the FASB amended the Accounting Standards Codification ("ASC") to extend the guidance on netting receivables and payables in ASC 210-20, "Balance Sheet Offsetting, to health care entities, prohibiting offsetting of conditional or unconditional liabilities with anticipated insurance recoveries from third parties. The amended guidance is effective for fiscal years beginning after December 15, 2010. The Hospital adopted the amended guidance on January 1, 2011. The Hospital did not recognize a cumulative effect adjustment to beginning net assets as of January 1, 2011 because the increase to liabilities as a result of adopting the amended guidance was equal to the increase in insurance recoveries receivable. Because the Hospital elected not to retrospectively adopt the amended guidance, there was no impact on the Hospital's prior period statements of financial position, statements of operations, or cash flow statements.

In July 2011, the FASB issued ASU 2011-07, Health Care Entities (Topic 954) Presentation and Disclosure of Patient Services Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities. ASU 2011-07 includes amendments to FASB's ASC Topic 954, Health Care Entities. The objective of the update is to provide financial statement users with greater transparency about a health care entity's net patient service revenue and the related allowance for doubtful accounts. The amendments requires health care entities that recognize significant amounts of patient service revenue at the time services are rendered, even though they do not immediately assess the patients' ability to pay, to 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 standard is effective for January 1, 2012 and is not expected to have a significant impact on the consolidated financial statements.

4. Interest in Net Assets of Kenmore Mercy Hospital Foundation, Inc.

The Hospital accounts for its interest in the net assets of the Foundation in accordance with the provisions of not-for-profit accounting guidance. This guidance establishes standards for transactions in which a not-for-profit organization (the recipient organization, or the Foundation) accepts a contribution from a donor and agrees to transfer those assets, the return on investment of those assets, or both to another entity (the beneficiary, or the Hospital) that is specified by the donor. This guidance further provides that when these organizations are financially interrelated, as defined in this guidance, the beneficiary is required to recognize its interest in the net assets of the recipient organization and adjust that interest for its share of the change in net assets.

The Foundation is a separate not-for-profit organization with its own board of directors and finances separate from those of the Hospital and is not part of the Hospital's financial reporting entity. However, the Hospital can influence the financial decisions of the Foundation to such an extent that the Hospital can determine the timing and amount of distributions from the Foundations, and as such, the net asset classifications reported by the Hospital are consistent with the Foundation's financial statements.

Kenmore Mercy Hospital and Subsidiary
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A summary of the Foundation assets, liabilities, net assets, and changes in net assets are as follows

	2011	2010
Cash, investments and other assets	\$ 4,229,421	\$ 3,578,662
Total assets	<u>\$ 4,229,421</u>	<u>\$ 3,578,662</u>
Liabilities	\$ 960,479	\$ 37,530
Net assets		
Unrestricted	2,500,048	3,389,461
Temporarily restricted	<u>768,894</u>	<u>151,671</u>
Total net assets	<u>3,268,942</u>	<u>3,541,132</u>
Total liabilities and net assets	<u>\$ 4,229,421</u>	<u>\$ 3,578,662</u>
Change in unrestricted net assets	\$ (889,413)	\$ 479,565
Change in temporarily restricted net assets	<u>617,223</u>	<u>78,265</u>
	<u>\$ (272,190)</u>	<u>\$ 557,830</u>

Distributions were made to the Hospital in the amount of \$58,562 during 2011 and \$573,671 during 2010

5. Assets Limited as to Use

The composition of assets limited as to use is as follows at December 31

	2011	2010
Held by trustee for funded depreciation		
Cash and cash equivalents	\$ 1,158,320	\$ 1,761,542
US Government obligations and other	2,137,827	2,106,689
Interest receivable	9,153	11,015
Held by trustee for future payment of invoices		
Cash and cash equivalents	-	8,765
Held by trustee for renewal and replacement		
Cash and cash equivalents	<u>2,061,427</u>	<u>2,066,363</u>
Assets limited as to use	<u>\$ 5,366,727</u>	<u>\$ 5,954,374</u>

Kenmore Mercy Hospital and Subsidiary
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6. Property and Equipment

Property and equipment, recorded at cost, consists of the following at December 31

	2011	2010
Land and land improvements	\$ 789,832	\$ 773,304
Buildings	55,870,007	57,141,092
Leasehold improvements	8,029,931	7,007,253
Equipment	20,255,624	19,302,540
Automobiles	40,743	40,743
Equipment under capital leases	7,594,887	7,816,050
	<u>92,581,024</u>	<u>92,080,982</u>
Less Accumulated depreciation	(46,827,642)	(45,358,448)
Accumulated amortization under capital leases	(3,047,472)	(3,139,671)
	<u>42,705,910</u>	<u>43,582,863</u>
Construction in progress	921,637	286,823
	<u>\$ 43,627,547</u>	<u>\$ 43,869,686</u>

Depreciation expense in 2011 and 2010 amounted to approximately \$5,083,111 and \$4,895,874, respectively. Amortization expense on equipment under capital leases amounted to \$717,680 and \$1,008,771 in 2011 and 2010, respectively. Fully depreciated assets of \$3,913,715 and \$2,653,108 were written-off for the years ended December 31, 2011 and 2010, respectively.

7. Other Assets

Other assets consist of the following at December 31

	2011	2010
Insurance recoveries	\$ 9,667,929	\$ -
Debt issuance costs	700,089	763,626
Other	177,422	157,031
	<u>\$ 10,545,440</u>	<u>\$ 920,657</u>

Amortization expense on debt issuance costs amounted to \$63,536 in 2011 and \$63,397 in 2010.

8. Accrued Expenses

Accrued expenses consist of the following at December 31

	2011	2010
Workers compensation	\$ 1,154,320	\$ 1,023,259
Payroll and benefits	4,347,392	4,256,924
Other	841,047	465,096
	<u>\$ 6,342,759</u>	<u>\$ 5,745,279</u>

Kenmore Mercy Hospital and Subsidiary
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9. Long-Term Obligations

Long-Term Debt

Long-term obligations are comprised of the following at December 31

	2011	2010
2006 Series C Bonds payable, Kenmore Mercy Hospital (a)	\$ 12,420,239	\$ 13,318,952
Mortgage payable, The McAuley Residence (b)	6,685,708	7,087,355
Capital lease obligations, at various rates of interest ranging from 3.89% to 8.10%, collateralized by equipment	3,733,298	4,369,157
Note payable to an individual, payable in monthly installments of \$988 including interest at 9%, until May 2018	58,169	64,473
Total long-term obligations	22,897,414	24,839,937
Less Current portion	(1,970,872)	(2,427,629)
Long-term obligations, net	<u>\$ 20,926,542</u>	<u>\$ 22,412,308</u>

- (a) In 2006, the System formed the Acute Care Obligated Group (the Obligated Group), consisting of its three primary hospitals (MHB, SOC and KMH) and the parent. No affiliates of CHS other than the Members of the Obligated Group were included in this offering. Collectively, the Obligated Group refinanced all outstanding indebtedness of the Obligated Group. On November 29, 2006, \$68,820,000 of Dormitory Authority of the State of New York (DASNY) Catholic Health System Obligated Group Revenue Bonds, Series 2006 were issued. The bonds consisted of four series. Series 2006 C Bonds for \$16,730,000 was loaned to KMH for the purpose of retiring the NYS Medical Care Facilities Finance Agency FHA - Insured Mortgage Project Revenue Bonds, 1995 Series B which were applied to finance the construction of a three floor patient tower, certain renovations to the KMH facility and to refinance outstanding indebtedness. The discount on the bonds of \$136,928 will be accreted over the life of the bonds.

In connection with the issuance of the Series 2006 Bonds, the Obligated Group entered into a Loan Agreement (the Loan Agreement) whereby the Obligated Group is required to pay funds sufficient in timing and amount to pay the principal and redemption price of the Series 2006 Bonds and related interest and administrative expenses as they come due. The Series 2006 Bonds pay interest at a variable remarketed rate and are collateralized by a Letter of Credit with HSBC Bank which expires on November 29, 2014. In the event the letter of credit is not renewed at expiration, the outstanding Bonds, at the option of the members of the Obligated Group, will convert to a five year (initial) Term Loan. Repayment of the principal of Initial Term Loan shall be identical to the scheduled principal payments on the Bonds with the remaining amount due at the end of the five year term.

The interest borne by the Series 2006 Bonds will be determined by the Remarketing Agent to be the lowest rate that, in the judgment of the Remarketing Agent, under prevailing financial market conditions, enables such Series 2006 Bonds to be sold at a price of par. The variable interest rate was 0.11% and 0.33% at December 31, 2011 and 2010, respectively.

Kenmore Mercy Hospital and Subsidiary

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The Loan Agreement specifies that the Hospital shall continuously pledge, as a security for the payment of all liabilities and the performance of all obligations of the Hospital pursuant to the loan agreement, a security interest in and assignment of the gross receipts of the Hospital, together with the Hospital's right to receive or collect the gross receipts. Further, the Hospital delivered a mortgage to secure all obligations and liabilities of the Hospital under the Loan Agreement. As further security to the Loan Agreement, the Hospital granted DASNY a security interest in such fixtures, furnishings and equipment as owned by the Hospital. In addition, a letter of credit in the amount of the bonds was entered into with HSBC Bank USA to provide security on the Series 2006 Bonds.

Certain financial covenants must be maintained by the Obligated Group. Failure to comply with these covenants requires a formal consultants report and quarterly progress reports demonstrating how the facility is progressing towards compliance. The Loan Agreement requires the Obligated Group to comply with certain financial covenants, including maintenance of (i) a minimum number of days cash on hand, (ii) long-term debt service coverage, (iii) a maximum leverage ratio. The Obligated Group was in compliance with these covenants at December 31, 2011 and 2010.

- (b) Mortgage payable to Century Health Capital. The mortgage is an FHA - Insured Mortgage revenue bonds to Century Health Capital. The mortgage is payable in monthly installments of \$65,176 including interest of 5.51%. Monthly payments commenced on July 1, 1994 and continue through maturity in July 2023. The mortgage is collateralized by the building and equipment.

Aggregate maturities of all long-term obligations subsequent to December 31, 2011 are as follows:

	Long-Term Debt	Capital Leases	Total
2012	\$ 1,371,241	\$ 743,311	\$ 2,114,552
2013	1,433,370	721,996	2,155,366
2014	1,499,414	755,947	2,255,361
2015	1,564,456	436,460	2,000,916
2016	1,636,083	295,262	1,931,345
Thereafter	11,659,551	1,413,937	13,073,488
Total	<u>\$ 19,164,115</u>	<u>4,366,913</u>	<u>\$ 23,531,028</u>
Less: Amount representing interest		<u>(633,615)</u>	
Capital lease obligations		<u>\$ 3,733,298</u>	

Kenmore Mercy Hospital and Subsidiary
Notes to Consolidated Financial Statements
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Operating Leases

Minimum annual rental commitments at December 31, 2011 under noncancelable operating leases are as follows

2012	\$ 1,095,624
2013	1,095,624
2014	977,499
2015	938,124
2016	938,124
Thereafter	1,828,704
	<u>\$ 6,873,699</u>

Rental expense under operating leases amounted to approximately \$1,096,357 and \$1,059,097 in 2011 and 2010, respectively

10. Derivative Financial Instruments

In connection with the issuance of the Series 2006 Bonds and execution of the Loan Agreement, the Obligated Group entered into an interest rate swap agreement (a derivative agreement) with JP Morgan Chase. The Hospital entered into a derivative agreement for purposes of mitigating risk posed by the Bonds accruing interest at a variable rate. Further, the Hospital agreed not to take or omit to take any action that could reasonably be expected to result in the termination of the derivative agreement unless otherwise approved by JP Morgan Chase, provided, however, that termination of the derivative agreement shall not constitute an event of default for purposes of the Loan Agreement, but upon any such termination of the derivative agreement JP Morgan Chase may require that the Hospital direct the Series 2006 Bonds be converted to bonds that bear a fixed rate of interest. The terms of the swap require KMH to pay a fixed rate of 3.80% on the notional amount (\$12,975,000 at December 31, 2011) and in exchange, KMH will receive a variable rate payment based upon the Securities Industry and Financial Markets Association Index, calculated weekly. The notional amount of the swap is matched to the maturity schedule of the Series 2006 Bonds. The swap agreement was executed on December 13, 2006 and expires July 1, 2025. In accordance with the accounting guidance, the instrument qualifies for hedge treatment and is designated a cash flow hedge of future interest payments. The effective portion of the hedge has been excluded from excess of revenues over expenses and recorded within changes to net assets.

The fair value of derivative instruments at December 31 is as follows

(in thousands of dollars)

		2011		2010	
		Balance Sheet		Balance Sheet	
		Location	Fair Value	Location	Fair Value
Interest rate contracts					
Floating to fixed	Interest rate swap		<u>\$ 1,805,747</u>	Interest rate swap	<u>\$ 1,193,040</u>

Kenmore Mercy Hospital and Subsidiary

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The effects of derivative instruments on the consolidated statements of operations and changes in net assets for 2011 and 2010 are as follows

(in thousands of dollars)

	Amount of Gain (Loss) Recognized in Statement of Operations		Amount of Gain (Loss) Recognized in Net Assets	
	2011	2010	2011	2010
Change in fair value of				
interest rate swaps	\$ (18,933)	\$ (6,457)	\$ (593,774)	\$ (190,008)

The Hospital measures its interest rate swaps at fair market value on a recurring basis. The fair market value of the interest rate swaps is determined based on financials models that consider current and future market interest rates and adjustments for nonperformance risk. The inputs utilized in the valuation process of the interest rate swaps are considered to be Level 2 within the fair value hierarchy defined in Note 15.

11. Employee Benefit Plans

Pension Arrangements

Prior to December 31, 2001, the Hospital had a noncontributory defined benefit pension plan covering substantially all employees. Effective January 1, 2001, the System began maintaining a qualified defined benefit pension plan covering substantially all of its employees at its five constituent hospitals. As of that date, the Pension Plan for Employees of KMH was merged into the Retirement Plan of the Catholic Health System (the Plan).

Effective January 1, 2001, all nonunion employees who had met the age and service requirements under their previous plan were given the option of choosing to participate in the cash balance feature of the plan. Those who did not choose to participate in the cash balance feature accrue benefits under the same formula under the previous plan. All nonunion employees who become participants after that date automatically participate under the cash balance formula.

The Plan bases benefits upon both years of service and earnings. Participants under the KMH formulas earn benefits based on a career average formula. The cash balance formula is a hypothetical account balance formula. A participant's benefit obligation is assigned to the location at which the person works. As participants transfer around the System to other CHS subsidiaries, the obligations and a proportional amount of the plan's assets transfer.

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Funded Status

The following tables summarize changes in the benefit obligation, the plan assets and the funded status of our pension plan as well as the components of net periodic benefit costs, including key assumptions. The disclosures below have been actuarially determined based on an allocation of the System's obligations specific to Kenmore Mercy Hospital. The measurement dates for plan assets and obligations were December 31, 2011 and 2010.

	2011	2010
Benefit Obligations		
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 38,165,700	\$ 33,616,825
Service cost	1,518,313	1,364,254
Interest cost	2,044,118	1,972,635
Actuarial (gains) losses	5,697,213	2,660,019
Transfers (to) from CHS Subsidiaries	438,088	(119,693)
Amendments	-	198,911
Benefits paid	(1,498,990)	(1,509,544)
Expenses	(22,115)	(17,707)
Benefit obligation at end of year	<u>46,342,327</u>	<u>38,165,700</u>
Accumulated benefit obligation at end of year	<u>\$ 41,715,010</u>	<u>\$ 34,394,087</u>
Plan Assets		
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 16,948,539	\$ 15,128,833
Actual return on plan assets	(2,592)	1,715,849
Transfers (to) from CHS Subsidiaries	165,615	(53,153)
Benefits paid	(1,498,990)	(1,509,544)
System contributions	1,928,805	1,684,261
Expenses	(22,115)	(17,707)
Fair value of plan assets at end of year	<u>\$ 17,519,262</u>	<u>\$ 16,948,539</u>
Funded status at end of year	<u>\$ 28,823,065</u>	<u>\$ 21,217,161</u>
Amounts recognized in the consolidated balance sheets		
Noncurrent liabilities	<u>\$ (28,823,065)</u>	<u>\$ (21,217,161)</u>
Net amounts recognized	<u>\$ (28,823,065)</u>	<u>\$ (21,217,161)</u>
Amounts recognized in unrestricted net assets consists of		
Actuarial net loss	\$ (19,509,758)	\$ (12,912,815)
Prior service cost	(300,387)	(345,151)
Total amount recognized	<u>\$ (19,810,145)</u>	<u>\$ (13,257,966)</u>
Components of Net Periodic Benefit Cost		
Service cost	\$ 1,518,313	\$ 1,364,254
Interest cost on benefit obligation	2,044,118	1,972,635
Expected return on plan assets	(1,422,298)	(1,381,699)
Amortization of prior service costs	44,764	44,764
Recognized actuarial loss	797,634	542,239
Net periodic benefit cost	<u>\$ 2,982,531</u>	<u>\$ 2,542,193</u>

Kenmore Mercy Hospital and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

Since the hospital is a participant in the system's Plan, the following disclosures are made for the entire Plan in the aggregate

The estimated prior service cost, and net loss that will be amortized from unrestricted net assets into net periodic pension cost over the next fiscal year for the System are \$229,260 and \$13,925,937, respectively

The Plan's investment policies and strategies were used to develop the expected long-term rate of return on risk-free investment (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return of each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption

The Plan's target asset allocation for 2011 and the actual asset allocation percentages for 2011 and 2010 are as follows at the respective measurement dates

Asset Category	Pension target allocation	Actual	
	2012	2011	2010
Equities	60%	50%	51%
Fixed income	20%	37%	33%
Other	20%	13%	16%
Total	100%	100%	100%

The portfolio is diversified among a mix of assets including large and small cap, domestic and foreign equities, fixed income, alternatives (a fund of hedge funds), and cash. Asset mix is targeted to a specific allocation, either intermediate or long-term, that is established by evaluating expected return, standard deviation, and correlation of various assets against the plan's long-term objectives. Asset performance is monitored quarterly and rebalanced if asset classes exceed explicit ranges. The investment policy governs permitted types of investments, and outlines specific benchmarks and performance percentiles. The Investment Subcommittee of the Stewardship Committee of the CHE Board oversees the pension investment program and monitors investment performance. Risk is closely monitored through the evaluation of portfolio holdings and tracking the beta and standard deviation of the portfolio performance. The use of derivative financial instruments as an investment vehicle is specifically limited.

The following tables present the Plan's financial instruments as of December 31, 2011 and 2010, measured at fair value on a recurring basis using the fair value hierarchy defined in Note 15

	Total	Level 1	Level 2	Level 3
December 31, 2011				
Investments				
Cash and cash equivalents	\$ 11,532,458	\$ 11,510,903	\$ 21,555	\$ -
Marketable equity securities	100,534,215	92,676,777	7,857,438	-
Marketable debt securities	67,503,537	23,487,427	44,016,110	-
Managed funds	27,055,384	-	-	27,055,384
	<u>\$ 206,625,594</u>	<u>\$ 127,675,107</u>	<u>\$ 51,895,103</u>	<u>\$ 27,055,384</u>

Kenmore Mercy Hospital and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2011 and 2010

	Total	Level 1	Level 2	Level 3
December 31, 2010				
Investments				
Cash and cash equivalents	\$ 11,000,388	\$ 10,991,112	\$ 9,276	\$ -
Marketable equity securities	96,114,532	87,431,232	8,678,267	5,033
Marketable debt securities	57,537,008	22,182,587	35,354,421	-
Managed funds	31,275,299	-	-	31,275,299
	<u>\$ 195,927,227</u>	<u>\$ 120,604,931</u>	<u>\$ 44,041,964</u>	<u>\$ 31,280,332</u>

A roll forward of pension assets classified by the defined benefit plan as Level 3 within the fair value hierarchy (defined above) is as follows

	2011	2010
Fair value January 1	\$ 31,280,332	\$ 26,695,226
Realized and unrealized gains (losses)	(934,764)	1,062,550
Purchases	-	10,152,201
Sales	(1,002,631)	(6,361,481)
Transfers in/out	(2,287,551)	(268,164)
Fair value December 31	<u>\$ 27,055,386</u>	<u>\$ 31,280,332</u>

Contributions

Contributions to the Plan are made to make benefit payments to plan participants. The funding policy is to contribute amounts to the trusts sufficient to meet minimum funding requirements plus such additional amounts as may be determined to be appropriate. Contributions are made to benefit plans for the sole benefit of plan participants. The System is expected to contribute an aggregate amount of approximately \$17,700,000 to the pension plan trust in 2012 to be allocated amongst participating entities.

Benefit Payments

The following table summarizes the System's estimated future benefit payments. Actual benefit payments may differ from expected benefit payments.

2012	\$ 13,398,000
2013	14,876,000
2014	16,441,000
2015	18,227,000
2016	20,092,000
2017 - 2021	132,357,000

Kenmore Mercy Hospital and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2011 and 2010

	2011	2010
Weighted-average assumptions used to determine end of year benefit obligations		
Discount rate	4.60%	5.50%
Rate of compensation increase	3.00%	3.00%
Weighted-average assumptions used to determine net periodic pension cost		
Discount rate	5.50%	6.00%
Expected long-term rate of return on plan assets	8.00%	8.25%
Measurement date	12/31/2011	12/31/2010

12. Insurance Arrangements

The System, on the Hospital's behalf, participates in the CHE insurance program which provides coverage for healthcare professional (medical malpractice) and general liability exposures. The primary limits for healthcare professional and general liability are \$3 million per occurrence and are insured by Stella Maris Insurance Company, Ltd. (SMICL), a Cayman-domiciled insurer wholly-owned by CHE. SMICL also provides excess coverage to the System, and this excess coverage is fully reinsured with nonaffiliated commercial insurance companies. SMICL retains the full risk in the primary layer and no risk in the excess layers.

The coverage provided by SMICL is on a claims-made basis. The System, on the Hospital's behalf, therefore retains the liability for unasserted claims resulting from incidents that occurred on services provided prior to the financial statement date. The System has independent actuaries estimate the ultimate costs of such unasserted claims, which were discounted at 4.0% in 2011 and 2010. The Hospital's portion of the System's liability for unpaid and incurred but not reported claims at December 31, 2011 and 2010 is \$7,063,024 and \$1,152,855, respectively, recorded in accrued expenses and long-term liabilities. The charges to expenses for professional and general liability for 2011 and 2010 approximated \$951,195 and \$848,410, respectively, which has been included in insurance expenses. Amounts recognized as insurance receivables related to the claims approximate \$5,804,181 at December 31, 2011. Insurance recoveries are measured on the same basis as the liability subject to the need for a valuation allowance for uncollectible amounts.

The System's insurance program for workers' compensation, in which the Hospital participates, has a deductible of \$350,000 per occurrence. Claims in excess of self-insurance levels are fully insured. Losses from asserted claims and from unasserted claims identified by the System's incident reporting for the Hospital were accrued on an undiscounted basis based on actuarial estimates of the settlement of such claims.

The Hospital's portion of the System's current portion of liabilities for unpaid and incurred but not reported claims at December 31, 2011 and 2010 is \$1,061,651 and \$982,551, respectively, and is included in accrued expenses. The Hospital's portion of the System's long term portion of liabilities for unpaid and incurred but not reported claims at December 31, 2011 and 2010 is \$8,000,048 and \$3,530,629, respectively, and is included in long-term portion of insurance liabilities. The charges to expenses for workers compensation costs approximated \$2,620,668 and \$1,779,343 in 2011 and 2010, respectively, which has been included in employee benefits expenses. Amounts recognized as insurance receivables related to the claims approximate \$3,863,748 at December 31, 2011. Insurance recoveries are measured on the same basis as the liability subject to the need for a valuation allowance for uncollectible amounts.

Kenmore Mercy Hospital and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

The System's insurance for employee health costs, in which the Hospital participates, is self-insured up to \$325,000 per claim. Claims in excess of self-insurance levels are fully insured. Claims are accrued based upon the System's estimates of the aggregate liability for claims incurred using certain actuarial assumptions used in the insurance industry and based on the System's experience. Charges were billed monthly by the System and are included in employee benefit costs.

13. Related Party Transactions

The Hospital is one of a group of health care providers who are affiliated as a result of their association with the System.

During 2011 and 2010, the Hospital incurred expenses from affiliates for administration services, rent and other services. These expenses approximated \$21,951,280 in 2011 and \$19,425,346 in 2010. During 2011 and 2010, the Hospital provided cost sharing services to and received reimbursement from affiliates for laboratory, computer, and other services. Revenues from these services approximated \$129,645 and \$555,909 in 2011 and 2010, respectively.

During 2011, a distribution was received from the parent of \$380,275. During 2011 and 2010, the Hospital received cash payments from affiliates and made cash payments to affiliates in the normal course of operations.

Amounts due to affiliates at December 31, 2011 and 2010 were \$4,622,180 and \$2,097,753, respectively. Amounts due from affiliates at December 31, 2011 and 2010 were \$1,481,621 and \$1,510,280, respectively.

14. Legal Matters

Regulatory Compliance

The Hospital is involved in litigation and regulatory investigations arising in the course of business. The health care industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at the time. Recently, government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for patient services previously billed under Medicare and Medicaid programs in the current and preceding years. Management believes it is in compliance with such laws and regulations and no unknown or unasserted claims were known at this time, which could have a material adverse effect on the Hospital's future financial position, results from operations or cash flows.

15. Fair Value Measurements

The following methods and assumptions were used by the Hospital in estimating fair value disclosures for financial statements:

Cash and Cash Equivalents

The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.

Assets Limited to Use

The fair values for marketable equity, government, and fixed income securities are based on quoted market prices.

Kenmore Mercy Hospital and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

Interest Rate Swap

The Hospital has entered into standard International Swaps and Derivatives Association (ISDA) interest rate swap agreements (the Swap Agreements) to manage the interest rate risk associated with its debt. The Swap Agreements effectively convert a portion of our variable rate debt to a long-term fixed rate. Under these agreements, the Hospital receives a variable rate based on the Securities Industry and Financial Markets Association Index plus a markup and pay a fixed rate. The fair value of these interest rate derivatives are based on quoted prices for similar instruments from a commercial bank, and therefore, the interest rate derivatives are considered a Level 2 item.

Assets and liabilities recorded at fair value in the balance sheet are categorized based upon the level of judgment associated with the inputs used to measure their fair value. An asset or a liability's categorization within the fair value hierarchy is based on the lowest level of judgment input to its valuation. Hierarchical levels, as defined by accounting guidance, are directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities as follows:

Level I – Valuations based on quoted prices in active markets for identical assets or liabilities that the Hospital has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in active market, valuation of these products does not entail a significant degree of judgment. Level I assets include cash and cash equivalents, debt and equity securities that are traded in an active exchange markets, as well as certain U.S. Treasury and other U.S. Governments and agencies bonds that are highly liquid and are actively traded in over-the-counter markets.

Level II – Valuations based on quoted prices in active markets for similar assets or liabilities quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly. Level II assets include equity and fixed income managed funds with quoted prices that are traded less frequently than exchange-traded instruments whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

Level III – Valuations based on inputs that are unobservable and significant to the overall fair value measurement. These are generally company generated inputs and are not market based inputs. Level III assets would include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques as well as instruments for which the determination of fair value requires significant investment management judgment or estimation. The Hospital does not currently have any Level III assets or liabilities.

Financial instruments measured at fair value are based on one or more of the three valuation techniques noted in fair value guidance. The three valuation techniques are as follows:

Market approach – Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

Cost approach – Amount that would be required to replace the service capacity of an asset (i.e., replacement cost).

Income approach – Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques and option-pricing models).

Kenmore Mercy Hospital and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

The following tables present information about assets and liabilities that are measured at fair value on a recurring basis, and indicates the fair value hierarchy of the valuation techniques we utilized to determine such fair value as of December 31, 2011 and 2010

December 31, 2011	Total	Level I	Level 2	Level 3	Valuation Technique
Assets limited as to use					
Cash and cash equivalents	\$ 3,219,748	\$ 1,190,044	\$ 209 ,704	\$ -	Market
U S Government and agency obligations	2,137,827	2,137,827	-	-	Market
Other	9,153	-	9,153	-	Market
	<u>\$ 5,366,728</u>	<u>\$ 3,327,871</u>	<u>\$ 208,857</u>	<u>\$ -</u>	
Interest rate swap	\$ 1,805,747	\$ -	\$ 1,805,747	\$ -	Market
December 31, 2010					
December 31, 2010	Total	Level I	Level 2	Level 3	Valuation Technique
Assets limited as to use					
Cash and cash equivalents	\$ 3,836,670	\$ 1,812,733	\$ 203 ,937	\$ -	Market
U S Government and agency obligations	2,106,689	2,106,689	-	-	Market
Other	11,015	-	11,015	-	Market
	<u>\$ 5,954,374</u>	<u>\$ 3,919,422</u>	<u>\$ 204,952</u>	<u>\$ -</u>	
Interest rate swap	\$ 1,193,040	\$ -	\$ 1,193,040	\$ -	Market

16. Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are residents of Western New York and are insured under third-party agreements. The mix of receivables from patients and third-party payors at December 31 are

	2011	2010
Medicare	36%	33%
Medicaid	4%	3%
Blue Cross	7%	4%
Other third-party payors	40%	48%
Patients/Residents	<u>13%</u>	<u>12%</u>
	<u>100%</u>	<u>100%</u>

Kenmore Mercy Hospital and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2011 and 2010

17. Functional Expenses

The Hospital provides general health care services to residents within its geographic region. Expenses related to providing these services for the years ended December 31 are as follows:

	2011	2010
Health care services	\$ 99,445,980	\$ 106,384,429
General and administrative	<u>40,121,702</u>	<u>36,997,255</u>
	<u>\$ 139,567,682</u>	<u>\$ 143,381,684</u>



Report of Independent Auditors on Accompanying Other Information

To the Board of Directors of the
Catholic Health System, Inc

We have audited the consolidated financial statements, in which we indicated the extent of our reliance on the report of other auditors, of Kenmore Mercy Hospital and Subsidiary (the Hospital) as of December 31, 2011 and for the year then ended and our report thereon appears on page 1 of this document. That audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The Schedule of Net Cost of Providing Care of Persons Living in Poverty and Community Benefit Programs (Schedule of Social Accountability) and consolidating information are the responsibility of management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the consolidated financial statements. The Schedule of Social Accountability and consolidating information have been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Social Accountability and consolidating information are fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual companies and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the Schedule of Net Cost of Providing Care of Persons Living in Poverty and Community Benefit Programs (Schedule of Social Accountability) and financial position, results of operations and cash flows of the individual companies.

PricewaterhouseCoopers LLP

May 14, 2012

Kenmore Mercy Hospital and Subsidiary
Schedule of Net Cost of Providing Care of Persons Living in Poverty and
Community Benefit Programs (Schedule of Social Accountability)
Years Ended December 31, 2011 and 2010

(in thousands of dollars)

The total costs related to the care of the poor and benefits for the broader community as of December 31 are set forth in the following table

	2011	2010
Charity care	\$ 1,217,866	\$ 878,952
Cost of community benefit programs	1,388,134	906,120
Unpaid cost of medicaid programs	<u>2,542,003</u>	<u>3,238,196</u>
Social accountability costs	<u>\$ 5,148,003</u>	<u>\$ 5,023,268</u>

Kenmore Mercy Hospital and Subsidiary
Consolidating Balance Sheets
December 31, 2011

	Kenmore Mercy Hospital	The McAuley Residence	Eliminations	Consolidated
Assets				
Current assets				
Cash and cash equivalents	\$ 22,987,347	\$ 1,216,307	\$ -	\$ 24,203,654
Patient/resident accounts receivable, net of estimated uncollectibles of \$3,943,000	12,666,721	1,922,362	-	14,589,083
Other receivables	639,030	169,325	-	808,355
Inventories	1,641,514	-	-	1,641,514
Prepaid expenses	133,207	-	-	133,207
Total current assets	38,067,819	3,307,994	-	41,375,813
Interest in net assets of				
Affiliated Foundations	3,268,942	-	-	3,268,942
Assets limited as to use	-	5,366,727	-	5,366,727
Due from affiliate	1,475,902	8,431	(2,712)	1,481,621
Property and equipment, net	37,213,288	6,414,259	-	43,627,547
Other assets	9,727,021	2,414,998	(1,596,579)	10,545,440
Total Assets	\$ 89,752,972	\$ 17,512,409	\$ (1,599,291)	\$ 105,666,090
Liabilities and Net Assets				
Current liabilities				
Current portion of long-term obligations	\$ 1,546,529	\$ 424,343	\$ -	\$ 1,970,872
Accounts payable	6,018,918	212,861	-	6,231,779
Accrued expenses	4,718,483	1,624,276	-	6,342,759
Due to third-party payors	4,862,647	962,812	-	5,825,459
Deferred revenue				-
Due to affiliate	4,160,962	463,930	(2,712)	4,622,180
Total current liabilities	21,307,539	3,688,222	(2,712)	24,993,049
Long-term obligations, net	14,665,177	6,261,365	-	20,926,542
Long-term portion of insurance liabilities	11,861,363	3,201,709	-	15,063,072
Pension obligation	26,090,036	2,733,029	-	28,823,065
Asset retirement obligation	141,809	-	-	141,809
Interest rate swap	1,805,747	-	-	1,805,747
Other long-term liabilities	292,541	-	-	292,541
Total liabilities	76,164,212	15,884,325	(2,712)	92,045,825
Net assets				
Unrestricted	12,819,866	1,616,532	(1,596,579)	12,839,819
Temporarily restricted	768,894	11,552	-	780,446
Total net assets	13,588,760	1,628,084	(1,596,579)	13,620,265
Total Liabilities and Net Assets	\$ 89,752,972	\$ 17,512,409	\$ (1,599,291)	\$ 105,666,090

The accompanying notes are an integral part of these consolidating financial statements

Kenmore Mercy Hospital and Subsidiary
Consolidating Statements of Operations and Changes in Net Assets
Year Ended December 31, 2011

	Kenmore Mercy Hospital	The McAuley Residence	Eliminations	Consolidated
Unrestricted revenues, gains and other support				
Net patient/resident service revenue	\$ 120,105,202	\$ 17,269,335	\$ -	\$ 137,374,537
Other revenue	3,555,550	80,904	-	3,636,454
Total unrestricted revenues, gains and other support	123,660,752	17,350,239	-	141,010,991
Expenses				
Salaries and wages	49,687,521	10,424,798	-	60,112,319
Employee benefits	14,563,420	3,024,378	-	17,587,798
Medical and professional fees	4,429,127	213,710	-	4,642,837
Purchased services	10,941,186	1,019,609	-	11,960,795
Supplies	27,792,026	1,209,136	-	29,001,162
Depreciation and amortization	5,159,154	718,029	-	5,877,183
Interest	906,640	380,471	-	1,287,111
Insurance	1,029,434	105,361	-	1,134,795
Provision for bad debts	3,036,432	557,033	-	3,593,465
Other expenses	4,146,201	224,016	-	4,370,217
Total expenses	121,691,141	17,876,541	-	139,567,682
Gain (loss) from operations	1,969,611	(526,302)	-	1,443,309
Nonoperating revenues and losses				
Investment income	113,409	85,211	-	198,620
Other	33,515	-	-	33,515
Total nonoperating revenues and losses	146,924	85,211	-	232,135
Excess (deficiency) of revenues over expenses	2,116,535	(441,091)	-	1,675,444

The accompanying notes are an integral part of these consolidating financial statements

Kenmore Mercy Hospital and Subsidiary
Consolidating Statements of Operations and Changes in Net Assets (Continued)
Year Ended December 31, 2011

	Kenmore Mercy Hospital	The McAuley Residence	Eliminations	Consolidated
Unrestricted net assets				
Excess (deficiency) of revenues over expenses	\$ 2,116,535	\$ (441,091)	\$ -	1,675,444
Change in unrestricted interest in Kenmore Mercy Foundation	(889,413)	-	-	(889,413)
Change in pension obligation	(5,652,410)	(296,066)	-	(5,948,476)
Impact of pension transfers to/from CHS subsidiaries	(106,790)	(496,913)	-	(603,703)
Distribution from (to) parent	398,264	(17,989)	-	380,275
Change in unrealized loss on interest rate swap	(593,774)	-	-	(593,774)
Distributions from Foundation	56,758	1,804	-	58,562
Other	14,600	-	-	14,600
Decrease in unrestricted net assets	<u>(4,656,230)</u>	<u>(1,250,255)</u>	<u>-</u>	<u>(5,906,485)</u>
Temporarily restricted net assets				
Change in temporarily restricted interest in Kenmore Mercy Foundation	617,223	-	-	617,223
Other	-	11,552	-	11,552
Increase in temporarily restricted net assets	<u>617,223</u>	<u>11,552</u>	<u>-</u>	<u>628,775</u>
Decrease in net assets	<u>(4,039,007)</u>	<u>(1,238,703)</u>	<u>-</u>	<u>(5,277,710)</u>
Net assets, beginning of year	<u>17,627,767</u>	<u>2,866,787</u>	<u>(1,596,579)</u>	<u>18,897,975</u>
Net assets, end of year	<u>\$ 13,588,760</u>	<u>\$ 1,628,084</u>	<u>\$ (1,596,579)</u>	<u>\$ 13,620,265</u>

The accompanying notes are an integral part of these consolidating financial statements

Kenmore Mercy Hospital and Subsidiary

Consolidating Statements of Cash Flows

Year Ended December 31, 2011

	Kenmore Mercy Hospital	The McAuley Residence	Eliminations	Consolidated
Cash flows from operating activities				
Decrease in net assets	\$ (4,039,007)	\$ (1,238,703)	\$ -	\$ (5,277,710)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities				
Depreciation and amortization	5,159,154	718,029	-	5,877,183
Provision for bad debts	3,036,432	557,033	-	3,593,465
Distribution from parent	(398,264)	17,989	-	(380,275)
Undistributed portion of change in interest in Kenmore Mercy Foundation, Inc	272,190	-	-	272,190
Increase in pension obligation	5,759,200	792,979	-	6,552,179
Discount on issuance	8,787	-	-	8,787
Change in unrealized loss on interest rate swap	612,707	-	-	612,707
Change in unrealized gain on investments	-	(8,115)	-	(8,115)
Gain on sale of fixed assets	(52,448)	-	-	(52,448)
(Increase) decrease in assets				
Patient accounts receivable	1,588,690	(295,015)	-	1,293,675
Other receivables	(242,547)	93,628	-	(148,919)
Inventories	(187,358)	-	-	(187,358)
Prepaid expenses	333,727	155,160	-	488,887
Other assets	(8,838)	(11,552)	-	(20,390)
Due from affiliates	43,531	39,429	2,712	85,672
Increase (decrease) in liabilities				
Accounts payable	(1,924,391)	(33,660)	-	(1,958,051)
Accrued expenses	287,851	149,146	(2,712)	434,285
Due to affiliate	1,738,977	308,404	-	2,047,381
Due to third-party payors	371,437	(1,356,964)	-	(985,527)
Other Liabilities	2,051,233	64,335	-	2,115,568
Net cash provided by (used in) operating activities	<u>14,411,063</u>	<u>(47,877)</u>	<u>-</u>	<u>14,363,186</u>
Cash flows from investing activities				
Purchase of property and equipment	(3,691,167)	(695,540)	-	(4,386,707)
Proceeds from the sale of property and equipment	40,011	-	-	40,011
Sale of assets whose use is limited	8,765	586,997	-	595,762
Net cash used in investing activities	<u>(3,642,391)</u>	<u>(108,543)</u>	<u>-</u>	<u>(3,750,934)</u>
Cash flows from financing activities				
Distribution from parent	398,264	(17,989)	-	380,275
Repayments of current and long-term obligations	(2,125,943)	(401,647)	-	(2,527,590)
Net cash used in financing activities	<u>(1,727,679)</u>	<u>(419,636)</u>	<u>-</u>	<u>(2,147,315)</u>
Increase (decrease) in cash and cash equivalents	9,040,993	(576,056)	-	8,464,937
Cash and cash equivalents, beginning of year	13,946,354	1,792,363	-	15,738,717
Cash and cash equivalents, end of year	<u>\$ 22,987,347</u>	<u>\$ 1,216,307</u>	<u>\$ -</u>	<u>\$ 24,203,654</u>
Supplemental disclosure of cash flow information				
Cash paid during the year for interest	\$ 897,853	\$ 380,471	\$ -	\$ 1,278,324
Noncash investing and financing activities				
Assets acquired under capital lease obligations	\$ 576,280	\$ -	\$ -	\$ 576,280
Other non-cash transaction	\$ -	\$ 160,484	\$ -	\$ 160,484

The accompanying notes are an integral part of these consolidating financial statements