

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

2012

Open to Public Inspection

A For the 2012 calendar year, or tax year beginning 01-01-2012 , 2012, and ending 12-31-2012

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		D Employer identification number 16-0762843	
	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		E Telephone number (716) 828-2993	
	City or town, state or country, and ZIP + 4 Buffalo, NY 142202039		G Gross receipts \$ 152,150,262	
	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) H(c) Group exemption number ▶	
I Tax-exempt status <input checked="" type="checkbox"/> 501(c)(3) <input type="checkbox"/> 501(c) () ◀(insert no) <input type="checkbox"/> 4947(a)(1) or <input type="checkbox"/> 527				
J Website: ▶ 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
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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 2012 Community Service Plan can be found at www.chsbuffalo.org																								
	2 Check this box <input type="checkbox"/> if the organization discontinued its operations or disposed of more than 25% of its net assets																								
	<table><tr><td>3 Number of voting members of the governing body (Part VI, line 1a)</td><td>3</td><td>18</td></tr><tr><td>4 Number of independent voting members of the governing body (Part VI, line 1b)</td><td>4</td><td>7</td></tr><tr><td>5 Total number of individuals employed in calendar year 2012 (Part V, line 2a)</td><td>5</td><td>1,421</td></tr><tr><td>6 Total number of volunteers (estimate if necessary)</td><td>6</td><td>393</td></tr><tr><td>7a Total unrelated business revenue from Part VIII, column (C), line 12</td><td>7a</td><td>0</td></tr><tr><td>b Net unrelated business taxable income from Form 990-T, line 34</td><td>7b</td><td>0</td></tr></table>	3 Number of voting members of the governing body (Part VI, line 1a)	3	18	4 Number of independent voting members of the governing body (Part VI, line 1b)	4	7	5 Total number of individuals employed in calendar year 2012 (Part V, line 2a)	5	1,421	6 Total number of volunteers (estimate if necessary)	6	393	7a Total unrelated business revenue from Part VIII, column (C), line 12	7a	0	b Net unrelated business taxable income from Form 990-T, line 34	7b	0						
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Revenue	<table><tr><td>8 Contributions and grants (Part VIII, line 1h)</td><td>Prior Year</td><td>Current Year</td></tr><tr><td>9 Program service revenue (Part VIII, line 2g)</td><td>73,162</td><td>311,010</td></tr><tr><td>10 Investment income (Part VIII, column (A), lines 3, 4, and 7d)</td><td>137,374,537</td><td>148,925,847</td></tr><tr><td>11 Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)</td><td>251,069</td><td>85,333</td></tr><tr><td>12 Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12)</td><td>3,617,521</td><td>2,828,072</td></tr><tr><td></td><td>141,316,289</td><td>152,150,262</td></tr></table>	8 Contributions and grants (Part VIII, line 1h)	Prior Year	Current Year	9 Program service revenue (Part VIII, line 2g)	73,162	311,010	10 Investment income (Part VIII, column (A), lines 3, 4, and 7d)	137,374,537	148,925,847	11 Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)	251,069	85,333	12 Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12)	3,617,521	2,828,072		141,316,289	152,150,262						
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Expenses	<table><tr><td>13 Grants and similar amounts paid (Part IX, column (A), lines 1–3)</td><td>0</td><td>0</td></tr><tr><td>14 Benefits paid to or for members (Part IX, column (A), line 4)</td><td>0</td><td>0</td></tr><tr><td>15 Salaries, other compensation, employee benefits (Part IX, column (A), lines 5–10)</td><td>77,700,114</td><td>83,617,917</td></tr><tr><td>16a Professional fundraising fees (Part IX, column (A), line 11e)</td><td>0</td><td>0</td></tr><tr><td>b Total fundraising expenses (Part IX, column (D), line 25) ▶⁰</td><td></td><td></td></tr><tr><td>17 Other expenses (Part IX, column (A), lines 11a–11d, 11f–24e)</td><td>61,867,564</td><td>63,598,888</td></tr><tr><td>18 Total expenses Add lines 13–17 (must equal Part IX, column (A), line 25)</td><td>139,567,678</td><td>147,216,805</td></tr><tr><td>19 Revenue less expenses Subtract line 18 from line 12</td><td>1,748,611</td><td>4,933,457</td></tr></table>	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)	77,700,114	83,617,917	16a Professional fundraising fees (Part IX, column (A), line 11e)	0	0	b Total fundraising expenses (Part IX, column (D), line 25) ▶ ⁰			17 Other expenses (Part IX, column (A), lines 11a–11d, 11f–24e)	61,867,564	63,598,888	18 Total expenses Add lines 13–17 (must equal Part IX, column (A), line 25)	139,567,678	147,216,805	19 Revenue less expenses Subtract line 18 from line 12	1,748,611	4,933,457
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Net Assets or Fund Balances	<table><tr><td></td><td>Beginning of Current Year</td><td>End of Year</td></tr><tr><td>20 Total assets (Part X, line 16)</td><td>105,666,087</td><td>135,346,864</td></tr><tr><td>21 Total liabilities (Part X, line 26)</td><td>92,045,822</td><td>117,870,939</td></tr><tr><td>22 Net assets or fund balances Subtract line 21 from line 20</td><td>13,620,265</td><td>17,475,925</td></tr></table>		Beginning of Current Year	End of Year	20 Total assets (Part X, line 16)	105,666,087	135,346,864	21 Total liabilities (Part X, line 26)	92,045,822	117,870,939	22 Net assets or fund balances Subtract line 21 from line 20	13,620,265	17,475,925												
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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	*****		2013-11-12		
	Signature of officer		Date		
Paid Preparer Use Only	DAVID P MACHOLZ VP Finance/Corp Controller				
	Type or print name and title				
	Prnt/Type preparer's name		Preparer's signature	Date	Check <input type="checkbox"/> if self-employed PTIN
Firm's name ▶		Firm's EIN ▶			
Firm's address ▶		Phone no			

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

Part III

Statement of Program Service Accomplishments

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

☐

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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 2012 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 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 \$ 74,074,630 including grants of \$) (Revenue \$ 105,071,510)

Inpatient services provided 2,683 Inpatient Ambulatory Surgery visits, 490 visits for G I Lab, and 141 visits for Urology. Inpatient services provided 33,506 acute care patient days and 4,747 medical rehab service days. The Skilled Nursing Facility provided 55,344 days of care.

4b

(Code) (Expenses \$ 29,031,097 including grants of \$) (Revenue \$ 41,179,297)

Outpatient services provided 3,369 Outpatient Surgery visits, 5,152 G I visits, 2,016 Interventional Radiology visits and 306 Transfusion visits. Outpatient services also provided 23,870 Emergency Department visits net of admissions and 82,484 Referred Ambulatory visits.

4c

(Code) (Expenses \$ 1,885,884 including grants of \$) (Revenue \$ 2,675,040)

Primary Care Centers and Clinics provided 32,234 visits.

4d

Other program services (Describe in Schedule O)

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


















4e

Total program service expenses

104,991,611

Part IV

Checklist of Required Schedules

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

Part IV

Checklist of Required Schedules (continued)

21	Did the organization report more than \$5,000 of grants and other assistance to any government or organization in the United States on Part IX, column (A), line 1? <i>If "Yes," complete Schedule I, Parts I and II</i>	21		No
22	Did the organization report more than \$5,000 of grants and other assistance to individuals in the United States on Part IX, column (A), line 2? <i>If "Yes," complete Schedule I, Parts I and III</i>	22		No
23	Did the organization answer "Yes" to Part VII, Section A, line 3, 4, or 5 about compensation of the organization's current and former officers, directors, trustees, key employees, and highest compensated employees? <i>If "Yes," complete Schedule J</i>	23	Yes	
24a	Did the organization have a tax-exempt bond issue with an outstanding principal amount of more than \$100,000 as of the last day of the year, that was issued after December 31, 2002? <i>If "Yes," answer lines 24b through 24d and complete Schedule K. If "No," go to line 25</i>	24a	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, highest compensated employee, or disqualified person outstanding as of the end of the organization's tax year? <i>If "Yes," complete Schedule L, Part II</i>	26		No
27	Did the organization provide a grant or other assistance to an officer, director, trustee, key employee, substantial contributor or employee thereof, a grant selection committee member, or to a 35% controlled entity or family member of any of these persons? <i>If "Yes," complete Schedule L, Part III</i>	27		No
28	Was the organization a party to a business transaction with one of the following parties (see Schedule L, Part IV instructions for applicable filing thresholds, conditions, and exceptions)			
a	A current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV</i>	28a		No
b	A family member of a current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV</i>	28b	Yes	
c	An entity of which a current or former officer, director, trustee, or key employee (or a family member thereof) was an officer, director, trustee, or direct or indirect owner? <i>If "Yes," complete Schedule L, Part IV</i>	28c	Yes	
29	Did the organization receive more than \$25,000 in non-cash contributions? <i>If "Yes," complete Schedule M</i>	29		No
30	Did the organization receive contributions of art, historical treasures, or other similar assets, or qualified conservation contributions? <i>If "Yes," complete Schedule M</i>	30		No
31	Did the organization liquidate, terminate, or dissolve and cease operations? <i>If "Yes," complete Schedule N, Part I</i>	31		No
32	Did the organization sell, exchange, dispose of, or transfer more than 25% of its net assets? <i>If "Yes," complete Schedule N, Part II</i>	32		No
33	Did the organization own 100% of an entity disregarded as separate from the organization under Regulations sections 301.7701-2 and 301.7701-3? <i>If "Yes," complete Schedule R, Part I</i>	33		No
34	Was the organization related to any tax-exempt or taxable entity? <i>If "Yes," complete Schedule R, Part II, III, or IV, and Part V, line 1</i>	34	Yes	
35a	Did the organization have a controlled entity within the meaning of section 512(b)(13)?	35a		No
b	If 'Yes' to line 35a, did the organization receive any payment from or engage in any transaction with a controlled entity within the meaning of section 512(b)(13)? <i>If "Yes," complete Schedule R, Part V, line 2</i>	35b		
36	Section 501(c)(3) organizations. Did the organization make any transfers to an exempt non-charitable related organization? <i>If "Yes," complete Schedule R, Part V, line 2</i>	36		No
37	Did the organization conduct more than 5% of its activities through an entity that is not a related organization and that is treated as a partnership for federal income tax purposes? <i>If "Yes," complete Schedule R, Part VI</i>	37		No
38	Did the organization complete Schedule O and provide explanations in Schedule O for Part VI, lines 11b and 19? Note. All Form 990 filers are required to complete Schedule O	38	Yes	

Part V

Statements Regarding Other IRS Filings and Tax Compliance

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

		Yes	No
1a	Enter the number reported in Box 3 of Form 1096. Enter -0- if not applicable.	97	
1b	Enter the number of Forms W-2G included in line 1a. Enter -0- if not applicable.	0	
1c	Did the organization comply with backup withholding rules for reportable payments to vendors and reportable gaming (gambling) winnings to prize winners?		
2a	Enter the number of employees reported on Form W-3, Transmittal of Wage and Tax Statements, filed for the calendar year ending with or within the year covered by this return.	1,421	
2b	If at least one is reported on line 2a, did the organization file all required federal employment tax returns? Note. If the sum of lines 1a and 2a is greater than 250, you may be required to e-file (see instructions).	Yes	
3a	Did the organization have unrelated business gross income of \$1,000 or more during the year?		No
3b	If "Yes," has it filed a Form 990-T for this year? If "No," provide an explanation in Schedule O.		
4a	At any time during the calendar year, did the organization have an interest in, or a signature or other authority over, a financial account in a foreign country (such as a bank account, securities account, or other financial account)?		No
b	If "Yes," enter the name of the foreign country: _____ See instructions for filing requirements for Form TD F 90-22.1, Report of Foreign Bank and Financial Accounts.		
5a	Was the organization a party to a prohibited tax shelter transaction at any time during the tax year?		No
5b	Did any taxable party notify the organization that it was or is a party to a prohibited tax shelter transaction?		No
5c	If "Yes," to line 5a or 5b, did the organization file Form 8886-T?		
6a	Does the organization have annual gross receipts that are normally greater than \$100,000, and did the organization solicit any contributions that were not tax deductible as charitable contributions?		No
6b	If "Yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible?		
7	Organizations that may receive deductible contributions under section 170(c).		
7a	Did the organization receive a payment in excess of \$75 made partly as a contribution and partly for goods and services provided to the payor?		No
7b	If "Yes," did the organization notify the donor of the value of the goods or services provided?		
7c	Did the organization sell, exchange, or otherwise dispose of tangible personal property for which it was required to file Form 8282?		No
7d	If "Yes," indicate the number of Forms 8282 filed during the year.		
7e	Did the organization receive any funds, directly or indirectly, to pay premiums on a personal benefit contract?		No
7f	Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract?		No
7g	If the organization received a contribution of qualified intellectual property, did the organization file Form 8899 as required?		No
7h	If the organization received a contribution of cars, boats, airplanes, or other vehicles, did the organization file a Form 1098-C?		
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?		No
9	Sponsoring organizations maintaining donor advised funds.		
9a	Did the organization make any taxable distributions under section 4966?		No
9b	Did the organization make a distribution to a donor, donor advisor, or related person?		No
10	Section 501(c)(7) organizations. Enter		
10a	Initiation fees and capital contributions included on Part VIII, line 12.		
10b	Gross receipts, included on Form 990, Part VIII, line 12, for public use of club facilities.		
11	Section 501(c)(12) organizations. Enter		
11a	Gross income from members or shareholders.		
11b	Gross income from other sources (Do not net amounts due or paid to other sources against amounts due or received from them).		
12a	Section 4947(a)(1) non-exempt charitable trusts. Is the organization filing Form 990 in lieu of Form 1041?		
12b	If "Yes," enter the amount of tax-exempt interest received or accrued during the year.		
13	Section 501(c)(29) qualified nonprofit health insurance issuers.		
13a	Is the organization licensed to issue qualified health plans in more than one state? Note. See the instructions for additional information the organization must report on Schedule O.		
13b	Enter the amount of reserves the organization is required to maintain by the states in which the organization is licensed to issue qualified health plans.		
13c	Enter the amount of reserves on hand.		
14a	Did the organization receive any payments for indoor tanning services during the tax year?		No
14b	If "Yes," has it filed a Form 720 to report these payments? If "No," provide an explanation in Schedule O.		

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	18	
If there are material differences in voting rights among members of the governing body, or if the governing body delegated broad authority to an executive committee or similar committee, explain in Schedule O			
1b	Enter the number of voting members included in line 1a, above, who are independent	7	
2	Did any officer, director, trustee, or key employee have a family relationship or a business relationship with any other officer, director, trustee, or key employee?	2	No
3	Did the organization delegate control over management duties customarily performed by or under the direct supervision of officers, directors or trustees, or key employees to a management company or other person?	3	No
4	Did the organization make any significant changes to its governing documents since the prior Form 990 was filed?	4	No
5	Did the organization become aware during the year of a significant diversion of the organization's assets?	5	No
6	Did the organization have members or stockholders?	6	Yes
7a	Did the organization have members, stockholders, or other persons who had the power to elect or appoint one or more members of the governing body?	7a	Yes
7b	Are any governance decisions of the organization reserved to (or subject to approval by) members, stockholders, or persons other than the governing body?	7b	Yes
8	Did the organization contemporaneously document the meetings held or written actions undertaken during the year by the following		
8a	The governing body?	8a	Yes
8b	Each committee with authority to act on behalf of the governing body?	8b	Yes
9	Is there any officer, director, trustee, or key employee listed in Part VII, Section A, who cannot be reached at the organization's mailing address? If "Yes," provide the names and addresses in Schedule O	9	No

Section B. Policies

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

		Yes	No
10a	Did the organization have local chapters, branches, or affiliates?	10a	No
10b	If "Yes," did the organization have written policies and procedures governing the activities of such chapters, affiliates, and branches to ensure their operations are consistent with the organization's exempt purposes?	10b	
11a	Has the organization provided a complete copy of this Form 990 to all members of its governing body before filing the form?	11a	Yes
11b	Describe in Schedule O the process, if any, used by the organization to review this Form 990		
12a	Did the organization have a written conflict of interest policy? If "No," go to line 13	12a	Yes
12b	Were officers, directors, or trustees, and key employees required to disclose annually interests that could give rise to conflicts?	12b	Yes
12c	Did the organization regularly and consistently monitor and enforce compliance with the policy? If "Yes," describe in Schedule O how this was done	12c	Yes
13	Did the organization have a written whistleblower policy?	13	Yes
14	Did the organization have a written document retention and destruction policy?	14	Yes
15	Did the process for determining compensation of the following persons include a review and approval by independent persons, comparability data, and contemporaneous substantiation of the deliberation and decision?		
15a	The organization's CEO, Executive Director, or top management official	15a	Yes
15b	Other officers or key employees of the organization	15b	Yes
If "Yes" to line 15a or 15b, describe the process in Schedule O (see instructions)			
16a	Did the organization invest in, contribute assets to, or participate in a joint venture or similar arrangement with a taxable entity during the year?	16a	No
16b	If "Yes," did the organization follow a written policy or procedure requiring the organization to evaluate its participation in joint venture arrangements under applicable federal tax law, and take steps to safeguard the organization's exempt status with respect to such arrangements?	16b	

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 <input type="checkbox"/> Other (explain in Schedule O)
19	Describe in Schedule O whether (and if so, how), the organization made its governing documents, conflict of interest policy, and financial statements available to the public during the tax year
20	State the name, physical address, and telephone number of the person who possesses the books and records of the organization David P Macholz VP FinanceCorporate Controller 515 Abbott Road Buffalo, NY (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 organization compensated any current officer, director, or trustee

Form **990** (2012)

Part VII

1b	Sub-Total			
c	Total from continuation sheets to Part VII, Section A			
d	Total (add lines 1b and 1c)	1,348,536	7,897,592	1,122,256

\$100,000 of reportable compensation from the organization

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

Section B. Independent Contractors

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

(A) Name and business address	(B) Description of services	(C) Compensation
R & P Oak Hill Development Corporation 3556 Lakeshore Road Suite 620 Buffalo NY 14219	Construction Services	2,399,613
Siemens Medical Solutions Bank of NY Mellon PO Box 120001 De Dallas TX 75312	Maintenance Services	550,959
Telco Construction 500 Buffalo Road East Aurora NY 14052	Construction Services	460,445
Sodexho Operations LLC PO Box 360170 Pittsburgh PA 15251	Laundry Services	459,732
Buffalo Niagara Hospitalists 2950 Elmwood Avenue/Med Staff Offic Kenmore NY 14217	Physician Services	448,438

\$100,000 of compensation from the organization

Part VIII

Statement of Revenue

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

				(A) Total revenue	(B) Related or exempt function revenue	(C) Unrelated business revenue	(D) Revenue excluded from tax under sections 512, 513, or 514	
Contributions, Gifts, Grants and Other Similar Amounts	1a	Federated campaigns . . .	1a					
	b	Membership dues	1b					
	c	Fundraising events	1c					
	d	Related organizations	1d					
	e	Government grants (contributions)	1e					
	f	All other contributions, gifts, grants, and similar amounts not included above	1f	311,010				
	g	Noncash contributions included in lines 1a-1f \$						
	h	Total. Add lines 1a-1f			311,010			
Program Service Revenue			Business Code					
	2a	Patient Service Revenu	900099	94,927,490	94,927,490			
	b	Medicare/Medicaid	900099	53,998,357	53,998,357			
	c							
	d							
	e							
	f	All other program service revenue						
	g	Total. Add lines 2a-2f			148,925,847			
Other Revenue	3	Investment income (including dividends, interest, and other similar amounts)		85,333			85,333	
	4	Income from investment of tax-exempt bond proceeds . .						
	5	Royalties						
	6a	(i) Real		(ii) Personal				
		257,743						
		0						
		257,743						
	d	Net rental income or (loss)		257,743			257,743	
	7a	(i) Securities		(ii) Other				
	d	Net gain or (loss)						
	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	1,964,766			1,964,766		
b	Cafeteria	900099	269,952			269,952		
c	Shared Services	900099	82,263			82,263		
d	All other revenue		253,348			253,348		
e	Total. Add lines 11a-11d			2,570,329				
12	Total revenue. See Instructions			152,150,262	148,925,847	0	2,913,405	

Part IX

Statement of Functional Expenses

Section 501(c)(3) and 501(c)(4) organizations must complete all columns. All other organizations must complete column (A).

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

☐

Do not include amounts reported on lines 6b, 7b, 8b, 9b, and 10b of Part VIII.		(A) Total expenses	(B) Program service expenses	(C) Management and general expenses	(D) Fundraising expenses
1	Grants and other assistance to governments and organizations in the United States. See Part IV, line 21.				
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.	63,720,377	45,374,399	18,345,978	
8	Pension plan accruals and contributions (include section 401(k) and 403(b) employer contributions).	3,928,772	2,797,624	1,131,148	
9	Other employee benefits.	12,253,680	8,725,676	3,528,004	
10	Payroll taxes.	3,715,088	2,645,463	1,069,625	
11	Fees for services (non-employees):				
a	Management.				
b	Legal.	275,866	275,866		
c	Accounting.	10,000	10,000		
d	Lobbying.				
e	Professional fundraising services. See Part IV, line 17.				
f	Investment management fees.				
g	Other (If line 11g amount exceeds 10% of line 25, column (A) amount, list line 11g expenses on Schedule O).	4,861,726	2,201,854	2,659,872	
12	Advertising and promotion.	75,867	59,094	16,773	
13	Office expenses.	194,170	151,389	42,781	
14	Information technology.	262,010	23,567	238,443	
15	Royalties.				
16	Occupancy.	1,820,838	6,441	1,814,397	
17	Travel.	19,945	14,612	5,333	
18	Payments of travel or entertainment expenses for any federal, state, or local public officials.				
19	Conferences, conventions, and meetings.	32,416	17,069	15,347	
20	Interest.	1,283,953	1,283,953		
21	Payments to affiliates.				
22	Depreciation, depletion, and amortization.	7,516,716	4,720,614	2,796,102	
23	Insurance.	1,028,530	586,970	441,560	
24	Other expenses. Itemize expenses not covered above (List miscellaneous expenses in line 24e. If line 24e amount exceeds 10% of line 25, column (A) amount, list line 24e expenses on Schedule O).				
a	Medical Supplies.	29,116,372	29,361,711	-245,339	
b	Purchased Services.	10,902,847	4,290,290	6,612,557	
c	Equipment Rental & Main.	3,239,823	1,304,287	1,935,536	
d	Shared Services & Dues.	1,433,700	0	1,433,700	
e	All other expenses.	1,524,109	1,140,732	383,377	
25	Total functional expenses. Add lines 1 through 24e.	147,216,805	104,991,611	42,225,194	0
26	Joint costs. Complete this line only if the organization reported in column (B) joint costs from a combined educational campaign and fundraising solicitation. Check here <input type="checkbox"/> if following SOP 98-2 (ASC 958-720).				

Part X

Balance Sheet

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

					(A)		(B)
					Beginning of year		End of year
Assets	1	Cash—non-interest-bearing				1	
	2	Savings and temporary cash investments			29,570,381	2	46,474,540
	3	Pledges and grants receivable, net				3	
	4	Accounts receivable, net			14,589,083	4	19,376,680
	5	Loans and other receivables from current and former officers, directors, trustees, key employees, and highest compensated employees Complete Part II of Schedule L				5	
	6	Loans and other receivables from other disqualified persons (as defined under section 4958(f)(1)), persons described in section 4958(c)(3)(B), and contributing employers and sponsoring organizations of section 501(c)(9) voluntary employees' beneficiary organizations (see instructions) Complete Part II of Schedule L				6	
	7	Notes and loans receivable, net				7	
	8	Inventories for sale or use			1,641,514	8	1,887,486
	9	Prepaid expenses and deferred charges			833,296	9	1,754,233
	10a	Land, buildings, and equipment cost or other basis Complete Part VI of Schedule D	10a	99,675,473			
	b	Less accumulated depreciation	10b	53,294,426	43,627,547	10c	46,381,047
	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			15,404,268	15	19,472,878
	16	Total assets. Add lines 1 through 15 (must equal line 34)			105,666,087	16	135,346,864
Liabilities	17	Accounts payable and accrued expenses			18,399,995	17	22,357,655
	18	Grants payable				18	
	19	Deferred revenue				19	
	20	Tax-exempt bond liabilities			12,420,239	20	25,724,309
	21	Escrow or custodial account liability Complete Part IV of Schedule D				21	
	22	Loans and other payables to current and former officers, directors, trustees, key employees, highest compensated employees, and disqualified persons Complete Part II of Schedule L				22	
	23	Secured mortgages and notes payable to unrelated third parties			10,477,175	23	9,298,824
	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			50,748,413	25	60,490,151
	26	Total liabilities. Add lines 17 through 25			92,045,822	26	117,870,939
Net Assets or Fund Balances	Organizations that follow SFAS 117 (ASC 958), check here <input checked="" type="checkbox"/> and complete lines 27 through 29, and lines 33 and 34.						
	27	Unrestricted net assets			12,839,819	27	16,682,433
	28	Temporarily restricted net assets			780,446	28	793,492
	29	Permanently restricted net assets				29	
	Organizations that do not follow SFAS 117 (ASC 958), 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			13,620,265	33	17,475,925
	34	Total liabilities and net assets/fund balances			105,666,087	34	135,346,864

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	152,150,262
2	Total expenses (must equal Part IX, column (A), line 25)	2	147,216,805
3	Revenue less expenses Subtract line 2 from line 1	3	4,933,457
4	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A))	4	13,620,265
5	Net unrealized gains (losses) on investments	5	
6	Donated services and use of facilities	6	
7	Investment expenses	7	
8	Prior period adjustments	8	
9	Other changes in net assets or fund balances (explain in Schedule O)	9	-1,077,797
10	Net assets or fund balances at end of year Combine lines 3 through 9 (must equal Part X, line 33, column (B))	10	17,475,925

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

Additional Data

Software ID:

Software Version:

EIN: 16-0762843

Name: Kenmore Mercy Hospital

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 (list any hours for related organizations below dotted line)	(C) Position (do not check more than one box, unless person is both an officer and a director/trustee)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional Trustee	Officer	Key employee	Highest compensated employee	Former			
Joseph McDonald President and CEO, CHS	0 00 37 50	X		X				0	1,471,257	38,697
Mark Sullivan Executive VP/COO	0 00 37 50	X		X				0	837,613	31,269
James Millard Pres & CEO, Kenmore Mercy	37 50 0 00	X		X				322,272	0	146,102
David Macholz Treasurer	0 00 37 50	X		X				0	232,233	34,122
Dr Michael Albert Director	0 00 5 00	X						0	32,623	0
Dr Paul Anain Director	0 00 37 50	X						0	224,265	12,894
Brian Beitz Director	0 00 1 00	X						0	0	0
Peter Bergmann Director	0 00 37 50	X						0	433,289	33,126
Frances Crosby RN PhD Director	0 00 1 00	X						0	0	0
Richard Curran MD Director	0 00 1 00	X						0	0	0
Dennis Dombek Director	0 00 1 00	X						0	0	0
Dr Michael Edbauer Director	0 00 25 00	X						0	282,798	26,400
Dr Craig Fetterman Director	0 00 1 00	X						0	0	0
Christine Kluckhohn Pres & CEO Continuing Care	0 00 37 50	X						0	317,921	122,567
William Lawley Jr Director	0 00 1 00	X						0	0	0
Judith Maness Director	0 00 1 00	X						0	0	0
James Manzella Director	0 00 1 00	X						0	0	0
Michael Montante Director	0 00 1 00	X						0	0	0
Charles J Urlaub President and CEO Mercy	0 00 37 50	X		X				0	477,156	36,336
Cynthia ZaneEdD Director	0 00 1 00	X						0	0	0
Monsignor Robert E Zapfel Director	0 00 1 00	X						0	0	0
James A Dunlop Jr Executive VP, Finance/CFO	0 00 37 50			X				0	672,603	115,267
Dr Brian D'Arcy Senior VP, Medical Affairs	0 00 37 50			X				0	578,588	37,824
Walter Ludwig Chief Operating Officer	37 50 0 00			X				208,444	0	31,543
Michael Moley Sr VP, Human Resources	0 00 37 50				X			0	614,871	36,811

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 (list any hours for related organizations below dotted line)	(C) Position (do not check more than one box, unless person is both an officer and a director/trustee)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional Trustee	Officer	Key employee	Highest compensated employee	Former			
John Stavros Sr VP Marketing/P R	0 00 37 50				X			0	283,453	36,599
Maria Foti Senior VP, Planning	0 00 37 50				X			0	210,430	26,939
Bartholomew Rodrigues Sr VP, Mission Integration	0 00 37 50				X			0	224,567	34,605
Dr Michael Galang Chief Information Officer	0 00 37 50				X			0	393,109	25,395
Nancy Sheehan Sr VP Legal Service,General Counsel	0 00 37 50				X			0	249,445	26,369
Richard J Ruh MD Sr VP, Service Lines	0 00 37 50				X			0	361,371	32,599
Dr Sanford Pleskow Physician	37 50 0 00					X		170,373	0	12,574
Dr Nadezhda Polataiko Physician	37 50 0 00					X		166,699	0	87,243
Dr Brenda Perez Physician	37 50 0 00					X		159,173	0	24,301
Dr James Fitzpatrick VP Medical Affairs	37 50 0 00					X		157,320	0	31,102
Dr Qamrunnisa Rahman Physician	37 50 0 00					X		164,255	0	81,572

SCHEDULE A
(Form 990 or 990EZ)

Department of the Treasury
Internal Revenue Service

Public Charity Status and Public Support

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

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

OMB No 1545-0047

2012

Open to Public Inspection

Name of the organization 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 described in **section 170(b)(1)(A)(i).**
- 2

☐

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

☒

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

☐

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

☐

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

☐

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

☐

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

☐

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

☐

An organization that normally receives (1) more than 33¹/₃% of its support from contributions, membership fees, and gross receipts from activities related to its exempt functions—subject to certain exceptions, and (2) no more than 33¹/₃% of its support from gross investment income and unrelated business taxable income (less section 511 tax) from businesses acquired by the organization after June 30, 1975 See **section 509(a)(2).** (Complete Part III)
- 10

☐

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

☐

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

a

☐

Type I

b

☐

Type II

c

☐

Type III - Functionally integrated

d

☐

Type III - Non-functionally integrated
- e

☐

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

☐

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

☐

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

(i)

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

(ii)

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

(iii)

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

☐

Provide the following information about the supported organization(s)

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

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

Part II

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

Section A. Public Support						
Calendar year (or fiscal year beginning in) ▶	(a) 2008	(b) 2009	(c) 2010	(d) 2011	(e) 2012	(f) Total
1 Gifts, grants, contributions, and membership fees received (Do not include any "unusual grants.")						
2 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf						
3 The value of services or facilities furnished by a governmental unit to the organization without charge						
4 Total. Add lines 1 through 3						
5 The portion of total contributions by each person (other than a governmental unit or publicly supported organization) included on line 1 that exceeds 2% of the amount shown on line 11, column (f)						
6 Public support. Subtract line 5 from line 4						

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

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

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

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

Section A. Public Support						
Calendar year (or fiscal year beginning in) ▶	(a) 2008	(b) 2009	(c) 2010	(d) 2011	(e) 2012	(f) Total
1 Gifts, grants, contributions, and membership fees received (Do not include any "unusual grants.")						
2 Gross receipts from admissions, merchandise sold or services performed, or facilities furnished in any activity that is related to the organization's tax-exempt purpose						
3 Gross receipts from activities that are not an unrelated trade or business under section 513						
4 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf						
5 The value of services or facilities furnished by a governmental unit to the organization without charge						
6 Total. Add lines 1 through 5						
7a Amounts included on lines 1, 2, and 3 received from disqualified persons						
b Amounts included on lines 2 and 3 received from other than disqualified persons that exceed the greater of \$5,000 or 1% of the amount on line 13 for the year						
c Add lines 7a and 7b						
8 Public support (Subtract line 7c from line 6.)						

Section B. Total Support						
Calendar year (or fiscal year beginning in) ▶	(a) 2008	(b) 2009	(c) 2010	(d) 2011	(e) 2012	(f) Total
9 Amounts from line 6						
10a Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
b Unrelated business taxable income (less section 511 taxes) from businesses acquired after June 30, 1975						
c Add lines 10a and 10b						
11 Net income from unrelated business activities not included in line 10b, whether or not the business is regularly carried on						
12 Other income. Do not include gain or loss from the sale of capital assets (Explain in Part IV.)						
13 Total support. (Add lines 9, 10c, 11, and 12.)						
14 First five years. If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a 501(c)(3) organization, check this box and stop here ▶						

Section C. Computation of Public Support Percentage		
15 Public support percentage for 2012 (line 8, column (f) divided by line 13, column (f))	15	
16 Public support percentage from 2011 Schedule A, Part III, line 15	16	

Section D. Computation of Investment Income Percentage		
17 Investment income percentage for 2012 (line 10c, column (f) divided by line 13, column (f))	17	
18 Investment income percentage from 2011 Schedule A, Part III, line 17	18	
19a 33 1/3% support tests—2012. If the organization did not check the box on line 14, and line 15 is more than 33 1/3%, and line 17 is not more than 33 1/3%, check this box and stop here. The organization qualifies as a publicly supported organization ▶		
b 33 1/3% support tests—2011. If the organization did not check a box on line 14 or line 19a, and line 16 is more than 33 1/3% and line 18 is not more than 33 1/3%, check this box and stop here. The organization qualifies as a publicly supported organization ▶		
20 Private foundation. If the organization did not check a box on line 14, 19a, or 19b, check this box and see instructions ▶		

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

Facts And Circumstances Test

Explanation

SCHEDULE D
(Form 990)

Department of the Treasury
Internal Revenue Service

Supplemental Financial Statements

OMB No 1545-0047

2012

Open to Public Inspection

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

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

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

Part II

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

1

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

☐ Preservation of land for public use (e g , recreation or education) ☐ Preservation of an historically important land area

☐ Protection of natural habitat ☐ Preservation of a certified historic structure

☐ Preservation of open space

2

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

	Held at the End of the Year
a	Total number of conservation easements
b	Total acreage restricted by conservation easements
c	Number of conservation easements on a certified historic structure included in (a)
d	Number of conservation easements included in (c) acquired after 8/17/06, and not on a historic structure listed in the National Register

3

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

4

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

5

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

☐ Yes ☐ No

6

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

7

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

8

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

☐ Yes ☐ No

9

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

Part III

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

1a

If the organization elected, as permitted under SFAS 116 (ASC 958), not to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education, or research in furtherance of public service, provide, in Part XIII, the text of the footnote to its financial statements that describes these items

b

If the organization elected, as permitted under SFAS 116 (ASC 958), to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education, or research in furtherance of public service, provide the following amounts relating to these items

(i) Revenues included in Form 990, Part VIII, line 1

▶ \$ _____

(ii) Assets included in Form 990, Part X

▶ \$ _____

2

If the organization received or held works of art, historical treasures, or other similar assets for financial gain, provide the following amounts required to be reported under SFAS 116 (ASC 958) relating to these items

a

Revenues included in Form 990, Part VIII, line 1

▶ \$ _____

b

Assets included in Form 990, Part X

▶ \$ _____

Part III

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

3

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

a

☐ Public exhibition

d

☐ Loan or exchange programs

b

☐ Scholarly research

e

☐ Other

c

☐ Preservation for future generations

4

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

5

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

☐ Yes

☐ No

Part IV

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

1a

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

☐ Yes

☐ No

b

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

c

Beginning balance

d

Additions during the year

e

Distributions during the year

f

Ending balance

	Amount
1c	
1d	
1e	
1f	

2a

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

☐ Yes

☐ No

b

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

☐

Part V

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

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

2

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

a

Board designated or quasi-endowment

b

Permanent endowment

c

Temporarily restricted endowment

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

3a

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

(i)

unrelated organizations

(ii)

related organizations

b

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

	Yes	No
3a(i)		
3a(ii)		
3b		

4

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

Part VI

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

Description of property	(a) Cost or other basis (investment)	(b)Cost or other basis (other)	(c) Accumulated depreciation	(d) Book value
1a Land	235,852			235,852
b Buildings	56,809,352		36,407,061	20,402,291
c Leasehold improvements	7,436,904		3,083,950	4,352,954
d Equipment	27,983,986		11,319,885	16,664,101
e Other	7,209,379		2,483,530	4,725,849
Total. Add lines 1a through 1e (Column (d) must equal Form 990, Part X, column (B), line 10(c).)				46,381,047

Part XI Reconciliation of Revenue per Audited Financial Statements With Revenue per Return

1	Total revenue, gains, and other support per audited financial statements	1	151,839,252
2	Amounts included on line 1 but not on Form 990, Part VIII, line 12		
a	Net unrealized gains on investments	2a	
b	Donated services and use of facilities	2b	
c	Recoveries of prior year grants	2c	
d	Other (Describe in Part XIII)	2d	
e	Add lines 2a through 2d	2e	0
3	Subtract line 2e from line 1	3	151,839,252
4	Amounts included on Form 990, Part VIII, line 12, but not on line 1		
a	Investment expenses not included on Form 990, Part VIII, line 7b	4a	
b	Other (Describe in Part XIII)	4b	311,010
c	Add lines 4a and 4b	4c	311,010
5	Total revenue Add lines 3 and 4c . (This must equal Form 990, Part I, line 12)	5	152,150,262

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

1	Total expenses and losses per audited financial statements	1	147,216,805
2	Amounts included on line 1 but not on Form 990, Part IX, line 25		
a	Donated services and use of facilities	2a	
b	Prior year adjustments	2b	
c	Other losses	2c	
d	Other (Describe in Part XIII)	2d	
e	Add lines 2a through 2d	2e	0
3	Subtract line 2e from line 1	3	147,216,805
4	Amounts included on Form 990, Part IX, line 25, but not on line 1 :		
a	Investment expenses not included on Form 990, Part VIII, line 7b	4a	
b	Other (Describe in Part XIII)	4b	
c	Add lines 4a and 4b	4c	0
5	Total expenses Add lines 3 and 4c . (This must equal Form 990, Part I, line 18)	5	147,216,805

Part XIII Supplemental Information

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

Identifier	Return Reference	Explanation
Part XI, Line 4b - Other Adjustments		Contributions from Foundations 311,010

SCHEDULE H
(Form 990)

Department of the Treasury
Internal Revenue Service

Hospitals

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

OMB No 1545-0047

2012

Open to Public Inspection

Name of the organization
Kenmore Mercy Hospital

Employer identification number
16-0762843

Part I

Financial Assistance and Certain Other Community Benefits at Cost

		Yes	No	
1a	Did the organization have a financial assistance policy during the tax year? If "No," skip to question 6a	1a	Yes	
b	If "Yes," was it a written policy?	1b	Yes	
2	If the organization had multiple hospital facilities, indicate which of the following best describes application of the financial assistance policy to its various hospital facilities during the tax year <input type="checkbox"/> Applied uniformly to all hospital facilities <input type="checkbox"/> Applied uniformly to most hospital facilities <input type="checkbox"/> Generally tailored to individual hospital facilities			
3	Answer the following based on the financial assistance eligibility criteria that applied to the largest number of the organization's patients during the tax year a Did the organization use Federal Poverty Guidelines (FPG) as a factor in determining eligibility for providing <i>free</i> care? If "Yes," indicate which of the following was the FPG family income limit for eligibility for <i>free</i> care <input type="checkbox"/> 100% <input type="checkbox"/> 150% <input type="checkbox"/> 200% <input checked="" type="checkbox"/> Other <u>11000 0000000000 %</u> b Did the organization use FPG as a factor in determining eligibility for providing <i>discounted</i> care? If "Yes," indicate which of the following was the family income limit for eligibility for discounted care <input type="checkbox"/> 200% <input type="checkbox"/> 250% <input type="checkbox"/> 300% <input type="checkbox"/> 350% <input type="checkbox"/> 400% <input checked="" type="checkbox"/> Other <u>50000 0000000000 %</u> c If the organization used factors other than FPG in determining eligibility, describe in Part VI the income based criteria for determining eligibility for free or discounted care Include in the description whether the organization used an asset test or other threshold, regardless of income, as a factor in determining eligibility for free or discounted care 4 Did the organization's financial assistance policy that applied to the largest number of its patients during the tax year provide for free or discounted care to the "medically indigent"?	3a	Yes	
5a	Did the organization budget amounts for free or discounted care provided under its financial assistance policy during the tax year?	3b	Yes	
b	If "Yes," did the organization's financial assistance expenses exceed the budgeted amount?	4	Yes	
c	If "Yes" to line 5b, as a result of budget considerations, was the organization unable to provide free or discounted care to a patient who was eligible for free or discounted care?	5a	Yes	
6a	Did the organization prepare a community benefit report during the tax year?	5b	Yes	
b	If "Yes," did the organization make it available to the public?	5c		No
	Complete the following table using the worksheets provided in the Schedule H instructions Do not submit these worksheets with the Schedule H	6a	Yes	
		6b	Yes	

7

Financial Assistance and Certain Other Community Benefits at Cost

Financial Assistance and Means-Tested Government Programs	(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community benefit expense	(d) Direct offsetting revenue	(e) Net community benefit expense	(f) Percent of total expense
a Financial Assistance at cost (from Worksheet 1)			1,340,470	132,241	1,208,229	0 820 %
b Medicaid (from Worksheet 3, column a)			13,007,443	8,905,043	4,102,400	2 790 %
c Costs of other means-tested government programs (from Worksheet 3, column b)						
d Total Financial Assistance and Means-Tested Government Programs			14,347,913	9,037,284	5,310,629	3 610 %
Other Benefits						
e Community health improvement services and community benefit operations (from Worksheet 4)			729,074		729,074	0 500 %
f Health professions education (from Worksheet 5)			1,151,438		1,151,438	0 780 %
g Subsidized health services (from Worksheet 6)						
h Research (from Worksheet 7)						
i Cash and in-kind contributions for community benefit (from Worksheet 8)			235,009		235,009	0 160 %
j Total Other Benefits			2,115,521		2,115,521	1 440 %
k Total . Add lines 7d and 7j			16,463,434	9,037,284	7,426,150	5 050 %

Part IICommunity Building Activities

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

	(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community building expense	(d) Direct offsetting revenue	(e) Net community building expense	(f) Percent of total expense
1Physical improvements and housing						
2Economic development			584		584	0 %
3Community support			112,489		112,489	0 080 %
4Environmental improvements			6,388		6,388	0 %
5Leadership development and training for community members			324		324	0 %
6Coalition building			4,097		4,097	0 %
7Community health improvement advocacy						
8Workforce development			76,013		76,013	0 050 %
9Other						
10Total			199,895		199,895	0 130 %

Part IIIBad Debt, Medicare, & Collection Practices

Section A. Bad Debt Expense

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

1Yes

2Enter the amount of the organization's bad debt expense. Explain in Part VI the methodology used by the organization to estimate this amount.

21,792,340

3Enter the estimated amount of the organization's bad debt expense attributable to patients eligible under the organization's financial assistance policy. Explain in Part VI the methodology used by the organization to estimate this amount and the rationale, if any, for including this portion of bad debt as community benefit.

3825,536

4Provide in Part VI the text of the footnote to the organization's financial statements that describes bad debt expense or the page number on which this footnote is contained in the attached financial statements

Section B. Medicare

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

529,965,923

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

630,793,066

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

7-827,143

8Describe in Part VI the extent to which any shortfall reported in line 7 should be treated as community benefit. Also describe in Part VI the costing methodology or source used to determine the amount reported on line 6. Check the box that describes the method used.

☐ Cost accounting system

☐ Cost to charge ratio

☒ Other

Section C. Collection Practices

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

9aYes

bIf "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.

9bNo

Part IVManagement Companies and Joint Ventures

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

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

Part V

Facility Information

Section A. Hospital Facilities

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

Name, address, and primary website address

		Licensed hospital	General medical & surgical	Children's hospital	Teaching hospital	Critical access hospital	Research facility	ER-24 hours	ER-other	Other (Describe)	Facility reporting group
1	Kenmore Mercy Hospital 2950 Elmwood Avenue Kenmore, NY 14217	X	X					X		Ambulatory Surgery, Dental O/P, Pediatric O/P, Audiology O/P,	

Part V Facility Information (continued)

Section B. Facility Policies and Practices

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

Kenmore Mercy Hospital

Name of hospital facility or facility reporting group

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

1

	Yes	No
Community Health Needs Assessment (Lines 1 through 8c are optional for tax years beginning on or before March 23, 2012)		
1 During the tax year or either of the two immediately preceding tax years, did the hospital facility conduct a community health needs assessment (CHNA)? If "No," skip to line 9 If "Yes," indicate what the CHNA report describes (check all that apply)	1	
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 the community health needs		
h <input type="checkbox"/> The process for consulting with persons representing the community's interests		
i <input type="checkbox"/> Information gaps that limit the hospital facility's ability to assess the community's health needs		
j <input type="checkbox"/> Other (describe in Part VI)		
2 Indicate the tax year the hospital facility last conducted a CHNA 20 ____		
3 In conducting its most recent CHNA, did the hospital facility take into account input from representatives of the community served by the hospital facility, including those with special knowledge of or expertise in public health? If "Yes," describe in Part VI how the hospital facility took into account input from persons who represent the community, and identify the persons the hospital facility consulted	3	
4 Was the hospital facility's CHNA conducted with one or more other hospital facilities? If "Yes," list the other hospital facilities in Part VI	4	
5 Did the hospital facility make its CHNA report widely available to the public? If "Yes," indicate how the CHNA report was made widely available (check all that apply)	5	
a <input type="checkbox"/> Hospital facility's website		
b <input type="checkbox"/> Available upon request from the hospital facility		
c <input type="checkbox"/> Other (describe in Part VI)		
6 If the hospital facility addressed needs identified in its most recently conducted CHNA, indicate how (check all that apply to date)		
a <input type="checkbox"/> Adoption of an implementation strategy that addresses each of the community health needs identified through the CHNA		
b <input type="checkbox"/> Execution of the implementation strategy		
c <input type="checkbox"/> Participation in the development of a community-wide plan		
d <input type="checkbox"/> Participation in the execution of a community-wide 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 its 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 CHNA? If "No," explain in Part VI which needs it has not addressed and the reasons why it has not addressed such needs	7	
8a Did the organization incur an excise tax under section 4959 for the hospital facility's failure to conduct a CHNA as required by section 501(r)(3)?	8a	
b If "Yes" to line 8a, did the organization file Form 4720 to report the section 4959 excise tax?	8b	
c If "Yes" to line 8b, what is the total amount of section 4959 excise tax the organization reported on Form 4720 for all of its hospital facilities? \$_____		

Part V

Facility Information (continued)

Financial Assistance Policy		Yes	No
9 Did the hospital facility have in place during the tax year a written financial assistance policy that Explained eligibility criteria for financial assistance, and whether such assistance includes free or discounted care?		9	Yes
10 Used federal poverty guidelines (FPG) to determine eligibility for providing <i>free</i> care? If "Yes," indicate the FPG family income limit for eligibility for free care <u>110 00000000000000</u> % If "No," explain in Part VI the criteria the hospital facility used		10	Yes
11 Used FPG to determine eligibility for providing <i>discounted</i> care? If "Yes," indicate the FPG family income limit for eligibility for discounted care <u>500 00000000000000</u> % If "No," explain in Part VI the criteria the hospital facility used		11	Yes
12 Explained the basis for calculating amounts charged to patients? If "Yes," indicate the factors used in determining such amounts (check all that apply)		12	Yes
a <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)			
13 Explained the method for applying for financial assistance?		13	Yes
14 Included measures to publicize the policy within the community served by the hospital facility? If "Yes," indicate how the hospital facility publicized the policy (check all that apply)		14	Yes
a <input checked="" type="checkbox"/> The policy was posted on the hospital facility's website			
b <input checked="" type="checkbox"/> The policy was attached to 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 on admission to the hospital facility			
f <input checked="" type="checkbox"/> The policy was available upon request			
g <input checked="" type="checkbox"/> Other (describe in Part VI)			
Billing and Collections			
15 Did the hospital facility have in place during the tax year a separate billing and collections policy, or a written financial assistance policy (FAP) that explained actions the hospital facility may take upon non-payment?		15	Yes
16 Check all of the following actions against an individual that were permitted under the hospital facility's policies during the tax year before making reasonable efforts to determine the patient's eligibility under the facility's FAP			
a <input type="checkbox"/> Reporting to credit agency			
b <input type="checkbox"/> Lawsuits			
c <input type="checkbox"/> Liens on residences			
d <input type="checkbox"/> Body attachments			
e <input type="checkbox"/> Other similar actions (describe in Part VI)			
17 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?		17	No
If "Yes," check all actions in which the hospital facility or a third party engaged			
a <input type="checkbox"/> Reporting to credit agency			
b <input type="checkbox"/> Lawsuits			
c <input type="checkbox"/> Liens on residences			
d <input type="checkbox"/> Body attachments			
e <input type="checkbox"/> Other similar actions (describe in Part VI)			

Part V

Facility Information (continued)

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

☐

Notified individuals of the financial assistance policy on admission
- b

☐

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

☐

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

☐

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

☐

Other (describe in Part VI)

Policy Relating to Emergency Medical Care

		Yes	No
19	Did the hospital facility have in place during the tax year a written policy relating to emergency medical care that requires the hospital facility to provide, without discrimination, care for emergency medical conditions to individuals regardless of their eligibility under the hospital facility's financial assistance policy? 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)		

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

20	Indicate how the hospital facility determined, during the tax year, the maximum amounts that can be charged to FAP-eligible individuals for emergency or other medically necessary care			
a	<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 its 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 checked="" type="checkbox"/> Other (describe in Part VI)			
21	During the tax year, did the hospital facility charge any FAP-eligible individuals to whom the hospital facility provided emergency or other medically necessary services, more than the amounts generally billed to individuals who had insurance covering such care? If "Yes," explain in Part VI	21		No
22	During the tax year, did the hospital facility charge any FAP-eligible individuals an amount equal to the gross charge for any service provided to that individual? If "Yes," explain in Part VI	22	Yes	

Part V

Facility Information (continued)

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

(list in order of size, from largest to smallest)

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

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

Identifier	ReturnReference	Explanation
		Part I, Line 6a The Kenmore Mercy Hospital Community Benefit Report is contained in a report prepared by the Catholic Health System Part I, Line 6b Yes, the report is made available to the public by posting on the Catholic Health website www.chsbuffalo.org , as well as the annual submission to NYS for the Community Service Plan
		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.)
		Part I, L7 Col(f) Bad debt expenses of \$3,789,302 are included in Part IX, line 25, column (A) but subtracted when calculating the percentage in column (f)
		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
		Part III, Line 4 The amount in Part III line 2 is the actual bad debt expenses of \$3,789,302 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 10/1/2011 to 9/30/2012 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.
		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.
		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
Kenmore Mercy Hospital		Part V, Section B, Line 14g Includes information in both English and Spanish on all signage and brochures for financial assistance.
Kenmore Mercy Hospital		Part V, Section B, Line 20d Highest volume commercial payor rate
Kenmore Mercy Hospital		Part V, Section B, Line 22 There are instances where the full charges on the account are equal to or less than the highest volume commercial payor rate.
		Part VI, Line 2 The Catholic Health System has recently conducted a Community Health Needs Assessment in 2013, which will be reported on the 12/31/2013 990 returns. For the 12/31/2012 990, the assessment conducted in previous years is being reported. In 2009, 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 Resources; 1. 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 Co. 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; At the time of the assessment, Kenmore Mercy Hospital participated in a regional patient satisfaction survey through a cooperative effort with the Buffalo Niagara Health Quality Coalition and area hospitals. Patient participation was voluntary. This survey took 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. Currently, Hospital Care Quality Information (HCHAPS) is publicly reported; 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 Ctr., WNY Health Equity Work Group, Living Healthy Task Force of Erie Co., 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 Co. 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) 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, Twitter, Pinterest, wellness blog, email newsletter, etc.), exponentially increasing the effectiveness of its outreach and the success of its Community Service Plan. 2013 Community Education targets: 10,000 biometric screenings (6,436 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 (775,320). -Number of program attendees who attended cardiovascular presentations (895). -Social media metrics: Facebook pages (4), Facebook fans (6,208), Twitter followers (1,607), website visitors (775,320), email newsletter subscribers (631), blog visitors (9,139). -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.
		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.
		Part VI, Line 4 Kenmore Mercy Hospital serves a mostly suburban partially urban service area which is comprised of 84.2% white (non-Hispanic) and 5.5% African-American (non-Hispanic) households. The service area is more elderly than most with 17.1% of the population over the age of 65 compared to a national average of 12.9%. The community consists of fewer households than the national average with annual incomes below \$15,000/year at 12.8% compared to a national average of 13%. 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.
		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) and receive relevant health information through the Catholic Health wellness blog and monthly email newsletter. 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.
		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 Labouré Health Care Center, and St. Francis of Williamsville.
Reports Filed With States	Part VI, Line 7	NY

Schedule J
(Form 990)

Compensation Information

OMB No 1545-0047

2012

Open to Public Inspection

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

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

▶ Attach to Form 990. ▶ See separate instructions.

Name of the organization
Kenmore Mercy Hospital

Employer identification number
16-0762843

Part I

Questions Regarding Compensation

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

Part II

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

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

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

(A) Name and Title		(B) Breakdown of W-2 and/or 1099-MISC compensation			(C) Retirement and other deferred compensation	(D) Nontaxable benefits	(E) Total of columns (B)(i)-(D)	(F) Compensation reported as deferred in prior Form 990
		(i) Base compensation	(ii) Bonus & incentive compensation	(iii) Other reportable compensation				
See Additional Data Table								

Part III **Supplemental Information**

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

Identifier	Return Reference	Explanation
	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; \$150,012; Mark Sullivan \$39,000; Dr Brian D'Arcy \$9,800; \$142,750; Michael Moley \$20,697; Peter Bergmann \$7,334.
	Part I, Line 6	The 2012 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 \$436,815; Mark Sullivan \$253,093; James A. Dunlop, Jr. \$231,359; Dr. Brian D'Arcy \$29,115; Nancy Sheehan \$16,068; Michael Moley \$145,164; John Stavros \$50,332; Christine Kluckhohn \$29,277; Maria Foti \$11,344; Bartholomew Rodrigues \$32,085; Dr. Michael Galang \$59,062; Dr. Michael Edbauer \$43,465; David Macholz \$29,346; Peter Bergmann \$32,583; James Millard \$60,186; Walter Ludwig \$26,195; Dr. James Fitzpatrick \$17,060; Charles Urlaub \$87,875.

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)	691,688	436,815	342,754	23,055	15,642	1,509,954	0
Mark Sullivan	(i)	0	0	0	0	0	0	0
	(ii)	420,019	253,093	164,501	17,302	13,967	868,882	0
James Millard	(i)	223,041	60,186	39,045	145,769	333	468,374	0
	(ii)	0	0	0	0	0	0	0
David Macholz	(i)	0	0	0	0	0	0	0
	(ii)	177,154	29,346	25,733	15,747	18,375	266,355	0
Dr Paul Anain	(i)	0	0	0	0	0	0	0
	(ii)	223,995	0	270	12,631	263	237,159	0
Peter Bergmann	(i)	0	0	0	0	0	0	0
	(ii)	355,818	32,583	44,888	14,545	18,581	466,415	0
Dr Michael Edbauer	(i)	0	0	0	0	0	0	0
	(ii)	207,109	43,465	32,224	13,275	13,125	309,198	0
Christine Kluckhohn	(i)	0	0	0	0	0	0	0
	(ii)	249,437	29,277	39,207	103,254	19,313	440,488	0
Charles J Urlaub	(i)	0	0	0	0	0	0	0
	(ii)	332,714	87,875	56,567	21,316	15,020	513,492	0
James A Dunlop Jr	(i)	0	0	0	0	0	0	0
	(ii)	372,610	231,359	68,634	101,350	13,917	787,870	0
Dr Brian D'Arcy	(i)	0	0	0	0	0	0	0
	(ii)	272,987	29,115	276,486	19,190	18,634	616,412	0
Walter Ludwig	(i)	150,838	26,195	31,411	13,535	18,008	239,987	0
	(ii)	0	0	0	0	0	0	0
Michael Moley	(i)	0	0	0	0	0	0	0
	(ii)	287,705	145,164	182,002	22,381	14,430	651,682	0
John Stavros	(i)	0	0	0	0	0	0	0
	(ii)	193,171	50,332	39,950	20,253	16,346	320,052	0
Maria Foti	(i)	0	0	0	0	0	0	0
	(ii)	165,555	11,344	33,531	20,195	6,744	237,369	0
Bartholomew Rodrigues	(i)	0	0	0	0	0	0	0
	(ii)	153,335	32,085	39,147	16,226	18,379	259,172	0
Dr Michael Galang	(i)	0	0	0	0	0	0	0
	(ii)	295,137	59,062	38,910	20,397	4,998	418,504	0
Nancy Sheehan	(i)	0	0	0	0	0	0	0
	(ii)	206,291	16,068	27,086	19,896	6,473	275,814	0
Richard J Ruh MD	(i)	0	0	0	0	0	0	0
	(ii)	311,908	0	49,463	17,374	15,225	393,970	0
Dr Sanford Pleskow	(i)	146,923	0	23,450	11,795	779	182,947	0
	(ii)	0	0	0	0	0	0	0
Dr Nadezhda Polataiko	(i)	166,492	0	207	69,632	17,611	253,942	0
	(ii)	0	0	0	0	0	0	0
Dr Brenda Perez	(i)	125,051	0	34,122	5,393	18,908	183,474	0
	(ii)	0	0	0	0	0	0	0
Dr James Fitzpatrick	(i)	139,484	17,060	776	14,005	17,097	188,422	0
	(ii)	0	0	0	0	0	0	0
Dr Q amrunnisa Rahman	(i)	149,633	0	14,622	75,312	6,260	245,827	0
	(ii)	0	0	0	0	0	0	0

Schedule K
(Form 990)

Department of the Treasury
Internal Revenue Service

Supplemental Information on Tax Exempt Bonds

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

OMB No 1545-0047

2012

Open to Public Inspection

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 the State of NY	14-6000293	64983Q5T2	11-29-2006	16,730,000	Part VI		X		X		X
B	Dormitory Authority of the State of NY	14-6000293	649906J62	07-12-2012	14,235,000	Part VI		X		X		X

Part II

Proceeds

		A		B		C		D	
1	Amount of bonds retired								
2	Amount of bonds legally defeased								
3	Total proceeds of issue	16,730,000		14,235,000					
4	Gross proceeds in reserve funds	954,691		954,691					
5	Capitalized interest from proceeds	286,690		286,690					
6	Proceeds in refunding escrows								
7	Issuance costs from proceeds	657,688		563,473					
8	Credit enhancement from proceeds	99,008							
9	Working capital expenditures from proceeds								
10	Capital expenditures from proceeds	15,973,304		784,874					
11	Other spent proceeds								
12	Other unspent proceeds	11,645,272		11,645,272					
13	Year of substantial completion	1998		2013		YesNoYesNo			
		Yes	No	Yes	No				
14	Were the bonds issued as part of a current refunding issue?	X			X				
15	Were the bonds issued as part of an advance refunding issue?		X		X				
16	Has the final allocation of proceeds been made?	X			X				
17	Does the organization maintain adequate books and records to support the final allocation of proceeds?	X		X					

Part III

Private Business Use

		A		B		C		D	
		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		X				
2	Are there any lease arrangements that may result in private business use of bond-financed property?		X		X				

Part III

Private Business Use (Continued)

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
3a	Are there any management or service contracts that may result in private business use of bond-financed property?		X		X				
b	If "Yes" to line 3a, does the organization routinely engage bond counsel or other outside counsel to review any management or service contracts relating to the financed property?								
c	Are there any research agreements that may result in private business use of bond-financed property?		X		X				
d	If "Yes" to line 3c, does the organization routinely engage bond counsel or other outside counsel to review any research agreements relating to the financed property?								
4	Enter the percentage of financed property used in a private business use by entities other than a section 501(c)(3) organization or a state or local government								
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	Does the bond issue meet the private security or payment test?		X		X				
8a	Has there been a sale or disposition of any of the bond financed property to a nongovernmental person other than a 501(c)(3) organization since the bonds were issued?		X		X				
b	If "Yes" to line 8a, enter the percentage of bond-financed property sold or disposed of								
c	If "Yes" to line 8a, was any remedial action taken pursuant to Regulations sections 1.141-12 and 1.145-2?								
9	Has the organization established written procedures to ensure that all nonqualified bonds of the issue are remediated in accordance with the requirements under Regulations sections 1.141-12 and 1.145-2?		X		X				

Part IV

Arbitrage

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
1	Has the issuer filed Form 8038-T?		X		X				
2	If "No" to line 1, did the following apply?								
a	Rebate not due yet?		X		X				
b	Exception to rebate?		X		X				
c	No rebate due?		X		X				
	If you checked "No rebate due" in line 2c, provide in Part VI the date the rebate computation was performed								
3	Is the bond issue a variable rate issue?	X			X				
4a	Has the organization or the governmental issuer entered into a qualified hedge with respect to the bond issue?	X			X				
b	Name of provider	JP Morgan Chase NA							
c	Term of hedge	15 5000000000000							
d	Was the hedge superintegrated?	X							
e	Was a hedge terminated?		X						

Part IV Arbitrage (Continued)

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
5a	Were gross proceeds invested in a guaranteed investment contract (GIC)?		X		X				
b	Name of provider								
c	Term of GIC								
d	Was the regulatory safe harbor for establishing the fair market value of the GIC satisfied?								
6	Were any gross proceeds invested beyond an available temporary period?		X		X				
7	Has the organization established written procedures to monitor the requirements of section 148?		X		X				

Part V Procedures To Undertake Corrective Action

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
1	Has 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?		X		X				

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 refinance outstanding indebtedness
Part I B (f)	Description of Purpose	To finance the cost of construction, reconstruction, and equipping certain improvements to Kenmore's existing approximately 347,661 square foot hospital facility located at 2950 Elmwood Avenue, Kenmore, NY, including a new two-story addition that includes approximately 19,000 square feet on the first floor to house Kenmore's Emergency Department
Part IV (1)		The bonds were issued by the Dormitory Authority of the State of New York on November 29, 2006 On or around December 1, 2011, DASNY performed a rebate analysis that indicated no rebate liability had accrued An analysis completed by the Bond Trustee in October 2012 indicated that DASNY mistakenly excluded from their analysis bond proceeds that had been deposited into the current refunding escrow for the Refunded Bonds Kenmore Mercy Hospital was first made aware of this error on October 24, 2012 Payment of the rebate, plus interest, was made to the IRS on March 29, 2013, within 180 days of the discovery

Schedule L
(Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

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

OMB No 1545-0047
2012
Open to Public Inspection

Name of the organization 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) Relationship between disqualified person and organization	(c) Description of transaction	(d) Corrected?	
				Yes	No

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

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

Part II Loans to and/or From Interested Persons.

Complete if the organization answered "Yes" on Form 990-EZ, Part V, line 38a, or Form 990, Part IV, line 26, or if the organization reported an amount on Form 990, Part X, line 5, 6, or 22

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

Part III Grants or Assistance Benefitting Interested Persons.

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

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

Part IV Business Transactions Involving Interested Persons.

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

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

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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Additional Data

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

Form 990, Schedule L, Part IV - Business Transactions Involving Interested Persons

(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 Urlaub	Wife of Mercy CEO , C J Urlaub	76,847	Corporate Nurse Educator		No
(2) James Manzella	Acute Care Board Member	204,991	Key Employee of Manzella Marketing		No
(3) David Zapfel	Brother of BOD, Msgr Robert Zapfel	66,713	HR Employee of CHS		No
(4) Kathleen Zapfel	Sister-in-law of BOD, Msgr Robert Zapfel	57,335	HR Employee of CHS		No
(5) Susan Gallagher-Stavros	Wife of Key Employee, John Stavros	21,753	Nurse, McAuley Seton Home Care		No
(6) Marie Packard	Daughter of BOD, Dennis Dombek	55,983	Mercy Physical Therapist		No
(7) Dr Craig Fetterman	Partner of Buffalo Niagara Hospitalists	448,438	Acute Care Board Member		No

SCHEDULE O
(Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

Supplemental Information to Form 990 or 990-EZ

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

OMB No 1545-0047

2012

Open to Public
Inspection

Name of the organization
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 The Corporate Member Board oversees the governance of the Catholic Health System
	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 2012, 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 9	Change in unrestricted interest in KMH Foundation 627,967 Change in Pension Obligation -1,795,460 Distributions to parent & affiliates 99,747 Change in temporarily restricted interest in KMH Foundation, Inc 13,046 Change in unrealized loss on interest rate swap -23,097

SCHEDULE R
(Form 990)

Department of the Treasury
Internal Revenue Service

Related Organizations and Unrelated Partnerships

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

OMB No 1545-0047

2012

Open to Public Inspection

Name of the organization
Kenmore Mercy Hospital

Employer identification number
16-0762843

Part I

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

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

Part II

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

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

Part III

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

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

Part IV

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

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Type of entity (C corp, S corp, or trust)	(f) Share of total income	(g) Share of end- of-year assets	(h) Percentage ownership	(i) Section 512 (b)(13) controlled entity?	
								Yes	No

Part V

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

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

1

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

a

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

b

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

c

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

d

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

e

Loans or loan guarantees by related organization(s)

f

Dividends from related organization(s)

g

Sale of assets to related organization(s)

h

Purchase of assets from related organization(s)

i

Exchange of assets with related organization(s)

j

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

k

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

l

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

m

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

n

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

o

Sharing of paid employees with related organization(s)

p

Reimbursement paid to related organization(s) for expenses

q

Reimbursement paid by related organization(s) for expenses

r

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

s

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

Yes

No

1a

No

1b

Yes

1c

No

1d

No

1e

No

1f

No

1g

No

1h

No

1i

No

1j

No

1k

No

1l

Yes

1m

Yes

1n

Yes

1o

Yes

1p

Yes

1q

Yes

1r

Yes

1s

Yes

2

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

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

Schedule R (Form 990) 2012

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

[illegible]

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

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

**Consolidated Financial Statements and
Accompanying Information
December 31, 2012 and 2011**

Kenmore Mercy Hospital and Subsidiary
Index
December 31, 2012 and 2011

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Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Kenmore Mercy Hospital and its subsidiary (collectively, the "Hospital"), which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations and changes in net assets and of cash flows for the years then ended

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We did not audit the financial statements of The McAuley Residence, a wholly owned subsidiary, which statements reflect total assets of \$17.8 million and \$17.5 million respectively, of consolidated total assets as of December 31, 2012 and 2011, respectively, and total revenues of \$17.3 million and \$17.4 million, respectively, of consolidated total revenues for the years then ended. 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 report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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



Opinion

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kenmore Mercy Hospital and its subsidiary as of December 31, 2012 and 2011, and the results of their operations and changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America

Emphasis of Matters

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

As discussed in Note 2 to the consolidated financial statements, the Hospital has restated its 2011 consolidated balance sheet to correct for an error. Our opinion is not modified with respect to this matter

PricewaterhouseCoopers LLP

April 25, 2013

Kenmore Mercy Hospital and Subsidiary
Consolidated Balance Sheets
December 31, 2012 and 2011

	2012	2011 <i>(as restated)</i>
Assets		
Current assets		
Cash and cash equivalents	\$ 28,193,288	\$ 24,203,654
Patient/resident accounts receivable, net of estimated uncollectibles of \$5,203,000 and \$3,943,000	19,376,680	14,589,083
Other receivables	988,383	808,355
Inventories	1,887,486	1,641,514
Assets limited as to use	1,826,205	-
Prepaid expenses and other current assets	228,591	133,207
Total current assets	52,500,633	41,375,813
Interest in net assets of affiliated Foundations	3,914,838	3,268,942
Assets limited as to use	16,455,048	5,366,727
Due from affiliates	1,516,733	1,481,621
Property and equipment, net	46,381,047	43,627,547
Other assets	14,578,566	10,545,440
Total Assets	<u>\$ 135,346,865</u>	<u>\$ 105,666,090</u>
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term obligations	\$ 2,185,549	\$ 1,970,872
Long-term obligations subject to short-term remarketing arrangements	10,511,525	11,480,239
Accounts payable	8,492,488	6,231,779
Accrued expenses	7,473,448	6,342,759
Due to third-party payors	6,391,719	5,825,459
Due to affiliates	7,066,493	4,622,180
Total current liabilities	42,121,222	36,473,288
Long-term obligations, net	22,326,059	9,446,303
Long-term portion of insurance liabilities	18,688,189	15,063,072
Pension obligation	32,597,188	28,823,065
Asset retirement obligation	155,339	141,809
Interest rate swap	1,830,255	1,805,747
Other long-term liabilities	152,688	292,541
Total liabilities	117,870,940	92,045,825
Net assets		
Unrestricted	16,682,433	12,839,819
Temporarily restricted	793,492	780,446
Total net assets	17,475,925	13,620,265
Total Liabilities and Net Assets	<u>\$ 135,346,865</u>	<u>\$ 105,666,090</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, 2012 and 2011

	2012	2011
Unrestricted revenues, gains and other support		
Net patient/resident service revenue	\$ 153,019,651	\$ 137,374,537
Provision for bad debts	(4,093,804)	(3,593,465)
Net patient/resident service revenue, less provision for bad debt	148,925,847	133,781,072
Other revenue	2,830,966	3,636,454
Total unrestricted revenues, gains and other support	151,756,813	137,417,526
Expenses		
Salaries and wages	63,720,378	60,112,319
Employee benefits	19,897,540	17,587,798
Medical and professional fees	5,147,592	4,642,837
Purchased services	13,003,348	11,960,795
Supplies	30,840,742	29,001,162
Depreciation and amortization	7,516,716	5,877,183
Interest	1,283,952	1,287,111
Insurance	1,028,530	1,134,795
Other expenses	4,778,007	4,370,217
Total expenses	147,216,805	135,974,217
Income from operations	4,540,008	1,443,309
Nonoperating revenues and losses		
Investment income	85,333	198,620
Other	(2,894)	33,515
Total nonoperating revenues and losses	82,439	232,135
Excess of revenues over expenses	\$ 4,622,447	\$ 1,675,444

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, 2012 and 2011

	2012	2011
Unrestricted net assets		
Excess of revenues over expenses	\$ 4,622,447	\$ 1,675,444
Change in unrestricted interest in		
Kenmore Mercy Foundation, Inc	627,966	(889,413)
Change in pension obligation	(2,097,157)	(5,948,476)
Impact of pension transfers to/ from CHS Subsidiaries	301,697	(603,703)
Distributions and transfers to parents and affiliates	99,747	394,875
Change in unrealized loss on interest rate swap	(23,096)	(593,774)
Distributions from Foundation	311,010	58,562
Increase (decrease) in unrestricted net assets	3,842,614	(5,906,485)
Temporarily restricted net assets		
Change in temporarily restricted interest in Kenmore		
Mercy Foundation, Inc	17,930	617,223
Other	(4,884)	11,552
Increase in temporarily restricted net assets	13,046	628,775
Increase (decrease) in net assets	3,855,660	(5,277,710)
Net assets, beginning of year	13,620,265	18,897,975
Net assets, end of year	\$ 17,475,925	\$ 13,620,265

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, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Increase (decrease) in net assets	\$ 3,855,660	\$ (5,277,710)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
Depreciation and amortization	7,516,716	5,877,183
Provision for bad debts	4,093,804	3,593,465
Distribution and transfers from parent and affiliate	(99,747)	(380,275)
Undistributed portion of change in interest in Affiliated Foundations	(645,896)	272,190
Increase in pension obligation	1,795,460	6,552,179
Discount on issuance	13,945	8,787
Premium on issuance	(7,328)	-
Change in unrealized loss on interest rate swap	24,508	612,707
Change in unrealized gain on investments	31,100	(8,115)
Gain on sale of property and equipment	-	(52,448)
Gain on extinguishment of capital leases	(34,642)	-
(Increase) decrease in assets		
Patient accounts receivable	(8,881,401)	1,293,675
Other receivables	(180,028)	(148,919)
Inventories	(245,972)	(187,358)
Prepaid expenses	(95,384)	488,887
Other assets	(916,700)	(20,390)
Due from affiliates	(18,914)	85,672
Increase (decrease) in liabilities		
Accounts payable	2,260,709	(1,958,051)
Accrued expenses	(695,516)	434,285
Due to affiliates	1,888,259	2,047,381
Due to third-party payors	566,260	(985,527)
Other Liabilities	2,268,214	2,115,568
Net cash provided by operating activities	<u>12,493,107</u>	<u>14,363,186</u>
Cash flows from investing activities		
Purchase of property and equipment	(7,932,329)	(4,386,707)
Proceeds from sale of property and equipment	-	40,011
Purchase of assets whose use is limited	(13,953,015)	-
Sale of assets whose use is limited	1,000,876	595,762
Other	6,513	-
Net cash used in investing activities	<u>(20,877,955)</u>	<u>(3,750,934)</u>
Cash flows from financing activities		
Distribution and transfers from parent and affiliate	99,747	380,275
Proceeds from issuance of long-term obligations	14,235,000	-
Discount on issuance	(156,812)	-
Premium on issuance	159,265	-
Repayments of current and long-term obligations	(1,962,718)	(2,527,590)
Net cash provided by (used in) financing activities	<u>12,374,482</u>	<u>(2,147,315)</u>
Increase in cash and cash equivalents	3,989,634	8,464,937
Cash and cash equivalents, beginning of year	24,203,654	15,738,717
Cash and cash equivalents, end of year	<u>\$ 28,193,288</u>	<u>\$ 24,203,654</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 1,277,335	\$ 1,278,324
Noncash investing and financing activities		
Assets acquired under capital lease obligations	\$ 279,576	\$ 576,280
Construction Related Payables	\$ 1,826,205	\$ 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, 2012 and 2011

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 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).

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, 2012 and 2011

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.

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 Limited as to Use

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

Investments

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 the excess of revenue over expenses as investments are considered trading securities.

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, 2012 and 2011

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 2012 and 2011.

Net Patient/Resident Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from third-party payers, patients, and others for services rendered. These estimated amounts include estimated adjustments under various reimbursement agreements with third-party payors and government regulations. The Hospital has agreements that provide for payments to the Hospital at amounts different from its established charges. Payment arrangements include prospectively determined rates per discharge, discounted charges, reimbursed costs, per diem payments and risk share arrangements. Third-party payers retain the right to review and propose adjustments to amounts recorded by the Hospital after initial payment of the claim. Such adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as necessary. CHS's Healthcare Assistance Program provides discounts to uninsured patients and self-pay balances. 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.

A summary of the payment arrangements with major governmental 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, 2008. Disproportionate Share (DSH), Indirect Medical Education (IME), Graduate Medical Education (GME), Paramedical Education and Meaningful

Kenmore Mercy Hospital and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

Use (MU) are all reconciled through settlement processes. During 2012, the system began participation with Catholic Medical Partners (CMP) as an Accountable Care Organization (ACO). The ACO places a global budget on all traditional Medicare claims (excluding e.g., DSH, IME, DME, MU) for patients associated with CMP Primary Care physicians. Claims are processed through fee for service billing and reconciled to the global budget along with quality measurement at the end of the period. The initial year of the ACO has only upside benefit which is currently unquantifiable.

- **Non-Medicare** 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 non-Medicare payers, 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 payers 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 2012 and 2011 related to prior years, including adjustments to prior year estimates and audit settlements, increased revenues \$1,290,706 and \$730,000, 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 50% and 52% of net patient/resident service revenue was generated from services rendered to patients/residents under Medicare and Medicaid programs in 2012 and 2011, respectively. Approximately 27% and 26% of net patient/resident service revenue was generated from services rendered to patients under managed care programs in 2012 and 2011, respectively.

Bad Debt Expense

The provision for bad debt expense is based upon management's assessment of expected net collections considering economic experience, trends in health care coverage, and other collection indicators. Periodically throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience by payor category, including those amounts not covered by insurance and history of cash collections. The results of this review are then used to make any modifications to the provision for bad debt expense to establish an appropriate allowance for uncollectible accounts. After satisfaction of amounts due from insurance and reasonable efforts to collect from the patient have been exhausted, the Hospital follows established guidelines for placing certain past-due patient balances with the collection agencies, subject to terms of certain restrictions on collection efforts as determined by the Hospital. Accounts receivable are written off after collection efforts have been followed in accordance with the Hospital's policies.

Patient and resident service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources is as follows for the years ended December 31, 2012 and 2011:

Kenmore Mercy Hospital and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2012 and 2011

	2012	2011
Patient / resident service revenue (net of contractual allowances and discounts)		
Medicare	\$ 66,819,715	\$ 62,052,547
Medicaid	10,065,393	9,440,581
Blue Cross	14,311,885	10,597,383
Other third party payors	54,969,819	50,171,197
Patients/residents	6,852,839	5,112,829
Total net patient/resident service revenue	153,019,651	137,374,537
Provision for bad debts	(4,093,804)	(3,593,465)
Net patient/resident service revenue less provision for bad debts	\$ 148,925,847	\$ 133,781,072

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 \$1,208,229 and \$1,217,866 arose from providing services to charity care patients in 2012 and 2011, 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.

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.

Kenmore Mercy Hospital and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

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 \$2.0 million and \$2.6 million of electronic health record incentive income related to Medicare incentive programs during the years ended December 31, 2012 and 2011, respectively, which is recorded in other operating revenue.

Other Revenues

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

	2012	2011
Shared services	\$ 82,263	\$ 115,656
Cafeteria revenue	269,952	238,407
Rental income	257,743	260,262
Medicare meaningful use	1,964,766	2,657,136
Other	256,242	364,993
	<u>\$ 2,830,966</u>	<u>\$ 3,636,454</u>

Other Expenses

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

Kenmore Mercy Hospital and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2012 and 2011

	2012	2011
System dues (a)	\$ 1,433,701	\$ 1,404,648
Rental and operating leases	1,191,405	1,096,357
NYS Health Facilities Cash Receipts Assessment Program	504,352	468,881
Catholic Health System other expense	835,595	635,100
Professional fees	291,079	241,710
Other	521,875	523,521
	<u>\$ 4,778,007</u>	<u>\$ 4,370,217</u>

(a) System dues related to the following expenses in 2012 and 2011

	2012	2011
Salaries, wages and employee benefits	\$ 243,154	\$ 270,768
Professional fees and purchased services	315,596	256,915
Due to Catholic Health East	743,644	713,683
Other	131,307	163,282
	<u>\$ 1,433,701</u>	<u>\$ 1,404,648</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.

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 are limited by donors to a specific period or purpose and include 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 and life income funds. Investment return is included in unrestricted net assets unless the return is restricted by donor or law.

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.

Kenmore Mercy Hospital and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

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 \$1,357,786 and \$611,045 during 2012 and 2011, respectively. Capitalized internal project labor costs amounted to \$502,619 and \$107,135 during 2012 and 2011, respectively.

Reclassifications

Certain prior year amounts were reclassified to conform to the 2012 consolidated financial statement presentation.

Restatement

As discussed in Note 9, the Hospital has restated its 2011 consolidated balance sheets to correct for a classification error of its variable rate demand bonds from a long-term to a current classification. The net impact of the restatement is to increase the long term debt subject to short term remarketing arrangements by \$11,480,239 (current liability), and to decrease long term debt, net by \$11,480,239 at December 31, 2011. There is no impact on the Hospital's Consolidated Statements of Operations, Changes in Net Assets or Cash Flows.

The Hospital's variable rate demand bonds, while subject to long-term amortization periods, may be put to the Hospital at the option of the bondholders in connection with certain remarketing dates. To the extent that bondholders may, under the terms of the debt, put their bonds within twelve months after the reporting date (December 31), the principal amount of such bonds have been classified as a current liability in the accompanying consolidated balance sheets. The Hospital has liquidity facilities in place to fund any bonds put to the Hospital, however, the terms of the liquidity facilities include subjective acceleration clauses which prohibit the Hospital from classifying the variable demand bonds as long term obligations.

The following table summarizes adjustments to the 2011 consolidated balance sheet:

	As Originally Reported	Adjustment	As Restated
Consolidated balance sheet as of December 31, 2011			
Current Liabilities			
Long-term debt subject to short term remarketing arrangements	\$ -	\$ 11,480,239	\$ 11,480,239
Total current liabilities	24,993,049	11,480,239	36,473,288
Non-current Liabilities			
Long-term debt, net	20,926,542	(11,480,239)	9,446,303
Total liabilities	92,045,825	-	92,045,825

Subsequent Events

The Hospital evaluated subsequent events through April 25, 2013 which was the date the financial statements were issued.

3. New Authoritative Pronouncements

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

Kenmore Mercy Hospital and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

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 Hospital adopted this new guidance during the year ended December 31, 2012. Accordingly, the provision for bad debts of approximately \$4,093,804 and \$3,593,465 for the years ended December 31, 2012 and 2011, respectively, have been presented as a deduction from net patient service revenue in the statement of operations. In addition, certain new disclosures have been included in the financial statements relating to the Hospital's establishment of its reserve for uncollectible accounts and certain other matters.

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.

A summary of the Foundation assets, liabilities, net assets, and changes in net assets are as follows:

	2012	2011
Cash, investments and other assets	\$ 4,670,334	\$ 4,229,421
Total assets	\$ 4,670,334	\$ 4,229,421
Liabilities	\$ 755,496	\$ 960,479
Net assets		
Unrestricted	3,128,014	2,500,048
Temporarily restricted	786,824	768,894
Total net assets	3,914,838	3,268,942
Total liabilities and net assets	\$ 4,670,334	\$ 4,229,421
Change in unrestricted net assets	\$ 627,966	\$ (889,413)
Change in temporarily restricted net assets	17,930	617,223
	\$ 645,896	\$ (272,190)

Kenmore Mercy Hospital and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2012 and 2011

Distributions were made to the Hospital in the amount of \$311,010 during 2012 and \$58,562 during 2011

5. Assets Limited as to Use

The composition of assets limited as to use, including unspent bond proceeds, is as follows at December 31

	2012	2011
Held by trustee for funded depreciation		
Cash and cash equivalents	\$ 1,126,691	\$ 1,158,320
US Government obligations and other	2,184,669	2,137,827
Interest receivable	6,725	9,153
Held by trustee under indenture agreements		
Cash and cash equivalents	4,589,493	-
US Government obligations and other	8,299,159	-
Held by trustee for renewal and replacement		
Cash and cash equivalents	<u>2,074,516</u>	<u>2,061,427</u>
Assets limited as to use	<u>\$ 18,281,253</u>	<u>\$ 5,366,727</u>

6. Property and Equipment

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

	2012	2011
Land and land improvements	\$ 987,303	\$ 789,832
Buildings	55,636,925	55,870,007
Leasehold improvements	8,609,330	8,029,931
Equipment	22,175,590	20,255,624
Automobiles	20,978	40,743
Equipment under capital leases	<u>5,808,396</u>	<u>7,594,887</u>
	93,238,522	92,581,024
Less Accumulated depreciation	(51,235,890)	(46,827,642)
Accumulated amortization under capital leases	<u>(2,058,535)</u>	<u>(3,047,472)</u>
	39,944,097	42,705,910
Construction in progress	<u>6,436,950</u>	<u>921,637</u>
	<u>\$ 46,381,047</u>	<u>\$ 43,627,547</u>

Depreciation expense in 2012 and 2011 amounted to approximately \$6,747,335 and \$5,083,111, respectively. Amortization expense on equipment under capital leases amounted to \$676,564 and \$717,680 in 2012 and 2011, respectively. Fully depreciated assets of \$3,247,694 and \$3,913,715 were written-off for the years ended December 31, 2012 and 2011, respectively.

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7. Other Assets

Other assets consist of the following at December 31

	2012	2011
Insurance recoveries	\$ 12,863,642	\$ 9,667,929
Debt issuance costs	1,525,643	700,089
Other	189,281	177,422
	<u>\$ 14,578,566</u>	<u>\$ 10,545,440</u>

Amortization expense on debt issuance costs amounted to \$79,287 in 2012 and \$63,536 in 2011

8. Accrued Expenses

Accrued expenses consist of the following at December 31

	2012	2011
Workers compensation	\$ 1,229,556	\$ 1,154,320
Payroll and benefits	5,204,149	4,347,392
Other	1,039,743	841,047
	<u>\$ 7,473,448</u>	<u>\$ 6,342,759</u>

9. Long-Term Obligations

Long-Term Debt

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

	2012	2011
2006 Series C Bonds payable, Kenmore Mercy Hospital (a)	\$ 11,489,025	\$ 12,420,239
2012 Series A Bonds payable, Kenmore Mercy Hospital (b)	14,235,283	-
Mortgage payable, The McAuley Residence (c)	6,261,365	6,685,708
Capital lease obligations and other, at various rates of interest ranging from 3.37% to 5.0%, collateralized by equipment	2,986,188	3,733,298
Note payable to an individual, payable in monthly installments of \$988 including interest at 9%, until May 2018	51,272	58,169
Total long-term obligations	35,023,133	22,897,414
Less Current portion	(2,185,549)	(1,970,872)
Less Long-term obligations subject to short-term remarketing arrangements	(10,511,525)	(11,480,239)
Long-term obligations, net	<u>\$ 22,326,059</u>	<u>\$ 9,446,303</u>

The Series 2006 variable rate demand bonds, while subject to long-term amortization periods, may be put at the option of the bondholders in which case the Bonds would be remarketed based upon the applicable LOC. In a very unlikely event of a failed remarketing, the LOC would be drawn to pay the Bonds and Catholic Health would be obligated to reimburse the applicable LOC Issuer if

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the Bonds are not remarketed. With respect to the 2006 Series, absent an event of default, Catholic Health may elect to pay the obligations in installments matching the bond amortization. To the extent that bondholders may, under the terms of the debt, put their bonds to Catholic Health System, the principal amount of such bonds has been classified as a current liability in the accompanying consolidated Balance Sheets. Management believes the likelihood of a material amount of bonds being put to Catholic Health System to be remote. However, to address this possibility, management has taken steps to maintain sufficient unrestricted assets as a source of self-liquidity in the event the bonds are put

- (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 0.13% and 0.11% at December 31, 2012 and 2011, respectively.

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

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coverage, (iii) a maximum leverage ratio The Obligated Group was in compliance with these covenants at December 31, 2012 and 2011

- (b) On July 12, 2012, \$17,315,000 of Dormitory Authority of the State of New York (DASNY) Catholic Health System Obligated Group Revenue Bonds, Series 2012 were issued Series 2012A Bonds for \$14,235,000 were loaned to the Hospital for the purpose of financing the cost of a new two-story addition, which includes approximately 19,000 square feet on the first floor for a new emergency department, an approximately 14,794 square feet shell space on the second floor, and an approximately 16,000 square feet basement, as well as the cost of renovating existing space, expanding the existing parking lot and related demolition, and other mechanical and infrastructure improvements Proceeds of the Series 2012A Bonds were also applied to pay certain costs of issuing the Bonds The discount on the Bonds of \$156,812 and the premium on the Bonds of \$159,265 will be accreted over the life of the Bonds

The Series 2012 Bonds were issued under the Master Trust Indenture that was created in 2006 during the formation of the Obligated Group In connection with the issuance of the Series 2012 Bonds, the Hospital entered into a Loan Agreement whereby the Hospital is required to make monthly payments sufficient to pay, among other things, the principal and Sinking Fund Installments of and interest on the Series 2012 Bonds as they become due The Series 2012 Bonds bear interest at a fixed rate The interest rates, maturities, and aggregate principal amounts outstanding at December 31 are as follows

	2012
2 00% Serial Bonds Due July 1, 2014	\$330,000
3 00% Serial Bonds Due July 1, 2015	340,000
3 00% Serial Bonds Due July 1, 2016	350,000
3 00% Serial Bonds Due July 1, 2017	360,000
4 00% Serial Bonds Due July 1, 2018	370,000
3 50% Term Bonds Due July 1, 2022	1,610,000
4 00% Term Bonds Due July 1, 2027	2,385,000
5 00% Term Bonds Due July 1, 2032 (i)	2,960,000
4 75% Term Bonds Due July 1, 2039	5,530,000
Total Series 2012A Bonds	<u>\$14,235,000</u>

(i) Optional redemption on July 1, 2022 at a redemption price of 100% of the principal amount of such Series 2012 Bonds or portions thereof to be redeemed, plus accrued interest to the redemption date

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

The financial covenants required under the Loan Agreement are consistent with those of the Series 2006 Bonds

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- (c) 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, 2012 are as follows

	Long-Term Debt	Capital Leases	Total
2013	\$ 1,598,370	\$ 677,912	\$ 2,276,282
2014	1,834,414	703,818	2,538,232
2015	1,909,456	384,331	2,293,787
2016	1,991,083	268,805	2,259,888
2017	2,079,389	218,249	2,297,638
Thereafter	22,624,233	1,172,635	23,796,868
Total	<u>\$ 32,036,945</u>	<u>3,425,750</u>	<u>\$ 35,462,695</u>
Less Amount representing interest		<u>(439,562)</u>	
Capital lease obligations		<u>\$ 2,986,188</u>	

Operating Leases

Minimum annual rental commitments at December 31, 2012 under noncancelable operating leases are as follows

2013	\$ 1,306,292
2014	\$ 1,306,292
2015	\$ 1,306,292
2016	\$ 1,306,292
2017	\$ 1,306,292
Thereafter	580,152
	<u>\$ 7,111,612</u>

Rental expense under operating leases amounted to approximately \$1,191,405 and \$1,096,357 in 2012 and 2011, 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 (\$12,050,000 at December 31, 2011) and in exchange, KMH will receive a variable rate

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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)

		2012		2011	
		Balance Sheet		Balance Sheet	
		Location	Fair Value	Location	Fair Value
Interest rate contracts					
Floating to fixed	Interest rate swap		\$ 1,830,255	Interest rate swap	\$ 1,805,747

The effects of derivative instruments on the consolidated statements of operations and changes in net assets for 2012 and 2011 are as follows:

(in thousands of dollars)

		Amount of Gain (Loss) Recognized in Statement of Operations		Amount of Gain (Loss) Recognized in Net Assets	
		2012	2011	2012	2011
Change in fair value of					
interest rate swaps		\$ (1,412)	\$ (18,933)	\$ (23,096)	\$ (593,774)

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 financial 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.

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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, 2012 and 2011.

	2012	2011
Benefit Obligations		
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 46,342,327	\$ 38,165,700
Service cost	1,885,585	1,518,313
Interest cost	2,084,957	2,044,118
Actuarial (gains) losses	3,828,044	5,697,213
Transfers (to) from CHS Subsidiaries	(219,535)	438,088
Benefits paid	(1,810,765)	(1,498,990)
Expenses	(17,289)	(22,115)
Benefit obligation at end of year	<u>52,093,324</u>	<u>46,342,327</u>
Accumulated benefit obligation at end of year	<u>\$ 428,825,987</u>	<u>\$ 41,715,010</u>
Plan Assets		
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 17,519,262	\$ 16,948,539
Actual return on plan assets	1,931,412	(2,592)
Transfers (to) from CHS Subsidiaries	(82,162)	165,615
Benefits paid	(1,810,765)	(1,498,990)
Hospital contributions	1,955,677	1,928,805
Expenses	(17,289)	(22,115)
Fair value of plan assets at end of year	<u>\$ 19,496,135</u>	<u>\$ 17,519,262</u>
Funded status at end of year	<u>\$ 32,597,189</u>	<u>\$ 28,823,065</u>
Amounts recognized in the consolidated balance sheets		
Noncurrent liabilities	<u>\$ (32,597,189)</u>	<u>\$ (28,823,065)</u>
Net amounts recognized	<u>\$ (32,597,189)</u>	<u>\$ (28,823,065)</u>
Amounts recognized in unrestricted net assets consists of		
Actuarial net loss	\$ (21,349,982)	\$ (19,509,758)
Prior service cost	<u>(255,623)</u>	<u>(300,387)</u>
Total amount recognized	<u>\$ (21,605,605)</u>	<u>\$ (19,810,145)</u>
Components of Net Periodic Benefit Cost		
Service cost	\$ 1,885,585	\$ 1,518,313
Interest cost on benefit obligation	2,084,957	2,044,118
Expected return on plan assets	(1,495,644)	(1,422,298)
Amortization of prior service costs	44,764	44,764
Recognized actuarial loss	<u>1,414,679</u>	<u>797,634</u>
Net periodic benefit cost	<u>\$ 3,934,341</u>	<u>\$ 2,982,531</u>

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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 \$17,931,331, 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 2013 and the actual asset allocation percentages for 2012 and 2011 are as follows at the respective measurement dates

Asset Category	Pension target allocation	Actual	
	2013	2012	2011
Equities	65%	50%	50%
Fixed income	25%	35%	37%
Other	10%	15%	13%
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, 2012 and 2011, 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, 2012				
Investments				
Cash and cash equivalents	\$ 14,542,176	\$ 14,491,559	\$ 50,617	\$ -
Marketable equity securities	\$ 117,518,474	55,019,557	62,498,917	-
Marketable debt securities	\$ 72,798,865	24,932,327	47,866,538	-
Managed funds	\$ 30,347,806	-	-	30,347,806
	<u>\$ 235,207,321</u>	<u>\$ 94,443,443</u>	<u>\$ 110,416,072</u>	<u>\$ 30,347,806</u>

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	Total	Level 1	Level 2	Level 3
December 31, 2011				
Investments				
Cash and cash equivalents	\$ 11,565,458	\$ 11,543,903	\$ 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>\$ 206,658,594</u>	<u>\$ 127,708,107</u>	<u>\$ 51,895,103</u>	<u>\$ 27,055,384</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

	2012	2011
Fair value January 1	\$ 27,055,386	\$ 31,280,332
Realized and unrealized gains (losses)	944,022	(934,764)
Purchases	8,442,833	-
Sales	(10,660,843)	(1,002,631)
Transfers in/out	<u>4,566,428</u>	<u>(2,287,551)</u>
Fair value December 31	<u>\$ 30,347,826</u>	<u>\$ 27,055,386</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 \$21,400,000 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.

2013	15,039,000
2014	16,535,000
2015	18,215,000
2016	20,235,000
2017	22,239,000

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	2012	2011
Weighted-average assumptions used to determine end of year benefit obligations		
Discount rate	3.95%	4.60%
Rate of compensation increase	3.00%	3.00%
Weighted-average assumptions used to determine net periodic pension cost		
Discount rate	4.60%	5.50%
Expected long-term rate of return on plan assets	8.00%	8.00%
Measurement date	12/31/2012	12/31/2011

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 2012 and 2011. The Hospital's portion of the System's current portion of liabilities for unpaid and incurred but not reported claims at December 31, 2012 and 2011 is \$61,099 and \$66,255 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, 2012 and 2011 is \$9,271,255 and \$7,063,024, respectively recorded in long-term portion of insurance liabilities. The charges to expenses for professional and general liability for 2012 and 2011 approximated \$838,770 and \$951,195, respectively, which has been included in insurance expenses. Amounts recognized as insurance receivables related to the claims approximate \$8,110,368 and \$5,804,181 at December 31, 2012. 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, 2012 and 2011 is \$1,124,860 and \$1,061,651, 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, 2012 and 2011 is \$9,416,934 and \$8,000,048, respectively, and is included in long-term portion of insurance liabilities. The charges to expenses for workers compensation costs approximated \$2,582,741 and \$2,620,668 in 2012 and 2011, respectively which has been included in employee benefits expenses. Amounts recognized as insurance receivables related to the claims approximate

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\$4,753,274 and \$3,863,748 at December 31, 2012 and 2011, respectively. 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 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 2012 and 2011, the Hospital incurred expenses from affiliates for administration services, rent and other services. These expenses approximated \$25,263,927 in 2012 and \$21,951,280 in 2011. During 2012 and 2011, the Hospital provided cost sharing services to and received reimbursement from affiliates for laboratory, computer, and other services. Revenues from these services approximated \$93,666 and \$129,645 in 2012 and 2011, respectively.

During 2012, distributions were received from the parent and affiliates of \$99,747. During 2012 and 2011, 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, 2012 and 2011 were \$7,066,493 and \$4,622,180, respectively. Amounts due from affiliates at December 31, 2012 and 2011 were \$1,516,733 and \$1,481,621, respectively.

14. Legal Matters

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.

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Assets Limited to Use

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

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 pays 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 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, 2012 and 2011

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, 2012 and 2011

December 31, 2012	Total	Level I	Level 2	Level 3	Valuation Technique
Assets limited as to use					
Cash and cash equivalents	\$ 7,790,700	\$ 1,166,438	\$ 6,624,262	\$ -	Market
U S Government and agency obligations	10,483,828	2,184,669	8,299,159	-	Market
Other	6,725	-	6,725	-	Market
	<u>\$ 18,281,253</u>	<u>\$ 3,351,107</u>	<u>\$ 14,930,146</u>	<u>\$ -</u>	
Interest rate swap	\$ 1,830,255	\$ -	\$ 1,830,255	\$ -	Market
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	\$ 2,029,704	\$ -	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>\$ 2,038,857</u>	<u>\$ -</u>	
Interest rate swap	\$ 1,805,747	\$ -	\$ 1,805,747	\$ -	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

	2012	2011
Medicare	34%	36%
Medicaid	7%	4%
Blue Cross	8%	7%
Other third-party payors	37%	40%
Patients/Residents	14%	13%
	<u>100%</u>	<u>100%</u>

Kenmore Mercy Hospital and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2012 and 2011

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

	2012	2011
Health care services	\$ 104,991,611	\$ 95,855,054
General and administrative	<u>42,225,194</u>	<u>40,119,163</u>
	<u>\$ 147,216,805</u>	<u>\$ 135,974,217</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, 2012 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) is the responsibility of management and is provided for purposes of additional analysis of the consolidated financial statements. Such information is unaudited and therefore 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). The consolidating information is the responsibility of management and was derived from, and relate directly to, the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has 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 consolidating information is 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.

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

April 25, 2013

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 - Unaudited)
Years Ended December 31, 2012 and 2011

(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

	2012	2011
Charity care	\$ 1,208,229	\$ 1,217,866
Cost of community benefit programs	2,315,416	1,388,134
Unpaid cost of medicaid programs	<u>4,102,400</u>	<u>2,542,003</u>
Social accountability costs	<u>\$ 7,626,045</u>	<u>\$ 5,148,003</u>

Kenmore Mercy Hospital and Subsidiary
Consolidating Balance Sheets
December 31, 2012

	Kenmore Mercy Hospital	The McAuley Residence	Eliminations	Consolidated
Assets				
Current assets				
Cash and cash equivalents	\$ 27,165,985	\$ 1,027,303	\$ -	\$ 28,193,288
Patient/resident accounts receivable, net of estimated uncollectibles of \$5,203,000	17,240,235	2,136,445	-	19,376,680
Other receivables	686,753	301,630	-	988,383
Inventories	1,887,486	-	-	1,887,486
Assets limited as to use	1,826,205	-	-	1,826,205
Prepaid expenses	228,591	-	-	228,591
Total current assets	49,035,255	3,465,378	-	52,500,633
Interest in net assets of				
Affiliated Foundations	3,914,838	-	-	3,914,838
Assets limited as to use	11,062,447	5,392,601	-	16,455,048
Due from affiliate	1,512,227	6,531	(2,025)	1,516,733
Property and equipment, net	40,534,300	5,846,747	-	46,381,047
Other assets	13,113,978	3,061,167	(1,596,579)	14,578,566
Total Assets	\$ 119,173,045	\$ 17,772,424	\$ (1,598,604)	\$ 135,346,865
Liabilities and Net Assets				
Current liabilities				
Current portion of long-term obligations	\$ 1,737,224	\$ 448,325	\$ -	\$ 2,185,549
Long-term obligations subject to short-term remarketing arrangements	10,511,525	-	-	10,511,525
Accounts payable	8,419,982	72,506	-	8,492,488
Accrued expenses	5,846,258	1,627,190	-	7,473,448
Due to third-party payors	5,989,025	402,694	-	6,391,719
Due to affiliate	5,568,539	1,499,979	(2,025)	7,066,493
Total current liabilities	38,072,553	4,050,694	(2,025)	42,121,222
Long-term obligations, net	16,513,019	5,813,040	-	22,326,059
Long-term portion of insurance liabilities	14,544,405	4,143,784	-	18,688,189
Pension obligation	29,360,558	3,236,630	-	32,597,188
Asset retirement obligation	155,339	-	-	155,339
Interest rate swap	1,830,255	-	-	1,830,255
Other long-term liabilities	152,688	-	-	152,688
Total liabilities	100,628,817	17,244,148	(2,025)	117,870,940
Net assets				
Unrestricted	17,757,404	521,608	(1,596,579)	16,682,433
Temporarily restricted	786,824	6,668	-	793,492
Total net assets	18,544,228	528,276	(1,596,579)	17,475,925
Total Liabilities and Net Assets	\$ 119,173,045	\$ 17,772,424	\$ (1,598,604)	\$ 135,346,865

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, 2012

	Kenmore Mercy Hospital	The McAuley Residence	Eliminations	Consolidated
Unrestricted revenues, gains and other support				
Net patient/resident service revenue	\$ 135,478,104	\$ 17,541,547	\$ -	\$ 153,019,651
Provision for bad debts	(3,789,302)	(304,502)	-	(4,093,804)
Net patient/resident service revenue less provision for bad debts	131,688,802	17,237,045	-	148,925,847
Other revenue	2,762,055	68,911	-	2,830,966
Total unrestricted revenues, gains and other support	134,450,857	17,305,956	-	151,756,813
Expenses				
Salaries and wages	53,182,424	10,537,954	-	63,720,378
Employee benefits	16,217,114	3,680,426	-	19,897,540
Medical and professional fees	4,958,787	188,805	-	5,147,592
Purchased services	11,890,370	1,112,978	-	13,003,348
Supplies	29,610,320	1,230,422	-	30,840,742
Depreciation and amortization	6,790,883	725,833	-	7,516,716
Interest	926,179	357,773	-	1,283,952
Insurance	923,660	104,870	-	1,028,530
Other expenses	4,502,230	275,777	-	4,778,007
Total expenses	129,001,967	18,214,838	-	147,216,805
Gain (loss) from operations	5,448,890	(908,882)	-	4,540,008
Nonoperating revenues and losses				
Investment income	63,104	22,229	-	85,333
Other	(2,894)	-	-	(2,894)
Total nonoperating revenues and losses	60,210	22,229	-	82,439
Excess (deficiency) of revenues over expenses	5,509,100	(886,653)	-	4,622,447

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, 2012

	Kenmore Mercy Hospital	The McAuley Residence	Eliminations	Consolidated
Unrestricted net assets				
Excess (deficiency) of revenues over expenses	\$ 5,509,100	\$ (886,653)	\$ -	4,622,447
Change in unrestricted interest in Kenmore Mercy Foundation	627,966	-	-	627,966
Change in pension obligation	(2,193,646)	96,489	-	(2,097,157)
Impact of pension transfers to/from CHS subsidiaries	613,551	(311,854)	-	301,697
Distribution and transfer from parent and affiliates	99,747	-	-	99,747
Change in unrealized loss on interest rate swap	(23,096)	-	-	(23,096)
Distributions from Foundation	303,916	7,094	-	311,010
Increase (decrease) in unrestricted net assets	<u>4,937,538</u>	<u>(1,094,924)</u>	<u>-</u>	<u>3,842,614</u>
Temporarily restricted net assets				
Change in temporarily restricted interest in Kenmore Mercy Foundation	17,930	-	-	17,930
Other	-	(4,884)	-	(4,884)
Increase (decrease) in temporarily restricted net assets	<u>17,930</u>	<u>(4,884)</u>	<u>-</u>	<u>13,046</u>
Increase (decrease) in net assets	<u>4,955,468</u>	<u>(1,099,808)</u>	<u>-</u>	<u>3,855,660</u>
Net assets, beginning of year	<u>13,588,760</u>	<u>1,628,084</u>	<u>(1,596,579)</u>	<u>13,620,265</u>
Net assets, end of year	<u>\$ 18,544,228</u>	<u>\$ 528,276</u>	<u>\$ (1,596,579)</u>	<u>\$ 17,475,925</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, 2012

	Kenmore Mercy Hospital	The McAuley Residence	Eliminations	Consolidated
Cash flows from operating activities				
Increase (decrease) in net assets	\$ 4,955,468	\$ (1,099,808)	\$ -	\$ 3,855,660
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities				
Depreciation and amortization	6,790,883	725,833	-	7,516,716
Provision for bad debts	3,789,302	304,502	-	4,093,804
Distribution from parent and affiliates	(99,747)	-	-	(99,747)
Undistributed portion of change in interest in Kenmore Mercy Foundation, Inc	(645,896)	-	-	(645,896)
Increase in pension obligation	1,580,095	215,365	-	1,795,460
Discount on issuance	13,945	-	-	13,945
Premium on issuance	(7,328)	-	-	(7,328)
Change in unrealized loss on interest rate swap	24,508	-	-	24,508
Change in unrealized gain on investments	-	31,100	-	31,100
Gain on sale of fixed assets	-	-	-	-
Gain on extinguishment of capital leases	(34,642)	-	-	(34,642)
(Increase) decrease in assets				
Patient accounts receivable	(8,362,816)	(518,585)	-	(8,881,401)
Other receivables	(47,723)	(132,305)	-	(180,028)
Inventories	(245,972)	-	-	(245,972)
Prepaid expenses	(95,384)	-	-	(95,384)
Other assets	(921,584)	4,884	-	(916,700)
Due from affiliates	(22,839)	1,900	2,025	(18,914)
Increase (decrease) in liabilities				
Accounts payable	2,401,064	(140,355)	-	2,260,709
Accrued expenses	(698,430)	2,914	-	(695,516)
Due to affiliate	854,235	1,036,049	(2,025)	1,888,259
Due to third-party payors	1,126,378	(560,118)	-	566,260
Other Liabilities	1,706,456	561,758	-	2,268,214
Net cash provided by (used in) operating activities	12,059,973	433,134	-	12,493,107
Cash flows from investing activities				
Purchase of property and equipment	(7,791,508)	(140,821)	-	(7,932,329)
Proceeds from the sale of property and equipment	-	-	-	-
Purchase of assets whose use is limited	(13,953,015)	-	-	(13,953,015)
Sale of assets whose use is limited	1,057,850	(56,974)	-	1,000,876
Other	6,513	-	-	6,513
Net cash used in investing activities	(20,680,160)	(197,795)	-	(20,877,955)
Cash flows from financing activities				
Distribution from parent and affiliates	99,747	-	-	99,747
Proceeds from issuance of long-term obligations	14,235,000	-	-	14,235,000
Discount on issuance	(156,812)	-	-	(156,812)
Premium on issuance	159,265	-	-	159,265
Repayments of current and long-term obligations	(1,538,375)	(424,343)	-	(1,962,718)
Net cash used in financing activities	12,798,825	(424,343)	-	12,374,482
Increase (decrease) in cash and cash equivalents	4,178,638	(189,004)	-	3,989,634
Cash and cash equivalents, beginning of year	22,987,347	1,216,307	-	24,203,654
Cash and cash equivalents, end of year	\$ 27,165,985	\$ 1,027,303	\$ -	\$ 28,193,288
Supplemental disclosure of cash flow information				
Cash paid during the year for interest	\$ 919,562	\$ 357,773	\$ -	\$ 1,277,335
Noncash investing and financing activities				
Assets acquired under capital lease obligations	\$ 279,576	\$ -	\$ -	\$ 279,576
Construction Related Payables	\$ 1,826,205	\$ -	\$ -	\$ 1,826,205

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