efile GRAPHIC print - DO NOT PROCESS | As Filed Data - | DLN: 93493303009134

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 private foundations)

▶ Do not enter Social Security numbers on this form as it may be made public By law, the IRS generally cannot redact the information on the form

▶ Information about Form 990 and its instructions is at *www.IRS.gov/form990*

OMB No 1545-0047

2013

Open to Public Inspection

A For the 2013 calendar year, or tax year beginning 01-01-2013 , 2013, and ending 12-31-2013

B Check if applicable
- ☐ Address change
- ☐ Name change
- ☐ Initial return
- ☐ Terminated
- ☐ Amended return
- ☐ Application pending

C Name of organization
Kenmore Mercy Hospital

Doing Business As

Number and street (or P O box if mail is not delivered to street address) Room/suite
144 Genesee Street Finance 4th Floor

City or town, state or province, country, and ZIP or foreign postal code
Buffalo, NY 14203

D Employer identification number
16-0762843

E Telephone number
(716) 828-2993

G Gross receipts $ 154,073,777

F Name and address of principal officer
Joseph D McDonald
144 Genesee Street Administration
6th Floor
Buffalo, NY 14203

H(a) Is this a group return for subordinates? ☐ Yes ☑ No

H(b) Are all subordinates included? ☐ Yes ☐ No
If "No," attach a list (see instructions)

H(c) Group exemption number ▶

I Tax-exempt status ☑ 501(c)(3) ☐ 501(c) ( ) ◀ (insert no) ☐ 4947(a)(1) or ☐ 527

J **Website: ▶** www chsbuffalo org

K Form of organization ☑ Corporation ☐ Trust ☐ Association ☐ Other ▶

L Year of formation 1957

M State of legal domicile NY

Part I Summary

Activities & Governance

1 Briefly describe the organization's mission or most significant activities
The Catholic Health System (CHS) Mission is to provide quality healthcare services in an acute care setting Committed to a common mission, CHS providers continue the healing ministry of Jesus, seeking to improve the health of individuals and communities We provide high quality service that has reverence, compassion, justice, and excellence The 2013 Community Service Plan can be found at www chsbuffalo org

2 Check this box ▶☐ if the organization discontinued its operations or disposed of more than 25% of its net assets

3	Number of voting members of the governing body (Part VI, line 1a)	3	16
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 2013 (Part V, line 2a)	5	1,098
6	Total number of volunteers (estimate if necessary)	6	300
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

			Prior Year	Current Year
Revenue	8	Contributions and grants (Part VIII, line 1h)	311,010	329,260
	9	Program service revenue (Part VIII, line 2g)	148,925,847	150,959,596
	10	Investment income (Part VIII, column (A), lines 3, 4, and 7d)	85,333	78,163
	11	Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)	2,828,072	2,703,548
	12	Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12)	152,150,262	154,070,567
Expenses	13	Grants and similar amounts paid (Part IX, column (A), lines 1–3)	0	0
	14	Benefits paid to or for members (Part IX, column (A), line 4)	0	0
	15	Salaries, other compensation, employee benefits (Part IX, column (A), lines 5–10)	83,617,917	86,539,459
	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)	63,598,888	63,284,508
	18	Total expenses Add lines 13–17 (must equal Part IX, column (A), line 25)	147,216,805	149,823,967
	19	Revenue less expenses Subtract line 18 from line 12	4,933,457	4,246,600
Net Assets or Fund Balances			Beginning of Current Year	End of Year
	20	Total assets (Part X, line 16)	135,346,864	143,885,497
	21	Total liabilities (Part X, line 26)	117,870,939	108,077,019
	22	Net assets or fund balances Subtract line 21 from line 20	17,475,925	35,808,478

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

****** — 2014-10-30
Signature of officer — Date

David P Macholz VP Finance/Corp Controller
Type or print name and title

Paid Preparer Use Only

Print/Type preparer's name	Preparer's signature	Date	Check ☐ 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 or note to any line in this Part III . . . . ☑

1 Briefly describe the organization's mission

The Catholic Health System (CHS) Mission is to provide quality healthcare services in an acute care setting Committed to a common mission, CHS providers continue the healing ministry of Jesus, seeking to improve the health of individuals and communities We provide high quality service that has reverence, compassion, justice, and excellence The 2013 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 $ 73,333,214 including grants of $) (Revenue $ 103,466,871)

Inpatient services provided 3,375 Inpatient Ambulatory Surgery visits Inpatient services provided 31,157 acute care patient days and 4,600 medical rehab service days The Skilled Nursing Facility provided 55,670 days of care

4b (Code) (Expenses $ 32,402,994 including grants of $) (Revenue $ 45,717,844)

Outpatient services provided 3,558 Outpatient Surgery vistits, 6,110 G I visits, 1,906 Interventional Radiology visits and 200 Transfusion visits Outpatient services also provided 23,996 Emergency Department visits net of admissions and 78,001 Referred Ambulatory visits

4c (Code) (Expenses $ 1,257,965 including grants of $) (Revenue $ 1,774,881)

Primary Care Centers and Clinics provided 21,000 visits

4d Other program services (Describe in Schedule O)

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

4e **Total program service expenses** ▶ 106,994,173

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 other assistance to or for any foreign organization? *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 other assistance to or for foreign individuals? *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)*

			Yes	No
21	Did the organization report more than $5,000 of grants or other assistance to any domestic organization or government on Part IX, column (A), line 1? *If "Yes," complete Schedule I, Parts I and II*	21		No
22	Did the organization report more than $5,000 of grants or other assistance to individuals in the United States on Part IX, column (A), line 2? *If "Yes," complete Schedule I, Parts I and III*	22		No
23	Did the organization answer "Yes" to Part VII, Section A, line 3, 4, or 5 about compensation of the organization's current and former officers, directors, trustees, key employees, and highest compensated employees? *If "Yes," complete Schedule J*	23	Yes	
24a	Did the organization have a tax-exempt bond issue with an outstanding principal amount of more than $100,000 as of the last day of the year, that was issued after December 31, 2002? *If "Yes," answer lines 24b through 24d and complete Schedule K. If "No," go to line 25a*	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? *If "Yes," complete Schedule L, Part I*	25a		No
b	Is the organization aware that it engaged in an excess benefit transaction with a disqualified person in a prior year, and that the transaction has not been reported on any of the organization's prior Forms 990 or 990-EZ? *If "Yes," complete Schedule L, Part I*	25b		No
26	Did the organization report any amount on Part X, line 5, 6, or 22 for receivables from or payables to any current or former officers, directors, trustees, key employees, highest compensated employees, or disqualified persons? *If so, complete Schedule L, Part II*	26		No
27	Did the organization provide a grant or other assistance to an officer, director, trustee, key employee, substantial contributor or employee thereof, a grant selection committee member, or to a 35% controlled entity or family member of any of these persons? *If "Yes," complete Schedule L, Part III*	27		No
28	Was the organization a party to a business transaction with one of the following parties (see Schedule L, Part IV instructions for applicable filing thresholds, conditions, and exceptions)			
a	A current or former officer, director, trustee, or key employee? *If "Yes," complete Schedule L, Part IV*	28a		No
b	A family member of a current or former officer, director, trustee, or key employee? *If "Yes," complete Schedule L, Part IV*	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? *If "Yes," complete Schedule L, Part IV*	28c	Yes	
29	Did the organization receive more than $25,000 in non-cash contributions? *If "Yes," complete Schedule M*	29		No
30	Did the organization receive contributions of art, historical treasures, or other similar assets, or qualified conservation contributions? *If "Yes," complete Schedule M*	30		No
31	Did the organization liquidate, terminate, or dissolve and cease operations? *If "Yes," complete Schedule N, Part I*	31		No
32	Did the organization sell, exchange, dispose of, or transfer more than 25% of its net assets? *If "Yes," complete Schedule N, Part II*	32		No
33	Did the organization own 100% of an entity disregarded as separate from the organization under Regulations sections 301 7701-2 and 301 7701-3? *If "Yes," complete Schedule R, Part I*	33		No
34	Was the organization related to any tax-exempt or taxable entity? *If "Yes," complete Schedule R, Part II, III, or IV, and Part V, line 1*	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)? *If "Yes," complete Schedule R, Part V, line 2*	35b		
36	**Section 501(c)(3) organizations.** Did the organization make any transfers to an exempt non-charitable related organization? *If "Yes," complete Schedule R, Part V, line 2*	36		No
37	Did the organization conduct more than 5% of its activities through an entity that is not a related organization and that is treated as a partnership for federal income tax purposes? *If "Yes," complete Schedule R, Part VI*	37		No
38	Did the organization complete Schedule O and provide explanations in Schedule O for Part VI, lines 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 or note to any line in this Part V . . . . ✓

					Yes	No
1a	Enter the number reported in Box 3 of Form 1096 Enter -0- if not applicable	1a	100			
b	Enter the number of Forms W-2G included in line 1a Enter -0- if not applicable	1b	0			
c	Did the organization comply with backup withholding rules for reportable payments to vendors and reportable gaming (gambling) winnings to prize winners?			1c		
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	2a	1,098			
b	If at least one is reported on line 2a, did the organization file all required federal employment tax returns? **Note.** If the sum of lines 1a and 2a is greater than 250, you may be required to e-file (see instructions)			2b	Yes	
3a	Did the organization have unrelated business gross income of $1,000 or more during the year?			3a		No
b	If "Yes," has it filed a Form 990-T for this year? *If "No" to line 3b, provide an explanation in Schedule O*			3b		
4a	At any time during the calendar year, did the organization have an interest in, or a signature or other authority over, a financial account in a foreign country (such as a bank account, securities account, or other financial account)?			4a		No
b	If "Yes," enter the name of the foreign country ▶ See instructions for filing requirements for Form TD F 90-22 1, Report of Foreign Bank and Financial Accounts					
5a	Was the organization a party to a prohibited tax shelter transaction at any time during the tax year?			5a		No
b	Did any taxable party notify the organization that it was or is a party to a prohibited tax shelter transaction?			5b		No
c	If "Yes," to line 5a or 5b, did the organization file Form 8886-T?			5c		
6a	Does the organization have annual gross receipts that are normally greater than $100,000, and did the organization solicit any contributions that were not tax deductible as charitable contributions?			6a		No
b	If "Yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible?			6b		
7	**Organizations that may receive deductible contributions under section 170(c).**					
a	Did the organization receive a payment in excess of $75 made partly as a contribution and partly for goods and services provided to the payor?			7a		No
b	If "Yes," did the organization notify the donor of the value of the goods or services provided?			7b		
c	Did the organization sell, exchange, or otherwise dispose of tangible personal property for which it was required to file Form 8282?			7c		No
d	If "Yes," indicate the number of Forms 8282 filed during the year	7d				
e	Did the organization receive any funds, directly or indirectly, to pay premiums on a personal benefit contract?			7e		No
f	Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract?			7f		No
g	If the organization received a contribution of qualified intellectual property, did the organization file Form 8899 as required?			7g		No
h	If the organization received a contribution of cars, boats, airplanes, or other vehicles, did the organization file a Form 1098-C?			7h		
8	**Sponsoring organizations maintaining donor advised funds and section 509(a)(3) supporting organizations.** Did the supporting organization, or a donor advised fund maintained by a sponsoring organization, have excess business holdings at any time during the year?			8		No
9	**Sponsoring organizations maintaining donor advised funds.**					
a	Did the organization make any taxable distributions under section 4966?			9a		No
b	Did the organization make a distribution to a donor, donor advisor, or related person?			9b		No
10	**Section 501(c)(7) organizations.** Enter					
a	Initiation fees and capital contributions included on Part VIII, line 12	10a				
b	Gross receipts, included on Form 990, Part VIII, line 12, for public use of club facilities	10b				
11	**Section 501(c)(12) organizations.** Enter					
a	Gross income from members or shareholders	11a				
b	Gross income from other sources (Do not net amounts due or paid to other sources against amounts due or received from them)	11b				
12a	**Section 4947(a)(1) non-exempt charitable trusts.** Is the organization filing Form 990 in lieu of Form 1041?			12a		
b	If "Yes," enter the amount of tax-exempt interest received or accrued during the year	12b				
13	**Section 501(c)(29) qualified nonprofit health insurance issuers.**					
a	Is the organization licensed to issue qualified health plans in more than one state? **Note.** See the instructions for additional information the organization must report on Schedule O			13a		
b	Enter the amount of reserves the organization is required to maintain by the states in which the organization is licensed to issue qualified health plans	13b				
c	Enter the amount of reserves on hand	13c				
14a	Did the organization receive any payments for indoor tanning services during the tax year?			14a		No
b	If "Yes," has it filed a Form 720 to report these payments? *If "No," provide an explanation in Schedule O*			14b		

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

Check if Schedule O contains a response or note to any line 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 . . . 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	**1a** 16			
b	Enter the number of voting members included in line 1a, above, who are independent . . .	**1b** 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	
b	Are any governance decisions of the organization reserved to (or subject to approval by) members, stockholders, or persons other than the governing body? . . .		**7b**	Yes	
8	Did the organization contemporaneously document the meetings held or written actions undertaken during the year by the following				
a	The governing body? . . .		**8a**	Yes	
b	Each committee with authority to act on behalf of the governing body? . . .		**8b**	Yes	
9	Is there any officer, director, trustee, or key employee listed in Part VII, Section A, who cannot be reached at the organization's mailing address? *If "Yes," provide the names and addresses in Schedule O* . . .		**9**		No

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

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

Section C. Disclosure

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

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

☐ Own website ☐ Another's website ☑ Upon request ☐ Other (explain in Schedule O)

19 Describe in Schedule O whether (and if so, how) the organization made its governing documents, conflict of interest policy, and financial statements available to the public during the tax year

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

▶David P Macholz VP FinanceCorporate Controller 144 Genesee Street 4th Floor
Buffalo, NY 14203 (716) 828-2974

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

Check if Schedule O contains a response or note to any line in this Part VII . . . . ☐

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

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

- List all of the organization's **current** officers, directors, trustees (whether individuals or organizations), regardless of amount of compensation Enter -0- in columns (D), (E), and (F) if no compensation was paid
- List all of the organization's **current** key employees, if any See instructions for definition of "key employee "
- List the organization's five **current** highest compensated employees (other than an officer, director, trustee or key employee) who received reportable compensation (Box 5 of Form W-2 and/or Box 7 of Form 1099-MISC) of more than $100,000 from the organization and any related organizations
- List all of the organization's **former** officers, key employees, or highest compensated employees who received more than $100,000 of reportable compensation from the organization and any related organizations
- List all of the organization's **former directors or trustees** that received, in the capacity as a former director or trustee of the organization, more than $10,000 of reportable compensation from the organization and any related organizations

List persons in the following order individual trustees or directors, institutional trustees, officers, key employees, highest compensated employees, and former such persons

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

(A) Name and Title	(B) Average hours per week (list any hours for related organizations below dotted line)	(C) Position (do not check more than one box, unless person is both an officer and a director/trustee) Individual trustee or director	Institutional Trustee	Officer	Key employee	Highest compensated employee	Former	(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

Part VII **Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees** *(continued)*

(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): Individual trustee or director	Institutional Trustee	Officer	Key employee	Highest compensated employee	Former	(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
1b Sub-Total ▶										
c Total from continuation sheets to Part VII, Section A ▶										
d Total (add lines 1b and 1c) ▶								1,852,982	7,361,622	204,266

2 Total number of individuals (including but not limited to those listed above) who received more than $100,000 of reportable compensation from the organization ▶35

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

Section B. Independent Contractors

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

(A) Name and business address	(B) Description of services	(C) Compensation
R&P Oak Hill Development Corporation 3556 Lakeshore Road Suite 620 Buffalo NY 142191460	Construction Services	10,114,168
Buffalo Niagara Hospitalists 2950 Elmwood Ave/Med Staff Office Kenmore NY 14217	Physician Services	826,313
Siemens Medical Solutions Bank of NY Mellon PO Box 120001 Dallas TX 75312	Maintenance Services	662,418
McGuire Development 560 Delaware Ave Suite 300 Buffalo NY 14202	Construction Services	605,745
Seton MRI Kenmore 3730 Sheridan Drive Amherst NY 14226	Imaging Services	468,000

2 Total number of independent contractors (including but not limited to those listed above) who received more than $100,000 of compensation from the organization ▶25

Part VIII Statement of Revenue

Check if Schedule O contains a response or note to any line in this Part VIII . . . . ☐

				(A) Total revenue	(B) Related or exempt function revenue	(C) Unrelated business revenue	(D) Revenue excluded from tax under sections 512-514
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 329,260				
	g	Noncash contributions included in lines 1a-1f $					
	h	**Total.** Add lines 1a-1f . . . . ▶		329,260			
Program Service Revenue			Business Code				
	2a	Patient Service Revenue	900099	104,166,413	104,166,413		
	b	Medicare/Medicaid	900099	46,793,183	46,793,183		
	c						
	d						
	e						
	f	All other program service revenue					
	g	**Total.** Add lines 2a–2f . . . . ▶		150,959,596			
Other Revenue	3	Investment income (including dividends, interest, and other similar amounts) . . . . ▶		81,373			81,373
	4	Income from investment of tax-exempt bond proceeds . . ▶					
	5	Royalties . . . . ▶					
			(i) Real / (ii) Personal				
	6a	Gross rents	(i) 325,776 / (ii)				
	b	Less rental expenses	(i) 0 / (ii)				
	c	Rental income or (loss)	(i) 325,776 / (ii)				
	d	Net rental income or (loss) . . . . ▶		325,776			325,776
			(i) Securities / (ii) Other				
	7a	Gross amount from sales of assets other than inventory	(i) / (ii)				
	b	Less cost or other basis and sales expenses	(i) / (ii) 3,210				
	c	Gain or (loss)	(i) / (ii) -3,210				
	d	Net gain or (loss) . . . . ▶		-3,210			-3,210
	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	1,368,595			1,368,595
	b	Cafeteria	900099	334,400			334,400
	c	Shared Services	900099	217,910			217,910
	d	All other revenue		456,867			456,867
	e	**Total.** Add lines 11a–11d . . . . ▶		2,377,772			
	12	**Total revenue.** See Instructions . . . . . ▶		154,070,567	150,959,596	0	2,781,711

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 or note to any line 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	65,965,237	47,036,810	18,928,427	
8 Pension plan accruals and contributions (include section 401(k) and 403(b) employer contributions)	4,263,406	3,040,041	1,223,365	
9 Other employee benefits	12,480,186	8,899,053	3,581,133	
10 Payroll taxes	3,830,630	2,731,448	1,099,182	
11 Fees for services (non-employees)				
a Management				
b Legal	20,888	20,888		
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)	4,564,001	1,809,406	2,754,595	
12 Advertising and promotion	64,995	17,420	47,575	
13 Office expenses	203,061	167,938	35,123	
14 Information technology	164,800	24,325	140,475	
15 Royalties . .				
16 Occupancy	1,801,693	6,628	1,795,065	
17 Travel	22,610	12,269	10,341	
18 Payments of travel or entertainment expenses for any federal, state, or local public officials				
19 Conferences, conventions, and meetings	36,500	20,317	16,183	
20 Interest	1,484,411	1,484,411		
21 Payments to affiliates				
22 Depreciation, depletion, and amortization	6,497,212	3,762,106	2,735,106	
23 Insurance	1,377,146	793,095	584,051	
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	30,093,338	30,362,331	-268,993	
b Purchased Services	10,724,839	4,208,201	6,516,638	
c Equipment Rental & Main	3,453,314	1,485,215	1,968,099	
d Non Medical Supplies	1,490,685	1,102,271	388,414	
e All other expenses	1,275,015		1,275,015	
25 **Total functional expenses.** Add lines 1 through 24e	149,823,967	106,994,173	42,829,794	0
26 **Joint costs.** Complete this line only if the organization reported in column (B) joint costs from a combined educational campaign and fundraising solicitation Check here ▶ ☐ if following SOP 98-2 (ASC 958-720)				

Part X **Balance Sheet**

Check if Schedule O contains a response or note to any line in this Part X . . . . ☑

				(A) Beginning of year		(B) End of year
Assets	1	Cash–non-interest-bearing			1	
	2	Savings and temporary cash investments		46,474,540	2	42,233,303
	3	Pledges and grants receivable, net			3	
	4	Accounts receivable, net		19,376,680	4	17,964,422
	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		1,887,486	8	2,180,672
	9	Prepaid expenses and deferred charges		1,754,233	9	1,883,883
	10a	Land, buildings, and equipment cost or other basis Complete Part VI of Schedule D	10a 112,452,150			
	b	Less accumulated depreciation	10b 55,728,644	46,381,047	10c	56,723,506
	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		19,472,878	15	22,899,711
	16	**Total assets.** Add lines 1 through 15 (must equal line 34)		135,346,864	16	143,885,497
Liabilities	17	Accounts payable and accrued expenses		22,357,655	17	21,245,998
	18	Grants payable			18	
	19	Deferred revenue			19	
	20	Tax-exempt bond liabilities		25,724,309	20	24,585,973
	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		9,298,824	23	8,385,115
	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		60,490,151	25	53,859,933
	26	**Total liabilities.** Add lines 17 through 25		117,870,939	26	108,077,019
Net Assets or Fund Balances		**Organizations that follow SFAS 117 (ASC 958), check here ▶ ☑ and complete lines 27 through 29, and lines 33 and 34.**				
	27	Unrestricted net assets		13,554,419	27	31,186,053
	28	Temporarily restricted net assets		3,921,506	28	4,622,425
	29	Permanently restricted net assets			29	
		Organizations that do not follow SFAS 117 (ASC 958), check here ▶ ☐ and complete lines 30 through 34.				
	30	Capital stock or trust principal, or current funds			30	
	31	Paid-in or capital surplus, or land, building or equipment fund			31	
	32	Retained earnings, endowment, accumulated income, or other funds			32	
	33	Total net assets or fund balances		17,475,925	33	35,808,478
	34	Total liabilities and net assets/fund balances		135,346,864	34	143,885,497

Part XI Reconcilliation of Net Assets

Check if Schedule O contains a response or note to any line in this Part XI . . . . ☑

1	Total revenue (must equal Part VIII, column (A), line 12)	1	154,070,567
2	Total expenses (must equal Part IX, column (A), line 25)	2	149,823,967
3	Revenue less expenses Subtract line 2 from line 1	3	4,246,600
4	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A))	4	17,475,925
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	14,085,954
10	Net assets or fund balances at end of year Combine lines 3 through 9 (must equal Part X, line 33, column (B))	10	35,808,478

Part XII Financial Statements and Reporting

Check if Schedule O contains a response or note to any line in this Part XII . . . . ☐

			Yes	No
1	Accounting method used to prepare the Form 990 ☐ Cash ☑ Accrual ☐ Other ______ If the organization changed its method of accounting from a prior year or checked "Other," explain in Schedule O			
2a	Were the organization's financial statements compiled or reviewed by an independent accountant?	2a		No
	If 'Yes,' check a box below to indicate whether the financial statements for the year were compiled or reviewed on a separate basis, consolidated basis, or both ☐ Separate basis ☐ Consolidated basis ☐ Both consolidated and separate basis			
b	Were the organization's financial statements audited by an independent accountant?	2b	Yes	
	If 'Yes,' check a box below to indicate whether the financial statements for the year were audited on a separate basis, consolidated basis, or both ☐ Separate basis ☐ Consolidated basis ☑ Both consolidated and separate basis			
c	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?	2c	Yes	
	If the organization changed either its oversight process or selection process during the tax year, explain in Schedule O			
3a	As a result of a federal award, was the organization required to undergo an audit or audits as set forth in the Single Audit Act and OMB Circular A-133?	3a	Yes	
b	If "Yes," did the organization undergo the required audit or audits? If the organization did not undergo the required audit or audits, explain why in Schedule O and describe any steps taken to undergo such audits	3b	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: Individual trustee or director	Institutional Trustee	Officer	Key employee	Highest compensated employee	Former	(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
Joseph McDonald President and CEO, CHS	0 00 37 50	X		X				0	1,678,073	23,277
Mark Sullivan Executive VP/COO	0 00 37 50	X		X				0	748,231	6,740
James Millard Pres & CEO, Kenmore Mercy	37 50 0 00	X		X				329,262	0	-54,042
David Macholz Treasurer	0 00 37 50	X		X				0	236,152	6,647
Peter Bergmann Director	0 00 37 50	X						0	487,172	16,046
Charles J Urlaub Officer/Director	0 00 37 50	X		X				0	453,029	23,238
Christine Kluckhohn Pres & CEO, Continuing Care	0 00 37 50	X						0	288,295	-23,733
Dr Michael Edbauer Director	0 00 18 80	X						0	256,646	8,384
Brian Beitz Director	0 00 1 00	X						0	0	0
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 Craig Fetterman Director	0 00 1 00	X						0	0	0
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
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	674,481	-51,144
Dr Brian D'Arcy Senior VP, Medical Affairs	0 00 37 50			X				0	434,608	47,365
Walter Ludwig Chief Operating Officer	37 50 0 00			X				199,223	0	21,704
Michael Moley Sr VP Human Resources	0 00 37 50				X			0	644,598	23,524
John Stavros Sr VP Marketing/P R	0 00 37 50				X			0	278,958	35,521
Dr Michael Galang Chief Information Officer	0 00 37 50				X			0	448,522	4,849

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: Individual trustee or director	Institutional Trustee	Officer	Key employee	Highest compensated employee	Former	(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
Nancy Sheehan SVP Legal Service, General Counsel	0 00 37 50				X			0	331,332	7,739
Richard J Ruh MD SVP Service Lines	0 00 37 50				X			0	401,525	22,636
Dr James Fitzpatrick Medical Director	37 50 0 00				X			219,558	0	32,717
Thomas Brewer MD Physician	37 50 0 00					X		349,232	0	16,624
Michael Gough MD Physician	37 50 0 00					X		264,794	0	16,956
Dr Sanford Pleskow Physician	37 50 0 00					X		170,373	0	14,097
Dr Nadezhda Polataiko Physician	37 50 0 00					X		160,145	0	-2,097
Dr Qamrunnisa Rahman Physician	37 50 0 00					X		160,395	0	7,218

efile GRAPHIC print - DO NOT PROCESS | As Filed Data - | DLN: 93493303009134

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.
▶ Information about Schedule A (Form 990 or 990-EZ) and its instructions is at *www.irs.gov/form990*.

OMB No 1545-0047

2013

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

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

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

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?

		Yes	No
(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?	**11g(i)**		
(ii) A family member of a person described in (i) above?	**11g(ii)**		
(iii) A 35% controlled entity of a person described in (i) or (ii) above?	**11g(iii)**		

h Provide the following information about the supported organization(s)

(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? Yes	**(iv)** No	**(v)** Did you notify the organization in col **(i)** of your support? Yes	**(v)** No	**(vi)** Is the organization in col **(i)** organized in the U S ? Yes	**(vi)** No	**(vii)** Amount of monetary support
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) 2009	(b) 2010	(c) 2011	(d) 2012	(e) 2013	(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) 2009	(b) 2010	(c) 2011	(d) 2012	(e) 2013	(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 2013 (line 6, column (f) divided by line 11, column (f)) | 14 | |

15 Public support percentage for 2012 Schedule A, Part II, line 14 | 15 | |

16a **33 1/3% support test—2013.** 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—2012.** 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—2013.** 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—2012.** If the organization did not check a box on line 13, 16a, 16b, or 17a, and line 15 is 10% or more, and if the organization meets the "facts-and-circumstances" test, check this box and **stop here.** Explain in Part IV how the organization meets the "facts-and-circumstances" test The organization qualifies as a publicly supported organization ▶☐

18 **Private foundation.** If the organization did not check a box on line 13, 16a, 16b, 17a, or 17b, check this box and see instructions ▶☐

Part III **Support Schedule for Organizations Described in 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) 2009	(b) 2010	(c) 2011	(d) 2012	(e) 2013	(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) 2009	(b) 2010	(c) 2011	(d) 2012	(e) 2013	(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 2013 (line 8, column (f) divided by line 13, column (f))	15	
16 Public support percentage from 2012 Schedule A, Part III, line 15	16	

Section D. Computation of Investment Income Percentage

17 Investment income percentage for **2013** (line 10c, column (f) divided by line 13, column (f))	17	
18 Investment income percentage from **2012** Schedule A, Part III, line 17	18	

19a **33 1/3% support tests—2013.** 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—2012.** 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.** 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

Return Reference	Explanation

efile GRAPHIC print - DO NOT PROCESS	As Filed Data -	DLN: 93493303009134

SCHEDULE D
(Form 990)

Department of the Treasury
Internal Revenue Service

Supplemental Financial Statements

▶ Complete if the organization answered "Yes," to Form 990, Part IV, line 6, 7, 8, 9, 10, 11a, 11b, 11c, 11d, 11e, 11f, 12a, or 12b
▶ Attach to Form 990. ▶ See separate instructions. ▶ Information about Schedule D (Form 990) and its instructions is at *www.irs.gov/form990*.

OMB No 1545-0047

2013

Open to Public Inspection

Name of the organization
Kenmore Mercy Hospital

Employer identification number
16-0762843

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

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

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

6 Did the organization inform all grantees, donors, and donor advisors in writing that grant funds can be used only for charitable purposes and not for the benefit of the donor or donor advisor, or for any other purpose conferring impermissible private benefit? ☐ Yes ☐ No

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

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

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

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

			Held at the End of the Year
a	Total number of conservation easements	2a	
b	Total acreage restricted by conservation easements	2b	
c	Number of conservation easements on a certified historic structure included in (a)	2c	
d	Number of conservation easements included in (c) acquired after 8/17/06, and not on a historic structure listed in the National Register	2d	

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

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

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

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

Part VI Land, Buildings, and Equipment. Complete if the organization answered 'Yes' to Form 990, Part IV, line 11a. 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	71,614,979		37,915,142	33,699,837
c Leasehold improvements	7,293,817		2,026,713	5,267,104
d Equipment	31,813,258		15,354,749	16,458,509
e Other	1,494,244		432,040	1,062,204
Total. Add lines 1a through 1e *(Column (d) must equal Form 990, Part X, column (B), line 10(c).)* . . . . ▶				56,723,506

Part VII Investments—Other Securities. Complete if the organization answered 'Yes' to Form 990, Part IV, line 11b. See Form 990, Part X, line 12.

(a) Description of security or category (including name of security)	(b) Book value	(c) Method of valuation Cost or end-of-year market value
(1) Financial derivatives		
(2) Closely-held equity interests		
Other		
Total. *(Column (b) must equal Form 990, Part X, col (B) line 12)* ▶		

Part VIII Investments—Program Related. Complete if the organization answered 'Yes' to Form 990, Part IV, line 11c. See Form 990, Part X, line 13.

(a) Description of investment	(b) Book value	(c) Method of valuation Cost or end-of-year market value
Total. *(Column (b) must equal Form 990, Part X, col (B) line 13)* ▶		

Part IX Other Assets. Complete if the organization answered 'Yes' to Form 990, Part IV, line 11d See Form 990, Part X, line 15

(a) Description	(b) Book value
(1) Insurance Recoveries	14,442,655
(2) Interest in net assets of KMH Foundation	4,616,215
(3) Due from Affiliates	1,475,491
(4) Other Receivables	1,981,551
(5) Workers Compensation Funding Surplus	377,590
(6) Interest in net assets of CCD Foundation	6,210
Total. *(Column (b) must equal Form 990, Part X, col.(B) line 15.)* . . . . ▶	22,899,712

Part X Other Liabilities. Complete if the organization answered 'Yes' to Form 990, Part IV, line 11e or 11f. See Form 990, Part X, line 25.

1 (a) Description of liability	(b) Book value
Federal income taxes	
Pension Obligation	23,821,628
Long Term portion of Insurance Liabilities	20,719,458
Due to Affiliates	7,628,652
Interest Rate Swap	1,167,798
Asset Retirement Obligation	169,579
Other Long Term Liabilities	352,818
Total. *(Column (b) must equal Form 990, Part X, col (B) line 25)* ▶	53,859,933

2. Liability for uncertain tax positions In Part XIII, provide the text of the footnote to the organization's financial statements that reports the organization's liability for uncertain tax positions under FIN 48 (ASC 740) Check here if the text of the footnote has been provided in Part XIII ☐

Part XI **Reconciliation of Revenue per Audited Financial Statements With Revenue per Return** Complete if the organization answered 'Yes' to Form 990, Part IV, line 12a.

1	Total revenue, gains, and other support per audited financial statements			1	153,741,307
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	153,741,307
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	329,260		
c	Add lines **4a** and **4b**			4c	329,260
5	Total revenue Add lines **3** and **4c.** (This must equal Form 990, Part I, line 12)			5	154,070,567

Part XII **Reconciliation of Expenses per Audited Financial Statements With Expenses per Return.** Complete if the organization answered 'Yes' to Form 990, Part IV, line 12a.

1	Total expenses and losses per audited financial statements			1	149,823,967
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	149,823,967
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	149,823,967

Part XIII **Supplemental Information**

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

Return Reference	Explanation
Part XI, Line 4b - Other Adjustments	Contributions from Foundations Contributions from Grants

Part XIII Supplemental Information *(continued)*

Return Reference	Explanation

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.
▶ Information about Schedule H (Form 990) and its instructions is at *www.irs.gov/form990*.

OMB No 1545-0047

2013

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 ☐ Applied uniformly to all hospital facilities ☐ Applied uniformly to most hospital facilities ☐ Generally tailored to individual hospital facilities			
3	Answer the following based on the financial assistance eligibility criteria that applied to the largest number of the organization's patients during the tax year			
a	Did the organization use Federal Poverty Guidelines (FPG) as a factor in determining eligibility for providing *free* care? If "Yes," indicate which of the following was the FPG family income limit for eligibility for *free* care	3a	Yes	
	☐ 100% ☐ 150% ☐ 200% ☑ Other 11000 0000000000 %			
b	Did the organization use FPG as a factor in determining eligibility for providing *discounted* care? If "Yes," indicate which of the following was the family income limit for eligibility for discounted care	3b	Yes	
	☐ 200% ☐ 250% ☐ 300% ☐ 350% ☐ 400% ☑ Other 50000 0000000000 %			
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"?	4	Yes	
5a	Did the organization budget amounts for free or discounted care provided under its financial assistance policy during the tax year?	5a	Yes	
b	If "Yes," did the organization's financial assistance expenses exceed the budgeted amount?	5b	Yes	
c	If "Yes" to line 5b, as a result of budget considerations, was the organization unable to provide free or discounted care to a patient who was eligibile for free or discounted care?	5c		No
6a	Did the organization prepare a community benefit report during the tax year?	6a	Yes	
b	If "Yes," did the organization make it available to the public?	6b	Yes	
	Complete the following table using the worksheets provided in the Schedule H instructions Do not submit these worksheets with the Schedule H			

7 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)			1,221,400	100,959	1,120,441	0 750 %
b Medicaid (from Worksheet 3, column a)			21,642,316	14,132,370	7,509,946	5 010 %
c Costs of other means-tested government programs (from Worksheet 3, column b)						
d **Total** Financial Assistance and Means-Tested Government Programs			22,863,716	14,233,329	8,630,387	5 760 %
Other Benefits						
e Community health improvement services and community benefit operations (from Worksheet 4)			780,473		780,473	0 520 %
f Health professions education (from Worksheet 5)			2,410,248		2,410,248	1 610 %
g Subsidized health services (from Worksheet 6)						
h Research (from Worksheet 7)			251,533		251,533	0 170 %
i Cash and in-kind contributions for community benefit (from Worksheet 8)			196,112		196,112	0 130 %
j **Total.** Other Benefits			3,638,366		3,638,366	2 430 %
k **Total.** Add lines 7d and 7j			26,502,082	14,233,329	12,268,753	8 190 %

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

		(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community building expense	(d) Direct offsetting revenue	(e) Net community building expense	(f) Percent of total expense
1	Physical improvements and housing						
2	Economic development						
3	Community support			100,432		100,432	0 070 %
4	Environmental improvements			3,402		3,402	0 %
5	Leadership development and training for community members			3,588		3,588	0 %
6	Coalition building			265		265	0 %
7	Community health improvement advocacy						
8	Workforce development			47,106		47,106	0 030 %
9	Other						
10	**Total**			154,793		154,793	0 100 %

Part III **Bad Debt, Medicare, & Collection Practices**

Section A. Bad Debt Expense

				Yes	No
1	Did the organization report bad debt expense in accordance with Heathcare Financial Management Association Statement No 15?		1	Yes	
2	Enter the amount of the organization's bad debt expense Explain in Part VI the methodology used by the organization to estimate this amount	2	1,242,851		
3	Enter the estimated amount of the organization's bad debt expense attributable to patients eligible under the organization's financial assistance policy Explain in Part VI the methodology used by the organization to estimate this amount and the rationale, if any, for including this portion of bad debt as community benefit	3	555,058		
4	Provide in Part VI the text of the footnote to the organization's financial statements that describes bad debt expense or the page number on which this footnote is contained in the attached financial statements				

Section B. Medicare

5	Enter total revenue received from Medicare (including DSH and IME)	5	29,087,895
6	Enter Medicare allowable costs of care relating to payments on line 5	6	30,049,014
7	Subtract line 6 from line 5 This is the surplus (or shortfall)	7	-961,119

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

☐ Cost accounting system ☐ Cost to charge ratio ☑ Other

Section C. Collection Practices

			Yes	No
9a	Did the organization have a written debt collection policy during the tax year?	9a	Yes	
b	If "Yes," did the organization's collection policy that applied to the largest number of its patients during the tax year contain provisions on the collection practices to be followed for patients who are known to qualify for financial assistance? Describe in Part VI	9b		No

Part IV **Management Companies and Joint Ventures** (owned 10% or more by officers, directors, trustees, key employees, and physicians—see instructions)

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

Part V Facility Information

Section A. Hospital Facilities (list in order of size from largest to smallest—see instructions) How many hospital facilities did the organization operate during the tax year? **1** Name, address, primary website address, and state license number		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
	See Additional Data Table										

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)

Name of hospital facility or facility reporting group Kenmore Mercy Hospital

If reporting on Part V, Section B for a single hospital facility 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 begining 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	1	Yes	
	If "Yes," indicate what the CHNA report describes (check all that apply)			
a	☑ A definition of the community served by the hospital facility			
b	☑ Demographics of the community			
c	☑ Existing health care facilities and resources within the community that are available to respond to the health needs of the community			
d	☑ How data was obtained			
e	☑ The health needs of the community			
f	☑ Primary and chronic disease needs and other health issues of uninsured persons, low-income persons, and minority groups			
g	☑ The process for identifying and prioritizing community health needs and services to meet the community health needs			
h	☑ The process for consulting with persons representing the community's interests			
i	☑ Information gaps that limit the hospital facility's ability to assess the community's health needs			
j	☑ Other (describe in Part VI)			
2	Indicate the tax year the hospital facility last conducted a CHNA 20 13			
3	In conducting its most recent CHNA, did the hospital facility take into account input from persons who represent the broad interests of the community served by the hospital facility, including those with special knowledge of or expertise in public health? If "Yes," describe in Part VI how the hospital facility took into account input from persons who represent the community, and identify the persons the hospital facility consulted	3	Yes	
4	Was the hospital facility's CHNA conducted with one or more other hospital facilities? If "Yes," list the other hospital facilities in Part VI	4	Yes	
5	Did the hospital facility make its CHNA report widely available to the public?	5	Yes	
	If "Yes," indicate how the CHNA report was made widely available (check all that apply)			
a	☑ Hospital facility's website (list url) http //www chsbuffalo org/AboutUs/Communi			
b	☐ Other website (list url)			
c	☑ Available upon request from the hospital facility			
d	☐ 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 as of the end of the tax year)			
a	☑ Adoption of an implementation strategy that addresses each of the community health needs identified through the CHNA			
b	☑ Execution of the implementation strategy			
c	☑ Participation in the development of a community-wide plan			
d	☑ Participation in the execution of a community-wide plan			
e	☑ Inclusion of a community benefit section in operational plans			
f	☑ Adoption of a budget for provision of services that address the needs identified in the CHNA			
g	☑ Prioritization of health needs in its community			
h	☑ Prioritization of services that the hospital facility will undertake to meet health needs in its community			
i	☐ Other (describe in Part VI)			
7	Did the hospital facility address all of the needs identified in its most recently conducted CHNA? If "No," explain in Part VI which needs it has not addressed and the reasons why it has not addressed such needs	7		No
8a	Did the organization incur an excise tax under section 4959 for the hospital facility's failure to conduct a CHNA as required by section 501(r)(3)?	8a		No
b	If "Yes" to line 8a, did the organization file Form 4720 to report the section 4959 excise tax?	8b		
c	If "Yes" to line 8b, what is the total amount of section 4959 excise tax the organization reported on Form 4720 for all of its hospital facilities? $			

Part V Facility Information *(continued)*

Financial Assistance Policy		Yes	No
9 Did the hospital facility have in place during the tax year a written financial assistance policy that			
Explained eligibility criteria for financial assistance, and whether such assistance includes free or discounted care?	**9**	Yes	
10 Used federal poverty guidelines (FPG) to determine eligibility for providing *free* care?	**10**	Yes	
If "Yes," indicate the FPG family income limit for eligibility for free care 110 000000000000%			
If "No," explain in Part VI the criteria the hospital facility used			
11 Used FPG to determine eligibility for providing *discounted* care?	**11**	Yes	
If "Yes," indicate the FPG family income limit for eligibility for discounted care 500 000000000000%			
If "No," explain in Part VI the criteria the hospital facility used			
12 Explained the basis for calculating amounts charged to patients?	**12**	Yes	
If "Yes," indicate the factors used in determining such amounts (check all that apply)			
a ☑ Income level			
b ☑ Asset level			
c ☐ Medical indigency			
d ☑ Insurance status			
e ☑ Uninsured discount			
f ☑ Medicaid/Medicare			
g ☑ State regulation			
h ☐ Residency			
i ☐ 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?	**14**	Yes	
If "Yes," indicate how the hospital facility publicized the policy (check all that apply)			
a ☑ The policy was posted on the hospital facility's website			
b ☑ The policy was attached to billing invoices			
c ☑ The policy was posted in the hospital facility's emergency rooms or waiting rooms			
d ☑ The policy was posted in the hospital facility's admissions offices			
e ☑ The policy was provided, in writing, to patients on admission to the hospital facility			
f ☑ The policy was available upon request			
g ☑ Other (describe in Part VI)			
Billing and Collections			
15 Did the hospital facility have in place during the tax year a separate billing and collections policy, or a written financial assistance policy (FAP) that explained actions the hospital facility may take upon non-payment?	**15**	Yes	
16 Check all of the following actions against an individual that were permitted under the hospital facility's policies during the tax year before making reasonable efforts to determine the individual's eligibility under the facility's FAP			
a ☐ Reporting to credit agency			
b ☐ Lawsuits			
c ☐ Liens on residences			
d ☐ Body attachments			
e ☐ Other similar actions (describe in Section C)			
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 individual'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 ☐ Reporting to credit agency			
b ☐ Lawsuits			
c ☐ Liens on residences			
d ☐ Body attachments			
e ☐ Other similar actions (describe in Section C)			

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 individuals regarding the individuals' bills
- **d** ☐ Documented its determination of whether individuals were eligible for financial assistance under the hospital facility's financial assistance policy
- **e** ☐ Other (describe in Section C)

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?	**19**	Yes	

If "No," indicate why

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

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

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

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

		Yes	No
21 During the tax year, did the hospital facility charge any FAP-eligible individual 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?	**21**		No
If "Yes," explain in Part VI			
22 During the tax year, did the hospital facility charge any FAP-eligible individual an amount equal to the gross charge for any service provided to that individual?	**22**	Yes	
If "Yes," explain in Part VI			

Part V Facility Information *(continued)*

Section C. Supplemental Information for Part V, Section B. Provide descriptions required for Part V, Section B, lines 1j, 3, 4, 5d, 6i, 7, 10, 11, 12i, 14g, 16e, 17e, 18e, 19c, 19d, 20d, 21, and 22. If applicable, provide separate descriptions for each facility in a facility reporting group, designated by "Facility A," "Facility B," etc.

Form and Line Reference	Explanation
Part V, Section A	Clinic Part Time Services, Clinical Laboratory Services, Coronary Care, CT Scanner, Dental O/P, Emergency Department, Health Fairs O/P, Intensive Care, Medical Social Services, Medical/Surgical Nuclear Medicine - Diagnostic, Nuclear Medicine - Therapeutic, Pediatric O/P, 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 1j In addition to the IRS requirements Catholic Health complied with the NYS Department of Health Community Health Needs Assessment requirements, Community Service Plan
Kenmore Mercy Hospital	Part V, Section B, Line 3 Catholic Health utilized a variety of sources to develop the health needs assessment to ensure the inclusion of persons who represent the broad interest of the community and have special expertise in, or knowledge of, public health issues and concerns *Survey of community representatives was conducted to ascertain their perception of the County's health needs *Facilitated group discussions with community and public health experts *Focus group with Catholic Health's Emergency Department Task Force *Erie County Department of Health created community-wide health needs survey *Erie County Department of Health led community forum *Evaluations administered by the Catholic Health Community Education Department after each class, workshop, or program it sponsors Group Interview Participants Catholic Charities Alzheimer's Association Brylin Hospitals Harvest House Spectrum Human Services Buffalo State College, Center for Community Health Center Health and Social Research Erie County DOH Wellness Institute American Cancer Society P2 Collaborative of WNY Healthcare Community Consultant City of Buffalo community Physician representativeErie County Department of Health Community Meeting Participants FDA Cancer Service Program of Erie County Buffalo State College Catholic Health P2 Collaborative of WNY American Cancer Society Monroe Plan UBMD Wellness Institute EPIC M E D - V A R Consulting Kaleida Buffalo Prenatal-Perinatal Network Erie County DOH United Way Prevention Focus
Kenmore Mercy Hospital	Part V, Section B, Line 4 Kenmore Mercy Hospital was conducted with Mercy Hospital and Sister's Hospital
Kenmore Mercy Hospital	Part V, Section B, Line 7 Through the needs assessment, numerous areas were identified as important and clearly impact the health of the community Catholic Health identified the "significant" needs as the New York State Department of Health Prevention Agenda priorities Within the "priorities", Catholic Health will address numerous health needs One priority area was prioritized lower and not addressed in the implementation plan Promote a Healthy and Safe Environment Contributing to this lower priority was lack of available funds and potential for less impact upon the community Although, should opportunity arise, with resources available to effectively address this need, Catholic Health will reconsider for incorporation in the future
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 V **Facility Information** *(continued)*

Section D. 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 Dr 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

Provide the following information

1 **Required descriptions.** Provide the descriptions required for Part I, lines 3c, 6a, and 7, Part II and Part III, lines 2, 3, 4, 8 and 9b

2 **Needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any CHNAs 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

Form and Line Reference	Explanation
Part I, Line 3c	N/A
Part I, Line 6a	The Kenmore Mercy Hospital Community Benefit Report is contained in a report prepared by the Catholic Health System

Form and Line Reference	Explanation
Part I, Line 7	Costing is a full step down methodology of cost from non-revenue producing departments to revenue producing departments', with assignment of cost to individual charge items based on volume and charge amount All patient accounts are cost with the same methodology regardless of patient type (inpatient, outpatient, emergency room, etc) or insurance coverage (Medicare, Medicaid, private insurance, uninsured, etc)
Part II, Community Building Activities	Kenmore Mercy Hospital provided Community Building in the form of Community Support, Environmental Improvements, Leadership development and training, Coalition building, and Workforce development which improved community leadership by promoting understanding of community healthcare needs and services at various events throughout the community

Form and Line Reference	Explanation
Part III, Line 4	The amount in Part III line 2 is the actual bad debt expenses of $1,242,851 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 10/1/2012 to 9/30/2013 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 VI, Line 2	Catholic Health utilizes multiple methods to assess the health care needs of the commuities it serves, including * Evaluations administered by the Catholic Health Community Education Department after each class, workshop, or program it sponsors,* Patient, resident and caregiver satisfaction surveys,* Physician and leadership participation in forums to define health needs of patient populations, and* Participation in regional planning initiatives

Form and Line Reference	Explanation
Part VI, Line 3	Kenmore Mercy Hospital informs and educates patients and persons who may be billed for patient care about their eligibility for assistance under federal, state, or local government programs or under the Catholic Health System Healthcare Assistance Program (HAP) policy For example, Kenmore Mercy Hospital has posters and brochures available which include contact information for the Financial Clearance staff in admissions areas, emergency rooms, primary care and outpatient rehabilitation clinics, Revenue Management Center (RMC) and other areas of the organization's facilities where eligible patients are likely to be present, provides information about financial assistance and HAP contact information to patients as part of the intake process, provides financial assistance and HAP contact information to inpatients either during or within 90 days of discharge of their hospital stay, patient bills include the following language "The Catholic Health System has a Healthcare Assistance Program to assist those in need of financial assistance for qualified patients If you would like to obtain additional information on the Healthcare Assistance Program, please call (716) 601-3600 Thank you Our Customer Service area is our front end team to assist all patients in this process " Additionally, we discuss with the patient the availability of various government benefits, such as Medicaid or state programs, and assist the patient with qualification for such programs, where applicable, and there is information about financial aid posted on the Catholic Health System website
Part VI, Line 4	Catholic Health serves the eight counties of Western New York The System's primary service area is Erie County which accounts for 90% of its inpatient admissions and 85% of ambulatory care visits Erie County consists of a mix of urban, suburban and rural populations It includes the City of Buffalo, New York State's second largest city, surrounded by a ring of older suburbs, which is followed by a ring of more newly developed suburbs, and then rural communities The current population of Erie County is over nine hundred thousand, with about one-third living in Buffalo Erie County has an average income significantly lower than and has a greater percentage of persons over the age of 55 than New York State and the United States Erie County's population is projected to decreasebetween now and 2017, with the greatest decline expected in those ages 35-54, and the greatest increase projected in those 55 and over Erie County is less racially and ethnically diverse than New York State or the rest of the country, and the Non-White populations are concentrated in and immediately around the City of Buffalo All of the 11 zip codes in Erie County that have a Non-White population of 50% or more are in Buffalo

Form and Line Reference	Explanation
Part VI, Line 5	One of the fundamental reasons for the creation of Catholic Health was to ensure the continued viability of faith-based health care to meet the needs of residents in Erie County and the surrounding communities Integral to this effort is caring for the needs of those who are poor and disadvantaged The services provided by Catholic Health organizations are provided in response to identified community needs, and reflect the System's emphasis on caring for the underserved Catholic Health collaborates with other organizations to maximize its ability to provide needed services to the residents of our region Each year, Catholic Health touches tens of thousands of community residents through community health education programs, health screenings, clinical and support services, and community support activities Catholic Health will continue to meet community needs by providing charity care and Medicaid services, in addition to various other community benefit programs, including community health improvement, community benefit operations, health professions education, community building, as well as cash and in-kind contributions
Part VI, Line 6	In 2013, Catholic Health (the System), including Kenmore Mercy Hospital, Mercy Hospital of Buffalo, Sisters of Charity Hospital, and Sisters of Charity Hospital - St Joseph Campus, jointly conducted a Community Health Needs Assessment (CHNA) to better understand the health needs of the community they serve and to fulfill the requirements of both the Internal Revenue Service (IRS) and the New York State Department of Health (DOH) To ensure the assessment was comprehensive, input from the public and several community organizations was solicited As part of this coordinated initiative, the System developed a three-year Implementation Strategy to address the health needs identified in the assessment

Form and Line Reference	Explanation
Part VI, Line 7, Reports Filed With States	NY

Schedule J (Form 990)

Department of the Treasury
Internal Revenue Service

Compensation Information

For certain Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees
▶ Complete if the organization answered "Yes" to Form 990, Part IV, line 23.
▶ Attach to Form 990. ▶ See separate instructions.
▶ Information about Schedule J (Form 990) and its instructions is at *www.irs.gov/form990*.

OMB No 1545-0047

2013

Open to Public Inspection

Name of the organization
Kenmore Mercy Hospital

Employer identification number
16-0762843

Part I Questions Regarding Compensation

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

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

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

Return Reference	Explanation
Part I, Lines 4a-b	A severance payment of $176,379 28 was made for Christine Kluckhohn, an associate who was listed in Part 1a 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 $299,904 Mark Sullivan $19,500 Dr Brian D'Arcy $9,800 Peter Bergmann $7,334
Part I, Line 6	The 2013 Incentive payments were dependent upon achieving the Catholic Health System Operating Income target for Catholic Health System participants Joseph McDonald $355,199 37 James A Dunlop, Jr $221,130 56 Mark Sullivan $180,495 91 Michael Moley $151,752 84 Dr Michael Galang $104,515 96 Peter Bergmann $76,523 85 Dr Michael Edbauer $57,419 55 Charles Urlaub $51,901 70 Nancy Sheehan $50,717 26 Dr Brian D'Arcy $49,658 25 Jim Millard $43,857 45 John Stavros $38,645 95 David Macholz $27,841 37 Bartholomew Rodrigues $20,996 27 Christine Kluckhohn $18,463 54 Dr James Fitzpatrick $17,993 05 Walter Ludwig $10,928 46

Additional Data

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 (i) Base Compensation	(ii) Bonus & incentive compensation	(iii) Other 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
Joseph McDonald President and CEO, CHS	(i)	0	0	0	0	0	0	0
	(ii)	707,646	355,199	615,228	4,992	18,285	1,701,350	0
Mark Sullivan Executive VP/COO	(i)	0	0	0	0	0	0	0
	(ii)	434,186	180,496	133,549	-9,590	16,330	754,971	0
James Millard Pres & CEO, Kenmore Mercy	(i)	245,733	43,857	39,672	-54,323	281	275,220	0
	(ii)	0	0	0	0	0	0	0
David Macholz Treasurer	(i)	0	0	0	0	0	0	0
	(ii)	182,055	27,841	26,256	-11,013	17,660	242,799	0
Peter Bergmann Director	(i)	0	0	0	0	0	0	0
	(ii)	364,848	76,524	45,800	-6,310	22,356	503,218	0
Charles J Urlaub Officer/Director	(i)	0	0	0	0	0	0	0
	(ii)	343,560	51,902	57,567	6,518	16,720	476,267	0
Christine Kluckhohn Pres & CEO, Continuing Care	(i)	0	0	0	0	0	0	0
	(ii)	83,923	18,464	185,908	-46,313	22,580	264,562	0
Dr Michael Edbauer Director	(i)	0	0	0	0	0	0	0
	(ii)	203,206	28,710	24,730	-304	8,688	265,030	0
James A Dunlop Jr Executive VP, Finance/CFO	(i)	0	0	0	0	0	0	0
	(ii)	383,536	221,131	69,814	-68,063	16,919	623,337	0
Dr Brian D'Arcy Senior VP, Medical Affairs	(i)	0	0	0	0	0	0	0
	(ii)	311,162	49,658	73,788	24,059	23,306	481,973	0
Walter Ludwig Chief Operating Officer	(i)	156,867	10,928	31,428	5,914	15,790	220,927	0
	(ii)	0	0	0	0	0	0	0
Michael Moley Sr VP Human Resources	(i)	0	0	0	0	0	0	0
	(ii)	309,221	151,753	183,624	6,662	16,862	668,122	0
John Stavros Sr VP Marketing/P R	(i)	0	0	0	0	0	0	0
	(ii)	198,733	38,646	41,579	17,048	18,473	314,479	0
Dr Michael Galang Chief Information Officer	(i)	0	0	0	0	0	0	0
	(ii)	304,298	104,516	39,708	-1,161	6,010	453,371	0
Nancy Sheehan SVP Legal Service, General Counsel	(i)	0	0	0	0	0	0	0
	(ii)	261,089	50,717	19,526	1,457	6,282	339,071	0
Richard J Ruh MD SVP Service Lines	(i)	0	0	0	0	0	0	0
	(ii)	326,942	29,786	44,797	5,158	17,478	424,161	0
Dr James Fitzpatrick Medical Director	(i)	193,089	17,993	8,476	11,962	20,755	252,275	0
	(ii)	0	0	0	0	0	0	0
Thomas Brewer MD Physician	(i)	348,397	0	835	1,662	14,962	365,856	0
	(ii)	0	0	0	0	0	0	0
Michael Gough MD Physician	(i)	247,150	0	17,644	1,588	15,368	281,750	0
	(ii)	0	0	0	0	0	0	0
Dr Sanford Pleskow Physician	(i)	146,423	0	23,950	13,327	770	184,470	0
	(ii)	0	0	0	0	0	0	0

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

(A) Name		(B) Breakdown of W-2 and/or 1099-MISC compensation			(C) Deferred compensation	(D) Nontaxable benefits	(E) Total of columns (B)(i)-(D)	(F) Compensation reported in prior Form 990 or Form 990-EZ
		(i) Base Compensation	(ii) Bonus & incentive compensation	(iii) Other compensation				
Dr Nadezhda Polataiko	(i)	159,828	0	317	-24,111	22,014	158,048	0
Physician	(ii)	0	0	0	0	0	0	0
Dr Qamrunnisa Rahman	(i)	136,524	0	23,871	-411	7,629	167,613	0
Physician	(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.
▶Information about Schedule K (Form 990) and its instructions is at *www.irs.gov/form990*.

OMB No 1545-0047

2013

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 Yes	(g) Defeased No	(h) On behalf of issuer Yes	(h) On behalf of issuer No	(i) Pool financing Yes	(i) Pool financing 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	8,444,251		
11	Other spent proceeds				
12	Other unspent proceeds	3,985,895	3,985,895		
13	Year of substantial completion	1998	2013		

		A Yes	A No	B Yes	B No	C Yes	C No	D Yes	D 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 Yes	A No	B Yes	B No	C Yes	C No	D Yes	D 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 Yes	A No	B Yes	B No	C Yes	C No	D Yes	D 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 Yes	A No	B Yes	B No	C Yes	C No	D Yes	D 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 500000000000							
d	Was the hedge superintegrated?		X						
e	Was the hedge terminated?		X						

Part IV Arbitrage *(Continued)*

		A Yes	A No	B Yes	B No	C Yes	C No	D Yes	D 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 Yes	A No	B Yes	B No	C Yes	C No	D Yes	D No
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?								

Part VI Supplemental Information. Provide additional information for responses to questions on Schedule K (see instructions).

Return Reference	Explanation
Part I A (f)	To refund the New York State Medical Care Facilities Finance Adency FHA - Insured mortgage Project Revenue Bonds, 1995 Series B, which were applied to finance the construction of a three floor patient tower and to refinance outstanding indebtedness
Part I B (f)	To finance the cost of construction, reconstruction, and equipping certain improvements to Kenmore's existing approximately 347,661 square foot hosptial 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

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.
▶Information about Schedule L (Form 990 or 990-EZ) and its instructions is at *www.irs.gov/form990*.

OMB No 1545-0047

2013

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? To	From	(e) Original principal amount	(f) Balance due	(g) In default? Yes	No	(h) Approved by board or committee? Yes	No	(i) Written agreement? 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

Provide additional information for responses to questions on Schedule L (see instructions)

Return Reference	Explanation

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	78,195	Corporate Nurse educator		No
(2) James Manzella	Acute Care Board Member	224,880	Key Employee of Manzella Marketing		No
(3) David Zapfel	Brother of BOD, Msgr Robert Zapfel	27,471	HR Employee of CHS		No
(4) Kathleen Zapfel	Sister-in-law of BOD, Msgr Robert Zapfel	65,673	HR Employee of CHS		No
(5) Susan Gallagher-Stavros	Wife of Key Employee, John Stavros	14,437	Nurse, McAuley Seton Home Care		No
(6) Marie Packard	Daughter of BOD, Dennis Dombek	79,972	Mercy Physical Therapist		No
(7) Dr Craig Fetterman	Partner of Buffalo Niagara Hospitalists	826,313	Acute Care Board Member		No

efile GRAPHIC print - DO NOT PROCESS	As Filed Data -	DLN: 93493303009134

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.
▶ Information about Schedule O (Form 990 or 990-EZ) and its instructions is at www.irs.gov/form990.

OMB No 1545-0047

2013

Open to Public Inspection

Name of the organization
Kenmore Mercy Hospital

Employer identification number
16-0762843

990 Schedule O, Supplemental Information

Return Reference	Explanation
Form 990, Part VI, Section A, line 6	
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
Form 990, Part XI, line 9	Change in Pension Obligation 10,803,856 Transfer (to)from affiliate 1,937,829 Rate Swap 643,350 Change in interest in KMH Foundation 701,377 Change in Temp Restricted Net Assets of KMH Foundation -458

SCHEDULE R (Form 990)

Department of the Treasury
Internal Revenue Service

Related Organizations and Unrelated Partnerships

▶ Complete if the organization answered "Yes" on Form 990, Part IV, line 33, 34, 35b, 36, or 37.
▶ Attach to Form 990. ▶ See separate instructions.
▶ Information about Schedule R (Form 990) and its instructions is at *www.irs.gov/form990*.

OMB No 1545-0047

2013

Open to Public Inspection

Name of the organization
Kenmore Mercy Hospital

Employer identification number
16-0762843

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

(a) Name, address, and EIN (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" on Form 990, Part IV, line 34 because it had one or more related tax-exempt organizations during the tax year.

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

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

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

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

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

Part V Transactions With Related Organizations Complete if the organization answered "Yes" on 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		Yes	No
1 During the tax year, did the orgranization 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	1a		No
b Gift, grant, or capital contribution to related organization(s)	1b	Yes	
c Gift, grant, or capital contribution from related organization(s)	1c		No
d Loans or loan guarantees to or for related organization(s)	1d		No
e Loans or loan guarantees by related organization(s)	1e		No
f Dividends from related organization(s)	1f		No
g Sale of assets to related organization(s)	1g		No
h Purchase of assets from related organization(s)	1h		No
i Exchange of assets with related organization(s)	1i		No
j Lease of facilities, equipment, or other assets to related organization(s)	1j		No
k Lease of facilities, equipment, or other assets from related organization(s)	1k		No
l Performance of services or membership or fundraising solicitations for related organization(s)	1l	Yes	
m Performance of services or membership or fundraising solicitations by related organization(s)	1m	Yes	
n Sharing of facilities, equipment, mailing lists, or other assets with related organization(s)	1n	Yes	
o Sharing of paid employees with related organization(s)	1o	Yes	
p Reimbursement paid to related organization(s) for expenses	1p	Yes	
q Reimbursement paid by related organization(s) for expenses	1q	Yes	
r Other transfer of cash or property to related organization(s)	1r	Yes	
s Other transfer of cash or property from related organization(s)	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 related organization	**(b)** Transaction type (a-s)	**(c)** Amount involved	**(d)** Method of determining amount involved

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

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

(a) Name, address, and EIN of entity	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Predominant income (related, unrelated, excluded from tax under sections 512-514)	(e) Are all partners section 501(c)(3) organizations?		(f) Share of total income	(g) Share of end-of-year assets	(h) Disproprtionate 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		Yes	No	

Part VII **Supplemental Information**

Provide additional information for responses to questions on Schedule R (see instructions)

Return Reference	Explanation

Additional Data

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 section 501(c)(3))	(f) Direct controlling entity	(g) Section 512(b)(13) controlled entity? Yes	No
(1) Catholic Health Systems Inc 144 Genesee Street Buffalo, NY 14203 22-2565278	Health Care Delivery System	NY	501c 3	Schedule A Line 9			No
(1) Mercy Hospital of Buffalo 565 Abbott Road Buffalo, NY 14220 16-0756336	Acute Care Hospital	NY	501c 3	Schedule A lIne 3	Catholic Health System Inc		No
(2) Sisters of Charity Hospital 2157 Main Street Buffalo, NY 14214 16-0743187	acute Care Hospital	NY	501c 3	Schedule A lIne 3	Catholic Health System Inc		No
(3) Nazareth Home of the Fransiscan Sisters 291 North Street Buffalo, NY 14201 16-0813142	Skilled Nursing Facility	NY	501c 3	Schedule A Line 9	Catholic Health System Inc		No
(4) St Clare Manor 543 Locust Street Lockport, NY 14094 16-0782647	Skilled Nursing Facility	NY	501c 3	Schedule A Line 9	Catholic Health System Inc		No
(5) St Elizabeth Home for the Aged 5539 Broadway Lancaster, NY 14086 16-0743154	Adult Home	NY	501c 3	Schedule A Line 9	Catholic Health System Inc		No
(6) St Francis Home of Williamsville 147 Reist Street Williamsville, NY 14221 16-0743153	Skilled Nursing Facility	NY	501c 3	Schedule A Line 9	Catholic Health System Inc		No
(7) St Francis of Buffalo Inc 34 Benwood Ave Buffalo, NY 14214 16-1523535	Skilled Nursing Facility	NY	501c 3	Schedule A Line 9	Catholic Health System Inc		No
(8) St Joseph Manor 2211 West State Street Olean, NY 14760 16-0796400	Skilled Nursing Facility	NY	501c 3	Schedule A Line 9	Catholic Health System Inc		No
(9) St Luke Manor for the Chronically Ill 17 Wiard Street Batavia, NY 14020 16-0794811	Skilled Nursing Facility	NY	501c 3	Schedule A Line 9	Catholic Health System Inc		No
(10) St Mary's Manor 515 6th Street Niagara Falls, NY 14301 16-0924139	Skilled Nursing Facility	NY	501c 3	Schedule A Line 9	Catholic Health System Inc		No
(11) St Vincent Manor 319 Washington Ave Dunkirk, NY 14048 16-0743167	Adult Home	NY	501c 3	Schedule A Line 9	Catholic Health System Inc		No
(12) WNY Catholic Long Term Care Inc 6400 Powers Road Orchard Park, NY 14127 16-1434368	Skilled Nursing Facility	NY	501c 3	Schedule A Line 9	Catholic Health System Inc		No
(13) Niagara Homemaker Services (Mercy Home Care) 144 Genesee Street Buffalo, NY 14203 16-1317960	Home Care Provider	NY	501c 3	Schedule A Line 9	Catholic Health System Inc		No
(14) McAuley Seton Home Care 144 Genesee Street Buffalo, NY 14203 16-1310062	Home Care Provider	NY	501c 3	Schedule A Line 9	Catholic Health System Inc		No
(15) Catholic Health System Infusion Pharmacy Inc 2875 Union Road Suite 14 Cheektowaga, NY 14227 20-0198518	Home Care Infusion Services	NY	501c 3	Schedule A Line 9			No
(16) 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 3	Schedule A lIne 3			No
(17) Trinity Medical WNY PC 144 Genesee Street Buffalo, NY 14203 27-2576645	Primary Care Provider	NY	501c 3	Schedule A lIne 11			No
(18) KMH Homes Inc 144 Genesee Street Buffalo, NY 14203 16-1387890	Real Estate Holding Company	NY	501c 3	Schedule A lIne 9			No

CONSOLIDATED FINANCIAL STATEMENTS

KENMORE MERCY HOSPITAL AND SUBSIDIARY
(A SUBSIDIARY OF THE CATHOLIC HEALTH SYSTEM, INC.)

DECEMBER 31, 2013

KENMORE MERCY HOSPITAL AND SUBSIDIARY
(A SUBSIDIARY OF THE CATHOLIC HEALTH SYSTEM, INC.)

CONTENTS

FreedMaxick CPAs, P.C.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Catholic Health System, Inc
Buffalo, New York

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Kenmore Mercy Hospital and its subsidiary (collectively, the "Hospital"), which comprise the consolidated balance sheet as of December 31, 2013, and the related consolidated statements of operations, changes in net assets and cash flows for the year then ended and the related notes to the consolidated financial statements

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 audit We conducted our audit 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, 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, 2013, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America

Emphasis of Matters

As discussed in Note 15, the Hospital had significant transactions with related parties

Other Matters

The financial statements of Kenmore Mercy Hospital and its subsidiary for the year ended December 31, 2012 were audited by other auditors whose report dated April 25, 2013, expressed an unmodified opinion on those statements

Freed Maxick CPAs, P.C.

Buffalo, New York
April 10, 2014

KENMORE MERCY HOSPITAL AND SUBSIDIARY
(A SUBSIDIARY OF THE CATHOLIC HEALTH SYSTEM, INC.)

CONSOLIDATED BALANCE SHEETS
December 31,

ASSETS	2013	2012
Current assets:		
Cash and cash equivalents	$ 31,914,582	$ 28,193,288
Patient/resident accounts receivable, net of allowance for doubtful accounts of $5,210,000 (2012 - $5,203,000)	17,964,422	19,376,680
Other receivables	1,981,551	988,383
Inventories	2,180,672	1,887,486
Assets limited as to use	836,094	1,826,205
Prepaid expenses and other current assets	455,328	228,591
Total current assets	55,332,649	52,500,633
Interest in net assets of affiliated Foundations	4,616,215	3,914,838
Assets limited as to use	9,482,628	16,455,048
Due from affiliates	1,475,491	1,516,733
Property and equipment, net	56,723,506	46,381,047
Other assets	16,255,009	14,578,566
Total assets	$ 143,885,498	$ 135,346,865
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term obligations	$ 2,499,201	$ 2,185,549
Long-term obligations subject to short-term remarketing arrangements	-	10,511,525
Accounts payable	7,983,418	8,492,488
Accrued expenses	7,399,238	7,473,448
Due to third-party payors	5,863,342	6,391,719
Due to affiliates	7,628,652	7,066,493
Total current liabilities	31,373,851	42,121,222
Long-term obligations, net	30,471,887	22,326,059
Long-term portion of insurance liabilities	20,719,458	18,688,189
Pension obligation	23,821,628	32,597,188
Asset retirement obligation	169,579	155,339
Interest rate swap	1,167,798	1,830,255
Other long term liabilities	352,818	152,688
Total liabilities	108,077,019	117,870,940
Net assets:		
Unrestricted	31,186,054	13,554,419
Temporarily restricted	4,622,425	3,921,506
Total net assets	35,808,479	17,475,925
Total liabilities and net assets	$ 143,885,498	$ 135,346,865

See accompanying notes

KENMORE MERCY HOSPITAL AND SUBSIDIARY
(A SUBSIDIARY OF THE CATHOLIC HEALTH SYSTEM, INC.)

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
For the Years Ended December 31,

	2013	2012
Unrestricted revenue and other support:		
Net patient/resident service revenue	$ 154,244,281	$ 153,019,651
Provision for bad debts	(3,284,685)	(4,093,804)
Net patient/resident service revenue, less provision for bad debts	150,959,596	148,925,847
Other revenue	2,655,226	2,830,966
Total unrestricted revenue and other support	153,614,822	151,756,813
Expenses:		
Salaries and wages	65,965,238	63,720,378
Employee benefits	20,574,222	19,897,540
Medical and professional fees	4,594,889	5,147,592
Purchased services	12,649,026	13,003,348
Supplies	31,783,555	30,840,742
Depreciation and amortization	6,497,211	7,516,716
Interest	1,484,411	1,283,952
Insurance	1,377,145	1,028,530
Other expenses	4,898,270	4,778,007
Total expenses	149,823,967	147,216,805
Income from operations	3,790,855	4,540,008
Nonoperating revenues and losses:		
Investment income	81,372	85,333
Other, net	46,125	(2,894)
Total nonoperating revenues and losses	127,497	82,439
Excess of revenues over expenses	$ 3,918,352	$ 4,622,447

See accompanying notes

KENMORE MERCY HOSPITAL AND SUBSIDIARY
(A SUBSIDIARY OF THE CATHOLIC HEALTH SYSTEM, INC.)

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (CONTINUED)
For the Years Ended December 31,

	2013	2012
Unrestricted net assets:		
Excess of revenues over expenses	$ 3,918,352	$ 4,622,447
Change in pension obligation, other than net periodic cost	10,803,856	(1,795,460)
Distributions and transfers from parents and affiliates	1,937,829	99,747
Change in unrealized gain (loss) on interest rate swap	643,350	(23,096)
Distributions from Foundation	328,248	311,009
Increase in unrestricted net assets	17,631,635	3,214,647
Temporarily restricted net assets:		
Change in interest in Kenmore Mercy Foundation, Inc	701,377	645,896
Other	(458)	(4,883)
Increase in temporarily restricted net assets	700,919	641,013
Increase in net assets	18,332,554	3,855,660
Net assets - beginning of year	17,475,925	13,620,265
Net assets - end of year	$ 35,808,479	$ 17,475,925

See accompanying notes

KENMORE MERCY HOSPITAL AND SUBSIDIARY
(A SUBSIDIARY OF THE CATHOLIC HEALTH SYSTEM, INC.)

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31,

	2013	2012
Cash flows from operating activities:		
Increase in net assets	$ 18,332,554	$ 3,855,660
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization	6,497,211	7,516,716
Provision for bad debts	3,284,685	4,093,804
Distribution and transfer from parent and affiliates	(1,937,829)	(99,747)
Undistributed portion of change in interest in Affiliated Foundations	(701,377)	(645,896)
Change in pension obligation, other than net periodic cost	(10,803,856)	1,795,460
Discount on issuance	19,776	13,945
Premium on issuance	(15,611)	(7,328)
Change in unrealized (gain) loss on interest rate swap	(662,457)	24,508
Change in unrealized gain on investments	40,305	31,100
Loss on sale of property and equipment	3,210	-
Gain on extinguishment of capital leases	-	(34,642)
(Increase) decrease in assets		
Patient accounts receivables	(1,872,427)	(8,881,401)
Other receivables	(993,168)	(180,028)
Inventories	(293,186)	(245,972)
Prepaid expenses	(226,737)	(95,384)
Other assets	(194,518)	(916,700)
Due from affiliates	44,005	(18,914)
Increase (decrease) in liabilities		
Accounts payable	(509,070)	2,260,709
Accrued expenses	(910,304)	(695,516)
Due to affiliates	3,040	1,888,259
Due to third-party payors	(528,377)	566,260
Other liabilities	2,680,682	2,268,214
Net cash and cash equivalents provided by operating activities	11,256,551	12,493,107
Cash flows from investing activities:		
Purchase of property and equipment	(15,206,254)	(7,932,329)
Purchase of assets limited as to use	-	(13,953,015)
Sale of assets whose use is limited	7,948,154	1,000,876
Other	(25,928)	6,513
Net cash and cash equivalents used in investing activities	(7,284,028)	(20,877,955)
Cash flows from financing activities:		
Distribution and transfer from parent and affiliates	1,937,829	99,747
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	(2,189,058)	(1,962,718)
Net cash and cash equivalents (used in) provided by financing activities	(251,229)	12,374,482
Increase in cash and cash equivalents	3,721,294	3,989,634
Cash and cash equivalent, beginning of year	28,193,288	24,203,654
Cash and cash equivalent, end of year	$ 31,914,582	$ 28,193,288
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 1,480,246	$ 1,277,335
Noncash investing and financing activities:		
Assets acquired under capital lease obligations	$ 132,848	$ 279,576
Construction related payables	$ 836,094	$ 1,826,205

See accompanying notes

NOTE 1. ORGANIZATION

Kenmore Mercy Hospital is a not-for-profit acute care hospital and KMH Homes, Inc , whose sole member is Kenmore Mercy Hospital, is a not-for-profit corporation established to hold the property and related debt utilized by The McAuley Residence (TMR) TMR is a separate department of Kenmore Mercy Hospital operating as a not-for-profit nursing home Kenmore Mercy Hospital, KMH Homes Inc , and TMR are collectively referred to as "the Hospital" 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 and Subsidiaries ("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 (also collectively referred to as the "Hospitals") include Mercy Hospital of Buffalo (MHB), Kenmore Mercy Hospital including The McAuley Residence (KMH), and Sisters of Charity Hospital (SCH)

Long-Term Care Subsidiaries: The Long-term Care Subsidiaries include St Clare Manor (closed December 2003), St Francis Geriatric and Healthcare Services, Inc (closed December 2009), St Francis Home of Williamsville, Western New York Catholic Long-Term Care, Inc (Father Baker Manor), St Joseph's Manor (closed August 2006), St Luke's Manor of Batavia (closed June 2004), St Mary's Manor (closed 2003), Nazareth Home of the Franciscan Sisters of the Immaculate Conception (closed 2007), 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), Our Lady of Victory Renaissance Corporation, Catholic Health Infusion Pharmacy, Continuing Care Foundation and Catholic Health System Program of All Inclusive Care for the Elderly, Inc (LIFE) and Trinity Medical WNY, PC

NOTE 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 Kenmore Mercy Hospital and KMH Homes, Inc 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 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 workers' compensation, professional and general liability, and actuarial assumptions used in determining pension expense

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Other Receivables: Other receivables consist primarily of managed care risk sharing receivables, physician loans, and other receivables There is no allowance for doubtful accounts established against these receivables

Inventory Valuation: Inventory consists primarily of drugs, medical supplies and food These inventories are generally stated at the lower of cost (first-in, first-out) or market

Assets Limited as to Use: Assets limited as to use include assets set aside for debt service as required by trustee or indenture agreements, 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 consolidated balance sheets

Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized Investment income or loss (including realized gains or losses on investments, interest, and dividends) is included in the excess of revenues over expenses, unless their use is restricted by donor stipulations or law Unrealized gains and losses on investments are included in the operating measure as the investments are trading securities

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

Property and Equipment: Property and equipment are stated at cost if purchased, or if contributed, at the fair 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 lease term or the estimated useful life of the equipment Such amortization is included in depreciation and amortization in the consolidated 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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2013 and 2012

Asset Retirement Obligations: The Hospital accrues for asset retirement obligations in the period in which they are incurred if sufficient information is available to reasonably estimate the fair value of the obligation Over time, the liability is accreted to its settlement value Upon settlement of the liability, the Hospital will recognize a gain or loss for any difference between the settlement amount and liability recorded Accretion expense for the years ended December 31, 2013 and 2012 was $14,240 and $13,530 respectively

Net Patient/Resident Service Revenue: Net patient service revenue is reported at the estimated net realizable amounts from third-party payors, 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 payors 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

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2009 Disproportionate Share (DSH), Indirect Medical Education (IME), Graduate Medical Education (GME), Paramedical Education and Meaningful 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

- **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 payors, except Medicaid, Workers' Compensation and No-Fault insurance programs, negotiate hospital's payment rates If negotiated rates are not established, payors are billed at hospitals established charges Medicaid, Workers' Compensation and No-Fault payors pay hospital rates promulgated by the New York State Department of Health (DOH) on a prospective basis Adjustments to current and prior years' rates for these payors will continue to be made in the future Effective December 1, 2009, NYS implemented inpatient reimbursement reform The reform updated the data utilized to calculate the NYS DRG rates and service intensity weights (SIWS) in order to utilize refined data and more current information in DOH promulgated rates Similar type outpatient reforms were implemented effective December 1, 2008

Amounts recognized in 2013 and 2012 related to prior years, including adjustments to prior year estimates and audit settlements, increased revenues $871,928 and $1,290,706, 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 51% of net patient/resident service revenue was generated from services rendered to patients/residents under Medicare and Medicaid programs in 2013 and 2012, respectively Approximately 37% and 36% of net patient/resident service revenue was generated from services rendered to patients under managed care programs in 2013 and 2012, respectively

There are various proposals at the federal and state level that could, among other things reduce payment rates The outcome of these proposals, regulatory changes and other market conditions cannot presently be determined

Provision for Bad Debts: The provision for bad debt 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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2013 and 2012

	2013	2012
Patient/resident service revenue (net of Contractual allowances and discounts)		
Medicare	$ 64,782,598	$ 66,819,715
Medicaid	12,339,543	10,065,393
Blue Cross	16,966,871	14,311,885
Other third party payors	53,985,498	54,969,819
Patients/residents	6,169,771	6,852,839
Total net patient/resident service revenue	154,244,281	153,019,651
Provision for bad debts	(3,284,685)	(4,093,804)
Net patient/resident service revenue less provision for bad debts	$ 150,959,596	$ 148,925,847

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 $1,120,441 and $1,208,229 arose from providing services to charity care patients in 2013 and 2012, 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 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 The Hospitals are also required to pay a gross receipts assessment to New York State which is used to fund the New York State Medicaid program and HCRA

Collective Bargaining Agreements: The Hospital has approximately 60% of its employees working under four different collective bargaining agreements The agreements are set to expire beginning July 25, 2015 through January 15, 2018

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 the Hospital has 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 the Hospital adopts, implements or demonstrates 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 approximately $1,400,000 and $2,000,000 of electronic health record incentive income related to Medicare and Medicaid incentive programs during the years ended December 31, 2013 and 2012, respectively, which is recorded in other revenue

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

	2013	2012
Shared services	$ 217,910	$ 82,263
Cafeteria revenue	334,400	269,952
Rental income	325,776	257,743
Medicare and Medicaid meaningful use	1,368,595	1,964,766
Other	408,545	256,242
Total other revenues	$ 2,655,226	$ 2,830,966

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

	2013	2012
System dues (a)	$ 1,275,017	$ 1,433,701
Rents and operating leases	1,326,084	1,191,405
NYS Health Facilities Cash Receipts Assessment Program	574,331	504,352
Catholic Health System other expense	916,202	835,595
Professional fees	248,119	291,079
Other	558,517	521,875
Total other expenses	$ 4,898,270	$ 4,778,007

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) System dues are comprised of the following expenses in 2013 and 2012

	2013	2012
Salaries, wages and employee benefits	$ 269,020	$ 243,154
Professional fees and purchase services	153,936	315,596
Dues to Catholic Health East	718,631	743,644
Other	133,430	131,307
Total system dues	$ 1,275,017	$ 1,433,701

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

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 the performance indicator, 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, and pension liability adjustments

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

Temporarily restricted net assets are those whose use is limited by donors to a specific period or purpose and include the Hospital's interest in the 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 Hospital 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 The Hospital's federal Exempt Organization Business Income Tax Returns for 2010, 2011, and 2012 remain subject to examination by the Internal Revenue Service

Transactions among Subsidiaries: Common costs incurred by CHS are allocated to the subsidiaries on a pro-rata cost basis formula The allocation of these costs is recorded as other revenue by CHS and are recorded by the subsidiaries as a component of the natural account classification The related income and expense is eliminated in the consolidated financial statements The respective assets and liabilities are eliminated in the consolidated financial statements

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 $945,144 and $1,357,786 during 2013 and 2012, respectively Capitalized internal project labor costs amounted to $29,308 and $502,619 during 2013 and 2012, respectively

Reclassifications: Certain prior year amounts were reclassified to conform to the 2013 consolidated financial statement presentation

Subsequent Events: The Hospital evaluated subsequent events through April 10, 2014 which was the date the financial statements were available to be issued

NOTE 3. 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

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

	2013	2012
Cash, investments and other assets	$ 5,131,004	$ 4,670,334
Total assets	$ 5,131,004	$ 4,670,334
Liabilities	$ 514,789	$ 755,496
Net assets		
Unrestricted	3,897,537	3,128,014
Temporarily restricted	718,678	786,824
Total net assets	4,616,215	3,914,838
Total liabilities and net assets	$ 5,131,004	$ 4,670,334
Change in unrestricted net assets	$ 769,523	$ 627,966
Change in temporarily restricted net assets	(68,146)	17,930
Total change in net assets	$ 701,377	$ 645,896

Distributions were made to the Hospital in the amount of $328,248 during 2013 and $311,009 during 2012

NOTE 3. INTEREST IN NET ASSETS OF KENMORE MERCY HOSPITAL FOUNDATION, INC. (CONTINUED)

In 2013, the unrestricted net assets of the Foundation, previously recorded in unrestricted net assets of the Hospital's financial statements were reclassed to temporarily restricted net assets of the Hospital This is consistent with accounting principles generally accepted in the United States of America, in that an implied time restriction exists upon such unrestricted net assets, as the Hospital does not control the Foundation The reclassification for the balance sheet as of December 31, 2012 amounted to $3,128,014 from unrestricted net assets to temporarily restricted net assets

NOTE 4. ASSETS LIMITED AS TO USE

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

	2013	2012
Held by Trustee for funded depreciation		
Cash and cash equivalents	$ 1,120,708	$ 1,126,691
U S Government obligations and other	2,178,239	2,184,669
Interest receivable	5,873	6,725
Held by Trustee under indenture agreements		
Cash and cash equivalents	3,418,998	4,589,493
U S Government obligations and other	1,522,020	8,299,159
Held by Trustee for renewal and replacement		
Cash and cash equivalents	2,072,884	2,074,516
Assets limited as to use	$ 10,318,722	$ 18,281,253

NOTE 5. PROPERTY AND EQUIPMENT

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

	2013	2012
Land and land improvements	$ 1,345,429	$ 987,303
Buildings	71,614,979	55,636,925
Leasehold improvements	7,293,817	8,609,330
Equipment	26,206,704	22,175,590
Automobiles	20,978	20,978
Equipment under capital leases	5,606,555	5,808,396
	112,088,462	93,238,522
Less Accumulated depreciation	(53,392,273)	(51,235,890)
Accumulated amortization under capital leases	(2,336,371)	(2,058,535)
	56,359,818	39,944,097
Construction in progress	363,688	6,436,950
Property and equipment, net	$ 56,723,506	$ 46,381,047

Depreciation expense in 2013 and 2012 amounted to approximately $5,773,359 and $6,747,335, respectively Amortization expense on equipment under capital leases amounted to $612,523 and $676,564 in 2013 and 2012, respectively Fully depreciated or amortized assets of $1,421,868 and $3,247,694 were written-off for the years ended December 31, 2013 and 2012, respectively

NOTE 6. OTHER ASSETS AND OTHER RECEIVABLES

The composition of prepaid expenses, other assets and other receivables is as follows at December 31

	2013	2012
Current prepaid expenses and other current assets:		
Prepaid general expenses	$ 441,556	$ 214,819
Other assets	13,772	13,772
Prepaid expenses and other current assets	$ 455,328	$ 228,591
Current other receivables:		
Physician loans	$ 652,524	$ 524,674
Managed care risk receivables	796,515	-
Other	532,512	463,709
Other receivables	$ 1,981,551	$ 988,383
Non-current:		
Insurance recoveries	$ 14,442,655	$ 12,863,642
Debt issuance costs, net accumulated amortization	1,428,554	1,525,643
Other	383,800	189,281
Other assets	$ 16,255,009	$ 14,578,566

Amortization expense on debt issuance costs amounted to $97,088 and $79,287 for the years ended December 31, 2013 and December 31, 2012, respectively Accumulated Amortization related to the debt issuance costs amounted to $744,673 and $647,585 at December 31, 2013 and December 31, 2012, respectively, respectively Amortization expense is expected to be approximately $95,000 for the years ended December 31, 2014 to 2018

NOTE 7. ACCRUED EXPENSES

Accrued expenses consist of the following at December 31

	2013	2012
Workers' compensation, current portion	$ 1,206,220	$ 1,299,556
Payroll and benefits	5,186,755	5,204,149
Other	1,006,263	1,039,743
Accrued expenses	$ 7,399,238	$ 7,473,448

NOTE 8. LONG-TERM OBLIGATIONS

Long-Term Debt: Long-term debt obligations are comprised of the following at December 31

	2013	2012
2006 Series C Bonds payable, Kenmore Mercy Hospital (a)	$ 10,520,312	$ 11,489,025
2012 Series A Bonds payable, Kenmore Mercy Hospital (b)	14,065,661	14,235,283
Mortgage payable, The McAuley Residence (c)	5,813,040	6,261,365
Capital lease obligations and other, at various rates of interest ranging from 3 4% to 5 0%, collateralized by equipment	2,528,348	2,986,188
Note payable to an individual, payable in monthly installments of $988 including interest at 9%, until May 2018	43,727	51,272
Total long-term obligations	32,971,088	35,023,133
Less Current portion	(2,499,201)	(2,185,549)
Less Long term obligations subject to short-term remarketing arrangements (a)	-	(10,511,525)
Long-term obligations, net	$ 30,471,887	$ 22,326,059

(a) In 2006, the System formed the Acute Care Obligated Group (the Obligated Group), consisting of its three primary hospitals (MHB, SCH 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 the Hospital 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 the Hospital 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, and no event of default exists then, the outstanding Bonds, at the option of the members of the Obligated Group, would be subject to a mandatory tender and will then 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 06% and 0 13% at December 31, 2013 and 2012, respectively

NOTE 8. LONG-TERM OBLIGATIONS (CONTINUED)

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

Certain financial covenants must be maintained by the Obligated Group Failure to comply with these covenants requires a formal consultants report and quarterly progress reports demonstrating how the facility is progressing towards compliance The Loan Agreement requires the Obligated Group to comply with certain financial covenants, including maintenance of (i) a minimum number of days cash on hand, (ii) long-term debt service coverage, (iii) a maximum leverage ratio The Obligated Group was in compliance with these covenants at December 31, 2013 and 2012

Prior to 2013, the letter of credit reimbursement agreement contained an acceleration clause that relied upon subjective evaluation criteria, which necessitated a current classification for the related obligations The letter of credit reimbursement agreement has since been modified to replace the previously subjective criteria with objective and measureable criteria Accordingly, the obligations are classified as non-current liabilities at December 31, 2013

(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 and premium on the bonds of $156,812 and $159,265, respectively, are attributable to the difference between the stated interest rate on these bonds and will be amortized 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, 2013 are as follows

2 00% Serial Bonds due July 1, 2014	$ 165,000
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	$ 14,070,000

NOTE 8. LONG-TERM OBLIGATIONS (CONTINUED)

(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

(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 long-term obligations, including capital lease obligations, subsequent to December 31, 2013 are as follows

	Long-Term Debt	Capital Leases	Total
2014	$ 1,834,414	$ 732,869	$ 2,567,283
2015	1,909,456	413,382	2,322,838
2016	1,991,083	297,856	2,288,939
2017	2,079,389	247,300	2,326,689
2018	2,158,430	158,933	2,317,363
Thereafter	20,469,968	1,042,752	21,512,720
Total	$ 30,442,740	2,893,092	33,335,832
Less Amount representing interest		(364,744)	(364,744)
Long-term obligations		$ 2,528,348	$ 32,971,088

Operating Leases

Minimum annual rental commitments at December 31, 2013 under noncancelable operating leases are as follows

2014	$ 1,374,564
2015	1,374,564
2016	1,374,564
2017	1,374,564
2018	1,321,823
Thereafter	1,321,823
	$ 8,141,902

Total expense for rents and operating type leases for equipment and property was approximately $1,326,084 and $1,191,405 in 2013 and 2012, respectively

NOTE 9. 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 the Hospital to pay a fixed rate of 3 80% on the notional amount ($11,095,000 at December 31, 2013) and in exchange, the Hospital will receive a variable rate payment based upon the Securities Industry and Financial Markets Association Index, calculated weekly The notional amount of the swap is matched to the maturity schedule of the Series 2006 Bonds The swap agreement was executed on December 13, 2006 and expires July 1, 2022 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

	2013		2012	
	Balance Sheet Location	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Interest rate contracts floating to fixed	Long-term liabilities	$ 1,167,798	Long-term liabilities	$ 1,830,255

The effects of derivative instruments on the consolidated statements of operations and changes in net assets for 2013 and 2012 are as follows

	Ineffective portion in Statement of Operations		Effective portion in Net Assets	
	2013	**2012**	**2013**	**2012**
Change in fair value of interest rate swaps	$ 19,107	$ (1,412)	$ 643,350	$ (23,096)

The Hospital measures its interest rate swaps at fair value on a recurring basis The fair 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 14

NOTE 10. 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 As of that date, the Kenmore Mercy Hospital Pension Plan was merged into the Retirement Plan of the Catholic Health System (the Plan)

NOTE 10. EMPLOYEE BENEFIT PLANS (CONTINUED)

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

The Plan bases benefits upon both years of service and earnings Participants under the Hospital formula 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

Funded Status: The following tables summarize changes in the projected 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, 2013 and 2012

	2013	2012
Projected Benefit Obligations		
Change in benefit obligation		
Benefit obligation at beginning of year	$ 52,093,324	$ 46,342,327
Service cost	2,082,927	1,885,585
Interest cost	2,010,788	2,084,957
Actuarial (gains) losses	(7,832,241)	3,828,044
Transfers (to) from CHS Subsidiaries	1,335,906	(219,535)
Benefits paid	(2,013,051)	(1,810,765)
Expenses	(16,683)	(17,289)
Projected Benefit obligation at end of year	$ 47,660,970	$ 52,093,324
Accumulated benefit obligations, end of year	$ 43,138,694	$ 46,985,987
Plan Assets		
Change in plan assets		
Fair value of assets at beginning of year	$ 19,496,135	$ 17,519,262
Actual return on plan assets	3,463,740	1,931,412
Transfers (to) from CHS subsidiaries	668,201	(82,162)
Benefits paid	(2,013,051)	(1,810,765)
Hospital contributions	2,241,000	1,955,677
Expenses	(16,683)	(17,289)
Fair value of plan assets at end of year	$ 23,839,342	$ 19,496,135
Funded status at end of year	$ 23,821,628	$ 32,597,189
Amounts recognized in the consolidated balance sheets:		
Non-current liabilities	$ (23,821,628)	$ (32,597,189)
Net amounts recognized	$ (23,821,628)	$ (32,597,189)

NOTE 10. EMPLOYEE BENEFIT PLANS (CONTINUED)

Amounts recognized in unrestricted net assets consists of:

	2013	2012
Actuarial net loss	$ (10,590,890)	$ (21,349,982)
Prior service cost	(210,859)	(255,623)
Total amount recognized	$ (10,801,749)	$ (21,605,605)

Components of net periodic benefit cost:

	2013	2012
Service cost	$ 2,082,927	$ 1,885,585
Interest cost	2,010,788	2,084,957
Expected return on plan assets	(1,561,004)	(1,495,644)
Amortization of prior service cost or (credit)	44,764	44,764
Recognized actuarial loss	1,691,820	1,414,679
Net periodic pension cost	$ 4,269,295	$ 3,934,341

Since the Hospital is a participant in the System's Plan, the following disclosures are made for the entire Plan in the aggregate, and do not represent the Hospital on a stand-alone basis.

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 $8,530,663, 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 and the actual asset allocation percentages for 2013 and 2012 are as follows at the respective measurement dates

Asset Category	Target	Actual 2013	Actual 2012
Equities	65%	61%	50%
Fixed income	25%	30%	35%
Other	10%	9%	15%
	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

NOTE 10. EMPLOYEE BENEFIT PLANS (CONTINUED)

Accounting Standards Codification Topic 820 allows for the use of a practical expedient for the estimation of fair value of investments in investment companies for which the investment does not have a readily determinable fair value The practical expedient used by the Plan to value its investments in its Level 3 investments is the net asset value (NAV) per share, or its equivalent For investments in non-unitized investments, the equivalent is the Plan's proportionate share of the partner's capital of the investment partnerships as reported by the general partners Through its monitoring activities, the Plan believes that the carrying amounts of these financial instruments are reasonable estimates of fair value

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

The following is a description of the valuation methodologies used for assets measured at fair value There have been no changes in the methodologies used at December 31, 2013 and 2012

Cash and cash equivalents: Include certain instruments in highly liquid debt instruments with original maturities of three months or less at date of purchase

Marketable debt securities: Valued based on yields currently available on comparable securities of issuers with similar credit rating

Marketable equity securities: Valued at closing price reported on the active market on which the individual securities are traded

Partnership joint venture interests: These securities are estimated using current information obtained from the general partner or investment manager for the respective funds Investments in venture capital/private equity partnerships are generally estimated using partner's capital balances, and the fair value of investments in hedge funds are generally estimated using NAVs In cases where the investee has provided its investors with a NAV per share or partner capital balances that have been calculated in accordance with the AICPA Audit and Accounting Guide, *Investment Companies*, the Plan has estimated its fair value by using the NAV provided by the investee as of December 31st

Commingled funds Valued at the NAV of units of the commingled fund The NAV is used as a practical expedient to estimate fair value The NAV is based on the fair value of the underlying investments held by the fund less its liabilities This practical expedient is not used when it is determined to be probable that the fund will sell the investment for an amount different from the reported NAV

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

NOTE 10. EMPLOYEE BENEFIT PLANS (CONTINUED)

The following tables present the Plan's financial instruments as of December 31, 2013 and 2012, measured at fair value on a recurring basis using the fair value hierarchy defined in Note 14

At December 31, 2013	Level I	Level II	Level III	Total
Cash and cash equivalents	$ 10,610,231	$ 13	$ -	$ 10,610,244
Marketable equity securities				
SRI large cap	36,140	-	-	36,140
Large cap flex	44,116,418	-	-	44,116,418
Small cap growth	17,695,823	-	-	17,695,823
International	11,359,573	-	-	11,359,573
Small cap value	8,722,468	-	-	8,722,468
Other	527,064	-	-	527,064
Marketable debt securities				
US government obligations	31,735,616	-	-	31,735,616
Private placement	-	8,996,603	-	8,996,603
Banking and finance	-	9,752,736	-	9,752,736
International	-	6,203,252	-	6,203,252
Utility	-	3,897,766	-	3,897,766
Other		19,425,390	-	19,425,390
Alternative investments				
Commingled funds	-	85,147,948	8,669,516	93,817,464
International hedge funds	-	-	4,825,571	4,825,571
Venture capital funds	-	-	5,179,554	5,179,554
Total	$ 124,803,333	$133,423,708	$ 18,674,641	$ 276,901,682

At December 31, 2012	Level I	Level II	Level III	Total
Cash and cash equivalents	$ 14,491,559	$ 50,617	$ -	$ 14,542,176
Marketable equity securities				
SRI large cap	22,077	-	-	22,077
Large cap flex	26,642,255	-	-	26,642,255
Small cap growth	12,959,036	-	-	12,959,036
International	9,081,671	-	-	9,081,671
Small cap value	6,136,226	-	-	6,136,226
Other	178,292	-	-	178,292
Marketable debt securities				
US government obligations	24,932,327	-	-	24,932,327
Private placement	-	9,259,692	-	9,259,692
Banking and finance	-	11,041,890	-	11,041,890
International	-	3,475,915	-	3,475,915
Utility	-	4,405,823	-	4,405,823
Other		19,683,218	-	19,683,218
Alternative investments				
Commingled funds	-	62,498,917	18,617,733	81,116,650
International hedge funds	-	-	3,168,623	3,168,623
Venture capital funds	-	-	8,561,450	8,561,450
Total	$ 94,443,443	$110,416,072	$ 30,347,806	$ 235,207,321

NOTE 10. EMPLOYEE BENEFIT PLANS (CONTINUED)

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

	2013	2012
Fair value January 1	$ 30,347,806	$ 27,055,386
Realized and unrealized gains	1,146,712	944,022
Purchases	11,545,579	13,009,261
Sales	(24,365,456)	(10,660,863)
Fair value December 31	$ 18,674,641	$ 30,347,806

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 2014 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

2014	$ 16,945,000
2015	$ 18,559,000
2016	$ 20,569,000
2017	$ 22,658,000
2018	$ 24,425,000
2019 – 2023	$ 158,705,000

	2013	2012
Weighted average assumptions used to determine end of the year benefit obligations:		
Discount rate	5 05%	3 95%
Rate of compensation increase	3 00%	3 00%
Weighted average assumptions used to determine net periodic pension cost:		
Discount rate	3 95%	4 60%
Expected long-term rate of return on plan assets	8 00%	8 00%
Measurement date	12/31/2013	12/31/2012

NOTE 11. INSURANCE ARRANGEMENTS

The System, on the Hospital's behalf, participates in the CHE Trinity Inc insurance program which provides coverage for healthcare professional (medical malpractice) and general liability exposures The System had two insurance programs in 2013, as the legacy CHE program merged with Trinity Health's insurance program to form the CHE Trinity Inc program Prior to June 1, 2013, the primary limits for healthcare professional and general liability were $3,000,000 per occurrence and were insured by Stella Maris Insurance Company, Ltd (SMICL), a Cayman-domiciled insurer wholly-owned by CHE Subsequent to June 1, 2013, the primary limits were $20,000,000 for healthcare professional liability and $1,000,000 for general liability per occurrence Professional and general liabilities are insured by Venzke Insurance Company, Ltd (Venzke), a Cayman-domiciled insurer wholly-owned by CHE Trinity, Inc Excess coverage was also provided to the System, and this excess coverage is fully reinsured with nonaffiliated commercial insurance companies

The coverage provided 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 3% and 4% in 2013 and 2012, respectively The Hospital's portion of the System's current portion of liabilities for unpaid and incurred but not reported claims at December 31, 2013 and 2012 is $72,400 and $61,099 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, 2013 and 2012 is $10,601,600 and $9,271,255, respectively recorded in long-term portion of insurance liabilities The charges to expenses for professional and general liability for 2013 and 2012 approximated $1,192,542 and $838,770, respectively, which has been included in insurance expenses In 2011, the Hospital adopted the principles of insurance claim and recovery accounting for professional and general liabilities The required liability claims and any anticipated insurance recoveries to be reported on a gross basis versus the previous practice of netting the recoveries against liability claims Amounts recognized as insurance receivables related to the claims approximate $9,226,000 and $8,110,368 at December 31, 2013 and 2012, 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 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 a discounted basis based on actuarial estimates of the settlement of such claims The discount rate applied is 3% and 4% in 2013 and 2012, respectively The Hospital's portion of the System's current portion of liabilities for unpaid and incurred but not reported claims at December 31, 2013 and 2012 is $1,203,720 and $1,124,860, 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, 2013 and 2012 is $10,117,858 and $9,416,934, respectively, and is included in long-term portion of insurance liabilities

The charges to expenses for workers' compensation costs approximated $1,985,857 and $2,582,741 in 2013 and 2012, respectively which has been included in employee benefits expenses In 2011, the Hospital adopted the principles of insurance claim and recovery accounting for workers' compensation The required liability claims and any anticipated insurance recoveries to be reported on a gross basis versus the previous practice of netting the recoveries against liability claims Amounts recognized as insurance receivables related to the claims approximate $5,216,655 and $4,753,274 at December 31, 2013 and 2012, respectively Insurance recoveries are measured on the same basis as the liability subject to the need for a valuation allowance for uncollectible amounts

NOTE 11. INSURANCE ARRANGEMENTS (CONTINUED)

The System's insurance for employee health costs, in which the Hospital participates, is self-insured up to $350,000 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

NOTE 12. 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 affect on the Hospital's future financial position, results from operations or cash flows

NOTE 13. 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

	2013	2012
Medicare	32%	34%
Medicaid	7	7
Blue Cross	8	8
Other third-party payors	37	37
Patients/residents	16	14
	100%	100%

The Hospital maintains funds in excess of amounts insured by the Federal Depository Insurance limits The Hospital has diversified its deposit amounts in a variety of institutions to reduce the level of concentrated credit risk

NOTE 14. 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

NOTE 14. FAIR VALUE MEASUREMENTS (CONTINUED)

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 fair 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 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 in the fair value hierarchy

Long-term Debt: The fair value of the based on current rates offered for similar issues with similar security terms and maturities, or estimated using a discount rate that a market participant would demand The carrying value of the long-term debt approximates fair value as of December 31, 2013 and 2012 Long-term debt would be classified as Level 2 in the fair value hierarchy

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 Hierarchal levels, as defined by accounting guidance, are directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities as follows

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

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

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

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

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

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

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

NOTE 14. FAIR VALUE MEASUREMENTS (CONTINUED)

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, 2013 and 2012

At December 31, 2013	Level I	Level II	Level III	Total
Assets limited as to use:				
Cash and cash equivalents	$ 1,153,611	$ 5,458,979	$ -	$ 6,612,590
U S Government and agency obligations	2,178,239	1,522,020	-	3,700,259
Other	-	5,873	-	5,873
	$ 3,331,850	$ 6,986,872	$ -	$ 10,318,722
Interest rate swap	$ -	$ 1,167,798	$ -	$ 1,167,798

At December 31, 2012	Level I	Level II	Level III	Total
Assets limited as to use:				
Cash and cash equivalents	$ 1,166,438	$ 6,624,262	$ -	$ 7,790,700
U S Government and agency obligations	2,184,669	8,299,159	-	10,483,828
Other	-	6,725	-	6,725
	$ 3,351,107	$ 14,930,146	$ -	$ 18,281,253
Interest rate swap	$ -	$ 1,830,255	$ -	$ 1,830,255

NOTE 15. 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 2013 and 2012, the Hospital incurred expenses from affiliates for administration services, rent and other services These expenses approximated $25,050,246 in 2013 and $25,263,927 in 2012 During 2013 and 2012, the Hospital provided cost sharing services to and received reimbursement from affiliates for laboratory, computer, and other services Revenues from these services approximated $217,910 and $93,666 and in 2013 and 2012, respectively

During 2013 and 2012, distributions were received from the parent and affiliates of $1,937,829 and $99,747, respectively During 2013 and 2012, 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, 2013 and 2012 were $7,628,652 and $7,066,493, respectively Amounts due from affiliates at December 31, 2013 and 2012 were $1,475,491 and $1,516,733, respectively The amounts due to affiliates are non-interest bearing and have no maturity date

NOTE 16. FUNCTIONAL EXPENSES

The Hospital provides general health care services to residents within its geographic location Expenses relating to providing these services included in the statement of operations are as follows

	2013	2012
Healthcare services	$ 106,994,173	$ 104,991,611
General and administrative	42,829,794	42,225,194
	$ 149,823,967	$ 147,216,805

FreedMaxick CPAs, P.C.

INDEPENDENT AUDITOR'S REPORT ON ACCOMPANYING SUPPLEMENTARY INFORMATION

To the Board of Directors
Catholic Health System, Inc
Buffalo, New York

We have audited the consolidated financial statements of Kenmore Mercy Hospital and Subsidiary (the Hospital) as of December 31, 2013 and for the year then ended and our report thereon appears on page 1 of this document The financial statements of Kenmore Mercy Hospital and its subsidiary for the year ended December 31, 2012 were audited by other auditors whose report dated April 25, 2013 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 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)

Freed Maxick CPAs, P.C.

Buffalo, New York
April 10, 2014

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, 2013 and 2012

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

	2013	2012
Charity care	$ 1,120,441	$ 1,208,229
Cost of community benefit programs	3,793,159	2,315,416
Unpaid cost of Medicaid programs	7,509,946	6,534,846
Social accountability costs	$ 12,423,546	$ 10,058,491