Mercy Alliance, Inc. and Affiliates

Janesville, Wisconsin

Consolidated Financial Statements and Supplementary Information

Years Ended June 30, 2014 and 2013

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WIPFLi LLP

Independent Auditor's Report

Board of Directors
Mercy Alliance, Inc.
Janesville, Wisconsin

We have audited the accompanying consolidated financial statements of Mercy Alliance, Inc. and Affiliates, which comprise the consolidated balance sheets as of June 30, 2014 and 2013, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the 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 these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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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 Mercy Alliance, Inc. and Affiliates as of June 30, 2014 and 2013, and the results of their operations, changes in their net assets, and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Wipfli LLP

Wipfli LLP

August 25, 2014
Milwaukee, Wisconsin

Mercy Alliance, Inc. and Affiliates

Consolidated Balance Sheets

June 30, 2014 and 2013

Assets		(In Thousands) 2014		2013
Current assets:				
Cash and cash equivalents	$	22,326	$	13,284
Patient accounts receivable - Net		92,886		83,071
Supplies		11,893		11,329
Prepaid expenses		4,140		3,980
Due from third-party payors		572		546
Other receivables		9,271		10,149
Total current assets		141,088		122,359
Assets limited as to use		276,043		241,728
Property and equipment - Net		304,740		309,518
Other assets:				
Unamortized debt issuance costs - Net		2,177		2,289
Other		2,040		2,070
Total other assets		4,217		4,359
TOTAL ASSETS	$	726,088	$	677,964

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Liabilities and Net Assets		(In Thousands) 2014		2013
Current liabilities:				
Current maturities of long-term debt	$	6,469	$	5,974
Accounts payable				
Trade		10,071		8,871
Construction		488		695
Accrued salaries, wages, and payroll taxes		27,211		24,249
Due to third-party payors		648		870
Other accrued expenses		44,199		43,286
Total current liabilities		89,086		83,945
Long-term liabilities:				
Long-term debt, less current maturities		213,017		218,178
Deferred compensation		9,970		7,493
Pension liability		13,522		19,580
Total long-term liabilities		236,509		245,251
Total liabilities		325,595		329,196
Total net assets - Unrestricted		400,493		348,768
TOTAL LIABILITIES AND NET ASSETS	$	726,088	$	677,964

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See accompanying notes to consolidated financial statements.

Mercy Alliance, Inc. and Affiliates

Consolidated Statements of Operations and Changes in Net Assets

Years Ended June 30, 2014 and 2013

	(In Thousands) 2014	2013
Revenue:		
Patient service revenue (net of contractual allowances and discounts)	$ 466,928	$ 426,168
Provision for bad debts	(30,934)	(23,059)
Net patient service revenue less provision for bad debts	435,994	403,109
Premium revenue	84,038	88,845
Other revenue	7,101	10,679
Total revenue	527,133	502,633
Expenses:		
Salaries and wages	256,847	245,843
Employee benefits	41,316	40,201
Professional fees and purchased services	32,302	32,744
Medical claims and capitation payments	26,299	23,653
Medical supplies, other supplies, and drugs	83,683	78,047
Utilities	7,233	6,674
Insurance	4,775	1,302
Other	27,606	25,919
Depreciation and amortization	27,731	26,140
Interest	10,336	9,062
Total expenses	518,128	489,585
Income from operations	9,005	13,048
Nonoperating income - Net	13,735	10,517
Excess of revenue over expenses	22,740	23,565
Other changes in unrestricted net assets:		
Change in net unrealized gains and losses on investments other than trading securities	28,724	18,248
Changes in pension obligation other than pension expense	195	3,274
Other	66	-
Change in unrestricted net assets	51,725	45,087
Unrestricted net assets at beginning	348,768	303,681
Unrestricted net assets at end	$ 400,493	$ 348,768

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See accompanying notes to consolidated financial statements.

Mercy Alliance, Inc. and Affiliates

Consolidated Statements of Cash Flows

Years Ended June 30, 2014 and 2013

	(In Thousands) 2014	2013
Increase (decrease) in cash and cash equivalents:		
Cash flows from operating activities:		
Change in unrestricted net assets	$ 51,725	$ 45,087
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Provision for bad debts	30,934	23,059
Changes in pension obligation other than pension expense	(195)	(3,274)
Change in net unrealized gains and losses on investments other than trading securities	(28,724)	(18,248)
Net realized gains on sales of investments	(7,500)	(4,201)
Depreciation and amortization	27,731	26,140
(Gain) loss on sale of property and equipment	14	(11)
Changes in operating assets and liabilities:		
Patient accounts receivable	(40,749)	(32,087)
Supplies and other current assets	154	(4,366)
Accounts payable	1,200	2,267
Accrued liabilities and other	489	(7,704)
Due to/from third-party payors	(248)	(275)
Net cash provided by operating activities	34,831	26,387
Cash flows from investing activities:		
Decrease in assets limited as to use	1,909	16,989
Purchases of property and equipment	(23,697)	(35,702)
Proceeds from sale of property and equipment	176	11
Change in other assets	30	(389)
Net cash used in investing activities	(21,582)	(19,091)

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Mercy Alliance, Inc. and Affiliates

Consolidated Statements of Cash Flows (Continued)

Years Ended June 30, 2014 and 2013

	(In Thousands)	
	2014	2013
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	$ 1,950	$ 3,944
Principal payments on long-term debt	(6,157)	(5,755)
Net cash used in financing activities	(4,207)	(1,811)
Net increase in cash and cash equivalents	9,042	5,485
Cash and cash equivalents at beginning	13,284	7,799
Cash and cash equivalents at end	$ 22,326	$ 13,284

Supplemental cash flow information:

Cash paid for interest, net of capitalized interest of $91,000 and $248,000 in 2014 and 2013, respectively	$ 10,370	$ 10,721
Capital expenditures in accounts payable	$ 488	$ 695

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See accompanying notes to consolidated financial statements.

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Mercy Alliance, Inc. and Affiliates

Note 1 Summary of Significant Accounting Policies

The Entity and Principles of Consolidation

The consolidated financial statements include the accounts and operations of Mercy Alliance, Inc. and its affiliates and wholly owned subsidiaries (collectively "Alliance"):

- Mercy Alliance, Inc. (MAI)
  Serves as parent corporation for the corporate group and supports the operations of its affiliates and subsidiaries.

- Mercy Health System Corporation (MHSC)
  Operates a 240-bed hospital (licensed beds) in Janesville, Wisconsin; approximately 43 physician clinics in southern Wisconsin and northern Illinois; a skilled nursing facility (SNF) that operates as a subacute care unit of the hospital building; and Mercy Walworth Hospital and Medical Center (MWH), a 25-bed hospital facility in Walworth County, Wisconsin. MWH is reimbursed by Medicare as a critical access hospital (CAH).

- Mercy Assisted Care, Inc. (MAC)
  MAC operates Mercy Homecare, a supplier of durable medical equipment, the Cooperative Childcare Institute (CCI), a residential care center for children and youth, and coordinates home care and hospice services through nurses, physical therapists, and speech therapist. CCI ceased operations in September 2013.

- Mercy Harvard Hospital, Inc. (MHH)
  Operates a hospital with 25 acute and 45 long-term care beds located in Harvard, Illinois. MHH also has a controlled affiliate, Harvard Memorial Hospital Foundation, whose purpose is to support the programs of MHH. MHH is reimbursed by Medicare as a CAH.

- Mercy Foundation, Inc. (MFI)
  MFI's primary activity is fund-raising for MHSC and its programs in accordance with its by-laws.

Note 1 Summary of Significant Accounting Policies (Continued)

The Entity and Principles of Consolidation (Continued)

- MercyCare Insurance Company (MCIC)
  An indemnity insurance company that contracts with local employers. MCIC has a wholly owned subsidiary, MercyCare HMO which operates as a health maintenance organization (HMO) under Wisconsin statutes. MCIC and its subsidiary contract for services with MHSC and other MAI affiliates.

All significant intercompany accounts and transactions have been eliminated in consolidation.

Financial Statement Presentation

Alliance follows accounting standards set by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The ASC is the single source of authoritative accounting principles generally accepted in the United States (GAAP) to be applied to nongovernmental entities.

Use of Estimates in Preparation of Financial Statements

The preparation of the accompanying consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that directly affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

Alliance considers critical accounting estimates to be those that require more significant judgments which include the valuation of accounts receivable (including contractual allowances and allowance for doubtful accounts), estimated third-party settlements, reserves for losses and expenses related to self-insurance for employee health care claims and malpractice claims, valuation of the defined benefit plan liability, and reserves for unpaid claims for participants in MCIC insurance programs.

Note 1 **Summary of Significant Accounting Policies** (Continued)

Cash Equivalents

Highly liquid debt instruments with an original maturity of three months or less are considered to be cash equivalents, excluding amounts limited as to use.

Patient Accounts Receivable and Credit Policy

Patient accounts receivable are uncollateralized patient obligations that are stated at the amount management expects to collect from outstanding balances. These obligations are primarily from local residents, most of whom are insured under third-party payor agreements. Alliance bills third-party payors on the patients' behalf, or if a patient is uninsured, the patient is billed directly. Once claims are settled with the primary payor, any secondary insurance is billed, and patients are billed for copay and deductible amounts that are the patients' responsibility. Payments on accounts receivable are applied to the specific claim identified on the remittance advice or statement. Alliance does not have a policy to charge interest on past due accounts.

Patient accounts receivable are recorded in the accompanying consolidated balance sheets net of contractual adjustments and discounts, and an allowance for doubtful accounts, which reflect management's best estimate of the amounts that will not be collected. Management provides for contractual adjustments under terms of third-party reimbursement agreements and uninsured patient discounts through a reduction of gross revenue and a credit to patient accounts receivable. In evaluating the collectability of patient accounts receivable, Alliance analyzes historical loss experience on revenue from all payors. Using the loss experience rate, Alliance estimates the appropriate allowance for doubtful accounts and provision for bad debts. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged against the allowance for doubtful accounts.

Note 1 Summary of Significant Accounting Policies (Continued)

Supplies

Supplies are valued at the lower of cost, determined on the first-in, first-out (FIFO) method, or market.

Assets Limited as to Use and Investment Income

Assets limited as to use include assets the Board of Directors have designated for future capital improvements and expansion over which the Board retains control and may at its discretion subsequently use for other purposes, amounts set aside for compensation agreements, amounts held by MCIC to meet regulatory compliance requirements, and assets held by a trustee under bond indenture agreements.

Certificates of deposit are stated at the principal contributed plus any accrued interest earned. All other investments included in assets limited as to use are measured at fair value in the accompanying consolidated balance sheets. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in nonoperating income unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from excess of revenue over expenses unless the investments are trading securities. Realized gains and losses are determined by specific identification.

Alliance monitors the difference between the cost and fair value of its investments. A decline in market value of an individual investment security below cost that is deemed to be other-than-temporary results in an impairment and Alliance reduces the investment's carrying value to fair value. A new cost basis is established for the investment and any impairment loss is recorded as a realized loss in investment income.

Note 1 **Summary of Significant Accounting Policies** (Continued)

Fair Value Measurements

Alliance measures fair value of its financial instruments, including assets within the defined benefit noncontributory retirement plan, using a three-tier hierarchy which prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of fair value hierarchy are as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that Alliance has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets in inactive markets;
- Inputs, other than quoted prices, that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within 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 observable inputs and minimize the use of unobservable inputs.

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Note 1 **Summary of Significant Accounting Policies** (Continued)

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Leasehold improvements are amortized over the shorter period of the estimated useful life or the remaining term of the lease. Donated property and equipment are recorded at fair value at the date of donation, which is then treated as cost. Interest costs incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets, net of any earnings on those funds. Estimated useful lives range from 2 to 20 years for land improvements, 5 to 20 years for leasehold improvements, 5 to 25 years for buildings and improvements, and 3 to 20 years for fixed and major moveable equipment.

Unamortized Debt Issue Costs and Bond Premiums

Bond issue costs and original issue premiums related to the issuance of long-term debt are amortized over the life of the related debt using the straight-line method, and are included with depreciation and amortization expense in the accompanying consolidated statements of operations and changes in net assets.

Asset Retirement Obligation

ASC Topic 410-20, *Accounting for Conditional Asset Retirement Obligation,* clarifies when an entity is required to recognize a liability for a conditional asset retirement obligation. Management has considered ASC Topic 410-20, specifically as it relates to its legal obligation to perform asset retirement activities, such as asbestos removal, on its existing properties. Management believes there is an indeterminate settlement date for the asset retirement obligations because the range of time over which Alliance may settle the obligation is unknown and cannot reasonably estimate the liability related to these asset retirement activities as of June 30, 2014 and 2013.

Note 1 Summary of Significant Accounting Policies (Continued)

Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If an impairment has occurred, a loss will be recognized. No impairment losses were recognized in 2014 or 2013.

Net Assets

Net assets are classified based on the existence or absence of donor-imposed restrictions. All of Alliance's net assets are free from donor-imposed restrictions at June 30, 2014 and 2013.

Patient Service Revenue

Alliance recognizes patient service revenue associated with services provided to patients who have third-party payor coverage primarily on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, Alliance recognizes revenue on the basis of discounted rates established under Alliance's uninsured patient policy. The provision for contractual adjustments (that is, the differences between established rates and expected third-party payor payments) and the discounts (that is, the difference between established rates and the amount billable) are recognized on the accrual basis. These amounts are deducted from gross patient service revenue to determine patient service revenue (net of contractual allowances and discounts). Based on the historical experience of Alliance, a significant portion of uninsured patients will be unwilling or unable to pay for services provided. Thus, Alliance records a provision for bad debts related to uninsured patients in the period the services are provided. The provision for bad debts is based on historical loss experience and is deducted from patient service revenue (net of contractual allowances and discounts) to determine net patient service revenue less provision for bad debts. Alliance also accrues retroactive adjustments under reimbursement agreements with third-party payors on an estimated basis in the period the related services are provided. Estimates are adjusted in future periods as final settlements are determined.

Note 1 Summary of Significant Accounting Policies (Continued)

Premium Revenue and Claims Payable

Premiums are billed monthly for coverage in the following month and are recognized as revenue in the month for which insurance protection is provided. Claims payable, included in other accrued expenses, are determined using statistical analyses and represent estimates of the ultimate net cost of all reported and unreported claims that are unpaid at the end of each accounting period. Although it is not possible to measure the degree of variability inherent in such estimates, management believes that the liabilities for claims are adequate. The estimates are reviewed periodically, and as adjustments to these liabilities become necessary, such adjustments are reflected in current operations. Alliance has recorded a provision of $7,656,000 and $7,604,000 at June 30, 2014 and 2013, respectively, for claims payable.

Hospital Assessments

Wisconsin state regulations require eligible hospitals to pay the state an annual assessment. The assessment period is the state's fiscal year, which runs from July 1 to June 30. The assessment is based on each hospital's gross revenues, as defined. The revenue generated from the assessment is to be used, in part, to increase overall reimbursement under the Wisconsin Medicaid program. Alliance's assessment expense was approximately $7,417,000 and $7,119,000 for the years ended June 30, 2014 and 2013, respectively, and is included in other expense in the accompanying consolidated statements of operations and changes in net assets. Increases in reimbursement from Medicaid are included in patient service revenue (net of contractual allowances and discounts).

Excess of Revenue Over Expenses

The accompanying consolidated statements of operations and changes in net assets include excess of revenue over expenses, which is considered the operating indicator. Changes in unrestricted net assets which are excluded from the operating indicator include unrealized gains and losses on investments other than trading securities, changes in pension obligation other than pension expense, permanent transfer of assets to and from affiliates for other than goods and services, and contributions of long-lived assets.

Note 1 Summary of Significant Accounting Policies (Continued)

Charity Care

Alliance provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because collection is not pursued on amounts determined to qualify as charity care, these amounts are not included in net patient service revenue less provision for bad debts in the accompanying consolidated statements of operations and changes in net assets.

The estimated cost of providing care to patients under Alliance's charity care policy is calculated by multiplying the ratio of cost to gross charges by the gross uncompensated charity care charges. The costs to provide Alliance's charity care was approximately $4,668,000 and $6,560,000 for the years ended June 30, 2014 and 2013, respectively.

Contributions and Unconditional Promises to Give

Contributions are considered to be available for unrestricted uses unless specifically restricted by the donor.

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is deemed unconditional. The gifts are reported as either temporarily restricted or permanently restricted support if they are received with donor stipulations that limit the use of donated assets. Donor-imposed contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying consolidated financial statements.

Advertising Costs

Advertising costs are expensed as incurred.

Note 1 Summary of Significant Accounting Policies (Continued)

Income Taxes

MAI, MHSC, MAC, MHH, and MFI are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. They are also exempt from state income taxes on related income.

Federal and state income taxes are paid on nonexempt unrelated business income in accordance with the Code.

MCIC and MercyCare HMO are taxable entities for both federal and Wisconsin income tax purposes and file a consolidated return on a calendar year basis. Deferred income taxes have been provided under the asset and liability method. Deferred tax assets and liabilities are determined based upon the difference between the financial statement and tax bases of assets and liabilities, as measured by the enacted tax rates which are to be in effect when these differences are expected to reverse. Income tax expense is not significant in relation to the consolidated financial statements.

In order to account for any uncertain tax positions, Alliance determines whether it is more likely than not that a tax position will be sustained upon examination on the technical merits of the position, assuming the taxing authority has full knowledge of all information. If the tax position does not meet the more likely than not recognition threshold, the benefit of that position is not recognized in the financial statements. Alliance recorded no assets or liabilities related to uncertain tax positions in 2014 and 2013. Federal tax returns of MAI, MHSC, MAC, MHH and MFI for tax years 2010 and beyond remain subject to examination by the Internal Revenue Service (IRS). The Federal returns for MCIC and MercyCare HMO for tax years 2011 and beyond remain subject to examination by the IRS, and their state tax returns for tax years 2010 and beyond remain subject to examination by the state taxing authority.

Subsequent Events

Subsequent events have been evaluated through August 25, 2014, which is the date the financial statements were issued.

Note 2 Reimbursement Arrangements With Third-Party Payors

Agreements are maintained with third-party payors that provide for reimbursement at amounts which vary from its established rates. A summary of the basis of reimbursement with major third-party payors follows:

Government Payors

MHSC and MAC

Medicare - Inpatient hospital acute care services are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient, clinic, home health, and subacute care services are reimbursed primarily on a prospective payment methodology based upon a patient classification system or fixed fee schedules.

Medicaid - Inpatient and outpatient services are reimbursed primarily based upon prospectively determined rates.

MHH and MWH

Under the CAH designation, inpatient and outpatient hospital services rendered to Medicare and Wisconsin Medicaid beneficiaries are paid based upon a cost-reimbursement methodology. Hospital services rendered to Illinois Medicaid beneficiaries are paid at prospectively determined rates based on a patient classification system.

Other Payors

Alliance has entered into payment agreements with commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements includes prospectively determined rates per discharge, discounts from established charges, fee schedules, and prospectively determined daily rates.

Accounting for Contractual Arrangements

Certain Medicare and Medicaid charges are reimbursed at tentative rates, with final settlements determined after audit of the related annual cost reports. The cost reports have been audited by the Medicare and Medicaid fiscal intermediaries through June 30, 2011.

Note 2 Reimbursement Arrangements With Third-Party Payors (Continued)

Compliance

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, particularly those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Allegations concerning possible violations by health care providers of regulations could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenue from patient services. Management believes Alliance is in substantial compliance with current laws and regulations.

The Centers for Medicare and Medicaid Services (CMS) uses Recovery Audit Contractors (RACs) as part of its efforts to ensure accurate payments under the Medicare program. RACs search for potentially inaccurate Medicare payments that may have been made to health care providers and that were not detected through existing CMS program integrity efforts. Once a RAC identifies a claim it believes is inaccurate, the RAC makes a deduction from or addition to the provider's Medicare reimbursement in an amount estimated to equal the overpayment or underpayment. The provider will then have the opportunity to appeal the adjustment before final settlement of the claim is made. As of June 30, 2014, Alliance has received notices from the RAC of certain claims identified by the RAC as inaccurate. Alliance is appealing a number of these adjustments and management believes any reimbursement adjustments related to these claims will not be significant.

Electronic Health Record Payments

The American Recovery and Reinvestment Act of 2009 (ARRA) provides for incentive payments under the Medicare and Medicaid programs for certain hospitals and physician practices that demonstrate meaningful use of certified electronic health record (EHR) technology. These provisions of ARRA, collectively referred to as the Health Information Technology for Economic and Clinical Health Act (the "HITECH Act"), are intended to promote the adoption and meaningful use of health information technology and qualified EHR technology.

Note 2 Reimbursement Arrangements With Third-Party Payors (Continued)

Electronic Health Record Payments (Continued)

Alliance recognizes revenue for EHR incentive payments when there is reasonable assurance that the conditions of the program will be met, primarily demonstrating meaningful use of certified EHR technology for the applicable period. The demonstration of meaningful use is based on meeting a series of objectives. Meeting the series of objectives in order to demonstrate meaningful use becomes progressively more stringent as its implementation is phased in through stages as outlined by CMS. Amounts recognized under the Medicare and Medicaid EHR incentive programs for non-CAH providers are based on management's best estimates which are based in part on cost report data that is subject to audit by fiscal intermediaries; accordingly, amounts recognized are subject to change. Incentive payments to CAH providers are based on the cost of the EHR technology for which the CAH has demonstrated meaningful use. In addition, Alliance's compliance with the meaningful use criteria is subject to audit by the federal government or its designee.

Alliance recorded approximately $4,453,000 and $6,218,000 in EHR incentive revenue from the Medicare program in 2014 and 2013, respectively, which is recorded in other revenue in the accompanying consolidated statements of operations and changes in net assets. In addition, Alliance recorded approximately $648,000 and $1,037,000 in EHR incentive revenue from the Medicaid program in 2014 and 2013, respectively, which is also included in other revenue in the accompanying consolidated statements of operations and changes in net assets.

Note 3 Patient Accounts Receivable

Patient accounts receivable consisted of the following at June 30:

	(In Thousands)	
	2014	2013
Patient accounts receivable	$ 200,565	$ 172,467
Less:		
Contractual adjustments and discounts	87,086	64,548
Allowance for doubtful accounts	20,593	24,848
Patient accounts receivable - Net	$ 92,886	$ 83,071

Write-offs as a percentage of gross revenue decreased 0.04% in 2014 compared to 2013; however, gross revenue increased approximately 14.8% in 2014 compared to 2013. These factors reduced the amount of past due accounts and contributed to the allowance for doubtful accounts decreasing from 14.4% of patient accounts receivable at June 30, 2013 to 10.3% of patient accounts receivable at June 30, 2014. Alliance has not changed its charity care or uninsured discount policies during 2014 or 2013.

Note 4 Assets Limited as to Use

Assets limited as to use, stated at fair value, are invested as follows at June 30:

	(In Thousands)	
	2014	2013
Certificates of deposit	$ 1,683	$ 1,451
Money market funds	2,520	2,170
Government and agency obligations	16,322	19,154
Municipal obligations	59	71
Corporate obligations	12,138	10,812
Foreign obligations	2,959	1,526
Equity mutual funds	27,935	21,569
Pooled separate accounts:		
Fixed income	63,618	42,643
Domestic equity	121,376	117,245
International equity	27,433	25,087
Total assets limited as to use	$ 276,043	$ 241,728

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Note 4 Assets Limited as to Use (Continued)

The composition of assets limited as to use was as follows at June 30:

	(In Thousands)	
	2014	2013
Held by trustee under bond indenture agreements:		
Debt service reserve and sinking funds	$ 4,858	$ 4,798
Project funds	-	609
Held by Treasurer of State of Wisconsin for regulatory requirements	4,266	4,080
Internally designated:		
Deferred compensation	9,970	7,493
Expansion and capital improvements	246,644	214,331
Regulatory compliance	10,305	10,417
Total assets limited as to use	$ 276,043	$ 241,728

Investment income, which includes investment earnings on cash equivalents and assets limited as to use, was comprised of the following:

	(In Thousands)	
	2014	2013
Interest and dividend income	$ 5,922	$ 5,794
Net realized gains on sales of investments	7,500	4,201
Total investment income - Included in nonoperating income	13,422	9,995
Change in net unrealized gains and losses on investments other than trading securities	28,724	18,248
Totals	$ 42,146	$ 28,243

Note 4 **Assets Limited as to Use** (Continued)

Investments, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of certain investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial statements.

Management assesses individual investment securities as to whether declines in market value are other-than-temporary and result in an impairment. For equity securities and mutual funds, Alliance considers whether it has the ability and intent to hold the investment until a market price recovery. Evidence considered in this includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year-end, the issuer's financial condition, and the general market condition in the geographic area or industry the investee operates in. For debt securities, if Alliance has made a decision to sell the security, or if it's more likely than not the Alliance will sell the security before the recovery of the security's cost basis, an other-than-temporary impairment is considered to have occurred. If Alliance has not made a decision or does not have intent to sell the debt security, but the debt security is not expected to recover its value due to a credit loss, an other-than temporary impairment is considered to have occurred.

Because Alliance has the intent and the ability to hold investment securities until a market price recovery or maturity, investment securities at June 30, 2014 and 2013, are not considered other-than temporarily impaired. No impairment losses were recognized by Alliance during 2014 and 2013.

Note 5 Fair Value Measurements

Following is a description of the valuation methodologies used for assets measured at fair value, including assets held in Alliance's defined benefit retirement plan (Note 9).

Money market funds: Valued using a net asset value (NAV) of $1.

Equity mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by Alliance are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price. The mutual funds held by Alliance are deemed to be actively traded.

Government and agency obligations, municipal obligations, corporate obligations, and foreign obligations: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

Pooled separate accounts and common trust fund (Note 9): Accounts invested in a single mutual fund are valued at the daily closing price as reported by the mutual fund. Other accounts are valued at the NAV of units of the separate account or fund. The NAV, as provided by the issuer/trustee, is used as a practical expedient to estimating fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities.

Note 5 Fair Value Measurements (Continued)

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

The following tables sets forth by level, within the fair value hierarchy, Alliance's assets and liabilities measured at fair value on a recurring basis, as of June 30:

	(In Thousands) 2014			
	Level 1	Level 2	Level 3	Total
Money market funds	$ 10	$ 3,291	$ -	$ 3,301
Government and agency obligations	-	16,322	-	16,322
Municipal obligations	-	59	-	59
Corporate obligations	-	12,138	-	12,138
Foreign obligations	-	2,959	-	2,959
Equity mutual funds	27,935	-	-	27,935
Pooled separate accounts:				
Fixed income	42,650	20,968	-	63,618
Domestic equity	121,376	-	-	121,376
International equity	27,433	-	-	27,433
Total assets at fair value	$ 219,404	$ 55,737	$ -	$ 275,141

Note 5 Fair Value Measurements (Continued)

	(In Thousands) 2013			
	Level 1	Level 2	Level 3	Total
Money market funds	$ 48	$ 4,542	$ -	$ 4,590
Government and agency obligations	-	19,154	-	19,154
Municipal obligations	-	71	-	71
Corporate obligations	-	10,812	-	10,812
Foreign obligations	-	1,526	-	1,526
Equity mutual funds	21,569	-	-	21,569
Pooled separate accounts:				
Fixed income	22,457	20,186	-	42,643
Domestic equity	117,245	-	-	117,245
International equity	25,087	-	-	25,087
Total assets at fair value	$ 186,406	$ 56,291	$ -	$ 242,697

Mercy Alliance, Inc. and Affiliates

Note 5 Fair Value Measurements (Continued)

The following table set forth additional disclosures of Alliance's investments whose fair value is estimated at net asset value per share as of June 30:

2014

Investment	(In Thousands) Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Pooled separate accounts:				
Fixed income (a)	$ 20,968	$ -	Continuously	N/A

2013

Investment	(In Thousands) Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Pooled separate accounts:				
Fixed income (a)	$ 20,186	$ -	Continuously	N/A

(a) Fund's strategy is to maximize total return by investing primarily in a diversified portfolio of intermediate and long-term debt securities, primarly investment-grade bonds.

Mercy Alliance, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 6 Property and Equipment

Property and equipment consisted of the following at June 30:

	(In Thousands) 2014	2013
Land	$ 27,301	$ 27,301
Land improvements	6,972	6,793
Leasehold improvements	5,519	5,666
Buildings and improvements	323,105	312,189
Equipment	1,637	1,607
Major movable equipment	208,728	199,051
Total property and equipment	573,262	552,607
Less - Accumulated depreciation	274,593	247,663
Net depreciated value	298,669	304,944
Construction in progress	6,071	4,574
Property and equipment - Net	$ 304,740	$ 309,518

Alliance substantially completed a construction project to expand and renovate MWH in 2013. During 2014 and 2013, Alliance placed approximately $1,500,000 and $43,000,000, respectively, of costs into service related to the project.

The remaining amounts in construction in progress relate to routine capital projects for renovating and updating Alliance's facilities.

Note 7 Long-Term Debt

Long-term debt consisted of the following at June 30:

	(In Thousands) 2014	2013
Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 2012, dated May 17, 2012; interest payable semi-annually at varying rates (4.38% to 5.00%), principal due in annual installments beginning June 2018 continuing through June 2039	$ 169,475	$ 169,475
Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 2010A, dated June 9, 2010; interest payable semi-annually at varying rates (5.00% to 5.50%), principal due in annual installments through June 2026	31,995	36,150
Equipment loans and other	7,303	7,355
Totals	208,773	212,980
Less:		
Unamortized bond premiums	(10,713)	(11,172)
Current maturities	6,469	5,974
Long-term portion	$ 213,017	$ 218,178

Note 7 Long-Term Debt (Continued)

The bond indenture agreements require the creation of funds to be held by a trustee for payment of construction costs and bond principal and interest. These funds, which are not available for general purposes, are classified as assets limited as to use under bond indenture agreements. In addition, the bond agreements require maintenance of certain debt service coverage ratios, limit additional borrowings, and require compliance with various other restrictive covenants. Management believes Alliance is in compliance with all such covenants. Mercy Health System Obligated Group, which includes MAI, MAC, MHSC, and MHH, has pledged as security for long-term debt substantially all of its property, equipment, and revenue.

Scheduled payments of principal on long-term debt at June 30, 2014, including current maturities, are summarized as follows:

	(In Thousands)
2015	$ 6,469
2016	6,479
2017	6,277
2018	6,119
2019	5,658
Thereafter	177,771
Total	$ 208,773

The carrying value of long-term debt approximates fair value.

Note 8 Retirement Plans

Alliance has a defined benefit noncontributory retirement plan (the "Plan") which covers its employees who work more than 1,000 hours annually, in addition to meeting certain eligibility requirements as specified in the Plan. All assets of the Plan, principally marketable securities, are held in a separate bank-administered trust. The funding policy is to contribute amounts sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974.

The following table provides further information about the Plan as of the Plan years ended June 30:

	(In Thousands) 2014	2013
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 111,361	$ 106,413
Service cost	7,309	6,674
Interest cost	4,965	4,489
Benefits paid	(8,122)	(6,136)
Actuarial (gain) loss	9,252	(79)
Benefit obligation at end of year	124,765	111,361
Change in Plan assets:		
Fair value of Plan assets at beginning of year	84,836	75,023
Actual return on Plan assets	14,728	7,914
Employer contributions	11,200	8,035
Benefits paid	(8,122)	(6,136)
Fair value of Plan assets at end of year	102,642	84,836
Funded status	$ (22,123)	$ (26,525)
Accumulated benefit obligation	$ 119,625	$ 107,112

Note 8 Retirement Plans (Continued)

Amounts recognized in the accompanying consolidated balance sheets at June 30, 2014 and 2013 consisted of:

	(In Thousands) 2014	2013
Current liability - Other accrued expenses	$ 8,601	$ 6,945
Noncurrent liability	13,522	19,580
Total	$ 22,123	$ 26,525
Total net assets - Unrestricted:		
Prior service cost	$ 407	$ 514
Net actuarial loss	20,938	21,026
Total amount recognized in net assets	$ 21,345	$ 21,540

Pension expense for the years ended June 30, 2014 and 2013, was comprised of the following:

	(In Thousands) 2014	2013
Pension expense:		
Service cost	$ 7,309	$ 6,674
Interest cost	4,965	4,489
Expected return on assets	(6,466)	(5,890)
Amortization of prior service cost	107	107
Amortization of unrecognized actuarial loss	1,078	1,064
Total pension expense	6,993	6,444
Other changes in Plan assets and benefit obligations recognized in other changes in net assets:		
Net actuarial loss (gain)	990	(2,103)
Amortization of actuarial loss	(1,078)	(1,064)
Amortization of prior service cost	(107)	(107)
Total recognized in other changes in net assets	(195)	(3,274)
Total recognized as pension expense and other changes in net assets	$ 6,798	$ 3,170

ATTACHMENT 6

Note 8 Retirement Plans (Continued)

The estimated prior service cost and actuarial loss that will be amortized from net assets into pension expense over the next fiscal year will be $1,606,000.

Weighted average assumptions used at June 30, the measurement date, in developing the projected benefit obligation are as follows:

	2014	2013
Discount rate for obligation	4.05%	4.60%
Discount rate for net periodic cost	4.60%	4.35%
Expected long-term return on plan assets	7.25%	7.50%
Rate of compensation increase for obligation	2.00%	2.00%
Rate of compensation increase for net periodic cost	2.00%	1.50% grading to 2.00%

To develop the expected long-term rate of return on assets assumptions, Alliance considered the historical returns and future expectations for returns in each asset class, as well as targeted allocation percentages within the Plan's portfolio.

Alliance intends to provide an appropriate range of investment options that span the risk/return spectrum. The investment options allow for an investment portfolio consistent with the Plan's circumstances, goals, time horizons, and tolerance for risk.

Alliance's asset allocations are as follows at June 30:

	2014	2013
Asset category:		
Cash equivalents	0.6%	1.7%
Pooled separate accounts:		
Fixed income	50.9%	47.0%
Domestic equity	43.3%	46.5%
International real estate	5.2%	4.8%
Totals	100.0%	100.0%

Note 8 Retirement Plans (Continued)

The following table sets forth by level, within the fair value hierarchy, the Corporation's Plan assets at fair value as of June 30:

	(In Thousands) 2014			
	Level 1	Level 2	Level 3	Total
Cash equivalents	$ -	$ 634	$ -	$ 634
Pooled separate accounts:				
Fixed income	-	52,212	-	52,212
Domestic equity	-	44,473	-	44,473
International real estate	-	5,323	-	5,323
Total assets at fair value	$ -	$ 102,642	$ -	$ 102,642

	(In Thousands) 2013			
	Level 1	Level 2	Level 3	Total
Cash equivalents	$ -	$ 1,421	$ -	$ 1,421
Pooled separate accounts:				
Fixed income	-	39,867	-	39,867
Domestic equity	-	39,469	-	39,469
International equity	-	4,079	-	4,079
Total assets at fair value	$ -	$ 84,836	$ -	$ 84,836

Note 8 Retirement Plans (Continued)

The following table sets forth additional disclosures of Alliance's investments whose fair value is estimated at NAV per share as of June 30:

	2014			
Investment	(In Thousands) Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Pooled separate accounts:				
Fixed income (a)	$ 52,212	$ -	Continuously	N/A
Domestic equity (b)	44,473	-	Continuously	N/A
International real estate (c)	5,323	-	Continuously	N/A

	2013			
Investment	(In Thousands) Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Pooled separate accounts:				
Fixed income (a)	$ 39,867	$ -	Continuously	N/A
Domestic equity (b)	39,469	-	Continuously	N/A
International real estate (c)	4,079	-	Continuously	N/A

(a) Invests mainly in bonds or debt of a company or government entity (including U.S. and non-U.S.).
(b) Invests in stock or shares of ownership of U.S. companies.
(c) Invests in ventures or entities that hold a variety of foreign properties

Note 8 Retirement Plans (Continued)

Alliance expects to contribute $11,200,000 to the Plan in fiscal 2014.

Benefit payments are expected to be paid as follows:

		(In Thousands)
2015	$	8,601
2016	$	8,548
2017	$	9,150
2018	$	10,079
2019	$	10,292
Years 2020 through 2024	$	63,106

MHSC, MAC, and MHH also participate in a contributory tax-deferred annuity plan, which covers all employees at least 18 years of age with one year of service. Employees may contribute up to 4% of compensation to the annuity plan on a tax-deferred basis, plus additional amounts subject to a regulatory limit. MHSC, MAC, and MHH may contribute discretionary amounts up to 50% of employees' tax-deferred contribution, up to 4% of compensation. MHSC, MAC, and MHH recognized expense of $2,141,000 and $2,369,000 related to this plan for the years ended June 30, 2014 and 2013, respectively.

MHSC also contributes to a multi-employer defined benefit plan, which covers employees pursuant to the terms of collective bargaining agreements. MHSC recognized expense of $240,000 and $235,000 related to this plan for the years ended June 30, 2014 and 2013, respectively. MHSC also contributes to a 401(k) plan for this same group of employees an amount, based on a matching percentage of participant contributions, set by the terms of collective bargaining agreements. MHSC recognized expense of $84,000 and $94,000 related to the 401(k) plan for the years ended June 30, 2014 and 2013, respectively.

MHSC also sponsors deferred compensation programs covering certain physicians and officers. Investments designated for deferred compensation and corresponding liabilities totaling $9,970,000 and $7,493,000 at June 30, 2014 and 2013, respectively, are included in the accompanying consolidated balance sheets. Total deferred compensation expense was $1,456,000 and $1,420,000 in 2014 and 2013, respectively.

Note 9 Patient Service Revenue (Net of Contractual Allowances and Discounts)

The following table sets forth the detail of patient service revenue (net of contractual allowances and discounts) for the years ended June 30:

	(In Thousands) 2014	2013
Gross patient service revenue	$ 1,096,491	$ 955,131
Deductions - Contractual allowances and discounts:		
Medicare	(264,597)	(220,329)
Medicaid	(118,545)	(94,139)
Managed care	(62,308)	(61,428)
Commercial and other	(175,038)	(146,112)
Uninsured patients	(9,075)	(6,955)
Patient service revenue (net of contractual allowances and discounts)	$ 466,928	$ 426,168

During 2014 and 2013, approximately 34.7% and 35.8%, respectively, of Alliance's patient service revenue (net of contractual allowances and discounts) related to patients participating in the Medicare and Medicaid programs.

Patient service revenue (net of contractual allowances and discounts) recognized in the years ended June 30, from major payor sources is as follows:

	(In Thousands) 2014	2013
Medicare and Medicaid	$ 162,107	$ 152,614
Managed care, and commercial and other	275,810	249,886
Uninsured patients	29,011	23,668
Patient service revenue (net of contractual allowances and discounts)	$ 466,928	$ 426,168

Note 10 Operating Leases

Alliance leases office space, office equipment, and certain medical equipment from unrelated organizations. Total rental expense was approximately $3,459,000 and $3,526,000 in 2014 and 2013, respectively.

Future minimum lease payments, by year and in the aggregate, under non-cancelable lease agreements are summarized as follows:

	(In Thousands)
2015	$ 1,404
2016	888
2017	631
2018	423
2019	139
Total minimum lease payments	$ 3,485

Note 11 Malpractice Insurance

Alliance manages a self-insurance program for its professional liability on a claims-made basis. Alliance retains the first $1,000,000 per occurrence and $3,000,000 per year for Wisconsin claims. Coverage against losses in excess of these amounts is maintained through mandatory participation in the Patients' Compensation Fund of the State of Wisconsin. For Illinois claims, the Alliance generally retains the first $2,000,000 of loss per claim and has purchased an umbrella policy that provides excess coverage.

Alliance has provided a reserve of $20,000,000 and $20,677,000 for potential professional liability claims for services provided to patients through June 30, 2014 and 2013, respectively, which have not yet been asserted. These amounts are included in other accrued expenses in the accompanying consolidated balance sheets.

Note 12 Concentration of Credit Risk

Financial instruments that potentially subject Alliance to credit risk consist principally of accounts receivable and cash deposits in excess of insured limits in financial institutions.

The mix of receivables from patients and third-party payors is as follows at June 30:

	2014	2013
Medicare	30%	27%
Medicaid	10%	8%
Other third-party payors	36%	33%
Patients	24%	32%
Totals	100%	100%

Alliance maintains depository relationships with area financial institutions that are Federal Deposit Insurance Corporation (FDIC) insured institutions. Alliance maintains cash in accounts at these institutions which are insured by the FDIC up to $250,000. At June 30, 2014, Alliance's deposits exceeded the insured limits by approximately $25,031,000.

Note 13 Functional Expenses

Alliance provides general health care services to residents within its geographic location and contracts with various health care providers to provide medical services to members insured by MCIC. Expenses related to providing these services are as follows:

	(In Thousands) 2014	2013
Health care services	$ 381,791	$ 361,244
General and administrative	136,337	128,341
Total expenses	$ 518,128	$ 489,585

Supplementary Information

ATTACHMENT 6

WIPFLi LLP

Independent Auditor's Report on Supplementary Information

Board of Directors
Mercy Alliance, Inc.
Janesville, Wisconsin

We have audited the consolidated financial statements of Mercy Alliance, Inc. and Affiliates as of and for the years ended June 30, 2014 and 2013, and our report thereon dated August 25, 2014 which expressed an unmodified opinion on those consolidated financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplementary information appearing on pages 40 through 43 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Wipfli LLP

Wipfli LLP

August 25, 2014
Milwaukee, Wisconsin

Mercy Alliance, Inc. and Affiliates

Consolidating Balance Sheet

June 30, 2014

	(In Thousands)				
Assets	Mercy Alliance, Inc.	Mercy Assisted Care, Inc.	Mercy Health System Corporation	Mercy Harvard Hospital, Inc.	Eliminations
Current assets:					
Cash and cash equivalents	$ 485	$ 1,232	$ 18,401	$ 1,089	$ -
Patient accounts receivable - Net	-	2,116	87,098	5,047	-
Supplies	-	587	10,738	568	-
Prepaid expenses	-	98	5,824	185	-
Due from third-party payors	-	-	572	-	-
Due from related party	4,549	401	2,835	31	(7,816)
Other receivables	92	8	6,143	409	-
Total current assets	5,126	4,442	131,611	7,329	(7,816)
Assets limited as to use	191,408	586	52,131	-	-
Property and equipment - Net	-	3,338	288,590	12,812	-
Other assets:					
Unamortized debt issuance costs - Net	-	52	2,063	62	-
Investment in subsidiaries	202,758	-	21,816	-	(200,886)
Due from related party, less current portion	214,210	-	-	-	(214,210)
Other	-	-	1,315	-	-
Total other assets	416,968	52	25,194	62	(415,096)
TOTAL ASSETS	$ 613,502	$ 8,418	$ 497,526	$ 20,203	$ (422,912)
Liabilities and Net Assets					
Current liabilities:					
Current maturities of long-term debt	$ 4,355	$ -	$ 2,112	$ 2	$ -
Accounts payable					
Trade	-	237	9,645	189	-
Construction	-	-	488	-	-
Accrued salaries, wages, and payroll taxes	-	392	26,001	818	-
Due to related party	-	600	4,404	2,850	(7,816)
Due to third-party payors	-	124	-	524	-
Other accrued expenses	826	8	33,881	95	-
Total current liabilities	5,181	1,361	76,531	4,478	(7,816)
Long-term liabilities:					
Long-term debt, less current maturities	207,828	-	5,187	2	-
Deferred compensation	-	-	9,970	-	-
Pension liability	-	-	13,522	-	-
Due to related party, less curent maturities	-	2,921	197,842	13,447	(214,210)
Total long-term liabilities	207,828	2,921	226,521	13,449	(214,210)
Total liabilities	213,009	4,282	303,052	17,927	(222,026)
Total net assets - Unrestricted	400,493	4,136	194,474	2,276	(200,886)
TOTAL LIABILITIES AND NET ASSETS	$ 613,502	$ 8,418	$ 497,526	$ 20,203	$ (422,912)

ATTACHMENT 6

(In Thousands)

Mercy Health System Obligated Group	MercyCare Insurance Company	Mercy Foundation, Inc.	Eliminations	Consolidated Total
$ 21,207	$ 979	$ 140	$ -	$ 22,326
94,261	-	-	(1,375)	92,886
11,893	-	-	-	11,893
6,107	-	-	(1,967)	4,140
572	-	-	-	572
-	4	34	(38)	-
6,652	3,901	-	(1,282)	9,271
140,692	4,884	174	(4,662)	141,088
244,125	30,220	1,698	-	276,043
304,740	-	-	-	304,740
2,177	-	-	-	2,177
23,688	-	-	(23,688)	-
-	-	-	-	-
1,315	725	-	-	2,040
27,180	725	-	(23,688)	4,217
$ 716,737	$ 35,829	$ 1,872	$ (28,350)	$ 726,088

$ 6,469	$ -	$ -	$ -	$ 6,469
10,071	-	-	-	10,071
488	-	-	-	488
27,211	-	-	-	27,211
38	-	-	(38)	-
648	-	-	-	648
34,810	14,013	-	(4,624)	44,199
79,735	14,013	-	(4,662)	89,086
213,017	-	-	-	213,017
9,970	-	-	-	9,970
13,522	-	-	-	13,522
-	-	-	-	-
236,509	-	-	-	236,509
316,244	14,013	-	(4,662)	325,595
400,493	21,816	1,872	(23,688)	400,493
$ 716,737	$ 35,829	$ 1,872	$ (28,350)	$ 726,088

See Independent Auditor's Report on Supplementary Information.

Mercy Alliance, Inc. and Affiliates

Consolidating Balance Sheet

June 30, 2013

	(In Thousands)				
Assets	Mercy Alliance, Inc.	Mercy Assisted Care, Inc.	Mercy Health System Corporation	Mercy Harvard Hospital, Inc.	Eliminations
Current assets:					
Cash and cash equivalents	$ 427	$ 1,180	$ 8,648	$ 933	$ -
Patient accounts receivable - Net	-	2,073	78,130	4,196	-
Supplies	-	600	10,104	625	-
Prepaid expenses	-	106	5,604	218	-
Due from third-party payors	-	-	546	-	-
Due from related party	4,358	-	6,207	17	(10,545)
Other receivables	82	-	5,972	1,140	-
Total current assets	4,867	3,959	115,211	7,129	(10,545)
Assets limited as to use	182,391	579	31,295	-	-
Property and equipment - Net	-	3,675	291,762	14,081	-
Other assets:					
Unamortized debt issuance costs - Net	-	57	2,168	64	-
Investment in subsidiaries	162,132	-	18,985	-	(160,532)
Due from related party, less current portion	218,406	-	-	-	(218,406)
Other	-	-	1,317	-	-
Total other assets	380,538	57	22,470	64	(378,938)
TOTAL ASSETS	$ 567,796	$ 8,270	$ 460,738	$ 21,274	$ (389,483)
Liabilities and Net Assets					
Current liabilities:					
Current maturities of long-term debt	$ 4,155	$ -	$ 1,817	$ 2	$ -
Accounts payable:					
Trade	-	281	8,391	199	-
Construction	-	-	695	-	-
Accrued salaries, wages, and payroll taxes	-	398	23,084	767	-
Due to related party	1,388	636	3,852	4,669	(10,545)
Due to third-party payors	-	100	-	770	-
Other accrued expenses	843	9	32,929	136	-
Total current liabilities	6,386	1,424	70,768	6,543	(10,545)
Long-term liabilities:					
Long-term debt, less current maturities	212,642	-	5,532	4	-
Deferred compensation	-	-	7,493	-	-
Pension liability	-	-	19,580	-	-
Due to related party, less current portion	-	3,327	202,185	12,894	(218,406)
Total long-term liabilities	212,642	3,327	234,790	12,898	(218,406)
Total liabilities	219,028	4,751	305,558	19,441	(228,951)
Total net assets (deficit) - Unrestricted	348,768	3,519	155,180	1,833	(160,532)
TOTAL LIABILITIES AND NET ASSETS	$ 567,796	$ 8,270	$ 460,738	$ 21,274	$ (389,483)

ATTACHMENT 6

(In Thousands)				
Mercy Health System Obligated Group	MercyCare Insurance Company	Mercy Foundation, Inc.	Eliminations	Consolidated Total
$ 11,188	$ 1,995	$ 101	$ -	$ 13,284
84,399	-	-	(1,328)	83,071
11,329	-	-	-	11,329
5,928	-	-	(1,948)	3,980
546	-	-	-	546
37	-	-	(37)	-
7,194	2,955	-	-	10,149
120,621	4,950	101	(3,313)	122,359
214,265	25,948	1,515	-	241,728
309,518	-	-	-	309,518
2,289	-	-	-	2,289
20,585	-	-	(20,585)	-
-	-	-	-	-
1,317	753	-	-	2,070
24,191	753	-	(20,585)	4,359
$ 668,595	$ 31,651	$ 1,616	$ (23,898)	$ 677,964
$ 5,974	$ -	$ -	$ -	$ 5,974
8,871	-	-	-	8,871
695	-	-	-	695
24,249	-	-	-	24,249
-	21	16	(37)	-
870	-	-	-	870
33,917	12,645	-	(3,276)	43,286
74,576	12,666	16	(3,313)	83,945
218,178	-	-	-	218,178
7,493	-	-	-	7,493
19,580	-	-	-	19,580
-	-	-	-	-
245,251	-	-	-	245,251
319,827	12,666	16	(3,313)	329,196
348,768	18,985	1,600	(20,585)	348,768
$ 668,595	$ 31,651	$ 1,616	$ (23,898)	$ 677,964

See Independent Auditor's Report on Supplementary Information.

ATTACHMENT 6

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Mercy Alliance, Inc. and Affiliates

Consolidating Statement of Operations and Changes in Net Assets

Year Ended June 30, 2014

	Mercy Alliance, Inc.	Mercy Assisted Care, Inc.	Mercy Health System Corporation	Mercy Harvard Hospital, Inc.	Eliminations
	(In Thousands)				
Revenue:					
Patient service revenue (net of contractual allowances and discounts)	$ -	$ 9,982	$ 499,568	$ 25,027	$ -
Provision for bad debts	-	(187)	(28,097)	(2,650)	-
Net patient service revenue less provision for bad debts	-	9,795	471,471	22,377	-
Premium revenue	-	-	-	-	-
Other revenue	325	4	6,925	123	(276)
Total revenue	325	9,799	478,396	22,500	(276)
Expenses:					
Salaries and wages	-	4,069	244,616	8,162	-
Employee benefits	2,385	1,143	52,698	2,213	-
Professional fees and purchased services	96	259	27,645	3,483	-
Medical claims and capitation payments	-	-	-	-	-
Medical supplies, other supplies, and drugs	-	2,347	79,025	2,311	-
Utilities	-	176	6,609	448	-
Insurance	-	14	4,508	253	-
Other	15	587	16,254	2,808	
Depreciation and amortization	(459)	503	25,843	1,844	-
Interest	508	177	9,358	569	(276)
Total expenses	2,545	9,275	466,556	22,091	(276)
Income (loss) from operations	(2,220)	524	11,840	409	-
Nonoperating income - Net	28,279	93	3,223	34	(16,754)
Excess of revenue over expenses	26,059	617	15,063	443	(16,754)
Other changes in unrestricted net assets:					
Change in net unrealized gains and losses on investments other than trading securities	25,666	-	370	-	-
Changes in pension obligation other than pension expense	-	-	195	-	-
Other	23,600	-	66	-	(23,600)
Transfers (to) from affiliates	(23,600)	-	23,600	-	-
Change in unrestricted net assets	51,725	617	39,294	443	(40,354)
Unrestricted net assets at beginning	348,768	3,519	155,180	1,833	(160,532)
Unrestricted net assets at end	$ 400,493	$ 4,136	$ 194,474	$ 2,276	$ (200,886)

ATTACHMENT 6

(In Thousands)				
Mercy Health System Obligated Group	MercyCare Insurance Company	Mercy Foundation, Inc.	Eliminations	Consolidated Total
$ 534,577	$ -	$ -	$ (67,649)	$ 466,928
(30,934)	-	-	-	(30,934)
503,643	-	-	(67,649)	435,994
-	101,161	-	(17,123)	84,038
7,101	-	-	-	7,101
510,744	101,161	-	(84,772)	527,133
256,847	-	-	-	256,847
58,439	-	-	(17,123)	41,316
31,483	819	-	-	32,302
-	93,948	-	(67,649)	26,299
83,683	-	-	-	83,683
7,233	-	-	-	7,233
4,775	-	-	-	4,775
19,664	7,942	-	-	27,606
27,731	-	-	-	27,731
10,336	-	-	-	10,336
500,191	102,709	-	(84,772)	518,128
10,553	(1,548)	-	-	9,005
14,875	1,663	300	(3,103)	13,735
25,428	115	300	(3,103)	22,740
26,036	2,716	(28)	-	28,724
195	-	-	-	195
66	-	-	-	66
-	-	-	-	-
51,725	2,831	272	(3,103)	51,725
348,768	18,985	1,600	(20,585)	348,768
$ 400,493	$ 21,816	$ 1,872	$ (23,688)	$ 400,493

ATTACHMENT 6

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Mercy Alliance, Inc. and Affiliates

Consolidating Statement of Operations and Changes in Net Assets

Year Ended June 30, 2013

	Mercy Alliance, Inc.	Mercy Assisted Care, Inc.	Mercy Health System Corporation	Mercy Harvard Hospital, Inc.	Eliminations
	(In Thousands)				
Revenue:					
Patient service revenue (net of contractual allowances and discounts)	$ -	$ 10,207	$ 464,742	$ 23,261	$ -
Provision for bad debts	-	(22)	(20,829)	(2,208)	-
Net patient service revenue less provision for bad debts	-	10,185	443,913	21,053	-
Premium revenue	-	-	-	-	-
Other revenue	334	8	9,329	1,292	(284)
Total revenue	334	10,193	453,242	22,345	(284)
Expenses:					
Salaries and wages	-	4,742	232,824	8,277	-
Employee benefits	2,095	1,250	50,573	2,076	-
Professional fees and purchased services	228	402	27,606	3,711	-
Medical claims and capitation payments	-	-	-	-	-
Medical supplies, other supplies, and drugs	-	2,328	73,572	2,147	-
Utilities	-	212	6,071	391	-
Insurance	-	14	1,038	250	-
Other	11	689	15,925	2,407	-
Depreciation and amortization	(459)	531	24,594	1,474	-
Interest	515	197	8,150	484	(284)
Total expenses	2,390	10,365	440,353	21,217	(284)
Income (loss) from operations	(2,056)	(172)	12,889	1,128	-
Nonoperating income - Net	30,625	27	5,375	8	(22,101)
Excess (deficiency) of revenue over expenses	28,569	(145)	18,264	1,136	(22,101)
Other changes in unrestricted net assets:					
Change in net unrealized gains and losses on investments other than trading securities	16,518	-	(428)	-	-
Changes in pension obligation other than pension expense	-	-	3,274	-	-
Change in unrestricted net assets	45,087	(145)	21,110	1,136	(22,101)
Unrestricted net assets at beginning	303,681	3,664	134,070	697	(138,431)
Unrestricted net assets at end	$ 348,768	$ 3,519	$ 155,180	$ 1,833	$ (160,532)

ATTACHMENT 6

(In Thousands)

Mercy Health System Obligated Group	MercyCare Insurance Company	Mercy Foundation, Inc.	Eliminations	Consolidated Total
$ 498,210	$ -	$ -	$ (72,042)	$ 426,168
(23,059)	-	-	-	(23,059)
475,151	-	-	(72,042)	403,109
-	104,638	-	(15,793)	88,845
10,679	-	-	-	10,679
485,830	104,638	-	(87,835)	502,633
245,843	-	-	-	245,843
55,994	-	-	(15,793)	40,201
31,947	797	-	-	32,744
-	95,695	-	(72,042)	23,653
78,047	-	-	-	78,047
6,674	-	-	-	6,674
1,302	-	-	-	1,302
19,032	6,887	-	-	25,919
26,140	-	-	-	26,140
9,062	-	-	-	9,062
474,041	103,379	-	(87,835)	489,585
11,789	1,259	-	-	13,048
13,934	1,088	84	(4,589)	10,517
25,723	2,347	84	(4,589)	23,565
16,090	2,094	64	-	18,248
3,274	-	-	-	3,274
45,087	4,441	148	(4,589)	45,087
303,681	14,544	1,452	(15,996)	303,681
$ 348,768	$ 18,985	$ 1,600	$ (20,585)	$ 348,768

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