

**CONSOLIDATED FINANCIAL STATEMENTS**

**CATHOLIC HEALTH SYSTEM, INC.  
AND SUBSIDIARIES**

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**DECEMBER 31, 2013**

# CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

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## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Catholic Health System, Inc. and its subsidiaries (together the "System"), which comprise the consolidated balance sheet as of December 31, 2013, and the related consolidated statement of operations and 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 System'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 System'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 Catholic Health System, Inc. and its subsidiaries as of December 31, 2013, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### Other Matter

The consolidated financial statements of Catholic Health System, Inc. and its subsidiaries 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

**CATHOLIC HEALTH SYSTEMS, INC. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

(in thousands of dollars)

December 31,

<b>ASSETS</b>	<b>2013</b>	<b>2012</b>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 278,806	\$ 242,190
Patient/resident accounts receivable, net of allowance for doubtful accounts of \$26,379 (2012 - \$27,248)	122,754	122,498
Other receivables	13,089	7,979
Inventories	20,129	14,477
Assets limited as to use	836	1,826
Prepaid expenses and other current assets	6,118	4,723
<b>Total current assets</b>	<b>441,732</b>	<b>393,693</b>
Interest in net assets of affiliated Foundations	4,616	3,915
Assets limited as to use	30,268	39,376
Investments	8,953	7,690
Property and equipment, net	271,620	260,519
Other assets	85,169	73,140
<b>Total assets</b>	<b>\$ 842,358</b>	<b>\$ 778,333</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities:</b>		
Current portion of long-term obligations	\$ 15,399	\$ 13,822
Long-term obligations subject to short-term remarketing arrangements	-	79,307
Line of credit payable	10,831	8,380
Accounts payable	45,638	46,426
Accrued expenses	64,852	61,773
Due to third-party payors	38,473	40,973
<b>Total current liabilities</b>	<b>175,193</b>	<b>250,681</b>
Long-term obligations, net	128,671	59,230
Other long-term obligations, net	346,097	427,199
<b>Total liabilities</b>	<b>649,961</b>	<b>737,110</b>
<b>Net assets:</b>		
Unrestricted	183,556	32,889
Temporarily restricted	8,595	8,088
Permanently restricted	246	246
<b>Total net assets</b>	<b>192,397</b>	<b>41,223</b>
<b>Total liabilities and net assets</b>	<b>\$ 842,358</b>	<b>\$ 778,333</b>

See accompanying notes.

**CATHOLIC HEALTH SYSTEMS, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS**

(in thousands of dollars)

For the Years Ended December 31,

	<b>2013</b>	<b>2012</b>
<b>Unrestricted revenues and other support:</b>		
Net patient/resident service revenue	\$ 922,793	\$ 884,136
Provision for bad debts	(20,712)	(25,286)
Net patient/resident service revenue, less provision for bad debts	902,081	858,850
Other revenue	19,821	19,265
Net assets released from restrictions	321	98
<b>Total unrestricted revenues and other support</b>	<b>922,223</b>	<b>878,213</b>
<b>Expenses:</b>		
Salaries and wages	398,633	377,852
Employee benefits	131,141	123,547
Medical and professional fees	40,468	38,179
Purchased services	67,706	69,056
Supplies	170,557	164,556
Depreciation and amortization	36,743	35,668
Interest	6,937	6,824
Insurance	8,321	7,405
Other expenses	29,813	28,084
<b>Total expenses</b>	<b>890,319</b>	<b>851,171</b>
<b>Income from operations</b>	<b>31,904</b>	<b>27,042</b>
<b>Nonoperating revenues and losses:</b>		
Investment income	2,343	1,562
Other, net	1,340	598
<b>Total nonoperating revenues and losses</b>	<b>3,683</b>	<b>2,160</b>
<b>Excess of revenues over expenses</b>	<b>\$ 35,587</b>	<b>\$ 29,202</b>

See accompanying notes.

**CATHOLIC HEALTH SYSTEMS, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (CONTINUED)**

(in thousands of dollars)

For the Years Ended December 31,

	<b>2013</b>	<b>2012</b>
<b>Unrestricted net assets:</b>		
Excess of revenues over expenses	\$ 35,587	\$ 29,202
Change in unrealized gain (loss) on interest rate swap	7,067	(641)
Change in pension obligation, other than net periodic cost	107,542	(29,972)
Net assets released from restrictions used for capital	1,236	684
Grant revenue for capital expenditures	390	79
Other	147	145
Increase (decrease) in unrestricted net assets before effects of discontinued operations	151,969	(503)
Loss from discontinued operations	(1,302)	(2,336)
Increase (decrease) unrestricted net assets	150,667	(2,839)
<b>Temporarily restricted net assets:</b>		
Contributions and other	1,233	426
Investment income	19	16
Special events revenue, net	87	136
Change in temporarily restricted interest in related Foundations	701	646
Temporarily restricted net assets released from restrictions	(1,557)	(782)
Other	24	-
Increase in temporarily restricted net assets	507	442
Increase (decrease) in net assets	151,174	(2,397)
Net assets, beginning of year	41,223	43,620
Net assets, end of year	<u>\$ 192,397</u>	<u>\$ 41,223</u>

See accompanying notes.

**CATHOLIC HEALTH SYSTEMS, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands of dollars)

For the Years Ended December 31,

	<b>2013</b>	<b>2012</b>
<b>Cash flows from operating activities:</b>		
Increase (decrease) in net assets	\$ 151,174	\$ (2,397)
Change in net assets from discontinued operations	1,302	2,336
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities		
Depreciation and amortization	36,743	35,668
Provision for bad debts	20,712	25,286
Change in undistributed net assets of related Foundations	(701)	(646)
Change in pension obligation, other than net periodic cost	(107,542)	29,972
Grant revenue for capital additions	(390)	(79)
Change in unrealized loss on interest rate swap	(7,176)	662
Change in unrealized gains on investments	(621)	(308)
Undistributed earnings in equity investees	(7)	(10)
Gain on renewal of capital leases	-	(155)
Other	(130)	104
(Increase) decrease in assets		
Patient accounts receivables	(21,463)	(38,660)
Other receivables	(5,175)	545
Inventories	(5,652)	(2,798)
Prepaid expenses and other current assets	(1,395)	(582)
Other assets	(1,063)	(1,424)
Increase (decrease) in liabilities:		
Accounts payable	(408)	6,311
Accrued expenses	2,243	3,802
Due to third-party payors	(2,500)	4,651
Other liabilities	21,837	19,922
Net cash used in operating activities of discontinued operations	(372)	(1,533)
<b>Net cash and cash equivalents provided by operating activities</b>	<b>79,416</b>	<b>80,667</b>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(42,522)	(45,406)
Proceeds from sale of property and equipment	-	592
Purchase of assets limited as to use	(2,772)	(27,478)
Proceeds from sale of assets limited as to use	12,654	10,647
Change in investments, net	(134)	(145)
Purchase of intangible assets	-	(2,650)
<b>Net cash and cash equivalents used in investing activities</b>	<b>(32,774)</b>	<b>(64,440)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of long-term obligations	3,718	30,849
Discount on issuance	-	(188)
Premium on issuance	-	205
Proceeds of grant revenue for capital additions	390	79
Repayments of current and long-term obligations	(14,134)	(12,151)
<b>Net cash and cash equivalents (used in) provided by financing activities</b>	<b>(10,026)</b>	<b>18,794</b>
<b>Increase in cash and cash equivalents</b>	<b>36,616</b>	<b>35,021</b>
Cash and cash equivalents - beginning of year	242,190	207,169
Cash and cash equivalents - end of year	<u>\$ 278,806</u>	<u>\$ 242,190</u>

See accompanying notes.

## CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of dollars)

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#### NOTE 1. ORGANIZATION

Catholic Health System, Inc. and Subsidiaries ("CHS" or the "System") 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 KMH Homes Inc. and 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, 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 System include the accounts of CHS (commonly referred to as the "Parent") and each of its wholly-owned or controlled subsidiaries. All significant intercompany balances and transactions have been eliminated to reflect the consolidated amounts.

As further described in Note 16, the System has entered into purchase agreements for the sale of certain assets of St. Francis Home of Williamsville (SFHW) and St. Elizabeth's Home (SEH). These agreements were entered into on January 29, 2014. In addition, System expects to finalize a similar agreement for the sale of certain assets of St. Vincent's Home for the Aged (SVH) prior to June 30, 2014. As a result, at December 31, 2013 and 2012, certain assets and liabilities of SFHW, SEH, and SVH met the criteria for classifying those assets and liabilities as held for sale and accordingly, the operating results of these subsidiaries have been classified as discontinued within the statement of changes in net assets.

**Use of Estimates:** The preparation of 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 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 System 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, health insurance, professional and general liability, and actuarial assumptions used in determining pension expense.



# CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of dollars)

### 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 System.

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 System 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 System maintains funds on deposit in excess of amounts insured by the Federal Depository Insurance limits.

	<u>2013</u>	<u>2012</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 6,838	\$ 6,777
Non-cash investing and financing transactions:		
Assets acquired under capital lease obligations	\$ 3,198	\$ 4,384
Construction related payables	\$ 836	\$ 1,826
Other non-cash transactions	\$ 1,591	\$ 426

**Other Receivables and Other Assets:** 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. Other non-current assets consist of deferred financing costs, insurance recoveries, investments in healthcare ventures, and other miscellaneous deferred charges. Amortization of the financing costs is provided on the effective interest method over the maturity of the bond issues.

The composition of current other receivables and other non-current assets is as follows at December 31:

<b>Current other receivables:</b>	<u>2013</u>	<u>2012</u>
Physician loans	\$ 4,088	\$ 4,405
Managed care risk receivable	4,612	-
Other	<u>4,389</u>	<u>3,574</u>
Other receivables	<u>\$ 13,089</u>	<u>\$ 7,979</u>
<b>Non-current other assets:</b>		
Insurance recoveries	\$ 74,877	\$ 63,558
Deferred financing costs, net	4,572	4,932
Investments in healthcare ventures	373	366
Loans to related parties	300	300
Other	<u>5,047</u>	<u>3,984</u>
Other assets	<u>\$ 85,169</u>	<u>\$ 73,140</u>

Amortization expense on debt issuance costs amounted to \$360 and \$345 for years ended December 31, 2013 and 2012, respectively. Accumulated Amortization related to the debt issuance costs amounted to \$2,961 and \$2,601 at December 31, 2013 and 2012, respectively. Amortization expense is expected to be within approximately \$300 and \$400 for the years ended December 31, 2014 to 2018.

**CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
*(in thousands of dollars)*

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**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

**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.

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

**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 period of 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.

**Impairment of Long-Lived Assets:** The System 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 System 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 are no adjustments to the carrying value of long-lived assets in 2013 and 2012.

**CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
*(in thousands of dollars)***NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Asset Retirement Obligations:** The System 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 System 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 \$460 and \$437, respectively.

**Other Long-Term Liabilities:** Other long-term liabilities consist primarily of insurance liabilities, long-term pension obligations, asset retirement obligations, interest rate swap liabilities, and other long-term liabilities. The composition of other long-term liabilities is as follows at December 31:

	<u>2013</u>	<u>2012</u>
Insurance liabilities	\$ 111,297	\$ 97,094
Long-term pension obligation	215,715	303,993
Asset retirement obligation	9,556	9,137
Interest rate swap	8,596	15,847
Other	<u>933</u>	<u>1,128</u>
Other long-term liabilities	\$ <u>346,097</u>	\$ <u>427,199</u>

**Net Patient/Resident Service Revenue:** Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered including estimated adjustments under various reimbursement agreements with third-party payors. The System has agreements with third-party payors that provide for payments to the System at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Third-party payors retain the right to review and propose adjustments to amounts recorded by the System. Such adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. CHS's Healthcare Assistance Program provides discounts to patients based on need. In addition, the System 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.

## CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of dollars)

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#### NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

- **Medicare.** Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The System is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the System 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 hospitals' 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 increased revenues approximately \$7,788 and \$10,191, respectively. These changes in estimates related to estimates for prior years cost report reopening, appeals, and tentative final cost reports, some of which are still subject to audit, additional reopening, and/or appeals.

Approximately 52% and 50% of net patient/resident service revenue was generated from services rendered to patients/residents under Medicare and Medicaid programs in 2013 and 2012, respectively. Approximately 37% and 39% 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.

# CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of dollars)

### NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**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 System 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 System. Accounts receivable are written off after collection efforts have been followed in accordance with the System policies.

Patient and resident service revenue, net of contractual allowances and discounts, (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows for the years ended December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Patient/resident service revenue (net of contractual allowances and discounts):		
Medicare	\$ 373,277	\$ 353,727
Medicaid	102,503	90,416
Other third party payors	424,105	399,803
Patients/residents	<u>22,908</u>	<u>40,190</u>
Total net patient/resident service revenue	922,793	884,136
Provision for bad debts	<u>(20,712)</u>	<u>(25,286)</u>
Net patient/resident service revenue less provision for bad debts	<u>\$ 902,081</u>	<u>\$ 858,850</u>

**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 System's total expenses reported, an estimated \$7,970 and \$7,438 arose from providing services to charity 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 the HCRA. Revenues that offset the costs of Charity Care include payments from the New York State Uncompensated Care Pools.

The Hospitals provide care to patients at no charge or at discounted rates who meet eligibility requirements under its Health Care Assistance Policy (charity care). In addition to charity care, the Hospitals provide 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 the HCRA.

# CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of dollars)

### NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Collective Bargaining Agreements:** The System has approximately 48% of its employees working under twelve collective bargaining agreements. The agreements are set to expire beginning April 30, 2014 through January 15, 2018.

**Operating and Nonoperating Revenue and Losses:** The System's primary mission is dedicated to meeting the health care needs in the regions in which it operates. The System 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 System's primary mission are considered to be nonoperating.

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

Medicaid EHR incentive calculations and related payment amounts are based upon prior period cost report information available at the time our eligible hospitals adopt, implement or demonstrate meaningful use of certified EHR technology for the applicable period, and are not subject to revision for cost report data filed for a subsequent period. Thus, incentive income recognition occurs at the point the eligible hospitals adopt, implement or demonstrate 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 eligible hospitals demonstrate 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 eligible hospitals demonstrate 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 System recognized \$5,845 and \$8,520 of electronic health record incentive income related to Medicare and Medicaid incentive programs during the year ended December 31, 2013 and 2012 which is recorded in other operating revenue.

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

	<u>2013</u>	<u>2012</u>
Cafeteria revenue	\$ 2,634	\$ 2,331
Parking revenue	1,086	1,051
Unrestricted contributions to the Foundations	582	611
Legal settlements	4,266	300
Medicare and Medicaid meaningful use	5,845	8,520
Other	<u>5,408</u>	<u>6,452</u>
Total other revenues	\$ <u>19,821</u>	\$ <u>19,265</u>

# CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of dollars)

### NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

	<u>2013</u>	<u>2012</u>
Rents and operating leases	\$ 10,264	\$ 10,028
Dues	4,973	5,028
Cash receipt assessment	5,442	4,502
Taxes, travel and miscellaneous other	<u>9,134</u>	<u>8,526</u>
Other expenses	<u>\$ 29,813</u>	<u>\$ 28,084</u>

**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 operations and changes in net assets released from restrictions.

**Excess of Revenues over Expenses:** The consolidated statements of operations and changes in net assets includes excess of revenues over expenses, commonly referred to as the performance indicator. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice include permanent transfers of assets to and from subsidiaries 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), 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 System and are not subject to any donor limitations.

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

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

## CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of dollars)

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#### NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Income Taxes:** The consolidated financial statements do not include a provision for income taxes, as the System 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 System'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 also eliminated in the consolidated financial statements.

**Capitalized Software Costs:** The Acute Care subsidiaries capitalize 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 accounting guidance. These capitalized costs are amortized on a straight-line basis over ten years and reviewed for impairment on an annual basis. CHS capitalized software, computer equipment, and other external costs of \$6,496 during 2013 and \$3,491 during 2012. Capitalized project labor costs amounted to \$925 during 2013 and \$824 during 2012.

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

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

Subsequent to December 31, 2013, the System has entered into purchase agreements for the sales of certain assets of St. Francis Home of Williamsville (SFHW) and St. Elizabeth's Home (SEH). In addition, the System expects to enter a similar agreement for the sale of certain assets at St. Vincent's Home for the Aged (SVH) prior to June 30, 2014. The agreements for SEH and SFHW were entered into on January 29, 2014. See Note 16 for further information.

On March 26, 2014, the System and Mount St. Mary's Hospital (a 175 bed community hospital, sponsored by Ascension Health and located in Niagara County, New York) signed a non-binding term sheet whereby the parties would perform due diligence and seek religious and regulatory approvals for the purpose of ultimately executing a Definitive Agreement whereby the System would become the sole corporate member of Mount St. Mary's Hospital and integrating its operations with that of the System.

#### NOTE 3. INTEREST IN NET ASSETS OF AFFILIATED FOUNDATION

The System accounts for its interest in the Kenmore Mercy Hospital 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) 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 that of the System and is not part of CHS's financial reporting entity.



**CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
*(in thousands of dollars)*

**NOTE 3. INTEREST IN NET ASSETS OF AFFILIATED FOUNDATION (CONTINUED)**

A summary of the Foundation's aggregated assets, liabilities, net assets, and changes in net assets is as follows:

	<u>2013</u>	<u>2012</u>
Cash, investments and other assets	\$ 5,131	\$ 4,670
Total assets	<u>\$ 5,131</u>	<u>\$ 4,670</u>
Liabilities	\$ 515	\$ 755
Net assets:		
Unrestricted	3,897	3,128
Temporarily restricted	<u>719</u>	<u>787</u>
Total net assets	<u>4,616</u>	<u>3,915</u>
Total net assets and liabilities	<u>\$ 5,131</u>	<u>\$ 4,670</u>
Change in unrestricted net assets	\$ 769	\$ 628
Change in temporarily restricted net assets	<u>(68)</u>	<u>18</u>
	<u>\$ 701</u>	<u>\$ 646</u>

Distributions were made in the amount of \$328 and \$311 during 2013 and 2012, respectively.

In 2013, the unrestricted net assets of the Foundation, previously recorded in unrestricted net assets of the Kenmore Mercy Hospital's financial statements, were reclassified to temporarily restricted net assets of the Kenmore Mercy 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 Kenmore Mercy Hospital does not control the Foundation. The reclassification for the balance sheet as of December 31, 2012 amounted to \$3,128 from unrestricted net assets to temporarily restricted net assets.

**NOTE 4. ASSETS LIMITED AS TO USE**

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

	<u>2013</u>	<u>2012</u>
By Board for capital improvements:		
Funded depreciation:		
Cash and cash equivalents	\$ 2,418	\$ 2,938
U.S. government obligations	12,253	11,864
Interest receivable	<u>34</u>	<u>42</u>
	<u>14,705</u>	<u>14,844</u>
Held by Trustee under Indenture Agreement:		
Cash and cash equivalents	8,606	13,668
U.S. government obligations	<u>1,980</u>	<u>9,510</u>
	<u>10,586</u>	<u>23,178</u>
Held by Trustee under Letter of Credit Agreement:		
Cash and cash equivalents	<u>2,752</u>	<u>2,752</u>
Board Designated for long-term care reinvestment		
Cash and cash equivalents	<u>2,602</u>	<u>-</u>
Other	<u>459</u>	<u>428</u>
Assets limited as to use	<u>\$ 31,104</u>	<u>\$ 41,202</u>

**CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
*(in thousands of dollars)*

**NOTE 5. INVESTMENTS**

Investments consisted of the following as of December 31:

	<u>2013</u>	<u>2012</u>
Investment in debt and equity securities:		
Fair value	\$ 8,953	\$ 7,690
Cost	<u>7,320</u>	<u>6,799</u>
Unrealized gain	<u>\$ 1,633</u>	<u>\$ 891</u>

Investment income is summarized as follows for the years ended December 31:

	<u>2013</u>	<u>2012</u>
Interest and dividend income	\$ 1,235	\$ 1,026
Net unrealized and realized gains on investments	<u>1,108</u>	<u>536</u>
Total investment income	<u>\$ 2,343</u>	<u>\$ 1,562</u>

**NOTE 6. PROPERTY AND EQUIPMENT**

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

	<u>2013</u>	<u>2012</u>
Land and land improvements	\$ 7,431	\$ 7,104
Buildings	210,965	197,070
Equipment	164,762	155,229
Equipment under capital leases	39,502	38,559
Leasehold improvements	<u>70,650</u>	<u>50,647</u>
	493,310	448,609
Accumulated depreciation	(209,066)	(198,757)
Accumulated amortization on equipment under capital leases	<u>(18,544)</u>	<u>(16,916)</u>
	265,700	232,936
Construction in progress	<u>5,920</u>	<u>27,583</u>
Property and equipment, net	<u>\$ 271,620</u>	<u>\$ 260,519</u>

Depreciation expense in 2013 and 2012 amounted to approximately \$29,848 and \$29,296, respectively. Amortization expense on equipment under capital leases amounted to \$6,445 and \$6,006 in 2013 and 2012, respectively. Fully depreciated or amortized assets and capital leases of \$21,670 and \$26,480 were written-off for the years ended December 31, 2013 and 2012, respectively.

**CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
*(in thousands of dollars)*

**NOTE 7. LONG-TERM OBLIGATIONS**

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

	<u>2013</u>	<u>2012</u>
<b>Mercy Hospital of Buffalo</b>		
Series 2006 Revenue Bonds (a)	\$ 9,332	\$ 9,963
Series 2008 Revenue Bonds (b)	22,270	22,906
Series 2012 Revenue Bonds (c)	3,061	3,095
Mercy Comprehensive Care Center, monthly payments of \$9, including interest at 6.25%, matures November 2015	189	279
Cafeteria renovation loan with Aramark Healthcare, in monthly payments of \$17, matures March 2015	250	454
Capital lease obligations and other, at interest rates ranging from 3.1% to 6.5%, collateralized by equipment	15,977	18,021
	<u>51,079</u>	<u>54,718</u>
<b>Kenmore Mercy Hospital</b>		
Series 2006 Revenue Bonds (a)	10,520	11,489
Series 2012 Revenue Bonds (c)	14,066	14,235
Mortgage payable to Century Health Capital, Inc. for KMH Homes Inc. (d)	5,813	6,262
Capital lease obligations and other, at various rates of interest ranging from 3.4% to 5.0%, collateralized by equipment	2,528	2,986
Other	44	51
	<u>32,971</u>	<u>35,023</u>
<b>Sisters of Charity Hospital</b>		
Series 2006 Revenue Bonds (a)	26,737	28,548
Capital lease obligations, at various rates of interest ranging from 3.47% to 6.68%, collateralized by equipment	8,258	7,750
	<u>34,995</u>	<u>36,298</u>
<b>Father Baker Manor</b>		
Mortgage payable to Century Health Capital, Inc. (e)	6,458	6,865
<b>McAuley Seton Home Health Care Corporation</b>		
Loan payable to HSBC Bank (f)	1,948	2,385
<b>Our Lady of Victory Renaissance Corporation</b>		
Series 2007A Variable Rate Demand Bonds (g)	9,025	9,290
Series 2007B Variable Rate Demand Bonds (g)	1,470	1,515
Loan payable with HSBC Bank for Data Center (h)	3,883	5,065
	<u>14,378</u>	<u>15,870</u>

**CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
*(in thousands of dollars)*

**NOTE 7. LONG-TERM OBLIGATIONS (CONTINUED)**

	<u>2013</u>	<u>2012</u>
<b>Catholic Health System (Parent)</b>		
Loan payable for financing of VOIP telephone system, in monthly installments of \$22, including interest at 2.92%, collateralized by equipment	1,267	-
Loan payable for financing of VOIP telephone system, in monthly installments of \$22, including interest at 2.92%, collateralized by equipment	974	1,200
	<u>2,241</u>	<u>1,200</u>
Total long-term obligations	144,070	152,359
Less: Current maturities	(15,399)	(13,822)
Less: Long-term obligations subject to short-term remarketing arrangements	<u>-</u>	<u>(79,307)</u>
Long-term obligations, net	<u>\$ 128,671</u>	<u>\$ 59,230</u>

- a. In November 2006, the System executed a restructuring transaction related to its outstanding debt. The System formed the Catholic Health System Obligated Group (the Obligated Group), consisting of its three primary hospitals (Mercy Hospital of Buffalo, Sisters of Charity Hospital, and Kenmore Mercy Hospital) and CHS. No subsidiaries of CHS other than the Members of the Obligated Group were included in this offering. On November 29, 2006, \$68,820 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 the following:

- Series 2006A Bonds for \$13,360 was loaned to MHB in order to finance the cost of MHB's operating room expansion, other expansions and improvements at MHB's facility.
- Series 2006B Bonds for \$30,295 was loaned to SCH for the purpose of refunding DASNY's SCH Insured Revenue Bonds, Series 2003, which bonds were issued for the purpose of refunding a series of bonds issued in 1991, the proceeds of which were applied to finance the construction and renovation of the SCH facilities and to refinance outstanding indebtedness. Series 2006D for \$8,435 was loaned to the former St. Joseph Hospital (SJH), which was merged into SCH in 2009, to finance the cost of the SJH emergency room expansion project.
- Series 2006C Bonds for \$16,730 was loaned to KMH for the purpose of refunding the NYS Medical Care Facilities Finance Agency FHA - Insured Mortgage Project Revenue Bonds, 1995 Series B which were applied to finance the construction of a three floor patient tower, certain renovations to the KMH facility and to refinance outstanding indebtedness.

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 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.

## CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of dollars)

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#### NOTE 7. LONG-TERM OBLIGATIONS (CONTINUED)

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.

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; and (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 within the consolidated balance sheet for the related obligations. The letter of credit reimbursement agreement has since been modified to replace the previously subjective criteria with objective and measurable criteria. Accordingly, the obligations are classified as non-current liabilities at December 31, 2013.

- b. On November 19, 2008, \$24,700 of DASNY - Catholic Health System Obligated Group Revenue Bonds, Series 2008 was issued. Series 2008 was loaned to the Obligated Group for the purpose of financing the cost of an approximately 48,300 square foot addition (Mercy Hospital of Buffalo) for a new emergency department, new imaging facilities, construction of a new main entrance and lobby area, a new ambulance entrance, construction of a rooftop helipad, renovation of library space into conference rooms, other mechanical and electrical improvements and associated demolition and equipment costs. Proceeds of the Series 2008 Bonds were also applied to pay certain costs of issuing the Bonds. The discount on the bonds of \$322 will be accreted over the life of the bonds.

The Series 2008 Bonds were issued under the Master Trust Indenture that was created in 2006 pursuant to the formation of the Obligated Group. All material components of the Series 2008 issue mirror the Series 2006 issue. Among these items are the following: 1) a variable remarketed rate (determined by the Security Industry and Financial Markets Association (SIFMA)) collateralized by a letter of credit with HSBC Bank expiring November 18, 2018 (with the option of an initial term loan), 2) a security interest in and assignment of gross receipts of the Mercy Hospital of Buffalo, together with the Mercy Hospital of Buffalo's right to receive or collect the gross receipts, 3) consistent financial covenants, and 4) execution of an interest rate swap agreement (with HSBC Bank) consistent with the terms utilized in the 2006 swap agreement (see Note 8). The variable interest rate was 0.06% and 0.13% at December 31, 2013 and 2012, respectively.

- c. On July 12, 2012, \$17,315 of DASNY Catholic Health System Obligated Group Revenue Bonds, Series 2012 were issued. The Bonds consisted of the following:
- Series 2012A Bonds for \$14,235 were loaned to KMH 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 \$157 and \$159, respectively, are attributable to the difference between the stated interest rate on these bonds and will be amortized over the life of the bonds.

# CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of dollars)

### NOTE 7. LONG-TERM OBLIGATIONS (CONTINUED)

- Series 2012B Bonds for \$3,080 were loaned to MHB for the purpose of funding the cost of improvements to MHB's existing approximately 381,000 square foot parking facility containing approximately 1,026 spaces. Proceeds of the Series 2012 B Bonds were also applied to pay certain costs of issuing the Bonds. The discount and premium on the bonds of \$32 and \$46, 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 pursuant to the formation of the Obligated Group. In connection with the issuance of the Series 2012 Bonds, the Obligated Group entered into a Loan Agreement whereby the Obligated Group 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
3.00% Serial Bonds Due July 1, 2015		340
3.00% Serial Bonds Due July 1, 2016		350
3.00% Serial Bonds Due July 1, 2017		360
4.00% Serial Bonds Due July 1, 2018		370
3.50% Term Bonds Due July 1, 2022		1,610
4.00% Term Bonds Due July 1, 2027		2,385
5.00% Term Bonds Due July 1, 2032 (i)		2,960
4.75% Term Bonds Due July 1, 2039		<u>5,530</u>
Total Series 2012A Bonds		14,070
3.50% Term Bonds Due July 1, 2022	\$	675
5.00% Term Bonds Due July 1, 2032 (i)		1,160
4.75% Term Bonds Due July 1, 2039		<u>1,210</u>
Total Series 2012B Bonds		<u>3,045</u>
Total Series 2012 Bonds	\$	<u>17,115</u>

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

The Series 2006, 2008 and 2012 Loan Agreements specifies that the Obligated Group shall continuously pledge, as security for the payment of all liabilities and the performance of all obligations of the Obligated Group pursuant to the Loan Agreement, a security interest in and assignment of the gross receipts of the Obligated Group, together with the Hospitals' right to receive or collect the gross receipts. Further, the Obligated Group delivered a mortgage to secure all obligations and liabilities of the Hospitals under the Loan Agreement. As further security to the Loan Agreement, the Obligated Group granted DASNY a security interest in such fixtures, furnishings and equipment as owned by the Obligated Group. In addition, a letter of credit in the amount of the bonds was entered into with HSBC Bank to provide security on the 2006 Bonds. The financial covenants required under the Loan Agreement are consistent with those of the Series 2006 Bonds and Series 2008 Bonds.

- d. Mortgage payable to Century Health Capital (an FHA - Insured Mortgage). The mortgage is payable in monthly installments of \$65 including interest of 5.51%. Monthly payments continue through maturity in July 2023. The mortgage is collateralized by the Building and Equipment.

## CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of dollars)

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#### NOTE 7. LONG-TERM OBLIGATIONS (CONTINUED)

- e. Mortgage payable to Century Health Capital (an FHA - Insured Mortgage). The mortgage is payable in monthly installments of \$64 including interest of 5.375%. Monthly payments continue through maturity in March 2025. The mortgage is collateralized by the Building and Equipment
- f. McAuley Seton Home Health Care Corporation entered into a term loan agreement with HSBC Bank. The agreement provided \$2,385. Outstanding borrowings under this agreement bear interest at a fixed rate of 2.62% at December 31, 2013. The term loan calls for monthly principal payments of \$40 plus interest and matures on December 28, 2017. Outstanding borrowings are secured by substantially all the revenues and receipts of McAuley Seton Home Health Care Corporation. The term loan contains various loan covenants, including a debt service coverage ratio. McAuley Seton Home Health Care Corporation was in compliance with all covenants as of December 31, 2013 and 2012.
- g. On April 1, 2007, Our Lady of Victory Renaissance Corporation. (OLV Renaissance) entered into agreements with the Erie County Industrial Development Agency's (the Agency) for the purpose of obtaining revenue bonds used to finance construction of its SNF and PACE facilities. The agency took title to the facility through a lease agreement and simultaneously conveyed title back to OLV Renaissance through an installment sale of the lease interests. OLV Renaissance is obligated to make lease rental payments to the bond trustee, as the Agency's assignee, in amounts which correspond to the principal and interest payments on the bonds. At the expiration of the leases' term (April 2032), title fully reverts back to OLV Renaissance. On April 25, 2007, the Agency issued variable rate demand revenue bonds with an aggregate principal amount of \$11,860. The bond issue consists of two series of bonds: \$10,220 in variable rate demand Revenue Bonds Series 2007A (Series 2007A Bonds) and \$1,640 in variable rate demand Revenue Bonds Series 2007B (Series 2007B Bonds).

The Variable Interest Rate is determined by the remarketing agent based on (1) market interest rates for comparable securities; (2) other financial market rates and indices (including, but not limited to treasury bills, commercial paper, commercial bank prime rates, HUD project notes, federal fund rates and LIBOR); (3) general financial and credit market conditions; (4) credit rating and financial condition of OLV Renaissance; and (5) applicable tender provisions which may have bearing on the rate. The variable interest rate was 0.06% for the Series 2007A bonds and 0.17% for the Series 2007B bonds at December 31, 2013. See Note 8 regarding the interest rate swap agreement OLV Renaissance entered into with respect to the Series 2007A Revenue Bonds.

The bonds are subject to conversion to a fixed interest rate at the written direction of OLV Renaissance. Upon conversion, the remarketing agent shall determine the fixed interest rate as the lowest rate of interest that would be necessary to sell the bonds in the secondary market at par plus accrued interest, based on prevailing market conditions and the yields at which comparable securities are being sold.

The Series 2007A Revenue Bonds are subject to mandatory sinking fund redemptions in years 2012 to 2032 in amounts ranging from \$250 to \$740 at variable interest rates. The Series 2007B Revenue Bonds are subject to mandatory sinking fund redemptions in years 2012 to 2032 in amounts ranging from \$45 to \$115.

Under the terms of the financing documents, OLV Renaissance has guaranteed payment of all amounts due under the Bonds. Additionally, the bonds are secured by first mortgage liens on all buildings, improvements and equipment now owned or subsequently acquired by OLV Renaissance, all unrestricted accounts receivable and a right of setoff against OLV Renaissance's funds held by the trustee.

# CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of dollars)

### NOTE 7. LONG-TERM OBLIGATIONS (CONTINUED)

In accordance with the financing documents, at the option of the Issuer and upon notice given by OLV Renaissance, the Series 2007A Revenue Bonds are subject to optional redemption at 100%. In connection with the Bond financing, OLV Renaissance has executed an irrevocable direct pay letter of credit with a financial institution for a maximum amount of \$10,595 with a current expiration date of May 1, 2015. There is no outstanding amount at December 31, 2013 or 2012.

The bond agreements require certain covenants including debt service coverage and debt to capitalization to be maintained. OLV Renaissance's primary tenant, Mercy Hospital of Buffalo is also required to comply with a covenant to maintain minimum long-term debt service coverage and a minimum days cash on hand as of any testing date.

Mercy Hospital of Buffalo was in compliance with this covenant as of December 31, 2013 and 2012. OLV Renaissance failed the debt service coverage and debt to capitalization covenants for December 31, 2013. OLV Renaissance obtained a waiver from HSBC Bank, for the December 31, 2013 covenants.

- h. On December 28, 2011, OLV Renaissance entered into a term loan agreement with HSBC Bank, for the construction of a Data Center on the OLV Renaissance Campus. OLV Renaissance is obligated to make payments each month until expiration on December 31, 2016. The term loan bears interest at 3.05% repayable in monthly installments ranging from \$95 to \$110 plus interest beginning January 2012 through December 2016.

Under the terms of the financing documents, OLV Renaissance has guaranteed payment of all amounts due under the loan. Additionally, the loan is secured by second mortgage liens on all buildings, improvements and equipment now owned or subsequently acquired by OLV Renaissance, all unrestricted accounts receivable and a right of setoff against OLV Renaissance's funds held by the trustee. The loan agreement requires certain covenants including debt service coverage to be maintained. OLV Renaissance failed the debt service coverage ratio for December 31, 2013. OLV Renaissance obtained a waiver from HSBC bank for the December 31, 2013 covenants.

Aggregate maturities of long-term debt, including capital lease obligations, considering obligations subject to short-term remarketing as due according to their long-term amortization schedule, subsequent to December 31, 2013 are as follows:

	<u>Long-Term Debt</u>	<u>Capital Leases</u>	<u>Total</u>
2014	\$ 8,353	\$ 7,865	\$ 16,218
2015	8,491	5,847	14,338
2016	8,784	3,427	12,211
2017	7,717	2,687	10,404
2018	7,239	1,503	8,742
Thereafter	<u>76,723</u>	<u>9,005</u>	<u>85,728</u>
	<u>\$ 117,307</u>	30,334	147,641
Less: Interest		<u>(3,571)</u>	<u>(3,571)</u>
Long-term obligations		<u>\$ 26,763</u>	<u>\$ 144,070</u>

At December 31, 2013 and 2012, the System had a revolving line of credit of \$20,000 of which \$10,831 and \$8,380 was outstanding as of December 31, 2013 and 2012. The variable interest rate was 2.17% and 2.21% at December 31, 2013 and 2012, respectively.



## CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of dollars)

#### NOTE 7. LONG-TERM OBLIGATIONS (CONTINUED)

**Operating Leases:** Future minimum lease payments under noncancelable operating leases for equipment and property (net of sublease rentals) are as follows at December 31, 2013:

2014	\$	9,631
2015		8,036
2016		7,380
2017		6,006
2018		3,597
Thereafter		<u>5,709</u>
		40,359
Less: Minimum sublease rental		<u>(792)</u>
	\$	<u>39,567</u>

Total expense for rents and operating type leases for equipment and property was approximately \$10,264 and \$10,028 for 2013 and 2012, respectively.

#### NOTE 8. DERIVATIVE FINANCIAL INSTRUMENTS

In connection with the issuance of the Series 2006 and Series 2008 Bonds and execution of the Loan Agreement, the Hospitals entered into interest rate swap agreements (derivative agreements) with HSBC Bank USA, NA and JP Morgan Chase (the "Financial Institutions") for purposes of mitigating risk posed by the Bonds accruing interest at a variable rate. Further, the Hospitals 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 the Financial Institutions, 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, the Financial Institutions may require that the Hospitals direct the Series 2006 or Series 2008 Bonds be converted to bonds that bear a fixed rate of interest. The terms of the Series 2006 swap require the Hospitals to pay a fixed rate of 3.80% on the notional amount (\$48,725 at December 31, 2013) and in exchange, the Hospitals will receive a variable rate payment based upon the SIFMA, calculated weekly. The notional amount of the swap is matched to the maturity schedule of the Series 2006 Bonds. The 2006 swap agreement was executed on December 13, 2006 and expires on July 1, 2025. The terms of the Series 2008 swap require the Hospitals to pay 3.785% on the notional amount (\$22,875 at December 31, 2013) and in exchange, the Hospitals will receive a variable rate payment based upon the SIFMA, calculated weekly. The 2008 swap agreement was executed on November 19, 2008 and expires on July 1, 2034. These dates correlate to the issue date and due date of the Bonds. 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.

In connection with the issuance of the Series 2007 Bond and execution of the Loan Agreement, OLV Renaissance entered into an interest rate swap agreement with HSBC Bank USA, NA for the purpose of mitigating posed by the Bonds accruing interest at a variable rate. The terms of the Series 2006 swap require the Hospitals to pay a fixed rate of 4.143% on the notional amount (\$9,025 at December 31, 2013) and in exchange, OLV Renaissance will receive a variable rate payment based upon the SIFMA, calculated weekly. The notional amount of the swap is matched to the maturity schedule of the Series 2007 Bonds. The 2007 swap agreement was executed on May 25, 2007 and expires on April 1, 2032. These dates correlate to the issue date and due date of the Bonds. 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.

# CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of dollars)

### NOTE 8. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

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

(in thousands of dollars)	2013		2012	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest rate contracts floating to fixed	Long-term liabilities	\$ 8,596	Long-term liabilities	\$ 15,847

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

(in thousands of dollars)	Ineffective portion in Statement of Operations		Effective portion in Net Assets	
	2013	2012	2013	2012
Change in fair value of interest rate swaps	\$ 184	\$ (21)	\$ 7,067	\$ (641)

The Hospitals measure their 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 9. OBLIGATED GROUP FINANCIAL INFORMATION

In November 2006, the System formed the Obligated Group, consisting of its four primary hospitals (Mercy Hospital of Buffalo, Sisters of Charity Hospital, St. Joseph Hospital, and Kenmore Mercy Hospital) and the Parent. In 2006, the System issued \$68,820 of DASNY Catholic Health System Obligated Group Revenue Bonds, Series 2006. In 2008, \$24,700 of DASNY - Catholic Health System Obligated Group Revenue Bonds, Series 2008 was issued. These Revenue Bonds are joint and several obligations of the members of the Obligated Group. No affiliate of CHS, other than Members of the Obligated Group, is obligated for amounts due under the Series 2006 and Series 2008 Obligations.

In 2013, Management determined that certain immaterial subsidiaries (Mercy Hospital Foundation, Inc., Sisters Hospital Foundation, Inc., and KMH Homes, Inc.) should be excluded from the Obligated Group financial information. Accordingly, the 2012 Obligated Group financial information displayed herein has been revised to conform to the 2013 presentation method.

The following supplemental consolidating financial information for the Obligated Group presents the balance sheets as of December 31, 2013 and 2012 and statements of operations and changes in net assets, and cash flows for the years then ended December 31, 2013 and 2012.

**These statements do not represent the results of the System.**

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands of dollars)

NOTE 9. OBLIGATED GROUP FINANCIAL INFORMATION (CONTINUED)

Consolidating Balance Sheet

December 31, 2013

ASSETS	Parent	Mercy Hospital	Sisters Hospital	Kenmore Mercy Hospital	Eliminations	Total
<b>Current assets:</b>						
Cash and cash equivalents	\$ 27,961	\$ 63,904	\$ 129,694	\$ 31,914	\$ -	\$ 253,473
Patient/resident accounts receivable, net of allowance for doubtful accounts of \$23,200	-	54,105	37,376	17,964	-	109,445
Other receivables	1,099	5,345	4,053	1,982	-	12,479
Inventories	-	11,113	6,013	2,181	-	19,307
Assets limited as to use	-	-	-	836	-	836
Prepaid expenses and other current assets	3,689	571	585	455	-	5,300
Due from affiliates	54,427	-	635	-	(50,389)	4,673
<b>Total current assets</b>	<u>87,176</u>	<u>135,038</u>	<u>178,356</u>	<u>55,332</u>	<u>(50,389)</u>	<u>405,513</u>
Assets limited as to use	5,379	1,324	211	9,483	-	16,397
Property and equipment, net	14,988	101,121	74,536	56,724	-	247,369
Due from affiliates	3,661	120	10,303	1,475	(12,008)	3,551
Other assets	1,020	28,270	26,197	16,249	-	71,736
<b>Total Assets</b>	<u>\$ 112,224</u>	<u>\$ 265,873</u>	<u>\$ 289,603</u>	<u>\$ 139,263</u>	<u>\$ (62,397)</u>	<u>\$ 744,566</u>
<b>LIABILITIES AND NET ASSETS</b>						
<b>Current liabilities:</b>						
Current portion of long-term obligations	\$ 452	\$ 5,518	\$ 4,473	\$ 2,499	\$ -	\$ 12,942
Long-term obligations subject to short-term remarketing arrangements	-	-	-	-	-	-
Line of credit payable	10,831	-	-	-	-	10,831
Accounts payable	3,182	17,785	15,087	7,983	(521)	43,516
Accrued expenses	22,294	15,682	13,582	7,399	-	58,957
Due to third-party payors	-	18,110	10,979	5,863	-	34,952
Due to affiliates	407	9,906	21,295	7,629	(38,621)	616
<b>Total current liabilities</b>	<u>37,166</u>	<u>67,001</u>	<u>65,416</u>	<u>31,373</u>	<u>(39,142)</u>	<u>161,814</u>
Long-term obligations, net	1,789	45,560	30,522	30,472	-	108,343
Other long-term liabilities	53,204	146,449	89,067	46,232	(11,760)	323,192
<b>Total liabilities</b>	<u>92,159</u>	<u>259,010</u>	<u>185,005</u>	<u>108,077</u>	<u>(50,902)</u>	<u>593,349</u>
<b>Net assets</b>						
Unrestricted	20,041	6,863	104,598	31,186	(11,495)	151,193
Temporarily restricted	24	-	-	-	-	24
<b>Total net assets</b>	<u>20,065</u>	<u>6,863</u>	<u>104,598</u>	<u>31,186</u>	<u>(11,495)</u>	<u>151,217</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 112,224</u>	<u>\$ 265,873</u>	<u>\$ 289,603</u>	<u>\$ 139,263</u>	<u>\$ (62,397)</u>	<u>\$ 744,566</u>

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands of dollars)

NOTE 9. OBLIGATED GROUP FINANCIAL INFORMATION (CONTINUED)

Consolidating Statement of Operations  
and Changes in Net Assets

For the Year Ended December 31, 2013

	Parent	Mercy Hospital	Sisters Hospital	Kenmore Mercy Hospital	Eliminations	Total
<b>Unrestricted revenues, gains and other support:</b>						
Net patient/resident service revenue	\$ -	371,395	\$ 322,669	\$ 154,244	\$ -	\$ 848,308
Provision for bad debts	-	(8,731)	(7,175)	(3,285)	-	(19,191)
Net patient/resident service revenue less provision for bad debts	-	362,664	315,494	150,959	-	829,117
Other revenue	123,375	10,143	6,776	2,655	(118,685)	24,264
<b>Total unrestricted revenues, gains and other support</b>	<b>123,375</b>	<b>372,807</b>	<b>322,270</b>	<b>153,614</b>	<b>(118,685)</b>	<b>853,381</b>
<b>Expenses:</b>						
Salaries and wages	62,267	147,687	143,089	65,965	(56,871)	362,137
Employee benefits	19,172	55,364	44,375	20,574	(17,962)	121,523
Medical and professional fees	4,855	12,030	14,848	4,595	(3,933)	32,395
Purchased services	23,205	28,818	28,434	12,649	(23,928)	69,178
Supplies	440	74,845	56,908	31,784	(397)	163,580
Depreciation and amortization	3,306	14,270	13,225	6,497	(3,306)	33,992
Interest	218	2,367	2,050	1,484	(218)	5,901
Insurance	269	3,123	3,226	1,377	(261)	7,734
Other expenses	9,872	15,928	11,363	4,898	(12,394)	29,667
<b>Total expenses</b>	<b>123,604</b>	<b>354,432</b>	<b>317,518</b>	<b>149,823</b>	<b>(119,270)</b>	<b>826,107</b>
<b>Income (loss) from operations</b>	<b>(229)</b>	<b>18,375</b>	<b>4,752</b>	<b>3,791</b>	<b>585</b>	<b>27,274</b>
<b>Nonoperating revenues and losses:</b>						
Investment income	21	598	263	81	(20)	943
Other	208	44	1,557	46	(565)	1,290
<b>Total nonoperating revenues and losses:</b>	<b>229</b>	<b>642</b>	<b>1,820</b>	<b>127</b>	<b>(585)</b>	<b>2,233</b>
<b>Excess of revenues over expenses</b>	<b>\$ -</b>	<b>\$ 19,017</b>	<b>\$ 6,572</b>	<b>\$ 3,918</b>	<b>\$ -</b>	<b>\$ 29,507</b>

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands of dollars)

NOTE 9. OBLIGATED GROUP FINANCIAL INFORMATION (CONTINUED)

Consolidating Statement of Operations  
and Changes in Net Assets (Continued)

For the Year Ended December 31, 2013

	Parent	Mercy Hospital	Sisters Hospital	Kenmore Mercy Hospital	Eliminations	Total
<b>Unrestricted net assets:</b>						
Excess of revenues over expenses	\$ -	\$ 19,017	\$ 6,572	\$ 3,918	\$ -	\$ 29,507
Change in unrealized gain on interest rate swap	-	3,413	1,994	643	-	6,050
Change in pension obligation, other than net periodic cost	16,080	45,520	31,530	10,804	-	103,934
Net assets released from restrictions	129	-	-	-	-	129
Grant revenue capital expenditures	390	1	19	-	-	410
Transfers to/from parent or affiliate	7,566	(7,311)	122	1,938	-	2,315
Contributions and other	-	988	1	328	-	1,317
Valuation allowance on intercompany receivables	-	-	-	-	17	17
Increase in unrestricted net assets	24,165	61,628	40,238	17,631	17	143,679
<b>Temporarily restricted net assets:</b>						
Temporarily restricted net assets released from restrictions	(129)	-	-	-	-	(129)
Contributions and other	24	-	-	-	-	24
Decrease in temporarily restricted net assets	(105)	-	-	-	-	(105)
Increase in net assets	24,060	61,628	40,238	17,631	17	143,574
Net assets, beginning of year	(3,995)	(54,765)	64,360	13,555	(11,512)	7,643
Net assets, end of year	<u>\$ 20,065</u>	<u>\$ 6,863</u>	<u>\$ 104,598</u>	<u>\$ 31,186</u>	<u>\$ (11,495)</u>	<u>\$ 151,217</u>

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands of dollars)

NOTE 9. OBLIGATED GROUP FINANCIAL INFORMATION (CONTINUED)

Consolidating Balance Sheet

December 31, 2012

ASSETS	Parent	Mercy Hospital	Sisters Hospital	Kenmore Mercy Hospital	Eliminations	Total
<b>Current assets:</b>						
Cash and cash equivalents	\$ 15,668	\$ 58,541	\$ 115,250	\$ 28,193	\$ 520	\$ 218,172
Patient/resident accounts receivable, net of allowance for doubtful accounts of \$24,943	-	47,457	44,346	19,377	-	111,180
Other receivables	736	2,631	2,776	988	-	7,131
Inventories	-	6,629	5,285	1,887	-	13,801
Assets limited as to use	-	-	-	1,826	-	1,826
Prepaid expenses and other current assets	2,788	792	561	229	-	4,370
Due from affiliates	54,762	-	514	-	(47,820)	7,456
<b>Total current assets</b>	<u>73,954</u>	<u>116,050</u>	<u>168,732</u>	<u>52,500</u>	<u>(47,300)</u>	<u>363,936</u>
Assets limited as to use	2,752	5,741	631	16,455	-	25,579
Property and equipment, net	16,426	96,739	75,490	46,381	-	235,036
Due from affiliates	5,551	44	10,303	1,517	(14,051)	3,364
Other assets	855	24,683	20,772	14,572	-	60,882
<b>Total Assets</b>	<u>\$ 99,538</u>	<u>\$ 243,257</u>	<u>\$ 275,928</u>	<u>\$ 131,425</u>	<u>\$ (61,351)</u>	<u>\$ 688,797</u>
<b>LIABILITIES AND NET ASSETS</b>						
<b>Current liabilities:</b>						
Current portion of long-term obligations	\$ 240	\$ 5,114	\$ 3,905	\$ 2,186	\$ -	\$ 11,445
Long-term obligations subject to short-term remarketing arrangements	-	31,582	26,718	10,512	-	68,812
Line of credit payable	8,380	-	-	-	-	8,380
Accounts payable	3,399	16,533	15,640	8,492	-	44,064
Accrued expenses	20,989	14,941	12,729	7,473	-	56,132
Due to third-party payors	-	16,698	15,172	6,392	-	38,262
Due to affiliates	327	11,711	19,487	7,066	(38,079)	512
<b>Total current liabilities</b>	<u>33,335</u>	<u>96,579</u>	<u>93,651</u>	<u>42,121</u>	<u>(38,079)</u>	<u>227,607</u>
Long-term obligations, net	960	18,022	5,674	22,326	-	46,982
Other long-term liabilities	69,238	183,421	112,243	53,423	(11,760)	406,565
<b>Total liabilities</b>	<u>103,533</u>	<u>298,022</u>	<u>211,568</u>	<u>117,870</u>	<u>(49,839)</u>	<u>681,154</u>
<b>Net assets</b>						
Unrestricted	(4,124)	(54,765)	64,360	13,555	(11,512)	7,514
Temporarily restricted	129	-	-	-	-	129
<b>Total net assets</b>	<u>(3,995)</u>	<u>(54,765)</u>	<u>64,360</u>	<u>13,555</u>	<u>(11,512)</u>	<u>7,643</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 99,538</u>	<u>\$ 243,257</u>	<u>\$ 275,928</u>	<u>\$ 131,425</u>	<u>\$ (61,351)</u>	<u>\$ 688,797</u>

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands of dollars)

NOTE 9. OBLIGATED GROUP FINANCIAL INFORMATION (CONTINUED)

Consolidating Statement of Operations  
and Changes in Net Assets

For the Year Ended December 31, 2012

	Parent	Mercy Hospital	Sisters Hospital	Kenmore Mercy Hospital	Eliminations	Total
<b>Unrestricted revenues, gains and other support:</b>						
Net patient/resident service revenue	\$ -	349,336	\$ 317,985	\$ 153,020	\$ -	\$ 820,341
Provision for bad debts	-	(9,762)	(10,255)	(4,094)	-	(24,111)
Net patient/resident service revenue less provision for bad debts	-	339,574	307,730	148,926	-	796,230
Other revenue	118,042	7,983	7,932	2,831	(114,067)	22,721
<b>Total unrestricted revenues, gains and other support</b>	<b>118,042</b>	<b>347,557</b>	<b>315,662</b>	<b>151,757</b>	<b>(114,067)</b>	<b>818,951</b>
<b>Expenses:</b>						
Salaries and wages	58,849	138,276	138,841	63,720	(53,997)	345,689
Employee benefits	17,041	52,112	41,617	19,898	(16,017)	114,651
Medical and professional fees	5,711	12,113	13,383	5,148	(3,929)	32,426
Purchased services	23,166	28,466	28,983	13,003	(24,051)	69,567
Supplies	495	70,266	56,668	30,841	(454)	157,816
Depreciation and amortization	3,011	12,862	12,391	7,517	(3,011)	32,770
Interest	192	2,358	2,128	1,284	(192)	5,770
Insurance	249	2,945	3,004	1,028	(242)	6,984
Other expenses	9,393	15,232	10,884	4,778	(12,603)	27,684
<b>Total expenses</b>	<b>118,107</b>	<b>334,630</b>	<b>307,899</b>	<b>147,217</b>	<b>(114,496)</b>	<b>793,357</b>
<b>Income (loss) from operations</b>	<b>(65)</b>	<b>12,927</b>	<b>7,763</b>	<b>4,540</b>	<b>429</b>	<b>25,594</b>
<b>Nonoperating revenues and losses:</b>						
Investment income	20	360	221	85	(20)	666
Other	45	234	665	(3)	(409)	532
<b>Total nonoperating revenues and losses:</b>	<b>65</b>	<b>594</b>	<b>886</b>	<b>82</b>	<b>(429)</b>	<b>1,198</b>
<b>Excess of revenues over expenses</b>	<b>\$ -</b>	<b>\$ 13,521</b>	<b>\$ 8,649</b>	<b>\$ 4,622</b>	<b>\$ -</b>	<b>\$ 26,792</b>

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands of dollars)

NOTE 9. OBLIGATED GROUP FINANCIAL INFORMATION (CONTINUED)

Consolidating Statement of Operations  
and Changes in Net Assets (Continued)

For the Year Ended December 31, 2012

	Parent	Mercy Hospital	Sisters Hospital	Kenmore Mercy Hospital	Eliminations	Total
<b>Unrestricted net assets:</b>						
Excess of revenues over expenses	\$ -	\$ 13,521	\$ 8,649	\$ 4,622	\$ -	\$ 26,792
Change in unrealized loss on interest rate swap	-	(317)	(215)	(23)	-	(555)
Change in pension obligation, other than net periodic cost	(5,079)	(13,232)	(8,681)	(1,795)	-	(28,787)
Net assets released from restrictions	269	-	-	-	-	269
Transfers to/from parent or affiliate	9,788	(8,137)	(1,872)	(132)	-	(353)
Contributions and other	-	-	613	543	-	1,156
Valuation allowance on intercompany receivables	-	-	-	-	(569)	(569)
Increase (decrease) in unrestricted net assets	4,978	(8,165)	(1,506)	3,215	(569)	(2,047)
<b>Temporarily restricted net assets:</b>						
Temporarily restricted net assets released from restrictions	(269)	-	-	-	-	(269)
Contributions and other	-	-	-	-	-	-
Decrease in temporarily restricted net assets	(269)	-	-	-	-	(269)
Increase (decrease) in net assets	4,709	(8,165)	(1,506)	3,215	(569)	(2,316)
Net assets, beginning of year	(8,704)	(46,600)	65,866	10,340	(10,943)	9,959
Net assets, end of year	<u>\$ (3,995)</u>	<u>\$ (54,765)</u>	<u>\$ 64,360</u>	<u>\$ 13,555</u>	<u>\$ (11,512)</u>	<u>\$ 7,643</u>



**CATHOLIC HEALTH SYSTEMS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(in thousands of dollars)

**NOTE 9. OBLIGATED GROUP FINANCIAL INFORMATION (CONTINUED)**

**Consolidating Statement of Cash Flows**

For the Year Ended December 31, 2013 and 2012

	<b>2013</b>	<b>2012</b>
<b>Cash flows from operating activities:</b>		
Increase (decrease) in net assets	\$ 143,574	\$ (2,316)
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities		
Depreciation and amortization	33,992	32,770
Provision for bad debts	19,191	24,111
Change in pension obligation, other than periodic cost	(103,934)	28,787
Grant revenue for capital additions	(390)	-
Valuation allowance of intercompany receivables	(17)	569
Unrealized and realized loss (gain) on investments	41	(53)
Change in unrealized loss (gain) on interest rate swap	(6,129)	574
Gain on extinguishment of capital leases	(26)	(155)
Undistributed earnings in equity investees	34	(10)
Other	173	183
(Increase) decrease in assets:		
Patient accounts receivables	(17,456)	(34,698)
Other receivables	(5,348)	510
Inventories	(5,506)	(2,622)
Prepaid expenses and other current assets	(930)	(616)
Due from affiliates	2,613	(640)
Other assets	(1,034)	(1,325)
Increase (decrease) in liabilities:		
Accounts payable	(168)	6,136
Accrued expenses	1,989	2,685
Due to affiliate	(3,554)	118
Due to third-party payors	(3,310)	4,722
Other liabilities	19,765	18,352
<b>Net cash and cash equivalents provided by operating activities</b>	<b>73,570</b>	<b>77,082</b>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(40,709)	(44,058)
Proceeds from sale of property and equipment	-	592
Purchase of assets limited as to use	(2,523)	(26,789)
Proceeds from sale of assets limited as to use	12,654	10,647
<b>Net cash and cash equivalents used in investing activities</b>	<b>(30,578)</b>	<b>(59,608)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of long-term obligations	3,718	28,465
Discount on issuance	-	(189)
Premium on issuance	-	205
Proceeds of grant revenue for capital additions	390	-
Repayments of current and long-term obligations	(11,799)	(10,416)
<b>Net cash and cash equivalents (used in) provided by financing activities</b>	<b>(7,691)</b>	<b>18,065</b>
<b>Increase in cash and cash equivalents</b>	<b>35,301</b>	<b>35,539</b>
Cash and cash equivalents - beginning of year	218,172	182,633
Cash and cash equivalents - end of year	<u>\$ 253,473</u>	<u>\$ 218,172</u>
<b>Supplemental disclosures of cash flow information</b>		
Cash paid during the year for interest	\$ 6,078	\$ 5,915
<b>Non-cash investing and financing transactions</b>		
Assets acquired under capital lease obligations	\$ 3,198	\$ 4,384
Construction related payables	\$ 836	\$ 1,826
Other non-cash transactions	\$ 1,200	-

## CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of dollars)

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#### NOTE 9. OBLIGATED GROUP FINANCIAL INFORMATION (CONTINUED)

The Obligated Group provides healthcare services to residents within its geographic region. Expenses related to providing these services for the year ended December 31, are as follows:

	<u>2013</u>	<u>2012</u>
Healthcare services	\$ 606,172	\$ 582,692
General and administrative	<u>219,935</u>	<u>210,665</u>
	<u>\$ 826,107</u>	<u>\$ 793,357</u>

#### NOTE 10. EMPLOYEE BENEFIT PLANS

**Pension Arrangements:** Effective January 1, 2001, the System began maintaining a qualified defined benefit pension plan covering substantially all of its employees at its constituent hospitals. As of that date, active participants in the KMH, MHB, and SCH plans who were employed at the Hospitals are covered under the Retirement Plan of the Catholic Health System (the Plan). Effective January 1, 2002, all other entities in the System, with the exception of the Nazareth Home, began participation in the Plan. Pension assets and liabilities from legacy plans, if any, were transferred to the Plan on September 25, 2002.

Effective January 1, 2001 or 2002, as applicable, 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 choose not to participate in the cash balance feature accrue benefits under the same formula as their 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 Hospitals formula earn benefits under a final 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 within the System to other CHS subsidiaries, the obligations and a proportional amount of the plan's assets transfer, accordingly.

**CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(in thousands of dollars)

**NOTE 10. EMPLOYEE BENEFIT PLANS (CONTINUED)**

**Funded Status:** The following tables summarize changes in the projected benefit obligation, the plan assets and the funded status of the CHS pension plan as well as the components of net periodic benefit costs, including key assumptions as of December 31.

	<u>2013</u>	<u>2012</u>
<b>Projected Benefit Obligations</b>		
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 539,200	\$ 462,928
Service cost	20,805	18,267
Interest cost	20,997	20,982
Expenses	(247)	(259)
Benefits paid	(13,759)	(11,960)
Actuarial (gains) losses	<u>(74,379)</u>	<u>49,242</u>
Projected Benefit obligation at end of year	\$ <u>492,617</u>	\$ <u>539,200</u>
<b>Accumulated benefit obligations at end of year</b>	<u>\$ 438,134</u>	<u>\$ 474,845</u>
<b>Plan Assets</b>		
Change in plan assets:		
Fair value of assets at beginning of year	\$ 235,207	\$ 206,658
Actual return on plan assets	34,147	22,966
System contribuion	21,554	17,802
Expenses	(247)	(259)
Benefits paid	<u>(13,759)</u>	<u>(11,960)</u>
Fair value of plan assets at end of year	\$ <u>276,902</u>	\$ <u>235,207</u>
<b>Funded status at end of year</b>	<u>\$ (215,715)</u>	<u>\$ (303,993)</u>
<b>Amounts recognized in the consolidated balance sheets:</b>		
Non-current liabilities	\$ <u>(215,715)</u>	\$ <u>(303,993)</u>
Net amounts recognized	<u>\$ (215,715)</u>	<u>\$ (303,993)</u>
<b>Amounts recognized in unrestricted net assets consists of:</b>		
Actuarial net loss	\$ (119,529)	\$ (226,842)
Prior service cost	<u>(712)</u>	<u>(941)</u>
Total amount recognized	<u>\$ (120,241)</u>	<u>\$ (227,783)</u>
<b>Other changes recognized in unrestricted net assets:</b>		
Net (gain) loss arising during the period	\$ (89,343)	\$ 44,164
Amortization of prior service cost	(229)	(229)
Amortization of loss	<u>(17,970)</u>	<u>(13,963)</u>
Total amount recognized	<u>\$ (107,542)</u>	<u>\$ 29,972</u>

**CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
*(in thousands of dollars)*

**NOTE 10. EMPLOYEE BENEFIT PLANS (CONTINUED)**

	<u>2013</u>	<u>2012</u>
<b>Components of net periodic benefit cost:</b>		
Service cost	\$ 20,805	\$ 18,267
Interest cost	20,997	20,982
Expected return on plan assets	(19,183)	(17,888)
Amortization of prior service cost or (credit)	229	229
Recognized actuarial loss	<u>17,969</u>	<u>13,962</u>
Net periodic pension cost	<u>\$ 40,817</u>	<u>\$ 35,552</u>

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 and \$8,555, 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:

<u>Asset Category</u>	<u>Target</u>	<u>Actual</u>	
		<u>2013</u>	<u>2012</u>
Equities	65%	61%	50%
Fixed income	25	30	35
Other	<u>10</u>	<u>9</u>	<u>15</u>
	<u>100%</u>	<u>100%</u>	<u>100%</u>

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.

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.

**CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
*(in thousands of dollars)*

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**NOTE 10. EMPLOYEE BENEFIT PLANS (CONTINUED)**

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 31<sup>st</sup>.

*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.

**CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(in thousands of dollars)

**NOTE 10. EMPLOYEE BENEFIT PLANS (CONTINUED)**

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

<b>At December 31, 2013</b>	<b>Level I</b>	<b>Level II</b>	<b>Level III</b>	<b>Total</b>
Cash and cash equivalents	\$ 10,610	\$ -	\$ -	\$ 10,610
Marketable equity securities:				
SRI large cap	36	-	-	36
Large cap flex	44,116	-	-	44,116
Small cap growth	17,696	-	-	17,696
International	11,360	-	-	11,360
Small cap value	8,722	-	-	8,722
Other	527	-	-	527
Marketable debt securities:				
US government obligations	31,736	-	-	31,736
Private placement	-	8,997	-	8,997
Banking and finance	-	9,753	-	9,753
International	-	6,203	-	6,203
Utility	-	3,898	-	3,898
Other	-	19,425	-	19,425
Alternative investments:				
Commingled funds	-	85,148	8,669	93,817
International hedge funds	-	-	4,826	4,826
Venture capital funds	-	-	5,180	5,180
<b>Total</b>	<b>\$ 124,803</b>	<b>\$ 133,424</b>	<b>\$ 18,675</b>	<b>\$ 276,902</b>

<b>At December 31, 2012</b>	<b>Level I</b>	<b>Level II</b>	<b>Level III</b>	<b>Total</b>
Cash and cash equivalents	\$ 14,492	\$ 51	\$ -	\$ 14,543
Marketable equity securities:				
SRI large cap	22	-	-	22
Large cap flex	26,642	-	-	26,642
Small cap growth	12,959	-	-	12,959
International	9,082	-	-	9,082
Small cap value	6,136	-	-	6,136
Other	178	-	-	178
Marketable debt securities:				
US government obligations	24,932	-	-	24,932
Private placement	-	9,260	-	9,260
Banking and finance	-	11,042	-	11,042
International	-	3,476	-	3,476
Utility	-	4,406	-	4,406
Other	-	19,683	-	19,683
Alternative investments:				
Commingled funds	-	62,498	18,618	81,116
International hedge funds	-	-	3,169	3,169
Venture capital funds	-	-	8,561	8,561
<b>Total</b>	<b>\$ 94,443</b>	<b>\$ 110,416</b>	<b>\$ 30,348</b>	<b>\$ 235,207</b>

**CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
*(in thousands of dollars)*

**NOTE 10. EMPLOYEE BENEFIT PLANS (CONTINUED)**

A roll forward of those marketable securities that have been classified by the defined benefit plan as Level 3 within the fair value hierarchy (defined above) is as follows:

	<u>2013</u>	<u>2012</u>
Fair value January 1	\$ 30,348	\$ 27,055
Realized and unrealized gains (losses)	1,147	944
Purchases	11,545	13,009
Sales	<u>(24,365)</u>	<u>(10,660)</u>
Fair value December 31	<u>\$ 18,675</u>	<u>\$ 30,348</u>

**Contributions:** Contributions to the Plan are made to make benefit payments to plan participants. The funding policy is to contribute amounts to the trusts sufficient to meet minimum funding requirements plus such additional amounts as may be determined to be appropriate. Contributions are made to benefit plans for the sole benefit of plan participants.

The System is expected to contribute an aggregate amount of approximately \$21,544 to the pension plan trust in 2014 to be allocated amongst participating entities.

**Benefit Payments:** Estimated future benefit payments by the System are as follows as of December 31:

2014	\$ 17,101
2015	\$ 18,708
2016	\$ 20,714
2017	\$ 22,798
2018	\$ 24,560
2019 - 2022	\$ 159,305

	<u>2013</u>	<u>2012</u>
<b>Weighted average assumptions used to determine end of the year benefit obligations:</b>		
Discount rate	5.05%	3.95%
Rate of compensation increase	3.50%	3.00%
<b>Weighted average assumptions used to determine net periodic pension cost:</b>		
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

## CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of dollars)

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#### NOTE 11. INSURANCE ARRANGEMENTS

The System 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 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 for healthcare professional liability and \$1,000 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 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% in 2013 and 4% in 2012. The System's current portion of liability for unasserted claims at December 31, 2013 and 2012 is \$410 and \$374, respectively, which has been included in accrued expenses. The System's long term portion of liabilities for unpaid and incurred but not reported claims at December 31, 2013 and 2012 is \$52,186 and \$43,337, respectively. The charges to expenses for professional and general liability for 2013 and 2012 approximated \$7,170 and \$6,352, respectively, which has been included in insurance expense. In 2011, the System 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 approximated \$44,400 and \$36,304 at December 31, 2013 and 2012, respectively and is included in other non-current assets. Insurance recoveries are measured on the same basis as the liability subject to the need for a valuation allowance on uncollectible amounts.

The System's insurance program for workers' compensation has a deductible of \$350 per occurrence. Claims in excess of the deductible are fully insured. Losses from asserted claims and from unasserted claims identified under the System's incident reporting programs were accrued on a discounted basis based upon actuarial estimates of the settlement of such claims. The discount rate applied is 3% and 4% in 2013 and 2012, respectively. The System's current portion of liabilities for unpaid and incurred but not reported claims at December 31, 2013 and 2012 is \$7,032 and \$6,669, respectively, and is included in accrued expenses. The System's long term portion of liabilities for unpaid and incurred but not reported claims at December 31, 2013 and 2012 is \$59,111 and \$53,761, respectively, and is included in other long-term liabilities.

The charges to expenses for workers' compensation costs approximated \$12,419 and \$13,816 in 2013 and 2012, respectively, which has been included in employee benefits expense. In 2011, the System 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 approximated \$30,477 and \$27,254 at December 31, 2013 and 2012, respectively and is included in other non-current assets. Insurance recoveries are measured on the same basis as the liability subject to the need for a valuation allowance for uncollectible amounts.

The System's insurance for employee health costs is self-insured up to \$350 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. The System's liability for unpaid health insurance claims, which has been included in accrued expenses at December 31, 2013 and 2012, was \$7,991 and \$7,571, respectively.



## CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of dollars)

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#### NOTE 12. LEGAL MATTERS

The System 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 System's future financial position, results from operations or cash flows.

#### NOTE 13. CONCENTRATIONS OF CREDIT RISK

The System grants credit without collateral to its patients, most of who 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 as follows:

	<u>2013</u>	<u>2012</u>
Medicare	34%	34%
Medicaid	11	9
Blue Cross	7	7
Other third-party payors	33	37
Patients/residents	<u>15</u>	<u>13</u>
	<u>100%</u>	<u>100%</u>

The System maintains funds in excess of amounts insured by the Federal Depository Insurance limits. The System 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 System in estimating fair value disclosures for these consolidated financial statements:

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

**Assets Limited to Use:** The fair values for marketable equity, government, and fixed income securities are based on quoted market prices.

**Investments:** The fair values for marketable equity, marketable debt, government, and fixed income securities are valued at the closing price reported on the active market on which the individual securities are traded.

**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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands of dollars)

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**NOTE 14. FAIR VALUE MEASUREMENTS (CONTINUED)**

**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. Hierarchical levels, as defined by accounting guidance, are directly related to the amount of subjectivity associated with the inputs in the determination of fair value of these assets and liabilities as follows:

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

Level II - Valuations based on quoted prices in active markets for similar assets or liabilities and 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.

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).

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 utilized to determine such fair value as of December 31, 2013 and 2012.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands of dollars)

NOTE 14. FAIR VALUE MEASUREMENTS (CONTINUED)

At December 31, 2013	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
<b>Assets limited as to use:</b>				
Cash and cash equivalents	\$ 10,954	\$ 5,459	\$ -	\$ 16,413
Marketable equity securities	11	-	-	11
U.S. Government and agency obligations	12,711	1,935	-	14,646
Other	<u>-</u>	<u>34</u>	<u>-</u>	<u>34</u>
	<u>\$ 23,676</u>	<u>\$ 7,428</u>	<u>\$ -</u>	<u>\$ 31,104</u>
<b>Investments:</b>				
Cash and cash equivalents	\$ 329	\$ -	\$ -	\$ 329
Marketable equity securities:				
Exchange Traded Funds	5,671	-	-	5,671
Mutual Funds	88	-	-	88
Social Responsible Securities	-	386	-	386
Marketable debt securities:				
Corporate Bonds	-	588	-	588
Fixed Income	34	50	-	84
Intermediate Term Bonds	-	380	-	380
U.S. Government and agency obligations	848	-	-	848
Managed funds	-	-	136	136
Other	<u>-</u>	<u>443</u>	<u>-</u>	<u>443</u>
	<u>\$ 6,970</u>	<u>\$ 1,847</u>	<u>\$ 136</u>	<u>\$ 8,953</u>
Interest rate swaps	<u>\$ -</u>	<u>\$ 8,596</u>	<u>\$ -</u>	<u>\$ 8,596</u>

**CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(in thousands of dollars)

**NOTE 14. FAIR VALUE MEASUREMENTS (CONTINUED)**

<b>At December 31, 2012</b>	<b><u>Level I</u></b>	<b><u>Level II</u></b>	<b><u>Level III</u></b>	<b><u>Total</u></b>
<b>Assets limited as to use:</b>				
Cash and cash equivalents	\$ 11,352	\$ 8,180	\$ -	\$ 19,532
Marketable equity securities	169	-	-	169
U.S. Government and agency obligations	13,074	8,385	-	21,459
Other	<u>-</u>	<u>42</u>	<u>-</u>	<u>42</u>
	<u>\$ 24,595</u>	<u>\$ 16,607</u>	<u>\$ -</u>	<u>\$ 41,202</u>
<b>Investments:</b>				
Cash and cash equivalents	\$ 224	\$ -	\$ -	\$ 224
Marketable equity securities:				
Exchange Traded Funds	3,816	-	-	3,816
Mutual Funds	128	-	-	128
Social Responsible Securities	1	294	-	295
Marketable debt securities:				
Corporate Bonds	-	833	-	833
Fixed Income	32	52	-	84
Intermediate Term Bonds	-	712	-	712
U.S. Government and agency obligations	1,026	-	-	1,026
Managed funds	-	-	125	125
Other	<u>-</u>	<u>447</u>	<u>-</u>	<u>447</u>
	<u>\$ 5,227</u>	<u>\$ 2,338</u>	<u>\$ 125</u>	<u>\$ 7,690</u>
Interest rate swaps	<u>\$ -</u>	<u>\$ 15,847</u>	<u>\$ -</u>	<u>\$ 15,847</u>

Management reports managed funds as a component of its total investment portfolio; therefore it is included in the accompanying table of investments as of December 31, 2013 and 2012:

	<b><u>2013</u></b>	<b><u>2012</u></b>
Fund of Hedge funds (A)	\$ 113	\$ 102
Real estate (B)	10	10
Private equity (C)	<u>13</u>	<u>13</u>
Total	<u>\$ 136</u>	<u>\$ 125</u>

- (A) The hedge funds have an undetermined life and have varying redemption terms based on quarter ends, semi-annual periods or anniversary dates and require prior written notice ranging from 45 to 95 days. The hedge funds have varying redemption restrictions including 1 to 2 year lock up periods and gate provisions with expiration ranging from 1 to 3.5 years.

The objective of the hedge funds investments is to achieve equity and fixed income-like returns utilizing a conservative strategy with low risk and volatility. All hedge fund investing is done in a fund of funds approach and the use of diversified funds.

- (B) Real estate investments have an unfunded commitment totaling \$2 at December 31, 2013 (\$2 – 2012) and remaining lives ranging from 1.5 to 9 years. Redemption is not permitted for these investments.

## CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of dollars)

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#### NOTE 14. FAIR VALUE MEASUREMENTS (CONTINUED)

- (C) Private equity investments have an unfunded commitment totaling \$13 at December 31, 2013 (\$7 – 2012) and remaining lives ranging from 2.5 to 14.5 years. Redemption is not permitted for these investments.

The objective of the private equity and real estate portfolios is to enhance return while reducing the overall risk through investments in limited partnerships in funds with expertise in these categories. These illiquid, longer term investments seek higher returns but are held at a very low percentage of the investment portfolio.

A roll forward of those managed funds that have been classified as Level 3 within the fair value hierarchy (defined above) is as follows:

	<u>2013</u>	<u>2012</u>
Fair value January 1	\$ 125	\$ 96
Realized and unrealized gains (losses)	<u>11</u>	<u>28</u>
 Fair value December 31	 \$ <u>136</u>	 \$ <u>125</u>

#### NOTE 15. RELATED PARTY TRANSACTIONS

CHE charged the System dues for participation in certain programs and governance matters. Amounts charged to expense related to these dues amounted to approximately \$4,284 and \$4,287 in 2013 and 2012, respectively, and are included as a component of other expenses.

CIPA WNY IPA "DBA" Catholic Medical Partners was incorporated in 1996 to establish managed care contracts that support clinical integration and provider accountability for cost and quality. The Hospitals, Long-term care, and home care subsidiaries are members of Catholic Medical Partners. The System has four of its executive staff on the Catholic Medical Partners' Board of Directors.

As discussed in Note 11, the System obtains insurance coverage from CHE Trinity, Inc.

Caritas Medical Arts Building L.L.C. is a joint venture between Sisters of Charity Hospital and Ciminelli Development Company. In 2009, Caritas Medical Arts Building, L.L.C. refinanced its mortgage. As of December 31, 2013, there was \$1,998 of debt outstanding, of which Sisters of Charity Hospital has guaranteed \$666. Per the guaranty agreement, Sisters of Charity Hospital's obligation shall decrease on a dollar for dollar basis as the principal amount of the obligation is paid down.

Marian Professional Center Associates, L.P. is a joint venture between Ciminelli Development Company, Mercy Hospital, Alsace Abbott Corporation (a wholly owned Corporation of Mercy Hospital of Buffalo), and three other joint venture partners. In 2009, Marian Professional Center Associates, L.P. refinanced its mortgage. As of December 31, 2013, there was \$5,010 of debt outstanding, of which MHB has guaranteed \$2,505. Per the guaranty agreement, MHB's obligation shall decrease on a dollar for dollar basis as the principal amount of the obligation is paid down.

East Aurora Medical Building, L.P. is a joint venture between Regent Development, Inc. and Aurora Mercy Corporation. Aurora Mercy Corporation is wholly owned by Mercy Hospital. In 1998, East Aurora Medical Building, L.P. refinanced its mortgage. As of December 31, 2013, there was \$2,350 of debt outstanding, of which Aurora Mercy Corporation has guaranteed the full amount.

## CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of dollars)

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#### NOTE 16. DISCONTINUED OPERATIONS

The following subsidiaries, which have been closed in prior years referenced, have been accounted for in discontinued operations: St. Clare Manor (2003), St. Joseph's Manor (2006), St. Francis Geriatric Healthcare Services, Inc. (2009), St. Luke's Manor of Batavia (2004), St. Mary's Manor (2003), and Nazareth Home of the Franciscan of the Immaculate Conception (2007).

The residual assets (net of inter-company receivables), liabilities and net assets (deficit) of these discontinued operations were \$3,105, \$1,095 and \$2,010, respectively, as of December 31, 2013 and \$6,294, \$1,202 and \$5,092, respectively, as of December 31, 2012 and are included within their natural classifications in the accompanying consolidated balance sheets.

On January 29, 2014, Catholic Health System entered into an asset purchase agreement and real estate purchase agreement with a third-party, under which the third party would assume control over St. Francis Home of Williamsville and St. Elizabeth's Home. Certain assets and liabilities of SFHW and SEH are classified as held for sale. As of December 31, 2013 and 2012, SFHW and SEH's operating results are reflected as discontinued operations in the consolidated financial statements.

Prior to June 30, 2014, Catholic Health System expects to enter into an asset purchase agreement with a third-party, under which the third party would assume control over St. Vincent's Home for the Aged. Certain assets and liabilities of SVH are classified as held for sale. As of December 31, 2013 and 2012, SVH's operating results are reflected as discontinued operations in the consolidated financial statements.

The aggregated loss from discontinued operations for assets held for sale as well as the closed facilities was approximately \$1,302 and \$2,336 in 2013 and 2012, respectively.

Details of the assets held for sale and discontinued operations of SFHW, SEH, and SVH at December 31 are provided below:

<b>Assets Held for Sale</b>	<b><u>2013</u></b>	<b><u>2012</u></b>
Current assets	\$ 17	\$ 17
Property and equipment, net	<u>2,675</u>	<u>2,484</u>
Total assets	<u>\$ 2,692</u>	<u>\$ 2,501</u>

**CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
*(in thousands of dollars)*

**NOTE 16. DISCONTINUED OPERATIONS (CONTINUED)**

Reclassifications of prior year as a result of discontinued operations for December 31, 2012 are as follows:

**Consolidated Statement of Operations and Changes in Net Assets**

	<b>December 31, 2012</b>		
	<b>As Previously Reported</b>	<b>Effect of Discontinued Operations</b>	<b>As Adjusted</b>
Total unrestricted revenues, gains and other support	\$ 892,436	\$ (14,223)	\$ 878,213
Total expenses	<u>867,882</u>	<u>(16,711)</u>	<u>851,171</u>
Income from operations	<u>24,554</u>	<u>2,488</u>	<u>27,042</u>
Total nonoperating revenues and losses	<u>2,147</u>	<u>13</u>	<u>2,160</u>
Excess of revenues over expenses	<u>\$ 26,701</u>	<u>\$ 2,501</u>	<u>\$ 29,202</u>
Decrease in unrestricted net assets before effects of discontinued operations (a)	\$ <u>(3,004)</u>	\$ <u>2,501</u>	\$ <u>(503)</u>
Decrease in unrestricted net assets	\$ <u>(2,839)</u>	\$ <u>-</u>	\$ <u>(2,839)</u>

(a) Adjusted for Kenmore Mercy Hospital reclassification of \$628 from unrestricted net assets to temporarily restricted net assets, as discussed in Note 3.

**NOTE 17. FUNCTIONAL EXPENSES**

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

	<b>2013</b>	<b>2012</b>
Healthcare services	\$ 668,029	\$ 637,639
General and administrative	<u>222,290</u>	<u>213,532</u>
	<u>\$ 890,319</u>	<u>\$ 851,171</u>

## 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 Catholic Health System, Inc. and its subsidiaries (together the "System") 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 Catholic Health System, Inc. and its subsidiaries for the year ended December 31, 2012 were audited by other auditors whose report was 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 Social Accountability) is the responsibility of management and is provided for purposes of additional analysis of the consolidated financial statements. Such information is unaudited and therefore, we do not express an opinion on the Schedule of Net Cost of Providing Care of Persons Living in Poverty and Community Benefit Programs (Schedule of Social Accountability).

The consolidating information is presented for purposes of additional analysis rather than to present the financial position, results of operations and cash flows of the individual companies and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2013 information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Freed Maxick CPAs, P.C.*

Buffalo, New York  
April 10, 2014



**CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES**

**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**

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*(in thousands of dollars)*

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

	<u>2013</u>	<u>2012</u>
Charity care	\$ 7,970	\$ 7,438
Cost of community benefit programs	23,001	14,801
Unpaid cost of Medicaid programs	<u>46,638</u>	<u>37,819</u>
	<u>\$ 77,609</u>	<u>\$ 60,058</u>

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

(in thousands of dollars)

December 31, 2013

ASSETS	Parent	Acute Care Subsidiaries	Long-term Care Subsidiaries	Home Care Subsidiaries	Other Subsidiaries	Eliminations	Total
<b>Current assets:</b>							
Cash and cash equivalents	\$ 27,961	\$ 227,016	\$ 4,946	\$ 14,984	\$ 3,899	\$ -	\$ 278,806
Patient/resident accounts receivable, net of allowance for doubtful accounts of \$26,379	-	109,445	4,713	8,306	290	-	122,754
Other receivables	1,099	11,425	544	-	21	-	13,089
Inventories	-	19,401	55	673	-	-	20,129
Assets limited as to use	-	836	-	-	-	-	836
Prepaid expenses and other current assets	3,689	1,611	224	553	41	-	6,118
Due from affiliates	54,427	635	720	-	-	(55,782)	-
<b>Total current assets</b>	<b>87,176</b>	<b>370,369</b>	<b>11,202</b>	<b>24,516</b>	<b>4,251</b>	<b>(55,782)</b>	<b>441,732</b>
Interest in net assets of related Foundations	-	4,616	93	-	226	(319)	4,616
Assets limited as to use	5,379	11,017	13,201	-	671	-	30,268
Investments	-	8,953	-	-	-	-	8,953
Property and equipment, net	14,988	232,408	6,719	907	16,598	-	271,620
Other assets	1,020	70,722	6,624	6,034	775	(6)	85,169
Due from affiliates	3,661	12,015	2,154	1,447	17	(19,294)	-
<b>Total assets</b>	<b>\$ 112,224</b>	<b>\$ 710,100</b>	<b>\$ 39,993</b>	<b>\$ 32,904</b>	<b>\$ 22,538</b>	<b>\$ (75,401)</b>	<b>\$ 842,358</b>
<b>LIABILITIES AND NET ASSETS</b>							
<b>Current liabilities:</b>							
Current portion of long-term obligations	\$ 452	\$ 12,490	\$ 430	\$ 477	\$ 1,550	\$ -	\$ 15,399
Line of credit payable	10,831	-	-	-	-	-	10,831
Accounts payable	3,182	40,925	281	788	1,063	(601)	45,638
Accrued expenses	22,294	36,662	3,242	2,265	504	(115)	64,852
Due to third-party payors	-	34,952	1,450	1,201	870	-	38,473
Due to affiliates	407	38,830	9,264	1,258	1,672	(51,431)	-
<b>Total current liabilities</b>	<b>37,166</b>	<b>163,859</b>	<b>14,667</b>	<b>5,989</b>	<b>5,659</b>	<b>(52,147)</b>	<b>175,193</b>
Long-term obligations, net	1,789	106,554	6,028	1,471	12,829	-	128,671
Due to affiliates, net	13,883	-	147	3,303	5,595	(22,928)	-
Other long-term liabilities	39,321	281,748	14,485	8,583	1,960	-	346,097
<b>Total liabilities</b>	<b>92,159</b>	<b>552,161</b>	<b>35,327</b>	<b>19,346</b>	<b>26,043</b>	<b>(75,075)</b>	<b>649,961</b>
<b>Net assets (deficit):</b>							
Unrestricted	20,041	149,509	4,573	13,558	(4,125)	-	183,556
Temporarily restricted	24	8,184	93	-	620	(326)	8,595
Permanently restricted	-	246	-	-	-	-	246
<b>Total net assets (deficit)</b>	<b>20,065</b>	<b>157,939</b>	<b>4,666</b>	<b>13,558</b>	<b>(3,505)</b>	<b>(326)</b>	<b>192,397</b>
<b>Total liabilities and net assets</b>	<b>\$ 112,224</b>	<b>\$ 710,100</b>	<b>\$ 39,993</b>	<b>\$ 32,904</b>	<b>\$ 22,538</b>	<b>\$ (75,401)</b>	<b>\$ 842,358</b>

See accompanying notes.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

(in thousands of dollars)

For the Year Ended December 31, 2013

	Parent	Acute Care Subsidiaries	Long-term Care Subsidiaries	Home Care Subsidiaries	Other Subsidiaries	Eliminations	Total
<b>Unrestricted revenues other support:</b>							
Net patient/resident service revenue	\$ -	\$ 848,308	\$ 16,935	\$ 53,801	\$ 11,901	\$ (8,152)	\$ 922,793
Provision for bad debts	-	(19,223)	(339)	(1,040)	(110)	-	(20,712)
Net patient/resident service revenue, less provision for bad debts	-	829,085	16,596	52,761	11,791	(8,152)	902,081
Other revenue	123,375	21,129	434	-	4,623	(129,740)	19,821
Net assets released from restrictions	-	321	-	-	-	-	321
<b>Total unrestricted revenues and other support</b>	<b>123,375</b>	<b>850,535</b>	<b>17,030</b>	<b>52,761</b>	<b>16,414</b>	<b>(137,892)</b>	<b>922,223</b>
<b>Expenses:</b>							
Salaries and wages	62,267	357,176	10,590	27,520	3,715	(62,635)	398,633
Employee benefits	19,172	120,404	3,007	6,832	803	(19,077)	131,141
Medical and professional fees	4,855	31,627	169	484	7,447	(4,114)	40,468
Purchased services	23,205	70,115	1,132	1,437	1,368	(29,551)	67,706
Supplies	440	163,708	1,224	6,553	110	(1,478)	170,557
Depreciation and amortization	3,306	34,011	662	485	1,585	(3,306)	36,743
Interest	218	5,905	357	54	636	(233)	6,937
Insurance	269	7,726	136	368	91	(269)	8,321
Other expenses	9,872	32,674	309	2,570	1,153	(16,765)	29,813
<b>Total expenses</b>	<b>123,604</b>	<b>823,346</b>	<b>17,586</b>	<b>46,303</b>	<b>16,908</b>	<b>(137,428)</b>	<b>890,319</b>
<b>Income (loss) from operations</b>	<b>(229)</b>	<b>27,189</b>	<b>(556)</b>	<b>6,458</b>	<b>(494)</b>	<b>(464)</b>	<b>31,904</b>
<b>Nonoperating revenues and losses:</b>							
Investment income	21	2,230	113	-	-	(21)	2,343
Other, net	208	1,647	-	77	21	(613)	1,340
<b>Total nonoperating revenues and losses</b>	<b>229</b>	<b>3,877</b>	<b>113</b>	<b>77</b>	<b>21</b>	<b>(634)</b>	<b>3,683</b>
<b>Excess (deficiency) of revenues over expenses</b>	<b>\$ -</b>	<b>\$ 31,066</b>	<b>\$ (443)</b>	<b>\$ 6,535</b>	<b>\$ (473)</b>	<b>\$ (1,098)</b>	<b>\$ 35,587</b>

See accompanying notes.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (CONTINUED)

(in thousands of dollars)

For the Year Ended December 31, 2013

	Parent	Acute Care Subsidiaries	Long-term Care Subsidiaries	Home Care Subsidiaries	Other Subsidiaries	Eliminations	Total
<b>Unrestricted net assets:</b>							
Excess (deficiency) of revenues over expenses	\$ -	\$ 31,066	\$ (443)	\$ 6,535	\$ (473)	\$ (1,098)	\$ 35,587
Change in unrealized gain on interest rate swap	-	6,050	-	-	1,017	-	7,067
Change in pension obligation, other than net periodic cost	16,080	87,854	2,321	1,226	61	-	107,542
Net assets released from restrictions	129	1,093	-	-	14	-	1,236
Grant revenue	390	-	-	-	-	-	390
Other	7,566	(5,022)	(2,773)	-	376	-	147
(Decrease) increase in unrestricted net assets before effects of discontinued operations	24,165	121,041	(895)	7,761	995	(1,098)	151,969
Loss from discontinued operations	-	-	(2,400)	-	-	1,098	(1,302)
Increase (decrease) in unrestricted net assets	24,165	121,041	(3,295)	7,761	995	-	150,667
<b>Temporarily restricted net assets:</b>							
Contributions and other	-	1,211	-	-	22	-	1,233
Investment income	-	19	-	-	-	-	19
Special events revenue, net	-	87	-	-	-	-	87
Change in temporarily restricted interest in related Foundations	-	701	4	-	-	(4)	701
Temporarily restricted net assets released from restrictions	(129)	(1,414)	-	-	(14)	-	(1,557)
Other	24	-	-	-	-	-	24
(Decrease) increase in temporarily restricted net assets	(105)	604	4	-	8	(4)	507
Increase (decrease) in net assets	24,060	121,645	(3,291)	7,761	1,003	(4)	151,174
Net assets, beginning of year	(3,995)	36,294	7,957	5,797	(4,508)	(322)	41,223
Net assets, end of year	<u>\$ 20,065</u>	<u>\$ 157,939</u>	<u>\$ 4,666</u>	<u>\$ 13,558</u>	<u>\$ (3,505)</u>	<u>\$ (326)</u>	<u>\$ 192,397</u>

See accompanying notes.

**CATHOLIC HEALTH SYSTEM - ACUTE CARE SUBSIDIARIES**

**CONSOLIDATING BALANCE SHEET**

(in thousands of dollars)

December 31, 2013

	Mercy Hospital	Sisters Hospital	Kenmore Mercy Hospital	Total
<b>ASSETS</b>				
<b>Current assets:</b>				
Cash and cash equivalents	\$ 64,683	\$ 130,418	\$ 31,915	\$ 227,016
Patient/resident accounts receivable, net of allowance for doubtful accounts of \$23,200	54,105	37,376	17,964	109,445
Other receivables	5,099	4,344	1,982	11,425
Inventories	11,161	6,059	2,181	19,401
Assets limited as to use	-	-	836	836
Prepaid expenses and other current assets	571	585	455	1,611
Due from affiliates	-	635	-	635
<b>Total current assets</b>	<u>135,619</u>	<u>179,417</u>	<u>55,333</u>	<u>370,369</u>
Interest in net assets of related Foundations	-	-	4,616	4,616
Assets limited as to use	1,324	210	9,483	11,017
Investments	1,511	7,442	-	8,953
Property and equipment, net	101,129	74,556	56,723	232,408
Other assets	28,270	26,197	16,255	70,722
Due from affiliates	237	10,303	1,475	12,015
<b>Total assets</b>	<u>\$ 268,090</u>	<u>\$ 298,125</u>	<u>\$ 143,885</u>	<u>\$ 710,100</u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>Current liabilities:</b>				
Current portion of long-term obligations	\$ 5,518	\$ 4,473	\$ 2,499	\$ 12,490
Accounts payable	17,824	15,118	7,983	40,925
Accrued expenses	15,682	13,581	7,399	36,662
Due to third-party payors	18,110	10,979	5,863	34,952
Due to affiliates	9,906	21,295	7,629	38,830
<b>Total current liabilities</b>	<u>67,040</u>	<u>65,446</u>	<u>31,373</u>	<u>163,859</u>
Long-term obligations, net	45,560	30,522	30,472	106,554
Other long-term liabilities	146,448	89,068	46,232	281,748
<b>Total liabilities</b>	<u>259,048</u>	<u>185,036</u>	<u>108,077</u>	<u>552,161</u>
<b>Net assets:</b>				
Unrestricted	7,886	110,437	31,186	149,509
Temporarily restricted	1,033	2,529	4,622	8,184
Permanently restricted	123	123	-	246
<b>Total net assets</b>	<u>9,042</u>	<u>113,089</u>	<u>35,808</u>	<u>157,939</u>
<b>Total liabilities and net assets</b>	<u>\$ 268,090</u>	<u>\$ 298,125</u>	<u>\$ 143,885</u>	<u>\$ 710,100</u>

See accompanying notes.

**CATHOLIC HEALTH SYSTEM - ACUTE CARE SUBSIDIARIES**

**CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS**

(in thousands of dollars)

For the Year Ended December 31, 2013

	<b>Mercy Hospital</b>	<b>Sisters Hospital</b>	<b>Kenmore Mercy Hospital</b>	<b>Total</b>
<b>Unrestricted revenues other support:</b>				
Net patient/resident service revenue	\$ 371,395	\$ 322,669	\$ 154,244	\$ 848,308
Provision for bad debts	(8,743)	(7,195)	(3,285)	(19,223)
Net patient/resident service revenue, less provision for bad debts	362,652	315,474	150,959	829,085
Other revenue	10,802	7,672	2,655	21,129
Net assets released from restrictions	256	65	-	321
<b>Total unrestricted revenues and other support</b>	<b>373,710</b>	<b>323,211</b>	<b>153,614</b>	<b>850,535</b>
<b>Expenses:</b>				
Salaries and wages	147,811	143,400	65,965	357,176
Employee benefits	55,404	44,426	20,574	120,404
Medical and professional fees	12,049	14,983	4,595	31,627
Purchased services	28,988	28,478	12,649	70,115
Supplies	75,009	56,915	31,784	163,708
Depreciation and amortization	14,276	13,238	6,497	34,011
Interest	2,371	2,050	1,484	5,905
Insurance	3,123	3,226	1,377	7,726
Other expenses	15,939	11,837	4,898	32,674
<b>Total expenses</b>	<b>354,970</b>	<b>318,553</b>	<b>149,823</b>	<b>823,346</b>
<b>Income from operations</b>	<b>18,740</b>	<b>4,658</b>	<b>3,791</b>	<b>27,189</b>
<b>Nonoperating revenues and losses:</b>				
Investment income	757	1,392	81	2,230
Other, net	44	1,557	46	1,647
<b>Total nonoperating revenues and losses</b>	<b>801</b>	<b>2,949</b>	<b>127</b>	<b>3,877</b>
<b>Excess of revenues over expenses</b>	<b>\$ 19,541</b>	<b>\$ 7,607</b>	<b>\$ 3,918</b>	<b>\$ 31,066</b>

See accompanying notes.

**CATHOLIC HEALTH SYSTEM - ACUTE CARE SUBSIDIARIES**

**CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (CONTINUED)**

(in thousands of dollars)

For the Year Ended December 31, 2013

	<b>Mercy Hospital</b>	<b>Sisters Hospital</b>	<b>Kenmore Mercy Hospital</b>	<b>Total</b>
<b>Unrestricted net assets:</b>				
Excess of revenues over expenses	\$ 19,541	\$ 7,607	\$ 3,918	\$ 31,066
Change in unrealized gain on interest rate swap	3,413	1,994	643	6,050
Change in pension obligation, other than net periodic cost	45,520	31,530	10,804	87,854
Net assets released from restrictions	991	102	-	1,093
Other	(7,309)	20	2,267	(5,022)
Increase in unrestricted net assets	62,156	41,253	17,632	121,041
<b>Temporarily restricted net assets:</b>				
Contributions and other	560	651	-	1,211
Investment income	19	-	-	19
Special events revenue, net	31	56	-	87
Change in temporarily restricted interest in related Foundations	-	-	701	701
Temporarily restricted net assets released from restrictions	(1,247)	(167)	-	(1,414)
Decrease (increase) in temporarily restricted net assets	(637)	540	701	604
Increase in net assets	61,519	41,793	18,333	121,645
Net assets, beginning of year	(52,477)	71,296	17,475	36,294
Net assets, end of year	<u>\$ 9,042</u>	<u>\$ 113,089</u>	<u>\$ 35,808</u>	<u>\$ 157,939</u>

See accompanying notes.

CATHOLIC HEALTH SYSTEM - LONG-TERM CARE SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

(in thousands of dollars)

December 31, 2013

	Discontinued Operations										
	Father Baker Manor	St. Clare Manor	St. Francis Geriatric	St. Francis Home	St. Joseph's Manor	St. Luke's Manor	St. Mary's Manor	St. Elizabeth's Home	St. Vincent's Home	Nazareth Home	Total
ASSETS											
Current assets:											
Cash and cash equivalents	\$ 1,280	\$ -	\$ 1,285	\$ 932	\$ -	\$ -	\$ -	\$ 121	\$ 76	\$ 1,252	\$ 4,946
Resident accounts receivable, net of allowance for doubtful accounts of \$1,731	2,072	-	62	2,150	-	-	-	334	95	-	4,713
Other receivables	284	-	-	260	-	-	-	-	-	-	544
Inventories	38	-	-	17	-	-	-	-	-	-	55
Prepaid expenses and other current assets	126	-	-	77	-	-	-	2	19	-	224
Due from affiliates	25	-	-	29	-	-	-	-	-	666	720
Total current assets	3,825	-	1,347	3,465	-	-	-	457	190	1,918	11,202
Interest in net assets of related Foundations	19	-	-	74	-	-	-	-	-	-	93
Assets limited as to use	12,072	-	-	1,129	-	-	-	-	-	-	13,201
Property and equipment, net	3,545	-	-	2,004	-	-	-	581	90	499	6,719
Other assets	2,957	-	7	2,599	-	-	-	811	250	-	6,624
Due from affiliates	-	-	-	-	-	-	-	2,154	-	-	2,154
Total assets	\$ 22,418	\$ -	\$ 1,354	\$ 9,271	\$ -	\$ -	\$ -	\$ 4,003	\$ 530	\$ 2,417	\$ 39,993
LIABILITIES AND NET ASSETS											
Current liabilities:											
Current portion of long-term obligations	\$ 430	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 430
Accounts payable	95	-	-	95	-	-	-	67	16	8	281
Accrued expenses	1,508	-	7	1,320	-	-	-	291	94	22	3,242
Due to third-party payors	735	-	229	486	-	-	-	-	-	-	1,450
Due to affiliates	631	-	-	5,925	-	-	-	1,986	722	-	9,264
Total current liabilities	3,399	-	236	7,826	-	-	-	2,344	832	30	14,667
Long-term obligations, net	6,028	-	-	-	-	-	-	-	-	-	6,028
Due to affiliates, net	-	-	-	-	-	-	-	-	-	147	147
Other long-term liabilities	5,067	-	-	6,228	-	-	-	1,818	690	682	14,485
Total liabilities	14,494	-	236	14,054	-	-	-	4,162	1,522	859	35,327
Net assets (deficit):											
Unrestricted	7,905	-	1,118	(4,857)	-	-	-	(159)	(992)	1,558	4,573
Temporarily restricted	19	-	-	74	-	-	-	-	-	-	93
Permanently restricted	-	-	-	-	-	-	-	-	-	-	-
Total net assets (deficit)	7,924	-	1,118	(4,783)	-	-	-	(159)	(992)	1,558	4,666
Total liabilities and net assets	\$ 22,418	\$ -	\$ 1,354	\$ 9,271	\$ -	\$ -	\$ -	\$ 4,003	\$ 530	\$ 2,417	\$ 39,993

See accompanying notes.



CATHOLIC HEALTH SYSTEM - LONG-TERM CARE SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

(in thousands of dollars)

For the Year Ended December 31, 2013

	Discontinued Operations										
	Father Baker Manor	St. Clare Manor	St. Francis Geriatric	St. Francis Home	St. Joseph's Manor	St. Luke's Manor	St. Mary's Manor	St. Elizabeth's Home	St. Vincent's Home	Nazareth Home	Total
<b>Unrestricted revenues other support:</b>											
Net resident service revenue	\$ 16,935	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16,935
Provision for bad debts	(339)	-	-	-	-	-	-	-	-	-	(339)
Net resident service revenue, less provision for bad debts	16,596	-	-	-	-	-	-	-	-	-	16,596
Other revenue	67	-	-	-	-	-	-	-	-	367	434
<b>Total unrestricted revenues and other support</b>	<b>16,663</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>367</b>	<b>17,030</b>
<b>Expenses:</b>											
Salaries and wages	10,499	-	-	-	-	-	-	-	-	91	10,590
Employee benefits	2,981	-	-	-	-	-	-	-	-	26	3,007
Medical and professional fees	169	-	-	-	-	-	-	-	-	-	169
Purchased services	998	-	-	-	-	-	-	-	-	134	1,132
Supplies	1,220	-	-	-	-	-	-	-	-	4	1,224
Depreciation and amortization	584	-	-	-	-	-	-	-	-	78	662
Interest	357	-	-	-	-	-	-	-	-	-	357
Insurance	135	-	-	-	-	-	-	-	-	1	136
Other expenses	276	-	-	-	-	-	-	-	-	33	309
<b>Total expenses</b>	<b>17,219</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>367</b>	<b>17,586</b>
<b>Loss from operations</b>	<b>(556)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(556)</b>
<b>Nonoperating revenues and losses:</b>											
Investment income	113	-	-	-	-	-	-	-	-	-	113
<b>Total nonoperating revenues and losses</b>	<b>113</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>113</b>
<b>Deficiency of revenues over expenses</b>	<b>\$ (443)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (443)</b>
<b>Unrestricted net assets:</b>											
Deficiency of revenues over expenses	\$ (443)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (443)
Change in pension obligation, other than net periodic cost	918	-	-	957	-	-	-	324	122	-	2,321
Change in unrestricted interest in related Foundations	-	-	-	-	-	-	-	-	-	-	-
Other	(171)	(253)	62	-	(857)	(7)	(1,486)	-	-	(61)	(2,773)
Increase (decrease) in unrestricted net assets before effects of discontinued operations	304	(253)	62	957	(857)	(7)	(1,486)	324	122	(61)	(895)
Gain (loss) from discontinued operations	-	-	108	(1,530)	4	-	-	(805)	(251)	74	(2,400)
Increase (decrease) unrestricted net assets	304	(253)	170	(573)	(853)	(7)	(1,486)	(481)	(129)	13	(3,295)
<b>Temporarily restricted net assets:</b>											
Contributions and other	-	-	-	-	-	-	-	-	-	-	-
Investment income	-	-	-	-	-	-	-	-	-	-	-
Change in temporarily restricted interest in related foundations	(1)	-	-	5	-	-	-	-	-	-	4
Temporarily restricted net assets released from restrictions	-	-	-	-	-	-	-	-	-	-	-
(Decrease) increase in temporarily restricted net assets	(1)	-	-	5	-	-	-	-	-	-	4
Increase (decrease) in net assets (deficit)	303	(253)	170	(568)	(853)	(7)	(1,486)	(481)	(129)	13	(3,291)
Net assets, beginning of year	7,621	253	948	(4,215)	853	7	1,486	322	(863)	1,545	7,957
Net assets, end of year	<u>\$ 7,924</u>	<u>\$ -</u>	<u>\$ 1,118</u>	<u>\$ (4,783)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (159)</u>	<u>\$ (992)</u>	<u>\$ 1,558</u>	<u>\$ 4,666</u>

See accompanying notes.

**CATHOLIC HEALTH SYSTEM - HOME CARE SUBSIDIARIES**

**CONSOLIDATING BALANCE SHEET**

(in thousands of dollars)

December 31, 2013

	Mercy Home Care	McAuley Seton Home Care	Infusion Pharmacy	Total
<b>ASSETS</b>				
<b>Current assets:</b>				
Cash and cash equivalents	\$ 785	\$ 12,323	\$ 1,876	\$ 14,984
Patient accounts receivable, net of allowance for doubtful accounts of \$1,309	399	7,140	767	8,306
Inventories	-	36	637	673
Prepaid expenses and other current assets	93	436	24	553
<b>Total current assets</b>	<u>1,277</u>	<u>19,935</u>	<u>3,304</u>	<u>24,516</u>
Property and equipment, net	-	798	109	907
Other assets	1,239	4,363	432	6,034
Due from affiliates	468	845	134	1,447
<b>Total assets</b>	<u>\$ 2,984</u>	<u>\$ 25,941</u>	<u>\$ 3,979</u>	<u>\$ 32,904</u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>Current liabilities:</b>				
Current portion of long-term obligations	\$ -	\$ 477	\$ -	\$ 477
Accounts payable	501	114	173	788
Accrued expenses	-	2,039	226	2,265
Due to third-party payors	67	1,063	71	1,201
Due to affiliates	-	448	810	1,258
<b>Total current liabilities</b>	<u>568</u>	<u>4,141</u>	<u>1,280</u>	<u>5,989</u>
Long-term obligations, net	-	1,471	-	1,471
Due to affiliates, net	-	3,303	-	3,303
Other long-term liabilities	2,587	5,618	378	8,583
<b>Total liabilities</b>	<u>3,155</u>	<u>14,533</u>	<u>1,658</u>	<u>19,346</u>
<b>Net assets (deficit):</b>				-
Unrestricted	(171)	11,408	2,321	13,558
<b>Total liabilities and net assets</b>	<u>\$ 2,984</u>	<u>\$ 25,941</u>	<u>\$ 3,979</u>	<u>\$ 32,904</u>

See accompanying notes.

**CATHOLIC HEALTH SYSTEM - HOME CARE SUBSIDIARIES**

**CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS**

(in thousands of dollars)

For the Year Ended December 31, 2013

	<b>Mercy Home Care</b>	<b>McAuley Seton Home Care</b>	<b>Infusion Pharmacy</b>	<b>Total</b>
<b>Unrestricted revenues other support:</b>				
Net resident service revenue	\$ 7,933	\$ 36,694	\$ 9,174	\$ 53,801
Provision for bad debts	(69)	(632)	(339)	(1,040)
<b>Total unrestricted revenues and other support</b>	<b>7,864</b>	<b>36,062</b>	<b>8,835</b>	<b>52,761</b>
<b>Expenses:</b>				
Salaries and wages	4,923	20,999	1,598	27,520
Employee benefits	1,365	4,928	539	6,832
Medical and professional fees	-	437	47	484
Purchased services	409	860	168	1,437
Supplies	36	1,117	5,400	6,553
Depreciation and amortization	16	428	41	485
Interest	-	54	-	54
Insurance	136	229	3	368
Other expenses	563	1,656	351	2,570
<b>Total expenses</b>	<b>7,448</b>	<b>30,708</b>	<b>8,147</b>	<b>46,303</b>
<b>Income from operations</b>	<b>416</b>	<b>5,354</b>	<b>688</b>	<b>6,458</b>
<b>Nonoperating revenue and losses:</b>				
Other	54	21	2	77
<b>Total nonoperating revenue and losses</b>	<b>54</b>	<b>21</b>	<b>2</b>	<b>77</b>
<b>Excess revenue over expenses</b>	<b>\$ 470</b>	<b>\$ 5,375</b>	<b>\$ 690</b>	<b>\$ 6,535</b>
<b>Unrestricted net assets:</b>				
Excess revenue over expenses	\$ 470	\$ 5,375	\$ 690	\$ 6,535
Change in pension obligation, other than net periodic cost	(51)	1,257	20	1,226
Increase in net assets	419	6,632	710	7,761
Net assets, beginning of year	(590)	4,776	1,611	5,797
Net assets, end of year	<b>\$ (171)</b>	<b>\$ 11,408</b>	<b>\$ 2,321</b>	<b>\$ 13,558</b>

See accompanying notes.

**CATHOLIC HEALTH SYSTEM - OTHER SUBSIDIARIES**

**CONSOLIDATING BALANCE SHEET**

(in thousands of dollars)

December 31, 2013

<b>ASSETS</b>	<b>OLV Renaissance Corp.</b>	<b>Continuing Care Foundation</b>	<b>LIFE</b>	<b>Trinity</b>	<b>Total</b>
<b>Current assets:</b>					
Cash and cash equivalents	\$ 21	\$ 401	\$ 3,435	\$ 42	\$ 3,899
Patient accounts receivable, net of allowance for doubtful accounts of \$139	-	-	193	97	290
Other receivables	-	21	-	-	21
Prepaid expenses and other current assets	25	-	7	9	41
<b>Total current assets</b>	<u>46</u>	<u>422</u>	<u>3,635</u>	<u>148</u>	<u>4,251</u>
Interest in net assets of related Foundations	226	-	-	-	226
Assets limited as to use	248	-	423	-	671
Property and equipment, net	16,444	1	86	67	16,598
Other assets	642	-	128	5	775
Due from affiliates	17	-	-	-	17
<b>Total assets</b>	<u>\$ 17,623</u>	<u>\$ 423</u>	<u>\$ 4,272</u>	<u>\$ 220</u>	<u>\$ 22,538</u>
<b>LIABILITIES AND NET ASSETS</b>					
<b>Current liabilities:</b>					
Current portion of long-term obligations	\$ 1,550	\$ -	\$ -	\$ -	\$ 1,550
Accounts payable	-	-	786	277	1,063
Accrued expenses	282	115	-	107	504
Due to third-party payors	-	-	870	-	870
Due to affiliates	-	-	519	1,153	1,672
<b>Total current liabilities</b>	<u>1,832</u>	<u>115</u>	<u>2,175</u>	<u>1,537</u>	<u>5,659</u>
Long-term obligations, net	12,829	-	-	-	12,829
Due to affiliates, net	5,595	-	-	-	5,595
Other long-term liabilities	1,625	-	335	-	1,960
<b>Total liabilities</b>	<u>21,881</u>	<u>115</u>	<u>2,510</u>	<u>1,537</u>	<u>26,043</u>
<b>Net assets (deficit):</b>					
Unrestricted	(4,484)	(86)	1,762	(1,317)	(4,125)
Temporarily restricted	226	394	-	-	620
Permanently restricted	-	-	-	-	-
<b>Total net assets (deficit)</b>	<u>(4,258)</u>	<u>308</u>	<u>1,762</u>	<u>(1,317)</u>	<u>(3,505)</u>
<b>Total liabilities and net assets</b>	<u>\$ 17,623</u>	<u>\$ 423</u>	<u>\$ 4,272</u>	<u>\$ 220</u>	<u>\$ 22,538</u>

See accompanying notes.

CATHOLIC HEALTH SYSTEM - OTHER SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

(in thousands of dollars)

For the Year Ended December 31, 2013

	OLV Renaissance Corp.	Continuing Care Foundation	LIFE	Trinity	Total
<b>Unrestricted revenues other support:</b>					
Net patient/resident service revenue	\$ -	\$ -	\$ 10,259	\$ 1,642	\$ 11,901
Provision for bad debts	-	-	(99)	(11)	(110)
Net patient/resident service revenue, less provision for bad debt	-	-	10,160	1,631	11,791
Other revenue	3,479	68	-	1,076	4,623
<b>Total unrestricted revenues and other support</b>	<b>3,479</b>	<b>68</b>	<b>10,160</b>	<b>2,707</b>	<b>16,414</b>
<b>Expenses:</b>					
Salaries and wages	265	-	1,191	2,259	3,715
Employee benefits	73	-	284	446	803
Medical and professional fees	29	-	7,256	162	7,447
Purchased services	1,264	-	-	104	1,368
Supplies	40	-	-	70	110
Depreciation and amortization	1,528	-	32	25	1,585
Interest	621	-	-	15	636
Insurance	60	-	-	31	91
Other expenses	24	104	800	225	1,153
<b>Total expenses</b>	<b>3,904</b>	<b>104</b>	<b>9,563</b>	<b>3,337</b>	<b>16,908</b>
<b>(Loss) income from operations</b>	<b>(425)</b>	<b>(36)</b>	<b>597</b>	<b>(630)</b>	<b>(494)</b>
<b>Nonoperating revenue and losses:</b>					
Other, net	33	-	(5)	(7)	21
<b>Total nonoperating revenue and losses</b>	<b>33</b>	<b>-</b>	<b>(5)</b>	<b>(7)</b>	<b>21</b>
<b>(Deficiency) excess of revenues over expenses</b>	<b>\$ (392)</b>	<b>\$ (36)</b>	<b>\$ 592</b>	<b>\$ (637)</b>	<b>\$ (473)</b>

See accompanying notes.

**CATHOLIC HEALTH SYSTEM - OTHER SUBSIDIARIES**

**CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (CONTINUED)**

(in thousands of dollars)

For the Year Ended December 31, 2013

	<b>OLV Renaissance Corp.</b>	<b>Continuing Care Foundation</b>	<b>LIFE</b>	<b>Trinity</b>	<b>Total</b>
<b>Unrestricted net assets:</b>					
(Deficiency) excess of revenues over expenses	\$ (392)	\$ (36)	\$ 592	\$ (637)	\$ (473)
Change in unrealized gain on interest rate swap	1,017	-	-	-	1,017
Change in pension obligation, other than net periodic cost	-	-	61	-	61
Net assets released from restrictions	-	14	-	-	14
Other	391	(14)	(1)	-	376
Increase (decrease) unrestricted net assets	1,016	(36)	652	(637)	995
<b>Temporarily restricted net assets:</b>					
Contributions and other	-	22	-	-	22
Temporarily restricted net assets released from restrictions	-	(14)	-	-	(14)
Increase in temporarily restricted net assets	-	8	-	-	8
Increase (decrease) in net assets	1,016	(28)	652	(637)	1,003
Net assets, beginning of year	(5,274)	336	1,110	(680)	(4,508)
Net assets, end of year	<u>\$ (4,258)</u>	<u>\$ 308</u>	<u>\$ 1,762</u>	<u>\$ (1,317)</u>	<u>\$ (3,505)</u>

See accompanying notes.