

CONSOLIDATED FINANCIAL STATEMENTS

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

DECEMBER 31, 2015

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 (collectively, the System), which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended and the related notes to the consolidated financial statements (collectively, 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 these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, the System executed an affiliation agreement with Ascension Health and Mount St. Mary's Hospital and Health Center to replace Ascension Health as the sole corporate sponsor of Mount St. Mary's Hospital and Health Center. Our opinion is not modified with respect to this matter.

Freed Maxick CPAs, P.C.

Buffalo, New York
April 20, 2016

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands of dollars)

December 31,

ASSETS	2015	2014
Current assets:		
Cash and cash equivalents	\$ 360,032	\$ 323,657
Patient/resident accounts receivable, net of allowance for doubtful accounts of \$28,817 (2014 - \$25,207)	142,365	131,712
Other receivables	15,234	8,605
Inventories	26,105	22,548
Prepaid expenses and other current assets	6,368	5,849
Total current assets	550,104	492,371
Assets limited as to use	89,558	26,106
Investments	16,681	12,470
Property and equipment, net	360,647	336,681
Other assets	108,372	89,492
Total assets	\$ 1,125,362	\$ 957,120
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term obligations	\$ 13,945	\$ 19,850
Line of credit payable	13,496	8,380
Accounts payable	53,319	44,892
Accrued expenses	73,155	60,167
Due to third-party payors	43,371	38,349
Total current liabilities	197,286	171,638
Long-term obligations, net	246,455	183,986
Other long-term obligations, net	475,835	455,276
Total liabilities	919,576	810,900
Net assets:		
Unrestricted	198,063	141,899
Temporarily restricted	7,430	4,075
Permanently restricted	293	246
Total net assets	205,786	146,220
Total liabilities and net assets	\$ 1,125,362	\$ 957,120

See accompanying notes.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

(in thousands of dollars)

For the Years Ended December 31,

	<u>2015</u>	<u>2014</u>
Unrestricted revenues and other support:		
Net patient/resident service revenue	\$ 1,027,943	\$ 961,989
Provision for bad debts	(24,346)	(21,292)
Net patient/resident service revenue, less provision for bad debts	1,003,597	940,697
Other revenue	18,182	13,192
Net assets released from restrictions	128	277
Total unrestricted revenues and other support	<u>1,021,907</u>	<u>954,166</u>
Expenses:		
Salaries and wages	443,619	409,058
Employee benefits	145,158	124,109
Medical and professional fees	48,373	40,794
Purchased services	83,267	70,661
Supplies	192,190	178,118
Depreciation and amortization	43,892	41,144
Interest	10,712	8,379
Insurance	13,183	10,523
Other expenses	29,177	30,401
Total expenses	<u>1,009,571</u>	<u>913,187</u>
Income from operations	12,336	40,979
Nonoperating revenues and losses:		
Investment (loss) income	(70)	1,489
Other, net (see Note 2)	14,758	666
Total nonoperating revenues and losses	<u>14,688</u>	<u>2,155</u>
Excess of revenues over expenses	<u>\$ 27,024</u>	<u>\$ 43,134</u>

See accompanying notes.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

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

(in thousands of dollars)

For the Years Ended December 31,

	<u>2015</u>	<u>2014</u>
Unrestricted net assets:		
Excess of revenues over expenses	\$ 27,024	\$ 43,134
Change in unrealized loss on interest rate swap	(263)	(2,807)
Change in pension obligation, other than net periodic cost	25,657	(90,373)
Net assets released from restrictions used for capital	1,257	1,493
Grant revenue for capital expenditures	67	168
Contributions	185	4,468
Other	924	335
Increase (decrease) in unrestricted net assets before effects of discontinued operations	54,851	(43,582)
Gain on sale of assets in discontinued operations	4,229	-
Loss from discontinued operations	(2,916)	(1,972)
Increase (decrease) unrestricted net assets	56,164	(45,554)
Temporarily restricted net assets:		
Contributions	1,306	1,134
Investment (loss) income	(3)	3
Special events revenue, net	24	33
Temporarily restricted net assets released from restrictions	(1,385)	(1,770)
Other	3,413	(23)
Increase (decrease) in temporarily restricted net assets	3,355	(623)
Permanently restricted net assets:		
Contributions	1	-
Other	46	-
Increase in temporarily restricted net assets	47	-
Increase (decrease) in net assets	59,566	(46,177)
Net assets, beginning of year	146,220	192,397
Net assets, end of year	<u>\$ 205,786</u>	<u>\$ 146,220</u>

See accompanying notes.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of dollars)

For the Years Ended December 31,

	2015	2014
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 59,566	\$ (46,177)
Change in net assets from discontinued operations	2,916	1,972
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
Depreciation and amortization	43,892	41,144
Provision for bad debts	24,346	21,292
Gain on affiliation with Mount St. Mary's	(13,567)	-
Gain on sale of assets in discontinued operations	(4,229)	-
Change in pension obligation, other than net periodic cost	(25,657)	90,373
Grant revenue for capital additions	(67)	(168)
Change in realized and unrealized gains (losses) on interest rate swap	270	2,494
Realized loss on interest rate swap termination	-	534
Change in realized and unrealized gain (loss) on investments	471	(283)
Undistributed earnings in equity investees	(315)	(427)
Other	(537)	120
(Increase) decrease in assets		
Patient accounts receivables	(26,134)	(30,699)
Other receivables	(6,233)	4,327
Inventories	(2,120)	(2,419)
Prepaid expenses and other current assets	145	157
Other assets	(16,131)	1,564
(Decrease) increase in liabilities:		
Accounts payable	(969)	453
Accrued expenses	953	(4,713)
Due to third-party payors	3,172	(62)
Other liabilities	20,688	15,294
Net cash used in operating activities of discontinued operations	(2,706)	(1,162)
Net cash and cash equivalents provided by operating activities	57,754	93,614
Cash flows from investing activities:		
Purchase of property and equipment	(35,403)	(48,267)
Net cash acquired (as part of acquisition)	6,737	-
Proceeds from sale of assets in discontinued operations	6,506	-
Proceeds from sale of property and equipment	32	43
Purchase of assets limited as to use	(94,406)	(207)
Proceeds from sale of assets limited as to use	35,474	5,159
Change in investments, net	913	450
Net cash and cash equivalents used in investing activities	(80,147)	(42,822)
Cash flows from financing activities:		
Proceeds from issuance of long-term obligations	99,138	16,997
Premium on issuance	9,968	-
Proceeds of grant revenue for capital additions	67	168
Termination of interest rate swaps	-	(5,772)
Repayments of current and long-term obligations	(50,405)	(18,463)
Net cash and cash equivalents provided by (used in) financing activities	58,768	(7,070)
Increase in cash and cash equivalents	36,375	43,722
Cash and cash equivalents - beginning of year	323,657	279,935
Cash and cash equivalents - end of year	<u>\$ 360,032</u>	<u>\$ 323,657</u>

See accompanying notes.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of dollars)

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 Diocese of Buffalo, New York, Ascension Health Ministries and Catholic Health Ministries. Ascension Health, Trinity Health, and the Diocese of Buffalo, New York are the corporate members of CHS, with equal ownership interest.

CHS is the also 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), Sisters of Charity Hospital of Buffalo, New York (SCH) and Mount St. Mary's Hospital and Health Center (MSM).

Long-Term Care Subsidiaries: The Long-term Care Subsidiaries include St. Francis Geriatric and Healthcare Services, Inc. (closed December 2009), St. Francis Home of Williamsville (SFHW), Western New York Catholic Long-Term Care, Inc. (Father Baker Manor), Nazareth Home of the Franciscan Sisters of the Immaculate Conception (closed 2007) and St. Elizabeth's Home (SEH) and St. Vincent's Home for the Aged (SVH).

Home Care Subsidiaries and Other Subsidiaries: The Home Care and Other Subsidiaries include Mercy Home Care of Western New York, Inc. (MHC), McAuley Seton Home Care (MSHC), Our Lady of Victory Renaissance Corporation (OLV Renaissance), 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. AFFILIATION AGREEMENT

On July 1, 2015, CHS and Ascension Health executed an Affiliation Agreement (the Agreement) for Mount St. Mary's Hospital of Niagara Falls d/b/a Mount St. Mary's Hospital and Health Center (MSM), a 175 bed community hospital located in Niagara County, New York, whereby CHS would replace Ascension Health as the sole corporate member of MSM, integrating its operations with that of CHS.

As a result of the affiliation, CHS acquired approximately \$37,022 of total assets, consisting primarily of \$6,959 of net working capital, \$23,468 of property, plant and equipment, and \$6,595 of other non-operating assets. Consideration to Ascension Health included a cash payment of \$9,825, assumption of liabilities of approximately \$3,012, including \$527 of asset retirement obligations and \$2,485 of other long-term obligations, and recognition of a contingent liability of approximately \$7,159 related to potential performance payments CHS shall pay Ascension Health based on the financial performance of MSM and its subsidiary organizations.

CHS applied the not-for-profit business acquisition accounting guidance. The guidance requires that the acquirer recognize an excess of the acquisition date net assets acquired over the fair value of the consideration transferred as a separate credit in its statement of operations and changes in net assets as of the acquisition date. Accordingly, CHS recognized total inherent contribution income of \$17,026, which was recognized as a non-operating gain of \$13,567, and as an increase to temporarily restricted net assets of \$3,413 and an increase to permanently restricted net assets of \$46 in its statement of operations and changes in net assets for the year ended December 31, 2015. The contribution income recognized is based on the fair market values of the net assets acquired less consideration paid, as described above.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of dollars)

NOTE 2. AFFILIATION AGREEMENT (CONTINUED)

During the year ended 2015, CHS recognized net patient service revenues, less provision for bad debts, for the six months after the acquisition on July 1, 2015, of approximately \$46,194 and deficiency of revenues over expenses of \$623, as well as an increase in unrestricted net assets of \$337, a decrease in temporarily restricted net assets of \$183 and an increase in permanently restricted net assets of \$1 related to MSM. If MSM had been consolidated as of January 1, 2015, CHS would have recognized additional net patient service revenues, less provision for bad debts of approximately \$46,015 and a deficiency of revenue over expenses of approximately \$711, as well as a decrease in unrestricted net assets of \$4,286 and a decrease in temporarily restricted net assets of \$199. Comparable proforma information for the year ended December 31, 2014 cannot be disclosed due to a material change in the reporting entity of MSM in 2014.

NOTE 3. 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 executed purchase agreements for the sale of certain assets of SEH and SVH in February 2016. As a result, at December 31, 2015 and 2014, certain assets and liabilities of 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 operations and changes in net assets. Additionally, at December 31, 2014, certain assets and liabilities of SFHW met the criteria for classifying those assets and liabilities as held for sale and accordingly, the operating results were classified as discontinued within the statement of operations and changes in net assets. SFHW was sold in 2015.

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.

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.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of dollars)

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

	<u>2015</u>	<u>2014</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 9,764	\$ 8,269
Non-cash investing and financing transactions:		
Assets acquired under capital lease obligations	\$ 3,081	\$ 57,537
Construction related payables	\$ 7,578	\$ -
Other non-cash transactions	\$ -	\$ 1,200

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:

Current other receivables:	<u>2015</u>	<u>2014</u>
Physician loans	\$ 4,111	\$ 3,388
Managed care risk receivable	1,539	1,007
Other	<u>9,584</u>	<u>4,210</u>
Other receivables	<u>\$ 15,234</u>	<u>\$ 8,605</u>
Non-current other assets:		
Insurance recoveries	\$ 97,291	\$ 80,676
Deferred financing costs, net	6,649	4,214
Investments in healthcare ventures	1,116	801
Other	<u>3,316</u>	<u>3,801</u>
Other assets	<u>\$ 108,372</u>	<u>\$ 89,492</u>

Amortization expense on debt issuance costs amounted to \$596 and \$358 for years ended December 31, 2015 and 2014, respectively. Accumulated amortization related to the debt issuance costs amounted to \$3,913 and \$3,319 at December 31, 2015 and 2014, respectively. Amortization expense is expected to be within approximately \$400 and \$500 for the years ended December 31, 2016 to 2020.

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.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of dollars)

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 shorter 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 2015 and 2014.

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, 2015 and 2014 was \$519 and \$484, 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>2015</u>	<u>2014</u>
Insurance liabilities	\$ 143,479	\$ 123,329
Long-term pension obligations	307,450	314,971
Asset retirement obligations	9,818	10,064
Interest rate swap	6,122	5,853
Other	<u>8,966</u>	<u>1,059</u>
Other long-term liabilities	<u>\$ 475,835</u>	<u>\$ 455,276</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of dollars)

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 (HAP) 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 HAP 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.

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, 2011. 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.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of dollars)

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Amounts recognized in 2015 and 2014 related to prior years, including adjustments to prior year estimates increased revenues approximately \$4,731 and \$8,946, 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 53% of net patient/resident service revenue was generated from services rendered to patients/residents under Medicare and Medicaid programs in 2015 and 2014. Approximately 36% of net patient/resident service revenue was generated from services rendered to patients under managed care programs in 2015 and 2014.

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

Provision for Bad Debts: The provision for bad debts 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 debts 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's policies.

Patient and resident service revenue, net of contractual allowances and discounts, (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows for the years ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Patient/resident service revenue (net of contractual allowances and discounts):		
Medicare	\$ 409,764	\$ 392,049
Medicaid	145,689	120,647
Other third party payors	455,144	429,160
Patients/residents	<u>17,346</u>	<u>20,133</u>
Total net patient/resident service revenue	1,027,943	961,989
Provision for bad debts	<u>(24,346)</u>	<u>(21,292)</u>
Net patient/resident service revenue less provision for bad debts	<u>\$ 1,003,597</u>	<u>\$ 940,697</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 HAP which is determined by presentation for care without insurance, while using an estimator, Payment Assistance Rank Ordering score (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.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of dollars)

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Of the System's total expenses reported, an estimated \$5,944 and \$7,208 arose from providing services to charity patients in 2015 and 2014, 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 relative value units. 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 HAP (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.

Collective Bargaining Agreements: The System has approximately 41% of its employees working under thirteen collective bargaining agreements. The agreements are set to expire beginning June 3, 2016 through July 21, 2019.

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 \$731 and \$2,763 of electronic health record incentive income related to Medicare and Medicaid incentive programs during the years ended December 31, 2015 and 2014, respectively, which is recorded in other revenue.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
*(in thousands of dollars)***NOTE 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

	<u>2015</u>	<u>2014</u>
Cafeteria revenue	\$ 2,660	\$ 2,618
Parking revenue	1,068	1,087
Unrestricted contributions to the Foundations	4,614	2,161
Medicare and Medicaid meaningful use	731	2,763
Other	<u>9,109</u>	<u>4,563</u>
Total other revenue	<u>\$ 18,182</u>	<u>\$ 13,192</u>

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

	<u>2015</u>	<u>2014</u>
Rents and operating leases	\$ 10,040	\$ 9,984
Dues	5,594	5,197
Cash receipt assessment	5,331	5,201
Taxes, travel and miscellaneous other	<u>8,212</u>	<u>10,019</u>
Other expenses	<u>\$ 29,177</u>	<u>\$ 30,401</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 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., Mount St. Mary's Hospital Foundation (temporarily and unrestricted net assets) 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.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of dollars)

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 2012, 2013, and 2014 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 System capitalizes certain costs that are incurred to purchase or to create and implement internal-use computer software, which includes software coding, installation, testing and certain data conversion from both internal and external providers in accordance with 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 \$4,656 during 2015 and \$5,553 during 2014. Capitalized project labor costs amounted to \$2,718 during 2015 and \$1,819 during 2014.

Reclassifications: Certain prior year amounts were reclassified to conform to the 2015 consolidated financial statement presentation including KMH becoming the sole corporate member of the Kenmore Mercy Hospital Foundation, Inc. in 2015.

Subsequent Events: The System evaluated subsequent events through April 20, 2016, which was the date the financial statements were available to be issued.

NOTE 4. ASSETS LIMITED AS TO USE

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

	<u>2015</u>	<u>2014</u>
By Board for capital improvements:		
Funded depreciation:		
Cash and cash equivalents	\$ 9,515	\$ 9,518
U.S. government obligations	4,468	5,228
Interest receivable	15	13
	<u>13,998</u>	<u>14,759</u>
Held by Trustee under Indenture Agreement:		
Cash and cash equivalents	65,025	5,332
U.S. government obligations	-	117
	<u>65,025</u>	<u>5,449</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>2,602</u>
Delivery System Reform Incentive Payment funds	<u>4,529</u>	-
Other	<u>652</u>	<u>544</u>
Assets limited as to use	<u>\$ 89,558</u>	<u>\$ 26,106</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>2015</u>	<u>2014</u>
Investment in debt and equity securities:		
Fair value	\$ 16,681	\$ 12,470
Cost	<u>15,862</u>	<u>10,745</u>
Unrealized gain	<u>\$ 819</u>	<u>\$ 1,725</u>

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

	<u>2015</u>	<u>2014</u>
Interest and dividend income	\$ 401	\$ 1,206
Net unrealized and realized gains on investments	<u>(471)</u>	<u>283</u>
Total investment income	<u>\$ (70)</u>	<u>\$ 1,489</u>

NOTE 6. PROPERTY AND EQUIPMENT

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

	<u>2015</u>	<u>2014</u>
Land and land improvements	\$ 8,185	\$ 7,532
Buildings	274,966	211,668
Equipment	245,245	194,889
Capital leases	48,254	84,339
Leasehold improvements	<u>94,177</u>	<u>89,956</u>
	670,827	588,384
Accumulated depreciation	(309,490)	(241,341)
Accumulated amortization on capital leases	<u>(24,453)</u>	<u>(25,924)</u>
	336,884	321,119
Construction in progress	<u>23,763</u>	<u>15,562</u>
Property and equipment, net	<u>\$ 360,647</u>	<u>\$ 336,681</u>

Depreciation expense in 2015 and 2014 amounted to approximately \$36,326 and \$33,250, respectively. Amortization expense on equipment under capital leases amounted to \$6,653 and \$7,385 in 2015 and 2014, respectively. Fully depreciated or amortized assets and capital leases of \$0 and \$22 were written-off for the years ended December 31, 2015 and 2014, 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>2015</u>	<u>2014</u>
Mercy Hospital of Buffalo		
Series 2006 Revenue Bonds (a)	\$ 7,996	\$ 8,677
Series 2008 Revenue Bonds (b)	20,904	21,603
Series 2012 Revenue Bonds (c)	2,919	2,991
Series 2015 Revenue Bonds (d)	11,080	-
Bridge loan financing (e)	-	2,404
Mercy Comprehensive Care Center, monthly payments of \$9, including interest at 6.25%, matures November 2015	-	93
Cafeteria renovation loan with Aramark Healthcare, in monthly payments of \$3, matures August 2018	282	166
Capital lease obligations and other, at interest rates ranging from 2.87% to 4.63%, collateralized by equipment	11,293	15,097
	<u>54,474</u>	<u>51,031</u>
Kenmore Mercy Hospital		
Series 2006 Revenue Bonds (a)	8,465	9,512
Series 2012 Revenue Bonds (c)	13,378	13,726
Series 2015 Revenue Bonds (d)	3,888	-
Bridge loan financing (f)	-	3,990
Mortgage payable to Century Health Capital, Inc. for KMH Homes Inc. (g)	-	5,339
Capital lease obligations and other, at various rates of interest ranging from 2.9% to 4.0%, collateralized by equipment	3,177	3,018
Other	26	35
	<u>28,934</u>	<u>35,620</u>
Sisters of Charity Hospital		
Series 2006 Revenue Bonds (a)	22,905	24,857
Series 2015 Revenue Bonds (d)	5,225	-
Bridge loan financing (e)	-	4,844
Capital lease obligations, at various rates of interest ranging from 2.99% to 4.87%, collateralized by equipment	7,835	8,505
	<u>35,965</u>	<u>38,206</u>
Mount St. Mary's Hospital and Health Center		
Capital lease obligations, at a 3.81% rate of interest, collateralized by equipment	373	-
Father Baker Manor		
Mortgage payable to Century Health Capital, Inc. (h)	5,575	6,028
McAuley Seton Home Health Care Corporation		
Loan payable to HSBC Bank (i)	994	1,471

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of dollars)

NOTE 7. LONG-TERM OBLIGATIONS (CONTINUED)

	<u>2015</u>	<u>2014</u>
Our Lady of Victory Renaissance Corporation		
Series 2007A Variable Rate Demand Bonds (j)	8,450	8,745
Series 2007B Variable Rate Demand Bonds (j)	1,370	1,420
Loan payable with HSBC Bank for Data Center (k)	<u>1,416</u>	<u>2,664</u>
	<u>11,236</u>	<u>12,829</u>
Catholic Health System (Parent)		
Series 2015 Revenue Bonds (d)	83,200	-
Capital lease obligation for financing of VOIP telephone system, in monthly installments of \$22, including interest at 2.92%, collateralized by equipment	1,284	1,769
Bridge loan financing of Lawson ERP project (e)	-	5,758
Capital lease obligation for Administrative & Regional Training Center (ARTC) (l)	38,365	38,424
Capital lease obligations for ARTC leasehold improvements (m)	<u>-</u>	<u>12,700</u>
	<u>122,849</u>	<u>58,651</u>
Total long-term obligations	260,400	203,836
Less: Current maturities	<u>(13,945)</u>	<u>(19,850)</u>
Long-term obligations, net	<u>\$ 246,455</u>	<u>\$ 183,986</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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of dollars)

NOTE 7. LONG-TERM OBLIGATIONS (CONTINUED)

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, 2019. 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.

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 0.01% and 0.04% at December 31, 2015 and 2014, respectively.

Certain financial covenants must be maintained by the Obligated Group. Failure to comply with these covenants requires a formal consultant's 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, 2015 and 2014.

- 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 0.01% and 0.04% at December 31, 2015 and 2014, 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 2012B 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, 2015 are as follows:

3.00% Serial Bonds Due July 1, 2016	\$	175
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		<u>13,390</u>
3.50% Term Bonds Due July 1, 2022		710
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>3,080</u>
Total Series 2012 Bonds	\$	<u>16,470</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. On April 29, 2015, \$93,800 of Buffalo and Erie County Industrial Land Development Corporation Catholic Health System Obligated Group Revenue Bonds, Series 2015 were issued. Series 2015 was loaned to the Obligated Group for the purpose of financing the cost of improvements to the Labor & Delivery department, Pre/Post-Operative Holding areas, upgrading the electrical switchgear (Mercy Hospital of Buffalo), Ambulatory Surgery Center (Sisters Hospital, St. Joseph Campus), Operating Room Expansion (Kenmore Mercy Hospital), Enterprise Resource Planning software, leasehold improvements to the Administrative Regional Training Center, and purchase of the Administrative Regional Training Center (Catholic Health System). Proceeds of the Series 2015 Bonds were also applied to pay certain costs of issuing the Bonds. The premium on the bonds of \$9,968 is 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)**

The Series 2015 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 2015 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 2015 Bonds as they become due. The Series 2015 Bonds bear interest at a fixed rate. The interest rates, maturities, and aggregate principal amounts outstanding at December 31, 2015 are as follows:

5.00% Serial Bonds Due July 1, 2017	\$	1,400
5.00% Serial Bonds Due July 1, 2018		3,520
5.00% Serial Bonds Due July 1, 2019		3,690
5.00% Serial Bonds Due July 1, 2020		3,870
5.00% Serial Bonds Due July 1, 2021		4,075
5.00% Serial Bonds Due July 1, 2022		4,265
5.00% Serial Bonds Due July 1, 2023		4,480
5.00% Serial Bonds Due July 1, 2024		4,705
5.00% Serial Bonds Due July 1, 2025		4,955
5.00% Serial Bonds Due July 1, 2026		1,900
5.00% Serial Bonds Due July 1, 2027		1,995
5.00% Serial Bonds Due July 1, 2028		2,095
5.00% Serial Bonds Due July 1, 2029		2,200
5.00% Serial Bonds Due July 1, 2030		2,305
5.25% Term Bonds Due July 1, 2035		13,440
5.00% Term Bonds Due July 1, 2040		17,275
4.00% Term Bonds Due July 1, 2045		<u>17,630</u>
Total Series 2015 Bonds	\$	<u>93,800</u>

- e. In 2014, the System entered into a revolving line of credit agreement with a commercial bank that permits the System to borrow up to \$28,100 at the bank's adjusted one month LIBOR rate plus 1.25%. MHB used \$2,404 of the proceeds from the revolver to assist with the financing of MHB's cardiac holding unit and labor and delivery waiting projects. SCH used \$4,844 of the proceeds from the revolver to assist with the financing of an ambulatory surgery center. CHS Parent used \$5,758 of the proceeds from the revolver to assist with the financing of the System's Enterprise Resource Planning Project (ERP). Borrowings under the financing agreement mature at the earliest of the issuance of the System's planned fixed rate bond financing or July 1, 2016. The proceeds from the 2015 bond issuance were used to repay all outstanding amounts under the revolving line of credit agreement.
- f. In 2014 KMH entered into a loan agreement with a commercial bank to borrow \$3,990 at an adjusted LIBOR rate. The proceeds from the 2015 bond issuance were used to repay all outstanding amounts under this loan agreement.
- g. Mortgage payable to Century Health Capital (an FHA - Insured Mortgage). The mortgage is payable in monthly installments of \$65 including interest of 5.51%. The mortgage is collateralized by the building and equipment. The mortgage was paid in full in 2015.
- h. 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.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of dollars)

NOTE 7. LONG-TERM OBLIGATIONS (CONTINUED)

- i. MSHC entered into a term loan agreement with HSBC Bank in the amount of \$2,385. Outstanding borrowings under this agreement bear interest at a fixed rate of 2.62% at December 31, 2015. 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 MSHC. The term loan contains various loan covenants, including a debt service coverage ratio. MSHC was in compliance with all covenants as of December 31, 2015 and 2014.
- j. On April 1, 2007, OLV Renaissance entered into agreements with the Erie County Industrial Development Agency (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 0.01% for the Series 2007A bonds and 0.40% for the Series 2007B bonds at December 31, 2015. 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 2016 to 2032 in amounts ranging from \$310 to \$740 at variable interest rates. The Series 2007B Revenue Bonds are subject to mandatory sinking fund redemptions in years 2016 to 2032 in amounts ranging from \$55 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.

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 \$10,261. The letter of credit expires May 1, 2018. There is no outstanding amount at December 31, 2015 or 2014. OLV Renaissance is required to pay an annual fee of 1.25% to maintain the letter of credit which is calculated on maximum amount available.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of dollars)

NOTE 7. LONG-TERM OBLIGATIONS (CONTINUED)

The bond agreements require certain covenants including debt service coverage and debt to capitalization to be maintained. The covenants were in effect during the years ended December 31, 2015 and 2014. OLV Renaissance's primary tenant, MHB 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.

MHB was in compliance with this covenant as of December 31, 2015 and 2014. OLV Renaissance failed the debt service coverage covenant for December 31, 2015 and 2014, and failed the debt to capitalization covenant for December 31, 2014. OLV Renaissance obtained waivers from HSBC Bank for the December 31, 2015 and 2014 covenants.

- k. 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 was in compliance with the debt service coverage ratio for December 31, 2015 and 2014.

- l. During 2014, construction was completed on the Administrative and Regional Training Center (ARTC). At time of occupancy, a twenty-five year lease was entered into with the developer. Once purchased, the current capital lease obligation will be terminated. The System purchased the building in February 2016 utilizing proceeds from the 2015 bond issuance.
- m. During 2014, the System entered into multiple capital leases with a financial institution for funding of various leasehold improvements at the ARTC. The proceeds from the 2015 bond issuance were used to repay all outstanding amounts under the capital lease obligations in April 2015.

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, 2015 are as follows:

	<u>Long-Term Debt</u>	<u>Capital Leases</u>	<u>Total</u>
2016	\$ 9,480	\$ 6,033	\$ 15,513
2017	10,360	5,189	15,549
2018	10,871	3,735	14,606
2019	10,960	2,365	13,325
2020	11,435	1,425	12,860
Thereafter	<u>146,251</u>	<u>6,829</u>	<u>153,080</u>
	199,357	25,576	224,933
Plus: Contract with Developer for purchase of ARTC (executed – February 11, 2016)	38,365	-	38,365
Less: Interest	<u>-</u>	<u>(2,898)</u>	<u>(2,898)</u>
Long-term obligations	<u>\$ 237,722</u>	<u>\$ 22,678</u>	<u>\$ 260,400</u>

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of dollars)

NOTE 7. LONG-TERM OBLIGATIONS (CONTINUED)

At December 31, 2015 and 2014, the System had a revolving line of credit of \$20,000 of which \$13,496 and \$8,380 was outstanding as of December 31, 2015 and 2014. The variable interest rate was 2.42% and 2.16% at December 31, 2015 and 2014, respectively.

Operating Leases: Future minimum lease payments under noncancelable operating leases for equipment and property (net of sublease rentals) are as follows at December 31, 2015:

2016	\$	10,781
2017		9,024
2018		7,439
2019		6,257
2020		5,667
Thereafter		<u>4,232</u>
		43,400
Less: Minimum sublease rental		<u>(1,192)</u>
	\$	<u>42,208</u>

Total expense for rents and operating type leases for equipment and property was approximately \$9,029 and \$9,574 for 2015 and 2014, respectively.

NOTE 8. DERIVATIVE FINANCIAL INSTRUMENTS

In connection with the Series 2006 and 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 interest rate swap agreements outstanding on the Series 2006 Bonds were settled in 2014. Termination costs in the amount of \$5,772 will be amortized over the remaining life of the bonds. The net amount of termination costs are recorded in the financing activities on the statement of cash flows. Amortization expense related to the termination costs was \$951 and \$80 for 2015 and 2014, respectively.

The terms of the Series 2008 swap require the Hospitals to pay 3.785% on the notional amount (\$21,515 at December 31, 2015) 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 risk 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 (\$8,450 at December 31, 2015) 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)	2015		2014	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest rate contracts floating to fixed	Long-term liabilities	\$ 6,122	Long-term liabilities	\$ 5,853

The effects of derivative instruments on the consolidated statements of operations and changes in net assets for 2015 and 2014 are as follows:

(in thousands of dollars)	Ineffective portion in Statement of Operations		Effective portion in Net Assets	
	2015	2014	2015	2014
Change in fair value of interest rate swaps	\$ (7)	\$ (72)	\$ (263)	\$ (2,887)

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 (MHB, SCH, St. Joseph Hospital (SJH), and KMH) 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. In 2012, the System issued \$17,315 of DASNY - Catholic Health System Obligated Group Revenue Bonds, Series 2012. In 2015, the System issued \$93,800 of Buffalo and Erie County Industrial Land Development Corporation Revenue Bonds, Series 2015. 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, Series 2008, Series 2012, and Series 2015 Obligations. Management has determined that certain immaterial subsidiaries (Mercy Hospital Foundation, Inc., Sisters Hospital Foundation, Inc., Kenmore Mercy Hospital Foundation, Inc., and KMH Homes, Inc.) should be excluded from the Obligated Group financial information. Additionally, the gain on affiliation of Mount St. Mary's Hospital recognized at CHS is also excluded from Obligated Group financial information.

The following supplemental consolidating financial information for the Obligated Group presents the balance sheets as of December 31, 2015 and 2014 and statements of operations and changes in net assets, and cash flows for the years then ended December 31, 2015 and 2014.

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, 2015

ASSETS	Parent	Mercy Hospital	Sisters Hospital	Kenmore Mercy Hospital	Eliminations	Total
Current assets:						
Cash and cash equivalents	\$ 27,945	\$ 93,254	\$ 133,879	\$ 50,088	\$ -	\$ 305,166
Patient/resident accounts receivable, net of estimated uncollectibles of \$22,215	-	54,046	42,508	24,037	-	120,591
Other receivables	3,424	3,758	3,239	1,015	-	11,436
Inventories	-	13,616	7,130	2,949	-	23,695
Prepaid expenses and other current assets	3,799	997	540	382	-	5,718
Due from affiliates	86,341	311	1,112	1,085	(82,549)	6,300
Total current assets	121,509	165,982	188,408	79,556	(82,549)	472,906
Assets limited as to use	59,447	6,703	5,008	4,969	-	76,127
Property and equipment, net	81,273	96,669	73,899	63,147	-	314,988
Due from affiliates	7,295	-	10,303	1,456	(16,876)	2,178
Other assets	14,166	41,802	33,859	17,659	-	107,486
Total Assets	\$ 283,690	\$ 311,156	\$ 311,477	\$ 166,787	\$ (99,425)	\$ 973,685
LIABILITIES AND NET ASSETS						
Current liabilities:						
Current portion of long-term obligations	\$ 787	\$ 4,283	\$ 3,938	\$ 2,152	\$ -	\$ 11,160
Line of credit payable	13,496	-	-	-	-	13,496
Accounts payable	7,292	17,297	13,770	10,728	-	49,087
Accrued expenses	23,853	13,830	16,682	6,645	-	61,010
Due to third-party payors	-	17,368	12,493	6,636	-	36,497
Due to affiliates	678	20,912	27,385	21,289	(69,473)	791
Total current liabilities	46,106	73,690	74,268	47,450	(69,473)	172,041
Long-term obligations, net	122,062	50,191	32,026	26,783	-	231,062
Other long-term liabilities	69,082	200,942	127,851	55,830	(11,760)	441,945
Total liabilities	237,250	324,823	234,145	130,063	(81,233)	845,048
Net assets (deficit)						
Unrestricted	46,440	(13,667)	77,332	36,724	(18,192)	128,637
Total net assets (deficit)	46,440	(13,667)	77,332	36,724	(18,192)	128,637
Total Liabilities and Net Assets	\$ 283,690	\$ 311,156	\$ 311,477	\$ 166,787	\$ (99,425)	\$ 973,685

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, 2015

	Parent	Mercy Hospital	Sisters Hospital	Kenmore Mercy Hospital	Eliminations	Total
Unrestricted revenues, gains and other support:						
Net patient/resident service revenue	\$ -	402,769	\$ 322,140	\$ 173,115	\$ (36)	\$ 897,988
Provision for bad debts	-	(9,167)	(7,834)	(3,877)	-	(20,878)
Net patient/resident service revenue less provision for bad debts	-	393,602	314,306	169,238	(36)	877,110
Other revenue	139,672	5,805	6,548	2,159	(135,316)	18,868
Total unrestricted revenues, gains and other support	139,672	399,407	320,854	171,397	(135,352)	895,978
Expenses:						
Salaries and wages	62,343	162,030	144,053	69,999	(58,486)	379,939
Employee benefits	19,517	59,542	46,108	21,595	(18,708)	128,054
Medical and professional fees	5,859	14,338	13,232	5,498	(4,683)	34,244
Purchased services	30,230	35,520	31,123	15,599	(30,629)	81,843
Supplies	866	84,317	55,895	37,400	(789)	177,689
Depreciation and amortization	7,112	17,104	15,658	8,010	(6,899)	40,985
Interest	4,393	3,943	3,010	2,275	(3,760)	9,861
Insurance	377	4,492	4,915	2,795	(367)	12,212
Other expenses	9,503	15,890	9,708	4,782	(11,583)	28,300
Total expenses	140,200	397,176	323,702	167,953	(135,904)	893,127
Income from operations	(528)	2,231	(2,848)	3,444	552	2,851
Nonoperating revenues and losses:						
Investment income	34	290	151	69	(32)	512
Other	396	404	831	78	(520)	1,189
Total nonoperating revenues and losses:	430	694	982	147	(552)	1,701
(Deficiency) excess of revenues over expenses	\$ (98)	\$ 2,925	\$ (1,866)	\$ 3,591	\$ -	\$ 4,552

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, 2015

	Parent	Mercy Hospital	Sisters Hospital	Kenmore Mercy Hospital	Eliminations	Total
Unrestricted net assets:						
Excess of revenues over expenses	\$ (98)	\$ 2,925	\$ (1,866)	\$ 3,591	\$ -	\$ 4,552
Change in unrealized loss on interest rate swap	-	(224)	-	-	-	(224)
Change in pension obligation, other than net periodic cost	3,728	11,857	6,932	2,365	-	24,882
Grant revenue for capital expenditures	-	11	56	-	-	67
Transfers to/from parent or affiliate	19,755	(10,238)	(6,570)	(3,443)	-	(496)
Contributions and other	(459)	526	680	1,682	-	2,429
Valuation allowance on intercompany receivables	-	-	-	-	(2,752)	(2,752)
Increase (decrease) in unrestricted net assets	<u>22,926</u>	<u>4,857</u>	<u>(768)</u>	<u>4,195</u>	<u>(2,752)</u>	<u>28,458</u>
Increase (decrease) in net assets	22,926	4,857	(768)	4,195	(2,752)	28,458
Net assets, beginning of year	<u>23,514</u>	<u>(18,524)</u>	<u>78,100</u>	<u>32,529</u>	<u>(15,440)</u>	<u>100,179</u>
Net assets (deficit), end of year	<u>\$ 46,440</u>	<u>\$ (13,667)</u>	<u>\$ 77,332</u>	<u>\$ 36,724</u>	<u>\$ (18,192)</u>	<u>\$ 128,637</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, 2014

ASSETS	Parent	Mercy Hospital	Sisters Hospital	Kenmore Mercy Hospital	Eliminations	Total
Current assets:						
Cash and cash equivalents	\$ 31,890	\$ 83,954	\$ 128,658	\$ 42,197	\$ -	\$ 286,699
Patient/resident accounts receivable, net of estimated uncollectibles of \$21,874	-	53,406	42,153	21,401	-	116,960
Other receivables	1,462	4,244	2,873	1,201	-	9,780
Inventories	-	12,902	6,378	2,515	-	21,795
Prepaid expenses and other current assets	4,144	674	524	298	-	5,640
Due from affiliates	64,218	-	654	1,149	(60,010)	6,011
Total current assets	101,714	155,180	181,240	68,761	(60,010)	446,885
Assets limited as to use	5,354	339	-	6,399	-	12,092
Property and equipment, net	77,225	98,193	76,257	61,555	-	313,230
Due from affiliates	2,802	22	10,303	1,456	(11,790)	2,793
Other assets	2,977	34,119	28,581	16,082	-	81,759
Total Assets	\$ 190,072	\$ 287,853	\$ 296,381	\$ 154,253	\$ (71,800)	\$ 856,759
LIABILITIES AND NET ASSETS						
Current liabilities:						
Current portion of long-term obligations	\$ 831	\$ 5,611	\$ 4,373	\$ 6,503	\$ -	\$ 17,318
Line of credit payable	8,380	-	-	-	-	8,380
Accounts payable	4,001	16,051	13,372	8,831	-	42,255
Accrued expenses	23,592	12,773	11,781	6,091	-	54,237
Due to third-party payors	-	17,482	11,344	6,042	-	34,868
Due to affiliates	554	13,805	19,838	11,103	(44,600)	700
Total current liabilities	37,358	65,722	60,708	38,570	(44,600)	157,758
Long-term obligations, net	57,820	45,421	33,833	29,117	-	166,191
Other long-term liabilities	71,380	195,234	123,740	54,037	(11,760)	432,631
Total liabilities	166,558	306,377	218,281	121,724	(56,360)	756,580
Net assets (deficit)						
Unrestricted	23,514	(18,524)	78,100	32,529	(15,440)	100,179
Total net assets (deficit)	23,514	(18,524)	78,100	32,529	(15,440)	100,179
Total Liabilities and Net Assets	\$ 190,072	\$ 287,853	\$ 296,381	\$ 154,253	\$ (71,800)	\$ 856,759

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, 2014

	Parent	Mercy Hospital	Sisters Hospital	Kenmore Mercy Hospital	Eliminations	Total
Unrestricted revenues, gains and other support:						
Net patient/resident service revenue	\$ -	393,515	\$ 325,127	\$ 160,934	\$ -	\$ 879,576
Provision for bad debts	-	(10,070)	(7,307)	(2,496)	-	(19,873)
Net patient/resident service revenue less provision for bad debts	-	383,445	317,820	158,438	-	859,703
Other revenue	127,758	5,626	5,452	1,653	(123,025)	17,464
Total unrestricted revenues, gains and other support	127,758	389,071	323,272	160,091	(123,025)	877,167
Expenses:						
Salaries and wages	62,448	154,972	142,919	67,236	(57,782)	369,793
Employee benefits	16,868	50,458	44,854	19,655	(16,992)	114,843
Medical and professional fees	5,034	12,148	12,595	4,389	(3,818)	30,348
Purchased services	25,833	31,850	28,210	13,817	(26,033)	73,677
Supplies	601	80,341	55,855	33,567	(551)	169,813
Depreciation and amortization	4,659	16,187	14,856	7,445	(4,479)	38,668
Interest	1,451	3,018	2,345	1,917	(1,296)	7,435
Insurance	313	3,680	5,264	1,175	(303)	10,129
Other expenses	10,411	16,437	11,222	5,171	(12,572)	30,669
Total expenses	127,618	369,091	318,120	154,372	(123,826)	845,375
Income from operations	140	19,980	5,152	5,719	801	31,792
Nonoperating revenues and losses:						
Investment income	36	451	270	153	(34)	876
Other	478	48	936	46	(767)	741
Total nonoperating revenues and losses:	514	499	1,206	199	(801)	1,617
Excess of revenues over expenses	\$ 654	\$ 20,479	\$ 6,358	\$ 5,918	\$ -	\$ 33,409

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, 2014

	Parent	Mercy Hospital	Sisters Hospital	Kenmore Mercy Hospital	Eliminations	Total
Unrestricted net assets:						
Excess of revenues over expenses	\$ 654	\$ 20,479	\$ 6,358	\$ 5,918	\$ -	\$ 33,409
Change in unrealized loss on interest rate swap	-	(1,961)	(312)	52	-	(2,221)
Change in pension obligation, other than net periodic cost	(14,031)	(36,483)	(28,096)	(7,758)	-	(86,368)
Net assets released from restrictions	24	-	-	-	-	24
Grant revenue for capital expenditures	-	168	314	-	-	482
Transfers to/from parent or affiliate	12,382	(8,198)	(5,648)	912	-	(552)
Contributions and other	4,444	608	886	2,219	-	8,157
Valuation allowance on intercompany receivables	-	-	-	-	(3,945)	(3,945)
Increase (decrease) in unrestricted net assets	3,473	(25,387)	(26,498)	1,343	(3,945)	(51,014)
Temporarily restricted net assets:						
Temporarily restricted net assets released from restrictions	(24)	-	-	-	-	(24)
Decrease in temporarily restricted net assets	(24)	-	-	-	-	(24)
Increase (decrease) in net assets	3,449	(25,387)	(26,498)	1,343	(3,945)	(51,038)
Net assets, beginning of year	20,065	6,863	104,598	31,186	(11,495)	151,217
Net assets (deficit), end of year	\$ 23,514	\$ (18,524)	\$ 78,100	\$ 32,529	\$ (15,440)	\$ 100,179

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 Cash Flows

For the Year Ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Increase (decrease) increase in net assets	\$ 28,458	\$ (51,038)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	40,985	38,668
Provision for bad debts	20,878	19,873
Change in pension obligation, other than periodic cost	(24,882)	86,368
Grant revenue for capital additions	(67)	(482)
Valuation allowance of intercompany receivables	2,752	3,945
Unrealized and realized loss on investments	-	10
Change in unrealized gain on interest rate swap	229	1,890
Realized loss on termination of interest rate swaps	-	534
Undistributed earnings in equity investees	(10,184)	(349)
Other	(300)	39
(Increase) decrease in assets:		
Patient accounts receivables	(24,509)	(27,388)
Other receivables	(1,656)	1,573
Inventories	(1,900)	(2,488)
Prepaid expenses and other current assets	(78)	(340)
Due from affiliates	(2,426)	(3,399)
Other assets	(2,481)	1,561
Increase (decrease) in liabilities:		
Accounts payable	(229)	(61)
Accrued expenses	2,115	(4,720)
Due to affiliate	91	84
Due to third-party payors	1,629	(84)
Other liabilities	19,490	14,431
Total net cash and cash equivalents provided by operating activities	47,915	78,627
Cash flows from investing activities:		
Purchase of property and equipment	(31,334)	(46,276)
Proceeds from sale of property and equipment	31	42
Purchase of assets limited as to use	(94,406)	(28)
Proceeds from sale of assets limited as to use	34,900	5,159
Net cash and cash equivalents used in investing activities	(90,809)	(41,103)
Cash flows from financing activities:		
Proceeds from issuance of long-term obligations	99,138	16,997
Premium on issuance	9,968	-
Termination of interest rate swaps	-	(5,772)
Proceeds of grant revenue for capital additions	67	482
Repayments of current and long-term obligations	(47,812)	(16,005)
Net cash and cash equivalents provided by (used in) financing activities	61,361	(4,298)
Increase in cash and cash equivalents	18,467	33,226
Cash and cash equivalents - beginning of year	286,699	253,473
Cash and cash equivalents - end of year	<u>\$ 305,166</u>	<u>\$ 286,699</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 8,919	\$ 7,332
Non-cash transactions:		
Assets acquired under capital lease obligations	\$ 2,864	\$ 57,537
Construction related payables	\$ 7,578	\$ -
Other non-cash transactions	\$ -	\$ 1,200

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of dollars)

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>2015</u>	<u>2014</u>
Healthcare services	\$ 753,972	\$ 726,600
General and administrative	<u>139,155</u>	<u>118,775</u>
	<u>\$ 893,127</u>	<u>\$ 845,375</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 or a career average formula. The cash balance formula is a hypothetical account balance formula. A participant's benefit obligation is assigned to the location at which the person works. As participants transfer within the System to other CHS subsidiaries, the obligations and a proportional amount of the plan's assets transfer, accordingly.

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>2015</u>	<u>2014</u>
Projected Benefit Obligations		
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 609,885	\$ 492,617
Service cost	22,313	18,024
Interest cost	25,222	24,445
Amendments	15	-
Expenses	(516)	(406)
Benefits paid	(17,412)	(13,808)
Actuarial (gains) losses	<u>(34,357)</u>	<u>89,013</u>
Projected benefit obligation at end of year	<u>\$ 605,150</u>	<u>\$ 609,885</u>
Accumulated benefit obligations at end of year	<u>\$ 541,035</u>	<u>\$ 541,979</u>

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of dollars)

NOTE 10. EMPLOYEE BENEFIT PLANS (CONTINUED)

	<u>2015</u>	<u>2014</u>
Plan Assets		
Change in plan assets:		
Fair value of assets at beginning of year	\$ 294,914	\$ 276,902
Actual return on plan assets	(2,387)	10,672
System contribution	23,507	21,554
Expenses	(516)	(406)
Benefits paid	<u>(17,412)</u>	<u>(13,808)</u>
Fair value of plan assets at end of year	<u>\$ 298,106</u>	<u>\$ 294,914</u>
Funded status at end of year	<u>\$ (307,044)</u>	<u>\$ (314,971)</u>
Amounts recognized in the consolidated balance sheets:		
Non-current liabilities	<u>\$ (307,044)</u>	<u>\$ (314,971)</u>
Net amounts recognized	<u>\$ (307,044)</u>	<u>\$ (314,971)</u>
Amounts recognized in unrestricted net assets consists of:		
Actuarial net loss	\$ (184,544)	\$ (210,132)
Prior service cost	<u>(368)</u>	<u>(482)</u>
Total amount recognized	<u>\$ (184,912)</u>	<u>\$ (210,614)</u>
Other changes recognized in unrestricted net assets:		
Net loss (gain) arising during the period	\$ 98,952	\$ 99,157
Amortization of prior service cost	(229)	(229)
Amortization of loss	<u>(8,565)</u>	<u>(8,555)</u>
Total amount recognized	<u>\$ 90,158</u>	<u>\$ 90,373</u>
Components of net periodic benefit cost:		
Service cost	\$ 22,313	\$ 18,024
Interest cost	25,222	24,445
Expected return on plan assets	(22,250)	(20,817)
Amortization of prior service cost or (credit)	129	229
Recognized actuarial loss	<u>15,868</u>	<u>8,555</u>
Net periodic pension cost	<u>\$ 41,282</u>	<u>\$ 30,436</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 \$59 and \$11,242, 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.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
*(in thousands of dollars)***NOTE 10. EMPLOYEE BENEFIT PLANS (CONTINUED)**

The Plan's target asset allocation and the actual asset allocation percentages for 2015 and 2014 are as follows at the respective measurement dates:

<u>Asset Category</u>	<u>Target</u>	<u>Actual</u>	
		<u>2015</u>	<u>2014</u>
Equities	70%	65%	65%
Fixed income	25	25	25
Other	<u>5</u>	<u>10</u>	<u>10</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 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 Statement of Policy and Investment Objectives governs permitted types of investments, and outlines specific benchmarks and performance percentiles. The Catholic Health Benefit Plan Committee 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.

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, 2015 and 2014:

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

Equity Securities – Equity securities are valued at the closing price reported on the applicable exchange on which the security is traded, or are estimated using quoted market prices for similar securities.

Debt Securities – Debt securities are valued using quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices, discounted cash flow models and other pricing models. These models are primarily industry-standard models that consider various assumptions, including time value and yield curve as well as other relevant economic measures.

Mutual Funds – Mutual funds are valued using the net asset value based on the value of the underlying assets owned by the fund, minus liabilities, divided by the number of shares outstanding, and multiplied by the number of shares owned.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of dollars)

NOTE 10. EMPLOYEE BENEFIT PLANS (CONTINUED)

Commingled Funds – Commingled funds are developed for investment by institutional investors only and therefore do not require registration with the Securities and Exchange Commission. Commingled funds are recorded at fair value based on either the underlying investments that have a readily determinable market value or based on net asset value, which is calculated using the most recent fund financial statements.

Hedge Funds – Hedge funds utilize either a direct or a “fund-of-funds” approach resulting in diversified multi-strategy, multi-manager investments. Underlying investments in these funds may include equities, fixed income securities, commodities, currencies and derivatives. These funds are valued at net asset value, which is calculated using the most recent fund financial statements.

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.

The following table presents the Plan's financial instruments as of December 31, 2015, measured at fair value on a recurring basis using the fair value hierarchy defined in Note 14.

At December 31, 2015	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Pension Plans:				
Cash and cash equivalents	\$ 15,185	\$ -	\$ -	\$ 15,185
Equity securities	25,499	-	-	25,499
Debt securities:				
Government and government agency obligations	-	15,326	-	15,326
Corporate bonds	-	51,145	-	51,145
Asset backed securities	-	6,281	-	6,281
Mutual funds:				
Equity mutual funds	31,963	-	-	31,963
Fixed mutual funds	<u>22,140</u>	<u>-</u>	<u>-</u>	<u>22,140</u>
Subtotal	<u>94,787</u>	<u>72,752</u>	<u>-</u>	<u>167,539</u>
Investment measured at net asset value:				
Commingled funds:				
Equity commingled funds				119,231
Fixed income commingled funds				558
Hedge funds				<u>10,778</u>
Total				\$ <u>298,106</u>

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of dollars)

NOTE 10. EMPLOYEE BENEFIT PLANS (CONTINUED)

At December 31, 2014	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Pension Plans:				
Cash and cash equivalents	\$ 14,058	\$ -	\$ -	\$ 14,058
Equity securities	31,992	-	-	31,992
Debt securities:				
Government and government agency obligations	-	7,935	-	7,935
Corporate bonds	-	49,708	-	49,708
Asset backed securities	-	4,940	-	4,940
Mutual funds:				
Equity mutual funds	57,107	-	-	57,107
Fixed mutual funds	21,477	-	-	21,477
Other	<u>702</u>	<u>-</u>	<u>-</u>	<u>702</u>
Subtotal	<u>125,336</u>	<u>62,583</u>	<u>-</u>	<u>187,919</u>
Investment measured at net asset value:				
Commingled funds:				
Equity commingled funds				75,406
Fixed income commingled funds				806
Hedge funds				<u>30,783</u>
Total				\$ <u>294,914</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 \$23,507 to the pension plan trust in 2016 to be allocated amongst participating entities.

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

2016	\$ 20,659
2017	\$ 22,949
2018	\$ 24,809
2019	\$ 27,407
2020	\$ 29,835
2021 - 2025	\$ 187,212

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of dollars)

NOTE 10. EMPLOYEE BENEFIT PLANS (CONTINUED)

	<u>2015</u>	<u>2014</u>
Weighted average assumptions used to determine end of the year benefit obligations:		
Discount rate	4.65%	4.20%
Rate of compensation increase	3.50%	3.50%
Weighted average assumptions used to determine net periodic pension cost:		
Discount rate	4.20%	5.05%
Expected long-term rate of return on plan assets	7.50%	7.75%
Measurement date	12/31/2015	12/31/2014

NOTE 11. INSURANCE ARRANGEMENTS

Professional and General Liability Arrangements

The System participates in the Trinity Health insurance program which provides coverage for healthcare professional (medical malpractice) and general liability exposures. The primary limits were \$20,000,000 per occurrence for healthcare professional liability and general liability for the years ending December 31 2015 and 2014. Professional and general liabilities are insured by Venzke Insurance Company, Ltd. (Venzke), a Cayman-domiciled insurer wholly-owned by Trinity Health. 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 2015 and 2014. The System's current portion of liability for unasserted claims at December 31, 2015 and 2014 is \$0 and \$471, 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, 2015 and 2014 is \$77,514 and \$63,192, respectively. The charges to expenses for professional and general liability for 2015 and 2014 approximated \$11,563 and \$9,258, 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 claims liability and any anticipated insurance recoveries are to be reported on a gross basis versus the previous practice of netting the recoveries against claims liability. Amounts recognized as insurance receivables related to the claims approximated \$66,873 and \$54,241 at December 31, 2015 and 2014, 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.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of dollars)

NOTE 11. INSURANCE ARRANGEMENTS (CONTINUED)

Workers Compensation Arrangements

The System's insurance program for workers' compensation has a deductible of \$750 per occurrence in 2015 and 2014. 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% in 2015 and 2014, respectively. The System's current portion of liabilities for unpaid and incurred but not reported claims at December 31, 2015 and 2014 is \$9,440 and \$8,472, 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, 2015 and 2014 is \$65,965 and \$60,137, respectively, and is included in other long-term liabilities.

The charges to expenses for workers' compensation costs approximated \$12,041 and \$15,769 in 2015 and 2014, 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 claims liability and any anticipated insurance recoveries are to be reported on a gross basis versus the previous practice of netting the recoveries against claims liability. Amounts recognized as insurance receivables related to the claims approximated \$30,418 and \$26,435 at December 31, 2015 and 2014, 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.

Employee Health Arrangements

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, 2015 and 2014, was \$8,555 and \$8,509, respectively.

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.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of dollars)

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>2015</u>	<u>2014</u>
Medicare	33%	36%
Medicaid	18	16
Blue Cross	7	6
Other third-party payors	30	30
Patients/residents	<u>12</u>	<u>12</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 System's consolidated financial statements reflect certain assets and liabilities recorded at fair value. Assets and liabilities measured at fair value on a recurring basis on the System's consolidated balance sheets include cash and cash equivalents, equity securities, exchange traded funds, debt securities, mutual funds, commingled funds and interest rate swaps. Liabilities measured at fair value on a recurring basis for disclosure only include debt.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value should be based on assumptions that market participants would use, including a consideration of non-performance risk.

To determine fair value, the System uses various valuation methodologies based on market inputs. For many instruments, pricing inputs are readily observable in the market; the valuation methodology is widely accepted by market participants and involves little to no judgment. For other instruments, pricing inputs are less observable in the marketplace. These inputs can be subjective in nature and involve uncertainties and matters of considerable judgment. The use of different assumptions, judgments and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The System assesses the inputs used to measure fair value using a three level hierarchy based on the extent to which inputs used in measuring fair value are observable in the market. The fair value hierarchy is as follows:

Level 1 – Quoted (unadjusted) prices for identical instruments in active markets.

Level 2 – Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar instruments in active markets;
- Quoted prices for identical or similar instruments in non-active markets (few transactions, limited information, non-current prices, high variability over time, etc.);
- Inputs other than quoted prices that are observable for the instrument (interest rates, yield curves, volatilities, default rates, etc.); and

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of dollars)

NOTE 14. FAIR VALUE MEASUREMENTS (CONTINUED)

- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 – Unobservable inputs that cannot be corroborated by observable market data.

Valuation Methodologies - Exchange-traded securities whose fair value is derived using quoted prices in active markets are classified as Level 1. In instances where quoted market prices are not readily available, fair value is estimated using quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices, discounted cash flow models and other pricing models. These models are primarily industry-standard models that consider various assumptions, including time value and yield curve as well as other relevant economic measures. The inputs to these models depends on the type of security being priced but are typically benchmark yields, credit spreads, prepayment speeds, reported trades and broker-dealer quotes, all with reasonable levels of transparency. Generally, significant changes in any of those inputs in isolation would result in a significantly different fair value measurement, respectively. The System classifies these securities as Level 2 within the fair value hierarchy.

In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The System's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset.

Following is a description of the valuation methodologies the System used for instruments recorded at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Cash and cash equivalents: The carrying amounts reported in the consolidated balance sheets approximate their fair value. Certain cash and cash equivalents are included in investments and assets limited or restricted as to use in the consolidated balance sheets.

Equity Securities: Equity securities are valued at the closing price reported on the applicable exchange on which the security is traded, or are estimated using quoted market prices for similar securities.

Exchange-traded securities: Exchange traded funds are valued at the NAV of shares held by the System at year end.

Debt Securities: Debt securities are valued using quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices, discounted cash flow models and other pricing models. These models are primarily industry-standard models that consider various assumptions, including time value and yield curve as well as other relevant economic measures.

Mutual Funds: Mutual funds are valued using the net asset value based on the value of the underlying assets owned by the fund, minus liabilities, divided by the number of shares outstanding, and multiplied by the number of shares owned.

Commingled Funds: Commingled funds are developed for investment by institutional investors only and therefore do not require registration with the Securities and Exchange Commission. Commingled funds are recorded at fair value based on either the underlying investments that have a readily determinable market value or based on net asset value, which is calculated using the most recent fund financial statements.

Hedge Funds: Hedge funds utilize either a direct or a "fund-of-funds" approach resulting in diversified multi-strategy, multi-manager investments. Underlying investments in these funds may include equities, fixed income securities, commodities, currencies and derivatives. These funds are valued at net asset value, which is calculated using the most recent fund financial statements.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of dollars)

NOTE 14. FAIR VALUE MEASUREMENTS (CONTINUED)

Equity Method Investments: The System has a 1% ownership interest in equity method investments which are maintained in a Trinity Health corporate pooled investment program at December 31, 2015.

Interest Rate Swap: The fair value of the interest rate swap 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 derivative is considered a Level 2 item in the fair value hierarchy.

Long-Term Debt: The fair value of the long-term debt is 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, 2015 and 2014. Long-term debt would be classified as Level 2 in the fair value hierarchy.

The following tables summarize the fair values, by input hierarchy, of financial instruments measured at fair value on a recurring basis at December 31, 2015:

At December 31, 2015	Level I	Level II	Level III	Total
Assets limited as to use:				
Cash and cash equivalents	\$ 83,296	\$ 954	\$ -	\$ 84,250
Equity securities	10	-	-	10
Government and government agency obligations	4,468	815	-	5,283
Other	-	15	-	15
	<u>\$ 87,773</u>	<u>\$ 1,784</u>	<u>\$ -</u>	<u>\$ 89,558</u>
Investments:				
Cash and cash equivalents	\$ 1,426	\$ -	\$ -	\$ 1,426
Equity securities	9,240	1	-	9,241
Debt securities	774	2,493	-	3,267
Exchange traded funds	1,521	-	-	1,521
Mutual Funds	209	-	-	209
Other	-	477	-	477
Subtotal	<u>13,170</u>	<u>2,971</u>	<u>-</u>	<u>16,141</u>
Investment measured at net asset value:				
Commingled funds				166
Hedge funds				155
Equity method investments				<u>219</u>
Total				<u>\$ 16,681</u>
Interest rate swap liability	<u>\$ -</u>	<u>\$ 6,122</u>	<u>\$ -</u>	<u>\$ 6,122</u>

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of dollars)

NOTE 14. FAIR VALUE MEASUREMENTS (CONTINUED)

At December 31, 2014	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Assets limited as to use:				
Cash and cash equivalents	\$ 14,036	\$ 6,338	\$ -	\$ 20,374
Equity securities	11	-	-	11
Government and government agency obligations	5,228	480	-	5,708
Other	-	13	-	13
	<u>\$ 19,275</u>	<u>\$ 6,831</u>	<u>\$ -</u>	<u>\$ 26,106</u>
Investments:				
Cash and cash equivalents	\$ 1,143	\$ 1	\$ -	\$ 1,144
Equity securities	4,550	-	-	4,550
Debt securities	1,384	1,410	-	2,794
Exchange traded funds	2,528	-	-	2,528
Mutual funds	448	-	-	448
Other	-	458	-	458
Subtotal	<u>10,053</u>	<u>1,869</u>	<u>-</u>	<u>11,922</u>
Investment measured at net asset value:				
Commingled funds				116
Hedge funds				196
Equity method investments				<u>236</u>
Total				<u>\$ 12,470</u>
Interest rate swap liability	<u>\$ -</u>	<u>\$ 5,853</u>	<u>\$ -</u>	<u>\$ 5,853</u>

NOTE 15. RELATED PARTY TRANSACTIONS

Trinity Health charged the System dues for participation in certain programs and governance matters. Amounts charged to expense related to these dues amounted to approximately \$4,200 and \$4,284 in 2015 and 2014, 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 Trinity Health.

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, 2015, there was \$1,846 of debt outstanding, of which SCH has guaranteed \$615. Per the guaranty agreement, SCH'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, MHB, Alsace Abbott Corporation (a wholly owned Corporation of MHB), and three other joint venture partners. In 2007, Marian Professional Center Associates, L.P. refinanced its mortgage. As of December 31, 2015, there was \$4,482 of debt outstanding, of which MHB has guaranteed \$2,241. 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.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of dollars)

NOTE 16. DISCONTINUED OPERATIONS

The following subsidiaries, which have been closed in prior years as referenced, have been accounted for in discontinued operations: St. Francis Geriatric Healthcare Services, Inc. (2009) 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 \$2,868, \$186 and \$2,682, respectively, as of December 31, 2015 and \$2,744, \$960 and \$1,784, respectively, as of December 31, 2014 and are included within their natural classifications in the accompanying consolidated balance sheets.

In April 2015 the assets of SFHW were sold to a third party. The sales price for the facility approximated \$6,000. After deducting asset value and other closing costs, the net gain from the sale was \$3,681.

In May 2015 the assets of Nazareth Home of the Franciscan of the Immaculate Conception were sold to a third party. The sales price for the facility approximated \$1,000. After deducting asset value and other closing costs, the net gain from the sale was \$548.

The System executed asset purchase agreements and real estate purchase agreements with a third-party, under which the third party would assume control over SEH and SVH in February 2016. As such, certain assets and liabilities of SEH and SVH are classified as held for sale. As of December 31, 2015 and 2014, SEH, and 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 \$2,865 and \$1,614 in 2015 and 2014, respectively.

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

Assets Held for Sale	<u>2015</u>	<u>2014</u>
Property and equipment, net	\$ <u>553</u>	\$ <u>660</u>

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:

	<u>2015</u>	<u>2014</u>
Healthcare services	\$ 867,727	\$ 784,885
General and administrative	<u>141,844</u>	<u>128,302</u>
	\$ <u>1,009,571</u>	\$ <u>913,187</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, 2015 and 2014 and for the years then ended and our report thereon appears on page 1 of this document. These audits were 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 2015 and 2014 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 20, 2016

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, 2015 and 2014**

(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>2015</u>	<u>2014</u>
Charity care	\$ 5,944	\$ 7,208
Cost of community benefit programs	37,425	27,435
Unpaid cost of Medicaid programs	<u>56,141</u>	<u>47,427</u>
	<u>\$ 99,510</u>	<u>\$ 82,070</u>

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

(in thousands of dollars)

December 31, 2015

ASSETS	Parent	Acute Care Subsidiaries	Long-term Care Subsidiaries	Home Care Subsidiaries	Other Subsidiaries	Eliminations	Total
Current assets:							
Cash and cash equivalents	\$ 27,945	\$ 284,410	\$ 11,724	\$ 28,428	\$ 7,525	\$ -	\$ 360,032
Patient/resident accounts receivable, net of allowance for doubtful accounts of \$28,817	-	129,381	3,368	9,057	559	-	142,365
Other receivables	3,424	11,712	75	-	23	-	15,234
Inventories	-	25,574	38	493	-	-	26,105
Prepaid expenses and other current assets	3,799	2,491	7	45	26	-	6,368
Due from affiliates	86,341	1,121	1,489	-	3	(88,954)	-
Total current assets	121,509	454,689	16,701	38,023	8,136	(88,954)	550,104
Interest in net assets of related Foundation	-	-	221	-	226	(447)	-
Assets limited as to use	59,447	16,680	12,513	-	918	-	89,558
Investments	-	16,681	-	-	-	-	16,681
Property and equipment, net	81,273	258,441	4,731	1,206	14,996	-	360,647
Other assets	31,191	93,485	5,289	4,874	566	(27,033)	108,372
Due from affiliates	7,295	11,784	2,169	1,025	39	(22,312)	-
Total assets	\$ 300,715	\$ 851,760	\$ 41,624	\$ 45,128	\$ 24,881	\$ (138,746)	\$ 1,125,362
LIABILITIES AND NET ASSETS							
Current liabilities:							
Current portion of long-term obligations	\$ 787	\$ 10,542	\$ 478	\$ 477	\$ 1,661	\$ -	\$ 13,945
Line of credit payable	13,496	-	-	-	-	-	13,496
Accounts payable	7,292	43,610	20	522	1,870	5	53,319
Accrued expenses	23,853	42,690	3,093	2,870	649	-	73,155
Due to third-party payors	-	39,322	1,677	1,319	1,053	-	43,371
Due to affiliates	678	70,218	15,663	1,080	2,247	(89,886)	-
Total current liabilities	46,106	206,382	20,931	6,268	7,480	(89,881)	197,286
Long-term obligations, net	122,062	109,204	5,097	517	9,575	-	246,455
Due to affiliates, net	13,883	-	178	1,801	5,523	(21,385)	-
Other long-term liabilities	55,199	393,848	13,297	10,461	3,030	-	475,835
Total liabilities	237,250	709,434	39,503	19,047	25,608	(111,266)	919,576
Net assets (deficit):							
Unrestricted	60,007	135,148	1,899	26,081	(1,505)	(23,567)	198,063
Temporarily restricted	3,412	6,885	222	-	778	(3,867)	7,430
Permanently restricted	46	293	-	-	-	(46)	293
Total net assets (deficit)	63,465	142,326	2,121	26,081	(727)	(27,480)	205,786
Total liabilities and net assets (deficit)	\$ 300,715	\$ 851,760	\$ 41,624	\$ 45,128	\$ 24,881	\$ (138,746)	\$ 1,125,362

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

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

(in thousands of dollars)

For the Year Ended December 31, 2015

	Parent	Acute Care Subsidiaries	Long-term Care Subsidiaries	Home Care Subsidiaries	Other Subsidiaries	Eliminations	Total
Unrestricted revenues other support:							
Net patient/resident service revenue	\$ -	\$ 945,769	\$ 16,135	\$ 60,720	\$ 15,695	\$ (10,376)	\$ 1,027,943
Provision for bad debts	-	(22,460)	(236)	(1,538)	(112)	-	(24,346)
Net patient/resident service revenue, less provision for bad debts	-	923,309	15,899	59,182	15,583	(10,376)	1,003,597
Other revenue	139,672	20,181	130	-	5,125	(146,926)	18,182
Net assets released from restrictions	-	128	-	-	-	-	128
Total unrestricted revenues and other support	139,672	943,618	16,029	59,182	20,708	(157,302)	1,021,907
Expenses:							
Salaries and wages	62,343	400,609	9,962	31,371	2,062	(62,728)	443,619
Employee benefits	19,517	134,058	2,761	7,839	500	(19,517)	145,158
Medical and professional fees	5,859	34,539	564	573	11,775	(4,937)	48,373
Purchased services	30,230	89,552	923	1,830	1,486	(40,754)	83,267
Supplies	866	184,143	1,225	7,652	46	(1,742)	192,190
Depreciation and amortization	7,112	41,189	507	689	1,507	(7,112)	43,892
Interest	4,393	9,241	349	497	557	(4,325)	10,712
Insurance	377	12,506	553	83	41	(377)	13,183
Other expenses	9,503	32,444	266	2,337	1,096	(16,469)	29,177
Total expenses	140,200	938,281	17,110	52,871	19,070	(157,961)	1,009,571
(Loss) income from operations	(528)	5,337	(1,081)	6,311	1,638	659	12,336
Nonoperating revenues and losses:							
Investment income	34	(118)	48	-	-	(34)	(70)
Other, net	13,963	1,313	-	43	13	(574)	14,758
Total nonoperating revenues and losses	13,997	1,195	48	43	13	(608)	14,688
Excess (deficiency) of revenues over expenses	\$ 13,469	\$ 6,532	\$ (1,033)	\$ 6,354	\$ 1,651	\$ 51	\$ 27,024

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT) (CONTINUED)

(in thousands of dollars)

For the Year Ended December 31, 2015

	Parent	Acute Care Subsidiaries	Long-term Care Subsidiaries	Home Care Subsidiaries	Other Subsidiaries	Eliminations	Total
Unrestricted net assets:							
Excess (deficiency) of revenues over expenses	\$ 13,469	\$ 6,532	\$ (1,033)	\$ 6,354	\$ 1,651	\$ 51	\$ 27,024
Change in unrealized loss on interest rate swap	-	(224)	-	-	(39)	-	(263)
Change in pension obligation, other than net periodic cost	3,728	21,154	780	38	(43)	-	25,657
Net assets released from restrictions	-	1,241	-	-	16	-	1,257
Grant revenue for capital expenditures	-	67	-	-	-	-	67
Contributions	185	-	-	-	-	-	185
Inherent contribution gain on acquisition	-	23,566	-	-	-	(23,566)	-
Other	19,111	(18,659)	(8)	-	480	-	924
Increase (decrease) in unrestricted net assets before effects of discontinued operations	36,493	33,677	(261)	6,392	2,065	(23,515)	54,851
Gain on sale of assets in discontinued operations	-	-	4,229	-	-	-	4,229
Loss from discontinued operations	-	-	(2,865)	-	-	(51)	(2,916)
Increase (decrease) in unrestricted net assets	36,493	33,677	1,103	6,392	2,065	(23,566)	56,164
Temporarily restricted net assets:							
Contributions and other	-	1,148	-	-	158	-	1,306
Investment loss	-	(3)	-	-	-	-	(3)
Special events revenue, net	-	24	-	-	-	-	24
Change in temporarily restricted interest in related Foundation	-	-	131	-	-	(131)	-
Temporarily restricted net assets released from restrictions	-	(1,369)	-	-	(16)	-	(1,385)
Inherent contribution gain on acquisition	-	3,413	-	-	-	(3,413)	-
Other	3,412	1	-	-	-	-	3,413
Increase (decrease) in temporarily restricted net assets	3,412	3,214	131	-	142	(3,544)	3,355
Permanently restricted net assets:							
Contributions	-	1	-	-	-	-	1
Inherent contribution gain on acquisition	-	46	-	-	-	(46)	-
Other	46	-	-	-	-	-	46
Increase (decrease) in permanently restricted net assets	46	47	-	-	-	(46)	47
Increase (decrease) in net assets	39,951	36,938	1,234	6,392	2,207	(27,156)	59,566
Net assets (deficit), beginning of year	23,514	105,388	887	19,689	(2,934)	(324)	146,220
Net assets (deficit), end of year	<u>\$ 63,465</u>	<u>\$ 142,326</u>	<u>\$ 2,121</u>	<u>\$ 26,081</u>	<u>\$ (727)</u>	<u>\$ (27,480)</u>	<u>\$ 205,786</u>

CATHOLIC HEALTH SYSTEM - ACUTE CARE SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

(in thousands of dollars)

December 31, 2015

ASSETS	Mercy Hospital	Sisters Hospital	Kenmore Mercy Hospital	Mount St. Mary's Hospital	Total
Current assets:					
Cash and cash equivalents	\$ 94,161	\$ 134,665	\$ 50,683	\$ 4,901	\$ 284,410
Patient/resident accounts receivable, net of allowance for doubtful accounts of \$24,320	54,046	42,508	24,037	8,790	129,381
Other receivables	3,352	3,729	3,551	1,080	11,712
Inventories	13,674	7,185	2,949	1,766	25,574
Prepaid expenses and other current assets	997	540	383	571	2,491
Due from affiliates	367	694	60	-	1,121
Total current assets	<u>166,597</u>	<u>189,321</u>	<u>81,663</u>	<u>17,108</u>	<u>454,689</u>
Assets limited as to use	6,703	5,008	4,969	-	16,680
Investments	1,552	7,554	2,228	5,347	16,681
Property and equipment, net	96,671	73,919	63,147	24,704	258,441
Other assets	41,802	33,859	17,667	157	93,485
Due from affiliates	-	10,303	1,456	25	11,784
Total assets	<u>\$ 313,325</u>	<u>\$ 319,964</u>	<u>\$ 171,130</u>	<u>\$ 47,341</u>	<u>\$ 851,760</u>
LIABILITIES AND NET ASSETS					
Current liabilities:					
Current portion of long-term obligations	4,283	3,938	\$ 2,152	\$ 169	\$ 10,542
Accounts payable	17,336	13,786	10,728	1,760	43,610
Accrued expenses	13,835	16,778	6,649	5,428	42,690
Due to third-party payors	17,368	12,493	6,636	2,825	39,322
Due to affiliates	20,925	27,452	21,289	552	70,218
Total current liabilities	<u>73,747</u>	<u>74,447</u>	<u>47,454</u>	<u>10,734</u>	<u>206,382</u>
Long-term obligations, net	50,191	32,026	26,783	204	109,204
Other long-term liabilities	200,942	127,852	55,831	9,223	393,848
Total liabilities	<u>324,880</u>	<u>234,325</u>	<u>130,068</u>	<u>20,161</u>	<u>709,434</u>
Net assets (deficit):					
Unrestricted	(12,416)	82,804	40,855	23,905	135,148
Temporarily restricted	738	2,712	207	3,228	6,885
Permanently restricted	123	123	-	47	293
Total net assets (deficit)	<u>(11,555)</u>	<u>85,639</u>	<u>41,062</u>	<u>27,180</u>	<u>142,326</u>
Total liabilities and net assets	<u>\$ 313,325</u>	<u>\$ 319,964</u>	<u>\$ 171,130</u>	<u>\$ 47,341</u>	<u>\$ 851,760</u>

CATHOLIC HEALTH SYSTEM - ACUTE CARE SUBSIDIARIES

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

(in thousands of dollars)

For the Year Ended December 31, 2015

	Mercy Hospital	Sisters Hospital	Kenmore Mercy Hospital	Mount St. Mary's Hospital	Total
Unrestricted revenues other support:					
Net patient/resident service revenue	\$ 402,769	\$ 322,140	\$ 173,115	\$ 47,745	\$ 945,769
Provision for bad debts	(9,175)	(7,842)	(3,892)	(1,551)	(22,460)
Net patient/resident service revenue, less provision for bad debts	393,594	314,298	169,223	46,194	923,309
Other revenue	6,521	7,404	5,055	1,201	20,181
Net assets released from restrictions	-	-	-	128	128
Total unrestricted revenues and other support	400,115	321,702	174,278	47,523	943,618
Expenses:					
Salaries and wages	162,258	144,339	70,170	23,842	400,609
Employee benefits	59,600	46,178	21,629	6,651	134,058
Medical and professional fees	14,365	13,318	5,509	1,347	34,539
Purchased services	35,585	31,353	15,276	7,338	89,552
Supplies	84,465	56,009	37,415	6,254	184,143
Depreciation and amortization	17,107	15,661	8,012	409	41,189
Interest	3,949	3,010	2,275	7	9,241
Insurance	4,492	4,915	2,795	304	12,506
Other expenses	15,929	9,952	4,814	1,749	32,444
Total expenses	397,750	324,735	167,895	47,901	938,281
Income (loss) from operations	2,365	(3,033)	6,383	(378)	5,337
Nonoperating revenues and losses:					
Investment income (loss)	278	(206)	55	(245)	(118)
Other, net	404	831	78		1,313
Total nonoperating revenues and losses	682	625	133	(245)	1,195
Excess (deficiency) of revenues over expenses	\$ 3,047	\$ (2,408)	\$ 6,516	\$ (623)	\$ 6,532

CATHOLIC HEALTH SYSTEM - ACUTE CARE SUBSIDIARIES

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

(in thousands of dollars)

For the Year Ended December 31, 2015

	Mercy Hospital	Sisters Hospital	Kenmore Mercy Hospital	Mount St. Mary's Hospital	Total
Unrestricted net assets:					
Excess (deficiency) of revenues over expenses	\$ 3,047	\$ (2,408)	\$ 6,516	\$ (623)	\$ 6,532
Change in unrealized gain on interest rate swap	(224)	-	-	-	(224)
Change in pension obligation, other than net periodic cost	11,857	6,932	2,365	-	21,154
Net assets released from restrictions	325	336	260	320	1,241
Grant revenue for capital expenditures	11	56	-	-	67
Inherent contribution gain on acquisition	-	-	-	23,566	23,566
Other	(10,052)	(6,039)	(3,208)	640	(18,659)
Decrease in unrestricted net assets	4,964	(1,123)	5,933	23,903	33,677
Temporarily restricted net assets:					
Contributions and other	286	597	-	265	1,148
Investment loss	(3)	-	-	-	(3)
Special events revenue, net	-	24	-	-	24
Temporarily restricted net assets released from restrictions	(325)	(336)	(260)	(448)	(1,369)
Inherent contribution gain on acquisition	-	-	-	3,413	3,413
Other	-	-	1	-	1
(Decrease) increase in temporarily restricted net assets	(42)	285	(259)	3,230	3,214
Permanently restricted net assets:					
Contributions	-	-	-	1	1
	-	-	-	46	46
Increase in permanently restricted net assets	-	-	-	47	46
Decrease in net assets	4,922	(838)	5,674	27,180	36,938
Net (deficit) assets, beginning of year	(16,477)	86,477	35,388	-	105,388
Net (deficit) assets, end of year	<u>\$ (11,555)</u>	<u>\$ 85,639</u>	<u>\$ 41,062</u>	<u>\$ 27,180</u>	<u>\$ 142,326</u>

CATHOLIC HEALTH SYSTEM - LONG-TERM CARE SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

(in thousands of dollars)

December 31, 2015

	Discontinued Operations						
ASSETS	Father Baker Manor	St. Francis Geriatric	St. Francis Home	St. Elizabeth's Home	St. Vincent's Home	Nazareth Home	Total
Current assets:							
Cash and cash equivalents	\$ 1,569	\$ 1,288	\$ 7,345	\$ 26	\$ 11	\$ 1,485	\$ 11,724
Resident accounts receivable, net of allowance for doubtful accounts of \$2,382	3,064	88	-	167	49	-	3,368
Other receivables	25	-	50	-	-	-	75
Inventories	38	-	-	-	-	-	38
Prepaid expenses and other current assets	7	-	-	-	-	-	7
Due from affiliates	9	-	1	-	-	1,479	1,489
Total current assets	<u>4,712</u>	<u>1,376</u>	<u>7,396</u>	<u>193</u>	<u>60</u>	<u>2,964</u>	<u>16,701</u>
Interest in net assets of related Foundations	92	-	68	60	1	-	221
Assets limited as to use	11,436	-	1,077	-	-	-	12,513
Property and equipment, net	4,178	-	-	435	118	-	4,731
Other assets	2,645	7	2,431	115	91	-	5,289
Due from affiliates	-	-	-	2,169	-	-	2,169
Total assets	<u>\$ 23,063</u>	<u>\$ 1,383</u>	<u>\$ 10,972</u>	<u>\$ 2,972</u>	<u>\$ 270</u>	<u>\$ 2,964</u>	<u>\$ 41,624</u>
LIABILITIES AND NET ASSETS							
Current liabilities:							
Current portion of long-term obligations	\$ 478	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 478
Accounts payable	15	-	-	3	2	-	20
Accrued expenses	2,104	7	591	274	116	1	3,093
Due to third-party payors	1,041	-	636	-	-	-	1,677
Due to affiliates	2,875	-	7,828	3,516	1,444	-	15,663
Total current liabilities	<u>6,513</u>	<u>7</u>	<u>9,055</u>	<u>3,793</u>	<u>1,562</u>	<u>1</u>	<u>20,931</u>
Long-term obligations, net	5,097	-	-	-	-	-	5,097
Due to affiliates, net	-	-	-	-	-	178	178
Other long-term liabilities	5,340	-	6,203	1,172	582	-	13,297
Total liabilities	<u>16,950</u>	<u>7</u>	<u>15,258</u>	<u>4,965</u>	<u>2,144</u>	<u>179</u>	<u>39,503</u>
Net assets (deficit):							
Unrestricted	6,020	1,376	(4,354)	(2,053)	(1,875)	2,785	1,899
	93	-	68	60	1	-	222
Total net assets (deficit)	<u>6,113</u>	<u>1,376</u>	<u>(4,286)</u>	<u>(1,993)</u>	<u>(1,874)</u>	<u>2,785</u>	<u>2,121</u>
Total liabilities and net assets	<u>\$ 23,063</u>	<u>\$ 1,383</u>	<u>\$ 10,972</u>	<u>\$ 2,972</u>	<u>\$ 270</u>	<u>\$ 2,964</u>	<u>\$ 41,624</u>

CATHOLIC HEALTH SYSTEM - LONG-TERM CARE SUBSIDIARIES

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

(in thousands of dollars)

For the Year Ended December 31, 2015

	Discontinued Operations						
	Father Baker Manor	St. Francis Geriatric	St. Francis Home	St. Elizabeth's Home	St. Vincent's Home	Nazareth Home	Total
Unrestricted revenues other support:							
Net resident service revenue	\$ 16,135	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16,135
Provision for bad debts	(236)	-	-	-	-	-	(236)
Net resident service revenue, less provision for bad debts	15,899	-	-	-	-	-	15,899
Other revenue	130	-	-	-	-	-	130
Total unrestricted revenues and other support	16,029	-	-	-	-	-	16,029
Expenses:							
Salaries and wages	9,962	-	-	-	-	-	9,962
Employee benefits	2,761	-	-	-	-	-	2,761
Medical and professional fees	564	-	-	-	-	-	564
Purchased services	923	-	-	-	-	-	923
Supplies	1,225	-	-	-	-	-	1,225
Depreciation and amortization	507	-	-	-	-	-	507
Interest	349	-	-	-	-	-	349
Insurance	553	-	-	-	-	-	553
Other expenses	266	-	-	-	-	-	266
Total expenses	17,110	-	-	-	-	-	17,110
Loss from operations	(1,081)	-	-	-	-	-	(1,081)
Nonoperating revenues and losses:							
Investment income	48	-	-	-	-	-	48
Total nonoperating revenues and losses	48	-	-	-	-	-	48
Deficiency of revenues over expenses	\$ (1,033)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,033)
Unrestricted net assets:							
Deficiency of revenues over expenses	\$ (1,033)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,033)
Change in pension obligation, other than net periodic cost	145	-	466	192	(23)	-	780
Other	(8)	(42)	-	-	-	42	(8)
(Decrease) increase in unrestricted net assets before effects of discontinued operations	(896)	(42)	466	192	(23)	42	(261)
Gain on sale of assets in discontinued operations	-	-	3,681	-	-	548	4,229
(Loss) gain from discontinued operations	-	(2)	(2,044)	(1,108)	(420)	709	(2,865)
Increase (decrease) unrestricted net assets	(896)	(44)	2,103	(916)	(443)	1,299	1,103
Temporarily restricted net assets:							
Change in temporarily restricted interest in related foundations	70	-	-	60	1	-	131
Increase decrease in temporarily restricted net assets	70	-	-	60	1	-	131
(Decrease) increase in net assets (deficit)	(826)	(44)	2,103	(856)	(442)	1,299	1,234
Net assets (deficit), beginning of year	6,939	1,420	(6,389)	(1,137)	(1,432)	1,486	887
Net assets (deficit), end of year	<u>\$ 6,113</u>	<u>\$ 1,376</u>	<u>\$ (4,286)</u>	<u>\$ (1,993)</u>	<u>\$ (1,874)</u>	<u>\$ 2,785</u>	<u>\$ 2,121</u>

CATHOLIC HEALTH SYSTEM - HOME CARE SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

(in thousands of dollars)

December 31, 2015

	Mercy Home Care	McAuley Seton Home Care	Infusion Pharmacy	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,591	\$ 24,535	\$ 2,302	\$ 28,428
Patient accounts receivable, net of allowance for doubtful accounts of \$1,902	359	7,476	1,222	9,057
Inventories	-	54	439	493
Prepaid expenses and other current assets	-	24	21	45
Total current assets	<u>1,950</u>	<u>32,089</u>	<u>3,984</u>	<u>38,023</u>
Property and equipment, net	-	1,101	105	1,206
Other assets	588	3,612	674	4,874
Due from affiliates	432	492	101	1,025
Total assets	<u>\$ 2,970</u>	<u>\$ 37,294</u>	<u>\$ 4,864</u>	<u>\$ 45,128</u>
LIABILITIES AND NET ASSETS				
Current liabilities:				
Current portion of long-term obligations	\$ -	477	-	\$ 477
Accounts payable	498	7	17	522
Accrued expenses	-	2,232	638	2,870
Due to third-party payors	26	1,222	71	1,319
Due to affiliates	77	445	558	1,080
Total current liabilities	<u>601</u>	<u>4,383</u>	<u>1,284</u>	<u>6,268</u>
Long-term obligations, net	-	517	-	517
Due to affiliates, net	-	1,801	-	1,801
Other long-term liabilities	2,131	7,586	744	10,461
Total liabilities	<u>2,732</u>	<u>14,287</u>	<u>2,028</u>	<u>19,047</u>
Net assets:				
Unrestricted	238	23,007	2,836	26,081
Total liabilities and net assets	<u>\$ 2,970</u>	<u>\$ 37,294</u>	<u>\$ 4,864</u>	<u>\$ 45,128</u>

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, 2015

	Mercy Home Care	McAuley Seton Home Care	Infusion Pharmacy	Total
Unrestricted revenues other support:				
Net resident service revenue	\$ 6,688	\$ 43,527	\$ 10,505	\$ 60,720
Provision for bad debts	(44)	(1,235)	(259)	(1,538)
Total unrestricted revenues and other support	6,644	42,292	10,246	59,182
Expenses:				
Salaries and wages	4,506	24,709	2,156	31,371
Employee benefits	979	5,954	906	7,839
Medical and professional fees	-	533	40	573
Purchased services	334	1,263	233	1,830
Supplies	25	1,261	6,366	7,652
Depreciation and amortization	21	638	30	689
Interest	38	452	7	497
Insurance	27	50	6	83
Other expenses	271	1,649	417	2,337
Total expenses	6,201	36,509	10,161	52,871
Income from operations	443	5,783	85	6,311
Nonoperating revenue and losses:				
Other	18	11	14	43
Total nonoperating revenue and losses	18	11	14	43
Excess revenue over expenses	\$ 461	\$ 5,794	\$ 99	\$ 6,354
Unrestricted net assets:				
Excess revenue over expenses	\$ 461	\$ 5,794	\$ 99	\$ 6,354
Change in pension obligation, other than net periodic cost	64	9	(35)	38
Increase in net assets	525	5,803	64	6,392
Net (deficit) asset, beginning of year	(287)	17,204	2,772	19,689
Net assets, end of year	\$ 238	\$ 23,007	\$ 2,836	\$ 26,081

CATHOLIC HEALTH SYSTEM - OTHER SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

(in thousands of dollars)

December 31, 2015

ASSETS	OLV Renaissance Corp.	Continuing Care Foundation	LIFE	Trinity	Total
Current assets:					
Cash and cash equivalents	\$ 1,493	\$ 600	\$ 5,322	\$ 110	\$ 7,525
Patient accounts receivable, net of allowance for doubtful accounts of \$213	-	-	559	-	559
Other receivables	-	23	-	-	23
Prepaid expenses and other current assets	25	-	1	-	26
Due from affiliates	-	3	-	-	3
Total current assets	<u>1,518</u>	<u>626</u>	<u>5,882</u>	<u>110</u>	<u>8,136</u>
Interest in net assets of related Foundations	226	-	-	-	226
Assets limited as to use	274	-	644	-	918
Property and equipment, net	14,837	1	158	-	14,996
Other assets	558	-	8	-	566
Due from affiliates	39	-	-	-	39
Total assets	<u>\$ 17,452</u>	<u>\$ 627</u>	<u>\$ 6,692</u>	<u>\$ 110</u>	<u>\$ 24,881</u>
LIABILITIES AND NET ASSETS					
Current liabilities:					
Current portion of long-term obligations	1,661	\$ -	\$ -	\$ -	\$ 1,661
Accounts payable	-	-	1,870	-	1,870
Accrued expenses	649	-	-	-	649
Due to third-party payors	-	-	1,053	-	1,053
Due to affiliates	-	46	448	1,753	2,247
Total current liabilities	<u>2,310</u>	<u>46</u>	<u>3,371</u>	<u>1,753</u>	<u>7,480</u>
Long-term obligations, net	9,575	-	-	-	9,575
Due to affiliates, net	5,523	-	-	-	5,523
Other long-term liabilities	2,653	-	377	-	3,030
Total liabilities	<u>20,061</u>	<u>46</u>	<u>3,748</u>	<u>1,753</u>	<u>25,608</u>
Net (deficit) assets:					
Temporarily restricted	(2,835)	29	2,944	(1,643)	(1,505)
	226	552	-	-	778
Total net (deficit) assets	<u>(2,609)</u>	<u>581</u>	<u>2,944</u>	<u>(1,643)</u>	<u>(727)</u>
Total liabilities and net assets	<u>\$ 17,452</u>	<u>\$ 627</u>	<u>\$ 6,692</u>	<u>\$ 110</u>	<u>\$ 24,881</u>

CATHOLIC HEALTH SYSTEM - OTHER SUBSIDIARIES

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

(in thousands of dollars)

For the Year Ended December 31, 2015

	OLV Renaissance Corp.	Continuing Care Foundation	LIFE	Trinity	Total
Unrestricted revenues other support:					
Net patient/resident service revenue	\$ -	\$ -	\$ 15,688	\$ 7	\$ 15,695
Provision for bad debts	-	-	(102)	(10)	(112)
Net patient/resident service revenue, less provision for bad debt	-	-	15,586	(3)	15,583
Other revenue	4,795	271	-	59	5,125
Total unrestricted revenues and other support	<u>4,795</u>	<u>271</u>	<u>15,586</u>	<u>56</u>	<u>20,708</u>
Expenses:					
Salaries and wages	301	-	1,747	14	2,062
Employee benefits	101	-	407	(8)	500
Medical and professional fees	23	-	11,735	17	11,775
Purchased services	1,482	-	-	4	1,486
Supplies	46	-	-	-	46
Depreciation and amortization	1,477	-	30	-	1,507
Interest	524	-	-	33	557
Insurance	41	-	-	-	41
Other expenses	38	103	955	-	1,096
Total expenses	<u>4,033</u>	<u>103</u>	<u>14,874</u>	<u>60</u>	<u>19,070</u>
Income (loss) from operations	762	168	712	(4)	1,638
Nonoperating revenue and losses:					
Other, net	21	-	(8)	-	13
Total nonoperating revenue and losses	<u>21</u>	<u>-</u>	<u>(8)</u>	<u>-</u>	<u>13</u>
Excess (deficiency) of revenues over expenses	<u>\$ 783</u>	<u>\$ 168</u>	<u>\$ 704</u>	<u>\$ (4)</u>	<u>\$ 1,651</u>

CATHOLIC HEALTH SYSTEM - OTHER SUBSIDIARIES

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

(in thousands of dollars)

For the Year Ended December 31, 2015

	OLV Renaissance Corp.	Continuing Care Foundation	LIFE	Trinity	Total
Unrestricted net assets:					
Excess (deficiency) of revenues over expenses	\$ 783	\$ 168	\$ 704	\$ (4)	\$ 1,651
Change in unrealized gain on interest rate swap	(39)	-	-	-	(39)
Change in pension obligation, other than net periodic cost	-	-	(43)	-	(43)
Net assets released from restrictions	-	16	-	-	16
Other	496	(15)	(1)	-	480
Increase (decrease) unrestricted net assets	1,240	169	660	(4)	2,065
Temporarily restricted net assets:					
Contributions and other	-	158	-	-	158
Temporarily restricted net assets released from restrictions	-	(16)	-	-	(16)
Increase in temporarily restricted net assets	-	142	-	-	142
Increase (decrease) in net assets	1,240	311	660	(4)	2,207
Net (deficit) assets, beginning of year	(3,849)	270	2,284	(1,639)	(2,934)
Net (deficit) assets, end of year	<u>\$ (2,609)</u>	<u>\$ 581</u>	<u>\$ 2,944</u>	<u>\$ (1,643)</u>	<u>\$ (727)</u>