Catholic Health System, Inc. and Subsidiaries

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

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December 31, 2012 and 2011

Independent Auditor's Report

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

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, 2012 and 2011, and the related consolidated statements of operations and changes in net assets and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We did not audit the financial statements of the two long-term care subsidiaries (Note 1), the three home care subsidiaries (Note 1), The McAuley Residence, or Our Lady of Victory Renaissance Corporation, all of which are wholly owned subsidiaries, which statements collectively reflect total assets of $94.3 million and $89.6 million, respectively, of consolidated total assets as of December 31, 2012 and 2011, and total revenues of $91.1 million and $84.6 million, respectively, of consolidated total revenues for the years then ended. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the two long-term care subsidiaries, the three home care subsidiaries, The McAuley Residence and Our Lady of Victory Renaissance Corporation, is based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the 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, based on our audits and the reports of the other auditors, 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, 2012 and 2011, and the results of their operations and changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters
The report of other auditors with respect to Our Lady of Victory Renaissance Corporation as of December 31, 2012 and 2011 and for the years then ended, dated April 25, 2013, expressed an unmodified opinion on those financial statements and included a paragraph with respect to the restatement of the 2011 financial statements to correct an error related to the classification of long term debt subject to remarketing agreements.

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

PricewaterhouseCoopers LLP

April 25, 2013

Catholic Health System, Inc. and Subsidiaries
Consolidated Balance Sheets
December 31, 2012 and 2011

(in thousands of dollars)

	2012	2011 (as restated)
Assets		
Current assets		
Cash and cash equivalents	$ 242,190	$ 207,169
Patient/resident accounts receivable, net of estimated uncollectible of $27,248 and $20,499	122,498	109,548
Other receivables	7,979	8,524
Inventories	14,477	11,679
Assets limited as to use	1,826	-
Prepaid expenses and other current assets	4,764	4,182
Total current assets	393,734	341,102
Interest in net assets of affiliated Foundations	3,915	3,269
Assets limited as to use	39,376	24,526
Investments	7,690	6,980
Property and equipment, net	260,519	246,716
Other assets	73,099	60,155
Total assets	$ 778,333	$ 682,748
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term obligations	$ 13,822	$ 12,075
Long-term obligations subject to short-term remarketing arrangements	79,307	$ 83,662
Line of credit payable	8,380	8,380
Accounts payable	46,552	40,115
Accrued expenses	61,773	56,145
Due to third-party payors	40,847	36,322
Total current liabilities	250,681	236,699
Long-term obligations, net	59,230	35,428
Other long-term liabilities, net	427,199	367,001
Total liabilities	737,110	639,128
Net assets		
Unrestricted	36,017	38,228
Temporarily restricted	4,960	5,146
Permanently restricted	246	246
Total net assets	41,223	43,620
Total liabilities and net assets	$ 778,333	$ 682,748

The accompanying notes are an integral part of these consolidated financial statements.

Catholic Health System, Inc. and Subsidiaries
Consolidated Statements of Operations and Changes in Net Assets
Years Ended December 31, 2012 and 2011

(in thousands of dollars)

	2012	2011
Unrestricted revenues, gains and other support		
Net patient/resident service revenue	$ 898,713	$ 825,182
Provision for bad debts	(25,710)	(19,362)
Net patient/resident service revenue less provision for bad debts	873,003	805,820
Other revenue	19,335	17,764
Net assets released from restrictions	98	149
Total unrestricted revenues, gains and other support	892,436	823,733
Expenses		
Salaries and wages	388,093	362,663
Employee benefits	127,122	111,352
Medical and professional fees	38,344	31,315
Purchased services	70,088	67,060
Supplies	165,479	154,493
Depreciation and amortization	36,047	32,917
Interest	6,824	6,704
Insurance	7,511	6,894
Other expenses	28,374	25,838
Total expenses	867,882	799,236
Income from operations	24,554	24,497
Nonoperating revenues and losses		
Investment income	1,572	1,348
Other (net)	575	422
Total nonoperating revenues	2,147	1,770
Excess of revenues over expenses	$ 26,701	$ 26,267

The accompanying notes are an integral part of these consolidated financial statements.

Catholic Health System, Inc. and Subsidiaries
Consolidated Statements of Operations and Changes in Net Assets (Continued)
Years Ended December 31, 2012 and 2011

(in thousands of dollars)

	2012	2011
Unrestricted net assets		
Excess of revenues over expenses	$ 26,701	$ 26,267
Change in unrealized loss on interest rate swap	(641)	(7,232)
Change in pension obligation	(29,972)	(66,764)
Change in unrestricted interest in related Foundations	628	(889)
Net assets released from restrictions	684	1,401
Grant revenue for capital expenditures	79	10,871
Other	145	(61)
Decrease in unrestricted net assets before effects of discontinued operations	(2,376)	(36,407)
Gain from discontinued operations	165	1,019
Decrease in unrestricted net assets	(2,211)	(35,388)
Temporarily restricted net assets		
Contributions and other	426	1,306
Investment income	16	-
Special events revenue, net	136	154
Change in temporarily restricted interest in related Foundations	18	617
Temporarily restricted net assets released from restrictions	(782)	(1,550)
(Decrease) increase in temporarily restricted net assets	(186)	527
Decrease in net assets	(2,397)	(34,861)
Net assets		
Beginning of year	43,620	78,481
End of year	$ 41,223	$ 43,620

The accompanying notes are an integral part of these consolidated financial statements.

Catholic Health System, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2012 and 2011

(in thousands of dollars)

	2012	2011
Cash flows from operating activities		
Decrease in net assets	$ (2,397)	$ (34,861)
Change in net assets from discontinued operations	(165)	(1,019)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities		
Depreciation and amortization	36,047	32,917
Provision for bad debts	25,710	19,362
Change in undistributed net assets of related Foundations	(646)	272
Change in pension obligation	29,972	66,764
Grant revenue for capital additions	(79)	(10,871)
Change in unrealized loss on interest rate swap	662	7,426
Change in unrealized (gains) losses on investments	(308)	487
Undistributed earnings in equity investees	(10)	(18)
Gain on renewal of capital leases	(155)	-
Other	104	(236)
(Increase) decrease in assets		
Patient accounts receivable	(38,660)	(24,586)
Other receivables	545	(168)
Inventories	(2,798)	(1,823)
Prepaid expenses and other current assets	(582)	1,126
Other assets	(1,424)	(56)
Increase (decrease) in liabilities		
Account payable	6,437	(3,556)
Accrued expenses	3,802	5,334
Due to third-party payors	4,525	2,641
Other liabilities	19,922	14,552
Net cash provided before discontinued operations	80,502	73,687
Net cash provided by discontinued operations	165	1,019
Total net cash provided by operating activities	80,667	74,706
Cash flows from investing activities		
Purchase of property and equipment	(45,406)	(45,499)
Proceeds from sale of property and equipment	592	919
Purchase of assets limited as to use	(27,478)	(237)
Proceeds from sale of assets limited as to use	10,647	2,940
Change in investments, net	(145)	1,215
Purchase of intangible asset	(2,650)	-
Net cash used in investing activities	(64,440)	(40,662)
Cash flows from financing activities		
Proceeds from issuance of long-term obligations	30,849	7,233
Discount on issuance	(188)	-
Premium on issuance	205	-
Proceeds of grant revenue for capital additions	79	10,871
Repayments of current and long-term obligations	(12,151)	(12,840)
Net cash provided by financing activities	18,794	5,264
Increase in cash and cash equivalents	35,021	39,308
Cash and cash equivalents		
Beginning of year	207,169	167,861
End of year	$ 242,190	$ 207,169

The accompanying notes are an integral part of these consolidated financial statements.

(in thousands of dollars)

1. Organization

Catholic Health System, Inc. and Subsidiaries (CHS or the System) is an integrated healthcare delivery system in Western New York jointly sponsored by the Sisters of Mercy, Daughters of Charity and the Diocese of Buffalo. Catholic Health East (CHE), Ascension Health System and the Diocese of Buffalo are the corporate members of CHS, with equal ownership interest. CHS is the sole corporate member of the following subsidiaries:

Acute Care Subsidiaries

The Acute Care Subsidiaries include Mercy Hospital of Buffalo (MHB), Kenmore Mercy Hospital including The McAuley Residence (KMH) and Sisters of Charity Hospital (SCH) (also collectively referred to as the Hospitals).

Long-Term Care Subsidiaries

The Long-term Care Subsidiaries include St. Clare Manor (closed December 2003), St. Francis Geriatric and Healthcare Services, Inc. (closed December 2009), St. Francis Home of Williamsville, Western New York Catholic Long-Term Care, Inc. (Father Baker Manor), St. Joseph's Manor (closed August 2006), St. Luke's Manor of Batavia (closed June 2004), St. Mary's Manor (closed 2003), Nazareth Home of the Franciscan Sisters of the Immaculate Conception (closed 2007), St. Elizabeth's Home and St. Vincent's Home for the Aged.

Home Care Subsidiaries and Other

The Home Care and Other Subsidiaries include Mercy Home Care of Western New York, Inc., McAuley Seton Home Care (MSHC), Our Lady of Victory Renaissance Corporation, Catholic Health Infusion Pharmacy, Continuing Care Foundation, Catholic Health System Program of All Inclusive Care for the Elderly, Inc. (LIFE) and Trinity Medical WNY, PC.

2. Significant Accounting Policies

The significant accounting policies applied in preparing the accompanying consolidated financial statements are summarized below:

Principles of Consolidation

The consolidated financial statements of the System include the accounts of CHS and each of its wholly-owned or controlled subsidiaries. All significant intercompany balances and transactions have been eliminated to reflect the consolidated amounts.

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 conditional asset retirement obligations, reserve for bad debts, reserve for third-party payor contractual adjustments and allowances, the provision for estimated receivables and payables for final settlements with those payors, the insurance reserves for worker's compensation, health insurance, professional and general liability, and actuarial assumptions used in determining pension expense.

(in thousands of dollars)

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.

	2012	2011
Supplemental disclosures of cash flow information		
Cash paid during the year for interest	$ 6,777	$ 6,655
Non-cash transactions		
Assets acquired under capital lease obligations	$ 4,384	$ 8,911
Construction related payables	$ 1,826	$ 161
Other non-cash transactions	$ 426	$ 128

Inventory Valuation

Inventories are generally stated at the lower of cost (first-in, first-out) or market.

Assets Limited as to Use

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

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in changes in net assets.

Investment returns (including unrealized gains and losses on trading securities, realized gains and losses on investments, interest income and dividends) is included in excess of revenue over expenses unless such earnings are restricted by donor or law. Investment income restricted by donors or law is reported as an increase in temporarily or permanently restricted net assets. Investment income is reported net of investment related expenses.

(in thousands of dollars)

Prepaid Expenses and Other Assets
Prepaid expense and other assets consist of prepaid general expenses, deferred financing costs, investments in health care related joint ventures and partnerships, and other miscellaneous deferred charges. Amortization of financing costs is provided on the effective interest method over the maturity of the bond issues. The investments in health care related joint ventures and partnerships are accounted for on the equity or cost methods, as appropriate.

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

	2012	2011
Prepaid general expenses	$ 4,553	$ 3,942
Other assets	211	240
Prepaid expenses and other current assets	$ 4,764	$ 4,182
Insurance recoveries	$ 63,558	$ 54,353
Deferred financing costs, net	4,932	4,029
Investments in healthcare ventures	366	226
Loans to related parties	300	300
Other	3,943	1,247
Other assets	$ 73,099	$ 60,155

Property and Equipment
Property and equipment are stated at cost if purchased, or if contributed, at the fair market value on the date contributed. Depreciation is computed using the straight-line method over useful lives ranging from three to forty years. Equipment under capital lease is amortized on the straight-line method over the period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the consolidated financial statements.

Gifts of long-lived assets such as land, building, or equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long these long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Impairment of Long-Lived Assets
The System evaluates its long-lived assets for financial impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable.

The System evaluates the recoverability of long-lived assets not held for sale by measuring the carrying amount of the assets against the estimated undiscounted future cash flows associated with them. If such evaluations indicate that the future undiscounted cash flows of certain long-lived assets are not sufficient to recover the carrying value of such assets, the assets are adjusted to their fair values. No impairment loss was warranted in 2012 or 2011.

(in thousands of dollars)

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, 2012 and 2011 was $437 and $416, respectively.

Other Long-Term Liabilities

Other long-term liabilities consist primarily of long-term pension obligations, asset retirement obligations, insurance reserves and other long-term liabilities. The composition of other long-term liabilities is as follows at December 31:

	2012	2011
Insurance liabilities	$ 97,094	$ 85,602
Long-term pension obligation	303,992	256,270
Asset retirement obligation	9,137	8,866
Interest rate swap	15,847	15,185
Other	1,129	1,078
	$ 427,199	$ 367,001

Net Patient/Resident Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from third-party payers, patients, and others for services rendered. These estimated amounts include estimated adjustments under various reimbursement agreements with third-party payors and government regulations. The System has agreements that provide for payments to the System at amounts different from its established charges. Payment arrangements include prospectively determined rates per discharge, discounted charges, reimbursed costs, per diem payments and risk share arrangements. Third-party payers retain the right to review and propose adjustments to amounts recorded by the System after initial payment of the claim. Such adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as necessary. CHS's Healthcare Assistance Program provides discounts to uninsured patients and self pay balances. In addition, the System will also assist patients with the application process for free or low-cost insurance Those uninsured patients who do not qualify for the Healthcare Assistance Program or low-cost insurance and live in New York State, a state contiguous to New York State, or the state of Ohio, are provided an uninsured discount based on a service specific uninsured rate. This uninsured rate is similar in calculation method and amount to third party payor methods and rates.

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

(in thousands of dollars)

Contractor through December 31, 2008. 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 DSH, IME, DME, MU) for patients associated with CMP Primary Care physicians. Claims are processed through fee for service billing and reconciled to the global budget along with quality measurement at the end of the period. The initial year of the ACO has only upside benefit which is currently unquantifiable.

- **Non-Medicare.** The New York Health Care Reform Act of 1996, as updated, governs payments to hospitals in New York State. Under this system, hospitals and all non-Medicare payers, except Medicaid, Workers' Compensation and No-Fault insurance programs, negotiate hospital's payment rates. If negotiated rates are not established, payors are billed at hospitals established charges. Medicaid, Workers' Compensation and No-Fault payers pay hospital rates promulgated by the New York State Department of Health (DOH) on a prospective basis. Adjustments to current and prior years' rates for these payors will continue to be made in the future. Effective December 1, 2009, NYS implemented inpatient reimbursement reform. The reform updated the data utilized to calculate the NYS DRG rates and service intensity weights (SIWS) in order to utilize refined data and more current information in DOH promulgated rates. Similar type outpatient reforms were implemented effective December 1, 2008.

Amounts recognized in 2012 and 2011 related to prior years, including adjustments to prior year estimates increased the performance indicator approximately $8,900 and $10,030, 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 49% and 52% of net patient/resident service revenue was generated from services rendered to patients/residents under Medicare and Medicaid programs in 2012 and 2011, respectively. Approximately 30% and 28% of net patient/resident service revenue was generated from services rendered to patients under managed care programs in 2012 and 2011.

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.

Bad Debt Expense

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

(in thousands of dollars)

collection agencies, subject to terms of certain restrictions on collection efforts as determined by the Hospital. Accounts receivable are written off after collection efforts have been followed in accordance with the Hospital's policies.

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

	2012	**2011**
Patient/resident service revenue (net of contractual allowances and discounts):		
Medicare	$ 355,367	$ 334,576
Medicaid	95,162	91,717
Other third party payors	403,834	377,699
Patients/residents	44,350	21,190
Total net patient/resident service revenue	898,713	825,182
Provision for bad debts	(25,710)	(19,362)
Net patient/resident service revenue less provision for bad debts	$ 873,003	$ 805,820

(in thousands of dollars)

Charity Care

The System provides services to all patients regardless of ability to pay. A patient is classified as a charity patient based on income eligibility criteria as established by the Healthcare Assistance Program (HAP) which is determined by presentation for care without insurance, while using an estimator (PARO) of each guarantor's ability to pay. Free care is determined at 110% of Federal Poverty Guidelines (FPG), whereas discounted care is also provided at 500% FPG.

Of the System's total expenses reported, an estimated $7,438 and $8,106 arose from providing services to charity patients in 2012 and 2011, respectively. Costing is a full step down methodology of cost from non-revenue producing departments to revenue producing departments, with assignment of cost to individual charge items based on volume and charge amount. Additional costs for the Hospitals include required payments for a gross receipts assessment to New York State which is used to fund the New York State Medicaid program and the Health Care Reform Act (HCRA). Revenues that offset the costs of Charity Care include payments from the New York State Uncompensated Care Pools.

The Hospitals provide care to patients at no charge or at discounted rates who meet eligibility requirements under its Health Care Assistance Policy (charity care). In addition to charity care, the Hospitals provide services to patients covered by Medicaid. The payments received for services provided to patients covered by Medicaid may be at or below costs in addition to the cost of care for patients without insurance. The Hospitals are also required to pay a gross receipts assessment to New York State which is used to fund the New York State Medicaid program and the Health Care Reform Act (HCRA).

Operating and Nonoperating Revenue

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.

(in thousands of dollars)

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 $8.5 million and $8.7 million of electronic health record incentive income related to Medicare incentive programs during the year ended December 31, 2012 and 2011 which is recorded in other operating revenue.

Other Expenses

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

	2012	2011
Rents and operating leases	$ 10,028	$ 8,315
Dues	5,037	4,986
Cash receipt assessment	4,579	3,888
Taxes, travel and miscellaneous other	8,730	8,649
	$ 28,374	$ 25,838

Contributions

Contributions received are recorded as unrestricted, temporary restricted or permanently restricted net assets depending on the existence and nature of any donor restrictions.

(in thousands of dollars)

Contributions and pledges that are restricted by the donor are reported as an increase in unrestricted net assets if the restrictions expire, that is, when a stipulated time restriction ends or purpose restriction is accomplished in the reporting period in which the contribution is recognized. All other donor-restricted support is reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets released from restrictions.

Excess of Revenues over Expenses
The 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, permanent transfers of assets to and from subsidiaries for other than goods and services, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets), the effective portion of cash flow hedging derivatives, and pension liability adjustments.

Net assets
Unrestricted net assets are available for the general operating purposes of the System and are not subject to any donor limitations.

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

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

In September 2010, New York State enacted its version of the Uniform prudent Management of Institutional funds Act (UPMIFA). The Hospital has interpreted UPMIFA as requiring the preservation of the value of the original gift of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the System classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment (b) the original value of subsequent gifts donated to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the System in a manner consistent with the standard of prudence prescribed by UPMIFA.

(in thousands of dollars)

The System considers the following factors in determining if donor-restricted endowment funds are accumulated or appropriated:

1. The duration and preservation of the fund
2. The purposes of the donor-restricted endowment funds
3. General economic conditions
4. Effect of possible inflation or deflation
5. The expected total investment return and appreciation of investments
6. Other resources of the System
7. Investment policies of the System

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.

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 is recorded by the subsidiaries as a component of the natural account classification. The related income and expense is eliminated in the consolidated financial statements. The respective assets and liabilities are eliminated in the consolidated financial statements.

Capitalized Software Costs
The Acute Care subsidiaries capitalize certain costs that are incurred to purchase or to create and implement internal-use computer software, which includes software coding, installation, testing and certain data conversion from both internal and external providers in accordance with accounting guidance. These capitalized costs are amortized on a straight-line basis over ten years and reviewed for impairment on an annual basis. CHS capitalized software, computer equipment, and other external costs of $3,491 during 2012 and $4,882 during 2011. Capitalized project labor costs amounted to $824 during 2012 and $1,383 during 2011.

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

Restatement
As discussed in Note 8, the System has restated its 2011 consolidated balance sheets to correct for an classification error of its variable rate demand bonds from a long-term to a current classification. The net impact of the restatement is to increase the long term debt subject to short term remarketing arrangements by $83,662 (current liability), and to decrease long term debt, net by $83,662 at December 31, 2011. There is no impact on the System's Consolidated Statements of Operations, Changes in Net Assets or Cash Flows.

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

(in thousands of dollars)

facilities in place to fund any bonds put to the System, however, the terms of the liquidity facilities include subjective acceleration clauses which prohibit the System from classifying the variable demand bonds as long term obligations.

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

	As Originally Reported	Adjustment	As Restated
Consolidated balance sheet as of December 31, 2011			
Current Liabilities			
Long-term debt subject to short term remarketing arrangements	$ -	$ 83,662	$ 83,662
Total current liabilities	153,037	83,662	236,699
Non-current Liabilities			
Long-term debt, net	119,090	(83,662)	35,428
Total liabilities	639,128	-	639,128

Subsequent Events

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

3. New Authoritative Pronouncements

In July 2011, the FASB issued ASU 2011-07, Health Care Entities (Topic 954): Presentation and Disclosure of Patient Services Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities. ASU 2011-07 includes amendments to FASB's ASC Topic 954, Health Care Entities. The objective of the update is to provide financial statement users with greater transparency about a health care entity's net patient service revenue and the related allowance for doubtful accounts. The amendments requires health care entities that recognize significant amounts of patient service revenue at the time services are rendered, even though they do not immediately assess the patients' ability to pay, to present the provision for bad debts related to patient service revenue as a deduction from patient service revenue (net of contractual allowances and discounts) on their statement of operations. The standard is effective for January 1, 2012 and 2011 presentation has been reclassed to conform to this new standard.

4. Interest in Net Assets of Affiliated Foundations

The System accounts for its interest in the Kenmore Mercy Hospital Foundation in accordance with the provisions of not-for-profit accounting guidance. This guidance establishes standards for transactions in which a not-for-profit organization (the recipient organization, or the Foundation) accepts a contribution from a donor and agrees to transfer those assets, the return on investment of those assets, or both to another entity (the beneficiary) that is specified by the donor. This guidance further provides that when these organizations are financially interrelated, as defined in this guidance, the beneficiary is required to recognize its interest in the net assets of the recipient organization and adjust that interest for its share of the change in net assets.

(in thousands of dollars)

The Foundation is a separate not-for-profit organization with its own board of directors and finances separate from that of the System and is not part of CHS's financial reporting entity. However, the System can influence the financial decisions of the Foundation to such an extent that the System can determine the timing and amount of distributions from the Foundation, and as such, the net asset classifications reported by the System is consistent with the Foundation's financial statements.

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

	2012	2011
Cash, investments and other assets	$ 4,670	$ 4,229
Total assets	$ 4,670	$ 4,229
Liabilities	$ 755	$ 960
Net assets		
Unrestricted	3,128	2,500
Temporarily restricted	787	769
Total net assets	3,915	3,269
Total net assets and liabilities	$ 4,670	$ 4,229
Change in unrestricted net assets	$ 628	$ (889)
Change in temporarily restricted net assets	18	617
	$ 646	$ (272)

Distributions were made in the amount of $311 and $59 during 2012 and 2011, respectively.

5. Assets Limited as to Use

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

(in thousands of dollars)

	2012	2011
By Board for capital improvements		
Funded depreciation		
Cash and cash equivalents	$ 2,938	$ 2,936
U.S. government obligations	11,864	11,377
Interest receivable	42	57
	14,844	14,370
Held by Trustee under Indenture Agreement		
Cash and cash equivalents	13,668	3,833
U.S. government obligations	9,510	-
	23,178	3,833
Held by Trustee under Letter of Credit Agreement		
Cash and cash equivalents	2,752	5,679
Other	428	644
Assets limited as to use	$ 41,202	$ 24,526

6. Investments

Investments consisted of the following as of December 31:

	2012	2011
Investment in debt and equity securities		
Fair value	$ 7,690	$ 6,980
Cost	6,799	6,552
Unrealized gain (loss)	$ 891	$ 428

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

	2012	2011
Interest and dividend income	$ 1,036	$ 1,535
Net unrealized and realized gains (losses) on investments	536	(187)
Total investment income	$ 1,572	$ 1,348

(in thousands of dollars)

7. Property and Equipment

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

	2012	2011
Land and land improvements	$ 7,104	$ 6,934
Buildings	197,070	196,333
Equipment	155,229	148,588
Equipment under capital leases	38,559	41,795
Leasehold improvements	50,647	47,651
	448,609	441,301
Accumulated depreciation	(198,757)	(191,420)
Accumulated amortization on equipment under capital leases	(16,916)	(16,697)
	232,936	233,184
Construction in progress	27,583	13,532
	$ 260,519	$ 246,716

Depreciation expense in 2012 and 2011 amounted to approximately $29,359 and $26,176, respectively. Amortization expense on equipment under capital leases amounted to $6,006 and $6,107 in 2012 and 2011, respectively. Fully depreciated assets and capital leases of $26,480 and $30,446 were written-off for the years ended December 31, 2012 and 2011, respectively.

(in thousands of dollars)

8. Long-Term Obligations

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

	2012	2011
Mercy Hospital of Buffalo		
Series 2006 Revenue Bonds (a)	$ 9,963	$ 10,569
Series 2008 Revenue Bonds (b)	22,906	23,515
Series 2012 Revenue Bonds (c)	3,095	-
Mercy Comprehensive Care Center, monthly payments of $9, including interest at 6.25%, matures November 2015	279	364
Cafeteria renovation loan with Aramark Healthcare, in monthly payments of $16, matures February 2015	454	656
Capital lease obligations and other at interest rates ranging from 3.25% to 7.0%, collateralized by equipment	18,021	10,550
Other	-	14
	54,718	45,668
Kenmore Mercy Hospital		
Series 2006 Revenue Bonds (a)	11,489	12,420
Series 2012 Revenue Bonds (c)	14,235	-
Mortgage payable, The McAuley Residence (d)	6,262	6,686
Capital lease obligations and other, at various rates of interest ranging from 3.37% to 5.00%, collateralized by equipment	2,986	3,733
Other	51	58
	35,023	22,897
Sisters of Charity Hospital		
Series 2006 Revenue Bonds (a)	28,548	30,288
Capital lease obligations at various rates of interest ranging from 3.47% to 6.68%, collateralized by equipment	7,750	7,808
	36,298	38,096
Father Baker Manor		
Mortgage payable to Century Health Capital, Inc. in monthly installments of $64 including interest at 5.375% through March 2025 (e)	6,865	7,251
McAuley-Seton Home Health Care Corporation		
Monthly loan payable to HSBC Bank, in monthly installments of $40, plus interest at 2.62%, collateralized by revenue of the Corporation matures December 2017	2,385	-
Our Lady Victory Renaissance		
Series 2007A Variable Rate Demand Bonds (f)	9,290	9,540
Series 2007B Variable Rate Demand Bonds (f)	1,515	1,560
Loan payable with HSBC Bank for Data Center construction, in monthly payments ranging from $95 to $110, including interest at 3.05%, matures December 2016	5,065	6,120
	15,870	17,220
Catholic Health		
Monthly loan payable for financing of VOIP telephone system, in monthly installments of $22, including interest at 2.92%, collateralized by equipment	1,200	-
Other	-	33
Total long term obligations	152,359	131,165
Less: Current maturities	13,822	12,075
Less: Long-term obligations subject to short-term remarketing arrangements	79,307	83,662
Long-term obligations, net	$ 59,230	$ 35,428

(in thousands of dollars)

The Series 2006, 2007 and 2008 variable rate demand bonds, while subject to long-term amortization periods, may be put at the option of the bondholders in which case the Bonds would be remarketed based upon the applicable LOC. In a very unlikely event of a failed remarketing, the LOC would be drawn to pay the Bonds and Catholic Health would be obligated to reimburse the applicable LOC Issuer if the Bonds are not remarketed. With respect to the 2006 and 2008 Series, absent an event of default, Catholic Health may elect to pay the obligations in installments matching the bond amortization. To the extent that bondholders may, under the terms of the debt, put their bonds to Catholic Health System, the principal amount of such bonds has been classified as a current liability in the accompanying consolidated Balance Sheets. Management believes the likelihood of a material amount of bonds being put to Catholic Health System to be remote. However, to address this possibility, management has taken steps to maintain sufficient unrestricted assets as a source of self-liquidity in the event the bonds are put.

a. In 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, Sisters of Charity, and Kenmore Mercy) and CHS. No affiliates 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 2006 A 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 2006 B Bonds for $30,295 was loaned to SCH for the purpose of refunding the Authority'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 SJC to finance the cost of the SJC emergency room expansion project.

- Series 2006 C Bonds for $16,730 was loaned to KMH for the purpose of refunding the NYS Medical Care Facilities Finance Agency FHA - Insured Mortgage Project Revenue Bonds, 1995 Series B which were applied to finance the construction of a three floor patient tower, certain renovations to the KMH facility and to refinance outstanding indebtedness.

In connection with the issuance of the Series 2006 Bonds, the Obligated Group entered into a Loan Agreement (the Loan Agreement) whereby the Obligated Group is required to pay funds sufficient in timing and amount to pay the principal and redemption price of the Series 2006 Bonds and related interest and administrative expenses as they come due. The Series 2006 Bonds pay interest at a variable remarketed rate and are collateralized by a Letter of Credit with HSBC Bank which expires on November 29, 2014. In the event the letter of credit is not renewed at expiration, the outstanding Bonds, at the option of the members of the Obligated Group, will convert to a five year (initial) Term Loan. Repayment of the principal of Initial Term Loan shall be identical to the scheduled principal payments on the Bonds with the remaining amount due at the end of the five year term.

(in thousands of dollars)

The interest borne by the Series 2006 Bonds will be determined by the Remarketing Agent to be the lowest rate that, in the judgment of the Remarketing Agent, under prevailing financial market conditions, enables such Series 2006 Bonds to be sold at a price of par. The variable interest rate was 0.13% and 0.11% at December 31, 2012 and 2011, respectively.

The Loan Agreement specifies that the Obligated Group shall continuously pledge, as a collateral 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 collateral to the loan agreement, the Obligated Group granted DASNY a security interest in such fixtures, furnishings and equipment as owned by the Obligated Group.

Certain financial covenants must be maintained by the Obligated Group. Failure to comply with these covenants requires a formal consultants report and quarterly progress reports demonstrating how the facility is progressing towards compliance. The Loan Agreement requires the Obligated Group to comply with certain financial covenants, including maintenance of (i) a minimum number of days cash on hand; (ii) long-term debt service coverage; (iii) a maximum leverage ratio. The Obligated Group was in compliance with these covenants at December 31, 2012 and 2011.

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 equipping 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 during the formation of the Obligated Group. All material components of the Series 2008 mirror the Series 2006. 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, 2013 (with the option of an initial term loan), 2) a security interest in and assignment of gross receipts of the Hospital, together with the Hospital'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 9). The variable interest rate was 0.13% and 0.11% at December 31, 2012 and 2011, respectively.

c. On July 12, 2012, $17,315 of Dormitory Authority of the State of New York (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

(in thousands of dollars)

existing space, expanding the existing parking lot and related demolition, and other mechanical and infrastructure improvements. Proceeds of the Series 2012A Bonds were also applied to pay certain costs of issuing the Bonds. The discount on the Bonds of $157 and the premium on the Bonds of $159 will be accreted over the life of the Bonds.

- 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 on the Bonds of $32 and the premium on the Bonds of $46 will be accreted over the life of the Bonds.

The Series 2012 Bonds were issued under the Master Trust Indenture that was created in 2006 during the formation of the Obligated Group. In connection with the issuance of the Series 2012 Bonds, the 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 are as follows:

	2012
2.00% Serial Bonds Due July 1, 2014	$330
3.00% Serial Bonds Due July 1, 2015	340
3.00% Serial Bonds Due July 1, 2016	350
3.00% Serial Bonds Due July 1, 2017	360
4.00% Serial Bonds Due July 1, 2018	370
3.50% Term Bonds Due July 1, 2022	1,610
4.00% Term Bonds Due July 1, 2027	2,385
5.00% Term Bonds Due July 1, 2032 (i)	2,960
4.75% Term Bonds Due July 1, 2039	5,530
Total Series 2012A Bonds	14,235
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	1,210
Total Series 2012B Bonds	3,080
Total Series 2012 Bonds	$17,315

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

The Loan Agreement specifies that the Obligated Group shall continuously pledge, as a 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 thousands of dollars)

The financial covenants required under the Loan Agreement are consistent with those of the Series 2006 Bonds and Series 2008 Bonds.

d. Mortgage payable to Century Health Capital (an FHA - Insured Mortgage). The mortgage is payable in monthly installments of $65 including interest of 5.51%. The mortgage is collateralized by building and equipment.

e. The debt is collateralized by the underlying property and equipment, and is guaranteed by the U.S. Department of Housing and Urban Development. Father Baker Manor is subject to a prepayment penalty in declining amounts if the debt is satisfied prior to April 2014.

f. On April 1, 2007, the OLV Renaissance entered into agreements with the Erie County Industrial Development Agency's (the Agency) for the purpose of obtaining revenue bonds used to finance construction of its SNF and PACE facilities. The agency took title to the facility through a lease agreement and simultaneously conveyed title back to OLV Renaissance through an installment sale of the lease interests. OLV Renaissance is obligated to make lease rental payments to the bond trustee, as the Agency's assignee, in amounts which correspond to the principal and interest payments on the bonds. At the expiration of the leases' term (April 2032), title fully reverts back to OLV Renaissance. On April 25, 2007, the Agency issued variable rate demand revenue bonds with an aggregate principal amount of $11,860. The bond issue consists of two series of bonds: $10,220 in variable rate demand Revenue Bonds Series 2007A (Series 2007A Bonds) and $1,640 in variable rate demand Revenue Bonds Series 2007B (Series 2007B Bonds).

The Variable Interest Rate is determined by the remarketing agent based on (1) market interest rates for comparable securities; (2) other financial market rates and indices (including, but not limited to treasury bills, commercial paper, commercial bank prime rates, HUD project notes, federal fund rates and LIBOR); (3) general financial and credit market conditions; (4) credit rating and financial condition of OLV Renaissance; and (5) applicable tender provisions which may have bearing on the rate. The variable interest rate was 0.13% for the Series 2007A bonds and 0.26% for the Series 2007B bonds at December 31, 2012. See note 9 regarding the interest rate swap agreement OLV Renaissance entered into with respect to the Series 2007A Revenue Bonds.

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

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

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

(in thousands of dollars)

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 $11,206 with a current expiration date of May 1, 2015. There is no outstanding amount at December 31, 2012 or 2011. 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.

The bond agreements require certain covenants including debt service coverage and debt to capitalization to be maintained. The covenants were in effect during the year ended December 31, 2012. OLV Renaissance's primary tenant, Mercy Hospital of Buffalo is also required to comply with a covenant to maintain minimum long-term debt service coverage as of any testing date. OLV Renaissance failed the debt service coverage and debt to capitalization covenants for December 31, 2012. OLV Renaissance obtained a waiver from HSBC Bank USA, NA, for the December 31, 2012 covenants.

Aggregate maturities of long-term debt, including capital lease obligations, considering obligations subject to short-term remarketing as due according to their long-term amortization schedule, subsequent to December 31, 2012 are as follows:

	Long-Term Debt	Capital Leases	Total
2013	$ 7,618	$ 7,352	$ 14,970
2014	8,105	6,937	15,042
2015	8,265	4,847	13,112
2016	8,531	2,382	10,913
2017	7,417	1,647	9,064
Thereafter	83,666	9,858	93,524
	$ 123,602	33,023	156,625
Less: Interest		(4,266)	(4,266)
		$ 28,757	$ 152,359

At December 31, 2012 and 2011, the System had a revolving line of credit of $20,000 of which $8,380 was outstanding as of December 31, 2012 and 2011. The variable interest rate was 2.21% and 2.30% at December 31, 2012 and 2011, respectively.

Operating Leases
Future minimum lease payments under noncancelable operating leases (net of sublease rentals) are as follows at December 31, 2012:

(in thousands of dollars)

2013	$ 10,374
2014	8,171
2015	7,534
2016	5,917
2017	5,251
Thereafter	5,004
	42,251
Less: Minimum sublease rental	893
	$ 41,358

Total expense for rents and operating type leases was approximately $10,028 and $8,315 for 2012 and 2011, respectively.

9. Derivative Financial Instruments

In connection with the issuance of the Series 2006 and Series 2008 Bonds and execution of the Loan Agreement, the Hospitals entered into interest rate swap agreements (derivative agreements) with HSBC Bank USA, NA and JP Morgan Chase (the Financial Institutions) for purposes of mitigating risk posed by the Bonds accruing interest at a variable rate. Further, the Hospitals agreed not to take or omit to take any action that could reasonably be expected to result in the termination of the derivative agreement unless otherwise approved by the Financial Institutions, provided, however, that termination of the derivative agreement shall not constitute an event of default for purposes of the Loan Agreement, but upon any such termination of the derivative agreement, the Financial Institutions may require that the Hospitals direct the Series 2006 or Series 2008 Bonds be converted to bonds that bear a fixed rate of interest. The terms of the Series 2006 swap require the Hospitals to pay a fixed rate of 3.80% on the notional amount ($52,100 at December 31, 2012) and in exchange, the Hospitals will receive a variable rate payment based upon the Securities Industry and Financial Markets Association Index (SIFMA), calculated weekly. The notional amount of the swap is matched to the maturity schedule of the Series 2006 Bonds. The 2006 swap agreement was executed on December 13, 2006 and expires July 1, 2025. The terms of the Series 2008 swap require the Hospitals to pay 3.785% on the notional amount ($23,510 at December 31, 2012) 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.

During 2007, OLV Renaissance entered into a hedging agreement with respect to interest rate exposure on the Series 2007A Revenue Bond. OLV Renaissance uses the interest rate swap agreement to reduce its exposure to interest rate changes. The interest rate swap fixes the interest rate paid by OLV Renaissance at 4.143% over the life of the bond, which matures in April 2032. The instrument qualifies for hedge treatment and is designated a cash flow hedge of future interest payments. The effective portion of the hedge has been excluded from excess of revenues over expenses and recorded within changes to net assets.

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

(in thousands of dollars)

(in thousands of dollars)	2012 Balance Sheet Location	2012 Fair Value	2011 Balance Sheet Location	2011 Fair Value
Interest rate contracts				
Floating to fixed	Other liabilities	$ 15,847	Other liabilities	$ 15,185

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

	Amount of Gain (Loss) Recognized in Statement of Operations		Amount of Gain (Loss) Recognized in Net Assets	
(in thousands of dollars)	2012	2011	2012	2011
Change in fair value of interest rate swaps	$ (21)	$ (194)	$ (641)	$ (7,232)

The Hospital measures its interest rate swaps at fair market value on a recurring basis. The fair market value of the interest rate swaps is determined based on financial models that consider current and future market interest rates and adjustments for nonperformance risk. The inputs utilized in the valuation process of the interest rate swaps are considered to be Level 2 within the fair value hierarchy defined in Note 15.

10. Obligated Group Financial Information

In November 2006, the System formed the Catholic Health System Obligated Group (the Obligated Group), consisting of its four primary hospitals (Mercy Hospital, Sisters of Charity, St. Joseph Hospital, and Kenmore Mercy) 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 were issued. In 2012, $17,315 of DASNY - Catholic Health System Obligated Group Revenue Bonds, Series 2012 were issued. These Revenue Bonds are joint and several obligations of the members of the Obligated Group. No affiliate of CHS, other than Members of the Obligated Group, is obligated for amounts due under the Series 2006, Series 2008 and Series 2012 obligations.

(in thousands of dollars)

The following supplemental consolidating financial information for the Obligated Group presents the balance sheets as of December 31, 2012 and 2011 and statements of operations, changes in net assets, and cash flows for the years then ended.

These statements do not represent the results of the System.

Balance Sheet

	December 31, 2012			
	Parent	Acute Care Subsidiaries	Eliminations and Reclassifications	Total
Assets				
Current assets				
Cash and cash equivalents	$ 15,668	$ 203,297	$ 520	$ 219,485
Patient/residents accounts receivable, net of estimated uncollectibles of $24,943	-	111,180	-	111,180
Other receivables	736	6,500	-	7,236
Inventories	-	13,895	-	13,895
Assets limited as to use, net	-	1,826	-	1,826
Prepaid expenses and other assets	2,788	1,583	-	4,371
Due from affiliates	54,762	514	(47,820)	7,456
Total current assets	73,954	338,795	(47,300)	365,449
Interest in net assets of related foundation	-	3,915	-	3,915
Assets limited as to use, net	2,752	22,825	-	25,577
Investments	-	7,690	-	7,690
Property and equipment, net	16,426	218,652	-	235,078
Other assets	855	60,034	-	60,889
Due from affiliates	5,551	11,909	(14,053)	3,407
Total Assets	$ 99,538	$ 663,820	$ (61,353)	$ 702,005
Liabilities and Net Assets				
Current liabilities				
Current portion of long-term obligations	$ 240	$ 11,205	$ -	$ 11,445
Long-term obligations subject to short-term remarketing arrangements	-	68,812	-	68,812
Line of credit payable	8,380	-	-	8,380
Accounts payable	3,399	40,731	(1)	44,129
Accrued expenses	20,989	35,144	-	56,133
Due to third-party payors	-	38,262	-	38,262
Due to affiliates	327	38,265	(38,080)	512
Total current liabilities	33,335	232,419	(38,081)	227,673
Long-term obligations, net	960	46,022	-	46,982
Other long-term liabilities	69,238	349,085	(11,760)	406,563
Total liabilities	103,533	627,526	(49,841)	681,218
Net assets (deficit)				
Unrestricted	(4,124)	31,596	(11,512)	15,960
Temporarily	129	4,452	-	4,581
Permanent	-	246	-	246
Total net assets (deficit)	(3,995)	36,294	(11,512)	20,787
Total Liabilities and Net Assets	$ 99,538	$ 663,820	$ (61,353)	$ 702,005

(in thousands of dollars)

Balance Sheet

	December 31, 2011 (as restated)			
	Parent	Acute Care Subsidiaries	Eliminations and Reclassifications	Total
Assets				
Current assets				
Cash and cash equivalents	$ 15,979	$ 168,218	$ -	$ 184,197
Patient/residents accounts receivable, net of estimated uncollectibles of $18,978	-	100,592	-	100,592
Other receivables	240	7,689	-	7,929
Inventories	-	11,276	-	11,276
Prepaid expenses and other assets	2,393	1,361	-	3,754
Due from affiliates	41,462	720	(34,946)	7,236
Total current assets	60,074	289,856	(34,946)	314,984
Interest in net assets of related foundation	-	3,269	-	3,269
Assets limited as to use, net	2,752	8,458	-	11,210
Investments	-	6,980	-	6,980
Property and equipment, net	14,250	205,199	-	219,449
Other assets	833	51,602	-	52,435
Due from affiliates	6,110	11,855	(14,452)	3,513
Total Assets	$ 84,019	$ 577,219	$ (49,398)	$ 611,840
Liabilities and Net Assets				
Current liabilities				
Current portion of long-term obligations	$ 33	$ 10,309	$ -	$ 10,342
Long-term obligations subject to short-term remarketing arrangements	-	72,857	-	72,857
Line of credit payable	8,380	-	-	8,380
Accounts payable	3,074	34,926	-	38,000
Accrued expenses	20,104	31,517	-	51,621
Due to third-party payors	-	33,540	-	33,540
Due to affiliates	251	26,849	(26,695)	405
Total current liabilities	31,842	209,998	(26,695)	215,145
Long-term obligations, net	-	23,496		23,496
Other long-term liabilities	60,881	301,926	(11,760)	351,047
Total liabilities	92,723	535,420	(38,455)	589,688
Net assets (deficit)				
Unrestricted	(9,102)	37,173	(10,943)	17,128
Temporarily	398	4,380	-	4,778
Permanent	-	246	-	246
Total net assets (deficit)	(8,704)	41,799	(10,943)	22,152
Total Liabilities and Net Assets	$ 84,019	$ 577,219	$ (49,398)	$ 611,840

(in thousands of dollars)

Statement of Operations and Changes in Net Assets

	December 31, 2012			
	Parent	Acute Care Subsidiaries	Eliminations and Reclassifications	Total
Unrestricted revenues, gains and other support				
Net patient/resident service revenue	$ -	$ 820,341	$ -	$ 820,341
Provision for bad debts	-	(24,138)	-	(24,138)
Net patient/resident service revenue, less provision for bad debt	-	796,203	-	796,203
Other revenue	118,042	20,265	(114,067)	24,240
Net assets released from restrictions	-	98	-	98
Total unrestricted revenues, gains and other support	118,042	816,566	(114,067)	820,541
Expenses				
Salaries and wages	58,849	341,269	(53,997)	346,121
Employee benefits	17,041	113,715	(16,017)	114,739
Medical and professional fees	5,711	30,795	(3,929)	32,577
Purchased services	23,166	70,662	(24,051)	69,777
Supplies	495	157,989	(454)	158,030
Depreciation and amortization	3,011	32,794	(3,011)	32,794
Interest	192	5,770	(192)	5,770
Insurance	249	6,979	(242)	6,986
Other expenses	9,393	31,393	(12,603)	28,183
Total expenses	118,107	791,366	(114,496)	794,977
(Loss) income from operations	(65)	25,200	429	25,564
Nonoperating revenues and losses				
Investment income	20	1,385	(20)	1,385
Other	45	931	(409)	567
Total nonoperating revenues and losses	65	2,316	(429)	1,952
Excess of revenues over expenses	$ -	$ 27,516	$ -	$ 27,516

(in thousands of dollars)

Statement of Operations and Changes in Net Assets (Continued)

	December 31, 2012			
	Parent	Acute Care Subsidiaries	Eliminations and Reclassifications	Total
Excess of revenues over expenses	$ -	$ 27,516	$ -	$ 27,516
Change in pension obligation	(5,079)	(23,707)	-	(28,786)
Change in unrestricted interest in related Foundations	-	628	-	628
Change in unrealized loss on interest rate swap	-	(556)	-	(556)
Net assets released from restrictions	269	369	-	638
Other	9,788	(9,827)	-	(39)
Valuation allowance on intercompany receivables	-	-	(569)	(569)
Increase (decrease) in unrestricted net assets	4,978	(5,577)	(569)	(1,168)
Temporarily restricted net assets				
Contributions and other	-	369		369
Investment Income	-	16		16
Special events revenue, net	-	136		136
Change in temporarily restricted interest in net assets of affiliated Foundation	-	18		- 18
Temporarily restricted net assets released from restrictions	(269)	(467)		- (736)
(Decrease) increase in temporarily restricted net assets	(269)	72	-	(197)
Increase (decrease) in net assets	4,709	(5,505)	(569)	(1,365)
Net assets, beginning of year	(8,704)	41,799	(10,943)	22,152
Total net assets, end of year	$ (3,995)	$ 36,294	$ (11,512)	$ 20,787

(in thousands of dollars)

Statement of Operations and Changes in Net Assets

	December 31, 2011			
	Parent	Acute Care Subsidiaries	Eliminations and Reclassifications	Total
Unrestricted revenues, gains and other support				
Net patient/resident service revenue	$ -	$ 754,841	$ -	$ 754,841
Provision for bad debts	-	(17,888)		(17,888)
Net patient/resident service revenue, less provision for bad debt	-	736,953	-	736,953
Other revenue	104,014	19,212	(100,470)	22,756
Net assets released from restrictions	-	149	-	149
Total unrestricted revenues, gains and other support	104,014	756,314	(100,470)	759,858
Expenses				
Salaries and wages	54,450	320,935	(49,451)	325,934
Employee benefits	14,405	100,464	(13,485)	101,384
Medical and professional fees	4,938	25,768	(3,417)	27,289
Purchased services	17,962	65,269	(19,047)	64,184
Supplies	584	149,725	(545)	149,764
Depreciation and amortization	2,844	29,983	(2,844)	29,983
Interest	201	5,785	(201)	5,785
Insurance	253	6,392	(245)	6,400
Other expenses	8,453	28,500	(11,651)	25,302
Total expenses	104,090	732,821	(100,886)	736,025
(Loss) income from operations	(76)	23,493	416	23,833
Nonoperating revenues and losses				
Investment income	20	1,102	(20)	1,102
Other	56	770	(396)	430
Total nonoperating revenues and losses	76	1,872	(416)	1,532
Excess of revenues over expenses	-	25,365	-	25,365

Catholic Health System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2012 and 2011

(in thousands of dollars)

Statement of Operations and Changes in Net Assets (Continued)

	December 31, 2011			
	Parent	Acute Care Subsidiaries	Eliminations and Reclassifications	Total
Excess of revenues over expenses	$ -	$ 25,365	$ -	$ 25,365
Change in pension obligation	(9,792)	(54,410)	-	(64,202)
Change in unrestricted interest in related Foundations	-	(889)	-	(889)
Change in unrealized loss on interest rate swap	-	(6,188)	-	(6,188)
Net assets released from restrictions	-	1,032	-	1,032
Grant revenue for capital expenditures	5,372	5,499	-	10,871
Other	8,045	(7,803)	-	242
Valuation allowance on intercompany receivables	-	-	1,711	1,711
Increase (decrease) increase in unrestricted net assets	3,625	(37,394)	1,711	(32,058)
Temporarily restricted net assets				
Contributions and other	398	591	-	989
Special events revenue, net	-	154	-	154
Change in temporarily restricted interest in net assets of				-
affiliated Foundation	-	617	-	617
Temporarily restricted net assets released from				-
restrictions	-	(1,181)	-	(1,181)
Increase in temporarily restricted net assets	398	181	-	579
Increase (decrease) in net assets	4,023	(37,213)	1,711	(31,479)
Net assets, beginning of year	(12,727)	79,012	(12,654)	53,631
Total net assets, end of year	$ (8,704)	$ 41,799	$ (10,943)	$ 22,152

(in thousands of dollars)

Statement of Cash Flows

	2012	2011
Cash flows from operating activities		
Decrease in net assets	$ (1,365)	$ (31,479)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities		
Depreciation and amortization	32,794	29,983
Provision for bad debts	24,138	17,888
Change in interest in undistributed net assets of related Foundations	(646)	272
Decrease in pension obligation	28,786	64,202
Grant revenue for capital additions	-	(10,871)
Valuation allowance of intercompany receivables	569	(1,711)
Unrealized and realized (gain) loss on investments	(600)	180
Change in unrealized loss on interest rate swap	574	6,350
Gain on extinguishment of capital leases	(155)	-
Undistributed earning on equity investees	(10)	(18)
Other	167	(19)
(Increase) decrease in assets		
Patient accounts receivable	(34,726)	(21,760)
Other receivables	693	(280)
Inventories	(2,619)	(1,563)
Prepaid expenses and other current assets	(617)	893
Due from affiliates	(683)	(1,666)
Other assets	(1,323)	(14)
Increase (decrease) in liabilities		
Account payable	6,129	(3,946)
Accrued expenses	2,686	4,769
Due to affiliate	107	59
Due to third-party payors	4,722	5,178
Other liabilities	18,353	14,160
Net cash provided by operating activities	76,974	70,607
Cash flows from investing activities		
Purchase of property and equipment	(44,056)	(37,971)
Proceeds from sales of property and equipment	592	44
Purchase of assets limited as to use	(26,789)	(7)
Proceeds from sale of assets limited as to use	10,647	2,940
Change in investments, net	(145)	1,215
Net cash used in investing activities	(59,751)	(33,779)
Cash flows from financing activities		
Proceeds from issuance of long-term obligations	28,465	1,113
Discount on issuance	(189)	-
Premium on issuance	205	-
Proceeds of grant revenue for capital additions	-	10,871
Repayments of current and long-term obligations	(10,416)	(12,188)
Net cash provided by (used in) financing activities	18,065	(204)
Increase in cash and cash equivalents	35,288	36,624
Cash and cash equivalents		
Beginning of year	184,197	147,573
End of year	$ 219,485	$ 184,197
Supplemental disclosures of cash flow information		
Cash paid during the year for interest	$ 5,915	$ 5,937
Non-cash transactions		
Assets acquired under capital lease obligations	$ 4,384	$ 8,911
Contruction Related Payables	$ 1,826	$ 161

(in thousands of dollars)

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:

	2012	2011
Healthcare services	$ 583,164	$ 537,344
General and administrative	211,813	198,681
	$ 794,977	$ 736,025

11. 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 (the Hospitals) plans who were employed at the Hospitals, are covered under the Retirement Plan of the Catholic Health System (the Plan). Effective January 1, 2002, all other entities in the System, with the exception of the Nazareth Home, began participation in the Plan. Pension assets and liabilities from legacy plans, if any, were transferred to the Plan on September 25, 2002.

Effective January 1, 2001 or 2002, as applicable, all nonunion employees who had met the age and service requirements under their previous plan were given the option of choosing to participate in the cash balance feature of the Plan. Those who choose not to participate in the cash balance feature accrue benefits under the same formula as their previous plan. All nonunion employees who become participants after that date automatically participate under the cash balance formula.

The Plan bases benefits upon both years of service and earnings. Participants under the Hospitals formula earn benefits under a final average formula. The cash balance formula is a hypothetical account balance formula.

(in thousands of dollars)

Funded Status

The following tables summarize changes in the 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.

	2012	2011
Benefit Obligations		
Change in benefit obligation		
Benefit obligation at beginning of year	$ 462,928	$ 375,953
Service cost	18,267	15,227
Interest cost	20,982	20,350
Amendments	-	-
Expenses	(259)	(293)
Benefits paid	(11,960)	(10,176)
Actuarial (gain) or loss	49,242	61,867
Benefit obligation at end of year	$ 539,200	$ 462,928
Accumulated benefit obligation at end of year	$ 474,845	$ 404,637
Plan Assets		
Change in plan assets		
Fair value of plan assets at beginning of year	$ 206,658	$ 195,927
Actual return on plan assets	22,966	3,398
System contribution	17,802	17,802
Expenses	(259)	(293)
Benefits paid	(11,960)	(10,176)
Fair value of plan assets at end of year	$ 235,207	$ 206,658
Amounts recognized in the consolidated balance sheets		
Noncurrent liabilities	(303,993)	(256,270)
Net amounts recognized	$ (303,993)	$ (256,270)
Amounts recognized in unrestricted net assets consists of		
Actuarial net loss	$ (226,842)	$ (196,639)
Prior service cost	(941)	(1,170)
Total amount recognized	$ (227,783)	$ (197,809)
Other changes recognized in unrestricted net assets		
Net loss arising during the period	$ 44,164	$ 75,217
Prior year services cost / (credit) arising during the period	-	-
Amortization of prior service cost	(229)	(229)
Amortization of loss	(13,962)	(8,224)
Total amount recognized	$ 29,973	$ 66,764

(in thousands of dollars)

	2012	2011
Components of net periodic pension cost		
Service cost	$ 18,267	$ 15,227
Interest cost	20,982	20,350
Expected return on plan assets	(17,888)	(16,748)
Amortization of prior service cost	229	229
Recognized actuarial loss	13,962	8,224
Net periodic pension cost	$ 35,552	$ 27,282

The estimated prior service cost and net loss that will be amortized unrestricted net assets into net periodic pension cost over the next fiscal year for the System are $229 and $17,931, respectively.

The Plan's investment policies and strategies were used to develop the expected long-term rate of return on risk-free investment (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return of each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption.

The Plan's target asset allocation for 2013 and the actual asset allocation percentages for 2012 and 2011 are as follows at the respective measurement dates:

Asset category	Target 2013	Actual 2012	Actual 2011
Equities	65%	50%	50%
Fixed Income	25%	35%	37%
Other	10%	15%	13%
	100%	100%	100%

The portfolio is diversified among a mix of assets including large and small cap, domestic and foreign equities, fixed income, alternatives (a fund of hedge funds), and cash. Asset mix is targeted to a specific allocation, either intermediate or long-term, that is established by evaluating expected return, standard deviation, and correlation of various assets against the plan's long-term objectives. Asset performance is monitored quarterly and rebalanced if asset classes exceed explicit ranges. The investment policy governs permitted types of investments, and outlines specific benchmarks and performance percentiles. The Investment Subcommittee of the Stewardship Committee of the CHE Board oversees the pension investment program and monitors investment performance. Risk is closely monitored through the evaluation of portfolio holdings and tracking the beta and standard deviation of the portfolio performance. The use of derivative financial instruments as an investment vehicle is specifically limited.

(in thousands of dollars)

The following table presents the Plan's financial instruments as of December 31, 2012, measured at fair value on a recurring basis using the fair value hierarchy defined in Note 15.

December 31, 2012	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments				
Cash and cash equivalents	$ 14,491	$ 51	$ -	$ 14,542
Marketable equity securities	55,019	62,499	-	117,518
Marketable debt securities	24,932	47,867	-	72,799
Managed funds	-	-	30,348	30,348
	$ 94,442	$ 110,417	$ 30,348	$ 235,207

December 31, 2011	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments				
Cash and cash equivalents	$ 11,544	$ 22	$ -	$ 11,566
Marketable equity securities	92,677	7,857	-	100,534
Marketable debt securities	23,487	44,016	-	67,503
Managed funds	-	-	27,055	27,055
	$ 127,708	$ 51,895	$ 27,055	$ 206,658

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

	2012	**2011**
Fair value January 1	$ 27,055	$ 31,280
Realized and unrealized gains (losses)	944	(935)
Purchases	8,443	-
Sales	(10,660)	(1,003)
Transfers in/out	4,566	(2,287)
Fair value December 31	$ 30,348	$ 27,055

Contributions

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

The System is expected to contribute an aggregate amount of approximately $21,554 to the pension plan trust in 2013 to be allocated amongst participating entities.

(in thousands of dollars)

Benefit Payments

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

2013	15,198
2014	16,688
2015	18,361
2016	20,377
2017	22,376
2018–2022	145,517

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

12. Insurance Arrangements

The System participates in the CHE insurance program which provides coverage for healthcare professional (medical malpractice) and general liability exposures. The primary limits for healthcare professional and general liability are $3 million per occurrence and are insured by Stella Maris Insurance Company, Ltd. (SMICL), a Cayman-domiciled insurer wholly-owned by CHE. SMICL also provides excess coverage to the System, and this excess coverage is fully reinsured with nonaffiliated commercial insurance companies. SMICL retains the full risk in the primary layer and no risk in the excess layers.

The coverage provided by SMICL is on a claims-made basis. The System therefore retains the liability for unasserted claims resulting from incidents that occurred on services provided prior to the financial statement date. The System has independent actuaries estimate the ultimate costs of such unasserted claims, which were discounted at 4% in 2012 and 2011. The System's current portion of liability for unasserted claims at December 31, 2012 and 2011 is $374 and $371, 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, 2012 and 2011 is $43,333 and $38,972, respectively. The charges to expenses for professional and general liability for 2012 and 2011 approximated $6,352 and $5,799, respectively, which has been included in insurance expense. Amounts recognized as insurance receivables related to the claims approximated $36,304 and $31,925 at December 31, 2012 and 2011, respectively. Insurance recoveries are measured on the same basis as the liability subject to the need for a valuation allowance on uncollectible amounts.

(in thousands of dollars)

The System's insurance program for workers' compensation has a deductible of $350 per occurrence. Claims in excess of the deductible are fully insured. Losses from asserted claims and from unasserted claims identified under the System's incident reporting program were accrued on a discounted basis based upon actuarial estimates of the settlement of such claims. The System's current portion of liabilities for unpaid and incurred but not reported claims at December 31, 2012 and 2011 is $6,669 and $6,163, 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, 2012 and 2011 is $53,761 and $46,630, respectively, and is included in other long-term liabilities.

The charges to expenses for workers compensation costs approximated $13,816 and $14,719 in 2012 and 2011, respectively, which has been included in employee benefits expense. Amounts recognized as insurance receivables related to the claims approximated $27,254 and $22,428 at December 31, 2012 and 2011, respectively. Insurance recoveries are measured on the same basis as the liability subject to the need for a valuation allowance for uncollectible amounts.

The System's insurance for employee health costs is self-insured up to $325 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, 2012 and 2011, was $7,571 and $7,260, respectively.

13. 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.

(in thousands of dollars)

14. 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:

	2012	2011
Medicare	34%	34%
Medicaid	9%	10%
Blue Cross	7%	8%
Other third-party payors	37%	35%
Patients/Residents	13%	13%
	100%	100%

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.

15. Fair Value Measurements

Assets and liabilities recorded at fair value in the balance sheet are categorized based upon the level of judgment associated with the inputs used to measure their fair value. An asset or a liability's categorization within the fair value hierarchy is based on the lowest level of judgment input to its valuation. Hierarchal levels, as defined by accounting guidance, are directly related to the amount of subjectivity associated with the inputs in the determination of fair value of these assets and liabilities as follows:

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

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

(in thousands of dollars)

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

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

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

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

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

The following tables present information about assets and liabilities that are measured at fair value on a recurring basis and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value as of December 31, 2012 and 2011.

December 31, 2012	**Level I**	**Level 2**	**Level 3**	**Total**	**Valuation Technique**
Assets Limited As To Use					
Cash and cash equivalents	$ 11,119	$ 8,413	$ -	$ 19,532	Market
Marketable equity securities	169	-	-	169	Market
U.S. Government and agency obligations	13,074	8,385	-	21,459	Market
Other	-	42	-	42	Market
	$ 24,362	$ 16,840	$ -	$ 41,202	
Investments					
Cash and cash equivalents	$ 224	$ -		$ 224	Market
Marketable equity securities	3,946	294		4,240	Market
Marketable debt securities	31	1,597		1,628	Market
U.S. Government and agency obligations	1,026	-		1,026	Market
Other	-	447		447	Market
	$ 5,227	$ 2,338	$ -	$ 7,565	
Managed funds				125	
				$ 7,690	
Interest Rate Swap (liability)	$ -	$ 15,847	$ -	$ 15,847	Market

(in thousands of dollars)

December 31, 2011	Level I	Level 2	Level 3	Total	Valuation Technique
Assets Limited As To Use					
Cash and cash equivalents	$ 7,604	$ 5,167	$ -	$ 12,771	Market
Marketable equity securities	164	-	-	164	Market
U.S. Government and agency obligations	11,377	157	-	11,534	Market
Other	-	57	-	57	Market
	$ 19,145	$ 5,381	$ -	$ 24,526	
Investments					
Cash and cash equivalents	$ 288	$ 1	$ -	$ 289	Market
Marketable equity securities	3,757	50	-	3,807	Market
Marketable debt securities	35	1,611	-	1,646	Market
U.S. Government and agency obligations	712	-	-	712	Market
Other	-	430	-	430	Market
	$ 4,792	$ 2,092	$ -	$ 6,884	
Managed funds				96	
				6,980	
Interest Rate Swap (liability)		$ 15,185		$ 15,185	Market

The following managed fund investments are recorded under the equity method of accounting, which is similar to using the net asset value per share of the investments as of December 31, 2012:

	Recorded Value	Unfunded Commitments	Commitment Term	Redemption Terms
Fund of Hedge Funds	$ 102		n/a	Quarter-end, semiannually, or anniversary date; with 45-90 days prior written notice
Real Estate	10	3	4 - 9 year; n/a for one mutual fund	Redemption not permitted
Private Equity	13	6	5 - 13 years	Redemption not permitted
	$ 125			

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

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

(in thousands of dollars)

16. Related Party Transactions

CHE charged the System dues for participation in certain programs and governance matters. Amounts charged to expense related to these dues amounted to approximately $4,287 and $4,282 in 2012 and 2011, 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. All three of the Catholic Health System hospitals as well as our continuing care and home care ministries are members of Catholic Medical Partners. Catholic Health System has four of its executive staff on the Catholic Medical Partner's board of directors.

As discussed in Note 12, the System obtains insurance coverage from CHE.

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, 2012, there was $2,067 of debt outstanding, of which the Hospital has guaranteed $689. Per the guaranty agreement, the Hospital's obligation shall decrease on a dollar for dollar basis as the principal amount of the obligation is paid down.

Marian Professional Center Associates, L.P. is a joint venture between Ciminelli Development Company, Mercy Hospital, Alsace Abbott Corporation (a wholly owned Corporation of Mercy Hospital), and 3 other joint venture partners. In 2009, Marian Professional Center Associates, L.P. refinanced its mortgage. As of December 31, 2012, there was $5,252 of debt outstanding, of which MHB has guaranteed $2,626. Per the guaranty agreement, MHB’s obligation shall decrease on a dollar for dollar basis as the principal amount of the obligation is paid down.

East Aurora Medical Building, L.P. is a joint venture between Regent Development, Inc. and Aurora Mercy Corporation. Aurora Mercy Corporation is wholly owned by Mercy Hospital. In 1998, East Aurora Medical Building, L.P refinanced its mortgage. As of December 31, 2012, there was $2,449 of debt outstanding, of which Aurora Mercy Corporation has guaranteed the full amount.

17. Discontinued Operations

The following subsidiaries have been accounted for in discontinued operations: St. Clare Manor, St. Joseph's Manor, St. Francis Geriatric, Healthcare Services, Inc. St. Luke's Manor of Batavia, St. Mary's Manor, and Nazareth Home of the Franciscan of the Immaculate Conception. The aggregated gain of discontinued operations was approximately $165 and $1,019 in 2012 and 2011, respectively. In 2010, St. Francis Geriatric received financial assistance from New York State Department of Health in the form of a HEAL Grant of $5,000, to offset certain closure expenses. This was recognized through discontinued operations.

The residual assets (net of inter-company receivables), liabilities and net assets (deficit) of the discontinued operations were $6,294, $1,202 and $5,092, respectively, as of December 31, 2012 and $5,302, $1,229 and $4,073, respectively, as of December 31, 2011 and are included within their natural classifications in the accompanying consolidated balance sheets.

(in thousands of dollars)

18. 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:

	2012	2011
Health care services	$ 651,553	$ 593,130
General and administrative	216,329	206,106
	$ 867,882	$ 799,236

Report of Independent Auditors on Accompanying Other Information

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

We have audited the consolidated financial statements, in which we indicated the extent of our reliance on the report of other auditors, of Catholic Health System, Inc. and Subsidiaries (the System) as of December 31, 2012 and for the year then ended and our report thereon appears on page 1 of this document. That audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The Schedule of Net Cost of Providing Care of Persons Living in Poverty and Community Benefit Programs (Schedule of Social Accountability) is the responsibility of management and is provided for purposes of additional analysis of the consolidated financial statements. Such information is unaudited and therefore we do not express an opinion on the Schedule of Net Cost of Providing Care of Persons Living in Poverty and Community Benefit Programs (Schedule of Social Accountability).The consolidating information is the responsibility of management and was derived from, and 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual companies and is not a required part of the consolidated financial statements.

PricewaterhouseCoopers LLP

April 25, 2013

PricewaterhouseCoopers LLP, 3600 HSBC Center, Buffalo, NY 14203-2879
T: (716) 856 4650, F: (716) 856 1208, www.pwc.com/us

Catholic Health System, Inc.
Schedule of Net Cost of Providing Care of Persons Living in Poverty and Community Benefit Programs (Schedule of Social Accountability - Unaudited)
Years Ended December 31, 2012 and 2011

(in thousands of dollars)

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

	2012	2011
Charity care	$ 7,438	$ 8,106
Cost of community benefit programs	14,801	13,089
Unpaid cost of Medicaid programs	37,819	25,758
Social accountability costs	$ 60,058	$ 46,953

Catholic Health System, Inc. and Subsidiaries
Consolidating Statement of Operations and Changes in Net Assets
Year Ended December 31, 2012

	Parent	Acute Care Subsidiaries	Long-term Care Subsidiaries	Home Care Subsidiaries	Other Subsidiaries	Eliminations	Total
Current assets							
Cash and cash equivalents	$ 15,668	$ 203,297	$ 7,183	$ 11,933	$ 3,513	$ 596	$ 242,190
Patient/residents accounts receivable, net of estimated uncollectibles of $27,248	-	111,180	3,870	6,716	732	-	122,498
Other receivables	736	6,500	631	-	112	-	7,979
Inventories	-	13,895	51	531	-	-	14,477
Assets limited as to use	-	1,826	-	-	-	-	1,826
Prepaid expenses and other current assets	2,788	1,583	274	152	14	(47)	4,764
Due from affiliates	54,762	514	935	-	-	(56,211)	-
Total current assets	73,954	338,795	12,944	19,332	4,371	(55,662)	393,734
Interest in net assets of related Foundations	-	3,915	89	-	226	(315)	3,915
Assets limited as to use	2,752	22,825	13,306	-	493	-	39,376
Investments	-	7,690	-	-	-	-	7,690
Property and equipment, net	16,426	218,652	6,779	980	17,682	-	260,519
Other assets	855	60,034	6,941	4,627	721	(79)	73,099
Due from affiliates	5,551	11,909	2,348	1,398	866	(22,072)	-
Total Assets	$ 99,538	$ 663,820	$ 42,407	$ 26,337	$ 24,359	$ (78,128)	$ 778,333
Liabilities and Net Assets							
Current liabilities							
Current portion of long-term obligations	$ 240	$ 11,205	$ 407	$ 477	$ 1,540	$ (47)	$ 13,822
Long-term obligations subject to short-term remarketing arrangements	-	68,812	-	-	10,495	-	79,307
Line of credit payable	8,380	-	-	-	-	-	8,380
Accounts payable	3,399	40,731	278	969	1,139	36	46,552
Accrued expenses	20,989	35,144	3,118	2,331	191	-	61,773
Due to third-party payors	-	38,262	1,314	1,117	197	(43)	40,847
Due to affiliates	327	38,265	6,546	923	2,512	(48,573)	-
Total current liabilities	33,335	232,419	11,663	5,817	16,074	(48,627)	250,681
Long-term obligations, net	960	46,022	6,458	1,908	3,954	(72)	59,230
Due to affiliates, net	17,541		85	5,551	5,930	(29,107)	-
Other long-term liabilities	51,697	349,085	16,244	7,264	2,909	-	427,199
Total liabilities	103,533	627,526	34,450	20,540	28,867	(77,806)	737,110
Net assets (deficit)							
Unrestricted	(4,124)	31,596	7,868	5,797	(5,120)	-	36,017
Temporarily restricted	129	4,452	89	-	612	(322)	4,960
Permanently restricted	-	246	-	-	-	-	246
Total net assets (deficit)	(3,995)	36,294	7,957	5,797	(4,508)	(322)	41,223
Total Liabilities and Net Assets	$ 99,538	$ 663,820	$ 42,407	$ 26,337	$ 24,359	$ (78,128)	$ 778,333

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

Catholic Health System, Inc. and Subsidiaries
Consolidating Statement of Operations and Changes in Net Assets
Year Ended December 31, 2012

	Parent	Acute Care Subsidiaries	Long-term Care Subsidiaries	Home Care Subsidiaries	Other Subsidiaries	Eliminations	Total
Unrestricted revenues, gains and other support							
Net patient/resident service revenue	$ -	$ 820,341	$ 31,206	$ 43,767	$ 9,637	$ (6,238)	$ 898,713
Provision for bad debts	-	(24,138)	(813)	(711)	(48)	-	(25,710)
Net patient/resident service revenue less provision for bad debts	-	796,203	30,393	43,056	9,589	(6,238)	873,003
Other revenue	118,042	20,265	495	-	4,572	(124,039)	19,335
Net assets released from restrictions	-	98	-	-	-	-	98
Total unrestricted revenues, gains and other support	118,042	816,566	30,888	43,056	14,161	(130,277)	892,436
Expenses							
Salaries and wages	58,849	341,269	20,304	23,769	3,549	(59,647)	388,093
Employee benefits	17,041	113,715	6,358	6,280	769	(17,041)	127,122
Medical and professional fees	5,711	30,795	346	277	5,346	(4,131)	38,344
Purchased services	23,166	70,662	2,174	1,282	1,238	(28,434)	70,088
Supplies	495	157,989	2,484	5,864	215	(1,568)	165,479
Depreciation and amortization	3,011	32,794	1,062	517	1,674	(3,011)	36,047
Interest	192	5,770	378	-	691	(207)	6,824
Insurance	249	6,979	222	209	101	(249)	7,511
Other expenses	9,393	31,393	625	2,430	1,000	(16,467)	28,374
Total expenses	118,107	791,366	33,953	40,628	14,583	(130,755)	867,882
(Loss) Income from operations	(65)	25,200	(3,065)	2,428	(422)	478	24,554
Nonoperating revenues and losses							
Investment income	20	1,385	187	-	-	(20)	1,572
Other	45	931	(23)	80	-	(458)	575
Total nonoperating revenues and losses, net	65	2,316	164	80	-	(478)	2,147
Excess (deficiency) of revenues over expenses	-	27,516	(2,901)	2,508	(422)	-	26,701

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

Catholic Health System, Inc. and Subsidiaries
Consolidating Statement of Operations and Changes in Net Assets (Continued)
Year Ended December 31, 2012

	Parent	Acute Care Subsidiaries	Long-term Care Subsidiaries	Home Care Subsidiaries	Other Subsidiaries	Eliminations	Total
Unrestricted net assets							
Excess (deficiency) of revenues over expenses	$ -	$ 27,516	$ (2,901)	$ 2,508	$ (422)	$ -	$ 26,701
Change in unrealized loss on interest rate swap	-	(556)	-	-	(85)	-	(641)
Change in pension obligation	(5,079)	(23,707)	(543)	(614)	(29)	-	(29,972)
Change in unrestricted interest in related Foundations	-	628	-	-	-	-	628
Net assets released from restrictions	269	369	-	-	46	-	684
Grant revenue	79	-	-	-	-	-	79
Other	9,709	(9,827)	(118)	-	381	-	145
Increase (decrease) in unrestricted net assets before effects of discontinued operations	4,978	(5,577)	(3,562)	1,894	(109)	-	(2,376)
Gain from discontinued operations	-		165	-	-	-	165
Increase (decrease) in unrestricted net assets	4,978	(5,577)	(3,397)	1,894	(109)	-	(2,211)
Temporarily restricted net assets							
Contributions and other	-	369	-	-	52	5	426
Investment income	-	16	-	-	-	-	16
Special events revenue, net	-	136			-	-	136
Change in temporarily restricted interest in related Foundations	-	18	1	-	5	(6)	18
Temporarily restricted net assets released from restrictions	(269)	(467)	-	-	(46)	-	(782)
Increase (decrease) in temporarily restricted net assets	(269)	72	1	-	11	(1)	(186)
Permanently restricted net assets							
Contributions		-	-	-	-		-
Change in permanently restricted interest in related Foundations		-	-	-	-		-
Permanently restricted net assets released from restrictions		-	-	-	-		-
Increase in permanently restricted net assets	-	-	-	-	-	-	-
Increase (decrease) in net assets	4,709	(5,505)	(3,396)	1,894	(98)	(1)	(2,397)
Net assets, beginning of year	(8,704)	41,799	11,353	3,903	(4,410)	(321)	43,620
Net assets, end of year	$ (3,995)	$ 36,294	$ 7,957	$ 5,797	$ (4,508)	$ (322)	$ 41,223

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

Catholic Health System – Acute Care Subsidiaries
Consolidating Balance Sheet
December 31, 2012

	Mercy Hospital	Sisters Hospital	Kenmore Mercy Hospital	Total
Assets				
Current assets				
Cash and cash equivalents	$ 59,316	$ 115,788	$ 28,193	$ 203,297
Patient accounts receivable, net of estimated uncollectibles of $24,943	47,457	44,346	19,377	111,180
Other receivables	2,771	2,741	988	6,500
Inventories	6,685	5,323	1,887	13,895
Assets limited as to use	-	-	1,826	1,826
Prepaid expenses and other current assets	792	562	229	1,583
Due from affiliates	-	514	-	514
Total current assets	117,021	169,274	52,500	338,795
Interest in net assets of related Foundations	-	-	3,915	3,915
Assets limited as to use	5,741	629	16,455	22,825
Investments	1,322	6,368	-	7,690
Property and equipment, net	96,749	75,522	46,381	218,652
Other assets	24,683	20,772	14,579	60,034
Due from affiliates	89	10,303	1,517	11,909
Total Assets	$ 245,605	$ 282,868	$ 135,347	$ 663,820
Liabilities and Net Assets				
Current liabilities				
Current portion of long-term obligations	$ 5,114	$ 3,905	$ 2,186	$ 11,205
Long-term obligations subject to short-term remarketing arrangements	31,582	26,718	10,512	68,812
Accounts payable	16,594	15,643	8,494	40,731
Accrued expenses	14,941	12,730	7,473	35,144
Due to third-party payors	16,698	15,172	6,392	38,262
Due to affiliates	11,711	19,488	7,066	38,265
Total current liabilities	96,640	93,656	42,123	232,419
Long-term obligations, net	18,022	5,674	22,326	46,022
Other long-term liabilities	183,420	112,242	53,423	349,085
Total liabilities	298,082	211,572	117,872	627,526
Net assets (deficit)				
Unrestricted	(54,270)	69,184	16,682	31,596
Temporarily restricted	1,670	1,989	793	4,452
Permanently Restricted	123	123	-	246
Total net assets (deficit)	(52,477)	71,296	17,475	36,294
Total Liabilities and Net Assets	$ 245,605	$ 282,868	$ 135,347	$ 663,820

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

Catholic Health System – Acute Care Subsidiaries
Consolidating Statement of Operations and Changes in Net Assets
Year Ended December 31, 2012

	Mercy Hospital	Sisters Hospital	Kenmore Mercy Hospital	Total
Unrestricted revenues, gains and other support				
Net patient/resident service revenue	$ 349,336	$ 317,985	$ 153,020	$ 820,341
Provision for bad debts	(9,783)	(10,261)	(4,094)	(24,138)
Net patient/resident service revenue less provision for bad debts	339,553	307,724	148,926	796,203
Other revenue	8,513	8,921	2,831	20,265
Net assets released from restrictions	37	61	-	98
Total unrestricted revenues, gains and other support	348,103	316,706	151,757	816,566
Expenses				
Salaries and wages	138,400	139,149	63,720	341,269
Employee benefits	52,142	41,676	19,897	113,715
Medical and professional fees	12,131	13,516	5,148	30,795
Purchased services	28,609	29,050	13,003	70,662
Supplies	70,457	56,691	30,841	157,989
Depreciation and amortization	12,869	12,408	7,517	32,794
Interest	2,357	2,129	1,284	5,770
Insurance	2,946	3,004	1,029	6,979
Other expenses	15,241	11,374	4,778	31,393
Total expenses	335,152	308,997	147,217	791,366
Income from operations	12,951	7,709	4,540	25,200
Nonoperating revenues and losses				
Investment income	441	859	85	1,385
Other	269	665	(3)	931
Total nonoperating revenue	710	1,524	82	2,316
Excess of revenues over expenses	13,661	9,233	4,622	27,516

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

Catholic Health System – Acute Care Subsidiaries
Consolidating Statement of Operations and Changes in Net Assets (Continued)
Year Ended December 31, 2012

	Mercy Hospital	Sisters Hospital	Kenmore Mercy Hospital	Total
Unrestricted net assets				
Excess of revenues over expenses	$ 13,661	$ 9,233	$ 4,622	$ 27,516
Change in unrealized loss on interest rate swap	(317)	(216)	(23)	(556)
Change in pension obligation	(13,232)	(8,680)	(1,795)	(23,707)
Change in unrestricted interest in related Foundations	-	-	628	628
Net assets released from restrictions	99	270	-	369
Grant revenue	-	-	-	-
Other	(8,134)	(2,103)	410	(9,827)
(Decrease) increase in unrestricted net assets	(7,923)	(1,496)	3,842	(5,577)
Temporarily restricted net assets				
Contributions and other	54	320	(5)	369
Investment income	16	-	-	16
Special events revenue, net	87	49	-	136
Change in temporarily restricted interest in related Foundations	-	-	18	18
Temporarily restricted net assets released from restrictions	(136)	(331)	-	(467)
Increase in temporarily restricted net assets	21	38	13	72
Permanently restricted net assets				
Contributions	-	-	-	-
Change in permanently restricted interest in related Foundations	-	-	-	-
Permanently restricted net assets released from restrictions	-	-	-	-
Increase in permanently restricted net assets	-	-	-	-
(Decrease) increase in net assets	(7,902)	(1,458)	3,855	(5,505)
Net assets, beginning of year	(44,575)	72,754	13,620	41,799
Net assets (deficit), end of year	$ (52,477)	$ 71,296	$ 17,475	$ 36,294

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

Catholic Health System – Long-Term Care Subsidiaries
Consolidating Balance Sheet
December 31, 2012

	Father Baker Manor	St. Clare Manor	St. Francis Geriatric	St. Francis Home	St. Joseph's Manor	St. Luke's Manor	St. Mary's Manor	St. Elizabeth's Home	St. Vincent's Home	Nazareth Home	Total
Assets											
Current assets											
Cash and cash equivalents	$ 1,422	$ 253	$ 1,230	$ 794	$ 681	$ 7	$ 1,027	$ 73	$ 324	$ 1,372	$ 7,183
Resident accounts receivable, net of estimated uncollectibles of $1,197	1,929	-	60	1,629	-	-	-	205	47	-	3,870
Other Receivables	346	-	-	285	-	-	-	-	-	-	631
Inventories	34	-	-	17	-	-	-	-	-	-	51
Prepaid expenses and other current assets	142	-	-	2	47	-	-	56	26	1	274
Due from affiliates	9	-	-	19	-	-	459	-	-	448	935
Total current assets	3,882	253	1,290	2,746	728	7	1,486	334	397	1,821	12,944
Interest in net assets of related Foundations	20	-	-	69	-	-	-	-	-	-	89
Assets limited as to use	11,792	-	-	1,514	-	-	-	-	-	-	13,306
Property and equipment, net	3,718	-	-	1,691	-	-	-	682	111	577	6,779
Other assets	2,817	-	7	2,299	72	-	-	1,280	466	-	6,941
Due from affiliates, net	-	-	-	-	53	-	-	2,295	-	-	2,348
Total Assets	$ 22,229	$ 253	$ 1,297	$ 8,319	$ 853	$ 7	$ 1,486	$ 4,591	$ 974	$ 2,398	$ 42,407
Liabilities and Net Assets											
Current liabilities											
Current portion of long-term obligations	$ 407	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 407
Accounts payable	97	-	-	116	-	-	-	36	9	20	278
Accrued expenses	1,380	-	7	1,409	-	-	-	209	89	24	3,118
Due to third-party payors	526	-	342	372	-	-	-	-	-	74	1,314
Due to affiliates	233	-	-	4,224	-	-	-	1,401	688	-	6,546
Total current liabilities	2,643	-	349	6,121	-	-	-	1,646	786	118	11,663
Long-term obligations, net	6,458	-	-	-	-	-	-	-	-	-	6,458
Due to affiliates, net	-	-	-	-	-	-	-	-	-	85	85
Other long-term liabilities	5,507	-	-	6,413	-	-	-	2,623	1,051	650	16,244
Total liabilities	14,608	-	349	12,534	-	-	-	4,269	1,837	853	34,450
Net assets (deficit)											
Unrestricted	7,601	253	948	(4,284)	853	7	1,486	322	(863)	1,545	7,868
Temporarily restricted	20	-	-	69	-	-	-	-	-	-	89
Permanently Restricted	-	-	-	-	-	-	-	-	-	-	-
Total net assets (deficit)	7,621	253	948	(4,215)	853	7	1,486	322	(863)	1,545	7,957
Total Liabilities and Net Assets	$ 22,229	$ 253	$ 1,297	$ 8,319	$ 853	$ 7	$ 1,486	$ 4,591	$ 974	$ 2,398	$ 42,407

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

Catholic Health System – Long-Term Care Subsidiaries
Consolidating Statement of Operations and Changes in Net Assets
Year Ended December 31, 2012

	Father Baker Manor	St. Clare Manor	St. Francis Geriatric	St. Francis Home	St. Joseph's Manor	St. Luke's Manor	St. Mary's Manor	St. Elizabeth's Home	St. Vincent's Home	Nazareth Home	Total
Unrestricted revenues, gains and other support											
Net resident service revenue	$ 16,629	$ -	$ -	$ 11,705	$ -	$ -	$ -	$ 2,155	$ 717	$ -	$ 31,206
Provision for bad debts	(389)	-	-	(370)	-	-	-	(47)	(7)	-	(813)
Net resident service revenue less provision for bad debts	16,240	-	-	11,335	-	-	-	2,108	710	-	30,393
Other revenue	49	-	-	45	-	-	-	13	12	376	495
Total unrestricted revenues, gains and other support	16,289	-	-	11,380	-	-	-	2,121	722	376	30,888
Expenses											
Salaries and wages	9,973	-	-	8,287	-	-	-	1,504	450	90	20,304
Employee benefits	2,759	-	-	2,850	-	-	-	484	241	24	6,358
Medical and professional fees	181	-	-	144	-	-	-	17	4	-	346
Purchased services	942	-	-	743	-	-	-	238	108	143	2,174
Supplies	1,243	-	-	963	-	-	-	200	71	7	2,484
Depreciation and amortization	604	-	-	225	-	-	-	128	26	79	1,062
Interest	378	-	-	-	-	-	-	-	-	-	378
Insurance	116	-	-	66	-	-	-	30	10	-	222
Other expenses	266	-	-	257	-	-	-	46	23	33	625
Total expenses	16,462	-	-	13,535	-	-	-	2,647	933	376	33,953
Income (loss) from operations	(173)	-	-	(2,155)	-	-	-	(526)	(211)	-	(3,065)
Nonoperating revenue											
Investment income	177	-	-	7	-	-	-	1	2	-	187
Loss on extinguishment of debt	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	(23)	-	-	(23)
Total nonoperating revenue	177	-	-	7	-	-	-	(22)	2	-	164
Excess (deficiency) of revenues over expenses	4	-	-	(2,148)	-	-	-	(548)	(209)	-	(2,901)

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

Catholic Health System – Long-Term Care Subsidiaries
Consolidating Statement of Operations and Changes in Net Assets (Continued)
Year Ended December 31, 2012

	Father Baker Manor	St. Clare Manor	St. Francis Geriatric	St. Francis Home	St. Joseph's Manor	St. Luke's Manor	St. Mary's Manor	St. Elizabeth's Home	St. Vincent's Home	Nazareth Home	Total
Unrestricted net assets											
Excess (deficiency) of revenues over expenses	$ 4	$ -	$ -	$ (2,148)	$ -	$ -	$ -	$ (548)	$ (209)	$ -	$ (2,901)
Change in pension obligation	(407)	-	-	(40)	-	-	-	(76)	(20)	-	(543)
Change in unrestricted interest in related Foundations	-	-	-	-	-	-	-	-	-	-	-
Other	(120)	-	4	-	-	-	-	-	-	(2)	(118)
Increase (decrease) in unrestricted net assets before effects of discontinued operations	(523)	-	4	(2,188)	-	-	-	(624)	(229)	(2)	(3,562)
Gain from discontinued operations	-	-	132	-	12	-	-	-	-	21	165
(Decrease) increase in unrestricted net assets	(523)	-	136	(2,188)	12	-	-	(624)	(229)	19	(3,397)
Temporarily restricted net assets											
Contributions and other	-	-	-	-	-	-	-	-	-	-	-
Investment income	-	-	-	-	-	-	-	-	-	-	-
Change in temporarily restricted interest in related foundations	-	-	-	1	-	-	-	-	-	-	1
Temporarily restricted net assets released from restrictions	-	-	-	-	-	-	-	-	-	-	-
Increase in temporarily restricted net assets	-	-	-	1	-	-	-	-	-	-	1
(Decrease) increase in net assets	(523)	-	136	(2,187)	12	-	-	(624)	(229)	19	(3,396)
Net assets, beginning of year	8,144	253	812	(2,028)	841	7	1,486	946	(634)	1,526	11,353
Net assets, end of year	$ 7,621	$ 253	$ 948	$ (4,215)	$ 853	$ 7	$ 1,486	$ 322	$ (863)	$ 1,545	$ 7,957

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

Catholic Health System – Home Care Subsidiaries
Consolidating Balance Sheet
December 31, 2012

	Mercy Home Care	McAuley Seton Home Care	Infusion Pharmacy	Total
Assets				
Current assets				
Cash and cash equivalents	$ 478	$ 10,366	$ 1,089	$ 11,933
Patient accounts receivable, net of estimated uncollectibles of $1,072	421	5,531	764	6,716
Other receivables	-	-	-	-
Inventories	-	17	514	531
Prepaid expenses and other current assets	49	67	36	152
Total current assets	948	15,981	2,403	19,332
Property and equipment, net	-	849	131	980
Other assets	780	3,555	292	4,627
Due from affiliates	428	826	144	1,398
Total Assets	$ 2,156	$ 21,211	$ 2,970	$ 26,337
Liabilities and Net Assets				
Current liabilities				
Current portion of long-term obligations	$ -	$ 477	$ -	$ 477
Accounts payable	732	81	156	969
Accrued expenses	-	2,169	162	2,331
Due to third party payors	105	941	71	1,117
Due to affiliates	26	101	796	923
Total current liabilities	863	3,769	1,185	5,817
Long-term obligations	-	1,908	-	1,908
Due to affiliates, net	-	5,551	-	5,551
Other long-term liabilities	1,883	5,207	174	7,264
Total liabilities	2,746	16,435	1,359	20,540
Net assets (deficit)				
Unrestricted	(590)	4,776	1,611	5,797
Total Liabilities and Net Assets	$ 2,156	$ 21,211	$ 2,970	$ 26,337

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

Catholic Health System – Home Care Subsidiaries
Consolidating Statement of Operations and Changes in Net Assets
December 31, 2012

	Mercy Home Care	McAuley Seton Home Care	Infusion Pharmacy	Total
Unrestricted revenues, gains and other support				
Net patient/resident service revenue	$ 6,956	$ 28,964	$ 7,847	$ 43,767
Provision for bad debts	(17)	(563)	(131)	(711)
Total unrestricted revenues, gains and other support	6,939	28,401	7,716	43,056
Expenses				
Salaries and wages	4,550	17,745	1,474	23,769
Employee benefits	1,714	4,205	361	6,280
Medical and professional fees	-	238	39	277
Purchased services	433	668	181	1,282
Supplies	33	904	4,927	5,864
Depreciation and amortization	25	440	52	517
Interest	-	-	-	-
Insurance	89	129	(9)	209
Other expenses	607	1,472	351	2,430
Total expenses	7,451	25,801	7,376	40,628
(Loss) income from operations	(512)	2,600	340	2,428
Nonoperating revenue				
Other	49	29	2	80
Total nonoperating revenue	49	29	2	80
(Deficiency) excess of revenues over expenses	(463)	2,629	342	2,508
Change in pension obligation	(28)	(565)	(21)	(614)
(Decrease) increase in net assets	(491)	2,064	321	1,894
Net assets, beginning of year	(99)	2,712	1,290	3,903
Net assets, end of year	$ (590)	$ 4,776	$ 1,611	$ 5,797

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

Catholic Health System - Other Subsidiaries
Consolidating Balance Sheet
December 31, 2012

	OLV Renaissance Corp.	Continuing Care Foundation	LIFE	Trinity	Total
Assets					
Current assets					
Cash and cash equivalents	$ 85	$ 346	$ 3,074	$ 8	$ 3,513
Patient accounts receivable, net of estimated uncollectibles of $36	-	-	609	123	732
Other receivables	-	47	-	65	112
Prepaid expenses and other current assets	-	-	4	10	14
Due from affiliates	-	-	-	-	-
Total current assets	85	393	3,687	206	4,371
Interest in net assets of related Foundations	226	-	-	-	226
Assets limited as to use	232	-	261	-	493
Property and equipment, net	17,511	2	102	67	17,682
Other assets	697	-	18	6	721
Due from affiliates	866	-	-	-	866
Total assets	$ 19,617	$ 395	$ 4,068	$ 279	$ 24,359
Liabilities and Net Assets					
Current liabilities					
Current portion of long-term obligations	$ 1,540	$ -	$ -	$ -	$ 1,540
Long-term obligations subject to short-term remarketing arrangements	10,495	-	-	-	10,495
Accounts payable	307	-	761	71	1,139
Accrued expenses	-	59	-	132	191
Due to third party payors	-	-	197	-	197
Due to affiliates	-	-	1,756	756	2,512
Total current liabilities	12,342	59	2,714	959	16,074
Long-term obligations	3,954	-	-	-	3,954
Due to affiliates, net	5,930	-	-	-	5,930
Other long-term liabilities	2,665	-	244	-	2,909
Total liabilities	24,891	59	2,958	959	28,867
Net assets (deficit)					
Unrestricted	(5,500)	(50)	1,110	(680)	(5,120)
Temporarily restricted	226	386	-	-	612
Permanently restricted	-	-	-	-	-
Total net assets (deficit)	(5,274)	336	1,110	(680)	(4,508)
Total liabilities and net assets	$ 19,617	$ 395	$ 4,068	$ 279	$ 24,359

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

Catholic Health System - Other Subsidiaries
Consolidating Statement of Operations and Changes in Net Assets
December 31, 2012

	OLV Renaissance Corp.	Continuing Care Foundation	LIFE	Trinity	Total
Unrestricted revenues, gains and other support					
Net patient/resident service revenue	$ -	$ -	$ 7,918	$ 1,719	$ 9,637
Provision for bad debts	-	-	(31)	(17)	(48)
Net patient/resident service revenue less provision for bad debt	-	-	7,887	1,702	9,589
Other revenue	3,095	16	-	1,461	4,572
Total unrestricted revenues, gains and other support	3,095	16	7,887	3,163	14,161
Expenses					
Salaries and wages	300	-	955	2,294	3,549
Employee benefits	83	-	234	452	769
Medical and professional fees	26	-	5,145	175	5,346
Purchased services	1,098	-	-	140	1,238
Supplies	43	-	-	172	215
Depreciation and amortization	1,585	-	67	22	1,674
Interest	676	-	-	15	691
Insurance	62	-	-	39	101
Other expenses	30	79	660	231	1,000
Total expenses	3,903	79	7,061	3,540	14,583
(Loss) income from operations	(808)	(63)	826	(377)	(422)
Nonoperating revenue					
Investment income	-	-	-	-	-
Other	(1)	-	1	-	-
Total nonoperating revenue	(1)	-	1	-	-
(Deficiency) excess of revenues over expenses	(809)	(63)	827	(377)	(422)

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

Catholic Health System - Other Subsidiaries
Consolidating Statement of Operations and Changes in Net Assets (Continued)
December 31, 2012

	OLV Renaissance Corp.	Continuing Care Foundation	LIFE	Trinity	Total
Unrestricted net assets					
(Deficiency) excess of revenues over expenses	$ (809)	$ (63)	$ 827	$ (377)	$ (422)
Change in unrealized loss on interest rate swap	(85)	-	-	-	(85)
Change in pension obligation	-	-	(29)	-	(29)
Change in unrestricted interest in related Foundations	-	-	-	-	-
Net assets released from restrictions	-	46	-	-	46
Other	427	(46)	-	-	381
(Decrease) increase in unrestricted net assets	(467)	(63)	798	(377)	(109)
Temporarily restricted net assets					
Contributions & other	-	52	-	-	52
Investment income	-	-	-	-	-
Change in temporarily restricted interest in related Foundations	5	-	-	-	5
Temporarily restricted net assets released from restrictions	-	(46)	-	-	(46)
Increase in temporarily restricted net assets	5	6	-	-	11
(Decrease) increase in net assets	(462)	(57)	798	(377)	(98)
Net assets beginning of the year	(4,812)	393	312	(303)	(4,410)
Net assets, end of year	$ (5,274)	$ 336	$ 1,110	$ (680)	$ (4,508)

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