CONSOLIDATED FINANCIAL STATEMENTS

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

DECEMBER 31, 2019

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONTENTS

INDEPENDENT AUDITOR'S REPORT

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Catholic Health System, Inc. and its subsidiaries (collectively, the System), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the consolidated financial statements).

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Catholic Health System, Inc. and its subsidiaries as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

As discussed in Note 2, in early 2020, the COVID-19 coronavirus global pandemic emerged and impacted much of the United States, including the communities in which the System serves. Our opinion is not modified with respect to this matter.

Freed Maxick CPAs, P.C.

Buffalo, New York
May 1, 2020

FreedMaxick® CPAs, P.C.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(in thousands of dollars)
December 31,

ASSETS	2019	2018
Current assets:		
Cash and cash equivalents	$ 298,841	$ 276,731
Patient accounts receivable	119,254	119,441
Other receivables	6,754	10,571
Inventories	22,458	23,635
Prepaid expenses and other current assets	7,824	12,776
Total current assets	455,131	443,154
Assets limited as to use	161,717	57,002
Investments	143,713	185,013
Property and equipment, net	422,109	375,471
Operating lease right-of-use assets	45,124	-
Other assets	118,098	114,675
Total assets	$ 1,345,892	$ 1,175,315
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term obligations	$ 12,475	$ 20,029
Current portion of operating lease liabilities	9,542	-
Accounts payable	69,473	60,728
Accrued expenses	106,014	83,952
Due to third-party payors	48,841	42,936
Total current liabilities	246,345	207,645
Long-term obligations, net	322,985	199,112
Long-term operating lease liabilities, net	35,610	-
Other long-term obligations	548,487	504,516
Total liabilities	1,153,427	911,273
Net assets:		
Without donor restrictions	184,873	256,336
With donor restrictions	7,592	7,706
Total net assets	192,465	264,042
Total liabilities and net assets	$ 1,345,892	$ 1,175,315

See accompanying notes.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
(in thousands of dollars)
For the Years Ended December 31,

	2019	2018
Revenues and other support without donor restrictions:		
Net patient service revenue	$ 1,123,090	$ 1,157,052
Other revenue	28,278	26,829
Net assets released from restrictions	455	540
Total revenues and other support without donor restrictions	1,151,823	1,184,421
Expenses:		
Salaries and wages	559,179	533,955
Employee benefits	139,930	149,195
Medical and professional fees	61,862	51,582
Purchased services	124,314	111,010
Supplies	213,006	214,885
Depreciation and amortization	47,097	47,021
Interest	16,574	12,661
Insurance	13,348	12,601
Other expenses	32,760	31,367
Total expenses	1,208,070	1,164,277
Income (loss) from operations	(56,247)	20,144
Nonoperating revenues and expenses:		
Investment income (loss)	28,262	(7,281)
Other components of net periodic pension cost	(8,603)	(12,751)
Other revenues and gains, net	973	541
Total nonoperating revenues and expenses	20,632	(19,491)
Excess (deficiency) of revenues over expenses	$ (35,615)	$ 653

See accompanying notes.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

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

	2019	2018
Net assets without donor restrictions:		
Excess (deficiency) of revenues over expenses	$ (35,615)	$ 653
Change in unrealized gain on interest rate swaps	(571)	828
Change in pension obligation, other than net periodic cost	(44,027)	22,228
Net assets released from restrictions used for capital	1,362	1,653
Amortization of terminated interest rate swaps	3,926	1,833
Capital grants	4,053	3,927
Contributions	10	94
Other	450	(98)
Increase (decrease) in net assets without donor restrictions before effects of discontinued operations	(70,412)	31,118
Gain (loss) from discontinued operations	(1,051)	322
Increase (decrease) in net assets without donor restrictions	(71,463)	31,440
Net assets with donor restrictions:		
Contributions	2,047	1,890
Investment income (loss)	62	(23)
Special events revenue, net	148	83
Change in interest in related Foundation	-	(267)
Net assets released from restrictions	(1,817)	(2,193)
Other	(554)	152
Decrease in net assets with donor restrictions	(114)	(358)
Increase (decrease) in net assets	(71,577)	31,082
Net assets, beginning of year	264,042	232,960
Net assets, end of year	$ 192,465	$ 264,042

See accompanying notes.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of dollars)
For the Years Ended December 31,

	2019	2018
Cash flows from operating activities:		
Increase (decrease) in net assets	$ (71,577)	$ 31,082
Loss (gain) from discontinued operations	1,051	(322)
Net deficit acquired	419	-
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
Depreciation and amortization	47,097	47,021
Change in minimum pension liability adjustment	44,027	(22,228)
Undistributed earnings in equity investees	(248)	316
Amortization of discount on debt issuance	429	61
Amortization of premium on debt issuance	(1,172)	(571)
Amortization of debt issuance costs	1,026	1,283
Loss on sale of property and equipment	45	24
Change in unrealized loss (gain) on investments	(14,232)	11,242
Realized gain on investments	(12,077)	(1,315)
Realized loss (gain) on interest rate swaps	585	(846)
Other	(17)	(175)
Decrease (increase) in assets:		
Patient accounts receivables	558	12,347
Other receivables	3,819	(2,756)
Inventories	1,177	2,436
Prepaid expenses and other current assets	4,951	(1,141)
Other assets	(50)	(4)
Increase (decrease) in liabilities:		
Accounts payable	2,061	5,033
Accrued expenses	21,661	570
Due to third-party payors	5,905	2,376
Other liabilities	1,227	9,069
Total from continuing operations	36,665	93,502
Total provided by (used in) discontinued operations	6	(2,542)
Net cash provided by operating activities	36,671	90,960
Cash flows from investing activities:		
Purchase of property and equipment	(82,589)	(54,715)
Proceeds from sale of property and equipment	-	21
Change in assets limited as to use, net	2,716	593
Purchase of investments	(7,827)	(5,115)
Proceeds from sale of investments	73,526	6,304
Distributions from equity investments	109	-
Purchase of intangible assets	(277)	-
Purchase of equity investments	(3,568)	(2,270)
Net cash used in investing activities	(17,910)	(55,182)
Cash flows from financing activities:		
Proceeds from issuance of long-term obligations, net	194,759	21,519
Repayments of current and long-term obligations	(83,080)	(16,426)
Termination of interest rate swaps	(2,898)	-
Net cash provided by financing activities	108,781	5,093
Increase in cash, cash equivalents and restricted cash	127,542	40,871
Cash, cash equivalents and restricted cash - beginning of year	328,584	287,713
Cash, cash equivalents and restricted cash - end of year	$ 456,126	$ 328,584

See accompanying notes.

NOTE 1. ORGANIZATION

Catholic Health System, Inc. and Subsidiaries (CHS or the System) is an integrated healthcare delivery system in Western New York jointly sponsored by the Diocese of Buffalo, New York and Catholic Health Ministries. Trinity Health and the Diocese of Buffalo are the corporate members of CHS, with equal ownership interest.

Catholic Health System, Inc. is the also the sole corporate member of the following subsidiaries:

Acute Care Subsidiaries: The Acute Care Subsidiaries (also collectively referred to as the Hospitals) include Mercy Hospital of Buffalo (MHB) including Mercy Hospital Foundation, Inc., Kenmore Mercy Hospital including Kenmore Mercy Foundation, Inc. and the McAuley Residence which includes KMH Homes Inc. (KMH), Sisters of Charity Hospital including Sisters Hospital Foundation, Inc. (SCH or Sisters Hospital) and Mount St. Mary's Hospital including Mount St. Mary's Hospital Foundation and Mount St. Mary's Child Care Center (MSM).

Home and Community Based Subsidiaries: The Home and Community Based Subsidiaries include Western New York Catholic Long-Term Care, Inc. d/b/a Father Baker Manor (FBM), St. Francis Geriatric and Healthcare Services, Inc. (SFG or St. Francis Geriatric), Niagara Homemakers Services, Inc. d/b/a Mercy Home Care (MHC), McAuley Seton Home Care Corporation (MSHC or McAuley Seton Home Care Corporation) and Catholic Health Infusion Pharmacy (Infusion Pharmacy).

Other Subsidiaries: The Other Subsidiaries include Our Lady of Victory Renaissance Corporation (OLV Renaissance or Our Lady of Victory Renaissance), Continuing Care Foundation (CCF), Catholic Health System Program of All Inclusive Care for the Elderly, Inc. (LIFE), Trinity Medical WNY, P.C. (Trinity), Niagara Medicine, P.C. (Niagara Medicine), Catholic Health Emmaus, Inc. (Emmaus) and Sterling Surgical, LLC (Sterling).

Discontinued Operations: The Discontinued Operations consistent of four long-term care facilities (St. Elizabeth's, St. Vincent's Home for the Aged, St. Francis Home of Williamsville and Nazareth Home of the Franciscan Sisters of the Immaculate Conception), whose operations ceased prior to 2016 and whose physical assets were sold prior to 2017. The residual assets and liabilities are maintained in the respective legal entities until such time that they can be wound down and legally disposed of or transferred.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting: The accompany consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United State of America (US GAAP).

Principles of Consolidation: The consolidated financial statements of the System includes the accounts of Catholic Health System (commonly referred to as the Parent) and each of its wholly-owned or controlled subsidiaries. All significant intercompany balances and transactions have been eliminated to reflect the consolidated amounts.

Recently Issued Accounting Pronouncements: In January 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-01, *Financial Instruments – Recognition and Measurement of Financial Assets and Financial Liabilities*, which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The standard also requires the System to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any change in fair value in the excess (deficiency) of revenues over expenses. The System adopted the new standard on January 1, 2019 and applied the standard prospectively as required. The impact of adopting ASU 2016-01 was not material to total revenues and other support without donor restrictions, excess (deficiency) of revenues over expenses or total net assets.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In February 2016, the FASB issued ASU 2016-02, *Leases*. This ASU requires lessees to recognize assets and liabilities on the consolidated balance sheets for leases with lease terms greater than twelve months. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as either a finance or an operating lease. This amends prior guidance that required only capital leases to be recognized on the lessee's consolidated balance sheets. ASU 2016-02 also requires additional disclosures on the amount, timing and uncertainty of cash flows arising from leases. The System adopted ASU 2016-02 on January 1, 2019, using a modified retrospective approach. The System also elected the package of practical expedients permitted under the new standard that allowed the System to not reassess the following: (i) whether any expired or existing contracts contain leases; (ii) the lease classification for any expired or existing leases; and (iii) initial direct costs for any existing leases. The impact on the consolidated financial statements was an increase in operating lease right-of-use assets of $45,124 and an increase operating lease liabilities of $45,152. The impact of adopting ASU 2016-02 was not material to total revenues and other support without donor restrictions, excess (deficiency) of revenues over expenses or total net assets.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230).* This ASU requires entities to show the changes in the total of cash, cash equivalents and restricted cash in the consolidated statements of cash flows and reconcile those amounts to the consolidated balance sheets. The System adopted ASU 2016-18 on December 31, 2019, and applied the provisions retrospectively to all periods presented in the consolidated financial statements. For the years ended December 31, 2019 and 2018, the System added cash equivalents and restricted cash in the consolidated statements of cash flows in the amount of $157,285 and $51,853, respectively. The adoption of ASU 2016-18 had no impact to total revenues and other support without donor restrictions, excess (deficiency) of revenues over expenses or total net assets.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* This ASU intends to clarify and improve accounting guidance to determine when a transaction should be accounted for as a contribution or as an exchange transaction and provides additional guidance about how to determine whether a contribution is conditional. The System adopted ASU 2018-08 on January 1, 2019, using a modified prospective basis. The adoption of ASU 2018-08 did not have a material impact on the consolidated financial statements.

New Accounting Pronouncements: In August 2018, FASB issued ASU 2018-13, *Fair Value Measurement, Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement.* This ASU intends to improve the effectiveness of disclosures in the notes to the consolidated financial statements by modifying disclosure requirements for fair value measurements. The ASU is effective for the System for annual reporting periods beginning after December 15, 2019, with early adoption permitted. The System is currently assessing the impact that ASU 2018-13 will have on its consolidated financial statements and will adopt the provisions upon the effective date.

In August 2018, the FASB issued ASU 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans*. This ASU intends to improve the effectiveness of disclosures in the notes to the consolidated financial statements by modifying disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The ASU is effective for the System for annual reporting periods ending after December 15, 2021, with early adoption permitted. The System is currently assessing the impact that ASU 2018-14 will have on its consolidated financial statements and will adopt the provisions upon the effective date.

(in thousands of dollars)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract.* This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The ASU is effective for the System for annual reporting periods beginning after December 15, 2020, with early adoption permitted. The System is currently assessing the impact that ASU 2018-15 will have on its consolidated financial statements and will adopt the provisions upon the effective date.

Use of Estimates: The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates made by the System include, but are not limited to, the reserves for asset retirement obligations, implicit price concessions, reserve for third-party payor contractual adjustments and allowances, the provision for estimated receivables and payables for final settlements with those payors, the insurance reserves for workers' compensation, health insurance, professional and general liability, and actuarial assumptions used in determining pension obligations.

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 with original maturities of three months or less when purchased to be cash and cash equivalents. Cash equivalents are measured at fair value in the consolidated balance sheets and exclude amounts restricted, board designated, or held in trusts. At times, the amount included in cash and cash equivalents accounts may exceed federally insured limits. The System has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk with respect to cash.

The reconciliation of cash, cash equivalents and restricted cash within the consolidated balance sheets that comprise the amount reported on the consolidated statements of cash flows at December 31, 2019 and 2018 is as follows:

	2019	2018
Cash and cash equivalents	$ 298,841	$ 276,731
Cash and cash equivalents in investments	664	494
Restricted cash and cash equivalents in assets limited as to use	156,621	51,359
Total cash, cash equivalents and restricted cash	$ 456,126	$ 328,584

(in thousands of dollars)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Supplemental disclosure of cash flow information and non-cash investing and financing transactions for the years ended December 31 are as follows:

	2019	2018
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	$ 15,271	$ 8,732
Non-cash investing and financing transactions:		
Assets acquired under finance lease obligations	$ 3,555	$ 2,115
Increase in construction related payables	$ 6,601	$ 300

Patient Accounts Receivable: Patient accounts receivable consists of amounts due from government programs, commercial insurance companies, private pay patients, and other group insurance programs. 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:

	2019	2018
Medicare	33%	34%
Medicaid	21	20
Blue Cross	6	8
Other third-party payors	28	26
Patients	12	12
	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.

Other Receivables and Other Assets: Other receivables consist of third-party receivables, physician loans, Foundation receivables, managed care risk sharing receivables, lease and rent receivables and other receivables. There is no allowance for doubtful accounts established against these receivables. Other non-current assets consist of insurance recoveries, investments in healthcare ventures, goodwill, and other non-current assets.

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

	2019	2018
Current other receivables:		
Physician loans	$ 1,127	$ 1,618
Foundation receivables	1,833	1,625
Managed care risk receivables	-	980
Lease and rent receivables	430	1,135
Third-party receivables	2,146	3,421
Other	1,218	1,792
Other receivables	$ 6,754	$ 10,571

(in thousands of dollars)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Non-current other assets:

Insurance recoveries	$	105,904	$	106,735
Investments in healthcare ventures		2,638		4,782
Goodwill and other		9,556		3,158
Other assets	$	118,098	$	114,675

Inventories: Inventory consists primarily of drugs, medical supplies and food. These inventories are generally stated at the lower of cost (first-in, first-out) or net realizable value.

Investments: Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the consolidated balance sheets.

Investment income and gains restricted by a donor are reported as increases in net assets without donor restrictions if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized. Investment income or loss (including realized gains or losses on investments, interest, and dividends) is included in the excess (deficiency) of revenues over expenses, unless their use is restricted by donor stipulations or law. Unrealized gains and losses on investments are included in nonoperating revenues and expenses in the consolidated statements of operations and changes in net assets.

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

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

Gifts of long-lived assets such as land, building, or equipment are reported as support without donor restrictions 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 support with donor restrictions. Expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Operating Lease Right-of-Use Assets: The System records an operating lease right-of-use asset (that is an asset that represents the System's right to use the leased asset for the lease term) for leases that do not meet the criteria as a financing lease. The right-of-use asset is recorded at the present value of future lease payments, adding initial direct costs and prepaid lease payments, reduced by any lease incentives. Operating right-of-use assets are amortized using the straight-line method over the related lease term. For the year ended December 31, 2019, amortization of operating lease right-of-use assets is included in other expenses in the accompanying consolidated statements of operations and changes in net assets.

Debt Issuance Costs: Debt issuance costs are presented as a reduction of the carrying amount of debt rather than as an asset and amortized over the life of the related obligation. Amortization of debt issuance costs is reported as interest expense in the consolidated statements of operations and changes in net assets. Debt issuance costs, net of accumulated amortization, amounted to $5,687 and $4,521 at December 31, 2019 and 2018, respectively.

(in thousands of dollars)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The System evaluates the recoverability of long-lived assets not held for sale by measuring the carrying amount of the assets against the estimated undiscounted future cash flows associated with them. If such evaluations indicate that the future undiscounted cash flows of certain long-lived assets are not sufficient to recover the carrying value of such assets, the assets are adjusted to their fair values. Based on these evaluations, there are no adjustments to the carrying value of long-lived assets for the years ended December 31, 2019 and 2018.

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, 2019 and 2018 was $656 and $623, respectively, and is included in depreciation and amortization expense in the consolidated statements of operations and changes in net assets.

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

	2019	2018
Insurance liabilities	$ 167,537	$ 164,828
Long-term pension obligations	360,501	318,143
Asset retirement obligations	10,205	10,151
Interest rate swap liabilities	1,305	3,667
Contingent performance obligation	7,242	7,242
Other	1,697	485
Other long-term obligations	$ 548,487	$ 504,516

Net Patient Service Revenue: Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered including estimated adjustments under various reimbursement agreements with third-party payors and is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by the System. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. Management believes that this method provides a reasonable representation of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to inpatient services. The System measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided, and management does not believe it is required to provide additional goods or services to the patient.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The System has agreements with third-party payors that provide for payments to the System at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Third-party payors retain the right to review and propose adjustments to amounts recorded by the System. Such adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. The System's Healthcare Assistance Program (HAP) provides discounts to patients based on need. In addition, the System will also assist patients with the application process for free or low-cost insurance. Those uninsured patients who do not qualify for the HAP or low-cost insurance 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. The System estimates the transaction price for patients with deductibles and coinsurance from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change and are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Adjustments arising from a change in the transaction price were not significant in the twelve months ended December 31, 2019 or 2018.

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

- **Medicare:** Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The System also receives reimbursement under a prospective payment system for certain medical outpatient services, based on service groups, called ambulatory payment classifications (APCs). Other services are based upon a fee schedule and other methodologies.

- **Medicaid and Other:** Under the New York Health Care Reform Act (NYHCRA) hospitals are authorized to negotiate reimbursement rates for inpatient acute care services with all other non-Medicare payors except for Medicaid, Workers' Compensation and No-Fault, which are regulated by New York State. These negotiated rates may take the form of rates per discharge, reimbursed costs, and discounted charges or as per diem payments. Reimbursement rates for non-Medicare payors regulated by New York State are determined on a prospective basis. These rates also vary according to a patient classification system defined by NYHCRA that is based on clinical, diagnostic, and other factors. Outpatient services are paid under various reimbursement methodologies, including prospective determined rates, cost reimbursement, fee schedules, and charges.

In addition, under NYHCRA, all non-Medicare payors are required to make surcharge payments for the subsidization of indigent care and other health care initiatives. The percentage amount of the surcharge varies by payor and applies to a broad array of health care services. Surcharges are included in patient accounts receivable and the offset is in due to third-party payor liabilities. Surcharges are generally received and paid to the state within a few months. The System is required to prepare and file various reports on actual and allowable costs annually. Management believes that adequate provisions have been made in the consolidated financial statements for prior and current years' estimated settlements. The difference between the amount estimated and the actual final settlement is recorded as an adjustment to net patient service revenue in the year the final settlement is determined.

Amounts recognized for the years ended December 31, 2019 and 2018, related to prior years, including adjustments to prior year estimates, increased revenues by approximately $3,980 and $3,650, respectively. These changes in estimates are 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.

(in thousands of dollars)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Implicit Price Concessions: Implicit price concessions are 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 collectability of accounts not covered by insurance based on historical cash collections. The results of this review are then used to make modifications to the implicit price concessions recognized at time of service. After satisfaction of amounts due from insurance and reasonable efforts to collect from the patient have been exhausted, the System follows established guidelines for placing certain past-due patient balances with collection agencies, subject to terms of certain restrictions on collection efforts as determined by the System. Patient accounts receivable are written off after collection efforts have been followed in accordance with the System's policies. The implicit price concession for the year ended December 31, 2019 amounted to $25,880 ($23,477 – 2018).

Patient service revenue recognized in the period from these major payor sources is as follows for the years ended December 31:

	2019	2018
Medicare	42%	42%
Medicaid	17	13
Commercial	32	37
Other	7	7
Self-pay	2	1
	100%	100%

Charity Care: The New York State Public Health Law requires all hospitals to implement financial aid policies and procedures for their patients. The law also requires hospitals to develop and make publicly available a summary of its financial aid policies and procedures. The System provides health care services to all patients on the basis of medical need, not on the ability to pay for services. For patients who meet certain criteria under the System's charity care policy, the System provides care to these patients without charge or at amounts less than its established rates and does not pursue collection of amounts. The System has determined it has provided an implicit price concession to uninsured patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the System expects to collect based on its collection history with those patients. Those patients who meet the System's criteria for charity care are provided care without charge or at amounts less than established rates and the System has determined it has thus provided an implicit price concession. Price concessions, including charity care, are not reported as net patient service revenue.

In addition to charity care, the System provides services to patients covered by Medicaid. The payments received for services provided to patients covered by Medicaid- may be at or below costs in addition to the cost of care for patients without insurance.

Of the System's total expenses reported, an estimated $9,726 and $10,630 arose from providing services to charity patients for the years ended December 31, 2019 and 2018, respectively. Additional costs for the Hospitals include required payments for a gross receipts assessment to New York State which is used to fund the New York State Medicaid program and the HCRA. Revenues that offset the costs of Charity Care include payments from the New York State Uncompensated Care Pools.

(in thousands of dollars)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Collective Bargaining Agreements: The System has approximately 37% of its employees working under thirteen collective bargaining agreements. The agreements are set to expire beginning June 30, 2020 through March 31, 2022.

Operating and Nonoperating Revenues and Expenses: 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 activities.

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

	2019	2018
Cafeteria revenue	$ 3,180	$ 3,141
Parking revenue	1,369	1,394
Donor contributions to the Foundations without donor restrictions	2,472	1,692
Grant revenue	3,381	4,092
340(b) program revenue	5,696	5,016
Medicaid health home care coordination revenue	2,476	2,425
Rental income	5,384	4,667
Other program revenue	1,563	1,544
Clinical research	201	490
Other	2,556	2,368
Other revenue	$ 28,278	$ 26,829

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

	2019	2018
Rents and operating leases	$ 11,539	$ 10,482
Rental equipment	2,882	2,989
Dues	3,542	3,332
NYS DOH cash receipts assessment	6,833	6,983
Conferences, seminars and travel	3,387	2,171
Licenses and taxes	382	442
Sponsorships	480	391
Subscriptions	775	640
Other	2,940	3,937
Other expenses	$ 32,760	$ 31,367

Contributions: Contributions received are recorded as without donor restrictions or with donor restrictions depending on the existence and nature of any donor restrictions.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and pledges that are restricted by the donor are reported as an increase in net assets without donor restrictions 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 net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions.

Excess (Deficiency) of Revenues over Expenses: The consolidated statements of operations and changes in net assets include excess (deficiency) of revenues over expenses, commonly referred to as the performance indicator. Changes in net assets without donor restrictions, which are excluded from excess (deficiency) of revenues over expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets), the effective portion of cash flow hedging derivatives, pension liability adjustments, other than net periodic costs, and discontinued operations.

Net Assets without Donor Restrictions: Net assets without donor restrictions are available for the general operating purposes of the System and are not subject to any donor limitations.

Net Assets with Donor Restrictions: Net assets with donor restrictions include those which have been restricted by donors to be maintained in perpetuity as well as those whose use is limited by donors to a specific period or purpose and include the Hospitals interest in the donor-restricted net assets of the Mercy Hospital Foundation, Inc., Sisters Hospital Foundation, Inc., Kenmore Mercy Foundation, Inc., Mount St. Mary's Hospital Foundation, and Continuing Care Foundation, Inc. (collectively, the Foundations). Net assets with donor restrictions represent resources whose use is limited by donor-imposed stipulations that either expire by the passage of time or are met by specific actions of the Foundations. Some donor-imposed restrictions are temporary in nature and when a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restriction and are reported on the consolidated statements of operations and changes in net assets as net assets released from restrictions used for capital. Net assets with donor restrictions are released to net assets without donor restrictions as restrictions are met, which can occur within the same period. Gifts whose restrictions are met within the same period in which they are received are recorded as an increase in net assets without donor restrictions. Other donor-imposed restrictions are perpetual in nature, consisting primarily of endowments, which require that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions. Net assets with donor restrictions, which amounted to $7,592 at December 31, 2019 ($7,706 – 2018), consist primarily of contributions restricted for use towards various capital projects at the Hospitals. Proceeds from these contributions are included in the consolidated balance sheets under the captions of cash and cash equivalents and investments. Investment returns are included in net assets without donor restrictions unless the return is restricted by donor or law. Contributions receivable are included under the captions of other receivables within the consolidated balance sheets.

Endowments: For the years ended December 31, 2019 and 2018, the Mercy Hospital Foundation, Inc. and the Sisters Hospital Foundation Inc., had $246 of net assets with donor restrictions to be maintained in perpetuity from the proceeds of a Charitable Remainder Unitrusts (CRUT). The CRUTs are included under the caption of investments within the consolidated balance sheets. The Foundations segregated these restricted funds that are to be maintained in perpetuity to enable preservation of purchasing power, as well as to ensure maintenance of the donor's intent. Mount St. Mary's Hospital Foundation, Inc. had $55 of net assets with donor restrictions to be maintained in perpetuity, from the proceeds of a trust, as of December 31, 2019 ($50 – 2018). The trust is included under the caption of investments within the consolidated balance sheets. Per the trust agreement, earnings shall be divided such that half of the earnings are to be to be used by the Foundation in line with donor-imposed stipulations and the other half is to be added to the principal and remain in perpetuity.

(in thousands of dollars)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes: The consolidated financial statements do not include a provision for income taxes, as the System is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Tax-exempt organizations are subject to federal taxes on unrelated business income under section 511 of the Internal Revenue Code which are reported under the caption of other expenses in the consolidated statements of operations and changes in net assets.

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

Capitalized Software Costs: The System capitalizes certain costs that are incurred to purchase or to create and implement internal-use computer software, which includes software coding, installation, testing and certain data conversion from both internal and external providers in accordance with accounting guidance. These capitalized costs are amortized on a straight-line basis over ten years and reviewed for impairment on an annual basis. The System capitalized software, labor and various other costs of approximately $32,409 and $2,377 in 2019 and 2018 respectively. The vast majority of such costs capitalized in 2019 is related to the implementation of a new electronic medical records system.

Reclassifications: Certain reclassifications have been made to amounts in the 2018 consolidated financial statements to conform to the 2019 presentation.

Subsequent Events: The System evaluated its December 31, 2019 consolidated financial statements for subsequent events through the date the consolidated financial statements were available to be issued. The spread of the COVID-19 coronavirus has resulted in various economic and operational uncertainties, the effects of which are not reasonably estimable, but which may have a material adverse effect on the System's financial condition.

NOTE 3. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of December 31 are:

	2019	2018
Cash and cash equivalents	$ 297,616	$ 275,588
Patient accounts receivable and other receivables	125,500	129,411
Investments	138,129	179,612
Assets limited as to use	121,532	25,017
Financial assets available to meet general expenditures within one year	$ 682,777	$ 609,628

The System has certain board-designated and donor-restricted assets limited as to use which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the quantitative information above. The System has other assets limited as to use for donor-restricted purposes and debt service. Additionally, certain other board-designated assets are designated for future capital expenditures. These assets limited as to use, which are more fully detailed in Note 4, are not available for general expenditure within the next year and are not reflected in the amounts above. However, the board-designated amounts could be made available, if necessary.

(in thousands of dollars)

NOTE 3. LIQUIDITY AND AVAILABILITY (CONTINUED)

As part of the System's liquidity management plan, cash in excess of daily requirements are invested in short-term investments and money market funds. Additionally, the System maintains a $20,000 line of credit as of December 31, 2019, as discussed in more detail in Note 8.

NOTE 4. ASSETS LIMITED AS TO USE

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

	2019	2018
By Board for capital improvements:		
Funded depreciation:		
Cash and cash equivalents	$ 19,535	$ 19,512
U.S. government obligations	2,944	3,472
Interest receivable	14	16
	22,493	23,000
Held by Trustee under Indenture Agreement:		
Cash and cash equivalents	103,783	7,584
U.S. government obligations	966	964
	104,749	8,548
Held by Trustee under Letter of Credit Agreement:		
Cash and cash equivalents	2,833	2,792
Board Designated for long-term care reinvestment:		
Cash and cash equivalents	5,109	2,602
Delivery System Reform Incentive Payment funds	25,580	19,074
Other	953	986
Assets limited as to use	$ 161,717	$ 57,002

NOTE 5. INVESTMENTS

Investments consisted of the following as of December 31:

	2019	2018
Investment in debt and equity securities:		
Fair value	$ 143,713	$ 185,013
Cost	120,086	174,434
Unrealized gain	$ 23,627	$ 10,579

(in thousands of dollars)

NOTE 5. INVESTMENTS (CONTINUED)

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

	2019	2018
Interest and dividend income	$ 1,953	$ 2,646
Net unrealized and realized gains (losses) on investments	26,309	(9,927)
Investment income (loss)	$ 28,262	$ (7,281)

Included in investments is $5,584 of restricted investments held by the Foundations due to donor restrictions ($5,401 – 2018).

NOTE 6. PROPERTY AND EQUIPMENT

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

	2019	2018
Land and land improvements	$ 9,280	$ 9,003
Buildings	290,425	285,598
Equipment	326,789	304,270
Finance leases	53,547	50,449
Leasehold improvements	151,894	134,716
	831,935	784,036
Accumulated depreciation	(429,039)	(383,261)
Accumulated amortization on finance leases	(44,030)	(40,512)
	358,866	360,263
Construction in progress	63,243	15,208
Property and equipment, net	$ 422,109	$ 375,471

Depreciation expense for the years ended December 31, 2019 and 2018 amounted to $42,923 and $42,338, respectively. Amortization expense on equipment under finance leases amounted to $3,518 and $4,060 for the years ended December 31, 2019 and 2018, respectively.

NOTE 7. LEASES

The System has operating and finance leases for real estate, personal property and equipment. The System determines if an arrangement is a lease at the inception of a contract. Leases with an initial term of 12 months or less are not recorded on the consolidated balance sheets.

The System has lease arrangements which require payments for lease and non-lease components and has elected to account for these as a single lease component. For leases that commenced before the effective date of ASU 2016-02, the System elected the permitted practical expedients to not reassess the following: (i) whether any expired or existing contracts contain leases; (ii) the lease classification for any expired or existing leases; and (iii) initial direct costs for any existing leases.

(in thousands of dollars)

NOTE 7. LEASES (CONTINUED)

Right-of-use assets represent the System's right to use an underlying asset during the lease term, and lease liabilities represent the System's obligation to make lease payments arising from the lease. Right-of-use assets and liabilities are recognized at the commencement date, based on the net present value of fixed lease payments over the lease term. The System's lease terms include options to extend or terminate the lease when it is reasonably certain that the options will be exercised. As most of the System's operating leases do not provide an implicit rate, the System uses the risk-free rate for the equivalent lease term, as of the commencement date, in determining the present value of lease payments. Finance lease agreements generally include an interest rate that is used to determine the present value of future lease payments. Operating fixed lease expense and finance lease depreciation are recognized on a straight-line basis over the lease term. Variable lease costs consist primarily of common area maintenance and are not significant to total lease expense.

Operating lease right-of-use assets and liabilities as of December 31, 2019 were as follows:

Right-of-use assets:		
Operating lease assets	$	45,124
Operating lease liabilities:		
Current portion of operating lease liabilities		9,542
Long-term operating lease liabilities, net		35,610
Total operating lease liabilities	$	45,152

Finance lease right-of-use assets and liabilities as of December 31, 2019 were as follows:

Right-of-use assets:		
Property and equipment, net	$	6,771
Finance lease liabilities:		
Current portion of long-term obligations		3,820
Long-term obligations, net		9,506
Total finance lease liabilities	$	13,326

Operating expenses for the leasing activity of the System as lessee for the year ended December 31, 2019 are as follows:

Lease Type	Classification		Amount
Operating/short-term lease costs	Other operating expenses	$	11,694
Financing lease interest	Interest expense		272
Financing lease amortization	Depreciation and amortization		3,518
		$	15,484

For the year ended December 31, 2018, rental expense related to operating leases was approximately $13,500.

Cash paid for amounts included in the measurement of lease liabilities for the year ended December 31, 2019 is as follows:

Operating cash flows from operating leases	$	11,682
Operating cash flows from finance leases		272
Financing cash flows from finance leases		4,287
Total	$	16,241

(in thousands of dollars)

NOTE 7. LEASES (CONTINUED)

Right-of-use assets obtained in exchange for new lease obligations for the year ended December 31, 2019 are as follows:

Operating leases	$ 11,020
Financing leases	3,555
Total finance lease liabilities	$ 14,575

The aggregate future lease payments for operating and finance leases as of December 31, 2019 were as follows:

	Operating Leases	Finance Leases	Total
2020	$ 14,451	$ 4,216	$ 18,667
2021	11,630	3,057	14,687
2022	8,308	2,184	10,492
2023	7,114	1,639	8,753
2024	6,047	1,014	7,061
Thereafter	25,536	2,781	28,317
Total lease payments	73,086	14,891	87,977
Less: Interest	(27,934)	(1,565)	(29,499)
Present value of lease liabilities	$ 45,152	$ 13,326	$ 58,478

Average lease terms and discount rates at December 31, 2019 were as follows:

Weighted average remaining lease term:	
Operating leases	8.3 years
Finance leases	6.6 years
Weighted average discount rate:	
Operating leases	2.7%
Finance leases	3.8%

NOTE 8. LONG-TERM OBLIGATIONS

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

	2019	2018
Mercy Hospital of Buffalo		
Series 2006 Revenue Bonds (a)	$ -	$ 5,781
Series 2008 Revenue Bonds (b)	-	18,597
Series 2012 Revenue Bonds (c)	2,599	2,683
Series 2015 Revenue Bonds (d)	10,491	10,751
Series 2019 Revenue Bonds (e)	69,121	-
2017 Bridge loan financing (g)	-	14,000
Finance lease obligations and other, at interest rates ranging from 2.73% to 4.25%, collateralized by equipment	6,867	6,555
	89,078	58,367

(in thousands of dollars)

NOTE 8. LONG-TERM OBLIGATIONS (CONTINUED)

	2019	2018
Kenmore Mercy Hospital		
Series 2006 Revenue Bonds (a)	-	5,059
Series 2012 Revenue Bonds (c)	11,903	12,287
Series 2015 Revenue Bonds (d)	3,682	3,771
Series 2019 Revenue Bonds (e)	15,124	-
2016 Bridge loan financing (f)	-	5,075
Term Loan for KMH Homes, Inc. (h)	2,552	3,193
Finance lease obligations and other, at various rates of interest ranging from 2.98% to 4.00%, collateralized by equipment	2,978	3,879
	36,239	33,264
Sisters of Charity Hospital		
Series 2006 Revenue Bonds (a)	-	16,564
Series 2015 Revenue Bonds (d)	4,945	5,069
Series 2019 Revenue Bonds (e)	37,920	-
2017 Bridge loan financing (g)	-	7,000
Finance lease obligations, at various rates of interest ranging from 3.13% to 4.87%, collateralized by equipment	3,450	3,593
	46,315	32,226
Mount St. Mary's Hospital and Health Center		
Series 2019 Revenue Bonds (e)	5,371	-
Father Baker Manor		
Mortgage payable to Century Health Capital, Inc. (i)	3,498	4,060
Our Lady of Victory Renaissance Corporation		
Series 2007A Variable Rate Demand Bonds (j)	7,095	7,460
Series 2007B Variable Rate Demand Bonds (j)	1,140	1,200
Note payable (k)	300	300
	8,535	8,960
Trinity Medical WNY		
Finance lease obligations, at various rates of interest ranging from 3.15% to 5.79%, collateralized by equipment	31	130
Catholic Health System (Parent)		
Series 2015 Revenue Bonds (d)	73,425	77,203
Series 2019 Revenue Bonds (e)	68,822	-
	142,247	77,203
St. Francis Geriatric and Healthcare Services, Inc.		
Promissory Note (l)	9,116	9,452

(in thousands of dollars)

NOTE 8. LONG-TERM OBLIGATIONS (CONTINUED)

	2019	2018
Sterling Surgical Center, LLC		
Loan payable (m)	625	-
Mortgage payable (n)	92	-
	717	-
Total long-term obligations	341,147	223,662
Less: Debt issuance costs	(5,687)	(4,521)
Less: Current portion of long-term obligations	(12,475)	(20,029)
Total long-term obligations, net	$ 322,985	$ 199,112

a. In November 2006, the System executed a restructuring transaction related to its outstanding debt. As of December 31, 2018, the Obligated Group consisted of its three primary hospitals (Mercy Hospital of Buffalo, Sisters of Charity Hospital, and Kenmore Mercy Hospital) and CHS. No subsidiaries of CHS other than the Members of the Obligated Group were included in this offering. On November 29, 2006, $68,820 of Dormitory Authority of the State of New York (DASNY) Catholic Health System Obligated Group Revenue Bonds, Series 2006 were issued. The bonds consisted of the following:

- Series 2006A Bonds for $13,360 were loaned to Mercy Hospital of Buffalo in order to finance the cost of Mercy Hospital of Buffalo's operating room expansion, other expansions and improvements at Mercy Hospital of Buffalo's facility.

- Series 2006B Bonds for $30,295 were loaned to Sisters of Charity Hospital for the purpose of refunding DASNY's Sisters of Charity Hospital 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 Sisters of Charity Hospital facilities and to refinance outstanding indebtedness. Series 2006D for $8,435 was loaned to the former St. Joseph Hospital, which was merged into Sisters of Charity Hospital in 2009, to finance the cost of the St. Joseph Hospital's emergency room expansion project.

- Series 2006C Bonds for $16,730 were loaned to Kenmore Mercy Hospital 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 Kenmore Mercy Hospital 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 were collateralized by a letter of credit with HSBC Bank which was set to expire on November 29, 2019.

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 1.74% at December 31, 2018.

NOTE 8. LONG-TERM OBLIGATIONS (CONTINUED)

Certain financial covenants must be maintained by the Obligated Group as of December 31, 2018 which consisted of its three primary hospitals (Mercy Hospital of Buffalo, Sisters of Charity Hospital, and Kenmore Mercy Hospital) and CHS. Failure to comply with these covenants requires a formal consultant's report and quarterly progress reports demonstrating how the facility is progressing towards compliance. The Loan Agreement requires the Obligated Group to comply with certain financial covenants, including maintenance of (i) a minimum number of day's cash on hand; (ii) long-term debt service coverage; and (iii) a maximum leverage ratio. The Obligated Group was in compliance with these covenants at December 31, 2018.

On April 25, 2019, the System defeased the Series 2006 Bonds, which was completed by depositing $26,079 in escrow utilizing a combination of proceeds from issuance of the 2019 bonds and liquidation of trustee-held amounts related to the 2006 Series bonds. Payment was made to retire the bonds on this same date.

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

The Series 2008 Bonds were issued under the Master Trust Indenture (MTI) that was created in 2006 pursuant to the formation of the Obligated Group. All material components of the Series 2008 issue mirror the Series 2006 issue. Among these items are the following: 1) a variable remarketed rate (determined by the Security Industry and Financial Markets Association (SIFMA)) collateralized by a letter of credit with HSBC Bank expiring November 18, 2019 (with the option of an initial term loan), 2) a security interest in and assignment of gross receipts of the Mercy Hospital of Buffalo, together with the Mercy Hospital of Buffalo's right to receive or collect the gross receipts, 3) consistent financial covenants, and 4) execution of an interest rate swap agreement (with HSBC Bank) consistent with the terms utilized in the 2006 swap agreement (see Note 9). The variable interest rate was 1.71% at December 31, 2018. The proceeds from the 2019 bond issuance were used to repay all outstanding amounts under this loan agreement. The swap agreement was terminated in April 2019.

On April 25, 2019, the System defeased the Series 2008 Bonds, which was completed by depositing $18,529 in escrow utilizing a combination of proceeds from issuance of the 2019 bonds and liquidation of trustee-held amounts related to the 2006 Series bonds. Payment was made to retire the bonds on this same date.

c. On July 12, 2012, $17,315 of DASNY Catholic Health System Obligated Group Revenue Bonds, Series 2012 were issued. The Bonds consisted of the following:

- Series 2012A Bonds for $14,235 were loaned to Kenmore Mercy Hospital for the purpose of financing the cost of a new two-story addition, which includes approximately 19,000 square feet on the first floor for a new emergency department, an approximately 14,794 square feet shell space on the second floor, and an approximately 16,000 square feet basement, as well as the cost of renovating existing space, expanding the existing parking lot and related demolition, and other mechanical and infrastructure improvements. Proceeds of the Series 2012A Bonds were also applied to pay certain costs of issuing the Bonds. The discount and premium on the bonds of $157 and $159, respectively, are attributable to the difference between the stated interest rate on these bonds and will be amortized over the life of the bonds.

(in thousands of dollars)

NOTE 8. LONG-TERM OBLIGATIONS (CONTINUED)

- Series 2012B Bonds for $3,080 were loaned to Mercy Hospital of Buffalo for the purpose of funding the cost of improvements to Mercy Hospital of Buffalo's existing approximately 381,000 square foot parking facility containing approximately 1,026 spaces. Proceeds of the Series 2012B Bonds were also applied to pay certain costs of issuing the Bonds. The discount and premium on the bonds of $32 and $46, respectively, are attributable to the difference between the stated interest rate on these bonds and will be amortized over the life of the bonds.

The Series 2012 Bonds were issued under the MTI that was created in 2006 pursuant to the formation of the Obligated Group. In connection with the issuance of the Series 2012 Bonds, the Obligated Group entered into a Loan Agreement whereby the Obligated Group is required to make monthly payments sufficient to pay, among other things, the principal and sinking fund installments of and interest on the Series 2012 Bonds as they become due. The Series 2012 Bonds bear interest at a fixed rate. The interest rates, maturities, and aggregate principal amounts outstanding at December 31, 2019 are as follows:

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	12,485
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	$ 15,565

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

The Series 2006, 2008 and 2012 Loan Agreements specifies that the Obligated Group shall continuously pledge, as security for the payment of all liabilities and the performance of all obligations of the Obligated Group pursuant to the Loan Agreement, a security interest in and assignment of the gross receipts of the Obligated Group, together with the Hospitals' right to receive or collect the gross receipts. Further, the Obligated Group delivered a mortgage to secure all obligations and liabilities of the Hospitals under the Loan Agreement. As further security to the Loan Agreement, the Obligated Group granted DASNY a security interest in such fixtures, furnishings and equipment as owned by the Obligated Group. In addition, a letter of credit in the amount of the bonds was entered into with HSBC Bank to provide security on the 2006 Bonds. The financial covenants required under the Loan Agreement are consistent with those of the Series 2006 Bonds and Series 2008 Bonds. The covenants were updated with the restated MTI that was issued with the 2019 issuance.

(in thousands of dollars)

NOTE 8. LONG-TERM OBLIGATIONS (CONTINUED)

d. On April 29, 2015, $93,800 of Buffalo and Erie County Industrial Land Development Corporation Catholic Health System Obligated Group Revenue Bonds, Series 2015 were issued. Series 2015 was loaned to the Obligated Group for the purpose of financing the cost of improvements to the Labor & Delivery department, Pre/Post-Operative Holding areas, upgrading the electrical switchgear (Mercy Hospital of Buffalo), Ambulatory Surgery Center (Sisters Hospital and St. Joseph Campus), Operating Room Expansion (Kenmore Mercy Hospital), Enterprise Resource Planning software, leasehold improvements to the Administrative Regional Training Center, and purchase of the Administrative Regional Training Center (Catholic Health System). Proceeds of the Series 2015 Bonds were also applied to pay certain costs of issuing the Bonds. The premium on the bonds of $9,968 is attributable to the difference between the stated interest rate on these bonds and will be amortized over the life of the bonds.

The Series 2015 Bonds were issued under the MTI that was created in 2006 pursuant to the formation of the Obligated Group. In connection with the issuance of the Series 2015 Bonds, the Obligated Group entered into a Loan Agreement whereby the Obligated Group is required to make monthly payments sufficient to pay, among other things, the principal and sinking fund installments of and interest on the Series 2015 Bonds as they become due. The Series 2015 Bonds bear interest at a fixed rate. The interest rates, maturities, and aggregate principal amounts outstanding at December 31, 2019 are as follows:

5.00% Serial Bonds Due July 1, 2020	$	3,870
5.00% Serial Bonds Due July 1, 2021		4,075
5.00% Serial Bonds Due July 1, 2022		4,265
5.00% Serial Bonds Due July 1, 2023		4,480
5.00% Serial Bonds Due July 1, 2024		4,705
5.00% Serial Bonds Due July 1, 2025		4,955
5.00% Serial Bonds Due July 1, 2026		1,900
5.00% Serial Bonds Due July 1, 2027		1,995
5.00% Serial Bonds Due July 1, 2028		2,095
5.00% Serial Bonds Due July 1, 2029		2,200
5.00% Serial Bonds Due July 1, 2030		2,305
5.25% Term Bonds Due July 1, 2035		13,440
5.00% Term Bonds Due July 1, 2040		17,275
4.00% Term Bonds Due July 1, 2045		17,630
Total Series 2015 Bonds	$	85,190

e. On April 15, 2019, $184,645 of DASNY Catholic Health System Obligated Group Revenue Bonds, Series 2019 were issued. The Bonds consisted of the following:

Series 2019A Bonds for $140,720 were loaned to the Obligated Group for the purpose of (i) financing portions of certain improvements, equipment and strategic investments, including a new electronic medical records system, maternity services renovations and new sterile processing department; (ii) refund, in full, certain existing bank credit facilities, currently outstanding in the aggregate principal amount of approximately $26,000,000 (see f and g below); (iii) refund (a) all of the DASNY Catholic Health System Obligated Group Revenue Bonds, Series 2006A-D and (b) all of the DASNYs Catholic Health System Obligated Group Revenue Bonds, Series 2008; and (iv) pay costs of issuance on the Series 2019A Bonds and the refunding of the Refunded Bonds. The discount and premium on the bonds as of December 31, 2019 was $185 and $10,966, respectively. The Series 2019A Bonds bear interest at a fixed rate. The interest rates, maturities, and aggregate principal amounts outstanding at December 31, 2019 are as follows:

(in thousands of dollars)

NOTE 8. LONG-TERM OBLIGATIONS (CONTINUED)

5.00% Serial Bonds Due July 1, 2020	$ 2,935
5.00% Serial Bonds Due July 1, 2021	3,075
5.00% Serial Bonds Due July 1, 2022	4,085
5.00% Serial Bonds Due July 1, 2023	4,275
5.00% Serial Bonds Due July 1, 2024	4,485
3.00% Serial Bonds Due July 1, 2025	4,705
5.00% Serial Bonds Due July 1, 2026	4,825
3.00% Serial Bonds Due July 1, 2027	5,945
5.00% Serial Bonds Due July 1, 2028	6,130
5.00% Serial Bonds Due July 1, 2029	6,430
5.00% Serial Bonds Due July 1, 2026	6,750
4.00% Serial Bonds Due July 1, 2027	7,090
4.00% Serial Bonds Due July 1, 2028	7,370
4.00% Serial Bonds Due July 1, 2029	7,670
4.00% Serial Bonds Due July 1, 2030	9,135
5.00% Serial Bonds Due July 1, 2035	9,495
4.00% Term Bonds Due July 1, 2045	46,320
Total Series 2019A Bonds	$ 140,720

Series 2019B Bonds for $43,925 were loaned to the Obligated Group for the purpose of (i) financing portions of certain improvements, equipment and strategic investments, including a new electronic medical records system, maternity services renovations and new sterile processing department and (ii) pay costs of issuance on the Series 2019B Bonds. The premium on the bonds of $1,526 is attributable to the difference between the stated interest rate on these bonds and will be amortized over the life of the bonds. The 2019B bonds were issued as multimodal bonds, initially in the weekly rate mode, and will remain so until successfully converted to bear interest for a different rate period. The bonds pay interest at a variable remarketed rate and are collateralized by a letter of credit with Manufacturers and Traders Trust Company and expires on April 25, 2029.

Additional members were added to the Obligated Group with an Amended and Restated MTI: Mount St. Mary's Hospital, McAuley-Seton Home Care, and Mercy Home Care. Under the new MTI, the liquidity covenant and maximum leverage ratio were removed. The Long-Term Debt Service Coverage ratio, previously 1.50 to 1.00, was updated to not be less than 1.00 to 1.00. The debt service is calculated on the basis of amortizing total outstanding principal over the following 30 years to achieve a level annual debt service payment. If at any time the Long-Term Debt Service Coverage Ratio is not met, the Obligated Group agrees to retain an independent consultant to make recommendations to increase the Long-Term Debt Service Coverage Ratio in the following fiscal year to the level required or, if in the opinion of the consultant the attainment of that level is impracticable, to the highest level attainable. Notwithstanding the foregoing, it shall be an event of default under the MTI if for each of two consecutive fiscal years, the Long-Term Debt Service Coverage Ratio is less than 1.00 to 1.00.

f. On December 30, 2016, Kenmore Mercy Hospital entered into a loan agreement with HSBC Bank in the amount of $5,822. The term loan calls for monthly principal payments of $45 plus interest (30-day LIBOR plus 200). The loan matures on December 30, 2021 with a balloon payment of the outstanding balance at that time. The proceeds from the 2019 bond issuance were used to repay all outstanding amounts under this loan agreement.

NOTE 8. LONG-TERM OBLIGATIONS (CONTINUED)

g. On April 7, 2017, Mercy Hospital of Buffalo and Sisters of Charity Hospital entered into two loan agreements with KeyBank in the amount of $14,000 and $7,000, respectively. Promissory notes representing a borrowing under the 2017 loan agreements were signed December 14, 2018 at the full amount of the original loan agreements. Variable interest only payments are made monthly with the maturity date for the principal balance due May 31, 2019. The proceeds from the 2019 bond issuance were used to repay all outstanding amounts under this loan agreement.

h. On December 20, 2017, KMH Homes, Inc. entered into a term note with M&T Bank in the amount of $3,752. The loan calls for monthly payments of $64, which includes principal and interest. Initial payment began on February 1, 2018 with the final payment in July 2023. The debt is guaranteed by the System.

i. Mortgage payable to Century Health Capital (an FHA - Insured Mortgage). The mortgage is payable in monthly installments of $64 including fixed interest of 5.375%. Monthly payments continue through maturity in March 2025. The mortgage is collateralized by the building and equipment.

j. On April 1, 2007, OLV Renaissance entered into agreements with the Erie County Industrial Development Agency (the Agency) for the purpose of obtaining revenue bonds used to finance construction of its Skilled Nursing Facility (SNF) and Program of All-Inclusive Care for the Elderly (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 1.70% and 1.80% for the Series 2007A bonds and 1.98% and 2.60% for the Series 2007B bonds at December 31, 2019 and 2018, respectively. 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 2016 to 2032 in amounts ranging from $310 to $740 at variable interest rates. The Series 2007B Revenue Bonds are subject to mandatory sinking fund redemptions in years 2016 to 2032 in amounts ranging from $55 to $115.

NOTE 8. LONG-TERM OBLIGATIONS (CONTINUED)

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 accounts receivable without donor restrictions and a right of setoff against OLV Renaissance's funds held by the trustee.

In accordance with the financing documents, at the option of the Issuer and upon notice given by OLV Renaissance, the Series 2007A Revenue Bonds are subject to optional redemption at 100%. In connection with the Bond financing, OLV Renaissance has executed an irrevocable direct pay letter of credit with a financial institution for a maximum amount of $10,261. The letter of credit is set to expire on May 1, 2020. There is no outstanding amount at December 31, 2019 or 2018. 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. Subsequent to year-end, the letter of credit was extended with a new expiration date of February 28, 2030.

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

Mercy Hospital of Buffalo was in compliance with this covenant as of December 31, 2019 and 2018. OLV Renaissance was in compliance with this covenant as of December 31, 2019 and 2018.

k. During 2006, OLV Renaissance borrowed $300 from Erie County to develop 74 rental apartments. The note is a payable with interest at the applicable federal rate in effect at the time of the disbursement (5.86%) on the thirtieth annual anniversary of the final disbursement of the note. At the maturity date, OLV Renaissance may elect to extend the term of this loan for an additional twenty year term. Upon notice of such election to Erie County, and at expiration of such twenty-year term, the unpaid balance of the note plus any accrued interest thereon shall be forgiven, provided that OLV Renaissance remit any repayment from the related party from their note receivable.

l. On January 19, 2019, St. Francis Geriatric and Healthcare Services, Inc. entered into a promissory note with Five Star Bank in the amount of $9,750. The loan calls for monthly payments of $59, which includes principal and interest. Payments began on February 19, 2019 with the final payment due on January 19, 2028.

m. Term note payable in minimum monthly installments of approximately $11, which includes accrued interest at a rate of 5.35%, through May 2025.

n. Mortgage payable in minimum monthly installments of approximately $7, which includes a fixed interest rate of 4.46%, through February 2021.

(in thousands of dollars)

NOTE 8. LONG-TERM OBLIGATIONS (CONTINUED)

Aggregate maturities of long-term obligations, including Finance lease obligations, considering obligations subject to short-term remarketing as due according to their long-term amortization schedule, subsequent to December 31, 2019 are as follows:

	Long-Term Debt	Finance Leases	Total
2020	$ 8,655	$ 3,820	$ 12,475
2021	8,379	2,681	11,060
2022	8,693	1,964	10,657
2023	8,744	1,484	10,228
2024	8,517	911	9,428
Thereafter	284,833	2,466	287,299
	327,821	13,326	341,147
Less: Debt issuance costs	(5,687)	-	(5,687)
Less: Current maturities	(8,655)	(3,820)	(12,475)
Long-term obligations, net	$ 313,479	$ 9,506	$ 322,985

The System had a revolving line of credit of $20,000 as of December 31, 2019 and 2018. There was no amount outstanding on the revolving line of credit as of December 31, 2019 or 2018.

NOTE 9. DERIVATIVE FINANCIAL INSTRUMENTS

In connection with the Series 2006 and 2008 Bonds and execution of the Loan Agreement, the Hospitals entered into interest rate swap agreements (derivative agreements) with HSBC Bank and JP Morgan Chase (the Financial Institutions) for purposes of mitigating risk posed by the Bonds accruing interest at a variable rate. Further, the Hospitals agreed not to take or omit to take any action that could reasonably be expected to result in the termination of the derivative agreement unless otherwise approved by the Financial Institutions, provided, however, that termination of the derivative agreement shall not constitute an event of default for purposes of the Loan Agreement, but upon any such termination of the derivative agreement, the Financial Institutions may require that the Hospitals direct the Series 2006 or Series 2008 Bonds be converted to bonds that bear a fixed rate of interest. The interest rate swap agreements outstanding on the Series 2006 Bonds were settled in 2014. Termination costs in the amount of $5,772 will be amortized over the remaining life of the bonds. Amortization expense related to the termination costs was $1,028 and $1,833 for the years ended December 31, 2019 and 2018, respectively. The interest rate swap agreement outstanding on the Series 2008 Bonds was settled in 2019. Termination costs in the amount of $2,898 were included in interest expense for the year ended December 31, 2019 in the consolidated statements of operations and changes in 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 change in fair value for the effective portion of the hedge has been excluded from excess (deficiency) of revenues over expenses and is recorded within changes in net assets.

NOTE 9. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

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

	2019		2018	
(in thousands of dollars)	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Interest rate contracts floating to fixed	Other long-term obligations	$ 1,305	Other long-term obligations	$ 3,667

The effects of derivative instruments on the consolidated statements of operations and changes in net assets at December 31 is as follows:

	Ineffective portion in Statement of Operations		Effective portion in Net Assets	
(in thousands of dollars)	**2019**	**2018**	**2019**	**2018**
Change in fair value of interest rate swaps	$ (14)	$ 18	$ (571)	$ 828
Termination of interest rate swaps	$ -	$ -	$ 2,898	$ -

The Hospitals measure their interest rate swaps at fair value on a recurring basis. The fair value of the interest rate swaps is determined based on financial models that consider current and future market interest rates and adjustments for nonperformance risk. The inputs utilized in the valuation process of the interest rate swaps are considered to be Level II within the fair value hierarchy defined in Note 13.

NOTE 10. EMPLOYEE BENEFIT PLANS

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

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

The Plan bases benefits upon both years of service and earnings. Participants under the Hospitals formula earn benefits under a final average formula or a career average formula. The cash balance formula is a hypothetical account balance formula. A participant's benefit obligation is assigned to the location at which the person works. As participants transfer within the System to other CHS subsidiaries, the obligations and a proportional amount of the Plan's assets transfer, accordingly.

(in thousands of dollars)

NOTE 10. EMPLOYEE BENEFIT PLANS (CONTINIUED)

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

	2019	2018
Projected Benefit Obligations		
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 690,160	$ 725,508
Service cost	22,734	24,140
Interest cost	30,087	26,743
Expenses	(979)	(1,239)
Benefits paid	(25,879)	(23,497)
Actuarial loss (gain)	96,792	(61,495)
Projected benefit obligation at end of year	$ 812,915	$ 690,160
Accumulated benefit obligations at end of year	$ 742,646	$ 634,520
Plan Assets		
Change in plan assets:		
Fair value of assets at beginning of year	$ 372,061	$ 388,940
Actual return on plan assets	74,245	(25,273)
System contribution	33,011	33,131
Expenses	(1,024)	(1,284)
Benefits paid	(25,879)	(23,497)
Fair value of plan assets at end of year	$ 452,414	$ 372,017
Funded status at end of year	$ (360,501)	$ (318,143)
Amounts recognized in the consolidated balance sheets:		
Other long-term obligations	$ (360,501)	$ (318,143)
Net amounts recognized	$ (360,501)	$ (318,143)
Amounts recognized in net assets without donor restrictions consist of:		
Actuarial net loss	$ (222,576)	$ (178,372)
Prior service cost	(9)	(186)
Total amount recognized	$ (222,585)	$ (178,558)

(in thousands of dollars)

NOTE 10. EMPLOYEE BENEFIT PLANS (CONTINUED)

	2019	2018
Other changes recognized in net assets without donor restrictions:		
Net gain (loss) arising during the period	$ 51,997	$ (8,402)
Amortization of prior service cost	(178)	(66)
Amortization of loss	(7,774)	(13,860)
Total amount recognized	$ 44,045	$ (22,328)
Components of net periodic benefit cost:		
Service cost	$ 22,734	$ 24,140
Interest cost	30,087	26,743
Expected return on plan assets	(29,432)	(27,918)
Amortization of prior service cost	178	66
Amortization of net loss	7,748	13,840
Recognized actuarial loss	26	20
Net periodic pension cost	$ 31,341	$ 36,891

The System's estimated prior service cost of $16 and net loss of $15,721 will be amortized from net assets without donor restrictions into net periodic pension cost over the next fiscal year.

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

The Plan's target asset allocation and the actual asset allocation percentages for the years ended December 31, 2019 and 2018 are as follows at the respective measurement dates:

		Actual	
Asset Category	**Target**	**2019**	**2018**
Equities	70%	75%	69%
Fixed income	25	24	26
Other	5	1	5
	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 that is established by evaluating expected return, standard deviation, and correlation of various assets against the Plan's long-term objectives. Asset performance is monitored quarterly and rebalanced if asset classes exceed explicit ranges. The Statement of Policy and Investment Objectives governs permitted types of investments and outlines specific benchmarks and performance percentiles. The Catholic Health Benefit Plan Committee oversees the pension investment program and monitors investment performance. Risk is closely monitored through the evaluation of portfolio holdings and tracking the beta and standard deviation of the portfolio performance. The use of derivative financial instruments as an investment vehicle is specifically limited.

NOTE 10. EMPLOYEE BENEFIT PLANS (CONTINUED)

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

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2019 and 2018.

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

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

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

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

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

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

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

(in thousands of dollars)

NOTE 10. EMPLOYEE BENEFIT PLANS (CONTINUED)

The following table presents the Plan's financial instruments as of December 31, 2019, measured at fair value on a recurring basis using the fair value hierarchy defined in Note 13.

At December 31, 2019	Level I	Level II	Level III	Total
Pension plans:				
Cash and cash equivalents	$ 10,165	$ -	$ -	$ 10,165
Equity securities	77,972	-	-	77,972
Debt securities:				
Government and government agency obligations	-	21,014	-	21,014
Corporate bonds	-	51,521	-	51,521
Asset backed securities	-	14,014	-	14,014
Mutual funds:				
Equity mutual funds	50,067	-	-	50,067
Fixed mutual funds	20,078	-	-	20,078
Subtotal	$ 158,282	$ 86,549	$ -	244,831
Investment measured at net asset value:				
Commingled funds:				
Equity commingled funds				167,242
Fixed income commingled funds				20,070
Hedge funds				20,271
Total				$ 452,414

At December 31, 2018	Level I	Level II	Level III	Total
Pension plans:				
Cash and cash equivalents	$ 8,125	$ -	$ -	$ 8,125
Equity securities	60,306	-	-	60,306
Debt securities:				
Government and government agency obligations	-	17,232	-	17,232
Corporate bonds	-	50,162	-	50,162
Asset backed securities	-	11,620	-	11,620
Mutual funds:				
Equity mutual funds	45,287	-	-	45,287
Fixed mutual funds	20,185	-	-	20,185
Subtotal	$ 133,903	$ 79,014	$ -	212,917
Investment measured at net asset value:				
Commingled funds:				
Equity commingled funds				123,633
Fixed income commingled funds				17,591
Hedge funds				17,876
Total				$ 372,017

(in thousands of dollars)

NOTE 10. EMPLOYEE BENEFIT PLANS (CONTINUED)

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 $33,004 to the pension plan trust during the year ending December 31, 2020 to be allocated amongst participating entities.

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

2020	$ 30,849
2021	$ 33,081
2022	$ 35,489
2023	$ 38,033
2024	$ 40,315
2025 - 2029	$ 229,581

	2019	2018
Weighted average assumptions used to determine end of the year benefit obligations:		
Discount rate	3.45%	4.45%
Rate of compensation increase	Age Based	Age Based
Weighted average assumptions used to determine net periodic pension cost:		
Discount rate	4.45%	3.75%
Expected long-term rate of return on plan assets	7.25%	7.25%
Rate of compensation increase	Age Based	Age Based
Measurement date	12/31/2019	12/31/2018

NOTE 11. INSURANCE ARRANGEMENTS

Professional and General Liability Arrangements
The System participates in the Trinity Health insurance program, which provides coverage for healthcare professional (medical malpractice) and general liability exposures. The primary limits were $20,000 per occurrence for healthcare professional liability and general liability for the years ending December 31, 2019 and 2018. Professional and general liabilities are insured by Trinity Assurance, Ltd. (TAL), formerly Venzke Insurance Company, Ltd. (Venzke). TAL is a Cayman-domiciled insurer wholly-owned by Trinity Health. Excess coverage was also provided to the System, and this excess coverage is fully reinsured with nonaffiliated commercial insurance companies.

NOTE 11. INSURANCE ARRANGEMENTS (CONTINUED)

The coverage provided is on a claims-made basis. The System therefore retains the liability for unasserted claims resulting from incidents that occurred on services provided prior to the consolidated financial statement date. The System has independent actuaries estimate the ultimate costs of such unasserted claims, which were discounted at 2.5% and 3% for the years ended December 31, 2019 and 2018, respectively. The System's reserve for unpaid and incurred but not reported claims at December 31, 2019 and 2018 is $96,853 and $93,447, respectively, and is included within other long-term obligations. The charges to expenses for professional and general liability for the years ended December 31, 2019 and 2018 were $11,190 and $11,159, respectively, which has been included in insurance expense. The required claims liability and any anticipated insurance recoveries are to be reported on a gross basis. Amounts recognized as insurance receivables related to the claims were $82,261 and $80,953 at December 31, 2019 and 2018, respectively, and is included in other non-current assets. Insurance recoveries are measured on the same basis as the liability subject to the need for a valuation allowance on uncollectible amounts.

Workers' Compensation Arrangements

The System's insurance program for workers' compensation has a deductible of $750 per occurrence during the years ending December 31, 2019 and 2018. Claims in excess of the deductible are fully insured. Losses from asserted claims and from unasserted claims identified under the System's incident reporting programs were accrued on a discounted basis based upon actuarial estimates of the settlement of such claims. The discount rate applied is 2.5% and 3% during the years ending December 31, 2019 and 2018, respectively. The System's current portion of liabilities for unpaid and incurred but not reported claims at December 31, 2019 and 2018 is $8,750 and $8,949, 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, 2019 and 2018 is $70,684 and $71,381, respectively, and is included in other long-term obligations.

The charges to expenses for workers' compensation costs approximated $9,145 and $11,155 for the years ended December 31, 2019 and 2018, respectively, which has been included in employee benefits expense. The required claims liability and any anticipated insurance recoveries are to be reported on a gross basis. The System's current portion of insurance receivables related to the claims at December 31, 2019 and 2018 is $543 and $677, respectively, and is included in prepaid expenses and other current assets. The System's long-term portion of insurance receivables related to the claims at December 31, 2019 and 2018 is $23,643 and $25,782, respectively, and is included in other non-current assets. Insurance recoveries are measured on the same basis as the liability subject to the need for a valuation allowance for uncollectible amounts.

Employee Health Arrangements

The System's insurance for employee health costs is self-insured up to $450 and $350 per claim during the years ending December 31, 2019 and 2018, respectively. 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, 2019 and 2018, was $8,242 and $8,344, respectively.

NOTE 12. LEGAL MATTERS

The System is involved in litigation and regulatory investigations arising in the course of business. The health care industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at the time. Recently, government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for patient services previously billed under Medicare and Medicaid programs in the current and preceding years. While certain regulatory inquiries have been made at December 31, 2019, compliance with such laws and regulations is currently subject to government review and interpretation as well as regulatory actions unknown and/or unasserted at this time. Management believes it is in compliance with such laws and regulations and no unknown or unasserted claims were known at this time, which could have a material adverse affect on the System's future financial position, results from operations or cash flows.

NOTE 13. FAIR VALUE MEASUREMENTS

The System's consolidated financial statements reflect certain assets and liabilities recorded at fair value. Assets and liabilities measured at fair value on a recurring basis on the System's consolidated balance sheets include cash and cash equivalents, equity securities, debt securities, exchange traded funds, mutual funds, and interest rate swaps. Liabilities measured at fair value on a recurring basis for disclosure only include debt.

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

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

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level I) and the lowest priority to unobservable inputs (level III). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

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

Level II: Inputs to the valuation methodology include:

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

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

NOTE 13. FAIR VALUE MEASUREMENTS (CONTINUED)

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

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

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

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

The following tables summarize investments measured at fair value based on net asset value (NAV) per share as of December 31, 2019 and 2018.

Cash and Cash Equivalents: The carrying amounts reported in the consolidated balance sheets approximate their fair value. Certain cash and cash equivalents are included in investments and assets limited or restricted as to use in the consolidated balance sheets. The System considers all highly liquid investments, generally with original maturities of three months or less when purchased, and short-term investments excluding amounts limited as to use, to be cash equivalents.

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

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

Exchange Traded Funds: Exchange traded funds are valued at the closing price reported on the applicable exchange on which the security traded is tracked.

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

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

(in thousands of dollars)

NOTE 13. FAIR VALUE MEASUREMENTS (CONTINUED)

Investment in Ascension Alpha Fund, LLC: This fund is wholly owned subsidiary of Ascension Health and includes pooled short-term investment funds, equity securities, and fixed income securities. The fund's investments also include alternative investments and other investments, which are valued at the net asset value of the investments.

Interest Rate Swap Liability: The fair value of the interest rate swap is determined based on financial models that consider current and future market interest rates and adjustments for nonperformance risk. The fair value of these interest rate derivatives is based on quoted prices for similar instruments from a commercial bank, and therefore, the interest rate derivative is considered a Level II item in the fair value hierarchy.

The following tables set forth by level, within the fair value hierarchy, the System's assets at fair value as of December 31, 2019 and 2018:

At December 31, 2019	Level I	Level II	Level III	Total
Assets limited as to use:				
Cash and cash equivalents	$ 156,621	$ -	$ -	$ 156,621
Equity securities	7	-	-	7
Government and government agency obligations	2,944	2,132	-	5,076
Other	-	13	-	13
Total	$ 159,572	$ 2,145	$ -	$ 161,717
Investments:				
Cash and cash equivalents	$ 664	$ -	$ -	$ 664
Equity securities	12,604	-	-	12,604
Debt securities	754	1,084	-	1,838
Exchange traded funds	4,638	-	-	4,638
Mutual funds	1,851	-	-	1,851
Other	-	516	-	516
Subtotal	$ 20,511	$ 1,600	$ -	22,111
Investment measured at net asset value:				
Investment in Ascension Alpha Fund, LLC				121,602
Total				$ 143,713
Interest rate swap liability	$ -	$ 1,305	$ -	$ 1,305

(in thousands of dollars)

NOTE 13. FAIR VALUE MEASUREMENTS (CONTINUED)

At December 31, 2018	Level I	Level II	Level III	Total
Assets limited as to use:				
Cash and cash equivalents	$ 51,359	$ -	$ -	$ 51,359
Equity securities	8	-	-	8
Government and government agency obligations	3,472	2,163	-	5,635
Total	$ 54,839	$ 2,163	$ -	$ 57,002
Investments:				
Cash and cash equivalents	$ 494	$ -	$ -	$ 494
Equity securities	10,109	-	-	10,109
Debt securities	1,403	1,328	-	2,731
Exchange traded funds	3,810	-	-	3,810
Mutual funds	1,738	-	-	1,738
Other	-	500	-	500
Subtotal	$ 17,554	$ 1,828	$ -	19,382
Investment measured at net asset value:				
Investment in Ascension Alpha Fund, LLC				165,631
Total				$ 185,013
Interest rate swap liability	$ -	$ 3,667	$ -	$ 3,667

NOTE 14. RELATED PARTY TRANSACTIONS

CIPA WNY IPA d/b/a “Catholic Medical Partners” was incorporated in 1996 to establish managed care contracts that support clinical integration and provider accountability for cost and quality. The hospitals, long-term care, and home care subsidiaries are members of Catholic Medical Partners. The System has five of its executive staff on the Catholic Medical Partners’ Board of Directors.

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

East Aurora Medical Building, L.P. (EAMB) is a joint venture between Olean RE Property, LLC., Buffalo Family Group, Inc., Aurora Mercy Corporation (a wholly owned Corporation of Mercy Hospital of Buffalo), and seven other joint venture limited partners. On April 10, 2018, EAMB refinanced its outstanding debt of $2,200 at which time Mercy Hospital of Buffalo became sole guarantor of principal and interest on the debt. For the year ended December 31, 2019, the outstanding balance of debt was $2,122 ($2,170 – 2018).

Caritas Medical Arts Building L.L.C. is a joint venture between Sisters of Charity Hospital and Ciminelli Development Company. For the year ended December 31, 2019, there was $1,479 ($1,579 – 2018) of debt outstanding related to the Caritas Medical Arts Building L.L.C., of which Sisters of Charity Hospital has guaranteed $493 ($526 – 2018). Per the guaranty agreement, Sisters of Charity Hospital's obligation shall decrease on a dollar for dollar basis as the principal amount of the obligation is paid down.

NOTE 14. RELATED PARTY TRANSACTIONS (CONTINUED)

Marian Professional Center Associates, L.P. is a joint venture between Ciminelli Development Company, Mercy Hospital of Buffalo, Alsace Abbott Corporation (a wholly owned Corporation of Mercy Hospital of Buffalo), and three other joint venture partners. For the year ended December 31, 2019, there was $4,377 ($4,559 – 2018) of debt outstanding related to the Marian Professional Center Associates, L.P., of which the System has guaranteed $2,189 ($2,280 – 2018). Per the guaranty agreement, the System's obligation shall decrease on a dollar for dollar basis as the principal amount of the obligation is paid down.

NR Physician Group, P.L.L.C. is a joint venture between Niagara Medicine, P.C., Roswell Park Comprehensive Cancer Center and Buffalo Medical Group. NR Physician Group, P.L.L.C. provides radiation oncology services.

Niagara Falls Memorial Medical Center Cath Lab is a joint venture between Catholic Health System, Inc., Kaleida Health, Erie County Medical Center Corporation and Niagara Falls Memorial Medical Center. The joint operating agreement's purpose is to establish the joint operating responsibilities for the cath lab on the campus of Niagara Falls Memorial Medical Center and provide cath lab services for the residents or Niagara County.

NOTE 15. DISCONTINUED OPERATIONS

The following subsidiaries, whose operations ceased prior to 2016 and whose physical assets were sold prior to 2017, have been accounted for within discontinued operations: Nazareth Home of the Franciscan of the Immaculate Conception, St. Francis Home of Williamsville, St. Elizabeth's Home and St. Vincent's Home for the Aged.

The residual assets (net of inter-company receivables), liabilities, and accumulated net deficit of the discontinued operations were $8,447, $14,872 and ($4,485), respectively, as of December 31, 2019 and are included within their natural classifications in the accompanying consolidated balance sheets. The residual assets (net of inter-company receivables), liabilities, and accumulated net deficit of these discontinued operations were $9,584, $14,961 and ($3,434), respectively, as of December 31, 2018.

The aggregate gain (loss) from discontinued operations was approximately ($1,051) and $322 for the years ended December 31, 2019 and 2018, respectively.

NOTE 16. FUNCTIONAL EXPENSES

Consistent with US GAAP the System provides an analysis of expenses by both natural and functional classification. Natural expenses are defined by their nature such as salaries, rent, supplies, etc. Functional expenses are classified by the type of activity for which expenses were incurred, for example, management and general and direct program costs. Expenses were allocated by function using a reasonable and consistent approach that was primarily based on the personnel costs directly attributable by function.

(in thousands of dollars)

NOTE 16. FUNCTIONAL EXPENSES (CONTINUED)

	December 31, 2019		
	Healthcare Services	Management and General	Total
Salaries and wages	$ 498,633	$ 60,546	$ 599,179
Employee benefits	124,797	15,133	139,930
Medical and professional fees	41,147	20,715	61,862
Purchased services	108,121	16,193	124,314
Supplies	212,366	640	213,006
Depreciation and amortization	43,882	3,215	47,097
Interest	13,487	3,087	16,574
Insurance	13,255	93	13,348
Other expenses	28,203	4,557	32,760
Total	$ 1,083,891	$ 124,179	$ 1,208,070

	December 31, 2018		
	Healthcare Services	Management and General	Total
Salaries and wages	$ 478,384	$ 55,571	$ 533,955
Employee benefits	133,695	15,500	149,195
Medical and professional fees	40,919	10,663	51,582
Purchased services	100,185	10,825	111,010
Supplies	212,452	2,433	214,885
Depreciation and amortization	44,111	2,910	47,021
Interest	10,685	1,976	12,661
Insurance	12,441	160	12,601
Other expenses	27,255	4,112	31,367
Total	$ 1,060,127	$ 104,150	$ 1,164,277

FreedMaxick® CPAs, P.C.

INDEPENDENT AUDITOR'S REPORT ON ACCOMPANYING SUPPLEMENTARY INFORMATION

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

We have audited the consolidated financial statements of Catholic Health System, Inc. and its Subsidiaries (together the System) as of December 31, 2019 and 2018 and for the years then ended and our report thereon appears on pages 1 - 2 of this document. These audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The Schedule of Net Cost of Providing Care of Persons Living in Poverty and Community Benefit Programs (Schedule of Social Accountability - Unaudited) 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 - Unaudited).

The consolidating information for Catholic Health System, Inc. and its subsidiaries, presented on pages 46 through 58, and the consolidating information for Kenmore Mercy Hospital and subsidiaries, presented on pages 59 through 61, is presented for purposes of additional analysis rather than to present the financial position, results of operations and cash flows of the individual companies and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2019 information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Freed Maxick CPAs, P.C.

Buffalo, New York
May 1, 2020

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

SCHEDULE OF NET COST OF PROVIDING CARE OF PERSONS LIVING IN POVERTY AND COMMUNITY BENEFIT PROGRAMS (SCHEDULE OF SOCIAL ACCOUNTABILITY - UNAUDITED)
Years Ended December 31, 2019 and 2018
(in thousands of dollars)

The total net costs related to the care of the poor and benefits for the broader community as of December 31, 2019 and 2018 are set forth in the following table:

	2019	2018
Charity care	$ 9,726	$ 10,630
Cost of community benefit programs	54,625	51,085
Unpaid cost of Medicaid programs	70,616	64,716
	$ 134,967	$ 126,431

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET
(in thousands of dollars)
December 31, 2019

ASSETS	Parent	Acute Care Subsidiaries	Home and Community Based Subsidiaries	Other Subsidiaries	Discontinued Operations	Eliminations	Total
Current assets:							
Cash and cash equivalents	$ 11,668	$ 226,482	$ 39,739	$ 15,887	$ 4,995	$ 70	$ 298,841
Patient accounts receivable	-	103,651	11,534	4,069	-	-	119,254
Other receivables	895	5,513	178	168	-	-	6,754
Inventories	9	21,322	1,127	-	-	-	22,458
Prepaid expenses and other current assets	5,786	1,595	57	384	2	-	7,824
Due from affiliates	123,958	1,277	827	411	1,572	(128,045)	-
Total current assets	142,316	359,840	53,462	20,919	6,569	(127,975)	455,131
Interest in net assets of related Foundations	-	-	121	5	129	(255)	-
Assets limited as to use	92,811	56,380	10,037	1,378	1,111	-	161,717
Investments	-	128,203	15,510	-	-	-	143,713
Property and equipment, net	114,984	272,508	15,905	18,712	-	-	422,109
Operating lease right-of-use assets	14,628	33,714	1,430	16,034	-	(20,682)	45,124
Other assets	30,498	96,477	10,965	12,928	2,210	(34,980)	118,098
Due from affiliates	5,116	11,760	2,239	-	368	(19,483)	-
Total assets	$ 400,353	$ 958,882	$ 109,669	$ 69,976	$ 10,387	$ (203,375)	$ 1,345,892
LIABILITIES AND NET ASSETS (DEFICIT)							
Current liabilities:							
Current portion of long-term obligations	$ 5,265	$ 5,592	$ 942	$ 676	$ -	$ -	$ 12,475
Current portion of operating lease liabilities	3,414	7,211	158	2,118	-	(3,359)	9,542
Accounts payable	17,929	47,404	489	3,651	-	-	69,473
Accrued expenses	31,096	65,612	5,172	3,713	421	-	106,014
Due to third-party payors	2,178	40,793	1,562	3,871	437	-	48,841
Due to affiliates	2,689	64,675	13,266	44,497	10,203	(135,330)	-
Total current liabilities	62,571	231,287	21,589	58,526	11,061	(138,689)	246,345
Long-term obligations, net	134,406	168,678	11,447	8,454	-	-	322,985
Long-term operating lease liabilities, net	11,229	26,507	1,273	13,924	-	(17,323)	35,610
Other long-term obligations	70,615	446,320	25,256	2,485	3,811	-	548,487
Due to affiliates	12,128	-	-	-	-	(12,128)	-
Total liabilities	290,949	872,792	59,565	83,389	14,872	(168,140)	1,153,427
Net assets (deficit):							
Without donor restrictions	105,945	78,716	49,983	(13,783)	(4,485)	(31,503)	184,873
With donor restrictions	3,459	7,374	121	370	-	(3,732)	7,592
Total net assets (deficit)	109,404	86,090	50,104	(13,413)	(4,485)	(35,235)	192,465
Total liabilities and net assets (deficit)	$ 400,353	$ 958,882	$ 109,669	$ 69,976	$ 10,387	$ (203,375)	$ 1,345,892

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT)
(in thousands of dollars)
For the Year Ended December 31, 2019

	Parent	Acute Care Subsidiaries	Home and Community Based Subsidiaries	Other Subsidiaries	Discontinued Operations	Eliminations	Total
Revenues and other support without donor restrictions:							
Net patient service revenue	$ -	$ 997,945	$ 83,559	$ 51,775	$ -	$ (10,189)	$ 1,123,090
Other revenue	180,585	25,986	3,919	9,843	-	(192,055)	28,278
Net assets released from restrictions	-	455	-	-	-	-	455
Total revenues and other support without donor restrictions	180,585	1,024,386	87,478	61,618	-	(202,244)	1,151,823
Expenses:							
Salaries and wages	80,477	477,007	48,683	33,485	-	(80,473)	559,179
Employee benefits	19,804	124,122	11,603	4,204	-	(19,803)	139,930
Medical and professional fees	20,776	45,334	1,039	3,033	-	(8,320)	61,862
Purchased services	38,808	108,773	3,901	22,720	-	(49,888)	124,314
Supplies	1,188	201,183	9,992	2,654	-	(2,011)	213,006
Depreciation and amortization	7,855	43,818	1,339	1,960	-	(7,875)	47,097
Interest	4,406	14,992	1,117	1,253	-	(5,194)	16,574
Insurance	514	11,971	698	679	-	(514)	13,348
Other expenses	7,270	47,767	3,879	3,458	-	(29,614)	32,760
Total expenses	181,098	1,074,967	82,251	73,446	-	(203,692)	1,208,070
Income (loss) from operations	(513)	(50,581)	5,227	(11,828)	-	1,448	(56,247)
Nonoperating revenues and expenses:							
Investment income (loss)	2,275	25,902	3,140	3	-	(3,058)	28,262
Other components of net periodic pension cost	(2,115)	(8,211)	(361)	(31)	-	2,115	(8,603)
Other revenues and gains, net	353	1,037	12	76	-	(505)	973
Total nonoperating revenues and expenses	513	18,728	2,791	48	-	(1,448)	20,632
Excess (deficiency) of revenues over expenses	$ -	$ (31,853)	$ 8,018	$ (11,780)	$ -	$ -	$ (35,615)

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT) (CONTINUED)
(in thousands of dollars)
For the Year Ended December 31, 2019

	Parent	Acute Care Subsidiaries	Home and Community Based Subsidiaries	Other Subsidiaries	Discontinued Operations	Eliminations	Total
Net assets without donor restrictions:							
Excess (deficiency) of revenues over expenses	$ -	$ (31,853)	$ 8,018	$ (11,780)	$ -	$ -	$ (35,615)
Change in unrealized gain on interest rate swaps	-	(352)	-	(219)	-	-	(571)
Change in pension obligation, other than net periodic cost	(8,834)	(32,774)	(2,314)	(105)	-	-	(44,027)
Net assets released from restrictions used for capital	-	1,249	-	113	-	-	1,362
Amortization of terminated interest rate swaps	-	3,926	-	-	-	-	3,926
Capital grants	2,861	1,042	-	150	-	-	4,053
Contributions	10	-	-	-	-	-	10
Other	-	5	50	5,721	-	(5,326)	450
Increase (decrease) in net assets without donor restrictions before effects of discontinued operations	(5,963)	(58,757)	5,754	(6,120)	-	(5,326)	(70,412)
Loss from discontinued operations	-	-	-	-	(1,051)	-	(1,051)
Increase (decrease) in net assets without donor restrictions	(5,963)	(58,757)	5,754	(6,120)	(1,051)	(5,326)	(71,463)
Net assets with donor restrictions:							
Contributions	-	1,877	-	170	-	-	2,047
Investment income	-	62	-	-	-	-	62
Special events revenue, net	-	148	-	-	-	-	148
Change in interest in related Foundation	-	-	7	-	-	(7)	-
Net assets released from restrictions	-	(1,704)	-	(113)	-	-	(1,817)
Other	-	3	-	(175)	-	(382)	(554)
Increase (decrease) in net assets with donor restrictions	-	386	7	(118)	-	(389)	(114)
Increase (decrease) in net assets	(5,963)	(58,371)	5,761	(6,238)	(1,051)	(5,715)	(71,577)
Net assets (deficit), beginning of year	115,367	144,461	44,343	(7,175)	(3,434)	(29,520)	264,042
Net assets (deficit), end of year	$ 109,404	$ 86,090	$ 50,104	$ (13,413)	$ (4,485)	$ (35,235)	$ 192,465

CATHOLIC HEALTH SYSTEM - ACUTE CARE SUBSIDIARIES

CONSOLIDATING BALANCE SHEET
(in thousands of dollars)
December 31, 2019

ASSETS	Mercy Hospital of Buffalo	Sisters Hospital	Kenmore Mercy Hospital	Mount St. Mary's Hospital	Total
Current assets:					
Cash and cash equivalents	$ 75,849	$ 78,980	$ 58,423	$ 13,230	$ 226,482
Patient accounts receivable	45,272	31,401	17,542	9,436	103,651
Other receivables	1,628	2,290	571	1,024	5,513
Inventories	10,964	5,622	2,538	2,198	21,322
Prepaid expenses and other current assets	594	691	215	95	1,595
Due from affiliates	668	587	20	2	1,277
Total current assets	134,975	119,571	79,309	25,985	359,840
Assets limited as to use	20,001	31,800	3,177	1,402	56,380
Investments	24,978	77,530	19,698	5,997	128,203
Property and equipment, net	107,923	77,152	60,634	26,799	272,508
Operating lease right-of-use assets	24,756	7,224	603	1,131	33,714
Other assets	48,567	32,793	13,149	1,968	96,477
Due from affiliates	-	10,304	1,456	-	11,760
Total assets	$ 361,200	$ 356,374	$ 178,026	$ 63,282	$ 958,882
LIABILITIES AND NET ASSETS (DEFICIT)					
Current liabilities:					
Current portion of long-term obligations	$ 1,933	$ 1,295	$ 2,364	$ -	$ 5,592
Current portion of operating lease liabilities	4,557	1,875	317	462	7,211
Accounts payable	18,442	14,948	10,664	3,350	47,404
Accrued expenses	15,143	37,705	6,827	5,937	65,612
Due to third-party payors	17,043	13,246	6,160	4,344	40,793
Due to affiliates	20,153	17,550	17,118	9,854	64,675
Total current liabilities	77,271	86,619	43,450	23,947	231,287
Long-term obligations, net	85,943	44,464	32,958	5,313	168,678
Long-term operating lease liabilities, net	20,206	5,345	286	670	26,507
Other long-term obligations	231,141	141,549	56,948	16,682	446,320
Total liabilities	414,561	277,977	133,642	46,612	872,792
Net assets (deficit):					
Without donor restrictions	(54,918)	74,921	43,965	14,748	78,716
With donor restrictions	1,557	3,476	419	1,922	7,374
Total net assets (deficit)	(53,361)	78,397	44,384	16,670	86,090
Total liabilities and net assets (deficit)	$ 361,200	$ 356,374	$ 178,026	$ 63,282	$ 958,882

CATHOLIC HEALTH SYSTEM - ACUTE CARE SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT)
(in thousands of dollars)
For the Year Ended December 31, 2019

	Mercy Hospital of Buffalo	Sisters Hospital	Kenmore Mercy Hospital	Mount St. Mary's Hospital	Total
Revenues and other support without donor restrictions:					
Net patient service revenue	$ 421,431	$ 313,327	$ 170,868	$ 92,319	$ 997,945
Other revenue	6,225	12,267	1,683	5,811	25,986
Net assets released from restrictions	156	141	20	138	455
Total revenues and other support without donor restrictions	427,812	325,735	172,571	98,268	1,024,386
Expenses:					
Salaries and wages	187,764	156,850	75,993	56,400	477,007
Employee benefits	48,991	41,755	19,156	14,220	124,122
Medical and professional fees	19,682	16,082	5,097	4,473	45,334
Purchased services	43,434	36,488	17,101	11,750	108,773
Supplies	91,194	58,072	39,284	12,633	201,183
Depreciation and amortization	17,300	13,678	9,253	3,587	43,818
Interest	8,338	3,975	2,539	140	14,992
Insurance	5,178	4,060	1,725	1,008	11,971
Other expenses	22,090	14,555	7,123	3,999	47,767
Total expenses	443,971	345,515	177,271	108,210	1,074,967
Loss from operations	(16,159)	(19,780)	(4,700)	(9,942)	(50,581)
Nonoperating revenues and expenses:					
Investment income	5,821	14,578	4,211	1,292	25,902
Other components of net periodic pension costs	(5,090)	(1,705)	(1,167)	(249)	(8,211)
Other revenues and gains, net	682	269	57	29	1,037
Total nonoperating revenues and expenses	1,413	13,142	3,101	1,072	18,728
Deficiency of revenues over expenses	$ (14,746)	$ (6,638)	$ (1,599)	$ (8,870)	$ (31,853)

CATHOLIC HEALTH SYSTEM - ACUTE CARE SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT) (CONTINUED)
(in thousands of dollars)
For the Year Ended December 31, 2019

	Mercy Hospital of Buffalo	Sisters Hospital	Kenmore Mercy Hospital	Mount St. Mary's Hospital	Total
Net assets without donor restrictions:					
Deficiency of revenues over expenses	$ (14,746)	$ (6,638)	$ (1,599)	$ (8,870)	$ (31,853)
Change in unrealized gain on interest rate swaps	(352)	-	-	-	(352)
Change in pension obligation, other than net periodic cost	(18,824)	(9,911)	(3,424)	(615)	(32,774)
Net assets released from restrictions used for capital	635	295	15	304	1,249
Amortization of terminated interest rate swaps	3,124	649	153	-	3,926
Capital grants	160	74	-	808	1,042
Other	(2,564)	2,725	(156)	-	5
Decrease in net assets without donor restrictions	(32,567)	(12,806)	(5,011)	(8,373)	(58,757)
Net assets with donor restrictions:					
Contributions	755	644	247	231	1,877
Investment income	41	3	-	18	62
Special events revenue, net	48	17	30	53	148
Net assets released from restrictions	(791)	(436)	(35)	(442)	(1,704)
Other	-	3	-	-	3
Increase (decrease) in net assets with donor restrictions	53	231	242	(140)	386
Decrease in net assets	(32,514)	(12,575)	(4,769)	(8,513)	(58,371)
Net assets (deficit), beginning of year	(20,847)	90,972	49,153	25,183	144,461
Net assets (deficit), end of year	$ (53,361)	$ 78,397	$ 44,384	$ 16,670	$ 86,090

CATHOLIC HEALTH SYSTEM - HOME AND COMMUNITY BASED SUBSIDIARIES

CONSOLIDATING BALANCE SHEET
(in thousands of dollars)
December 31, 2019

ASSETS	Father Baker Manor	St. Francis Geriatric	Mercy Home Care	McAuley Seton Home Care	Infusion Pharmacy	Total
Current assets:						
Cash and cash equivalents	$ 697	$ 415	$ 1,101	$ 34,918	$ 2,608	$ 39,739
Patient accounts receivable	3,389	(1)	151	6,478	1,517	11,534
Other receivables	7	-	167	-	4	178
Inventories	33	-	-	54	1,040	1,127
Prepaid expenses and other current assets	10	7	1	24	15	57
Due from affiliates	20	7	-	89	711	827
Total current assets	4,156	428	1,420	41,563	5,895	53,462
Interest in net assets of related Foundations	121	-	-	-	-	121
Assets limited as to use	10,037	-	-	-	-	10,037
Investments	-	-	-	15,510	-	15,510
Property and equipment, net	4,490	10,759	-	148	508	15,905
Operating lease right-of-use assets	-	-	9	300	1,121	1,430
Other assets	5,504	321	800	3,723	617	10,965
Due from affiliates	-	-	2,239	-	-	2,239
Total assets	$ 24,308	$ 11,508	$ 4,468	$ 61,244	$ 8,141	$ 109,669
LIABILITIES AND NET ASSETS (DEFICIT)						
Current liabilities:						
Current portion of long-term obligations	$ 593	$ 349	$ -	$ -	$ -	$ 942
Current portion of operating lease liabilities	-	-	-	73	85	158
Accounts payable	96	45	1	86	261	489
Accrued expenses	1,330	81	864	2,526	371	5,172
Due to third-party payors	484	-	17	990	71	1,562
Due to affiliates	11,750	596	5	676	239	13,266
Total current liabilities	14,253	1,071	887	4,351	1,027	21,589
Long-term obligations, net	2,725	8,722	-	-	-	11,447
Long-term operating lease liabilities, net	-	-	9	227	1,037	1,273
Other long-term obligations	9,394	318	3,233	11,608	703	25,256
Total liabilities	26,372	10,111	4,129	16,186	2,767	59,565
Net assets (deficit):						
Without donor restrictions	(2,185)	1,397	339	45,058	5,374	49,983
With donor restrictions	121	-	-	-	-	121
Total net assets (deficit)	(2,064)	1,397	339	45,058	5,374	50,104
Total liabilities and net assets (deficit)	$ 24,308	$ 11,508	$ 4,468	$ 61,244	$ 8,141	$ 109,669

CATHOLIC HEALTH SYSTEM - HOME AND COMMUNITY BASED SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT)
(in thousands of dollars)
For the Year Ended December 31, 2019

	Father Baker Manor	St. Francis Geriatric	Mercy Home Care	McAuley Seton Home Care	Infusion Pharmacy	Total
Revenues and other support without donor restrictions:						
Net patient service revenue	$ 18,011	$ -	$ 6,883	$ 46,412	$ 12,253	$ 83,559
Other revenue	245	1,769	1,248	280	377	3,919
Total revenues and other support without donor restrictions	18,256	1,769	8,131	46,692	12,630	87,478
Expenses:						
Salaries and wages	12,271	540	5,692	27,116	3,064	48,683
Employee benefits	2,568	140	1,350	6,808	737	11,603
Medical and professional fees	184	-	42	778	35	1,039
Purchased services	1,315	398	474	1,392	322	3,901
Supplies	1,203	155	41	1,113	7,480	9,992
Depreciation and amortization	536	358	17	360	68	1,339
Interest	291	375	37	407	7	1,117
Insurance	458	18	135	90	(3)	698
Other expenses	1,155	11	288	1,856	569	3,879
Total expenses	19,981	1,995	8,076	39,920	12,279	82,251
Income (loss) from operations	(1,725)	(226)	55	6,772	351	5,227
Nonoperating revenues and expenses:						
Investment income	106	6	30	2,993	5	3,140
Other components of net periodic pension cost	(99)	-	(36)	(208)	(18)	(361)
Other revenues and gains, net	3	-	1	7	1	12
Total nonoperating revenues and expenses	10	6	(5)	2,792	(12)	2,791
Excess (deficiency) of revenue over expenses	$ (1,715)	$ (220)	$ 50	$ 9,564	$ 339	$ 8,018
Net assets without donor restrictions:						
Excess (deficiency) of revenue over expenses	$ (1,715)	$ (220)	$ 50	$ 9,564	$ 339	$ 8,018
Change in pension obligation, other than net periodic cost	(386)	-	(562)	(1,265)	(101)	(2,314)
Other	50	-	-	-	-	50
Increase (decrease) in net assets without donor restrictions	(2,051)	(220)	(512)	8,299	238	5,754
Net assets with donor restrictions:						
Change in interest in related Foundations	7	-	-	-	-	7
Increase in net assets with donor restrictions	7	-	-	-	-	7
Increase (decrease) in net assets	(2,044)	(220)	(512)	8,299	238	5,761
Net asset (deficit), beginning of year	(20)	1,617	851	36,759	5,136	44,343
Net assets (deficit), end of year	$ (2,064)	$ 1,397	$ 339	$ 45,058	$ 5,374	$ 50,104

CATHOLIC HEALTH SYSTEM - OTHER SUBSIDIARIES

CONSOLIDATING BALANCE SHEET
(in thousands of dollars)
December 31, 2019

ASSETS	Our Lady of Victory Renaissance	Continuing Care Foundation	LIFE	Trinity	Niagara Medicine	Catholic Health Emmaus, Inc.	Sterling Surgical Center, LLC	Total
Current assets:								
Cash and cash equivalents	$ 532	$ 372	$ 12,897	$ 1,649	$ 144	$ -	$ 293	$ 15,887
Patient accounts receivable	-	-	1,287	2,456	42	-	284	4,069
Other receivables	1	10	-	157	-	-	-	168
Prepaid expenses and other current assets	13	1	20	323	-	-	27	384
Due from affiliates	57	5	1	257	-	91	-	411
Total current assets	603	388	14,205	4,842	186	91	604	20,919
Interest in net assets of related Foundations	5	-	-	-	-	-	-	5
Assets limited as to use	346	-	1,032	-	-	-	-	1,378
Property and equipment, net	11,789	-	4,899	1,659	-	-	365	18,712
Operating lease right-of-use assets	-	-	5,435	9,105	-	-	1,494	16,034
Other assets	300	-	19	277	520	5,714	6,098	12,928
Total assets	$ 13,043	$ 388	$ 25,590	$ 15,883	$ 706	$ 5,805	$ 8,561	$ 69,976
LIABILITIES AND NET ASSETS (DEFICIT)								
Current liabilities:								
Current portion of long-term obligations	$ 450	$ -	$ -	$ 31	$ -	$ -	$ 195	$ 676
Current portion of operating lease liabilities	-	-	381	1,585	-	-	152	2,118
Accounts payable	341	-	2,471	735	-	-	104	3,651
Accrued expenses	330	-	677	2,522	-	-	184	3,713
Due to third-party payors	-	-	3,871	-	-	-	-	3,871
Due to affiliates	1,474	1	691	37,357	1,337	3,497	140	44,497
Total current liabilities	2,595	1	8,091	42,230	1,337	3,497	775	58,526
Long-term obligations, net	7,932	-	-	-	-	-	522	8,454
Long-term operating lease liabilities, net	-	-	5,054	7,528	-	-	1,342	13,924
Other long-term obligations	1,450	-	960	25	50	-	-	2,485
Total liabilities	11,977	1	14,105	49,783	1,387	3,497	2,639	83,389
Net assets (deficit):								
Without donor restrictions	1,061	22	11,485	(33,900)	(681)	2,308	5,922	(13,783)
With donor restrictions	5	365	-	-	-	-	-	370
Total net assets (deficit)	1,066	387	11,485	(33,900)	(681)	2,308	5,922	(13,413)
Total liabilities and net assets (deficit)	$ 13,043	$ 388	$ 25,590	$ 15,883	$ 706	$ 5,805	$ 8,561	$ 69,976

CATHOLIC HEALTH SYSTEM - OTHER SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT)
(in thousands of dollars)
For the Year Ended December 31, 2019

	Our Lady of Victory Renaissance	Continuing Care Foundation	LIFE	Trinity	Niagara Medicine	Catholic Health Emmaus, Inc.	Sterling Surgical Center, LLC	Total
Revenues and other support without donor restrictions:								
Net patient service revenue	$ -	$ -	$ 24,293	$ 25,989	$ (5)	$ -	$ 1,498	$ 51,775
Other revenue	5,367	9	34	4,431	(77)	79	-	9,843
Total revenues and other support without donor restrictions	5,367	9	24,327	30,420	(82)	79	1,498	60,041
Expenses:								
Salaries and wages	309	-	2,718	29,870	-	-	588	33,485
Employee benefits	103	-	743	3,279	-	-	79	4,204
Medical and professional fees	18	-	55	2,903	5	-	52	3,033
Purchased services	1,924	6	19,095	1,579	5	-	111	22,720
Supplies	65	-	568	1,838	-	-	183	2,654
Depreciation and amortization	1,389	-	155	401	-	-	15	1,960
Interest	449	-	-	784	3	-	17	1,253
Insurance	62	-	12	571	-	-	34	679
Other expenses	41	-	580	2,609	-	2	226	3,458
Total expenses	4,360	6	23,926	43,834	13	2	1,305	73,446
Income (loss) from operations	1,007	3	401	(13,414)	(95)	77	193	(11,828)
Nonoperating revenues and expenses:								
Investment income	-	2	1	-	-	-	-	3
Other components of net periodic pension cost	-	-	(31)	-	-	-	-	(31)
Other revenues and gains, net	26	-	3	32	-	-	15	76
Total nonoperating revenues and expenses	26	2	(27)	32	-	-	15	48
Excess (deficiency) of revenues over expenses	$ 1,033	$ 5	$ 374	$ (13,382)	$ (95)	$ 77	$ 208	$ (11,780)

CATHOLIC HEALTH SYSTEM - OTHER SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT) (CONTINUED)
(in thousands of dollars)
For the Year Ended December 31, 2019

	Our Lady of Victory Renaissance	Continuing Care Foundation	LIFE	Trinity	Niagara Medicine	Catholic Health Emmaus, Inc.	Sterling Surgical Center, LLC	Total
Net assets without donor restrictions:								
Excess (deficiency) of revenues over expenses	$ 1,033	$ 5	$ 374	$ (13,382)	$ (95)	$ 77	$ 208	$ (11,780)
Change in unrealized gain on interest rate swaps	(219)	-	-	-	-	-	-	(219)
Change in pension obligation, other than net periodic cost	-	-	(105)	-	-	-	-	(105)
Net assets released from restrictions used for capital	13	-	100	-	-	-	-	113
Capital grants	-	-	150	-	-	-	-	150
Other	-	-	7	-	-	-	5,714	5,721
Increase (decrease) in net assets without donor restrictions	827	5	526	(13,382)	(95)	77	5,922	(6,120)
Net assets with donor restrictions:								
Contributions	-	170	-	-	-	-	-	170
Net assets released from restrictions	(13)	-	(100)	-	-	-	-	(113)
Other	-	(175)	-	-	-	-	-	(175)
Increase (decrease) in net assets with donor restrictions	(13)	(5)	(100)	-	-	-	-	(118)
Increase (decrease) in net assets	814	-	426	(13,382)	(95)	77	5,922	(6,238)
Net assets (deficit), beginning of year	252	387	11,059	(20,518)	(586)	2,231	-	(7,175)
Net assets (deficit), end of year	$ 1,066	$ 387	$ 11,485	$ (33,900)	$ (681)	$ 2,308	$ 5,922	$ (13,413)

CATHOLIC HEALTH SYSTEM - DISCONTINUED OPERATIONS

CONSOLIDATING BALANCE SHEET
(in thousands of dollars)
December 31, 2019

	Discontinued Operations				
ASSETS	**St. Francis Home**	**St. Elizabeth's Home**	**St. Vincent's Home**	**Nazareth Home**	**Total**
Current assets:					
Cash and cash equivalents	$ 2,533	$ 658	$ 425	$ 1,379	$ 4,995
Prepaid expenses and other current assets	2	-	-	-	2
Due from affiliates	-	-	-	1,572	1,572
Total current assets	2,535	658	425	2,951	6,569
Interest in net assets of related Foundations	68	60	1	-	129
Assets limited as to use	1,111	-	-	-	1,111
Other assets	2,167	21	22	-	2,210
Due from affiliates	-	368	-	-	368
Total assets	$ 5,881	$ 1,107	$ 448	$ 2,951	$ 10,387
LIABILITIES AND NET ASSETS (DEFICIT)					
Current liabilities:					
Accrued expenses	$ 390	$ 30	$ 1	$ -	$ 421
Due to third-party payors	434	3	-	-	437
Due to affiliates	7,386	1,342	1,475	-	10,203
Total current liabilities	8,210	1,375	1,476	-	11,061
Other long-term obligations	3,612	145	54	-	3,811
Total liabilities	11,822	1,520	1,530	-	14,872
Net assets (deficit):					
Without donor restrictions	(5,941)	(413)	(1,082)	2,951	(4,485)
Total net assets (deficit)	(5,941)	(413)	(1,082)	2,951	(4,485)
Total liabilities and net assets (deficit)	$ 5,881	$ 1,107	$ 448	$ 2,951	$ 10,387

CATHOLIC HEALTH SYSTEM - DISCONTINUED OPERATIONS

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT)
(in thousands of dollars)
For the Year Ended December 31, 2019

	Discontinued Operations				
	St. Francis Home	**St. Elizabeth's Home**	**St. Vincent's Home**	**Nazareth Home**	**Total**
Net assets without donor restrictions:					
Gain (loss) from discontinued operations	$ (1,063)	$ 10	$ 2	$ -	$ (1,051)
Increase (decrease) in net assets without donor restrictions	(1,063)	10	2	-	(1,051)
Increase (decrease) in net assets	(1,063)	10	2	-	(1,051)
Net assets (deficit), beginning of year	(4,878)	(423)	(1,084)	2,951	(3,434)
Net assets (deficit), end of year	$ (5,941)	$ (413)	$ (1,082)	$ 2,951	$ (4,485)

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

(KENMORE MERCY HOSPITAL AND SUBSIDIARIES)
CONSOLIDATING BALANCE SHEET
(in thousands of dollars)
December 31, 2019

ASSETS	Kenmore Mercy Hospital	The McAuley Residence	The Kenmore Mercy Foundation	Eliminations	Consolidated
Current assets:					
Cash and cash equivalents	$ 52,497	$ 5,790	$ 136	$ -	$ 58,423
Patient accounts receivable	13,847	3,695	-	-	17,542
Other receivables	185	-	386	-	571
Inventories	2,538	-	-	-	2,538
Prepaid expenses and other current assets	124	90	1	-	215
Due from affiliates	42	17	1	(40)	20
Total current assets	69,233	9,592	524	(40)	79,309
Interest in net assets of affiliated Foundation	3,960	-	-	(3,960)	-
Assets limited as to use	1,931	1,246	-	-	3,177
Investments	16,158	-	3,540	-	19,698
Property and equipment, net	52,230	8,403	1	-	60,634
Operating lease right-of-use assets	603	-	-	-	603
Other assets	9,859	4,887	-	(1,597)	13,149
Due from affiliates	1,456	-	-	-	1,456
Total assets	$ 155,430	$ 24,128	$ 4,065	$ (5,597)	$ 178,026
LIABILITIES AND NET ASSETS (DEFICIT)					
Current liabilities:					
Current portion of long-term obligations	$ 1,695	$ 669	$ -	$ -	$ 2,364
Current portion of operating lease liabilities	317	-	-	-	317
Accounts payable	10,424	209	31	-	10,664
Accrued expenses	4,921	1,883	23	-	6,827
Due to third-party payors	5,407	753	-	-	6,160
Due to affiliates	4,169	12,938	51	(40)	17,118
Total current liabilities	26,933	16,452	105	(40)	43,450
Long-term obligations, net	27,973	4,985	-	-	32,958
Long-term operating lease liabilities, net	286	-	-	-	286
Other long-term obligations	46,352	10,596	-	-	56,948
Total liabilities	101,544	32,033	105	(40)	133,642
Net assets (deficit):					
Without donor restrictions	53,467	(7,905)	3,541	(5,138)	43,965
With donor restrictions	419	-	419	(419)	419
Total net assets (deficit)	53,886	(7,905)	3,960	(5,557)	44,384
Total liabilities and net assets (deficit)	$ 155,430	$ 24,128	$ 4,065	$ (5,597)	$ 178,026

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

(KENMORE MERCY HOSPITAL AND SUBSIDIARIES)
CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT)
(in thousands of dollars)
For the Year Ended December 31, 2019

	Kenmore Mercy Hospital	The McAuley Residence	The Kenmore Mercy Foundation	Eliminations	Consolidated
Revenue and other support without donor restrictions:					
Net patient service revenue	$ 152,440	$ 18,436	$ (8)	$ -	$ 170,868
Other revenue	1,110	168	405	-	1,683
Net assets released from restriction	-	-	20	-	20
Total revenue and other support without donor restrictions	153,550	18,604	417	-	172,571
Expenses:					
Salaries and wages	63,234	12,548	211	-	75,993
Employee benefits	16,524	2,577	55	-	19,156
Medical and professional fees	4,877	207	13	-	5,097
Purchased services	15,331	1,673	97	-	17,101
Supplies	37,838	1,442	4	-	39,284
Depreciation and amortization	8,500	752	1		9,253
Interest	2,278	261	-	-	2,539
Insurance	1,511	214	-	-	1,725
Other expenses	5,962	1,064	108	(11)	7,123
Total expenses	156,055	20,738	489	(11)	177,271
Income (loss) from operations	(2,505)	(2,134)	(72)	11	(4,700)
Nonoperating revenues and expenses:					
Investment income	3,622	41	548	-	4,211
Other components of net periodic pension cost	(1,038)	(129)	-	-	(1,167)
Other revenues and gains, net	54	3	-	-	57
Total nonoperating revenues and expenses	2,638	(85)	548	-	3,101
Excess (deficiency) of revenues over expenses	$ 133	$ (2,219)	$ 476	$ 11	$ (1,599)

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

(KENMORE MERCY HOSPITAL AND SUBSIDIARIES)
CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT) (CONTINUED)
(in thousands of dollars)
For the Year Ended December 31, 2019

	Kenmore Mercy Hospital	The McAuley Residence	The Kenmore Mercy Foundation	Eliminations	Consolidated
Net assets without donor restrictions:					
Excess (deficiency) of revenues over expenses	$ 133	$ (2,219)	$ 476	$ 11	$ (1,599)
Change in interest in affiliated Foundation	491	-	-	(491)	-
Change in pension obligation, other than net periodic cost	(2,994)	(430)	-	-	(3,424)
Net assets released from restrictions used for capital	-	-	15	-	15
Amortization of terminated interest rate swaps	153	-	-	-	153
Contributions	11	-	-	(11)	-
Other	(161)	5	-	-	(156)
Increase (decrease) in net assets without donor restrictions	(2,367)	(2,644)	491	(491)	(5,011)
Net assets with donor restrictions:					
Contributions	-	-	247	-	247
Special events revenue, net	-	-	30	-	30
Change in interest in the KMH Foundation, Inc.	242	-	-	(242)	-
Net assets released from restrictions	-	-	(35)	-	(35)
Increase (decrease) in net assets with donor restrictions	242	-	242	(242)	242
Increase (decrease) in net assets	(2,125)	(2,644)	733	(733)	(4,769)
Net assets (deficit), beginning of year	56,011	(5,261)	3,227	(4,824)	49,153
Net assets (deficit), end of year	$ 53,886	$ (7,905)	$ 3,960	$ (5,557)	$ 44,384