Kenmore Mercy Hospital and Subsidiary (a subsidiary of the Catholic Health System, Inc.)

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

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December 31, 2012 and 2011

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Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Kenmore Mercy Hospital and its subsidiary (collectively, the "Hospital"), which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations and changes in net assets and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We did not audit the financial statements of The McAuley Residence, a wholly owned subsidiary, which statements reflect total assets of $17.8 million and $17.5 million respectively, of consolidated total assets as of December 31, 2012 and 2011, respectively, and total revenues of $17.3 million and $17.4 million, respectively, of consolidated total revenues for the years then ended. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for The McAuley Residence, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Hospital'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 Hospital'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.

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Opinion

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kenmore Mercy Hospital and its subsidiary as of December 31, 2012 and 2011, and the results of their operations and changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 13, the Hospital had significant transactions with related parties.

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

PricewaterhouseCoopers LLP

April 25, 2013

Kenmore Mercy Hospital and Subsidiary
Consolidated Balance Sheets
December 31, 2012 and 2011

	2012	2011 *(as restated)*
Assets		
Current assets		
Cash and cash equivalents	$ 28,193,288	$ 24,203,654
Patient/resident accounts receivable, net of estimated uncollectibles of $5,203,000 and $3,943,000	19,376,680	14,589,083
Other receivables	988,383	808,355
Inventories	1,887,486	1,641,514
Assets limited as to use	1,826,205	-
Prepaid expenses and other current assets	228,591	133,207
Total current assets	52,500,633	41,375,813
Interest in net assets of affiliated Foundations	3,914,838	3,268,942
Assets limited as to use	16,455,048	5,366,727
Due from affiliates	1,516,733	1,481,621
Property and equipment, net	46,381,047	43,627,547
Other assets	14,578,566	10,545,440
Total Assets	$ 135,346,865	$ 105,666,090
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term obligations	$ 2,185,549	$ 1,970,872
Long-term obligations subject to short-term remarketing arrangements	10,511,525	11,480,239
Accounts payable	8,492,488	6,231,779
Accrued expenses	7,473,448	6,342,759
Due to third-party payors	6,391,719	5,825,459
Due to affiliates	7,066,493	4,622,180
Total current liabilities	42,121,222	36,473,288
Long-term obligations, net	22,326,059	9,446,303
Long-term portion of insurance liabilities	18,688,189	15,063,072
Pension obligation	32,597,188	28,823,065
Asset retirement obligation	155,339	141,809
Interest rate swap	1,830,255	1,805,747
Other long-term liabilities	152,688	292,541
Total liabilities	117,870,940	92,045,825
Net assets		
Unrestricted	16,682,433	12,839,819
Temporarily restricted	793,492	780,446
Total net assets	17,475,925	13,620,265
Total Liabilities and Net Assets	$ 135,346,865	$ 105,666,090

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

Kenmore Mercy Hospital and Subsidiary
Consolidated Statements of Operations and Changes in Net Assets
Years Ended December 31, 2012 and 2011

	2012	2011
Unrestricted revenues, gains and other support		
Net patient/resident service revenue	$ 153,019,651	$ 137,374,537
Provision for bad debts	(4,093,804)	(3,593,465)
Net patient/resident service revenue, less provision for bad debt	148,925,847	133,781,072
Other revenue	2,830,966	3,636,454
Total unrestricted revenues, gains and other support	151,756,813	137,417,526
Expenses		
Salaries and wages	63,720,378	60,112,319
Employee benefits	19,897,540	17,587,798
Medical and professional fees	5,147,592	4,642,837
Purchased services	13,003,348	11,960,795
Supplies	30,840,742	29,001,162
Depreciation and amortization	7,516,716	5,877,183
Interest	1,283,952	1,287,111
Insurance	1,028,530	1,134,795
Other expenses	4,778,007	4,370,217
Total expenses	147,216,805	135,974,217
Income from operations	4,540,008	1,443,309
Nonoperating revenues and losses		
Investment income	85,333	198,620
Other	(2,894)	33,515
Total nonoperating revenues and losses	82,439	232,135
Excess of revenues over expenses	$ 4,622,447	$ 1,675,444

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

Kenmore Mercy Hospital and Subsidiary
Consolidated Statement of Operations and Changes in Net Assets (Continued)
Years Ended December 31, 2012 and 2011

	2012	2011
Unrestricted net assets		
Excess of revenues over expenses	$ 4,622,447	$ 1,675,444
Change in unrestricted interest in Kenmore Mercy Foundation, Inc.	627,966	(889,413)
Change in pension obligation	(2,097,157)	(5,948,476)
Impact of pension transfers to/ from CHS Subsidiaries	301,697	(603,703)
Distributions and transfers to parents and affiliates	99,747	394,875
Change in unrealized loss on interest rate swap	(23,096)	(593,774)
Distributions from Foundation	311,010	58,562
Increase (decrease) in unrestricted net assets	3,842,614	(5,906,485)
Temporarily restricted net assets		
Change in temporarily restricted interest in Kenmore Mercy Foundation, Inc.	17,930	617,223
Other	(4,884)	11,552
Increase in temporarily restricted net assets	13,046	628,775
Increase (decrease) in net assets	3,855,660	(5,277,710)
Net assets, beginning of year	13,620,265	18,897,975
Net assets, end of year	$ 17,475,925	$ 13,620,265

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

Kenmore Mercy Hospital and Subsidiary
Consolidated Statement of Cash Flows
Years Ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Increase (decrease) in net assets	$ 3,855,660	$ (5,277,710)
Adjustments to reconcile increae (decrease) in net assets to net cash provided by operating activities		
Depreciation and amortization	7,516,716	5,877,183
Provision for bad debts	4,093,804	3,593,465
Distribution and transfers from parent and affiliate	(99,747)	(380,275)
Undistributed portion of change in interest in Affiliated Foundations	(645,896)	272,190
Increase in pension obligation	1,795,460	6,552,179
Discount on issuance	13,945	8,787
Premium on issuance	(7,328)	-
Change in unrealized loss on interest rate swap	24,508	612,707
Change in unrealized gain on investments	31,100	(8,115)
Gain on sale of property and equipment	-	(52,448)
Gain on extinguishment of capital leases	(34,642)	-
(Increase) decrease in assets		
Patient accounts receivable	(8,881,401)	1,293,675
Other receivables	(180,028)	(148,919)
Inventories	(245,972)	(187,358)
Prepaid expenses	(95,384)	488,887
Other assets	(916,700)	(20,390)
Due from affiliates	(18,914)	85,672
Increase (decrease) in liabilities		
Accounts payable	2,260,709	(1,958,051)
Accrued expenses	(695,516)	434,285
Due to affiliates	1,888,259	2,047,381
Due to third-party payors	566,260	(985,527)
Other Liabilities	2,268,214	2,115,568
Net cash provided by operating activities	12,493,107	14,363,186
Cash flows from investing activities		
Purchase of property and equipment	(7,932,329)	(4,386,707)
Proceeds from sale of property and equipment	-	40,011
Purchase of assets whose use is limited	(13,953,015)	-
Sale of assets whose use is limited	1,000,876	595,762
Other	6,513	-
Net cash used in investing activities	(20,877,955)	(3,750,934)
Cash flows from financing activities		
Distribution and transfers from parent and affiliate	99,747	380,275
Proceeds from issuance of long-term obligations	14,235,000	-
Discount on issuance	(156,812)	-
Premium on issuance	159,265	-
Repayments of current and long-term obligations	(1,962,718)	(2,527,590)
Net cash provided by (used in) financing activities	12,374,482	(2,147,315)
Increase in cash and cash equivalents	3,989,634	8,464,937
Cash and cash equivalents, beginning of year	24,203,654	15,738,717
Cash and cash equivalents, end of year	$ 28,193,288	$ 24,203,654
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$ 1,277,335	$ 1,278,324
Noncash investing and financing activities		
Assets acquired under capital lease obligations	$ 279,576	$ 576,280
Construction Related Payables	$ 1,826,205	$ 160,484

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

1. Organization

Kenmore Mercy Hospital is a not-for-profit acute care hospital and The McAuley Residence (TMR), whose sole member is Kenmore Mercy Hospital, is a separate corporation operating as a not-for-profit nursing home. All operations are located in Erie County, New York and serve the community of Western New York. The Hospital provides inpatient, outpatient, and emergency services for the residents primarily in and around its surrounding area. Admitting physicians are primarily practitioners in the local area. Kenmore Mercy Hospital is part of the Catholic Health System, Inc. (CHS or the System) and its organizational structure is discussed below.

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

Acute Care Subsidiaries
The Acute Care Subsidiaries include Mercy Hospital of Buffalo (MHB), Kenmore Mercy Hospital including The McAuley Residence (the Hospital or KMH), and Sisters of Charity Hospital (SCH).

Long-Term Care Subsidiaries
The Long-term Care Subsidiaries include St. Francis Home of Williamsville, Western New York Catholic Long-Term Care, Inc. (Father Baker Manor), St. Elizabeth's Home and St. Vincent's Home for the Aged.

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

2. Significant Accounting Policies

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

Principles of Consolidation
The consolidated financial statements of the Hospital include the accounts of TMR. All significant intercompany balances and transactions have been eliminated to reflect the consolidated amounts.

Use of Estimates
The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the 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 Hospital include, but are not limited to, the reserves for conditional asset retirement obligations, reserve for bad debts, reserve for third-party payor contractual adjustments and allowances, the provision for estimated receivables and payables for final settlements with those payors, the insurance reserves for worker's compensation, professional and general liability, and actuarial assumptions used in determining pension expense.

Risks and Uncertainties

Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is at least possible that changes in risks in the near term could materially affect the net assets of the Hospital.

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 Hospital considers all highly liquid investments, generally with original maturities of three months or less when purchased, and short term investments (certificates of deposit), excluding amounts limited as to use, to be cash equivalents. The Hospital maintains funds on deposit in excess of amounts insured by the Federal Depository Insurance limits.

Contributions

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

Inventory

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

Prepaid Expenses and Other Assets

Prepaid expense and other assets consist of prepaid general expenses, deferred financing costs, insurance recoveries and other miscellaneous deferred charges. Amortization of the financing costs is provided on the effective interest method over the maturity of the bond issues.

Assets Limited as to Use

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

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in are included in the excess of revenue over expenses as investments are considered trading securities.

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

Property and Equipment

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

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

Impairment of Long-Lived Assets

The Hospital 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 Hospital 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 were no adjustments to the carrying value of long-lived assets in 2012 and 2011.

Net Patient/Resident Service Revenue

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

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

- Medicare. Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor. Cost reports have been audited and finalized by the Medicare Administrative Contractor through December 31, 2008. Disproportionate Share (DSH), Indirect Medical Education (IME), Graduate Medical Education (GME), Paramedical Education and Meaningful

Use (MU) are all reconciled through settlement processes. During 2012, the system began participation with Catholic Medical Partners (CMP) as an Accountable Care Organization (ACO) .The ACO places a global budget on all traditional Medicare claims (excluding e.g., DSH, IME, DME, MU) for patients associated with CMP Primary Care physicians. Claims are processed through fee for service billing and reconciled to the global budget along with quality measurement at the end of the period. The initial year of the ACO has only upside benefit which is currently unquantifiable.

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

Amounts recognized in 2012 and 2011 related to prior years, including adjustments to prior year estimates and audit settlements, increased revenues $1,290,706 and $730,000, respectively. These changes in estimates related to estimates for prior years cost report reopening, appeals, and tentative final cost reports, some of which are still subject to audit, additional reopening, and/or appeals.

Approximately 50% and 52% of net patient/resident service revenue was generated from services rendered to patients/residents under Medicare and Medicaid programs in 2012 and 2011, respectively. Approximately 27% and 26% of net patient/resident service revenue was generated from services rendered to patients under managed care programs in 2012 and 2011, respectively.

Bad Debt Expense

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

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

	2012	2011
Patient / resident service revenue (net of contractual allowances and discounts):		
Medicare	$ 66,819,715	$ 62,052,547
Medicaid	10,065,393	9,440,581
Blue Cross	14,311,885	10,597,383
Other third party payors	54,969,819	50,171,197
Patients/residents	6,852,839	5,112,829
Total net patient/resident service revenue	153,019,651	137,374,537
Provision for bad debts	(4,093,804)	(3,593,465)
Net patient/resident service revenue less provision for bad debts	$ 148,925,847	$ 133,781,072

Charity Care

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

Of the Hospital's total expenses, an estimated $1,208,229 and $1,217,866 arose from providing services to charity care patients in 2012 and 2011, respectively. Costing is a full step down methodology of cost from non-revenue producing departments to revenue producing departments, with assignment of cost to individual charge items based on volume and charge amount. Additional costs for the Hospitals include required payments for a gross receipts assessment to New York State which is used to fund the New York State Medicaid program and the Health Care Reform Act (HCRA). Revenues that offset the costs of Charity Care include payments from the New York State Uncompensated Care Pools.

The Hospital provides care to patients at no charge or at a discounted rate who meet eligibility requirements under its Health Care Assistance Policy (charity care). In addition to charity care, the Hospital 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.

Operating and Nonoperating Revenue and Losses

The Hospital's primary mission is dedicated to meeting the health care needs in the regions in which it operates. The Hospital 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 Hospital's primary mission are considered to be nonoperating.

Electronic Health Record Incentive Payments

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

Medicaid EHR incentive calculations and related payment amounts are based upon prior period cost report information available at the time our eligible hospitals adopt, implement or demonstrate meaningful use of certified EHR technology for the applicable period, and are not subject to revision for cost report data filed for a subsequent period. Thus, incentive income recognition occurs at the point the hospital adopts, implements or demonstrates meaningful use of certified EHR technology for the applicable period, as the cost report information for the full cost report year that will determine the final calculation of the incentive payment is known at that time. Medicare EHR incentive calculations and related initial payment amounts are based upon the most current filed cost report information available at the time the hospital demonstrates meaningful use of certified EHR technology for the applicable period. However, unlike Medicaid, this initial payment amount will be adjusted based upon an updated calculation using the annual cost report information for the cost report period that began during the applicable payment year. Thus, incentive income recognition occurs at the point the hospital demonstrates meaningful use of certified EHR technology for the applicable period and the cost report information for the full cost report year that will determine the final calculation of the incentive payment is available.

The Hospital recognized \$2.0 million and \$2.6 million of electronic health record incentive income related to Medicare incentive programs during the years ended December 31, 2012 and 2011, respectively, which is recorded in other operating revenue.

Other Revenues

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

	2012	2011
Shared services	$ 82,263	$ 115,656
Cafeteria revenue	269,952	238,407
Rental income	257,743	260,262
Medicare meaningful use	1,964,766	2,657,136
Other	256,242	364,993
	$ 2,830,966	$ 3,636,454

Other Expenses

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

	2012	2011
System dues (a)	$ 1,433,701	$ 1,404,648
Rental and operating leases	1,191,405	1,096,357
NYS Health Facilities Cash Receipts Assessment Program	504,352	468,881
Catholic Health System other expense	835,595	635,100
Professional fees	291,079	241,710
Other	521,875	523,521
	$ 4,778,007	$ 4,370,217

(a.) System dues related to the following expenses in 2012 and 2011:

	2012	2011
Salaries, wages and employee benefits	$ 243,154	$ 270,768
Professional fees and purchased services	315,596	256,915
Due to Catholic Health East	743,644	713,683
Other	131,307	163,282
	$ 1,433,701	$ 1,404,648

Excess of Revenues Over Expenses

The statement of operations and changes in net assets includes excess of revenues over expenses, commonly referred to as the performance indicator. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets), and the effective portion of cash flow hedging derivatives.

Net Assets

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

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

Income Taxes

The financial statements do not include a provision for income taxes, since the Company is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The tax-exempt organizations are subject to federal taxes on unrelated business income under section 511 of the Internal Revenue Code which are reported as other expenses in these financial statements.

Capitalized Software Costs

The Hospital 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 the accounting standards. These capitalized costs are amortized on a straight-line basis over ten years and reviewed for impairment on an annual basis. The Hospital capitalized software, computer equipment, and other external costs of $1,357,786 and $611,045 during 2012 and 2011, respectively. Capitalized internal project labor costs amounted to $502,619 and $107,135 during 2012 and 2011, respectively.

Reclassifications

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

Restatement

As discussed in Note 9, the Hospital has restated its 2011 consolidated balance sheets to correct for a classification error of its variable rate demand bonds from a long-term to a current classification. The net impact of the restatement is to increase the long term debt subject to short term remarketing arrangements by $11,480,239 (current liability), and to decrease long term debt, net by $11,480,239 at December 31, 2011. There is no impact on the Hospital's Consolidated Statements of Operations, Changes in Net Assets or Cash Flows.

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

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

	As Originally Reported	Adjustment	As Restated
Consolidated balance sheet as of December 31, 2011			
Current Liabilities			
Long-term debt subject to short term remarketing arrangements	$ -	$ 11,480,239	$ 11,480,239
Total current liabilities	24,993,049	11,480,239	36,473,288
Non-current Liabilities			
Long-term debt, net	20,926,542	(11,480,239)	9,446,303
Total liabilities	92,045,825	-	92,045,825

Subsequent Events

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

3. New Authoritative Pronouncements

In July 2011, the FASB issued ASU 2011-07, Health Care Entities (Topic 954): Presentation and Disclosure of Patient Services Revenue, Provision for Bad Debts, and the Allowance for Doubtful

Accounts for Certain Health Care Entities. ASU 2011-07 includes amendments to FASB's ASC Topic 954, Health Care Entities. The objective of the update is to provide financial statement users with greater transparency about a health care entity's net patient service revenue and the related allowance for doubtful accounts. The amendments requires health care entities that recognize significant amounts of patient service revenue at the time services are rendered, even though they do not immediately assess the patients' ability to pay, to present the provision for bad debts related to patient service revenue as a deduction from patient service revenue (net of contractual allowances and discounts) on their statement of operations. The Hospital adopted this new guidance during the year ended December 31, 2012. Accordingly, the provision for bad debts of approximately $4,093,804 and $3,593,465 for the years ended December 31, 2012 and 2011, respectively, have been presented as a deduction from net patient service revenue in the statement of operations. In addition, certain new disclosures have been included in the financial statements relating to the Hospital's establishment of its reserve for uncollectible accounts and certain other matters.

4. Interest in Net Assets of Kenmore Mercy Hospital Foundation, Inc.

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

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

A summary of the Foundation assets, liabilities, net assets, and changes in net assets are as follows:

	2012	2011
Cash, investments and other assets	$ 4,670,334	$ 4,229,421
Total assets	$ 4,670,334	$ 4,229,421
Liabilities	$ 755,496	$ 960,479
Net assets		
Unrestricted	3,128,014	2,500,048
Temporarily restricted	786,824	768,894
Total net assets	3,914,838	3,268,942
Total liabilities and net assets	$ 4,670,334	$ 4,229,421
Change in unrestricted net assets	$ 627,966	$ (889,413)
Change in temporarily restricted net assets	17,930	617,223
	$ 645,896	$ (272,190)

Distributions were made to the Hospital in the amount of $311,010 during 2012 and $58,562 during 2011.

5. Assets Limited as to Use

The composition of assets limited as to use, including unspent bond proceeds, is as follows at December 31:

	2012	2011
Held by trustee for funded depreciation		
Cash and cash equivalents	$ 1,126,691	$ 1,158,320
US Government obligations and other	2,184,669	2,137,827
Interest receivable	6,725	9,153
Held by trustee under indenture agreements		
Cash and cash equivalents	4,589,493	-
US Government obligations and other	8,299,159	-
Held by trustee for renewal and replacement		
Cash and cash equivalents	2,074,516	2,061,427
Assets limited as to use	$ 18,281,253	$ 5,366,727

6. Property and Equipment

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

	2012	2011
Land and land improvements	$ 987,303	$ 789,832
Buildings	55,636,925	55,870,007
Leasehold improvements	8,609,330	8,029,931
Equipment	22,175,590	20,255,624
Automobiles	20,978	40,743
Equipment under capital leases	5,808,396	7,594,887
	93,238,522	92,581,024
Less: Accumulated depreciation	(51,235,890)	(46,827,642)
Accumulated amortization under capital leases	(2,058,535)	(3,047,472)
	39,944,097	42,705,910
Construction in progress	6,436,950	921,637
	$ 46,381,047	$ 43,627,547

Depreciation expense in 2012 and 2011 amounted to approximately $6,747,335 and $5,083,111, respectively. Amortization expense on equipment under capital leases amounted to $676,564 and $717,680 in 2012 and 2011, respectively. Fully depreciated assets of $3,247,694 and $3,913,715 were written-off for the years ended December 31, 2012 and 2011, respectively.

7. Other Assets

Other assets consist of the following at December 31:

	2012	2011
Insurance recoveries	$ 12,863,642	$ 9,667,929
Debt issuance costs	1,525,643	700,089
Other	189,281	177,422
	$ 14,578,566	$ 10,545,440

Amortization expense on debt issuance costs amounted to $79,287 in 2012 and $63,536 in 2011.

8. Accrued Expenses

Accrued expenses consist of the following at December 31:

	2012	2011
Workers compensation	$ 1,229,556	$ 1,154,320
Payroll and benefits	5,204,149	4,347,392
Other	1,039,743	841,047
	$ 7,473,448	$ 6,342,759

9. Long-Term Obligations

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

	2012	2011
2006 Series C Bonds payable, Kenmore Mercy Hospital (a)	$ 11,489,025	$ 12,420,239
2012 Series A Bonds payable, Kenmore Mercy Hospital (b)	14,235,283	-
Mortgage payable, The McAuley Residence (c)	6,261,365	6,685,708
Capital lease obligations and other, at various rates of interest ranging from 3.37% to 5.0%, collateralized by equipment.	2,986,188	3,733,298
Note payable to an individual, payable in monthly installments of $988 including interest at 9%, until May 2018.	51,272	58,169
Total long-term obligations	35,023,133	22,897,414
Less: Current portion	(2,185,549)	(1,970,872)
Less: Long-term obligations subject to short-term remarketing arrangements	(10,511,525)	(11,480,239)
Long-term obligations, net	$ 22,326,059	$ 9,446,303

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

(a) In 2006, the System formed the Acute Care Obligated Group (the Obligated Group), consisting of its three primary hospitals (MHB, SOC and KMH) and the parent. No affiliates of CHS other than the Members of the Obligated Group were included in this offering. Collectively, the Obligated Group refinanced all outstanding indebtedness of the Obligated Group. On November 29, 2006, $68,820,000 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 four series. Series 2006 C Bonds for $16,730,000 was loaned to KMH for the purpose of retiring the NYS Medical Care Facilities Finance Agency FHA - Insured Mortgage Project Revenue Bonds, 1995 Series B which were applied to finance the construction of a three floor patient tower, certain renovations to the KMH facility and to refinance outstanding indebtedness. The discount on the bonds of $136,928 will be accreted over the life of the bonds.

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

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

The Loan Agreement specifies that the Hospital shall continuously pledge, as a security for the payment of all liabilities and the performance of all obligations of the Hospital pursuant to the loan agreement, a security interest in and assignment of the gross receipts of the Hospital, together with the Hospital's right to receive or collect the gross receipts. Further, the Hospital delivered a mortgage to secure all obligations and liabilities of the Hospital under the Loan Agreement. As further security to the Loan Agreement, the Hospital granted DASNY a security interest in such fixtures, furnishings and equipment as owned by the Hospital. In addition, a letter of credit in the amount of the bonds was entered into with HSBC Bank USA to provide security on the Series 2006 Bonds.

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

(b) On July 12, 2012, $17,315,000 of Dormitory Authority of the State of New York (DASNY) Catholic Health System Obligated Group Revenue Bonds, Series 2012 were issued. Series 2012A Bonds for $14,235,000 were loaned to the 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 on the Bonds of $156,812 and the premium on the Bonds of $159,265 will be accreted over the life of the Bonds.

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

	2012
2.00% Serial Bonds Due July 1, 2014	$330,000
3.00% Serial Bonds Due July 1, 2015	340,000
3.00% Serial Bonds Due July 1, 2016	350,000
3.00% Serial Bonds Due July 1, 2017	360,000
4.00% Serial Bonds Due July 1, 2018	370,000
3.50% Term Bonds Due July 1, 2022	1,610,000
4.00% Term Bonds Due July 1, 2027	2,385,000
5.00% Term Bonds Due July 1, 2032 (i)	2,960,000
4.75% Term Bonds Due July 1, 2039	5,530,000
Total Series 2012A Bonds	$14,235,000

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

The Loan Agreement specifies that the Hospital shall continuously pledge, as a security for the payment of all liabilities and the performance of all obligations of the Hospital pursuant to the Loan Agreement, a security interest in and assignment of the gross receipts of the Hospital, together with the Hospital's right to receive or collect the gross receipts. Further, the Hospital delivered a mortgage to secure all obligations and liabilities of the Hospital under the Loan Agreement. As further security to the Loan Agreement, the Hospital granted DASNY a security interest in such fixtures, furnishings and equipment as owned by the Hospital.

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

(c) Mortgage payable to Century Health Capital. The mortgage is an FHA - Insured Mortgage revenue bonds to Century Health Capital. The mortgage is payable in monthly installments of $65,176 including interest of 5.51%. Monthly payments commenced on July 1, 1994 and continue through maturity in July 2023. The mortgage is collateralized by the building and equipment.

Aggregate maturities of all long-term obligations subsequent to December 31, 2012 are as follows:

	Long-Term Debt	Capital Leases	Total
2013	$ 1,598,370	$ 677,912	$ 2,276,282
2014	1,834,414	703,818	2,538,232
2015	1,909,456	384,331	2,293,787
2016	1,991,083	268,805	2,259,888
2017	2,079,389	218,249	2,297,638
Thereafter	22,624,233	1,172,635	23,796,868
Total	$ 32,036,945	3,425,750	$ 35,462,695
Less: Amount representing interest		(439,562)	
Capital lease obligations		$ 2,986,188	

Operating Leases
Minimum annual rental commitments at December 31, 2012 under noncancelable operating leases are as follows:

2013	$ 1,306,292
2014	$ 1,306,292
2015	$ 1,306,292
2016	$ 1,306,292
2017	$ 1,306,292
Thereafter	580,152
	$ 7,111,612

Rental expense under operating leases amounted to approximately $1,191,405 and $1,096,357 in 2012 and 2011, respectively.

10. Derivative Financial Instruments

In connection with the issuance of the Series 2006 Bonds and execution of the Loan Agreement, the Obligated Group entered into an interest rate swap agreement (a derivative agreement) with JP Morgan Chase. The Hospital entered into a derivative agreement for purposes of mitigating risk posed by the Bonds accruing interest at a variable rate. Further, the Hospital 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 JP Morgan Chase, 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 JP Morgan Chase may require that the Hospital direct the Series 2006 Bonds be converted to bonds that bear a fixed rate of interest. The terms of the swap require KMH to pay a fixed rate of 3.80% on the notional amount ($12,050,000 at December 31, 2011) and in exchange, KMH will receive a variable rate payment based upon the Securities Industry and Financial Markets Association Index, calculated weekly. The notional amount of the swap is matched to the maturity schedule of the Series 2006 Bonds. The swap agreement was executed on December 13, 2006 and expires July 1, 2025. In accordance with the accounting guidance, the instrument qualifies for hedge treatment and is designated a cash flow hedge of future interest payments. The effective portion of the hedge has been excluded from excess of revenues over expenses and recorded within changes to net assets.

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

(in thousands of dollars)

	2012		2011	
	Balance Sheet Location	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Interest rate contracts				
Floating to fixed	Interest rate swap	$ 1,830,255	Interest rate swap	$ 1,805,747

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

(in thousands of dollars)

	Amount of Gain (Loss) Recognized in Statement of Operations		Amount of Gain (Loss) Recognized in Net Assets	
	2012	**2011**	**2012**	**2011**
Change in fair value of interest rate swaps	$ (1,412)	$ (18,933)	$ (23,096)	$ (593,774)

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

11. Employee Benefit Plans

Pension Arrangements

Prior to December 31, 2001, the Hospital had a noncontributory defined benefit pension plan covering substantially all employees. Effective January 1, 2001, the System began maintaining a qualified defined benefit pension plan covering substantially all of its employees at its five constituent hospitals. As of that date, the Pension Plan for Employees of KMH was merged into the Retirement Plan of the Catholic Health System (the Plan).

Effective January 1, 2001, 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 did not choose to participate in the cash balance feature accrue benefits under the same formula under the 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 KMH formulas earn benefits based on 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 around the System to other CHS subsidiaries, the obligations and a proportional amount of the plan's assets transfer.

Funded Status

The following tables summarize changes in the benefit obligation, the plan assets and the funded status of our pension plan as well as the components of net periodic benefit costs, including key assumptions. The disclosures below have been actuarially determined based on an allocation of the System's obligations specific to Kenmore Mercy Hospital. The measurement dates for plan assets and obligations were December 31, 2012 and 2011.

	2012	2011
Benefit Obligations		
Change in benefit obligation		
Benefit obligation at beginning of year	$ 46,342,327	$ 38,165,700
Service cost	1,885,585	1,518,313
Interest cost	2,084,957	2,044,118
Actuarial (gains) losses	3,828,044	5,697,213
Transfers (to) from CHS Subsidiaries	(219,535)	438,088
Benefits paid	(1,810,765)	(1,498,990)
Expenses	(17,289)	(22,115)
Benefit obligation at end of year	52,093,324	46,342,327
Accumulated benefit obligation at end of year	$ 428,825,987	$ 41,715,010
Plan Assets		
Change in plan assets		
Fair value of plan assets at beginning of year	$ 17,519,262	$ 16,948,539
Actual return on plan assets	1,931,412	(2,592)
Transfers (to) from CHS Subsidiaries	(82,162)	165,615
Benefits paid	(1,810,765)	(1,498,990)
Hospital contributions	1,955,677	1,928,805
Expenses	(17,289)	(22,115)
Fair value of plan assets at end of year	$ 19,496,135	$ 17,519,262
Funded status at end of year	$ 32,597,189	$ 28,823,065
Amounts recognized in the consolidated balance sheets		
Noncurrent liabilities	$ (32,597,189)	$ (28,823,065)
Net amounts recognized	$ (32,597,189)	$ (28,823,065)
Amounts recognized in unrestricted net assets consists of		
Actuarial net loss	$ (21,349,982)	$ (19,509,758)
Prior service cost	(255,623)	(300,387)
Total amount recognized	$ (21,605,605)	$ (19,810,145)
Components of Net Periodic Benefit Cost		
Service cost	$ 1,885,585	$ 1,518,313
Interest cost on benefit obligation	2,084,957	2,044,118
Expected return on plan assets	(1,495,644)	(1,422,298)
Amortization of prior service costs	44,764	44,764
Recognized actuarial loss	1,414,679	797,634
Net periodic benefit cost	$ 3,934,341	$ 2,982,531

Since the hospital is a participant in the system's Plan, the following disclosures are made for the entire Plan in the aggregate.

The estimated prior service cost, and net loss that will be amortized from unrestricted net assets into net periodic pension cost over the next fiscal year for the System are $229,260 and $17,931,331, respectively.

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

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

	Pension target allocation	Actual	
	2013	**2012**	**2011**
Asset Category			
Equities	65%	50%	50%
Fixed income	25%	35%	37%
Other	10%	15%	13%
Total	100%	100%	100%

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

The following tables present the Plan's financial instruments as of December 31, 2012 and 2011, measured at fair value on a recurring basis using the fair value hierarchy defined in Note 15.

	Total	Level 1	Level 2	Level 3
December 31, 2012				
Investments				
Cash and cash equivalents	$ 14,542,176	$ 14,491,559	$ 50,617	$ -
Marketable equity securities	$ 117,518,474	55,019,557	62,498,917	-
Marketable debt securities	$ 72,798,865	24,932,327	47,866,538	-
Managed funds	$ 30,347,806	-	-	30,347,806
	$ 235,207,321	$ 94,443,443	$ 110,416,072	$ 30,347,806

	Total	Level 1	Level 2	Level 3
December 31, 2011				
Investments				
Cash and cash equivalents	$ 11,565,458	$ 11,543,903	$ 21,555	$ -
Marketable equity securities	100,534,215	92,676,777	7,857,438	-
Marketable debt securities	67,503,537	23,487,427	44,016,110	-
Managed funds	27,055,384	-	-	27,055,384
	$ 206,658,594	$ 127,708,107	$ 51,895,103	$ 27,055,384

A roll forward of pension assets classified by the defined benefit plan as Level 3 within the fair value hierarchy (defined above) is as follows:

	2012	2011
Fair value January 1	$ 27,055,386	$ 31,280,332
Realized and unrealized gains (losses)	944,022	(934,764)
Purchases	8,442,833	-
Sales	(10,660,843)	(1,002,631)
Transfers in/out	4,566,428	(2,287,551)
Fair value December 31	$ 30,347,826	$ 27,055,386

Contributions

Contributions to the Plan are made to make benefit payments to plan participants. The funding policy is to contribute amounts to the trusts sufficient to meet minimum funding requirements plus such additional amounts as may be determined to be appropriate. Contributions are made to benefit plans for the sole benefit of plan participants. The System is expected to contribute an aggregate amount of approximately $21,400,000 to the pension plan trust in 2012 to be allocated amongst participating entities.

Benefit Payments

The following table summarizes the System's estimated future benefit payments. Actual benefit payments may differ from expected benefit payments.

2013	15,039,000
2014	16,535,000
2015	18,215,000
2016	20,235,000
2017	22,239,000

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

12. Insurance Arrangements

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

The coverage provided by SMICL is on a claims-made basis. The System, on the Hospital's behalf therefore retains the liability for unasserted claims resulting from incidents that occurred on services provided prior to the financial statement date. The System has independent actuaries estimate the ultimate costs of such unasserted claims, which were discounted at 4.0% in 2012 and 2011. The Hospital's portion of the System's current portion of liabilities for unpaid and incurred but not reported claims at December 31, 2012 and 2011 is $61,099 and $66,255 respectively, and is included in accrued expenses. The Hospital's portion of the System's long term portion of liabilities for unpaid and incurred but not reported claims at December 31, 2012 and 2011 is $9,271,255 and $7,063,024, respectively recorded in long-term portion of insurance liabilities. The charges to expenses for professional and general liability for 2012 and 2011 approximated $838,770 and $951,195, respectively, which has been included in insurance expenses. Amounts recognized as insurance receivables related to the claims approximate $8,110,368 and $5,804,181 at December 31, 2012. Insurance recoveries are measured on the same basis as the liability subject to the need for a valuation allowance for uncollectible amounts.

The System's insurance program for workers' compensation, in which the Hospital participates, has a deductible of $350,000 per occurrence. Claims in excess of self-insurance levels are fully insured. Losses from asserted claims and from unasserted claims identified by the System's incident reporting for the Hospital were accrued on an undiscounted basis based on actuarial estimates of the settlement of such claims.

The Hospital's portion of the System's current portion of liabilities for unpaid and incurred but not reported claims at December 31, 2012 and 2011 is $1,124,860 and $1,061,651, respectively, and is included in accrued expenses. The Hospital's portion of the System's long term portion of liabilities for unpaid and incurred but not reported claims at December 31, 2012 and 2011 is $9,416,934 and $8,000,048, respectively, and is included in long-term portion of insurance liabilities. The charges to expenses for workers compensation costs approximated $2,582,741 and $2,620,668 in 2012 and 2011, respectively which has been included in employee benefits expenses. Amounts recognized as insurance receivables related to the claims approximate

$4,753,274 and $3,863,748 at December 31, 2012 and 2011, respectively. Insurance recoveries are measured on the same basis as the liability subject to the need for a valuation allowance for uncollectible amounts.

The System's insurance for employee health costs, in which the Hospital participates, is self-insured up to $325,000 per claim. Claims in excess of self-insurance levels are fully insured. Claims are accrued based upon the System's estimates of the aggregate liability for claims incurred using certain actuarial assumptions used in the insurance industry and based on the System's experience. Charges were billed monthly by the System and are included in employee benefit costs.

13. Related Party Transactions

The Hospital is one of a group of health care providers who are affiliated as a result of their association with the System.

During 2012 and 2011, the Hospital incurred expenses from affiliates for administration services, rent and other services. These expenses approximated $25,263,927 in 2012 and $21,951,280 in 2011. During 2012 and 2011, the Hospital provided cost sharing services to and received reimbursement from affiliates for laboratory, computer, and other services. Revenues from these services approximated $93,666 and $129,645 in 2012 and 2011, respectively.

During 2012, distributions were received from the parent and affiliates of $99,747. During 2012 and 2011, the Hospital received cash payments from affiliates and made cash payments to affiliates in the normal course of operations.

Amounts due to affiliates at December 31, 2012 and 2011 were $7,066,493 and $4,622,180, respectively. Amounts due from affiliates at December 31, 2012 and 2011 were $1,516,733 and $1,481,621, respectively.

14. Legal Matters

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

15. Fair Value Measurements

The following methods and assumptions were used by the Hospital in estimating fair value disclosures for financial statements:

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

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

Interest Rate Swap
The Hospital has entered into standard International Swaps and Derivatives Association (ISDA) interest rate swap agreements (the Swap Agreements) to manage the interest rate risk associated with its debt. The Swap Agreements effectively convert a portion of our variable rate debt to a long-term fixed rate. Under these agreements, the Hospital receives a variable rate based on the Securities Industry and Financial Markets Association Index plus a markup and pays a fixed rate. The fair value of these interest rate derivatives are based on quoted prices for similar instruments from a commercial bank, and therefore, the interest rate derivatives are considered a Level 2 item.

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

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

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

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

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

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

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

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

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

December 31, 2012	**Total**	**Level I**	**Level 2**	**Level 3**	**Valuation Technique**
Assets limited as to use					
Cash and cash equivalents	$ 7,790,700	$ 1,166,438	$ 6,624,262	$ -	**Market**
U.S. Government and agency obligations	10,483,828	2,184,669	8,299,159	-	**Market**
Other	6,725	-	6,725	-	**Market**
	$ 18,281,253	$ 3,351,107	$ 14,930,146	$ -	
Interest rate swap	$ 1,830,255	$ -	$ 1,830,255	$ -	**Market**

December 31, 2011	**Total**	**Level I**	**Level 2**	**Level 3**	**Valuation Technique**
Assets limited as to use					
Cash and cash equivalents	$ 3,219,748	$ 1,190,044	$ 2,029,704	$ -	**Market**
U.S. Government and agency obligations	2,137,827	2,137,827	-	-	**Market**
Other	9,153	-	9,153	-	**Market**
	$ 5,366,728	$ 3,327,871	$ 2,038,857	$ -	
Interest rate swap	$ 1,805,747	$ -	$ 1,805,747	$ -	**Market**

16. Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom 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:

	2012	**2011**
Medicare	34%	36%
Medicaid	7%	4%
Blue Cross	8%	7%
Other third-party payors	37%	40%
Patients/Residents	14%	13%
	100%	100%

17. Functional Expenses

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

	2012	2011
Health care services	$ 104,991,611	$ 95,855,054
General and administrative	42,225,194	40,119,163
	$ 147,216,805	$ 135,974,217

Report of Independent Auditors on Accompanying Other Information

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

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

PricewaterhouseCoopers LLP

April 25, 2013

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Kenmore Mercy Hospital and Subsidiary
Schedule of Net Cost of Providing Care of Persons Living in Poverty and Community Benefit Programs (Schedule of Social Accountability - Unaudited)
Years Ended December 31, 2012 and 2011

(in thousands of dollars)

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

	2012	2011
Charity care	$ 1,208,229	$ 1,217,866
Cost of community benefit programs	2,315,416	1,388,134
Unpaid cost of medicaid programs	4,102,400	2,542,003
Social accountability costs	$ 7,626,045	$ 5,148,003

Kenmore Mercy Hospital and Subsidiary
Consolidating Balance Sheets
December 31, 2012

	Kenmore Mercy Hospital	The McAuley Residence	Eliminations	Consolidated
Assets				
Current assets				
Cash and cash equivalents	$ 27,165,985	$ 1,027,303	$ -	$ 28,193,288
Patient/resident accounts receivable, net of estimated uncollectibles of $5,203,000	17,240,235	2,136,445	-	19,376,680
Other receivables	686,753	301,630	-	988,383
Inventories	1,887,486	-	-	1,887,486
Assets limited as to use	1,826,205	-	-	1,826,205
Prepaid expenses	228,591	-	-	228,591
Total current assets	49,035,255	3,465,378	-	52,500,633
Interest in net assets of Affiliated Foundations	3,914,838	-	-	3,914,838
Assets limited as to use	11,062,447	5,392,601	-	16,455,048
Due from affiliate	1,512,227	6,531	(2,025)	1,516,733
Property and equipment, net	40,534,300	5,846,747	-	46,381,047
Other assets	13,113,978	3,061,167	(1,596,579)	14,578,566
Total Assets	$ 119,173,045	$ 17,772,424	$ (1,598,604)	$ 135,346,865
Liabilities and Net Assets				
Current liabilities				
Current portion of long-term obligations	$ 1,737,224	$ 448,325	$ -	$ 2,185,549
Long-term obligations subject to short-term remarketing arrangements	10,511,525	-	-	10,511,525
Accounts payable	8,419,982	72,506	-	8,492,488
Accrued expenses	5,846,258	1,627,190	-	7,473,448
Due to third-party payors	5,989,025	402,694	-	6,391,719
Due to affiliate	5,568,539	1,499,979	(2,025)	7,066,493
Total current liabilities	38,072,553	4,050,694	(2,025)	42,121,222
Long-term obligations, net	16,513,019	5,813,040	-	22,326,059
Long-term portion of insurance liabilities	14,544,405	4,143,784	-	18,688,189
Pension obligation	29,360,558	3,236,630	-	32,597,188
Asset retirement obligation	155,339	-	-	155,339
Interest rate swap	1,830,255	-	-	1,830,255
Other long-term liabilities	152,688	-	-	152,688
Total liabilities	100,628,817	17,244,148	(2,025)	117,870,940
Net assets				
Unrestricted	17,757,404	521,608	(1,596,579)	16,682,433
Temporarily restricted	786,824	6,668	-	793,492
Total net assets	18,544,228	528,276	(1,596,579)	17,475,925
Total Liabilities and Net Assets	$ 119,173,045	$ 17,772,424	$ (1,598,604)	$ 135,346,865

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

Kenmore Mercy Hospital and Subsidiary
Consolidating Statements of Operations and Changes in Net Assets
Year Ended December 31, 2012

	Kenmore Mercy Hospital	The McAuley Residence	Eliminations	Consolidated
Unrestricted revenues, gains and other support				
Net patient/resident service revenue	$ 135,478,104	$ 17,541,547	$ -	$ 153,019,651
Provision for bad debts	(3,789,302)	(304,502)	-	(4,093,804)
Net patient/resident service revenue less povision for bad debts	131,688,802	17,237,045	-	148,925,847
Other revenue	2,762,055	68,911	-	2,830,966
Total unrestricted revenues, gains and other support	134,450,857	17,305,956	-	151,756,813
Expenses				
Salaries and wages	53,182,424	10,537,954	-	63,720,378
Employee benefits	16,217,114	3,680,426	-	19,897,540
Medical and professional fees	4,958,787	188,805	-	5,147,592
Purchased services	11,890,370	1,112,978	-	13,003,348
Supplies	29,610,320	1,230,422	-	30,840,742
Depreciation and amortization	6,790,883	725,833	-	7,516,716
Interest	926,179	357,773	-	1,283,952
Insurance	923,660	104,870	-	1,028,530
Other expenses	4,502,230	275,777		4,778,007
Total expenses	129,001,967	18,214,838	-	147,216,805
Gain (loss) from operations	5,448,890	(908,882)	-	4,540,008
Nonoperating revenues and losses				
Investment income	63,104	22,229	-	85,333
Other	(2,894)	-	-	(2,894)
Total nonoperating revenues and losses	60,210	22,229	-	82,439
Excess (deficiency) of revenues over expenses	5,509,100	(886,653)	-	4,622,447

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

Kenmore Mercy Hospital and Subsidiary
Consolidating Statements of Operations and Changes in Net Assets (Continued)
Year Ended December 31, 2012

	Kenmore Mercy Hospital	The McAuley Residence	Eliminations	Consolidated
Unrestricted net assets				
Excess (deficiency) of revenues over expenses	$ 5,509,100	$ (886,653)	$ -	4,622,447
Change in unrestricted interest in Kenmore Mercy Foundation	627,966	-	-	627,966
Change in pension obligation	(2,193,646)	96,489	-	(2,097,157)
Impact of pension transfers to/from CHS subsidiaries	613,551	(311,854)	-	301,697
Distribution and transfer from parent and affiliates	99,747	-	-	99,747
Change in unrealized loss on interest rate swap	(23,096)	-	-	(23,096)
Distributions from Foundation	303,916	7,094		311,010
Increase (decrease) in unrestricted net assets	4,937,538	(1,094,924)	-	3,842,614
Temporarily restricted net assets				
Change in temporarily restricted interest in Kenmore Mercy Foundation	17,930	-	-	17,930
Other	-	(4,884)	-	(4,884)
Increase (decrease) in temporarily restricted net assets	17,930	(4,884)	-	13,046
Increase (decrease) in net assets	4,955,468	(1,099,808)	-	3,855,660
Net assets, beginning of year	13,588,760	1,628,084	(1,596,579)	13,620,265
Net assets, end of year	$ 18,544,228	$ 528,276	$ (1,596,579)	$ 17,475,925

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

Kenmore Mercy Hospital and Subsidiary
Consolidating Statements of Cash Flows
Year Ended December 31, 2012

	Kenmore Mercy Hospital	The McAuley Residence	Eliminations	Consolidated
Cash flows from operating activities				
Increase (decrease) in net assets	$ 4,955,468	$ (1,099,808)	$ -	$ 3,855,660
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities				
Depreciation and amortization	6,790,883	725,833	-	7,516,716
Provision for bad debts	3,789,302	304,502	-	4,093,804
Distribution from parent and affiliates	(99,747)	-	-	(99,747)
Undistributed portion of change in interest in Kenmore Mercy Foundation, Inc.	(645,896)	-	-	(645,896)
Increase in pension obligation	1,580,095	215,365	-	1,795,460
Discount on issuance	13,945	-	-	13,945
Premium on issuance	(7,328)	-	-	(7,328)
Change in unrealized loss on interest rate swap	24,508	-	-	24,508
Change in unrealized gain on investments	-	31,100	-	31,100
Gain on sale of fixed assets	-	-	-	-
Gain on extinguishment of capital leases	(34,642)	-	-	(34,642)
(Increase) decrease in assets				
Patient accounts receivable	(8,362,816)	(518,585)	-	(8,881,401)
Other receivables	(47,723)	(132,305)	-	(180,028)
Inventories	(245,972)	-	-	(245,972)
Prepaid expenses	(95,384)	-	-	(95,384)
Other assets	(921,584)	4,884	-	(916,700)
Due from affiliates	(22,839)	1,900	2,025	(18,914)
Increase (decrease) in liabilities				
Accounts payable	2,401,064	(140,355)	-	2,260,709
Accrued expenses	(698,430)	2,914	-	(695,516)
Due to affiliate	854,235	1,036,049	(2,025)	1,888,259
Due to third-party payors	1,126,378	(560,118)	-	566,260
Other Liabilities	1,706,456	561,758	-	2,268,214
Net cash provided by (used in) operating activities	12,059,973	433,134	-	12,493,107
Cash flows from investing activities				
Purchase of property and equipment	(7,791,508)	(140,821)	-	(7,932,329)
Proceeds from the sale of property and equipment	-	-	-	-
Purchase of assets whose use is limited	(13,953,015)	-	-	(13,953,015)
Sale of assets whose use is limited	1,057,850	(56,974)	-	1,000,876
Other	6,513	-	-	6,513
Net cash used in investing activities	(20,680,160)	(197,795)	-	(20,877,955)
Cash flows from financing activities				
Distribution from parent and affiliates	99,747	-		99,747
Proceeds from issuance of long-term obligations	14,235,000	-	-	14,235,000
Discount on issuance	(156,812)	-	-	(156,812)
Premium on issuance	159,265	-	-	159,265
Repayments of current and long-term obligations	(1,538,375)	(424,343)	-	(1,962,718)
Net cash used in financing activities	12,798,825	(424,343)	-	12,374,482
Increase (decrease) in cash and cash equivalents	4,178,638	(189,004)	-	3,989,634
Cash and cash equivalents, beginning of year	22,987,347	1,216,307		24,203,654
Cash and cash equivalents, end of year	$ 27,165,985	$ 1,027,303	$ -	$ 28,193,288
Supplemental disclosure of cash flow information				
Cash paid during the year for interest	$ 919,562	$ 357,773	$ -	$ 1,277,335
Noncash investing and financing activities				
Assets acquired under capital lease obligations	$ 279,576	$ -	$ -	$ 279,576
Construction Related Payables	$ 1,826,205	$ -	$ -	$ 1,826,205

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