

**CONSOLIDATED FINANCIAL STATEMENTS**

**MERCY HOSPITAL OF BUFFALO  
(A SUBSIDIARY OF THE  
CATHOLIC HEALTH SYSTEM, INC.)**

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**DECEMBER 31, 2014**

**MERCY HOSPITAL OF BUFFALO  
(A SUBSIDIARY OF THE CATHOLIC HEALTH SYSTEM, INC.)**

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## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Mercy Hospital of Buffalo and its subsidiary (collectively, the Hospital), which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended and the related notes to the consolidated financial statements.

### 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 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.

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mercy Hospital of Buffalo and its subsidiary as of December 31, 2014 and 2013, and the results of its operations and its 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 15, the Hospital had significant transactions with related parties. Our opinion is not modified with respect to this matter.

*Freed Maxick CPAs, P.C.*

Buffalo, New York  
March 26, 2015

**MERCY HOSPITAL OF BUFFALO  
(A SUBSIDIARY OF THE CATHOLIC HEALTH SYSTEM, INC.)**

**CONSOLIDATED BALANCE SHEETS  
December 31,**

<b>ASSETS</b>	<b>2014</b>	<b>2013</b>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 85,470,285	\$ 64,682,656
Patient/resident accounts receivable, net of allowance for doubtful accounts of \$9,659,000 (2013 - \$9,100,000)	53,405,815	54,105,226
Other receivables	3,017,601	5,098,935
Inventories	12,955,722	11,161,194
Prepaid expenses and other current assets	673,935	570,735
<b>Total current assets</b>	<b>155,523,358</b>	<b>135,618,746</b>
Assets limited as to use	338,597	1,324,433
Investments	1,547,473	1,511,468
Due from affiliates	227,917	236,582
Property and equipment, net	98,197,503	101,129,413
Other assets	34,118,902	28,269,784
<b>Total assets</b>	<b>\$ 289,953,750</b>	<b>\$ 268,090,426</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities:</b>		
Current portion of long-term obligations	\$ 5,611,207	\$ 5,518,461
Accounts payable	16,099,932	17,823,615
Accrued expenses	12,777,901	15,681,679
Due to third-party payors	17,482,440	18,110,140
Due to affiliates	13,805,385	9,906,249
<b>Total current liabilities</b>	<b>65,776,865</b>	<b>67,040,144</b>
Long-term obligations, net	45,420,588	45,560,059
Long-term portion of insurance liabilities	48,449,050	40,427,822
Pension obligation	136,618,346	96,901,865
Asset retirement obligation	5,991,010	5,689,954
Interest rate swap	4,061,057	3,223,924
Deferred compensation plan	10,570	11,096
Other long term liabilities	103,263	193,704
<b>Total liabilities</b>	<b>306,430,749</b>	<b>259,048,568</b>
<b>Net assets (deficit):</b>		
Unrestricted	(17,379,919)	7,886,053
Temporarily restricted	780,397	1,033,282
Permanently restricted	122,523	122,523
<b>Total net assets (deficit)</b>	<b>(16,476,999)</b>	<b>9,041,858</b>
<b>Total liabilities and net assets</b>	<b>\$ 289,953,750</b>	<b>\$ 268,090,426</b>

See accompanying notes.

**MERCY HOSPITAL OF BUFFALO  
(A SUBSIDIARY OF THE CATHOLIC HEALTH SYSTEM, INC.)**

**CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS  
For the Years Ended December 31,**

	<u>2014</u>	<u>2013</u>
<b>Unrestricted revenue and other support:</b>		
Net patient/resident service revenue	\$ 393,515,145	\$ 371,395,001
Provision for bad debts	(10,081,047)	(8,742,496)
Net patient/resident service revenue, less provision for bad debts	383,434,098	362,652,505
Other revenue	6,291,664	10,801,600
Net assets released from restrictions used in operations	101,000	256,000
<b>Total unrestricted revenue and other support</b>	<u>389,826,762</u>	<u>373,710,105</u>
<b>Expenses:</b>		
Salaries and wages	155,069,009	147,811,229
Employee benefits	50,501,202	55,404,094
Medical and professional fees	12,177,995	12,048,458
Purchased services	32,127,945	28,988,063
Supplies	80,511,712	75,009,179
Depreciation and amortization	16,190,943	14,275,885
Interest	3,024,362	2,370,878
Insurance	3,680,252	3,123,274
Other expenses	16,440,547	15,939,388
<b>Total expenses</b>	<u>369,723,967</u>	<u>354,970,448</u>
<b>Income from operations</b>	20,102,795	18,739,657
<b>Nonoperating revenues and losses:</b>		
Investment income	465,934	757,005
Contributions and other, net	47,878	44,545
<b>Total nonoperating revenues and losses</b>	<u>513,812</u>	<u>801,550</u>
<b>Excess of revenues over expenses</b>	<u>\$ 20,616,607</u>	<u>\$ 19,541,207</u>

See accompanying notes.

**MERCY HOSPITAL OF BUFFALO  
(A SUBSIDIARY OF THE CATHOLIC HEALTH SYSTEM, INC.)**

**CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (CONTINUED)  
For the Years Ended December 31,**

	<u>2014</u>	<u>2013</u>
<b>Unrestricted net assets (deficit):</b>		
Excess of revenues over expenses	\$ 20,616,607	\$ 19,541,207
Change in unrealized gain (loss) on interest rate swap	(1,960,717)	3,412,516
Change in pension obligation, other than net periodic cost	(36,482,858)	45,520,264
Net assets released from restriction used for capital	590,857	991,475
Distributions to parent	(8,197,853)	(7,310,772)
Grant revenue for capital expenditures	167,992	940
Increase (decrease) in unrestricted net assets	<u>(25,265,972)</u>	<u>62,155,630</u>
<b>Temporarily restricted net assets:</b>		
Contributions	435,924	559,642
Special events	3,048	19,183
Investment income	-	31,560
Temporarily restricted net assets released from restrictions	<u>(691,857)</u>	<u>(1,247,475)</u>
(Decrease) increase in temporarily restricted net assets	<u>(252,885)</u>	<u>(637,090)</u>
Increase (decrease) in net assets (deficit)	<u>(25,518,857)</u>	<u>61,518,540</u>
Net assets - beginning of year	<u>9,041,858</u>	<u>(52,476,682)</u>
Net assets - end of year	<u>\$ (16,476,999)</u>	<u>\$ 9,041,858</u>

See accompanying notes.

**MERCY HOSPITAL OF BUFFALO  
(A SUBSIDIARY OF THE CATHOLIC HEALTH SYSTEM, INC.)**

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the Years Ended December 31,**

	<u>2014</u>	<u>2013</u>
<b>Cash flows from operating activities:</b>		
Increase (decrease) in net assets	\$ (25,518,857)	\$ 61,518,540
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
Depreciation and amortization	16,190,943	14,275,885
Provision for bad debts	10,081,047	8,742,496
(Gain) loss on sale of assets	(2,710)	102,081
Gain on renewal of capital leases	-	(25,961)
Change in unrealized (gain) loss on interest rate swap	1,890,288	(3,486,522)
Realized loss on interest rate swaps	146,958	-
Distribution to parent	8,197,853	7,310,772
Change in pension obligation, other than net periodic cost	36,482,858	(45,520,264)
Undistributed (earnings) losses in equity investees	(93,159)	(12,581)
Discount on issuance	23,526	23,908
Premium on issuance	(3,003)	(3,003)
Change in unrealized gains on investments	72,343	(155,311)
Realized loss on investments	(85,005)	257
Increase (decrease) in cash surrender value of life insurance policies	(15,342)	4,742
(Increase) decrease in assets:		
Patient accounts receivables	(9,371,057)	(15,390,417)
Due from affiliate	8,665	(146,228)
Other receivables	2,070,755	(2,327,777)
Inventories	(1,794,528)	(4,476,178)
Prepaid expenses and other assets	553,234	(254,205)
Increase (decrease) in liabilities:		
Accounts payable	(523,683)	31,057
Accrued expenses	(2,903,778)	740,447
Due to affiliates	1,916,899	(3,240,021)
Due to third-party payors	(627,700)	1,411,701
Other liabilities	4,632,686	8,533,184
<b>Net cash and cash equivalents provided by operating activities</b>	<u>41,329,233</u>	<u>27,656,602</u>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(8,850,460)	(14,258,615)
Proceeds from sale of property and equipment	5,500	-
Proceeds from sale of assets limited as to use	985,475	4,261,776
Change in investments, net	(8,001)	(38,785)
Other	361	154,430
<b>Net cash and cash equivalents used in investing activities</b>	<u>(7,867,125)</u>	<u>(9,881,194)</u>
<b>Cash flows from financing activities:</b>		
Distribution to parent and affiliates	(8,197,853)	(7,310,772)
Proceeds from issuance of long-term debt	2,404,132	-
Termination of interest rate swap	(1,200,113)	-
Repayment of current and long-term obligations	(5,680,645)	(5,097,410)
<b>Net cash and cash equivalents used in financing activities</b>	<u>(12,674,479)</u>	<u>(12,408,182)</u>
<b>Net increase in cash and cash equivalents</b>	20,787,629	5,367,226
Cash and cash equivalents - beginning of year	<u>64,682,656</u>	<u>59,315,430</u>
Cash and cash equivalents - end of year	<u>\$ 85,470,285</u>	<u>\$ 64,682,656</u>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the year for interest	\$ 3,003,839	\$ 2,349,973
<b>Noncash investing and financing activities:</b>		
Assets acquired under capital lease obligations	\$ 2,009,265	\$ 1,681,223
Other noncash transactions	\$ 1,200,000	\$ 1,200,000

See accompanying notes.

**MERCY HOSPITAL OF BUFFALO  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 1. ORGANIZATION**

Mercy Hospital of Buffalo is a not-for-profit acute care hospital and skilled nursing facility. 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. All operations are located in Erie County, New York and serve the community of Western New York. Mercy Hospital Foundation, Inc. (the Foundation) is a not-for-profit organization incorporated under the New York State Corporation Laws. Mercy Hospital of Buffalo is the sole corporate member of the Foundation. The Foundation's sole purpose is to receive and administer gifts and bequests made on behalf of Mercy Hospital of Buffalo, which are generally used to support the capital needs of Mercy Hospital of Buffalo. Mercy Hospital of Buffalo and the Foundation (collectively the Hospital) are a part of the Catholic Health System, Inc. and Subsidiaries (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 Diocese of Buffalo, New York, Ascension Health Ministries and Catholic Health Ministries. Ascension Health, Trinity Health, and the Diocese of Buffalo, New York are the corporate members of CHS, with equal ownership interest. CHS is the sole corporate member of the following subsidiaries:

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

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

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

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES**

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

**Principles of Consolidation:** The consolidated financial statements of the Hospital include the accounts of Mercy Hospital of Buffalo and Mercy Hospital Foundation. All significant intercompany balances and transactions have been eliminated in 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 asset retirement obligations, reserve for bad debts, reserve for third-party payor contractual adjustments and allowances, the provision for estimated receivables and payables for final settlements with those payors, the insurance reserves for workers' compensation, professional and general liability, and actuarial assumptions used in determining pension expense.



**MERCY HOSPITAL OF BUFFALO  
(A SUBSIDIARY OF THE CATHOLIC HEALTH SYSTEM, INC.)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

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

**Other Receivables:** Other receivables consist primarily of managed care risk sharing receivables, Foundation receivables, physician loans, and other receivables. There is no allowance for doubtful accounts established against these receivables.

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

**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 and may at its discretion subsequently use for other purposes.

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

Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized. Investment income or loss (including realized gains or losses on investments, interest, and dividends) is included in the excess of revenues over expenses, unless their use is restricted by donor stipulations or law. Unrealized gains and losses on investments are included in the operating measure as the investments are trading securities.

**Prepaid Expenses and Other Assets:** Prepaid expenses and other assets consist of prepaid general expenses, deferred financing costs, investments in health care related joint ventures and partnerships, 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. The investments in health care related joint ventures and partnerships are accounted for on the equity or cost methods, as appropriate.

**Cash Surrender Value of Life Insurance Policies:** Cash Surrender Value of Life Insurance Policies represents the cash value of life insurance policies for which the Foundation is the named beneficiary. The premiums for these policies are paid by the insured individual. These policies had a face value of approximately \$562,000 at December 31, 2014 and 2013.

**MERCY HOSPITAL OF BUFFALO  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

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

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

**Impairment of Long-Lived Assets:** The 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 2014 and 2013.

**Asset Retirement Obligations:** The Hospital 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 Hospital will recognize a gain or loss for any difference between the settlement amount and liability recorded. Accretion expense for the years ended December 31, 2014 and 2013 was \$333,919 and \$317,263, respectively.

**Net Patient/Resident Service Revenue:** Net patient service revenue is reported at the estimated net realizable amounts from third-party payors, 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 payors 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 final settlements are determined. CHS's Healthcare Assistance Program (HAP) provides discounts to patients based on need. 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 HAP or low-cost insurance and live in New York State, a state contiguous to New York State, or the state of Ohio, are provided an uninsured discount based on a service specific uninsured rate. This uninsured rate is similar in calculation method and amount to third party payor methods and rates.

Under the New York Health Care Reform Act (NYHCRA), hospitals are authorized to negotiate reimbursement rates with certain non-Medicare payors except for Medicaid, Workers' Compensation and No-fault, which are regulated by New York State. These negotiated rates may take the form of rates per discharge, reimbursed costs, discounted charges or as per diem payments. Reimbursement rates for non-Medicare payors regulated by New York State are determined on a prospective basis. These rates also vary according to a patient classification system defined by the Health Care Reform Act (HCRA) that is based on clinical, diagnostic and other factors.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

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, 2009. Disproportionate Share (DSH), Indirect Medical Education (IME), Graduate Medical Education (GME), Paramedical Education and Meaningful Use (MU) are all reconciled through settlement processes. During 2012, the system began participation with Catholic Medical Partners (CMP) as an Accountable Care Organization (ACO). The ACO places a global budget on all traditional Medicare claims (excluding e.g. DSH, IME, DME, MU) for patients associated with CMP Primary Care physicians. Claims are processed through fee for service billing and reconciled to the global budget along with quality measurement at the end of the period.
- **Non-Medicare.** The New York Health Care Reform Act of 1996, as updated, governs payments to hospitals in New York State. Under this system, hospitals and all non-Medicare payors, except Medicaid, Workers' Compensation and No-Fault insurance programs, negotiate hospital's payment rates. If negotiated rates are not established, payors are billed at hospitals established charges. Medicaid, Workers' Compensation and No-Fault payors pay hospital rates promulgated by the New York State Department of Health (DOH) on a prospective basis. Adjustments to current and prior years' rates for these payors will continue to be made in the future. Effective December 1, 2009, NYS implemented inpatient reimbursement reform. The reform updated the data utilized to calculate the NYS DRG rates and service intensity weights (SIWS) in order to utilize refined data and more current information in DOH promulgated rates. Similar type outpatient reforms were implemented effective December 1, 2008.

Amounts recognized in 2014 and 2013 related to prior years, including adjustments to prior year estimates and audit settlements, increased revenues by \$4,982,816 and \$2,969,228, 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 57% and 55% net patient/resident service revenue was generated from services rendered to patients/residents under Medicare and Medicaid programs in 2014 and 2013, respectively. Approximately 35% and 36% of net patient/resident service revenue was generated from services rendered to patients under managed care programs in 2014 and 2013.

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

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

**MERCY HOSPITAL OF BUFFALO  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

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, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Patient/resident service revenue (net of Contractual allowances and discounts):		
Medicare	\$ 183,850,879	\$ 170,841,701
Medicaid	40,442,393	33,425,550
Blue Cross	43,383,214	37,139,500
Other third party payors	120,897,399	126,274,300
Patients/residents	<u>4,941,260</u>	<u>3,713,950</u>
Total net patient/resident service revenue	393,515,145	371,395,001
Provision for bad debts	<u>(10,081,047)</u>	<u>(8,742,496)</u>
 Net patient/resident service revenue, less provision for bad debts	 <u>\$ 383,434,098</u>	 <u>\$ 362,652,505</u>

**Charity Care:** The Hospital provides services to all patients regardless of ability to pay. A patient is classified as a charity patient based on income eligibility criteria as established by the HAP which is determined by presentation for care without insurance, while using an estimator (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 \$2,323,543 and \$2,891,148 arose from providing services to charity care patients in 2014 and 2013, respectively. Costing is a full step down methodology of cost from non-revenue producing departments to revenue producing departments, with assignment of cost to individual charge items based on relative value units. Additional costs for the Hospitals include required payments for a gross receipts assessment to New York State which is used to fund the New York State Medicaid program and 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 HAP (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. The Hospitals are also required to pay a gross receipts assessment to New York State which is used to fund the New York State Medicaid program and HCRA.

**Collective Bargaining Agreements:** The Hospital has approximately 83% of its employees working under three different collective bargaining agreements. The agreements are set to expire beginning April 30, 2015 through August 15, 2018.

**Operating and Nonoperating Revenues 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.

**MERCY HOSPITAL OF BUFFALO  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

**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 the Hospital has 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 the Hospital adopts, implements or demonstrates 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 approximately \$1,300,000 and \$2,100,000 of electronic health record incentive income related to Medicare and Medicaid incentive programs during the years ended December 31, 2014 and 2013, respectively, which is recorded in other revenue.

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

	<u>2014</u>	<u>2013</u>
Shared services (Note 15)	\$ 905,765	\$ 745,325
Cafeteria revenue	1,184,411	1,154,813
Parking revenue	670,679	670,464
Rental income	332,632	383,877
Contributions to Mercy Hospital Foundation, Inc.	234,160	166,332
Gift shop income, net	278,517	273,773
Legal Settlement	-	4,000,000
Medicare and Medicaid meaningful use	1,297,627	2,118,073
Other	<u>1,387,873</u>	<u>1,288,943</u>
Total other revenue	<u>\$ 6,291,664</u>	<u>\$ 10,801,600</u>

**MERCY HOSPITAL OF BUFFALO  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

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

	<u>2014</u>	<u>2013</u>
System dues (a)	\$ 3,214,719	\$ 3,183,878
Rents and operating leases	5,898,521	5,754,785
NYS Health Facilities Cash Receipts Assessment Program	2,280,826	2,469,929
Other dues	874,420	673,064
Catholic Health System other expense	2,105,904	1,799,013
Equipment rentals	1,186,614	1,251,105
Other	<u>879,543</u>	<u>807,614</u>
Total other expenses	<u>\$ 16,440,547</u>	<u>\$ 15,939,388</u>

(a) System dues are comprised of the following expenses:

	<u>2014</u>	<u>2013</u>
Dues to Trinity Health	\$ 1,852,962	\$ 1,794,512
Salaries, wages and employee benefits	427,785	671,776
Professional fees and purchase services	577,225	384,397
Other	<u>356,747</u>	<u>333,193</u>
Total system dues	<u>\$ 3,214,719</u>	<u>\$ 3,183,878</u>

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

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

**Excess of Revenue over Expenses:** The statement of operations and changes in net assets includes excess of revenue over expenses, commonly referred to as the performance indicator. Changes in unrestricted net assets which are excluded from the performance indicator, consistent with industry practice, 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, and pension liability adjustments.

**MERCY HOSPITAL OF BUFFALO  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

**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 is limited by donors to a specific period or purpose and includes the Hospital's interest in the temporarily restricted net assets of 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.

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

**Income Taxes:** The consolidated financial statements do not include a provision for income taxes, since the Hospital 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 consolidated financial statements. The Hospital's federal Exempt Organization Business Income Tax Returns for 2011, 2012, and 2013 remain subject to examination by the Internal Revenue Service.

**Transactions among Subsidiaries:** Common costs incurred by CHS are allocated to the subsidiaries on a pro-rata cost basis formula. The allocation of these costs is recorded as other revenue by CHS and are recorded by the subsidiaries as a component of the natural account classification. The related income and expense is eliminated in the consolidated financial statements. The respective assets and liabilities are eliminated in the consolidated 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 accounting guidance. 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 \$955,881 during 2014 and \$2,938,910 during 2013. Capitalized internal project labor costs amounted to \$96,468 during 2014 and \$840,950 during 2013.

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

**Subsequent Events:** The Hospital evaluated subsequent events through March 26, 2015 which was the date the financial statements were available to be issued.

**MERCY HOSPITAL OF BUFFALO  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 3. ASSETS LIMITED AS TO USE**

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

	<u>2014</u>	<u>2013</u>
Held by Trustee under indenture agreement:		
Cash and cash equivalents	\$ 328,027	\$ 855,379
U.S. Government obligations	-	457,958
Board designated:		
Deferred compensation arrangements:		
Equity securities	<u>10,570</u>	<u>11,096</u>
Assets limited as to use	<u>\$ 338,597</u>	<u>\$ 1,324,433</u>

**NOTE 4. INVESTMENTS**

Investments consist of the following at December 31:

	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 147,597	\$ 17,509
Investment in debt and equity securities	256,104	470,602
Mutual and other funds	449,738	580,777
Cash surrender value of life insurance policies and other	<u>694,034</u>	<u>442,580</u>
Total investments	<u>\$ 1,547,473</u>	<u>\$ 1,511,468</u>

Unrealized gains and losses are summarized as follows for the years ended December 31:

	<u>2014</u>	<u>2013</u>
Investment in debt and equity securities:		
Fair value	\$ 1,089,551	\$ 1,068,888
Cost	<u>932,203</u>	<u>913,577</u>
Unrealized gain	<u>\$ 157,348</u>	<u>\$ 155,311</u>

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

	<u>2014</u>	<u>2013</u>
Interest and dividend income	\$ 455,416	\$ 627,234
Net realized and unrealized gains and losses	<u>10,518</u>	<u>129,771</u>
Total investment income	<u>\$ 465,934</u>	<u>\$ 757,005</u>



**MERCY HOSPITAL OF BUFFALO  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 5. PROPERTY AND EQUIPMENT**

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

	<u>2014</u>	<u>2013</u>
Land and land improvements	\$ 1,768,161	\$ 1,768,161
Buildings	68,128,532	68,128,532
Leasehold improvements	33,169,204	31,805,143
Equipment	47,587,226	43,540,896
Equipment under capital leases	21,324,829	19,315,564
Automobiles	44,775	44,775
Foundation assets	<u>101,850</u>	<u>101,850</u>
	172,124,577	164,704,921
Less: Accumulated depreciation	(65,945,750)	(56,022,472)
Accumulated amortization on equipment under capital leases	<u>(12,277,096)</u>	<u>(8,416,640)</u>
	93,901,731	100,265,809
Construction in progress	<u>4,295,772</u>	<u>863,604</u>
Property and equipment, net	<u>\$ 98,197,503</u>	<u>\$ 101,129,413</u>

Depreciation expense amounted to \$11,910,627 and \$10,495,133 in 2014 and 2013, respectively. Amortization expense on equipment under capital leases amounted to \$3,860,456 and \$3,377,548 in 2014 and 2013, respectively. Fully depreciated or amortized assets of \$0 and \$7,240,893 were written-off for the years ended December 31, 2014 and 2013, respectively.

**NOTE 6. OTHER ASSETS AND OTHER RECEIVABLES**

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

	<u>2014</u>	<u>2013</u>
<b>Current prepaid expenses and other current assets:</b>		
Prepaid general expenses	\$ 613,144	\$ 509,944
Other assets	<u>60,791</u>	<u>60,791</u>
Prepaid expenses and other current assets	<u>\$ 673,935</u>	<u>\$ 570,735</u>
<b>Current other receivables:</b>		
Physician loans	\$ 1,557,386	\$ 1,568,551
Managed care risk receivables	455,076	2,062,349
Foundation receivables	167,580	527,312
Other	<u>837,559</u>	<u>940,723</u>
Other receivables	<u>\$ 3,017,601</u>	<u>\$ 5,098,935</u>
<b>Non-current:</b>		
Insurance recoveries	\$ 32,521,932	\$ 26,023,598
Debt issuance costs, net – Series 2012	172,912	179,969
Debt issuance costs, net – Series 2008	779,427	819,397
Debt issuance costs, net – Series 2006	304,455	333,450
Debt issuance costs, net – Other	84,019	93,937
Workers' compensation funding surplus	15,315	671,750
Equity investments	<u>240,842</u>	<u>147,683</u>
Other assets	<u>\$ 34,118,902</u>	<u>\$ 28,269,784</u>

**MERCY HOSPITAL OF BUFFALO  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 6. OTHER ASSETS AND OTHER RECEIVABLES (CONTINUED)**

Amortization expense on debt issuance costs amounted to \$85,942 for years ended December 31, 2014 and December 31, 2013, respectively. Accumulated amortization related to the debt issuance costs amounted to \$490,652 and \$404,710 at December 31, 2014 and December 31, 2013, respectively. Amortization expense is expected to be approximately \$86,000 for the years ended December 31, 2015 to 2019.

**NOTE 7. ACCRUED EXPENSES**

Accrued expenses consist of the following at December 31:

	<u>2014</u>	<u>2013</u>
Workers' compensation, current portion	\$ 3,155,827	\$ 2,866,847
Payroll and benefits	8,984,667	12,199,749
Other	<u>637,407</u>	<u>615,083</u>
Accrued expenses	<u>\$ 12,777,901</u>	<u>\$ 15,681,679</u>

**NOTE 8. LONG-TERM OBLIGATIONS**

**Long-Term Debt:** Long-term debt, inclusive of capital lease obligations, were comprised of the following at December 31:

	<u>2014</u>	<u>2013</u>
Mercy Hospital Series 2006 A (a)	\$ 8,676,566	\$ 9,332,311
Mercy Hospital Series 2008 (b)	21,602,921	22,269,610
Mercy Hospital Series 2012 B (c)	2,991,265	3,060,809
Bridge loan financing (d)	2,404,132	-
Mercy Comprehensive Care Center build-out loan held by 4628 Group, Inc., monthly payments of \$8,752, including interest at 6.25%, matures November 2015	93,332	189,247
Mercy Hospital cafeteria renovation loan, held by Aramark Healthcare, monthly payments of \$3,264, matures August 2018	166,446	249,942
Capital lease obligations and other, at interest rates ranging from 2.87% to 4.63%, collateralized by equipment	<u>15,097,133</u>	<u>15,976,601</u>
	51,031,795	51,078,520
Less: Current portion	<u>(5,611,207)</u>	<u>(5,518,461)</u>
Long-term obligations, net	<u>\$ 45,420,588</u>	<u>\$ 45,560,059</u>

- (a) In 2006, the System formed the Acute Care Obligated Group (the Obligated Group), consisting of its three primary hospitals (MHB, SCH, 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. Series 2006A for \$13,360,000 was loaned to the Hospital to repurchase the Siemens Financial Services, Inc. term loans outstanding and to pay certain transaction related costs. The discount on the bonds of \$125,541 will be accreted over the life of the bonds.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 8. LONG-TERM OBLIGATIONS (CONTINUED)**

In connection with the issuance of the Series 2006 Bonds, the Obligated Group entered into a Loan Agreement (the Loan Agreement) whereby the Obligated Group is required to pay funds sufficient in timing and amount to pay the principal and redemption price of the Series 2006 Bonds and related interest and administrative expenses as they come due. The Series 2006 Bonds pay interest at a variable remarketed rate and are collateralized by a letter of credit with HSBC Bank which expires on November 29, 2019. In the event the letter of credit is not renewed at expiration, and no event of default exists, then the outstanding Bonds, at the option of the members of the Obligated Group, would be subject to a mandatory tender and will then 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 0.04% and 0.06% at December 31, 2014 and 2013, 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 consultant's report and quarterly progress reports demonstrating how the facility is progressing towards compliance. The Loan Agreement requires the Obligated Group to comply with certain financial covenants, including maintenance of (i) a minimum number of days cash on hand; (ii) long-term debt service coverage; and (iii) a maximum leverage ratio. The Obligated Group was in compliance with these covenants at December 31, 2014 and 2013.

Prior to 2013, the letter of credit reimbursement agreement contained an acceleration clause that relied upon subjective evaluation criteria, which necessitated a current classification for the related obligations. The letter of credit reimbursement agreement has since been modified to replace the previously subjective criteria with objective and measureable criteria. Accordingly, the obligations are classified as non-current liabilities at December 31, 2014 and 2013.

- (b) On November 19, 2008, \$24,700,000 of DASNY - Catholic Health System Obligated Group Revenue Bonds, Series 2008 was issued. Series 2008 was loaned to the Hospital to fund the construction of a new Emergency Department and to pay certain transaction related costs. The discount on the bonds of \$321,700 will be accreted over the life of the bonds.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 8. LONG-TERM OBLIGATIONS (CONTINUED)**

The Series 2008 Bonds were issued under the Master Trust Indenture that was created in 2006 during the formation of the Obligated Group. All material components of the Series 2008 mirror the Series 2006A. Among these items are the following: 1) a variable remarketed rate (determined by the Security Industry and Financial Markets Association (SIFMA)) collateralized by a letter of credit with HSBC Bank expiring November 18, 2018 (with the option of an initial term loan), 2) a security interest in and assignment of gross receipts of the Hospital, together with the Hospital's right to receive or collect the gross receipts, 3) consistent financial covenants, and 4) execution of an interest rate swap agreement (with HSBC Bank) consistent with the terms utilized in the 2006 swap agreement. Refer to Note 9 for details. The variable interest rate was 0.04% and 0.06% at December 31, 2014 and 2013, respectively.

- (c) 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 2012B Bonds for \$3,080,000 were loaned to the Hospital for the purpose of funding the cost of improvements to the Hospital's existing 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 \$31,579 and \$46,156, respectively, are attributable to the difference between the stated interest rate on these bonds and will be amortized over the life of the bonds.

The Series 2012 Bonds were issued under the Master Trust Indenture that was created in 2006 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, 2014 are as follows:

3.50% Term Bonds due July 1, 2022	\$ 605,000
5.00% Term Bonds due July 1, 2032 (i)	1,160,000
4.75% Term Bonds due July 1, 2039	<u>1,210,000</u>
Total Series 2012B bonds	<u>\$ 2,975,000</u>

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

The 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.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 8. LONG-TERM OBLIGATIONS (CONTINUED)**

(d) In 2014, the System entered into a revolving line of credit agreement with a commercial bank that permits the System to borrow up to \$28,100,000 at the bank's adjusted one month LIBOR rate plus 1.25%. The Hospital used \$2,900,000 of the proceeds from the revolver to assist with the financing of the Hospital's cardiac holding unit and labor and delivery waiting projects. Borrowings under the financing agreement mature at the earliest of the issuance of the System's planned fixed rate bond financing or July 1, 2016. The proceeds from the anticipated 2015 bond issuance will be used to repay all outstanding amounts under the revolving line of credit agreement.

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

Aggregate maturities of long-term obligations, including capital lease obligations, subsequent to December 31, 2014 are as follows:

	<u>Long-term Debt</u>	<u>Capital Leases</u>	<u>Total</u>
2015	\$ 1,585,107	\$ 4,456,773	\$ 6,041,880
2016	3,961,363	2,966,516	6,927,879
2017	1,625,095	2,249,946	3,875,041
2018	1,692,901	1,650,711	3,343,612
2019	1,733,796	873,703	2,607,499
Thereafter	<u>25,336,401</u>	<u>4,936,592</u>	<u>30,272,993</u>
	35,934,663	17,134,241	53,068,904
Less: Interest	<u>-</u>	<u>(2,037,109)</u>	<u>(2,037,109)</u>
Long-term obligations	<u>\$ 35,934,663</u>	<u>\$ 15,097,132</u>	<u>\$ 51,031,795</u>

Included in the amounts above are certain obligations expected to be refinanced by the System on a long-term basis in 2015. Within the "Long-Term Debt" caption are \$2,404,132 of obligations due to mature in 2016 included in the proposed refinancing amount.

**Operating Leases**

Future minimum lease payments under non-cancellable operating leases (net of sublease rentals) are as follows:

2015	\$ 6,765,637
2016	6,443,930
2017	3,638,433
2018	3,207,744
Thereafter	<u>4,972,507</u>
	25,028,251
Minimum sublease rental obligations	<u>(1,197,017)</u>
	<u>\$ 23,831,234</u>

Total expense for rents and operating type leases for equipment and property was approximately \$5,898,522 and \$5,754,785 for 2014 and 2013, respectively.

**MERCY HOSPITAL OF BUFFALO  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 9. DERIVATIVE FINANCIAL INSTRUMENTS**

In connection with the Series 2006 and 2008 Bonds and execution of the Loan Agreement, the Hospital entered into interest rate swap agreements (derivative agreements) with HSBC Bank USA, NA. (HSBC) and JP Morgan Chase (the Financial Institutions) 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 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 Hospital direct the Series 2006 or Series 2008 Bonds be converted to bonds that bear a fixed rate of interest. The terms of the Series 2006 swap required the Hospital to pay a fixed rate of 3.80% on the notional amount (\$8,745,000 at December 31, 2014) and in exchange, the Hospital will receive a variable rate payment based upon the Securities Industry and Financial Markets Association Index (SIFMA), calculated weekly. The notional amount of the swap is matched to the maturity schedule of the Series 2006 Bonds. The 2006 swap agreement was executed on December 13, 2006 and was settled in 2014. The swap termination costs, in the amount of \$1,200,113, will be amortized over the remaining life of the bonds. The net amount of termination fees are recorded in financing activities as realized losses on interest rate swap agreements. Amortization expense related to the termination fees was \$15,545 for 2014. The terms of the Series 2008 swap require the Hospital to pay 3.785% on the notional amount (\$22,210,000 at December 31, 2014) and in exchange, the Hospital will receive a variable rate payment based upon the SIFMA, calculated weekly. The 2008 swap agreement was executed on November 19, 2008 and expires on July 1, 2034. These dates correlate to the issue date and due date of the Bonds. The instrument qualifies for hedge treatment and is designated a cash flow hedge of future interest payments. The effective portion of the hedge has been excluded from excess of revenues over expenses and recorded within changes to net assets.

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

	<u>2014</u>		<u>2013</u>	
	<u>Balance Sheet Location</u>	<u>Fair Value</u>	<u>Balance Sheet Location</u>	<u>Fair Value</u>
Interest rate contracts floating to fixed	Long-term liabilities	\$ <u>4,061,057</u>	Long-term liabilities	\$ <u>3,223,924</u>

The effects of derivative instruments on the consolidated statements of operations and changes in net assets for 2014 and 2013 are as follows:

	<u>Ineffective portion in Statement of Operations</u>		<u>Effective portion in Net Assets</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Change in fair value of interest rate swaps	\$ <u>(42,379)</u>	\$ <u>74,006</u>	\$ <u>(1,960,717)</u>	\$ <u>3,412,516</u>

The Hospital measures its interest rate swaps at fair value on a recurring basis. The fair value of the interest rate swaps is determined based on financial models that consider current and future market interest rates and adjustments for nonperformance risk. The inputs utilized in the valuation process of the interest rate swaps are considered to be Level 2 within the fair value hierarchy defined in Note 14.

**MERCY HOSPITAL OF BUFFALO  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**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. As of that date, the Mercy Hospital of Buffalo Pension Plan 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 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 Mercy Hospital of Buffalo formula 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 the System's changes in the projected 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 Mercy Hospital of Buffalo. The measurement dates for plan assets and obligations were December 31, 2014 and 2013.

	<u>2014</u>	<u>2013</u>
<b>Projected Benefit Obligations</b>		
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 193,875,783	\$ 215,105,238
Service cost	5,985,237	7,026,815
Interest cost	9,628,483	8,385,859
Actuarial (gains) losses	36,366,135	(29,072,447)
Transfers (to) from CHS Subsidiaries	(1,268,190)	(2,427,018)
Benefits paid	(4,903,702)	(5,074,798)
Expenses	<u>(166,687)</u>	<u>(67,866)</u>
Projected Benefit obligation at end of year	<u>\$ 239,517,059</u>	<u>\$ 193,875,783</u>
<b>Accumulated benefit obligations, end of year</b>	<u>\$ 216,781,923</u>	<u>\$ 175,275,089</u>
	<u>2014</u>	<u>2013</u>
<b>Plan Assets</b>		
Change in plan assets:		
Fair value of assets at beginning of year	\$ 96,973,917	\$ 80,503,996
Actual return on plan assets	2,899,011	14,185,546
Transfers (to) from CHS subsidiaries	(544,826)	(1,213,960)
Benefits paid	(4,903,702)	(5,074,798)
Hospital contributions	8,641,000	8,641,000
Expenses	<u>(166,687)</u>	<u>(67,866)</u>
Fair value of plan assets at end of year	<u>\$ 102,898,713</u>	<u>\$ 96,973,918</u>
<b>Funded status at end of year</b>	<u>\$ 136,618,346</u>	<u>\$ 96,901,865</u>

**MERCY HOSPITAL OF BUFFALO  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

	<u>2014</u>	<u>2013</u>
<b>Amounts recognized in the consolidated balance sheets:</b>		
Non-current liabilities	\$ <u>(136,618,346)</u>	\$ <u>(96,901,865)</u>
Net amounts recognized	\$ <u>(136,618,346)</u>	\$ <u>(96,901,865)</u>
<b>Amounts recognized in unrestricted net assets consists of:</b>		
Actuarial net loss	\$ (83,461,931)	\$ (46,732,751)
Prior service cost	<u>(504,701)</u>	<u>(751,023)</u>
Total amount recognized	\$ <u>(83,966,632)</u>	\$ <u>(47,483,774)</u>
	<u>2014</u>	<u>2013</u>
<b>Components of net periodic benefit cost:</b>		
Service cost	\$ 5,985,237	\$ 7,026,815
Interest cost	9,628,483	8,385,859
Expected return on plan assets	(7,302,489)	(6,589,050)
Amortization of prior service cost or (credit)	246,322	246,322
Recognized actuarial loss	<u>3,317,065</u>	<u>7,391,941</u>
Net periodic pension cost	\$ <u>11,874,618</u>	\$ <u>16,461,887</u>

**Since the Hospital is a participant in the System's plan, the following disclosures are made for the entire plan in the aggregate, and do not represent the Hospital on a stand-alone basis.**

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 \$128,742 and \$15,834,080, respectively.

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

The Plan's target asset allocation and the actual asset allocation percentages for 2014 and 2013 are as follows at the respective measurement dates:

<u>Asset Category</u>	<u>Target</u>	<u>Actual</u>	
		<u>2014</u>	<u>2013</u>
Equities	75%	65%	61%
Fixed income	20	25	30
Other	<u>5</u>	<u>10</u>	<u>9</u>
	<u>100%</u>	<u>100%</u>	<u>100%</u>



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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

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

Accounting Standards Codification Topic 820 allows for the use of a practical expedient for the estimation of fair value of investments in investment companies for which the investment does not have a readily determinable fair value. The practical expedient used by the Plan to value its investments in its Level 3 investments is the net asset value (NAV) per share, or its equivalent. For investments in non-unitized investments, the equivalent is the Plan's proportionate share of the partner's capital of the investment partnerships as reported by the general partners. Through its monitoring activities, the Plan believes that the carrying amounts of these financial instruments are reasonable estimates of fair value.

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

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2014 and 2013:

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

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

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

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

**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. Commingled funds are categorized as Level 2 unless they have a redemption restriction greater than 90 days, in which case they are categorized as Level 3.

**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. Hedge funds are categorized as Level 2 unless they have a redemption restriction greater than 90 days, in which case they are categorized as Level 3.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

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

The following table presents the Plan's financial instruments as of December 31, 2014, measured at fair value on a recurring basis using the fair value hierarchy defined in Note 14.

<b>At December 31, 2014</b>	<b>Level I</b>	<b>Level II</b>	<b>Level III</b>	<b>Total</b>
Cash and cash equivalents	\$ 14,057,138	\$ -	\$ -	\$ 14,057,138
Equity securities	31,992,392	-	-	31,992,392
Debt securities:				
Government and government agency obligations	-	7,934,717	-	7,934,717
Corporate bonds	-	49,708,426	-	49,708,426
Asset backed securities	-	4,939,730	-	4,939,730
Mutual funds:				
Equity mutual funds	57,106,772	-	-	57,106,772
Fixed mutual funds	21,476,993	-	-	21,476,993
Commingled funds:				
Equity commingled funds	-	75,406,436	-	75,406,436
Fixed income commingled funds	-	805,560	-	805,560
Hedge funds	-	26,518,504	4,265,259	30,783,763
Other	702,325	-	-	702,325
<b>Total</b>	<b>\$ 125,335,620</b>	<b>\$ 165,313,373</b>	<b>\$ 4,265,259</b>	<b>\$ 294,914,252</b>
<b>At December 31, 2013</b>	<b>Level I</b>	<b>Level II</b>	<b>Level III</b>	<b>Total</b>
Cash and cash equivalents	\$ 10,609,875	\$ -	\$ -	\$ 10,609,875
Equity securities	43,821,377	-	-	43,821,377
Debt securities:				
Government and government agency obligations	-	18,066,317	-	18,066,317
Corporate bonds	-	39,010,182	-	39,010,182
Asset backed securities	-	3,392,161	-	3,392,161
Mutual funds:				
Equity mutual funds	38,636,109	-	-	38,636,109
Fixed mutual funds	18,382,229	-	-	18,382,229
Commingled funds:				
Equity commingled funds	-	85,147,948	-	85,147,948
Fixed income commingled funds	-	1,160,473	-	1,160,473
Hedge funds	-	18,674,654	-	18,674,654
<b>Total</b>	<b>\$ 111,449,590</b>	<b>\$ 165,451,735</b>	<b>\$ -</b>	<b>\$ 276,901,325</b>

**MERCY HOSPITAL OF BUFFALO  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

Pursuant to the CHE and Trinity Health merger, certain investments have been aligned to conform to Trinity Health's fair value policy. Accordingly, certain balances previously reported as Level III and Level II have been reclassified to Level II and Level I, respectively.

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

	<u>2014</u>
Fair value January 1	\$ -
Purchases	4,250,000
Realized and unrealized gains	<u>15,259</u>
Fair value December 31	<u>\$ 4,265,259</u>

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

The System is expected to contribute an aggregate amount of approximately \$23,349,000 to the pension plan trust in 2015 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.

2015	\$ 18,576,000
2016	\$ 20,465,000
2017	\$ 22,558,000
2018	\$ 24,560,000
2019	\$ 27,009,000
2020 – 2024	\$ 172,686,000

	<u>2014</u>	<u>2013</u>
<b>Weighted average assumptions used to determine End of the year benefit obligations:</b>		
Discount rate	4.20%	5.05%
Rate of compensation increase	3.50%	3.00%
<b>Weighted average assumptions used to determine Net periodic pension cost:</b>		
Discount rate	5.05%	3.95%
Expected long-term rate of return on plan assets	7.75%	8.00%
Measurement date	12/31/2014	12/31/2013

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**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. Prior to September 1, 2013, the combined primary and buffer limits for healthcare professional and general liability were \$6,000,000 per occurrence and were insured by Stella Maris Insurance Company, Limited (Stella), a Cayman-domiciled insurer wholly-owned by Catholic Health East (CHE). Subsequent to September 1, 2013, the primary limits were \$20,000,000 per occurrence for healthcare professional liability and general liability. Professional and general liabilities are insured by Venzke Insurance Company, Ltd. (Venzke), a Cayman-domiciled insurer wholly-owned by Trinity Health. Subsequent to the merger of CHE and Trinity Health, on January 1, 2014, Stella was merged with and into Venzke. Excess coverage was also provided to the System, and this excess coverage is fully reinsured with nonaffiliated commercial insurance companies.

The coverage provided is on a claims-made basis. The System, 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 3% in 2014 and 2013. The Hospital's portion of the System's current portion of liabilities for unpaid and incurred but not reported claims at December 31, 2014 and 2013 is \$177,253 and \$151,250, 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, 2014 and 2013 is \$22,262,970 and \$16,624,751, respectively, and is included in long-term portion of insurance liabilities. The charges to expenses for professional and general liability for 2014 and 2013 approximated \$3,268,766 and \$2,817,355, respectively, which has been included in insurance expense. In 2011, the Hospital adopted the principles of insurance claim and recovery accounting for professional and general liabilities. The required claims liability and any anticipated insurance recoveries are to be reported on a gross basis versus the previous practice of netting the recoveries against claims liability. Amounts recognized as insurance receivables related to the claims approximated \$18,895,161 and \$13,751,000 at December 31, 2014 and 2013, respectively. Insurance recoveries are measured on the same basis as the liability subject to the need for a valuation allowance for uncollectible amounts.

**Workers' Compensation Arrangements**

The System's insurance program for workers' compensation, in which the Hospital participates, has a deductible of \$750,000 per occurrence in 2014 and \$350,000 per occurrence in 2013 and prior. Claims in excess of the deductible are fully insured. Losses from asserted claims and from unasserted claims identified by the System's incident reporting programs were accrued on a discounted basis based on actuarial estimates of the settlement of such claims. The discount rate applied is 3% in 2014 and 2013. The Hospital's portion of the System's current portion of liabilities for unpaid and incurred but not reported claims at December 31, 2014 and 2013 is \$3,139,827 and \$2,831,847, 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, 2014 and 2013 is \$26,186,080 and \$23,803,071, respectively, and is included in long-term portion of insurance liabilities.

The charges to expenses for workers' compensation costs approximated \$5,294,066 and \$5,591,742 in 2014 and 2013, respectively, which has been included in employee benefits expense. In 2011, the Hospital adopted the principles of insurance claim and recovery accounting for workers' compensation. The required claims liability and any anticipated insurance recoveries are to be reported on a gross basis versus the previous practice of netting the recoveries against claims liability. Amounts recognized as insurance receivables related to the claims approximated \$13,626,772 and \$12,272,598 at December 31, 2014 and 2013, respectively. Insurance recoveries are measured on the same basis as the liability subject to the need for a valuation allowance for uncollectible amounts.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 11. INSURANCE ARRANGEMENTS (CONTINUED)**

**Employee Health Arrangements**

The System's insurance for employee health costs, in which the Hospital participates, is self-insured up to \$350,000 per claim. Claims in excess of self-insurance levels are fully insured. Claims are accrued based upon the Hospital'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.

**NOTE 12. 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.

**NOTE 13. CONCENTRATIONS OF CREDIT RISK**

The Hospital grants credit without collateral to its patients, most of who are residents of Western New York and are insured under third-party agreements. The mix of receivables from patients and third-party payors at December 31 are as follows:

	<u>2014</u>	<u>2013</u>
Medicare	44%	41%
Medicaid	11	8
Blue Cross	6	8
Other third-party payors	28	32
Patients	<u>11</u>	<u>11</u>
	<u>100%</u>	<u>100%</u>

The Hospital maintains funds in excess of amounts insured by the Federal Depository Insurance limits. The Hospital has diversified its deposit amounts in a variety of institutions to reduce the level of concentrated credit risk.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 14. FAIR VALUE MEASUREMENTS**

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

The Hospital'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 Hospital's consolidated balance sheets include cash and cash equivalents, equity securities, exchange traded funds, debt securities, mutual funds, and commingled funds. Liabilities measured at fair value on a recurring basis for disclosure only include interest rate swaps and 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 Hospital 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 Hospital assesses the inputs used to measure fair value using a three level hierarchy based on the extent to which inputs used in measuring fair value are observable in the market. The fair value hierarchy is as follows:

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

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

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

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

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

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

The Hospital's Level 3 securities are primarily investments in hedge funds. Based on the information available, we believe that the fair values provided by the third-party pricing services and investment fund managers are representative of prices that would be received to sell the assets at December 31, 2014.

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 Hospital's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset.

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

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

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

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

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

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

**Commingled Funds:** Commingled funds are developed for investment by institutional investors only and therefore do not require registration with the Securities and Exchange Commission. Commingled funds are recorded at fair value based on either the underlying investments that have a readily determinable market value or based on net asset value, which is calculated using the most recent fund financial statements. Commingled funds are categorized as Level 2 unless they have a redemption restriction greater than 90 days, in which case they are categorized as Level 3.

**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. Hedge funds are categorized as Level 2 unless they have a redemption restriction greater than 90 days, in which case they are categorized as Level 3.

**Equity Method Investments:** The Hospital has a 1% ownership interest in equity method investments which are maintained in a Trinity Health corporate pooled investment program at December 31, 2014.

**Interest Rate Swap:** The fair value of the interest rate swap is determined based on financial models that consider current and future market interest rates and adjustments for nonperformance risk. The fair value of these interest rate derivatives are based on quoted prices for similar instruments from a commercial bank, and therefore, the interest rate derivative is considered a Level 2 item in the fair value hierarchy.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

**Long-Term Debt:** The fair value of the based on current rates offered for similar issues with similar security terms and maturities, or estimated using a discount rate that a market participant would demand. The carrying value of the long-term debt approximates fair value as of December 31, 2014 and 2013. Long-term debt would be classified as Level 2 in the fair value hierarchy.

The following tables summarize the fair values, by input hierarchy, of financial instruments measured at fair value on a recurring basis at December 31, 2014:

<b>At December 31, 2014</b>	<u><b>Level I</b></u>	<u><b>Level II</b></u>	<u><b>Level III</b></u>	<u><b>Total</b></u>
<b>Assets limited as to use:</b>				
Cash and cash equivalents	\$ 328,027	\$ -	\$ -	\$ 328,027
Equity securities	<u>10,570</u>	<u>-</u>	<u>-</u>	<u>10,570</u>
	<u>\$ 338,597</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 338,597</u>
<b>Investments:</b>				
Cash and cash equivalents	\$ 146,835	\$ 762	\$ -	\$ 147,597
Equity securities	135,200	498	-	135,698
Debt securities:				
Government and government agency obligations	-	52,354	-	52,354
Corporate bonds	-	68,052	-	68,052
Mutual funds	137,913	-	-	137,913
Commingled funds	-	115,800	-	115,800
Hedge funds	-	105,941	90,084	196,025
Other	<u>-</u>	<u>457,922</u>	<u>-</u>	<u>457,922</u>
Equity method investments	<u>-</u>	<u>-</u>	<u>-</u>	<u>236,112</u>
	<u>\$ 419,948</u>	<u>\$ 801,329</u>	<u>\$ 90,084</u>	<u>\$ 1,547,473</u>
Interest rate swap liability	<u>\$ -</u>	<u>\$ 4,061,057</u>	<u>\$ -</u>	<u>\$ 4,061,057</u>



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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

At December 31, 2013	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
<b>Assets limited as to use:</b>				
Cash and cash equivalents	\$ 855,379	\$ -	\$ -	\$ 855,379
Equity securities	11,096	-	-	11,096
Government and government agency obligations	<u>457,958</u>	<u>-</u>	<u>-</u>	<u>457,958</u>
	<u>\$ 1,324,433</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,324,433</u>
<b>Investments:</b>				
Cash and cash equivalents	\$ 17,509	\$ -	\$ -	\$ 17,509
Equity securities	989	386,172	-	387,161
Exchange traded funds	444,805	-	-	444,805
Debt securities:				
Fixed income	33,858	49,583	-	83,441
Hedge funds	-	-	135,972	135,972
Other	<u>-</u>	<u>442,580</u>	<u>-</u>	<u>442,580</u>
	<u>\$ 497,161</u>	<u>\$ 878,335</u>	<u>\$ 135,972</u>	<u>\$ 1,511,468</u>
Interest rate swap liability	<u>\$ -</u>	<u>\$ 3,223,924</u>	<u>\$ -</u>	<u>\$ 3,223,924</u>

Management reports managed and hedge funds as a component of its total investment portfolio; therefore it is included in the accompanying table of investments as of December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Fund of Hedge funds (A)	\$ 90,084	\$ 113,297
Real estate (B)	-	9,695
Private equity (C)	<u>-</u>	<u>12,980</u>
Total	<u>\$ 90,084</u>	<u>\$ 135,972</u>

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

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

**MERCY HOSPITAL OF BUFFALO  
(A SUBSIDIARY OF THE CATHOLIC HEALTH SYSTEM, INC.)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

- (B) Real estate investments had an unfunded commitment totaling \$1,980 at December 31, 2013 with remaining lives ranging from 1.5 to 9 years. These investments were sold in 2014.
- (C) Private equity investments had an unfunded commitment totaling \$12,980 at December 31, 2013 and remaining lives ranging from 2.5 to 14.5 years. These investments were sold in 2014.

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

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

	<u>2014</u>	<u>2013</u>
Fair value January 1	\$ 135,972	\$ 124,606
Purchases (Settlements)	(52,322)	11,366
Realized and unrealized gains (losses)	<u>6,434</u>	<u>-</u>
Fair value December 31	<u>\$ 90,084</u>	<u>\$ 135,972</u>

**NOTE 15. 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 2014 and 2013 the Hospital incurred expenses to affiliates for administration services, rent and other services. These expenses approximated \$57,252,995 for 2014 and \$52,488,381 for 2013 and are recorded in the statement of operations. The Hospital also provided cost sharing services to and received reimbursement from affiliates for laboratory, computer and other services. Revenues from these services approximated \$815,753 and \$562,052 for 2014 and 2013, respectively.

During 2014 and 2013, a distribution was made to the parent of \$8,197,853 and \$7,310,772, respectively. During 2014 and 2013, 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, 2014 and 2013 were \$13,805,385 and \$9,906,249, respectively. Amounts due from affiliates at December 31, 2014 and 2013 were \$227,917 and \$236,582, respectively. The amounts due to affiliates are non-interest bearing and have no maturity date.

As of April 1, 2007, a lease agreement between Our Lady of Victory Renaissance Corporation (landlord) and Mercy Hospital of Buffalo (tenant) was signed for the Mercy Hospital Skilled Nursing Facility (84 beds). Per the lease agreement, Mercy Hospital will pay rental expense "sufficient to reimburse Landlord for all annual payments of principal and of interest on the \$10,220,000 Erie County Industrial Development Agency Variable Rate Demand Civic Facility Revenue Bonds, Series 2007A." Per the bond agreement, Our Lady of Victory Renaissance Corporation is required to comply with debt service coverage and debt to capitalization covenants. The Hospital is also required to maintain a debt service coverage covenant. The Hospital was in compliance with this covenant as of December 31, 2014 and 2013. Our Lady of Victory Renaissance Corporation failed the debt service coverage and debt to capitalization covenants for December 31, 2014 and 2013. Our Lady of Victory Renaissance obtained a waiver from HSBC Bank USA, NA.

**MERCY HOSPITAL OF BUFFALO  
(A SUBSIDIARY OF THE CATHOLIC HEALTH SYSTEM, INC.)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 15. RELATED PARTY TRANSACTIONS (CONTINUED)**

Marian Professional Center Associates, L.P. is a joint venture between Ciminelli Development Company, Mercy Hospital, Alsace Abbott Corporation (a wholly owned Corporation of Mercy Hospital), and 3 other joint venture partners. In 2009, Marian Professional Center Associates, L.P. refinanced its mortgage. As of December 31, 2014, there was \$4,754,456 of debt outstanding, of which the Hospital has guaranteed \$2,377,228. Per the guaranty agreement, the Hospital's obligation shall decrease on a dollar for dollar basis as the principal amount of the obligation is paid down.

**NOTE 16. FUNCTIONAL EXPENSES**

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

	<u>2014</u>	<u>2013</u>
Healthcare services	\$ 275,764,773	\$ 265,695,238
General and administrative	<u>93,959,194</u>	<u>89,275,210</u>
	<u>\$ 369,723,967</u>	<u>\$ 354,970,448</u>

## INDEPENDENT AUDITOR'S REPORT ON ACCOMPANYING SUPPLEMENTARY INFORMATION

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

We have audited the consolidated financial statements of Mercy Hospital of Buffalo (a subsidiary of Catholic Health System, Inc.) as of and for the years ended December 31, 2014 and 2013 and our report thereon appears on page 1 of this document. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements 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 accompanying consolidating supplementary information is presented for purposes of additional analysis 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 information has been subjected to the auditing procedures applied in the audits 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 information is fairly stated in all material respects to the consolidated financial statements as a whole.

*Freed Maxick CPAs, P.C.*

Buffalo, New York  
March 26, 2015

**MERCY HOSPITAL OF BUFFALO  
(A SUBSIDIARY OF THE CATHOLIC HEALTH SYSTEM, INC.)**

**SCHEDULE OF NET COST OF PROVIDING CARE OF PERSONS LIVING IN POVERTY AND  
COMMUNITY BENEFIT PROGRAMS (SCHEDULE OF SOCIAL ACCOUNTABILITY - UNAUDITED)  
Years Ended December 31, 2014 and 2013**

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

	<u>2014</u>	<u>2013</u>
Charity care	\$ 2,323,543	\$ 2,891,148
Cost of community benefit programs	10,568,042	8,791,219
Unpaid cost of Medicaid programs	<u>15,987,538</u>	<u>12,370,985</u>
Social accountability costs	<u>\$ 28,879,123</u>	<u>\$ 24,053,352</u>

**MERCY HOSPITAL OF BUFFALO**  
**(A SUBSIDIARY OF THE CATHOLIC HEALTH SYSTEM, INC.)**

**CONSOLIDATING BALANCE SHEETS**  
**December 31, 2014**

<b>ASSETS</b>	<b>Mercy Hospital of Buffalo</b>	<b>Mercy Hospital Foundation, Inc.</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Current assets:</b>				
Cash and cash equivalents	\$ 83,954,444	\$ 1,515,841	\$ -	\$ 85,470,285
Patient/resident accounts receivable, net of allowance for doubtful accounts of \$9,100,080	53,405,815	-	-	53,405,815
Other receivables	4,244,170	167,580	(1,394,149)	3,017,601
Inventories	12,901,666	54,056	-	12,955,722
Prepaid expenses and other current assets	673,935	-	-	673,935
<b>Total current assets</b>	<b>155,180,030</b>	<b>1,737,477</b>	<b>(1,394,149)</b>	<b>155,523,358</b>
Interest in net assets of Mercy Hospital Foundation, Inc.	2,047,159	-	(2,047,159)	-
Assets limited as to use	338,597	-	-	338,597
Investments	-	1,547,473	-	1,547,473
Due from affiliates	22,417	205,500	-	227,917
Property and equipment, net	98,192,821	4,682	-	98,197,503
Other assets	34,118,902	-	-	34,118,902
<b>Total assets</b>	<b>\$ 289,899,926</b>	<b>\$ 3,495,132</b>	<b>\$ (3,441,308)</b>	<b>\$ 289,953,750</b>
<b>LIABILITIES AND NET ASSETS</b>				
<b>Current liabilities:</b>				
Current portion of long-term obligations	\$ 5,611,207	\$ -	\$ -	\$ 5,611,207
Accounts payable	16,051,108	48,824	-	16,099,932
Accrued expenses	12,772,901	5,000	-	12,777,901
Due to third-party payors	17,482,440	-	-	17,482,440
Due to affiliates	13,805,385	1,394,149	(1,394,149)	13,805,385
<b>Total current liabilities</b>	<b>65,723,041</b>	<b>1,447,973</b>	<b>(1,394,149)</b>	<b>65,776,865</b>
Long-term obligations, net	45,420,588	-	-	45,420,588
Long-term portion of insurance liabilities	48,449,050	-	-	48,449,050
Pension obligation	136,618,346	-	-	136,618,346
Asset retirement obligation	5,991,010	-	-	5,991,010
Interest rate swap	4,061,057	-	-	4,061,057
Deferred compensation plan	10,570	-	-	10,570
Other long term liabilities	103,263	-	-	103,263
<b>Total liabilities</b>	<b>306,376,925</b>	<b>1,447,973</b>	<b>(1,394,149)</b>	<b>306,430,749</b>
<b>Net assets:</b>				
Unrestricted	(17,379,919)	1,144,239	(1,144,239)	(17,379,919)
Temporarily restricted	780,397	780,397	(780,397)	780,397
Permanently restricted	122,523	122,523	(122,523)	122,523
<b>Total net assets</b>	<b>(16,476,999)</b>	<b>2,047,159</b>	<b>(2,047,159)</b>	<b>(16,476,999)</b>
<b>Total liabilities and net assets</b>	<b>\$ 289,899,926</b>	<b>\$ 3,495,132</b>	<b>\$ (3,441,308)</b>	<b>\$ 289,953,750</b>

MERCY HOSPITAL OF BUFFALO  
(A SUBSIDIARY OF THE CATHOLIC HEALTH SYSTEM, INC.)

CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS  
For the Years Ended December 31, 2014

	Mercy Hospital of Buffalo	Mercy Hospital Foundation, Inc.	Eliminations	Consolidated
<b>Unrestricted revenue and other support:</b>				
Net patient/resident service revenue	\$ 393,515,145	\$ -	\$ -	\$ 393,515,145
Provision for bad debts	(10,070,468)	(10,579)	-	(10,081,047)
Net patient/resident service revenue, less provision for bad debts	383,444,677	(10,579)	-	383,434,098
Other revenue	5,626,026	665,638	-	6,291,664
Net assets released from restrictions used in operations	-	101,000	-	101,000
<b>Total unrestricted revenue and other support</b>	<b>389,070,703</b>	<b>756,059</b>	<b>-</b>	<b>389,826,762</b>
<b>Expenses:</b>				
Salaries and wages	154,971,752	97,257	-	155,069,009
Employee benefits	50,457,696	43,506	-	50,501,202
Medical and professional fees	12,148,378	29,617	-	12,177,995
Purchased services	31,850,462	885,226	(607,743)	32,127,945
Supplies	80,340,792	170,920	-	80,511,712
Depreciation and amortization	16,186,794	4,149	-	16,190,943
Interest	3,017,562	6,800	-	3,024,362
Insurance	3,680,252	-	-	3,680,252
Other expenses	16,436,967	3,580	-	16,440,547
<b>Total expenses</b>	<b>369,090,655</b>	<b>1,241,055</b>	<b>(607,743)</b>	<b>369,723,967</b>
<b>Income (loss) from operations</b>	<b>19,980,048</b>	<b>(484,996)</b>	<b>607,743</b>	<b>20,102,795</b>
<b>Nonoperating revenues and losses:</b>				
Investment income	450,634	15,300	-	465,934
Contributions and other, net	47,878	-	-	47,878
<b>Total nonoperating revenues and losses</b>	<b>498,512</b>	<b>15,300</b>	<b>-</b>	<b>513,812</b>
<b>Excess (deficiency) of revenues over expenses</b>	<b>\$ 20,478,560</b>	<b>\$ (469,696)</b>	<b>\$ 607,743</b>	<b>\$ 20,616,607</b>

**MERCY HOSPITAL OF BUFFALO  
(A SUBSIDIARY OF THE CATHOLIC HEALTH SYSTEM, INC.)**

**CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (CONTINUED)  
For the Years Ended December 31, 2014**

	<u>Mercy Hospital of Buffalo</u>	<u>Mercy Hospital Foundation, Inc.</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>Unrestricted net assets (deficit):</b>				
Excess of revenues over expenses	\$ 20,478,560	\$ (469,696)	\$ 607,743	\$ 20,616,607
Change in unrealized gain on interest rate swap	(1,960,717)	-	-	(1,960,717)
Change in pension obligation, other than net periodic cost	(36,482,858)	-	-	(36,482,858)
Change in unrestricted interest in Mercy Hospital Foundation, Inc.	121,161	-	(121,161)	-
Distributions from Foundation	607,743	-	(607,743)	-
Net assets released from restriction used for capital	-	590,857	-	590,857
Distributions to parent	(8,197,853)	-	-	(8,197,853)
Grant revenue for capital expenditures	167,992	-	-	167,992
Increase (decrease) in unrestricted net assets (deficit)	<u>(25,265,972)</u>	<u>121,161</u>	<u>(121,161)</u>	<u>(25,265,972)</u>
<b>Temporarily restricted net assets:</b>				
Contributions	-	435,924	-	435,924
Special events	-	3,048	-	3,048
Temporarily restricted net assets released from restrictions	-	(691,857)	-	(691,857)
Change in temporarily restricted net assets interest in Mercy Hospital Foundation, Inc.	(252,885)	-	252,885	-
(Decrease) increase in temporarily restricted net assets	<u>(252,885)</u>	<u>(252,885)</u>	<u>252,885</u>	<u>(252,885)</u>
Increase (decrease) in net assets	<u>(25,518,857)</u>	<u>(131,724)</u>	<u>131,724</u>	<u>(25,518,857)</u>
Net assets - beginning of year	<u>9,041,858</u>	<u>2,178,883</u>	<u>(2,178,883)</u>	<u>9,041,858</u>
Net assets - end of year	<u>\$ (16,476,999)</u>	<u>\$ 2,047,159</u>	<u>\$ (2,047,159)</u>	<u>\$ (16,476,999)</u>