CONSOLIDATED FINANCIAL STATEMENTS

SISTERS OF CHARITY HOSPITAL
(A SUBSIDIARY OF THE CATHOLIC HEALTH SYSTEM, INC.)

DECEMBER 31, 2013

SISTERS OF CHARITY HOSPITAL
(A SUBSIDIARY OF THE CATHOLIC HEALTH SYSTEM, INC.)

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FreedMaxick CPAs, P.C.

INDEPENDENT AUDITOR'S REPORT

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

Report on Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Sisters of Charity Hospital and its subsidiary (collectively, the "Hospital"), which comprise the consolidated balance sheet as of December 31, 2013, and the related consolidated statement of operations and changes in net assets and cash flows for the year 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 audit. We conducted our audit 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 Sisters of Charity Hospital and its subsidiary as of December 31, 2013, and the results of its operations and its cash flows for the year 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.

Other Matters

The consolidated financial statements of Sisters of Charity Hospital for the year ended December 31, 2012 were audited by other auditors whose report dated April 25, 2013, expressed an unmodified opinion on those statements.

Freed Maxick CPAs, P.C.

Buffalo, New York
April 10, 2014

SISTERS OF CHARITY HOSPITAL
(A SUBSIDIARY OF THE CATHOLIC HEALTH SYSTEM, INC.)

CONSOLIDATED BALANCE SHEETS
December 31,

ASSETS	2013	2012
Current assets:		
Cash and cash equivalents	$ 130,418,177	$ 115,787,546
Patient/resident accounts receivable, net of allowance for doubtful accounts of $8,890,000 (2012 - $10,743,000)	37,376,146	44,346,176
Other receivables	4,343,477	2,741,063
Inventories	6,058,830	5,322,983
Prepaid expenses and other current assets	584,529	561,477
Due from affiliates	635,263	514,235
Total current assets	179,416,422	169,273,480
Assets limited as to use	210,318	629,324
Investments	7,442,151	6,367,731
Due from affiliates	10,303,395	10,303,395
Property and equipment, net	74,555,334	75,522,350
Other assets	26,197,287	20,771,554
Total assets	$ 298,124,907	$ 282,867,834
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term obligations	$ 4,473,060	$ 3,905,253
Long-term obligations subject to short-term remarketing arrangements	-	26,717,698
Accounts payable	15,118,197	15,642,847
Accrued expenses	13,581,559	12,729,317
Due to third-party payors	10,979,242	15,172,208
Due to affiliates	21,295,050	19,488,120
Total current liabilities	65,447,108	93,655,443
Long-term obligations, net	30,522,035	5,674,395
Long-term portion of insurance liabilities	34,580,752	29,051,031
Pension obligation	49,035,900	75,703,302
Asset retirement obligation	2,360,078	2,231,290
Interest rate swap	3,017,203	5,071,179
Other long term liabilities	73,555	185,455
Total liabilities	185,036,631	211,572,095
Net assets:		
Unrestricted	110,436,851	69,184,524
Temporarily restricted	2,528,902	1,988,692
Permanently restricted	122,523	122,523
Total net assets	113,088,276	71,295,739
Total liabilities and net assets	$ 298,124,907	$ 282,867,834

See accompanying notes.

SISTERS OF CHARITY HOSPITAL
(A SUBSIDIARY OF THE CATHOLIC HEALTH SYSTEM, INC.)

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

	2013	2012
Unrestricted revenue and other support:		
Net patient/resident service revenue	$ 322,669,354	$ 317,985,233
Provision for bad debts	(7,195,373)	(10,260,599)
Net patient/resident service revenue, less provision for bad debts	315,473,981	307,724,634
Other revenue	7,671,856	8,921,083
Net assets released from restrictions used in operations	65,000	61,000
Total unrestricted revenue and other support	323,210,837	316,706,717
Expenses:		
Salaries and wages	143,399,622	139,149,094
Employee benefits	44,426,262	41,676,588
Medical and professional fees	14,982,907	13,515,958
Purchased services	28,478,163	29,050,062
Supplies	56,915,230	56,691,261
Depreciation and amortization	13,237,876	12,408,190
Interest	2,049,654	2,128,656
Insurance	3,226,293	3,003,918
Other expenses	11,837,368	11,373,503
Total expenses	318,553,375	308,997,230
Income from operations	4,657,462	7,709,487
Nonoperating revenues and losses:		
Investment income	1,392,199	858,713
Contributions and other	1,556,746	665,094
Total nonoperating revenues and losses	2,948,945	1,523,807
Excess of revenues over expenses	$ 7,606,407	$ 9,233,294

See accompanying notes.

SISTERS OF CHARITY HOSPITAL
(A SUBSIDIARY OF THE CATHOLIC HEALTH SYSTEM, INC.)

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

	2013	2012
Unrestricted net assets:		
Excess of revenues over expenses	$ 7,606,407	$ 9,233,294
Change in unrealized loss on interest rate swap	1,993,931	(215,936)
Change in pension obligation, other than net periodic cost	31,530,077	(8,680,685)
Net assets released from restriction used for capital	102,257	270,050
Distributions and transfers to (from) parent and affiliates	18,715	(2,102,854)
Other	940	-
Increase (decrease) in unrestricted net assets	41,252,327	(1,496,131)
Temporarily restricted net assets:		
Contributions	651,454	320,380
Special events revenue	56,013	48,628
Temporarily restricted net assets released from restrictions	(167,257)	(331,050)
Increase in temporarily restricted net assets	540,210	37,958
Increase (decrease) in net assets	41,792,537	(1,458,173)
Net assets - beginning of year	71,295,739	72,753,912
Net assets - end of year	$ 113,088,276	$ 71,295,739

See accompanying notes.

SISTERS OF CHARITY HOSPITAL
(A SUBSIDIARY OF THE CATHOLIC HEALTH SYSTEM, INC.)

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

	2013	2012
Cash flows from operating activities:		
Increase (decrease) in net assets	$ 41,792,537	$ (1,458,173)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
Depreciation and amortization	13,237,876	12,408,190
Provision for bad debts	7,195,373	10,260,599
Distributions and transfers (from) to parent and affiliates	(18,715)	2,102,854
Change in pension obligation, other than net periodic cost	(31,530,077)	8,680,685
Equity in loss (gain) of investee	46,193	(32,765)
Discount on issuance	19,584	19,584
Gain on sale of assets	23,862	135,707
Gain on extinguishment of capital leases	-	(51,200)
Change in unrealized (gain) loss on interest rate swap	(2,053,976)	223,840
Change in unrealized gains on investments	(681,589)	(363,237)
Realized gain on investments	(297,138)	(98,867)
(Increase) decrease in assets:		
Patient accounts receivables	(225,343)	(11,992,424)
Other receivables	(1,602,414)	974,326
Inventories	(735,847)	(1,299,728)
Prepaid expenses and other assets	(23,052)	(58,570)
Due from affiliate	(121,027)	205,811
Other assets	(324,247)	(291,805)
Increase (decrease) in liabilities:		
Accounts payable	1,055,428	1,272,234
Accrued expenses	852,242	197,527
Due to third-party payors	(4,192,966)	853,536
Due to affiliates	492,285	4,290,087
Other liabilities	5,046,785	4,470,323
Net cash provided by operating activities	27,955,774	30,448,534
Cash flows from investing activities:		
Purchase of property and equipment	(9,381,668)	(12,730,613)
Proceeds from sale of property and equipment	100	590,865
Purchase of assets limited as to use	-	(2,839,316)
Proceeds from sale of assets limited as to use	419,006	2,209,992
Change in investments, net	(95,693)	(130,220)
Net cash used in investing activities	(9,058,255)	(12,899,292)
Cash flows from financing activities:		
Distributions and transfers (from) to parent and affiliates	18,715	(2,102,854)
Proceeds from issuance of long-term debt	-	2,880,483
Repayment of current and long-term obligations	(4,285,603)	(4,021,294)
Net cash used in financing activities	(4,266,888)	(3,243,665)
Increase in cash and cash equivalents	14,630,631	14,305,577
Cash and cash equivalents, beginning of year	115,787,546	101,481,969
Cash and cash equivalents, end of year	$ 130,418,177	$ 115,787,546
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 2,030,070	$ 2,109,072
Assets acquired via capital leases	$ 1,383,690	$ -

See accompanying notes.

NOTE 1. ORGANIZATION

Sisters of Charity Hospital is a not-for-profit acute care hospital and skilled nursing facility. Sisters of Charity 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.

Following the release of New York State's "Healthcare Facilities in the 21st Century" Report, also known as the Berger Commission, in 2006, St. Joseph Hospital (SJH) was slated for closure. The decision was later overturned after the State agreed to keep the Cheektowaga hospital open as part of Sisters of Charity Hospital. On April 1, 2009, St. Joseph Hospital officially closed and merged with Sisters of Charity Hospital, becoming Sisters of Charity Hospital, St. Joseph Campus (SJC). As the Catholic Health System was the sole corporate member of both St. Joseph Hospital and Sisters of Charity Hospital, the accounts of St. Joseph Hospital were merged into the results of Sisters of Charity Hospital as of January 1, 2009.

Sisters of Charity Hospital is the sole corporate member of Sisters Hospital Foundation, Inc. (the Foundation). The Foundation is a not-for-profit organization incorporated under the New York State Corporation Laws. The Foundation's sole purpose is to receive and administer gifts and bequests made on behalf of the Sisters of Charity Hospital, which are generally used to support the capital needs of the Sisters of Charity Hospital. On March 9, 2009, the St. Joseph Hospital Foundation received approval from the New York State Department of State to consummate a merger with the Sisters Hospital Foundation, Inc. The merger took place on April 1, 2009, contemporaneous with the merger of Sisters of Charity Hospital and St. Joseph Hospital. Per the merger, the assets of the St. Joseph Hospital Foundation were combined with those of the Sisters Hospital Foundation, as of January 1, 2009.

Sisters of Charity Hospital and the Foundation (collectively referred to as the "Hospital") are a part of the Catholic Health System, Inc. ("CHS" or the "System") and its organizational structure is discussed below.

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

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

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

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The consolidated financial statements of the Hospital include the accounts of Sisters of Charity Hospital and Sisters 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.

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

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates related to third-party payment matters will change by a material amount in the near term.

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

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. Realized and unrealized gains and losses are included in excess of revenues over expenses unless such earnings are restricted by donor or law.

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.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 2013 and 2012.

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, 2013 and 2012 was $128,788 and $115,504, 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 necessary. CHS's Healthcare Assistance Program provides discounts to uninsured patients and self pay balances. In addition, the Hospital will also assist patients with the application process for free or low-cost insurance. Those uninsured patients who do not qualify for the Healthcare Assistance Program or low-cost insurance and live in New York State, a state contiguous to New York State, or the state of Ohio, are provided an uninsured discount based on a service specific uninsured rate. This uninsured rate is similar in calculation method and amount to third party payor methods and rates.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

A summary of the payment arrangements with major 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 2013 and 2012 related to prior years, including adjustments to prior year estimates and audit settlements, increased revenues $3,946,814 and $6,106,295, 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 51% and 50% of net patient/resident service revenue was generated from services rendered to patients/residents under Medicare and Medicaid programs in 2013 and 2012, respectively. Approximately 38% and 40% of net patient/resident service revenue was generated from services rendered to patients under managed care programs in 2013 and 2012.

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.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2013 and 2012:

	2013	2012
Patient/resident service revenue (net of contractual allowances and discounts):		
Medicare	$ 119,483,494	$ 115,001,843
Medicaid	43,545,629	43,922,653
Blue Cross	33,834,605	34,118,504
Other third party payors	117,753,306	119,132,084
Patients/residents	8,052,320	5,810,149
Total net patient/resident service revenue	322,669,354	317,985,233
Provision for bad debts	(7,195,373)	(10,260,599)
Net patient/resident service revenue less provision for bad debts	$ 315,473,981	$ 307,724,634

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 Healthcare Assistance Program (HAP) which is determined by presentation for care without insurance, while using an estimator (PARO) of each guarantor's ability to pay. Free care is determined at 110% of Federal Poverty Guidelines (FPG), whereas discounted care is also provided at 500% FPG.

Of the Hospital's total expenses, an estimated $3,254,115 and $3,333,680 arose from providing services to charity care patients in 2013 and 2012, respectively. Costing is a full step down methodology of cost from non-revenue producing departments to revenue producing departments, with assignment of cost to individual charge items based on volume and charge amount. Additional costs for the Hospital 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 Health Care Assistance Policy (charity care). In addition to charity care, the Hospital provides services to patients covered by Medicaid. The payments received for services provided to patients covered by Medicaid may be at or below costs in addition to the cost of care for patients without insurance. The Hospital 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.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Collective Bargaining Agreements: The Hospital has approximately 23% of its employees working under four collective bargaining agreements. The agreements are set to expire beginning August 1, 2014 through May 31, 2017.

Operating and Nonoperating Revenue and Losses: The Hospital's primary mission is dedicated to meeting the health care needs in the regions in which it operates. The Hospital is committed to providing a broad range of general and specialized health care services including inpatient, primary care, long-term care, outpatient services, and other health care related services. Only those activities directly associated with the furtherance of this mission are considered to be operating activities. Such activities include operation of cafeterias, parking lots, rental real estate and other ancillary activities. Other activities that result in gains or losses unrelated to the Hospital's primary mission are considered to be nonoperating.

Electronic Health Record Incentive Payments: The American Recovery and Reinvestment Act of 2009 provides for Medicare and Medicaid incentive payments beginning in 2011 for eligible hospitals and professionals that adopt and meaningfully use certified electronic health record (EHR) technology. The Hospital recognizes income related to Medicare and Medicaid incentive payments using a gain contingency model that is based upon when 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 $2,400,000 and $3,400,000 of electronic health record incentive income related to Medicare and Medicaid incentive programs during the years ended December 31, 2013 and 2012, respectively, which is recorded in other operating revenue.

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

	2013	2012
Shared services (Note 15)	$ 2,402,587	$ 2,415,036
Cafeteria revenue	1,144,768	1,056,132
Parking revenue	415,608	403,979
Rental income	59,510	60,405
Unrestricted contributions to Foundation	282,575	319,887
Foundation special events revenue	347,457	368,455
Foundation gift shop revenue	265,650	300,395
Medicare and Medicaid meaningful use	2,357,888	3,432,712
Other	395,813	564,082
Total other revenues	$ 7,671,856	$ 8,921,083

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:

	2013	2012
System dues (a)	$ 2,916,424	$ 3,292,156
Rental and operating leases	2,288,220	2,001,378
NYS Health Facilities cash receipts assessment program	2,217,067	1,906,081
Catholic Health System other expense	1,890,425	1,712,754
Other	2,525,232	2,461,134
Total other expenses	$ 11,837,368	$ 11,373,503

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

	2013	2012
Salaries, wages and employee benefits	$ 615,345	$ 558,345
Professional fees and purchase services	352,106	724,693
Dues to Catholic Health East	1,643,769	1,707,603
Other	305,204	301,515
Total system dues	$ 2,916,424	$ 3,292,156

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

Net Assets: Unrestricted assets are available for the general operating expenses of the Hospital and are not subject to any donor limitations.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Temporarily restricted net assets are those whose use is limited by donors to a specific period or purpose and includes the temporarily restricted net assets of Sisters Hospital Foundation, Inc. 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 as 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 2010, 2011, and 2012 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 is recorded by the subsidiaries as a component of the natural account classification. The related income and expense is eliminated in the consolidated financial statements. The respective assets and liabilities are eliminated in the consolidated financial statements.

Capitalized Software Costs: The 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 $2,611,476 and $1,274,592 during 2013 and 2012, respectively. Capitalized internal project labor costs amounted to $54,411 and $111,104 during 2013 and 2012, respectively.

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

Subsequent Events: The Hospital evaluated subsequent events through April 10, 2014 which was the date the financial statements were available to be issued.

NOTE 3. ASSETS LIMITED AS TO USE

Assets limited as to use was comprised of cash and cash equivalents held by a trustee under an indenture agreement of $210,318 and $629,324 at December 31, 2013 and 2012 respectively.

NOTE 4. INVESTMENTS

Investments consist of the following at December 31:

	2013 Cost	2013 Fair Value	2012 Cost	2012 Fair Value
Marketable equity securities	$ 4,338,062	$ 5,625,082	$ 3,361,547	$ 3,796,396
Governmental and corporate Obligations	1,625,866	1,817,069	2,240,769	2,571,335
	$ 5,963,928	$ 7,442,151	$ 5,602,316	$ 6,367,731

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

	2013	2012
Interest and dividend income	$ 413,472	$ 396,609
Net realized and unrealized gains and losses	978,727	462,104
Total investment income	$ 1,392,199	$ 858,713

NOTE 5. PROPERTY AND EQUIPMENT

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

	2013	2012
Land and land improvements	$ 3,079,886	$ 3,119,282
Buildings	25,762,300	26,952,200
Leasehold improvements	31,080,425	26,266,330
Equipment	58,413,672	60,200,615
Automobiles	125,417	108,897
Equipment under capital leases	14,579,808	13,183,984
	133,041,508	129,831,308
Less: Accumulated depreciation	(53,485,754)	(51,789,439)
Accumulated amortization on equipment under capital leases	(7,791,419)	(6,904,239)
	71,764,335	71,137,630
Construction in progress	2,790,999	4,384,720
Property and equipment, net	$ 74,555,334	$ 75,522,350

Depreciation expense in 2013 and 2012 amounted to $10,567,933 and $9,848,940, respectively. Amortization expense on equipment under capital leases amounted to $2,455,123 and $2,351,733 in 2013 and 2012, respectively. Fully depreciated or amortized assets of $9,099,835 and $13,505,475 were written-off for the years ended December 31, 2013 and 2012, respectively.

NOTE 6. OTHER ASSETS AND OTHER RECEIVABLES

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

	2013	2012
Current prepaid expenses and other current assets:		
Prepaid expenses	$ 450,391	$ 424,784
Security deposits	134,138	136,693
Prepaid expenses and other current assets	$ 584,529	$ 561,477
Current other receivables:		
Physician loans	$ 1,866,857	$ 2,185,526
Managed care risk receivables	1,752,917	-
Other	723,703	555,537
Other receivables	$ 4,343,477	$ 2,741,063
Non-current:		
Insurance recoveries	$ 24,136,294	$ 18,902,583
Debt issuance costs, net accumulated amortization	952,228	1,038,260
Equity investment	54,567	100,760
Workers' compensation funding surplus	1,054,198	729,951
Other assets	$ 26,197,287	$ 20,771,554

Amortization expense on deferred financing costs amounted to $86,032 and $85,153 for the years ended December 31, 2013 and 2012, respectively. Accumulated Amortization related to the debt issuance costs amounted to $588,081 and $502,049 at December 31, 2013 and December 31, 2012, respectively, respectively. Amortization expense is expected to be approximately $86,000 for the years ended December 31, 2014 to 2018.

NOTE 7. ACCRUED EXPENSES

Accrued expenses consist of the following at December 31:

	2013	2012
Payroll and benefits	$ 10,697,347	$ 10,357,464
Workers' compensation, current portion	1,845,109	1,712,533
Other	1,039,103	659,320
Accrued expenses	$ 13,581,559	$ 12,729,317

NOTE 8. LONG-TERM OBLIGATIONS

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

	2013	2012
2006 Series B and D Bonds Payable (a)	$ 26,737,283	$ 28,547,700
Capital lease obligations at varying interest rates ranging from 3.47% to 6.68%	8,257,812	7,749,646
	34,995,095	36,297,346
Less: Current portion	(4,473,060)	(3,905,253)
Less: Long-term obligations subject to short-term remarketing arrangements (a)	-	(26,717,698)
Long-term obligations, net	$ 30,522,035	$ 5,674,395

(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 or the Authority) Catholic Health System Obligated Group Revenue Bonds, Series 2006 were issued. The Series 2006 B Bonds for $30,295,000 were loaned to the Hospital for the purpose of refunding the Authority's Hospital Insured Revenue Bonds, Series 2003, which bonds were issued for the purpose of refunding a series of bonds issued in 1991. The Series 2006 D Bonds for $8,435,000 were loaned to Sisters of Charity Hospital, St. Joseph Campus to finance the cost of SJC's emergency room expansion project. The discount on the bonds of $363,937 will be accreted over the life of the bonds.

In connection with the issuance of the Series 2006 Bonds, the Obligated Group entered into a Loan Agreement (the Loan Agreement) whereby the Obligated Group is required to pay funds sufficient in timing and amount to pay the principal and redemption price of the Series 2006 Bonds and related interest and administrative expenses as they come due. The Series 2006 Bonds pay interest at a variable remarketed rate and are collateralized by a letter of credit with HSBC Bank which expires on November 29, 2014. In the event the letter of credit is not renewed at expiration, 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 0.06% and 0.13% at December 31, 2013 and 2012, 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.

NOTE 8. LONG-TERM OBLIGATIONS (CONTINUED)

Certain financial covenants must be maintained by the Obligated Group. Failure to comply with these covenants requires a formal consultants report and quarterly progress reports demonstrating how the facility is progressing towards compliance. The Loan Agreement requires the Obligated Group to comply with certain financial covenants, including maintenance of (i) a minimum number of days cash on hand; (ii) long-term debt service coverage; and (iii) a maximum leverage ratio. The Obligated Group was in compliance with these covenants at December 31, 2013 and 2012.

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, 2013.

Aggregate maturities of long-term obligations, including capital lease obligations, subsequent to December 31, 2013 are as follows:

	Long-Term Debt	Capital Leases	Total
2014	$ 1,900,000	$ 2,819,017	$ 4,719,017
2015	1,972,500	1,957,401	3,929,901
2016	2,050,000	926,296	2,976,296
2017	2,132,500	899,025	3,031,525
2018	2,217,500	451,513	2,669,013
Thereafter	16,464,783	2,408,261	18,873,044
	$ 26,737,283	9,461,513	36,198,796
Less: Interest		(1,203,701)	(1,203,701)
		$ 8,257,812	$ 34,995,095

Operating Leases

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

2014	$ 1,820,298
2015	1,498,694
2016	1,340,180
2017	752,289
2018	23,229
Thereafter	-
	$ 5,434,690

Total expense for rents and operating type leases for equipment and property was approximately $2,288,220 and $2,001,378 for 2013 and 2012, respectively.

NOTE 9. DERIVATIVE FINANCIAL INSTRUMENTS

In connection with the issuance of the Series 2006 Bonds and execution of the Loan Agreement, the Hospital entered into an interest rate swap agreement (a derivative agreement) with HSBC Bank USA, NA and JP Morgan Chase (the "Financial Institutions") for purposes of mitigating risk posed by the Bonds accruing interest at a variable rate. Further, the 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 Bonds to be converted into bonds that bear a fixed rate of interest. The terms of the swap require the Hospital to pay a fixed rate of 3.80% on the notional amount ($27,895,000 at December 31, 2013) and in exchange, the Hospital will receive a variable rate payment based upon the Securities Industry and Financial Markets Association Index, calculated weekly. The notional amount of the swap is matched to the maturity schedule of the Series 2006 Bonds. The swap agreement was executed on December 13, 2006 and expires July 1, 2025. These dates correlate to the issue date and due date of the Series 2006 Bonds. In accordance with accounting guidance, the instrument qualifies for hedge treatment and is designated a cash flow hedge of future interest payments. The effective portion of the hedge has been excluded from excess of revenues over expenses and recorded within changes to net assets.

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

	2013		2012	
	Balance Sheet Location	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Interest rate contracts floating to fixed	Long-term liabilities	$ 3,017,203	Long-term liabilities	$ 5,071,179

The effects of derivative instruments on the consolidated statements of operations and changes in net assets for 2013 and 2012 are as follows:

	Ineffective portion in Statement of Operations		Effective portion in Net Assets	
	2013	**2012**	**2013**	**2012**
Change in fair value of interest rate swaps	$ 60,045	$ (7,904)	$ 1,993,931	$ (215,936)

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

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

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

The Plan bases benefits upon both years of service and earnings. Participants under the Hospitals formula earn benefits under a final average formula. The cash balance formula is a hypothetical account balance formula. 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 Sisters of Charity Hospital's changes in the projected benefit obligation, the plan assets and the funded status of the CHS pension plan as well as the components of net periodic benefit costs, including key assumptions. The disclosures below have been actuarially determined based on an allocation of the System's obligations specific to Sisters of Charity Hospital. The measurement dates for plan assets and obligations were December 31, 2013 and 2012.

	2013	2012
Projected Benefit Obligations		
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 174,275,258	$ 151,720,890
Service cost	6,376,404	5,752,366
Interest cost	6,795,849	6,887,098
Actuarial gain	(24,965,268)	15,492,747
Benefits paid	(4,125,465)	(3,748,801)
Transfer (to) from CHS Subsidiaries	795,361	(1,691,525)
Expenses	(129,703)	(137,517)
Projected Benefit obligation at end of year	$ 159,022,436	$ 174,275,258
Accumulated benefit obligations, end of year	$ 139,157,644	$ 150,751,726
Plan Assets		
Change in plan assets:		
Fair value of assets at beginning of year	$ 98,571,956	$ 89,004,332
Actual return on plan assets	9,898,916	9,704,495
Transfers (to) from CHS subsidiaries	397,831	(633,060)
Benefits paid	(4,125,465)	(3,748,801)
Hospital contributions	5,373,000	4,382,507
Expenses	(129,703)	(137,517)
Fair value of plan assets at end of year	$ 109,986,535	$ 98,571,956
Funded status at end of year	$ 49,035,900	$ 75,703,302

NOTE 10. EMPLOYEE BENEFIT PLANS (CONTINUED)

Amounts recognized in the consolidated balance sheets:

	2013	2012
Non-current liabilities	$ (49,035,900)	$ (75,703,302)
Net amounts recognized	$ (49,035,900)	$ (75,703,302)

Amounts recognized in unrestricted net assets consists of:

	2013	2012
Actuarial net loss	$ (34,958,265)	$ (66,596,210)
Prior service cost	522,488	630,356
Total amount recognized	$ (34,435,777)	$ (65,965,854)

Components of net periodic benefit cost:

	2013	2012
Service cost	$ 6,376,404	$ 5,752,366
Interest cost	6,795,849	6,887,098
Expected return on plan assets	(7,959,485)	(7,633,946)
Amortization of prior service cost or (credit)	(107,868)	(107,868)
Recognized actuarial loss	5,130,776	3,790,916
Net periodic pension cost	$ 10,235,676	$ 8,688,566

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 $229,260 and $8,530,663, respectively.

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

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

		Actual	
Asset Category	Target	2013	2012
Equities	65%	61%	50%
Fixed income	25	30	35
Other	10	9	15
	100%	100%	100%

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, either intermediate or long-term, that is established by evaluating expected return, standard deviation, and correlation of various assets against the plan's long-term objectives. Asset performance is monitored quarterly and rebalanced if asset classes exceed explicit ranges. The investment policy governs permitted types of investments, and outlines specific benchmarks and performance percentiles. The Investment Subcommittee of the Stewardship Committee of the CHE Board oversees the pension investment program and monitors investment performance. Risk is closely monitored through the evaluation of portfolio holdings and tracking the beta and standard deviation of the portfolio performance. The use of derivative financial instruments as an investment vehicle is specifically limited.

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, 2013 and 2012:

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

Marketable debt securities: Valued based on yields currently available on comparable securities of issuers with similar credit rating.

Marketable equity securities: Valued at closing price reported on the active market on which the individual securities are traded.

Partnership joint venture interests: These securities are estimated using current information obtained from the general partner or investment manager for the respective funds. Investments in venture capital/private equity partnerships are generally estimated using partner's capital balances, and the fair value of investments in hedge funds are generally estimated using NAVs. In cases where the investee has provided its investors with a NAV per share or partner capital balances that have been calculated in accordance with the AICPA Audit and Accounting Guide, *Investment Companies*, the Plan has estimated its fair value by using the NAV provided by the investee as of December 31st.

Commingled funds: Valued at the NAV of units of the commingled fund. The NAV is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities. This practical expedient is not used when it is determined to be probable that the fund will sell the investment for an amount different from the reported NAV.

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 tables present the Plan's financial instruments as of December 31, 2013 and 2012, measured at fair value on a recurring basis using the fair value hierarchy defined in Note 14.

At December 31, 2013	**Level I**	**Level II**	**Level III**	**Total**
Cash and cash equivalents	$ 10,610,231	$ 13	$ -	$ 10,610,244
Marketable equity securities:				
SRI large cap	36,140	-	-	36,140
Large cap flex	44,116,418	-	-	44,116,418
Small cap growth	17,695,823	-	-	17,695,823
International	11,359,573	-	-	11,359,573
Small cap value	8,722,468	-	-	8,722,468
Other	527,064	-	-	527,064
Marketable debt securities:				
US government obligations	31,735,616	-	-	31,735,616
Private placement	-	8,996,603	-	8,996,603
Banking and finance	-	9,752,736	-	9,752,736
International	-	6,203,252	-	6,203,252
Utility	-	3,897,766	-	3,897,766
Other		19,425,390	-	19,425,390
Alternative investments:				
Commingled funds	-	85,147,948	8,669,516	93,817,464
International hedge funds	-	-	4,825,571	4,825,571
Venture capital funds	-	-	5,179,554	5,179,554
Total	$ 124,803,333	$133,423,708	$ 18,674,641	$ 276,901,682

NOTE 10. EMPLOYEE BENEFIT PLANS (CONTINUED)

At December 31, 2012	Level I	Level II	Level III	Total
Cash and cash equivalents	$ 14,491,559	$ 50,617	$ -	$ 14,542,176
Marketable equity securities:				
SRI large cap	22,077	-	-	22,077
Large cap flex	26,642,255	-	-	26,642,255
Small cap growth	12,959,036	-	-	12,959,036
International	9,081,671	-	-	9,081,671
Small cap value	6,136,226	-	-	6,136,226
Other	178,292	-	-	178,292
Marketable debt securities:				
US government obligations	24,932,327	-	-	24,932,327
Private placement	-	9,259,692	-	9,259,692
Banking and finance	-	11,041,890	-	11,041,890
International	-	3,475,915	-	3,475,915
Utility	-	4,405,823	-	4,405,823
Other		19,683,218	-	19,683,218
Alternative investments:				
Commingled funds	-	62,498,917	18,617,733	81,116,650
International hedge funds	-	-	3,168,623	3,168,623
Venture capital funds	-	-	8,561,450	8,561,450
Total	$ 94,443,443	$110,416,072	$ 30,347,806	$ 235,207,321

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

	2013	2012
Fair value January 1	$ 30,347,806	$ 27,055,386
Realized and unrealized gains (losses)	1,146,712	944,022
Purchases	11,545,579	13,009,261
Sales	(24,365,456)	(10,660,863)
Fair value December 31	$ 18,674,641	$ 30,347,806

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

The System is expected to contribute an aggregate amount of approximately $21,400,000 to the pension plan trust in 2014 to be allocated amongst participating entities.

NOTE 10. EMPLOYEE BENEFIT PLANS (CONTINUED)

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

2014	$ 16,945,000
2015	$ 18,559,000
2016	$ 20,569,000
2017	$ 22,658,000
2018	$ 24,425,000
2019 – 2023	$ 158,705,000

	2013	2012
Weighted average assumptions used to determine End of the year benefit obligations:		
Discount rate	5.05%	3.95%
Rate of compensation increase	3.00%	3.00%
Weighted average assumptions used to determine Net periodic pension cost:		
Discount rate	3.95%	4.60%
Expected long-term rate of return on plan assets	8.00%	8.00%
Measurement date	12/31/2013	12/31/2012

NOTE 11. INSURANCE ARRANGEMENTS

The System, on the Hospital's behalf, participates in the CHE Trinity Inc. insurance program which provides coverage for healthcare professional (medical malpractice) and general liability exposures. The System had two insurance programs in 2013, as the legacy CHE program merged with Trinity Health's insurance program to form the CHE Trinity Inc. program. Prior to June 1, 2013, the primary limits for healthcare professional and general liability were $3,000,000 per occurrence and were insured by Stella Maris Insurance Company, Ltd. (SMICL), a Cayman-domiciled insurer wholly-owned by CHE. Subsequent to June 1, 2013, the primary limits were $20,000,000 for healthcare professional liability and $1,000,000 for general liability per occurrence. Professional and general liabilities are insured by Venzke Insurance Company, Ltd. (Venzke), a Cayman-domiciled insurer wholly-owned by CHE Trinity, Inc.. 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% and 4% in 2013 and 2012, respectively. The Hospital's portion of the System's current portion of liabilities for unpaid and incurred but not reported claims at December 31, 2013 and 2012 is $154,300 and $144,533, 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, 2013 and 2012 is $19,071,700 and $14,412,118, respectively, and is included in other long-term insurance liabilities. The charges to expenses for professional and general liability for 2013 and 2012 approximated $2,900,533 and $2,677,324, 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 liability claims and any anticipated insurance recoveries to be reported on a gross basis versus the previous practice of netting the recoveries against liability claims. Amounts recognized as insurance receivables related to the claims approximate $16,140,000 and $11,666,000 at December 31, 2013 and 2012, respectively. Insurance recoveries are measured on the same basis as the liability subject to the need for a valuation allowance for uncollectible amounts.

NOTE 11. INSURANCE ARRANGEMENTS (CONTINUED)

The System's insurance program for workers' compensation, in which the Hospital participates, has a deductible of $350,000 per occurrence. Claims in excess of self-insurance levels are fully insured. Losses from asserted claims and from unasserted claims identified by the System's incident reporting for the Hospital were accrued on an discounted basis based on actuarial estimates of the settlement of such claims. The discount rate applied is 3% and 4% in 2013 and 2012, respectively. The Hospital's portion of the System's current portion of liabilities for unpaid and incurred but not reported claims at December 31, 2013 and 2012 is $1,845,109 and $1,712,533, 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, 2013 and 2012 is $15,509,052 and $14,638,913, respectively, and is included in other long-term insurance liabilities.

The charges to expense for workers' compensation costs approximated $2,303,000 and $2,761,000 in 2013 and 2012, respectively, and are included in employee benefits expense. In 2011, the Hospital adopted the principles of insurance claim and recovery accounting for workers' compensation liabilities. The required liability claims and any anticipated insurance recoveries to be reported on a gross basis versus the previous practice of netting the recoveries against liability claims. Amounts recognized as insurance receivables related to the claims are $7,996,294 and $7,236,583 at December 31, 2013 and 2012, respectively. Insurance recoveries are measured on the same basis as the liability subject to the need for a valuation allowance for uncollectible amounts.

The System's insurance for employee health costs, in which the Hospital participates, is self-insured up to $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:

	2013	2012
Medicare	27%	30%
Medicaid	17	15
Blue Cross	7	8
Other third-party payors	34	34
Patients	15	13
	100%	100%

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.

NOTE 14. FAIR VALUE MEASUREMENTS

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

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

Investments: The fair values for marketable equity, marketable debt, government, and fixed income securities are valued at the closing price reported on the active market on which the individual securities are traded.

Interest Rate Swap: 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 fair value of these interest rate derivatives are based on quoted prices for similar instruments from a commercial bank, and therefore, the interest rate derivatives are considered a Level 2 item in the fair value hierarchy.

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, 2013 and 2012. Long-term debt would be classified as Level 2 in the fair value hierarchy.

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

NOTE 14. FAIR VALUE MEASUREMENTS (CONTINUED)

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

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

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

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

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

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

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

The following tables present information about assets and liabilities that are measured at fair value on a recurring basis and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value as of December 31, 2013 and 2012.

NOTE 14. FAIR VALUE MEASUREMENTS (CONTINUED)

At December 31, 2013	**Level I**	**Level II**	**Level III**	**Total**
Assets limited as to use:				
Cash and cash equivalents	$ 210,318	$ -	$ -	$ 210,318
	$ 210,318	$ -	$ -	$ 210,318
Investments:				
Cash and cash equivalents	$ 311,339	$ -	$ -	$ 311,339
Common stock	4,331,981	-	-	4,331,981
Exchange traded funds:				
Growth	295,610	-	-	295,610
Value	488,434	-	-	488,434
Loans	110,444	-	-	110,444
Mutual funds:				
Growth	41,595	-	-	41,595
International	45,679	-	-	45,679
Intermediate term bonds	-	380,401	-	380,401
Corporate bonds	-	588,454	-	588,454
U.S. Government and agency obligations	848,214	-	-	848,214
	$ 6,473,296	$ 968,855	$ -	$ 7,442,151
Interest rate swap	$ -	$ 3,017,203	$ -	$ 3,017,203

At December 31, 2012	**Level I**	**Level II**	**Level III**	**Total**
Assets limited as to use:				
Cash and cash equivalents	$ 629,324	$ -	$ -	$ 629,324
	$ 629,324	$ -	$ -	$ 629,324
Investments:				
Cash and cash equivalents	$ 210,509	$ -	$ -	$ 210,509
Common stock	2,913,304	-	-	2,913,304
Exchange traded funds:				
Growth	248,991	-	-	248,991
Value	295,725	-	-	295,725
Mutual funds:				
Growth	91,103	-	-	91,103
International	36,764	-	-	36,764
Intermediate term bonds	-	712,322	-	712,322
Corporate bonds	-	833,452	-	833,452
U.S. Government and agency obligations	1,025,561	-	-	1,025,561
	$ 4,821,957	$ 1,545,774	$ -	$ 6,367,731
Interest rate swap	$ -	$ 5,071,179	$ -	$ 5,071,179

NOTE 15. RELATED PARTY TRANSACTIONS

The Hospital is one of a group of healthcare providers who are affiliated as a result of their association with the Catholic Health System, Inc. During 2013 and 2012, the Hospital recorded expenses to affiliates for administration services, rent and other services. These expenses approximated $58,774,764 and $56,842,631 for 2013 and 2012, respectively 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. Revenue from these services approximated $2,489,000 and $2,441,000 for 2013 and 2012, respectively.

During 2013 and 2012 distributions were made (to) and from the parent and affiliates totaling $18,715 and $(2,102,854), respectively. During 2013 and 2012, 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, 2013 and 2012 were $21,295,050 and $19,488,120, respectively. Amounts due from affiliates at December 31, 2013 and 2012 were $10,938,658 and $10,817,630, respectively. The amounts due to affiliates are non-interest bearing and have no maturity date.

Amount due from parent of $8,362,249 represents an uncollateralized non-interest bearing demand note receivable. It is the intention of the Hospital and the System that this loan will not be repaid within the next year. Accordingly, the outstanding loan is classified as a non-current asset, due from affiliate.

Caritas Medical Arts Building L.L.C. is a joint venture between Sisters of Charity Hospital and Ciminelli Development Company. In 2009, Caritas Medical Art Building, L.L.C. refinanced its mortgage. As of December 31, 2013, there was $1,997,825 of debt outstanding, of which the Hospital has guaranteed $665,942. 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 the years ended December 31 are as follows:

	2013	2012
Healthcare services	$ 235,808,773	$ 230,137,997
General and administrative	82,744,602	78,859,233
	$ 318,553,375	$ 308,997,230

FreedMaxick CPAs, P.C.

INDEPENDENT AUDITOR'S REPORT ON ACCOMPANYING SUPPLEMENTARY INFORMATION

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

We have audited the consolidated financial statements of Sisters of Charity Hospital (a subsidiary of Catholic Health System, Inc.) as of December 31, 2013 and for the year then ended and our report thereon appears on page 1 of this document. The financial statements of Sisters of Charity Hospital for the year ended December 31, 2012 were audited by other auditors whose report was dated April 25, 2013. That audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The Schedule of Net Cost of Providing Care of Persons Living in Poverty and Community Benefit Programs (Schedule of Social Accountability) is the responsibility of management and is provided for purposes of additional analysis of the consolidated financial statements. Such information is unaudited and therefore, we do not express an opinion on the Schedule of Net Cost of Providing Care of Persons Living in Poverty and Community Benefit Programs (Schedule of Social Accountability).

The consolidating information is presented for purposes of additional analysis rather than to present the financial position, results of operations and cash flows of the individual companies and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2013 information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Freed Maxick CPAs, P.C.

Buffalo, New York
April 10, 2014

SISTERS OF CHARITY HOSPITAL
(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, 2013 and 2012

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:

	2013	2012
Charity care	$ 3,254,115	$ 3,333,680
Cost of community benefit programs	9,714,561	6,349,018
Unpaid cost of Medicaid programs	20,331,979	15,623,169
Social accountability costs	$ 33,300,655	$ 25,305,867

SISTERS OF CHARITY HOSPITAL
(A SUBSIDIARY OF THE CATHOLIC HEALTH SYSTEM, INC.)

CONSOLIDATING BALANCE SHEETS
December 31, 2013

ASSETS	**Sisters of Charity Hospital**	**Sisters Hospital Foundation, Inc.**	**Eliminations**	**Consolidated**
Current assets:				
Cash and cash equivalents	$ 129,694,433	$ 723,744	$ -	$ 130,418,177
Patient/resident accounts receivable, net of allowance for doubtful accounts of $8,890,000	37,376,146	-	-	37,376,146
Other receivables	4,052,218	429,366	(138,107)	4,343,477
Inventories	6,013,105	45,725	-	6,058,830
Prepaid expenses and other current assets	584,529	-	-	584,529
Due from affiliates	635,263	-		635,263
Total current assets	178,355,694	1,198,835	(138,107)	179,416,422
Interest in net assets of Sisters Hospital Foundation, Inc.	8,491,160	-	(8,491,160)	-
Assets limited as to use	210,318	-	-	210,318
Investments	-	7,442,151	-	7,442,151
Due from affiliates	10,303,395	-	-	10,303,395
Property and equipment, net	74,535,808	19,526	-	74,555,334
Other assets	26,197,287	-	-	26,197,287
Total assets	$ 298,093,662	$ 8,660,512	$ (8,629,267)	$ 298,124,907
LIABILITIES AND NET ASSETS				
Current liabilities:				
Current portion of long-term obligations	$ 4,473,060	$ -	$ -	$ 4,473,060
Accounts payable	15,086,952	2,917	28,328	15,118,197
Accrued expenses	13,581,559	-	-	13,581,559
Due to third-party payors	10,979,242	-	-	10,979,242
Due to affiliates	21,295,050	166,435	(166,435)	21,295,050
Total current liabilities	65,415,863	169,352	(138,107)	65,447,108
Long-term obligations, net	30,522,035	-	-	30,522,035
Long-term portion of insurance liabilities	34,580,752	-	-	34,580,752
Pension obligation	49,035,900	-	-	49,035,900
Asset retirement obligation	2,360,078	-	-	2,360,078
Interest rate swap	3,017,203	-	-	3,017,203
Other long term liabilities	73,555	-	-	73,555
Total liabilities	185,005,386	169,352	(138,107)	185,036,631
Net assets:				
Unrestricted	110,436,851	5,839,735	(5,839,735)	110,436,851
Temporarily restricted	2,528,902	2,528,902	(2,528,902)	2,528,902
Permanently restricted	122,523	122,523	(122,523)	122,523
Total net assets	113,088,276	8,491,160	(8,491,160)	113,088,276
Total liabilities and net assets	$ 298,093,662	$ 8,660,512	$ (8,629,267)	$ 298,124,907

See accompanying notes.

SISTERS OF CHARITY HOSPITAL
(A SUBSIDIARY OF THE CATHOLIC HEALTH SYSTEM, INC.)

CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
For the Years Ended December 31, 2013

	Sisters of Charity Hospital	Sisters Hospital Foundation, Inc.	Eliminations	Consolidated
Unrestricted revenue and other support:				
Net patient/resident service revenue	$ 322,669,354	$ -	$ -	$ 322,669,354
Provision for bad debts	(7,175,404)	(19,969)	-	(7,195,373)
Net patient/resident service revenue, less provision for bad debts	315,493,950	(19,969)	-	315,473,981
Other revenue	6,776,174	895,682	-	7,671,856
Net assets released from restrictions used in operations	-	65,000	-	65,000
Total unrestricted revenue and other support	322,270,124	940,713	-	323,210,837
Expenses:				
Salaries and wages	143,089,506	310,116	-	143,399,622
Employee benefits	44,375,129	51,133	-	44,426,262
Medical and professional fees	14,847,953	134,954	-	14,982,907
Purchased services	28,433,944	44,219	-	28,478,163
Supplies	56,907,973	7,257	-	56,915,230
Depreciation and amortization	13,224,712	13,164	-	13,237,876
Interest	2,049,654	-	-	2,049,654
Insurance	3,226,293	-	-	3,226,293
Other expenses	11,362,686	596,570	(121,888)	11,837,368
Total expenses	317,517,850	1,157,413	(121,888)	318,553,375
Income (loss) from operations	4,752,274	(216,700)	121,888	4,657,462
Nonoperating revenues and losses:				
Investment income	263,160	1,129,039	-	1,392,199
Contributions and other	1,556,746	-	-	1,556,746
Total nonoperating revenues and losses:	1,819,906	1,129,039	-	2,948,945
Excess of unrestricted revenue and other support over expenses	$ 6,572,180	$ 912,339	$ 121,888	$ 7,606,407

See accompanying notes.

SISTERS OF CHARITY HOSPITAL
(A SUBSIDIARY OF THE CATHOLIC HEALTH SYSTEM, INC.)

CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (CONTINUED)
For the Years Ended December 31, 2013

	Sisters of Charity Hospital	Sisters Hospital Foundation, Inc.	Eliminations	Consolidated
Unrestricted net assets:				
Excess of revenues over expenses	$ 6,572,180	$ 912,339	$ 121,888	$ 7,606,407
Change in unrealized loss on interest rate swap	1,993,931	-	-	1,993,931
Change in pension obligation, other than net periodic cost	31,530,077	-	-	31,530,077
Change in unrestricted interest in SOC Foundation, Inc.	1,014,596	-	(1,014,596)	-
Distributions from Foundation	121,888	-	(121,888)	-
Net assets released from restriction used for capital	-	102,257	-	102,257
Distributions and Transfers to parent and affiliates	18,715	-	-	18,715
Grant Revenue for capital expenditures	940	-	-	940
Increase (decrease) in unrestricted net assets	41,252,327	1,014,596	(1,014,596)	41,252,327
Temporarily restricted net assets:				
Contributions	-	651,454	-	651,454
Special events revenue	-	56,013	-	56,013
Temporarily restricted net assets released from restrictions	-	(167,257)	-	(167,257)
Change in temporarily restricted net assets of Sisters Hospital Foundation, Inc.	540,210	-	(540,210)	-
Increase (decrease) in temporarily restricted net assets	540,210	540,210	(540,210)	540,210
Increase (decrease) in net assets	41,792,537	1,554,806	(1,554,806)	41,792,537
Net assets - beginning of year	71,295,739	6,936,354	(6,936,354)	71,295,739
Net assets - end of year	$ 113,088,276	$ 8,491,160	$ (8,491,160)	$ 113,088,276

See accompanying notes.