

This document is dated as of November 30, 2011

SPECIAL NOTE CONCERNING FORWARD-LOOKING STATEMENTS. Certain of the discussions included in the following document may include certain “forward-looking statements” which involve known and unknown risks and uncertainties inherent in the operation of healthcare facilities. Actual actions or results may differ materially from those discussed below. Specific factors that might cause such differences include competition from other healthcare facilities in the service area of NYU Hospitals Center facilities, federal and state regulation of healthcare providers, and reimbursement policies of the state and federal governments and managed care organizations. In particular, statements preceded by, followed by or that include the words “believes,” “estimates,” “expects,” “anticipates,” “plans,” “intends,” “scheduled” or other similar expressions are or may constitute forward-looking statements.

**ANNUAL REPORT
FOR THE TWELVE MONTHS ENDED
AUGUST 31, 2011**

Concerning

NYU Hospitals Center

**The information in this report
has been provided by
NYU Hospitals Center**

**NYU HOSPITALS CENTER
ANNUAL REPORT
FOR THE TWELVE MONTHS ENDING AUGUST 31, 2011**

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NYU HOSPITALS CENTER
MANAGEMENT'S DISCUSSION & ANALYSIS OF RECENT FINANCIAL
PERFORMANCE
FOR THE TWELVE MONTHS ENDING AUGUST 31, 2011

Summary of Operations

On August 25, 2011, when it became apparent that Hurricane Irene was headed for New York City with the potential for an 8-12 foot storm surge, a Zone A emergency was declared for all individuals within this zone. Accordingly, since NYU Langone Medical Center ("NYULMC") is also within Zone A, it was ordered to cease operations and evacuate all patients. Beginning on Friday, August 26, 2011, 492 patients were evacuated from NYULMC with approximately 50% going to other facilities within the tri state area and 50% being discharged home. Only 6 patients remained at NYU Hospitals Center ("NYUHC") due to their critical status and approximately 200 staff was deployed to stay throughout the storm to protect the facility from the storm surge. By Monday, August 29, 2011, the facility, after cleanup of basement areas flooded by storm surge, was re-opened and accepted 180 patients back from the transferring institutions. Management has calculated approximately \$22.5 million in both lost revenue and damages from Hurricane Irene. Our fiscal year 2011 financial performance was clearly affected by these losses and, while we will be pursuing recovery from our insurance carriers, we have not accrued prospective reimbursement in our financial statements.

For the twelve months ending August 31, 2011, NYUHC recorded a gain from operations (referred to herein as the "Management Operating Measure") of \$185.8 million, or a 10.8% operating margin.

NYUHC recorded total revenue of \$1.72 billion - 96% from patient revenue and 4% from other sources (i.e. grants, affiliation, contributions and other revenue) for the twelve months ending August 31, 2011.

Net patient revenue totaled \$1.64 billion for the twelve months ending August 31, 2011 - 57% from inpatient operations and 43% from outpatient operations. This represents a \$140.2 million, or 9.3%, increase over the twelve months ending August 31, 2010. Management attributes NYUHC's patient revenue growth to a combination of favorable results in higher margin services and continued improvement in revenue realization through revenue cycle initiatives.

Net inpatient revenue has increased \$40.9 million, or 4.6%, for the twelve month period ending August 31, 2011 compared to the prior year. Inpatient discharges, excluding routine newborn, increased 521 cases, or 1.4%, over the same period. In addition to the volume increases, overall net inpatient revenue has grown during the same period due to a higher level of activity in certain higher margin services.

Net outpatient revenue increased \$99.3 million, or 16.4%, over the same period. Outpatient visits in total have increased 1.6% over the same period. Emergency room visits, excluding admissions, totaled 33,892 visits through August 31, 2011, an increase of 2,697 visits, or 8.6% from the twelve months ending August 31, 2010. Ambulatory services at NYUHC's 34th Street Cancer Center have increased 16,718 visits, or 9.2%, from the twelve months ending August 31, 2010. Clinic, Ambulatory and Referred Ambulatory Surgeries decreased 9,048 visits, or 2.1%, during 2011 with the exception of increases experienced in higher margin services such as infusion (9.8% higher than prior year) and cardiac catheterization and electrophysiology (21.1% higher than prior year).

NYUHC recorded net investment returns of \$3.4 million for the twelve months ending August 31, 2011 versus a net return of \$1.7 million for the twelve months ending August 31, 2010. The \$3.4 million return in the current year is comprised of realized and unrealized gains from both endowment distributions and short-term investments during the year.

Operating expenses for the twelve months ending August 31, 2011 totaled \$1.53 billion. Expenses were comprised as follows: 50% in salaries and benefits; 44% in medical supplies and supplies and other; 4% in depreciation and amortization; 1% in interest; and 1% in bad debt expense. Operating expenses increased \$155.2 million, or 11.3%, for the twelve months ending August 31, 2011 compared to the comparable prior year period. Management attributes this increase primarily to higher pension and employee medical costs and supply costs associated with the increased inpatient and ambulatory volume results.

The following other changes in unrestricted net assets, after the gain from operations of \$185.8 million, were recorded for the twelve months ending August 31, 2011, resulting in a \$162.8 million net increase in unrestricted net assets:

- \$15.5 million in net assets released from restriction for capital purposes;
- \$15.0 million in changes in pension & post retirement obligations;
- \$0.5 million net investment returns less endowment distribution;

- \$1.9 million in contributions for capital asset acquisitions;
- (\$3.9) million in other transfers to the NYU School of Medicine (“NYUSoM”);
- (\$7.0) million cumulative effect of change in accounting principle for NYUHC’s adoption of the New York Prudent Management of Institutional Funds Act (“NYPMIFA”); and
- (\$45.0) million in support payments to the NYUSoM.

Cash and cash equivalents were \$356.3 million at August 31, 2011 including board designated funds of \$240.0 million. As calculated under the Master Trust Indenture (the “MTI”) that secures all of NYUHC’s Dormitory Authority of the State of New York (“DASNY”) Bonds, days cash on hand equated to 108 days for the period ended August 31, 2011. Included in these balances is approximately \$58.0 million of cash earmarked for the new clinical pavilion, which is expected to be expended in the next three to five years for project costs. Patient accounts receivable were \$228.4 million and accounts payable and accrued expenses were \$175.7 million at August 31, 2011.

In June 2011, NYUHC went live with the first phase of its implementation of EPIC software for patient billing and certain outpatient clinic operations (see “Current Activities” section for more information). Our days in accounts receivable grew from 42 days at August 31, 2010 to 45 days as of August 31, 2011. This translates to an approximate \$14.0 million growth in patient accounts receivable, as noted above, which negatively impacted days cash on hand performance by 3 days at August 31, 2011.

In fiscal year 2011, NYUHC transferred \$45.0 million to its affiliated medical school, the NYUSoM, to support certain joint strategic programs that are expected to promote the common missions of NYUHC and the NYUSoM.

NYUHC and the NYUSoM have been reviewing the strategic alignment and cost sharing of certain services such as its ambulatory practices, graduate medical education program and the use of EPIC software for professional and hospital billing. Approximately \$88.9 million has been incurred by NYUHC in support of the above services during fiscal year 2011.

In November 2010, NYUHC recognized a gain of \$6.0 million as a result of the Internal Revenue Service’s plan to refund the employer payment and employee withholdings of FICA taxes for medical residents for certain prior periods, plus interest. This was reflected as a \$4.2 million offset to Employee Benefits expense and an increase of \$1.8 million of interest as part of Other Revenue in the statement of operations.

In December 2010, NYUHC borrowed \$30.0 million from an unsecured line of credit. Interest is payable on funds drawn at LIBOR plus 100 basis points. During the fourth quarter of Fiscal Year 2011, NYUHC amended its two unsecured lines of credit to increase its total borrowing capacity to \$200.0 million and reduce pricing on outstanding indebtedness. Subsequent to August 31, 2011, NYUHC borrowed an additional \$50.0 million from its lines of credit.

On January 25, 2011, NYUHC completed a tax-exempt bond financing through DASNY (“Series 2011A bonds”) in the amount of \$130.9 million to finance various capital projects. The interest rate on these bonds is approximately 6.1%.

As noted above, NYUHC was required to adopt the provisions of NYPMIFA in 2011. NYPMIFA requires, absent of explicit donor stipulations to the contrary, the prudent preservation of an endowments value and to use such endowments to achieve the purpose for which it was donated. The remaining portion of donor restricted endowment funds that is not classified as permanently restricted is classified as temporarily restricted net assets until such amounts are appropriated for expenditure by the Board of Trustees. Accordingly, NYUHC recorded a cumulative effect of change in accounting principle totaling \$7.0 million to reclass such accumulations to temporarily restricted net assets.

Current Activities

In December 2011, NYUHC reviewed its financial performance and strategic plan with Moody’s Investor Services, Standard & Poor’s and Fitch Ratings. All three rating agencies have revised their long term rating on NYUHC’s DASNY bonds, as follows:

- Fitch Ratings has upgraded NYUHC to “A-“ and has revised its outlook from positive to stable
- Standard & Poor’s affirmed its “BBB+” but revised its outlook from stable to positive
- Moody’s Investor Services currently rates NYUHC at “Baa1” with a positive outlook; confirmation of our rating will occur in February 2012

NYUHC is negotiating proposed increases to its lines of credit in the aggregate amount up to \$400 million, but no increase will be available unless and until the parties reach agreement on final documentation of the loans.

Over the past year, the Medical Center has increased the total number of active physicians with admitting privileges approximately 6% across various specialties, including cardiovascular medicine and surgery, neurosurgery, orthopedics and general surgery.

In 2010, NYUHC and NYUSoM began its implementation of a fully integrated, patient-centric, clinical and patient financial information system, based on EPIC software. The initial implementation focused on the NYUSoM faculty group practices. On June 5, 2011, NYUHC's patient billing system and certain outpatient clinic systems were transitioned onto EPIC. The two campuses are continuing into the second phase of this implementation, including additional rollout to faculty group practices and outpatient clinics. Project implementation is estimated to be completed by 2013.

NYUHC is proceeding with its plan to improve its existing facilities and expand its services to the community. A new \$60.0 million Musculoskeletal Institute ("MSI") is under construction, and NYUHC has also received approval from the NYSDOH to renovate its Emergency Department ("ED") and the elevator banks within its Tisch facility. The estimated cost for these projects is \$149.0 million. All projects have varying start and end dates for construction. Overall completion of these projects is scheduled for calendar year 2013.

NYUHC and Continuum Health Partners, a multi-hospital healthcare system located in New York City, have engaged in discussions with each other to explore a potential strategic partnership. The ultimate likelihood of such a partnership, the form of this relationship and its timetable to implement is uncertain at this time.

In November 2011, NYUHC and Aptium East New York, LLC, agreed to terminate its management and services agreement for the provision of patient billing and administrative functions for the 34th Street Cancer Center. Such services will now be provided by the Medical Center's revenue cycle and IT infrastructure.

NYU HOSPITALS CENTER
NOTES TO FINANCIAL STATEMENTS
FOR THE TWELVE MONTHS ENDING AUGUST 31, 2011

Note 1 – Financial Information

The financial information furnished herein is unaudited and thus is subject to change; however, in the opinion of management, the information reflects all adjustments that are necessary to fairly state the financial position of NYU Hospitals Center ("NYUHC"), and the results of its operations and changes in its unrestricted net assets for the interim periods indicated.

NYUHC presumes that users of this interim financial information have read or have access to NYUHC audited financial statements and that the adequacy of additional disclosure needed for a fair presentation may be determined in that context. The Financial Statements of NYUHC for the fiscal year ended August 31, 2011 are on file at emma.msrb.org and the information contained therein is hereby incorporated in this Annual Report. Accordingly, footnotes and other disclosures that would substantially duplicate the disclosures contained in NYUHC most recent audited financial statements have been omitted. Similarly, users are directed to the Official Statement issued in connection with the Official Statement dated January 7, 2011 relating to the Dormitory Authority of the State of New York ("DASNY") NYU Hospitals Center Revenue Bonds, Series 2011A (the "Series 2011A Bonds"), also on file with emma.msrb.org, for additional information and disclosures concerning NYUHC that are not repeated in this report.

Patient volumes and net operating revenues are subject to seasonal variations caused by a number of factors, including, but not necessarily limited to, seasonal cycles of illness, climate and weather conditions, vacation patterns of both hospital patients and admitting physicians and other factors relating to the timing of elective hospital procedures. Interim operating results are not necessarily representative of operations for a full year for various reasons, including levels of occupancy and other patient volumes, interest rates, unusual or non-recurring items and other seasonal fluctuations. These same considerations apply to all year-to-year comparisons.

Note 2 – Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States applied on a basis substantially consistent with that of the August 31, 2011 audited financial statements of NYUHC. They do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

Note 3 – Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, including estimated uncollectibles for accounts receivable for services to patients and the valuation of alternative investments, and liabilities including estimated settlements with third party payors and malpractice insurance liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the amounts of revenue and expenses reported during the period. There is at least a reasonable possibility that certain estimates will change by material amounts in the near term. Actual results could differ from those estimates.

Note 4 – Retirement Plans

NYUHC provides pension and similar benefits to its employees through several plans, including various multiemployer plans for union employees, a qualified noncontributory defined benefit plan primarily for eligible nonunion employees of NYUHC and certain of its related organizations, and a nonqualified defined benefit plan for certain executives. NYUHC also provides pension and similar benefits to certain employees through a defined contribution plan. NYUHC funds the noncontributory defined benefit plans in accordance with the minimum funding requirement of the Employee Retirement Income Security Act of 1974 (“ERISA”), plus additional amounts that NYUHC may deem appropriate from time to time. The Pension Protection Act of 2006 will require certain changes to the minimum funding requirements, among other provisions, commencing in 2008. Amounts contributed to the defined benefit plans are

based on actuarial valuations. Contributions to union plans are based on union employee gross salary levels and rates required under union contractual arrangements. Contributions to NYUHC's defined contribution plan are generally based on percentages of annual salaries.

Pension expense included in the statements of operations and changes in net assets for the twelve months ending August 31, 2011 and 2010 totaled \$39.3 million and \$30.5 million, respectively.

NYU Hospitals Center
Statement of Financial Position
(Amounts In Thousands)

	(Audited) August 2011	(Audited) August 2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 116,313	\$ 249,576
Marketable securities	4,141	3,892
Assets whose use is limited	19,906	5,261
Assets whose use is limited - Board designated	240,005	120,275
Patient accounts receivable, less allowances for uncollectibles	228,396	182,823
Due from related organization	11,054	-
Contributions receivable - current	52,422	55,568
Inventories	26,439	21,975
Other current assets	34,882	28,580
Total current assets	733,558	667,950
Marketable securities	21,076	19,437
Assets whose use is limited	168,595	73,582
Contribution receivable - long term	71,075	58,802
Other assets	104,524	47,155
Deferred financing costs	11,896	10,125
Property, plant and equipment, net	824,229	666,370
Total assets	\$ 1,934,953	\$ 1,543,421
Liabilities and net assets		
Current liabilities:		
Current portion of long-term debt	\$ 44,125	\$ 22,453
Accounts payable and accrued expenses	175,746	128,012
Accrued salaries and related benefits	49,525	40,689
Accrued interest payable	4,735	3,497
Current portion of accrued postretirement liabilities	1,657	1,879
Due to related organizations, net	-	31,823
Other current liabilities	49,143	40,602
Total current liabilities	324,931	268,955
Long-term debt, less current portion	554,752	442,294
Accrued pension liabilities	73,267	90,666
Accrued postretirement liabilities	54,152	59,250
Other liabilities	227,403	175,108
Total liabilities	1,234,505	1,036,273
Net assets:		
Unrestricted	493,427	330,653
Temporarily restricted	198,275	167,749
Permanently restricted	8,746	8,746
Total net assets	700,448	507,148
Total liabilities and net assets	\$ 1,934,953	\$ 1,543,421

NYU Hospitals Center
Statement Of Operations
For the Twelve Months Ending August 31, 2011
(Amounts In Thousands)

	(Audited) August 2011	(Audited) August 2010
Operating revenue		
Net patient service revenue	\$ 1,644,706	\$ 1,504,484
Grants and sponsored programs	2,319	3,880
Affiliations	10,066	4,245
Contributions	4,796	7,355
Endowment distribution and return on short-term investments	3,398	1,732
Other revenue	44,364	42,620
Net assets released from restrictions for operating purposes	10,437	10,281
Total operating revenue	<u>1,720,086</u>	<u>1,574,597</u>
Operating expenses		
Salaries and wages	588,975	531,679
Employee benefits	177,772	151,875
Supplies and other	665,762	600,288
Depreciation and amortization	62,571	55,170
Interest	20,376	25,780
Patient care bad debt expense	18,867	14,282
Total operating expenses	<u>1,534,323</u>	<u>1,379,074</u>
Gain from operations	185,763	195,523
Other items		
Loss on disposals of property, plant and equipment	-	(1,101)
Support to NYUSoM	(45,000)	(50,000)
Investment return less endowment distribution, net	<u>460</u>	<u>618</u>
Excess of revenue over expenses	141,223	145,040
Other changes in unrestricted net assets		
Changes in pension & postretirement obligations	15,015	(61,031)
Contributions for capital asset acquisitions	1,892	962
Net assets released from restrictions for capital purposes	15,598	15,447
Transfer of equity	<u>(3,925)</u>	<u>(3,250)</u>
Net increase in unrestricted net assets before effect of change in accounting principle	169,803	97,168
Cumulative effective of change in accounting principle	<u>(7,029)</u>	<u>-</u>
Net change in unrestricted net assets	<u>\$ 162,774</u>	<u>\$ 97,168</u>

Note: Certain prior year numbers were reclassified for comparative purposes.

NYU Hospitals Center
Statement of Changes in Net Assets
(Amounts In Thousands)

	(Audited) Year Ended August 31, 2011				(Audited) Year Ended August 31, 2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets at beginning of year	\$ 330,653	\$ 167,749	\$ 8,746	\$ 507,148	\$ 233,485	\$ 158,293	\$ 8,746	\$ 400,524
Excess of revenue over expenses	141,223	-	-	141,223	145,041	-	-	145,041
Net assets released from restrictions for operations	-	(10,437)	-	(10,437)	-	(10,281)	-	(10,281)
Net assets released from restrictions for capital	15,598	(15,598)	-	-	15,447	(15,447)	-	-
Contributions for capital asset acquisitions	1,892	-	-	1,892	962	-	-	962
Change in pension and postretirement plans	15,015	-	-	15,015	(61,032)	-	-	(61,032)
Gifts, bequests and other items	-	47,851	-	47,851	-	35,184	-	35,184
Investment return, net	-	2,629	-	2,629	-	-	-	-
Appropriation of endowment distribution	-	(948)	-	(948)	-	-	-	-
Transfer of Equity to SoM	(3,925)	-	-	(3,925)	(3,250)	-	-	(3,250)
Total changes in net assets before change in accounting principle	169,803	23,497	-	193,300	97,168	9,456	-	106,624
Cumulative effect of change in accounting principle	(7,029)	7,029	-	-	-	-	-	-
Total changes in net assets after change in accounting principle effect	162,774	30,526	-	193,300	-	-	-	-
Net assets at end of year	\$ 493,427	\$ 198,275	\$ 8,746	\$ 700,448	\$ 330,653	\$ 167,749	\$ 8,746	\$ 507,148

NYU Hospitals Centers
Statement of Cash Flows
(Amounts In Thousands)

	(Audited) August 2011	(Audited) August 2010
Cash flows from operating activities		
Change in net assets	\$ 193,300	\$ 106,624
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	62,571	55,170
Loss on disposal of property plant and equipment	-	1,101
Patient care bad debt expense	18,867	14,282
Post-retirement benefit adjustment	(10,586)	9,482
Pension retirement benefit adjustment	(4,429)	51,550
Asset retirement obligation adjustment	(900)	13,763
Contributions restricted for permanent investment and capital	(37,752)	(39,252)
Contributed assets	(71)	-
Net unrealized and realized gain on investments	(3,601)	(836)
Changes in operating assets and liabilities		
Patient accounts receivable	(64,440)	(23,292)
Contribution receivable	(9,127)	17,027
Accounts payable & accrued expenses	47,734	11,457
Salaries and related liabilities	8,836	(1,867)
Accrued interest payable	1,238	1,900
Due to related organization	(42,877)	23,448
Accrued pension obligation	(12,970)	(25,560)
Accrued postretirement obligation	5,266	3,679
Other operating liabilities	59,547	13,560
Other operating assets	(67,994)	6,381
Net cash provided by operating activities	<u>142,612</u>	<u>238,617</u>
Cash flows from investing activities		
Acquisitions of property, plant and equipment	(217,252)	(159,626)
Changes in investments, net	1,713	(2,044)
Additions to assets limited as to use board designated	(119,730)	(120,275)
Changes in assets limited as to use, net	<u>(109,658)</u>	<u>23,385</u>
Net cash used in investing activities	<u>(444,927)</u>	<u>(258,560)</u>
Cash flows from financing activities		
Contributions restricted for permanent investment and capital	37,752	39,252
Proceeds from issuance of long term debt	128,969	46,142
Proceeds from borrowing on line of credits	60,000	19,000
Payments of deferred financing cost	(2,830)	-
Payments on line of credit	(30,000)	-
Principal Payments on long-term debt	<u>(24,839)</u>	<u>(59,097)</u>
Net cash provided by financing activities	<u>169,052</u>	<u>45,297</u>
Net (decrease) increase in cash and cash equivalents	(133,263)	25,354
Cash and cash equivalents		
Beginning of year	249,576	224,222
End of year	<u>\$ 116,313</u>	<u>\$ 249,576</u>
Supplemental information		
Cash paid for interest	<u>\$ 19,138</u>	<u>\$ 23,880</u>

NYU Hospitals Center
Utilization Statistics
For the Twelve Months Ending August 31, 2011

	<u>August 2011</u>	<u>August 2010</u>
Total Inpatient Discharges	42,207	41,571
Less Routine Newborn	<u>4,278</u>	<u>4,163</u>
Discharges (Excluding Routine Newborn)	37,929	37,408
Total Patient Days	227,528	230,373
Less Routine Newborn	<u>9,903</u>	<u>9,910</u>
Patient Days (Excluding Routine Newborn)	217,625	220,463
Average Length of Stay	5.7	5.9
Total Case Mix Index	1.9001	1.9287
Percent of Occupancy	77%	81%
ER Visits (excluding admits)	33,892	31,195
Cancer Center Visits	198,284	181,566
Ambulatory Surgery and Other Outpatient Visits	<u>422,817</u>	<u>431,865</u>
	<u>654,993</u>	<u>644,626</u>

NYU Hospitals Center
Payor Mix by Discharges (Excluding Routine Newborn)
For the Twelve Months Ending August 31, 2011

	August 2011		August 2010	
Medicare	14,882	39%	14,569	39%
Medicaid	3,720	10%	3,595	10%
Blue Cross	6,218	16%	5,990	16%
Managed Care	11,724	31%	11,822	31%
Commercial & Other	1,113	3%	1,109	3%
Self-Pay	272	1%	323	1%
Total	37,929	100%	37,408	100%