# Combined Financial Statements

New York Downtown Hospital and Affiliates
Years Ended December 31, 2011 and 2010
With Report of Independent Auditors

Ernst & Young LLP

New York Downtown Hospital and Affiliates

Combined Financial Statements

Years Ended December 31, 2011 and 2010

## Contents

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# Report of Independent Auditors

Board of Trustees
New York Downtown Hospital

We have audited the accompanying combined statements of financial position of New York Downtown Hospital and Affiliates (collectively, the "Hospital") as of December 31, 2011 and 2010, and the related combined statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Hospital's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of New York Downtown Hospital and Affiliates at December 31, 2011 and 2010, and the combined results of their operations, changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

July 16, 2012

# New York Downtown Hospital and Affiliates

## Combined Statements of Financial Position

| | December 31 2011 | 2010 |
|---|---|---|
| | *(In Thousands)* | |
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | **$ 1,281** | $ 2,737 |
| Accounts receivable, less allowance for uncollectibles of $8,863 in 2011 and $7,031 in 2010 | **18,910** | 15,116 |
| Other receivables | **15,805** | 19,836 |
| Inventories and other current assets | **4,025** | 3,898 |
| Current portion of assets limited as to use: | | |
| Internally restricted | **1,892** | – |
| Board designated – self-insurance fund | **2,000** | 2,000 |
| Donor-restricted | **1,428** | 2,031 |
| Bond financing and other | **678** | 3,324 |
| Total current assets | **46,019** | 48,942 |
| Assets limited as to use, less current portion: | | |
| Board designated – self-insurance fund | **14,503** | 14,824 |
| Donor-restricted | **14,277** | 13,687 |
| Bond financing and other | **17,710** | 20,422 |
| | **46,490** | 48,933 |
| Long-term investments | **19,610** | 27,085 |
| Property, plant and equipment – net | **101,785** | 89,478 |
| Deferred financing costs – net | **1,246** | 355 |
| Other assets | **3,237** | 2,965 |
| Total assets | **$ 218,387** | $ 217,758 |
| **Liabilities and net assets** | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | **$ 23,013** | $ 21,040 |
| Accrued payroll and related liabilities | **8,192** | 7,798 |
| Accrued interest | **678** | 689 |
| Current portion of professional liabilities | **2,000** | 2,000 |
| Current portion of long-term debt | **2,451** | 4,856 |
| Current portion of third-party payor liabilities | **4,040** | 7,756 |
| Other current liabilities | **376** | 538 |
| Total current liabilities | **40,750** | 44,677 |
| Noncurrent liabilities: | | |
| Professional liabilities – less current portion | **26,963** | 20,210 |
| Accrued pension and postretirement benefits | **12,129** | 7,534 |
| Long-term debt – less current portion | **46,291** | 44,132 |
| Third-party payor liabilities – less current portion | **24,336** | 21,547 |
| Other noncurrent liabilities | **1,856** | 1,894 |
| Total liabilities | **152,325** | 139,994 |
| Commitments and contingencies | | |
| Net assets: | | |
| Unrestricted | **47,136** | 58,883 |
| Temporarily restricted | **12,216** | 12,171 |
| Permanently restricted | **6,710** | 6,710 |
| Total net assets | **66,062** | 77,764 |
| Total liabilities and net assets | **$ 218,387** | $ 217,758 |

*See accompanying notes.*

# New York Downtown Hospital and Affiliates

## Combined Statements of Operations

| | Year Ended December 31 | |
|---|---|---|
| | **2011** | **2010** |
| | *(In Thousands)* | |
| **Operating revenue (patient care and related)** | | |
| Net patient service revenue | **$ 158,594** | $ 149,031 |
| Other operating revenue | **51,933** | 45,980 |
| Net assets released from restrictions used for operations | **2,000** | 1,946 |
| Total operating revenue (patient care and related) | **212,527** | 196,957 |
| | | |
| **Operating expenses (patient care and related)** | | |
| Salaries and wages | **91,519** | 85,426 |
| Employee benefits | **24,402** | 20,954 |
| Supplies and other | **82,118** | 62,994 |
| Interest | **1,918** | 2,175 |
| Depreciation and amortization | **13,483** | 10,858 |
| Bad debts | **9,547** | 11,179 |
| Total operating expenses (patient care and related) | **222,987** | 193,586 |
| | | |
| (Loss) gain from operations before housing company operations and other items | **(10,460)** | 3,371 |
| | | |
| **Housing company operations** | | |
| Operating revenue | **866** | 707 |
| Operating expenses | **1,313** | 1,264 |
| Net housing company operations | **(447)** | (557) |
| | | |
| **Other items** | | |
| Loss on advance refunding of long-term debt | **(523)** | – |
| Gain on sale of real estate | **850** | – |
| Total other items | **327** | – |
| | | |
| (Deficiency) excess of revenue over expenses | **(10,580)** | 2,814 |
| | | |
| **Other changes in unrestricted net assets** | | |
| Net assets released from restrictions used for plant replacement funds | **3,979** | 7,598 |
| Change in accrued pension and postretirement benefits liabilities to be recognized in future periods | **(5,146)** | 3 |
| Change in unrestricted net assets | **$ (11,747)** | $ 10,415 |

*See accompanying notes.*

## New York Downtown Hospital and Affiliates

## Combined Statements of Changes in Net Assets

### Years Ended December 31, 2011 and 2010

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| | *(In Thousands)* | | | |
| Net assets at January 1, 2010 | $ 48,468 | $ 11,916 | $ 6,710 | $ 67,094 |
| Change in unrestricted net assets | 10,415 | – | – | 10,415 |
| Investment income restricted for specific purposes, including net realized and unrealized gains and losses on investments | – | 826 | – | 826 |
| Net assets released from restrictions for plant replacement funds | – | (7,598) | – | (7,598) |
| Restricted gifts, bequests and similar items | – | 8,973 | – | 8,973 |
| Net assets released from restrictions for operations | – | (1,946) | – | (1,946) |
| Total changes in net assets | 10,415 | 255 | – | 10,670 |
| Net assets at December 31, 2010 | 58,883 | 12,171 | 6,710 | 77,764 |
| Change in unrestricted net assets | **(11,747)** | **–** | **–** | **(11,747)** |
| Investment income restricted for specific purposes, including net realized and unrealized gains and losses on investments | **–** | **558** | **–** | **558** |
| Net assets released from restrictions for plant replacement funds | **–** | **(3,979)** | **–** | **(3,979)** |
| Restricted gifts, bequests and similar items | **–** | **5,466** | **–** | **5,466** |
| Net assets released from restrictions for operations | **–** | **(2,000)** | **–** | **(2,000)** |
| Total changes in net assets | **(11,747)** | **45** | **–** | **(11,702)** |
| Net assets at December 31, 2011 | **$ 47,136** | **$ 12,216** | **$ 6,710** | **$ 66,062** |

*See accompanying notes.*

## New York Downtown Hospital and Affiliates

## Combined Statements of Cash Flows

| | Year Ended December 31 2011 | 2010 |
|---|---|---|
| | *(In Thousands)* | |
| **Cash flows from operating activities** | | |
| Change in net assets | **$ (11,702)** | $ 10,670 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | **13,650** | 11,013 |
| Amortization of deferred financing costs | **188** | 73 |
| Gain on sale of real estate | **(850)** | – |
| Loss on advance refunding of long term debt | **523** | – |
| Change in accrued pension and postretirement benefits liabilities to be recognized in future periods | **5,146** | (3) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | **(3,794)** | (329) |
| Other receivables and other assets | **3,759** | (4,241) |
| Inventories and other current assets | **(127)** | (809) |
| Accounts payable and accrued expenses | **1,973** | 4,312 |
| Accrued payroll and related liabilities | **394** | 447 |
| Professional liabilities | **6,753** | 2,180 |
| Accrued pension and postretirement benefits | **(551)** | 318 |
| Other liabilities | **(1,138)** | 2,219 |
| Net cash provided by operating activities | **14,224** | 25,850 |
| **Cash flows from investing activities** | | |
| Net proceeds from sale of real estate | **850** | – |
| Net change in assets limited as to use | **3,800** | 201 |
| Net change in long-term investments | **7,475** | 2,945 |
| Acquisitions of property, plant and equipment – net | **(22,450)** | (26,756) |
| Net cash used in investing activities | **(10,325)** | (23,610) |
| **Cash flows from financing activities** | | |
| Proceeds from issuance of long-term debt | **35,174** | – |
| Cash paid for financing costs | **(1,417)** | – |
| Principal payments on long-term debt, including capital leases | **(39,112)** | (3,685) |
| Net cash used in financing activities | **(5,355)** | (3,685) |
| Net decrease in cash and cash equivalents | **(1,456)** | (1,445) |
| Cash and cash equivalents at beginning of year | **2,737** | 4,182 |
| Cash and cash equivalents at end of year | **$ 1,281** | $ 2,737 |
| **Supplemental disclosure of noncash investing and financing activities** | | |
| Capital leases incurred | **$ 3,507** | $ 3,270 |

*See accompanying notes.*

## 1. Organization and Significant Accounting Policies

### Organization

The accompanying combined financial statements include the activities of New York Downtown Hospital ("NYDH"), NYU Downtown Hospital Chinese Community Partnership for Health Foundation, Inc. ("CCPH"), Beekman Staff Residence, Inc. ("Beekman"), NYDH Management Services Corporation, Inc. ("MSC"), New York Downtown Medical Associates, P.C. ("DMA") and the Elizabeth Blackwell Foundation (the "Blackwell Foundation"). These entities are collectively referred to as the "Hospital." Intercompany accounts and transactions have been eliminated in combination.

NYDH is a not-for-profit corporation providing health care services to the Metropolitan New York area. NYDH is a Section 501(c)(3) organization exempt from Federal income taxes under Section 501(a) of the Internal Revenue Code (the "Code"). It also is exempt from state and local income taxes.

Beekman is a limited-profit corporation organized as a qualifying "Limited-Profit Housing Company" pursuant to Article 2 of the Private Housing Finance Law of the State of New York and the Membership Corporation Law of the State of New York; Beekman's purpose is to plan, acquire, construct, own, maintain, operate and provide housing and ancillary facilities for Hospital staff and employees. Beekman is a Section 501(c)(3) organization exempt from Federal income taxes under Section 509(a) of the Code. The trustees of NYDH each serve as members of Beekman and are responsible for selection of its directors pursuant to its bylaws.

The Blackwell Foundation is a charitable grant-making foundation that is exempt from federal income tax under Section 501(a) of the Code as a charitable organization described in Section 501(c)(3) of the Code. It also is exempt from state and local income taxes. NYDH is the sole member of the Blackwell Foundation. The Blackwell Foundation was formed for the purposes of: (a) promoting the health of the community, (b) collecting and disseminating research and information concerning the promotion of health, (c) conducting public programs concerning the health of the community, (d) giving any of its property to other organizations in the promotion of the health of the community, (e) receiving and administering any funds and contributions and (f) publicly soliciting funds in furtherance of the foregoing purposes.

MSC is a not-for-profit membership organization that was formed in 1992 whose sole member is NYDH. DMA is an organization formed in 1992 and is controlled through management by NYDH. DMA's primary purpose is to promote and provide professional medical services for the

## 1. Organization and Significant Accounting Policies (continued)

patients of the Hospital. MSC provides management, administrative and other support services to the Hospital. These companies are both Section 501(c)(3) organizations exempt from Federal income taxes under Section 501(a) of the Code. They also are exempt from state and local income taxes.

CCPH is incorporated under Section 402 of the Not-for-Profit Corporation Law and is controlled through management by NYDH. CCPH's purpose is to raise and provide funds to support the community health and other health care activities of the Chinese Community Partnership for Health, a program of NYDH. CCPH is a Section 501(c)(3) organization exempt from Federal income taxes under Section 501(a) of the Code. It is also exempt from state and local income taxes.

The Hospital maintains an affiliation agreement with New York-Presbyterian Healthcare System, Inc. ("NYPH"). The Hospital remains an independent entity. The affiliation allows the Hospital and NYPH to collaborate on programs to improve quality of care, achieving efficiencies in clinical and administrative operations, clinical trials, recruiting support, strategic planning and financial and operational benchmarking.

### Cash and Cash Equivalents

The Hospital considers highly liquid financial instruments purchased with a maturity of three months or less, excluding those held in its investment portfolio and assets limited as to use, to be cash equivalents.

The Hospital has balances in financial institutions that exceed Federal depository insurance limits. Management does not believe the credit risk related to these deposits to be significant.

### Accounts Receivable for Patient Care

Patient accounts receivable result from the health care services provided by the Hospital. Additions to the allowance for doubtful accounts result from the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance for doubtful accounts. The amount of the allowance for doubtful accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid health care coverage and other collection indicators. See Note 2 for additional information relative to third-party payor programs.

## 1. Organization and Significant Accounting Policies (continued)

### Investments, Assets Limited as to Use and Investment Income

Investments and assets limited as to use consist of cash and cash equivalents, U.S. government and other fixed income securities, mutual funds and equity securities and are carried at fair value based on quoted market values. Donated securities are initially recorded at market value on the date of contribution. All investments are classified as trading securities.

Assets classified as assets limited as to use represent donor-restricted funds and assets internally or otherwise restricted for specific purposes, including assets related to terms of loan agreements (see Notes 3 and 5) and self-insured malpractice (see Note 6) and other programs. In January 2005, the Dormitory Authority of the State of New York (the "Authority") required the Hospital to place into escrow two years of principal and interest payments on the Hospital's outstanding bonds (see Note 5).

Income earned on investments related to temporarily restricted net assets is added to unrestricted net assets, unless donor restricted. Donor-restricted income, including realized and unrealized gains and losses earned on investments related to permanently restricted net assets, is reported in temporarily restricted net assets. All other investment income, including the change in net unrealized gains and losses, is reported in other operating revenue in the accompanying combined statements of operations.

### Inventories

Inventories are valued at average cost and are used in the provision of patient care.

### Deferred Financing Costs

Deferred financing costs represent costs incurred to obtain long-term financing. Amortization of these costs is provided over the term of the applicable indebtedness using the effective interest method. Such amortization expense is included in interest expense.

During 2011, the Hospital refinanced and advance refunded certain outstanding debt. In connection with this transaction, approximately $339,000 of unamortized deferred financing costs was written off in 2011 and is included in the loss on advance refunding of long-term debt in the accompanying 2011 combined statement of operations. Additionally, approximately $1,417,000 of financing costs were paid in 2011 in connection with the issuance of the new long-term debt.

## 1. Organization and Significant Accounting Policies (continued)

### Property, Plant and Equipment

Property, plant and equipment purchased are carried at cost and those acquired by gifts and bequests are carried at appraised or fair value established at the date of contribution. Capitalized lease assets are recorded at the present value of the minimum lease payments at the inception of the leases. Additionally, certain costs incurred in connection with developing or obtaining internal use software are capitalized. Annual provisions for depreciation and amortization are made based upon the straight-line method over the assets' estimated useful lives ranging from three to forty years and for capitalized leases over the lesser of the estimated useful life or the lease term. Amortization of equipment held under capital leases is included in depreciation and amortization expense in the accompanying combined statements of operations.

The carrying amount of assets and the related accumulated depreciation or amortization are removed from the accounts when such assets are disposed of and any resulting gain or loss is included in operations.

### Investment in Limited Liability Company

The Hospital accounts for its investment in a limited liability company (the "LLC") using the equity method of accounting. For the years ended December 31, 2011 and 2010, the Hospital recorded within other revenue its equity in the income of the LLC of approximately $175,000 and $260,000, respectively.

### Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If long-lived assets are deemed to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value. Assets to be disposed of are reported at the lower of the carrying amount or the fair value, less costs to sell.

### Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those net assets whose use by the Hospital has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Hospital in perpetuity (see Note 8). When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions.

## 1. Organization and Significant Accounting Policies (continued)

### Contributions, Pledges and Restricted Gifts

The Hospital encourages contributions and donations for capital replacement and expansion and other specific purposes. Amounts received for capital replacement and expansion or specific operating or endowment purposes are added to the respective temporarily restricted or permanently restricted net asset balances.

Contributions, including unconditional promises to give cash and other assets, are reported at fair value on the date the contribution is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets.

### Charity Care

The Hospital recognizes that some patients are unable to compensate the Hospital for their treatment either through third-party coverage or their own resources. Accordingly, the Hospital extends charity or free care to those patients who do not have the ability to meet their obligations or when it is determined that the patients are unable to fulfill their obligations to the Hospital. The estimated cost of charity care totaled approximately $560,000 and $530,000 in 2011 and 2010, respectively.

The net cost of charity care includes the direct and indirect costs of providing charity care services, offset by revenues received from indigent care pools. The cost is estimated by utilizing a ratio of cost to gross charges applied to the gross uncompensated charges associated with providing charity care. Funds received to offset charity services totaled approximately $6 million and $5.5 million from the indigent care pool under the New York State Medicaid program for 2011 and 2010, respectively. The charity care component of the indigent care pool payments is estimated utilizing a ratio of charity care charges to total charity and bad debt charges applied to the indigent care pool reimbursement.

### Performance Indicator

The combined statements of operations include the (deficiency) excess of revenue over expenses as the performance indicator. Transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenue and operating expenses (patient care and related). Housing company operating revenue and expenses, peripheral or incidental transactions and unusual, nonrecurring items are separately reported.

## 1. Organization and Significant Accounting Policies (continued)

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 change in accrued pension and postretirement benefits liabilities to be recognized in future periods are excluded from the performance indicator.

### 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 and liabilities and the disclosure 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. In the accompanying combined financial statements, estimates relate primarily, although not exclusively, to revenue recognition in the valuation of bad debt and contractual allowances and in the valuation of amounts due to and from third-party payors, the estimation of self-insured professional liabilities and other contingent liabilities and the measurement of actuarially determined retirement liabilities. 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.

For the year ended December 31, 2011, the net change in estimates, related to years prior to 2011, increased the performance indicator by approximately $4.0 million. For the year ended December 31, 2010, the net change in estimates, related to years prior to 2010, decreased the performance indicator by approximately $255,000. The changes in estimates primarily relate to estimates made by management for third-party payor settlements.

### Recent Accounting Standards

In August 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2010-23, *Measuring Charity Care for Disclosure*. ASU No. 2010-23 requires that the level of charity care provided be presented based on the direct and indirect costs of the charity services provided. ASU No. 2010-23 also requires separate disclosure of the amount of any cash reimbursements received for providing charity care. ASU No. 2010-23 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The Hospital adopted ASU No. 2010-23 in 2011 and has applied its provisions to the accompanying combined financial statements. The Hospital's adoption of ASU No. 2010-23 did not have an effect on the combined financial statements and relates only to disclosures.

**1. Organization and Significant Accounting Policies (continued)**

In August 2010, the FASB also issued ASU No. 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*. Under ASU No. 2010-24, anticipated insurance recoveries and estimated liabilities for medical malpractice claims or similar contingent liabilities are to be presented separately on the balance sheet. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The Hospital adopted ASU No. 2010-24 in 2011; however, the impact was not material to the combined financial statements.

In July 2011, the FASB issued ASU No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. Under ASU No. 2011-07, the provision for bad debts related to patient service revenue will be presented as a deduction from patient service revenue (net of contractual allowances and discounts) on the statement of operations with enhanced footnote disclosure on the policies for recognizing revenue and assessing bad debts. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 31, 2011 and is required to be applied retrospectively. The adoption of ASU No. 2011-07 is not expected to affect the Hospital's combined financial position, results of operations or cash flows; however, it will change the presentation of the Hospital's total revenue and expenses in its combined statements of operations and will result in additional disclosure.

In September 2011, the FASB issued ASU No. 2011-09, *Disclosures about an Employer's Participation in a Multiemployer Plan*, which requires additional disclosures about an employer's participation in multiemployer pension plans. The guidance is effective for fiscal years ending after December 15, 2011. The Hospital adopted ASU No. 2011-09 and has applied its provisions to the accompanying combined financial statements. The Hospital's adoption of ASU No. 2011-09 did not have an effect on the combined financial statements and relates only to disclosures.

**Reclassifications**

Certain 2010 amounts in the accompanying combined financial statements have been reclassified from amounts previously reported to conform to the 2011 presentation. These reclassifications have no impact on the net assets previously reported.

## 2. Net Patient Service Revenue and Accounts Receivable for Services to Patients

Net patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payors and others for services rendered and includes estimated retroactive revenue adjustments due to ongoing and future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

### *Medicare Reimbursement*

Hospitals are paid for most Medicare inpatient and outpatient services under national prospective payment systems and other methodologies of the Medicare program for certain other services. Federal regulations provide for certain adjustments to current and prior years' payment rates, based on industry-wide and hospital-specific data.

### *Non-Medicare Reimbursement*

In New York State, hospitals and all non-Medicare payors, except Medicaid, workers' compensation and no-fault insurance programs, negotiate hospitals' 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 ("NYSDOH"). Effective December 1, 2009, the New York State payment methodology was updated such that payments to hospitals for Medicaid, workers' compensation and no-fault inpatient services are based on a statewide prospective payment system, with retroactive adjustments; prior to December 1, 2009, the payment system provided for retroactive adjustments to payment rates, using a prospective payment formula. Outpatient services are also paid based on a statewide prospective system that was effective December 1, 2008. Medicaid rate methodologies are subject to approval at the Federal level by the Centers for Medicare and Medicaid Services ("CMS"), which may routinely request information about such methodologies prior to approval. Revenue related to specific rate components that have not been approved by CMS is not recognized until the Hospital is reasonably assured that such amounts are realizable. Adjustments to the current and prior years' payment rates for those payors will continue to be made in future years.

The Hospital has established estimates, based on information presently available, of amounts due to or from Medicare and non-Medicare payors for adjustments to current and prior years' payment rates, based on industry-wide and Hospital-specific data. Such estimates are included in third-party payor liabilities in the accompanying combined statements of financial position.

**2. Net Patient Service Revenue and Accounts Receivable for Services to Patients (continued)**

There are various proposals at the Federal and State levels that could, among other things, change payment rates or modify payment methods. The ultimate outcome of these proposals and other market changes, including health care reform enacted by the Federal and State governments, cannot presently be determined. Future changes in the Medicare and Medicaid programs and any reduction of funding could have an adverse impact on the Hospital. Additionally, certain payors' payment rates for various years have been appealed by the Hospital. If the appeals are successful, additional income applicable to those years might be realized.

The current Medicaid, Medicare and other third-party payor programs are based upon extremely complex laws and regulations that are subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Additionally, noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs. Medicare cost reports, which serve as the basis for final settlement with the Medicare program, have been final settled through 2004. Other years remain open for settlement, as are cost reports for numerous years related to the New York State Medicaid program.

Except as discussed in Note 10, the Hospital is not aware of any allegations or instances of noncompliance that could have a material adverse effect on the combined financial statements and believes that it is in compliance with all applicable laws and regulations.

The Hospital grants credit without collateral to its patients, most of whom are insured under third-party agreements. The significant concentrations of accounts receivable for services to patients at December 31, 2011 include 14% from Medicare, 7% from Medicaid, 46% from Medicaid managed care and other commercial insurance carriers and 33% from others; and at December 31, 2010 include 17% from Medicare, 16% from Medicaid, 40% from Medicaid managed care and other commercial insurance carriers and 27% from others.

Revenue from the Medicare and Medicaid programs accounted for approximately 63% and 69% of the Hospital's net patient service revenue for 2011 and 2010, respectively.

## 3. Investments and Assets Limited as to Use

Investments and assets limited as to use consist of the following at December 31 (in thousands):

| | 2011 | 2010 |
|---|---|---|
| Cash and cash equivalents | **$ 39,355** | $ 50,238 |
| U.S. Treasury securities | **23,491** | 23,902 |
| Equity securities | **2,701** | 2,830 |
| Mutual funds | **6,551** | 6,403 |
| | **$ 72,098** | $ 83,373 |

Net realized gains and losses on sales of marketable securities aggregated approximately $10,000 and $512,000 for the years ended December 31, 2011 and 2010, respectively. The change in net unrealized gains and losses aggregated approximately $145,000 and $(99,000) for the years ended December 31, 2011 and 2010, respectively.

Assets held under bond financing agreements and other are for the following purposes at December 31 (in thousands):

| | 2011 | 2010 |
|---|---|---|
| Bond financing agreements: | | |
| Capital reserve fund | **$ 3,519** | $ 4,781 |
| Debt service fund | **875** | 3,901 |
| Escrow fund | **10,546** | 10,512 |
| Accrued interest receivable | **10** | 127 |
| | **14,950** | 19,321 |
| Other: | | |
| Secured letters of credit | **3,438** | 4,425 |
| | **$ 18,388** | $ 23,746 |

## 4. Property, Plant and Equipment

A summary of property, plant and equipment is as follows at December 31 (in thousands):

| | 2011 | 2010 |
|---|---|---|
| Land | **$ 1,368** | $ 1,368 |
| Land improvements | **861** | 861 |
| Buildings and improvements | **132,093** | 108,073 |
| Equipment | **84,853** | 83,939 |
| Software and related costs | **16,602** | 14,070 |
| | **235,777** | 208,311 |
| Less accumulated depreciation and amortization | **147,749** | 137,713 |
| | **88,028** | 70,598 |
| Construction in progress | **13,757** | 18,880 |
| | **$ 101,785** | $ 89,478 |

Substantially all property, plant and equipment has been collateralized under various loan agreements.

Moveable equipment includes capitalized leased assets having an original cost of approximately $12.0 million and $8.5 million at December 31, 2011 and 2010, respectively. Accumulated amortization relating to capitalized leased assets aggregated approximately $5.6 million and $3.4 million at December 31, 2011 and 2010, respectively.

Capitalized software costs have an original cost of approximately $16.6 million and $14.1 million at December 31, 2011 and 2010, respectively. Accumulated amortization relating to capitalized software aggregated approximately $11.0 million and $9.0 million at December 31, 2011 and 2010, respectively.

In 2004, the Hospital sold a parking lot adjacent to the Hospital building. As part of the sale transaction, the buyer agreed to convey to the Hospital, upon completion of a building proposed to be built on the site, certain parking spaces and an ambulatory care site. In connection with the conveyance of such property, the buyer agreed to liquidating damages in the event that such properties were not conveyed. Due to the uncertainty associated with the valuation of the properties to be conveyed and other contingencies, the Hospital did not reflect the value of such properties in its initial recognition of the gain in 2004. During 2011, the Hospital received $850,000 from the buyer in settlement of certain parking spaces that previously were agreed to as part of the sale transaction that ultimately were deemed undeliverable by the buyer. The amount is reflected as gain on sale of real estate in the accompanying combined 2011 statement of operations.

## 5. Long-Term Debt

A summary of long-term debt is as follows at December 31 (in thousands):

| | 2011 | 2010 |
|---|---|---|
| Series 2011 Revenue Refunding Bonds (a) | **$ 34,863** | $ – |
| Series 1998 I Revenue Refunding Bonds (b) | **–** | 36,420 |
| Beekman mortgage payable (c) | **7,242** | 7,181 |
| Capitalized leases, interest rates ranging from 0.65% to 18.88% (d) | **6,637** | 5,387 |
| | **48,742** | 48,988 |
| Less current portion of long-term debt | **2,451** | 4,856 |
| | **$ 46,291** | $ 44,132 |

(a) In March 2011, NYDH issued $32,570,000 of Series 2011 Secured Hospital Revenue Refunding Bonds through the Authority ("Series 2011 Bonds"). They were issued at a premium of approximately $2.6 million (accumulated amortization of approximately $311,000 at December 31, 2011). The Series 2011 Bonds were issued for the purpose of providing funds to (i) advance refund and defease the Series 1998 Bonds, (ii) fund certain operating room enhancements at the Hospital, (iii) fund the Hospital's Capital Reserve Fund requirement under the Series 2011 Bonds and (iv) pay the costs of issuance of the Series 2011 Bonds. NYDH has granted to the Authority, with certain permitted exceptions, a security interest in gross receipts and certain fixtures, furnishings and equipment that secure the payment of the debt. Only NYDH is responsible for payment of debt service on the Series 2011 Bonds. The Series 2011 Bonds bear interest at a fixed interest rate of 5%, payable semi-annually, with a final maturity date of February 15, 2022.

(b) In February 1998, NYDH, along with other Metropolitan New York area, financially distressed not-for-profit hospitals, refunded existing bonds through participation in the Authority's Secured Hospital Revenue Refunding Bonds Series 1998 ("Series 1998 Bonds"). The principal amount of the Series 1998 Bonds allocated to the Hospital was approximately $60.7 million, consisting of $43,895,000 Serial Bonds with interest rates ranging from 3.9% to 5.2%, maturing through 2016 and $16,815,000 term bonds with an interest rate of 5.30%, maturing in 2020. NYDH has granted to the Authority, with certain permitted exceptions, a security interest in gross receipts and certain fixtures, furnishings and equipment that secure the payment of the debt. The agreement with the Authority requires NYDH to pay principal, interest and sinking fund installments associated with the bonds. The Series 1998 Bonds were defeased and fully advance refunded in 2011 as part of NYDH's refinancing and issuance of the Series 2011 Bonds that occurred in March 2011. The advance refunding resulted in a loss of approximately $523,000.

**5. Long-Term Debt (continued)**

In January 2005, the Authority required the Hospital to place into escrow two years of principal and interest payments on the Hospital's outstanding bonds. Such amount (approximately $10.5 million, including accumulated investment earnings, at December 31, 2011 and 2010) is reflected as assets limited as to use in the accompanying combined statements of financial position.

(c) In July 1977, Beekman entered into an agreement with the New York City Housing Development Corporation ("HDC"), whereby the then existing mortgage agreement was modified and the mortgage debt was divided into a senior mortgage, which is insured by the Secretary of Housing and Urban Development (the "Secretary") and a junior mortgage, that is held by HDC. HDC administers both the senior and junior mortgages.

The senior mortgage is self amortizing and has a principal balance of $436,353 as of December 31, 2011 and the note bears interest at 7.25% with principal and interest payable in monthly installments of approximately $8,000 through August 1, 2017. The provisions of the senior mortgage, among other things, provide for establishment of an escrow reserve for replacement and maintenance. These funds may not be used without prior written authorization from HDC. The junior mortgage has a principal balance of $6,805,752 as of December 31, 2011 and the note bears interest at 7.82% with monthly payments approximating $13,400, payable until such time as the Secretary ceases to insure the senior mortgage (the "Release Date"). Subsequent to the Release Date, equal monthly payments are to be made at a rate of 8.50% sufficient to retire the outstanding principal and interest by the earlier of August 1, 2027 or 15 years subsequent to the retirement of the senior mortgage. Beekman did not make junior mortgage principal payments in 2011 or 2010 because it did not generate surplus cash, as defined in the regulatory agreement, which would require principal payments to be made. Both the senior and subordinate mortgages can be prepaid, subject to certain prepayment fees.

**5. Long-Term Debt (continued)**

(d) The Hospital entered into capitalized leases for certain equipment in 2011 and 2010 totaling approximately $3.5 million and $3.3 million, respectively. Future minimum payments, by year and in the aggregate, under capitalized leases and noncancellable operating leases with initial or remaining terms of one year or more at December 31, 2011 consist of the following (in thousands):

| | Capitalized Leases | Operating Leases |
|---|---|---|
| Year ending December 31: | | |
| 2012 | $ 2,625 | $ 1,482 |
| 2013 | 2,181 | 1,585 |
| 2014 | 1,260 | 1,543 |
| 2015 | 637 | 1,410 |
| 2016 | 296 | 1,373 |
| Thereafter | 164 | 4,372 |
| Total minimum lease payments | 7,163 | $ 11,765 |
| Less amount representing interest | 526 | |
| Capital leases outstanding | $ 6,637 | |

Total rental expense charged to operations approximated $3.2 million and $2.7 million for the years ended December 31, 2011 and 2010, respectively.

The aggregate amount of principal payments under all long-term indebtedness for the next five years ending December 31 is as follows (in thousands):

| | NYDH | Beekman | Total |
|---|---|---|---|
| 2012 | $ 2,386 | $ 65 | $ 2,451 |
| 2013 | 4,960 | 69 | 5,029 |
| 2014 | 4,310 | 75 | 4,385 |
| 2015 | 3,879 | 80 | 3,959 |
| 2016 | 3,708 | 86 | 3,794 |

Annual interest paid on all obligations aggregated approximately $1.9 million and $2.2 million for the years ended December 31, 2011 and 2010, respectively. There was no interest capitalized in 2011 or 2010.

**6. Professional Liabilities Insurance**

Prior to April 1, 1997, the Hospital was self-insured for professional liabilities. All asserted claims are closed for that period.

Effective April 1, 1997, the Hospital purchased professional liability insurance through a captive insurance company which NYU Hospitals Center, an affiliate at that time, jointly owns with several other not-for-profit institutions.

Effective August 6, 2003, the Hospital purchased a claims-made primary layer professional and general liability insurance policy through NYU Hospitals Center's participation in Combined Coordinating Council. This policy had coverage limits of $1.0 million per occurrence/$3.0 million in aggregate. The primary layer was supplemented by a $2.0 million per occurrence/$4.0 million aggregate excess policy.

Effective July 1, 2004, the Hospital paid a $4.0 million deposit premium for a claims-made retrospective rated primary layer professional/general liability policy. This policy has coverage limits of $2.0 million per occurrence/$8.0 million in aggregate. This policy has prior acts coverage through a retroactive date of August 6, 2003. This primary layer was supplemented by a $5.0 million per occurrence/$5.0 million aggregate excess policy with a retroactive date of July 1, 2004. On July 31, 2004, the Hospital also purchased an additional $5.0 million per occurrence/$5.0 million aggregate excess insurance policy. In subsequent years, the Hospital may receive a return of premium or may be required to pay an additional premium on the primary policy based on the level of claim experience during the policy period.

Effective July 1, 2005, the Hospital paid a $3.5 million deposit premium for a claims-made retrospective rated primary layer professional/general liability policy. This policy has coverage limits of $2.0 million per occurrence/$8.0 million in aggregate. The primary policy is supplemented by a $1.0 million self-insurance layer. The Hospital purchased a $7.0 million per occurrence/$7.0 million aggregate excess policy with a retroactive date of July 1, 2004. The Hospital purchased a $5.0 million per occurrence/$5.0 million aggregate additional excess policy with attaching excess of $10.0 million for each and every loss. The retroactive date of these excess policies is July 1, 2004. In subsequent years, the Hospital may receive a return of premium or may be required to pay an additional premium on the primary policy based on the level of claim experience during the policy period.

As of December 31, 2010, the Hospital maintained fully secured letters of credit for $1.0 million, related to certain layers of insurance coverage for the period July 1, 2004 through June 30, 2006, which was released in 2011.

**6. Professional Liabilities Insurance (continued)**

Effective July 1, 2006, the Hospital self-insured its primary layer for professional liabilities for $2.0 million for each and every claim on a claims-made basis, retroactive to August 6, 2003. The actuarially determined undiscounted professional liabilities associated with this self-insurance aggregated approximately $21.0 million at December 31, 2011 ($15.7 million at December 31, 2010). Funded amounts ($16.5 million at December 31, 2011; $16.8 million at December 31, 2010) have been placed into a separate account and are classified as assets limited as to use in the accompanying combined statements of financial position. Additionally, the Hospital purchased an $8.0 million per occurrence/$8.0 million aggregate excess policy and a $5.0 million per occurrence/$5.0 million aggregate additional excess policy. The retroactive date of these excess policies is July 1, 2004. At December 31, 2011 and 2010, the Hospital has recorded a $1.3 million and $6.2 million receivable related to the return of premiums on the first excess policy based on the level of claim experience during the policy period, respectively.

Effective July 1, 2009, the Hospital increased its claims-made self-insured program to $6.0 million with a retroactive date of August 6, 2003. The primary layer consists of $2.0 million per claim with a $10.0 million aggregate (the aggregate includes $1.5 million of general liability coverage) followed by an excess layer of $4.0 million per claim and aggregate limit (the excess excludes general liability). For this layer, however, the Hospital has the option to activate claims-made coverage from an insurance company for a specified premium. The purchase option can be activated at any point during the next seven years after inception and the coverage applies to all claims in the layer from the July 1, 2009 inception date. The Hospital also purchased additional excess layers of coverage from insurance companies of $4.0 million and $5.0 million, respectively, both per claim and in the aggregate.

The aforementioned self-insurance and claims-made policies do not cover claims and incidents not reported during the respective policy periods. As a result, the Hospital has recorded an actuarially determined estimated liability for these types of claims and incidents, also known as a claims tail. At December 31, 2011 and 2010, the net aggregate professional liability for the claims tail was approximately $8.0 million and $6.5 million, respectively.

Professional liability claims in excess of amounts recorded have been asserted against the Hospital by various claimants. The claims are in various stages of processing and some have been, or may ultimately be, brought to trial. It is the opinion of Hospital management that the ultimate resolution of professional liability claims will not have a significant effect on the Hospital's combined financial position.

## 7. Benefit Plans

### Multiemployer Pension Plan

The Hospital contributes to a multiemployer defined benefit pension plan under the terms of a collective-bargaining agreement that covers its union-represented employees, the 1199SEIU Healthcare Employees Pension Fund (“1199SEIU”). The risks of participating in multiemployer plans are different from single-employer plans in the following aspects:

a. Assets contributed to a multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.

b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

c. If the Hospital chooses to stop participating in the multiemployer plan, the Hospital may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Hospital’s participation in this plan for the years ended December 31, 2011 and 2010, is outlined in the table below. The information included in the table is as follows:

- The “EIN/Pension Plan Number” column provides the Employee Identification Number (EIN) and the three-digit plan number.

- The Pension Protection Act of 2006 (“PPA”) zone status is based on information that Hospital received from the plan and is certified by the plan’s actuaries. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. Unless otherwise noted, the most recent PPA zone status available in 2011 and 2010 is for the plan’s year end at December 31, 2010 and December 31, 2009, respectively.

- The “FIP/RP Status Pending/Implemented” column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented.

- The “Surcharge Imposed” indicated whether the Hospital was required to pay a surcharge to the plan.

## 7. Benefit Plans (continued)

- The last column lists the expiration date of the collective-bargaining agreement to which the plan is subject.

The number of employees covered by the Hospital's multiemployer plan did not change significantly from 2010 to 2011. Contribution rates required to be paid to the plan have increased from 2010 to 2011. The Hospital was not in its plan's 2010 Form 5500 as providing more than 5% of total plan contributions.

| | | Pension Protection Act Zone Status | | | Contributions of the Hospital | | | Expiration |
|---|---|---|---|---|---|---|---|---|
| Pension Fund | EIN/Pension Plan Number | 2011 | 2010 | FIP/RP Status Pending/ Implemented | 2011 | 2010 | Surcharge Imposed | Date of Collective-Bargaining Agreements |
| 1199SEIU Plan (a) | 13-3604862/ 001 | Green | Red | Implemented | **$1.9 million** | $1.5 million | No | 4/30/2015 |

(a) The 1199 Plan has implemented a rehabilitation plan for the period January 1, 2012 through December 31, 2024. In addition, in July 2009 wage concessions were agreed to, as well as an increase in annual contributions from contributing members.

### Hospital Pension and Postretirement Plans

The Hospital maintains a defined benefit retirement plan under a collective bargaining agreement, which covers certain classes of employees. Plan benefits are based on years of service and employees' compensation during their years of employment. The Hospital's funding policy is to contribute annually the minimum funding requirements according to actuarial valuation results and as required by the Employee Retirement Income Security Act of 1974. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future.

All other employees of the Hospital are covered under a defined contribution plan to which contributions are made based on defined percentages of both applicable salaries and voluntary contributions. The Hospital's contributions under this plan were approximately $1.0 million for each of the years ended December 31, 2011 and 2010.

Effective January 1, 1996, the Hospital terminated its postretirement benefit plan which provided certain health care and life insurance benefits for certain eligible employees. Employees vested prior to this date continued to receive benefits until May 31, 2009.

### 7. Benefit Plans (continued)

Effective June 1, 2009, the Hospital participates in the United Medicare Advantage Supplemental Plan. The vested members and benefits were transferred and the members will continue to receive benefits under the new plan.

The Hospital recognizes the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its retiree pension and defined benefit postretirement plans in its combined statements of financial position.

The following tables provide a reconciliation of the changes in each plan's benefit obligations and fair value of plan assets for the years ended December 31, 2011 and 2010, as well as a statement of the funded status of the plans as of December 31, 2011 and 2010 (in thousands):

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | **Pension Benefits** | **Postretirement Benefits** | **Pension Benefits** | **Postretirement Benefits** |
| **Changes in benefit obligations** | | | | |
| Benefit obligation at January 1 | **$ 23,898** | **$ 554** | $ 21,138 | $ 659 |
| Service cost | **1,052** | **–** | 901 | – |
| Interest cost | **1,283** | **19** | 1,216 | 31 |
| Actuarial loss (gain) | **4,628** | **(48)** | 1,208 | (94) |
| Benefit payments | **(691)** | **(37)** | (565) | (42) |
| Benefit obligation at December 31 | **30,170** | **488** | 23,898 | 554 |
| **Changes in fair value of plan assets** | | | | |
| Fair value of plan assets at January 1 | **16,918** | **–** | 14,578 | – |
| Actual return on plan assets | **722** | **–** | 2,154 | – |
| Employer contributions | **1,645** | **37** | 807 | 42 |
| Benefit payments | **(691)** | **(37)** | (565) | (42) |
| Other | **(65)** | **–** | (56) | – |
| Fair value of plan assets at December 31 | **18,529** | **–** | 16,918 | – |
| **Funded status** | | | | |
| Unfunded status at December 31 | **$ (11,641)** | **$ (488)** | $ (6,980) | $ (554) |
| Accumulated benefit obligation | **$ 28,229** | | $ 22,568 | |

**7. Benefit Plans (continued)**

Net unrecognized actuarial losses and the net unrecognized prior service costs at the reporting date will be subsequently recognized in the future as net periodic benefit cost pursuant to the Hospital's accounting policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic benefit cost in the same periods will be recognized as a component of unrestricted net assets.

Included in other changes in unrestricted net assets at December 31, 2011 and 2010 are the following amounts that have not yet been recognized in net periodic benefit cost (in thousands):

| | **December 31, 2011** | | |
|---|---|---|---|
| | **Pension Benefits** | **Postretirement Benefits** | **Total** |
| Unrecognized actuarial loss | **$ (10,388)** | **$ (897)** | **$ (11,285)** |
| Unrecognized prior service (cost) credit | **(492)** | **2,124** | **1,632** |
| | **$ (10,880)** | **$ 1,227** | **$ (9,653)** |

| | **December 31, 2010** | | |
|---|---|---|---|
| | **Pension Benefits** | **Postretirement Benefits** | **Total** |
| Unrecognized actuarial loss | $ (5,326) | $ (1,061) | $ (6,387) |
| Unrecognized prior service (cost) credit | (558) | 2,438 | 1,880 |
| | $ (5,884) | $ 1,377 | $ (4,507) |

The net prior service credit and actuarial loss included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending December 31, 2012 is approximately $580,000.

**7. Benefit Plans (continued)**

Weighted-average assumptions used to determine benefit obligations at December 31 are as follows:

| | Pension Benefits | | Postretirement Benefits | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| Discount rate | **4.28%** | 5.40% | **4.28%** | 5.40% |
| Rate of compensation increase | **4.00** | 4.00 | – | – |

**Plan Assets**

The Hospital's pension plan weighted-average asset allocations at December 31, by asset category, are as follows:

| | **2011** | **2010** |
|---|---|---|
| Mutual funds | **17%** | –% |
| Common collective trusts | **83** | 100 |
| | **100%** | 100% |

The pension plan's investment strategy is to invest in a prudent manner for the exclusive purpose of providing benefits to participants. The strategy is targeted to produce a total return that, when combined with contributions to the plan, will maintain the plan's ability to meet all required benefit obligations. Risk is controlled through diversification of asset types and investments in equities and fixed income.

**Cash Flows**

*Contributions:* The Hospital expects to contribute approximately $2.0 million to its pension plan and approximately $44,000 to its postretirement benefits plan in 2012.

## 7. Benefit Plans (continued)

### Estimated Future Benefit Payments

The Hospital expects to pay the following future pension and postretirement benefit payments, which reflect expected future service (in thousands):

| | Pension Benefits | Postretirement Benefits |
|---|---|---|
| 2012 | $ 934 | $ 44 |
| 2013 | 1,064 | 44 |
| 2014 | 1,194 | 43 |
| 2015 | 1,289 | 43 |
| 2016 | 1,356 | 42 |
| 2017 to 2021 | 7,770 | 184 |

### Net Periodic Benefit Cost (Credit)

The following table provides the components of the net periodic benefit cost (credit) for the plans for the years ended December 31 (in thousands):

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | **Pension Benefits** | **Postretirement Benefits** | **Pension Benefits** | **Postretirement Benefits** |
| Service cost | **$ 1,052** | **$ –** | $ 901 | $ – |
| Interest cost | **1,283** | **19** | 1,216 | 31 |
| Expected return on plan assets | **(1,387)** | – | (1,170) | – |
| Amortization of unrecognized net actuarial loss | **297** | **116** | 305 | 133 |
| Amortization of net prior service cost (credit) | **66** | **(314)** | 66 | (315) |
| Net periodic benefit cost (credit) | **$ 1,311** | **$ (179)** | $ 1,318 | $ (151) |

## 7. Benefit Plans (continued)

Weighted-average assumptions used to determine net periodic benefit cost (credit) for the years ended December 31 are as follows:

| | Pension Benefits | | Postretirement Benefits | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| Discount rate | **5.40%** | 5.88% | **5.40%** | 5.88% |
| Expected long-term rate of return on plan assets | **8.00** | 8.00 | – | – |
| Rate of compensation increase | **4.00** | 4.00 | – | – |

The long-term rate of return on plan assets assumption is determined by calculating a total fund return estimate based on a weighted-average of estimated returns for each asset class. Asset class returns are estimated using current and projected economic factors such as real rates of return, inflation, credit spreads, equity risk premiums and excess return expectations.

Assumed health care cost trend rates at December 31 are as follows:

| | **2011** | **2010** |
|---|---|---|
| Health care cost trend rate assumed for next year | **8.5%** | 9.0% |
| Rate to which the cost trend rate is assumed to decline (the ultimate trend rate) | **5.0** | 5.0 |
| Year that the rate reaches the ultimate trend rate | **2019** | 2019 |

### Measurement Date

The measurement date used to determine pension and postretirement benefit measurements is December 31.

## 7. Benefit Plans (continued)

### Fair Value of Assets

The fair values of the defined benefit plan assets at December 31, 2011 and 2010, by asset category (see Note 11), are as follows (in thousands):

| | 2011 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Mutual funds | **$ 3,124** | **$ –** | **$ –** | **$ 3,124** |
| Common collective trusts | **–** | **15,405** | **–** | **15,405** |
| | **$ 3,124** | **$ 15,405** | **$ –** | **$ 18,529** |

| | 2010 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Common collective trusts | $ – | $ 16,918 | $ – | $ 16,918 |
| | $ – | $ 16,918 | $ – | $ 16,918 |

## 8. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are restricted as follows at December 31 (in thousands):

| | **2011** | **2010** |
|---|---|---|
| Eye Care Program | **$ 5,478** | $ 5,319 |
| Community Service Program | **3,405** | 3,661 |
| Expansion, renovation projects and other department support | **1,611** | 1,580 |
| Medical research | **717** | 888 |
| Training and education programs | **1,005** | 723 |
| | **$ 12,216** | $ 12,171 |

**8. Temporarily and Permanently Restricted Net Assets (continued)**

The Hospital follows the requirements of the New York Prudent Management of Institutional Funds Act ("NYPMIFA") passed into law effective September 2010 as they relate to its permanently restricted endowments. Prior to the enactment of the law, the Hospital followed the requirements of the Uniform Management of Institutional Funds Act ("UMIFA"). The Hospital's interpretation of NYPMIFA did not have a significant effect on the Hospital's endowment policies that were in effect prior to the enactment. The Hospital classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment funds.

Permanently restricted net assets of approximately $6.7 million have been restricted by donors to be maintained in perpetuity, the income from which is restricted as to use. The carrying value of the endowment assets is approximately $6.6 million at December 31, 2011 ($6.4 million at December 31, 2010).

**9. Functional Expenses**

The Hospital's program services consist of providing health care services and graduate medical education. Functional expenses, inclusive of housing company expenses, for the years ended December 31 were as follows (in thousands):

| | **2011** | 2010 |
|---|---|---|
| Health care and related services | **$ 130,816** | $ 119,606 |
| Program support and general services | **93,484** | 75,244 |
| | **$ 224,300** | $ 194,850 |

Fundraising costs were approximately $593,000 and $515,000 for the years ended December 31, 2011 and 2010, respectively. Investment expenses were approximately $33,000 and $29,000 for the years ended December 31, 2011 and 2010, respectively.

## 10. Commitments and Contingencies

The Hospital is a defendant in various legal actions arising during the normal course of its operations, the final outcome of which cannot presently be determined. Hospital management is of the opinion that eventual liability, if any, with respect to all of these matters, other than as discussed below, will not have a material adverse effect on the Hospital's combined financial position.

Prior to December 1, 2009, the Hospital was self-insured for workers' compensation benefits. In connection with being self-insured, the Hospital has an outstanding unused letter of credit aggregating approximately $3.3 million at December 31, 2011 and 2010. The letter of credit is collateralized by cash and marketable securities. Effective December 1, 2009, the Hospital is fully insured for workers' compensation benefits.

During 2002, the Hospital became self-insured, based on individual employee's elections, for medical and pharmaceutical benefits. Liabilities have been accrued at December 31, 2011 and 2010 based on expected future payments pertaining to such years.

Approximately 54% of the Hospital's employees are union employees who are covered under the terms of various collective bargaining agreements, none of which expire within the next year.

In September 2008, the Hospital was served with two complaints in two separate qui tam actions in which the Hospital is named as a defendant. The United States and the State of New York (collectively, the "Government") each intervened in part in the lawsuits and filed complaints-in intervention in October 2008, naming the Hospital as a defendant. The Government alleges that (1) from approximately 1998 to 2006, the Hospital operated an inpatient detoxification unit without obtaining required licensure/certification from the New York State Office of Alcoholism and Substance Abuse Services and NYSDOH; and (2) the agreement between an unrelated health care company (also a defendant, along with other hospitals, in the Government's complaints) and the Hospital constituted an illegal arrangement of payment for patient referrals in violation of, among other laws and regulations, the Federal and New York State Anti-kickback laws. New York State's complaint also alleges that the Hospital provided patients with treatment that was either inadequate under professionally recognized standards or unnecessary. The Government's complaints allege a variety of claims, including claims under the Federal False Claims Act, the New York State False Claims Act, common law fraud, payment by mistake of fact, unjust enrichment, the New York Social Services Law and the New York Executive Law. The Government alleges that the Hospital obtained combined Medicare and Medicaid payments related to the activity in question of approximately $9.6 million from 2002 to 2006.

**10. Commitments and Contingencies (continued)**

The Government seeks, among other things, to recover treble damages, in an amount to be determined at trial, and civil penalties for each violation under the Federal and New York State False Claims Acts. The civil penalties sought are $5,500 to $11,000 for each violation under the Federal False Claims Act and $6,000 to $12,000 for each violation under the New York State False Claims Act. The Government also seeks to recover treble or other damages, restitution and other monetary relief.

Subject to obtaining final Government and Court approval, the Hospital has reached a tentative settlement (agreement in principle) with the Government and, therefore, expects that a trial will not occur. The Hospital has provided its best estimate of potential liability related to this matter in the accompanying combined financial statements based on the tentative settlement (agreement in principle); however, until a settlement is approved and executed, there is uncertainty with respect to the ultimate effects on the Hospital's combined financial statements.

**11. Fair Values of Financial Instruments**

For assets and liabilities required to be measured at fair value, the Hospital measures fair value based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are applied based on the unit of account from the Hospital's perspective.

The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated) for purposes of applying other accounting pronouncements.

The Hospital follows a valuation hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

> *Level 1:* Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market that the Hospital has the ability to access at the measurement date.
>
> *Level 2:* Fair value is based on quoted prices in markets that are not active, quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability. Pricing models are utilized to estimate fair value for certain financial assets and liabilities categorized in Level 2.

## 11. Fair Values of Financial Instruments (continued)

*Level 3:* Fair value is based on prices or valuation techniques that require inputs that are both significant to the fair value measurements and unobservable. These inputs reflect management's judgment about the assumptions that a market participant would use in pricing the instrument and are based on the best available information, some of which may be internally developed.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, the Hospital uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers nonperformance risk in its assessment of fair value.

Financial assets carried at fair value as of December 31, 2011 are classified in the table below in one of the three categories described previously (in thousands):

| | 2011 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Cash and cash equivalents | **$ 40,636** | **$ –** | **$ –** | **$ 40,636** |
| U.S. Treasury securities | **23,491** | **–** | **–** | **23,491** |
| Equity securities | **2,701** | **–** | **–** | **2,701** |
| Mutual funds | **6,551** | **–** | **–** | **6,551** |
| | **$ 73,379** | **$ –** | **$ –** | **$ 73,379** |

Financial assets carried at fair value as of December 31, 2010 are classified in the table below in one of the three categories described previously (in thousands):

| | 2010 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Cash and cash equivalents | $ 52,975 | $ – | $ – | $ 52,975 |
| U.S. Treasury securities | 23,902 | – | – | 23,902 |
| Equity securities | 2,830 | – | – | 2,830 |
| Mutual funds | 6,403 | – | – | 6,403 |
| | $ 86,110 | $ – | $ – | $ 86,110 |

The amounts reported in the tables above exclude assets invested in the Hospital's defined benefit pension plan (see Note 7).

## 11. Fair Values of Financial Instruments (continued)

The Hospital's long-term debt obligations are reported at carrying value. The fair values of the Hospital's long-term debt are based on current traded value and other valuation considerations. The fair value of the Hospital's long-term debt obligations, excluding capitalized lease obligations, is approximately $45.0 million and $42.0 million at December 31, 2011 and 2010, respectively.

## 12. Other Operating Revenue

Other operating revenue, including housing company operations, for the years ended December 31 consists of the following (in thousands):

| | **2011** | **2010** |
|---|---|---|
| Rental income | **$ 1,639** | $ 1,307 |
| Faculty practice revenue | **21,424** | 20,273 |
| Healthfirst distributions | **24,581** | 20,253 |
| WIC program | **642** | 518 |
| Contributions | **1,242** | 1,394 |
| Investment income | **296** | 488 |
| Other | **2,975** | 2,454 |
| | **$ 52,799** | $ 46,687 |

The Healthfirst distributions represent payments from a managed care organization, in which the Hospital has an ownership interest, that are based on patient utilization. The period-to-period fluctuation is caused by changes in patient utilization.

## 13. Nondiscretionary Trusts

The Hospital receives income (approximately $368,000 in 2011 and $332,000 in 2010) from certain nondiscretionary trusts held by others. The quoted market value of the investments of the trusts is approximately $8.3 million at December 31, 2011 ($8.6 million at December 31, 2010). These investments are not included in the accompanying combined financial statements due to the conditions on which they were granted.

**14. Clinic Closures**

As a condition in the conclusions of New York State's Commission on Health Care Facilities in the 21st Century (the "Berger Commission"), the Hospital was required to close and/or transfer the business of two of its off-site clinics, the Downtown Family Care Clinic ("DFCC") and the Brooklyn Primary Care Center ("BPCC").

Effective October 2007, the Hospital transferred sponsorship of DFCC to an unrelated federally qualified health center ("FQHC"). Under the conditions of the sponsorship transfer, the Hospital agreed to provide a community benefit grant to FQHC in the amount of approximately $3.1 million to be paid in installments over ten years. The first installment of $600,000 was paid in 2008. Payments totaling $425,000 and $375,000 were made by the Hospital in 2011 and 2010, respectively. The present value of the unpaid balance of the grant, recorded as a liability, is approximately $1.3 million and $1.7 million as of December 31, 2011 and 2010, respectively.

**15. Subsequent Events**

Management has evaluated the impact of subsequent events through July 16, 2012, representing the date on which the combined financial statements were issued. No events have occurred that require disclosure in, or adjustment to, the combined financial statements.

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