Consolidated Financial Statements and Supplementary Information

The Brooklyn Hospital Center and Subsidiaries
Years Ended December 31, 2012 and 2011
With Report of Independent Auditors

Ernst & Young LLP

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Consolidated Financial Statements
and Supplementary Information

Years Ended December 31, 2012 and 2011

Contents

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Report of Independent Auditors

The Board of Trustees
The Brooklyn Hospital Center

We have audited the accompanying consolidated financial statements of The Brooklyn Hospital Center and Subsidiaries (the "Hospital"), which comprise the consolidated statements of financial position as of December 31, 2012 and 2011, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility
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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Brooklyn Hospital Center and Subsidiaries at December 31, 2012 and 2011, and the consolidated results of their operations and changes in net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Supplementary Information
Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating statement of financial position at December 31, 2012, and the consolidating statement of operations for the year then ended, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Ernst & Young LLP

April 10, 2013

The Brooklyn Hospital Center and Subsidiaries

Consolidated Statements of Financial Position

	December 31 2012	2011
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 17,514**	$ 24,246
Investments	**773**	392
Assets limited as to use, current portion (*Note 4*)	**8,107**	10,041
Accounts receivable:		
Patient care, less allowance for uncollectible accounts (2012 – $18,093; 2011 – $25,570)	**47,812**	47,028
Other receivables, net	**8,053**	10,212
Total accounts receivable, net	**55,865**	57,240
Other current assets	**5,332**	5,150
Total current assets	**87,591**	97,069
Estimated receivable due from third-party payors	**8,235**	8,025
Assets limited as to use, net of current portion (*Note 4*)	**32,243**	51,403
Property, plant, and equipment, net (*Note 5*)	**85,232**	88,102
Other noncurrent assets, net	**38,624**	29,316
Total assets	**$ 251,925**	$ 273,915
Liabilities and net assets		
Current liabilities:		
Short-term borrowings (*Note 6*)	**$ 13,695**	$ 10,000
Current portion of long-term debt (*Note 7*)	**6,312**	4,792
Accounts payable and accrued expenses	**39,402**	36,629
Accrued salaries and related liabilities	**17,303**	17,340
Due to affiliate (*Note 9*)	**671**	404
Current portion of professional insurance liabilities (*Note 12*)	**7,437**	8,054
Total current liabilities	**84,820**	77,219
Long-term debt, net of current installments (*Note 7*)	**52,829**	83,572
Other noncurrent liabilities	**4,675**	3,209
Professional insurance liabilities (*Note 12*)	**26,815**	30,123
Estimated liability due to third-party payors	**6,832**	10,298
Total liabilities	**175,971**	204,421
Commitments and contingencies (*Notes 2, 6, 7, 8, 10, 11, and 12*)		
Net assets :		
Unrestricted net assets	**70,087**	64,763
Temporarily restricted net assets	**2,788**	1,652
Permanently restricted net assets	**3,079**	3,079
Total net assets	**75,954**	69,494
Total liabilities and net assets	**$ 251,925**	$ 273,915

See accompanying notes.

The Brooklyn Hospital Center and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

	Year Ended December 31	
	2012	**2011**
	(In Thousands)	
Revenue		
Net patient service revenue	**$ 369,828**	$ 364,436
Provision for bad debts	**(16,430)**	(15,878)
Net patient service revenue less provision for bad debts	**353,398**	348,558
Other revenue *(Note 13)*	**30,748**	30,744
Total revenue	**384,146**	379,302
Expenses		
Salaries and wages	**194,649**	186,820
Employee benefits	**50,947**	48,556
Medical supplies	**29,743**	28,372
Other	**73,296**	75,995
Insurance	**14,927**	12,881
Depreciation and amortization	**12,660**	12,328
Interest and amortization of deferred financing fees	**4,602**	5,485
Total expenses	**380,824**	370,437
Income from operations	**3,322**	8,865
Grants received for the purchase of fixed assets	**623**	1,618
Gain on extinguishment of debt *(Note 7)*	**1,379**	–
Reorganization items	**–**	(435)
Excess of revenue over expenses	**5,324**	10,048

Continued on next page.

The Brooklyn Hospital Center and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets (continued)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Assets
	(In Thousands)			
Net assets at January 1, 2011	$ 54,715	$ 1,042	$ 3,079	$ 58,836
Excess of revenue over expenses (*from previous page*)	10,048	–	–	10,048
Contributions and other items	–	1,008	–	1,008
Net assets released from restrictions	–	(398)	–	(398)
Change in net assets	10,048	610	–	10,658
Net assets at December 31, 2011	64,763	1,652	3,079	69,494
Excess of revenue over expenses (*from previous page*)	**5,324**	**–**	**–**	**5,324**
Contributions and other items	**–**	**1,590**	**–**	**1,590**
Net assets released from restrictions	**–**	**(844)**	**–**	**(844)**
Change in net unrealized gains and losses on investments	**–**	**390**	**–**	**390**
Change in net assets	**5,324**	**1,136**	**–**	**6,460**
Net assets at December 31, 2012	**$ 70,087**	**$ 2,788**	**$ 3,079**	**$ 75,954**

See accompanying notes.

The Brooklyn Hospital Center and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2012	**2011**
	(In Thousands)	
Operating activities		
Change in net assets	**$ 6,460**	$ 10,658
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**12,660**	12,328
Amortization of deferred financing fees	**386**	352
Change in net unrealized gains and losses on investments	**234**	(770)
Gain on extinguishment of debt	**(1,379)**	–
Changes in operating assets and liabilities:		
Patients' accounts receivable, net	**(784)**	(4,670)
Other receivables and other assets	**(5,823)**	(5,963)
Accounts payable and accrued expenses	**2,773**	2,195
Accrued salaries and related liabilities	**(37)**	729
Due to affiliate	**267**	(611)
Other noncurrent liabilities	**1,466**	1,281
Professional insurance liabilities	**(3,925)**	2,531
Estimated amounts due from and to third-party payors, net	**(3,676)**	5,468
Net cash provided by operating activities	**8,622**	23,528
Investing activities		
Net change in assets limited as to use and investments	**20,479**	(1,787)
Acquisitions of property, plant, and equipment	**(9,419)**	(6,049)
Net cash provided by (used in) investing activities	**11,060**	(7,836)
Financing activities		
Proceeds from short-term borrowings	**13,695**	–
Repayments on short-term borrowings	**(10,000)**	(2,000)
Proceeds from long-term borrowings	**20,000**	–
Payments on long-term debts and capital lease obligations	**(49,594)**	(4,293)
Payment of deferred financing costs	**(1,894)**	–
Proceeds from extinguishment of debt	**1,379**	–
Net cash used in financing activities	**(26,414)**	(6,293)
Net (decrease) increase in cash and cash equivalents	**(6,732)**	9,399
Cash and cash equivalents, beginning of year	**24,246**	14,847
Cash and equivalents, end of year	**$ 17,514**	$ 24,246
Supplemental disclosure of cash flow information		
Interest paid	**$ 4,371**	$ 5,364
Supplemental disclosure of noncash investing and financing activities		
Equipment acquired through capitalized lease obligations	**$ 371**	$ 4,000

See accompanying notes.

1. Organization

The Brooklyn Hospital Center (the "Hospital") is a 464-bed acute care voluntary, not-for-profit hospital. The Hospital was incorporated under New York State not-for-profit corporation law for the purpose of providing health care services primarily to residents of Brooklyn, New York. In 1998, the Hospital entered into a sponsorship agreement with New York-Presbyterian Healthcare System, Inc. (the "Network"), a tax-exempt organization whose members are selected by New York-Presbyterian Foundation, Inc. ("NYP Foundation, Inc."). Under the sponsorship agreement, five members are appointed as the members of the Hospital. Two members are appointed by the Hospital and three members are appointed by the Network. The members elect the Hospital's Board of Trustees. NYP Foundation, Inc. is related to a number of other organizations.

Caledonian Health Center, Inc. ("CHC"), a subsidiary of the Hospital, is a not-for-profit corporation, which was incorporated under New York State not-for-profit corporation law as a diagnostic and treatment center. The Hospital is the sole member of CHC. Effective February 23, 2012, CHC received approval from the State of New York Department of Health ("NYSDOH") to cease its operations as a diagnostic and treatment center, and from that date forward operations formerly conducted by CHC were conducted by the Hospital.

The Brooklyn Hospital Foundation, Inc. (the "Foundation"), a subsidiary of the Hospital, is a not-for-profit corporation under Section 501(c)(3) of the Internal Revenue Code, whose main purpose is to solicit contributions on behalf of the Hospital.

Ashland Place Houses, Inc. ("Ashland"), a subsidiary of the Foundation, was formed pursuant to an agreement entered into between the Hospital and the New York State Urban Development Corporation ("UDC") to develop staff housing and related parking facilities. Under the terms of an agreement with UDC, Ashland constructed and manages a staff housing and parking facilities project. Ashland is currently managed by the Hospital under the terms and conditions of an equity and regulatory agreement with UDC.

The Hospital and the following physician practices operate professional corporations (collectively referred to as the "PCs") for the purpose of operating faculty practices: Brooklyn Hospital Radiology, P.C., TBHC Medical Services, P.C., TBHC Emergency Medicine, P.C., Brooklyn Hospital ECG Medical Services, P.C., Brooklyn Hospital Nuclear Medicine, P.C., TBHC Physician Services, P.C., TBHC Medical Testing Services, P.C., and TBHC Pediatric Services, P.C.

1. Organization (continued)

The accompanying consolidated financial statements include the accounts of the Hospital, CHC, the Foundation, Ashland and the PCs. All significant intercompany transactions and account balances have been eliminated in consolidation.

On September 30, 2005, the Hospital and CHC (collectively, the "Debtors") each filed a voluntary petition in the United States Bankruptcy Court for the Eastern District of New York (the "Bankruptcy Court") seeking to reorganize under Chapter 11 of the United States Bankruptcy Code. On September 12, 2007, the Bankruptcy Court approved an order confirming the Debtors' Second Amended Joint Chapter 11 Plan of Reorganization (the "Plan of Reorganization") which became effective on October 19, 2007. During September 2011, the Hospital and the creditors entered into a settlement agreement which resulted in a final decree closing the Chapter 11 case.

2. Summary of Significant Accounting Policies

The Hospital's significant accounting policies are as follows.

Use of Estimates: The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles 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 liabilities, including estimated payables to third-party payors and professional insurance liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated 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.

Cash and Cash Equivalents: Cash equivalents include all highly liquid amounts invested in accounts with depository institutions which are readily convertible to known amounts of cash with original maturities of three months or less, and which are not included within assets limited as to use.

Investments: Investments consist of mutual funds. All investments are carried at fair value based on quoted market prices (see Note 15). All investments are classified as trading investments.

2. Summary of Significant Accounting Policies (continued)

Accounts Receivable and Net Patient Service Revenue: Net patient service revenue is reported at estimated net realizable amounts from patients, residents, third-party payers, 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.

The Hospital recognizes accounts receivable and patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered (see description of third-party payor payment programs below). For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of discounted rates under the Hospital's self pay patient policy. Under the policy for self-pay patients, a patient who has no insurance and is ineligible for any government assistance program has his or her bill reduced to the amount which would be billed to a commercially insured patient. The impact of this policy on the financial statements is lower net patient service revenue, as the discount is considered a revenue allowance, and a lower provision for bad debt.

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

	Third-Party Payors	Self-Pay	Total All Payors
2012:			
Patient service revenue (net of contractual allowances and discounts)	**$ 362,653**	**$ 7,175**	**$ 369,828**
2011:			
Patient service revenue (net of contractual allowances and discounts)	$ 354,917	$ 9,519	$ 364,436

2. Summary of Significant Accounting Policies (continued)

Accounts receivable are also reduced by an 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 health care coverage, and other collection indicators. 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. In evaluating the collectibility of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients, which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill, the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between discounted rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Hospital's allowance for doubtful accounts totaled $18.1 and $25.6 million at December 31, 2012 and 2011, respectively. The allowance for doubtful accounts for self-pay patients was approximately 79% and 84% of self-pay accounts receivable as of December 31, 2012 and 2011, respectively. During 2012, the Hospital wrote off approximately $7.2 million in self pay accounts. Overall, the total of self-pay discounts and write-offs did not change significantly for the year ended December 31, 2011. The Hospital has not changed its charity care policy for the years ended December 31, 2012 and 2011.

2. Summary of Significant Accounting Policies (continued)

Third-Party Payment Programs: The Hospital has agreements with third-party payors that provide for payment for services rendered at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare Payments: Hospitals are paid for most Medicare inpatient and outpatient services under the national prospective payment system 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. Medicare cost reports of the Hospital have been settled for years through 2008 at December 31, 2012.

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 payers pay hospital rates promulgated by the New York State Department of Health. 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 also are 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.

Other Third-Party Payors: The Hospital also has entered into payment agreements with certain commercial insurance carriers and health maintenance organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge or days of hospitalization and discounts from established charges.

2. Summary of Significant Accounting Policies (continued)

For the years ended December 31, 2012 and 2011, net adjustments and settlements related to prior years were not significant.

The Hospital has appealed certain items in audited cost reports. The outcome of these appeals is uncertain and, therefore, potential revenue associated with these appeals is not included within the accompanying consolidated statements of operations and changes in net assets.

Revenue from the Medicare and Medicaid programs accounted for approximately 79% and 78% of the Hospital's net patient service revenue for the years ended December 31, 2012 and 2011, respectively.

There are various proposals at the federal and state levels that could, among other things, significantly reduce payment rates or modify payment methods. The ultimate outcome of these proposals and other market changes, including the potential effects of heath care reform that has been 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.

Laws and regulations governing the Medicare and Medicaid programs are complex and 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. The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that could have a material adverse effect on its financial statements. Noncompliance with such laws and regulations could result in fines, penalties, and exclusion from such programs.

Assets Limited as to Use: Assets so classified represent assets whose use is restricted for specific purposes under internal designation or terms of agreements. The Hospital reports investments in equity securities with readily determinable fair values and all investments in debt securities at fair value based on quoted market prices. Investment income or loss (including realized gains or losses on investments, interest, and dividends) is included in other revenue in the accompanying consolidated statements of operations and changes in net assets, unless the income or loss is temporarily or permanently restricted by explicit donor stipulations. All investments are classified as trading securities.

2. Summary of Significant Accounting Policies (continued)

Investment in Limited Liability Company: The Hospital accounts for its investment in HF Management Services, LLC, a limited liability company (the "LLC"), under the equity method of accounting. For the years ended December 31, 2012 and 2011, the Hospital recorded its equity in the income of the LLC of approximately $5.9 million and $5.5 million, respectively, and distributions received from the LLC of approximately $2.1 million and $3.2 million, respectively.

Classification of Net Assets: The Hospital separately accounts for and reports donor restricted and unrestricted net assets. Unrestricted net assets are not externally restricted for identified purposes by donors or grantors. Unrestricted net assets include resources that the governing board may use for any designated purpose and resources whose use is limited by agreement between the Hospital and an outside party other than the donor or grantor.

Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time frame or purpose. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions in the accompanying consolidated statements of operations and changes in net assets.

Permanently restricted net assets have been restricted by donors to be maintained by the Hospital in perpetuity. The Hospital follows the requirements of the New York Prudent Management of Institutional Funds Act ("NYPMIFA") as they relate to its permanently restricted contributions and net assets, effective upon New York State's enactment of the legislation in September 2010. Previously, the Hospital followed the requirements of the Uniform Management of Institutional Funds Act of 1972, although this change did not affect significantly the Hospital's policies related to permanently restricted endowments.

The Hospital has interpreted NYPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund, absent explicit donor stipulations to the contrary. The Hospital classifies as permanently restricted net assets the original value of the gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowment. Accumulated earnings of the permanent endowment are used in accordance with the direction of the applicable donor gift.

The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until the amounts are appropriated for expenditure in accordance with a standard of prudence prescribed by NYPMIFA.

2. Summary of Significant Accounting Policies (continued)

The Hospital considers several factors in making a determination to appropriate or accumulate donor-restricted endowment funds, including but not limited to the following: the duration and preservation of the fund; the purposes of the Hospital and the donor-restricted endowment fund; general economic conditions; the possible effects of inflation and deflation; and the investment and spending policies of the Hospital.

Changes in endowment net assets for the years ended December 31, 2012 and 2011 are summarized in the following table (in thousands):

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at January 1, 2011	$ 784	$ 3,079	$ 3,863
Investment return:			
Investment income	72	–	72
Net depreciation (realized and unrealized)	(100)	–	(100)
Total investment return	(28)	–	(28)
Endowment net assets at December 31, 2011	756	3,079	3,835
Investment return:			
Investment income	**96**	**–**	**96**
Net appreciation (realized and unrealized)	**390**	**–**	**390**
Total investment return	**486**	**–**	**486**
Endowment net assets at December 31, 2012	**$ 1,242**	**$ 3,079**	**$ 4,321**

Property, Buildings, and Equipment: Property, buildings, and equipment are recorded at cost or, if donated, at appraised or fair value at time of donation. Assets acquired under capitalized leases are recorded at the present value of the lease payments at the inception of the lease. Depreciation and amortization are determined by use of the straight-line method over the estimated useful lives of the assets or the lesser of the estimated useful life of the asset or lease term (ranging from 2 to 40 years). Such amortization is included in depreciation and amortization in the accompanying consolidated financial statements. Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. The carrying amount of assets and the related accumulated depreciation and amortization are removed from the accounts when such assets are disposed of, and any resulting gain or loss is included in operations.

Inventory: Inventory, included in other current assets, is stated at the lower of cost (first-in, first-out method) or market. Inventory is used in the provision of patient care and is not held for sale.

2. Summary of Significant Accounting Policies (continued)

Deferred Financing Costs: Deferred financing costs are included in other noncurrent assets and are amortized using the effective interest method over the term of the related debt (see Note 7).

Performance Indicator: The consolidated statements of operations and changes in net assets include 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 within income from operations.

Program Services: The Hospital's program services consist of providing health care and related services, including graduate medical education. For the years ended December 31, 2012 and 2011, expenses related to providing these services are as follows (in thousands):

	2012	2011
Health care and related services	**$ 316,084**	$ 314,853
Program support and general services	**64,740**	55,584
	$ 380,824	$ 370,437

Tax Status: The Hospital, CHC, the Foundation and certain of the PCs are Section 501(c)(3) organizations exempt from Federal income taxes under Section 501(a) of the Internal Revenue Code (the "Code"). Ashland is exempt from Federal income taxes under Section 501(c)(2) of the Code. The organizations are also exempt from New York State and City income taxes. The remaining PCs currently operate as taxable entities; however, certain of the PCs are in the process of filing for tax exemption. The provision for income taxes is not material to the Hospital's consolidated financial statements.

Reclassifications: Certain reclassifications have been made to 2011 balances previously reported in order to conform with the 2012 presentation.

New Accounting Pronouncements: In May 2011, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update No. 2011-04, *Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs* ("ASU No. 2011-04"). ASU No. 2011-04 amended Accounting Standards Codification 820, *Fair Value Measurements*, to converge the fair value measurement guidance in U.S. generally accepted accounting principles ("GAAP") and International Financial Reporting Standards ("IFRSs"). In addition, ASU No. 2011-04 requires additional fair value disclosures. The amendments are to be

2. Summary of Significant Accounting Policies (continued)

applied prospectively and are effective for interim and annual periods beginning after December 15, 2011. The Hospital adopted ASU No. 2011-04 in 2012 and has applied its provisions to the accompanying consolidated financial statements. The Hospital's adoption of ASU No. 2011-04 did not have an effect on the consolidated financial statements and relates only to disclosures.

3. Concentrations of Credit Risk

At December 31, 2012 and 2011, the Hospital has substantially all of its cash deposited in one financial institution and amounts deposited exceed federal depository insurance limits. Investments in money market funds are not guaranteed by the U.S. government.

The Hospital is located in Brooklyn, New York. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Concentrations of gross accounts receivable from patients and third-party payors were as follows:

	December 31	
	2012	**2011**
Medicare	**13%**	13%
Medicaid	**8**	11
Managed Care – governmental payors	**46**	44
Commercial and managed care insurers	**26**	25
All others	**7**	7
	100%	100%

4. Assets Limited as to Use

Assets limited as to use are required to be maintained for the following purposes (in thousands):

	December 31 2012	December 31 2011
Assets under debt agreement with third parties:		
Depreciation reserve fund held by trustee *(Note 7)*	**$ –**	$ 18,798
Mortgage reserve fund *(Note 7)*	**7,324**	–
Debt service funds	**670**	1,988
Capital purchases escrow funds	**21**	57
	8,015	20,843
Temporarily restricted – accumulated endowment earnings	**1,242**	756
Permanently restricted	**3,079**	3,079
Designated for self-insurance *(Note 12)*	**28,014**	36,766
	40,350	61,444
Less current portion of assets limited as to use	**8,107**	10,041
	$ 32,243	$ 51,403

In 2012, the Hospital received approval from the Department of Housing and Urban Development to release approximately $11.1 million from the depreciation reserve fund to pay down its outstanding term loan. The remaining funds were converted to a mortgage reserve fund to meet the required balance under the new mortgage agreement (see Note 7).

The required balance of the mortgage reserve fund for each year through the maturity of the related outstanding debt is as follows (in thousands):

2013-2023	$ 5,954
2024	4,875
2025	1,970

4. Assets Limited as to Use (continued)

Investment return included in other revenue in the consolidated statements of operations and changes in net assets for the years ended December 31, 2012 and 2011 consists of the following (in thousands):

	2012	2011
Interest and dividend income	**$ 846**	$ 1,373
Net realized gains and losses	**945**	871
Change in net unrealized gains and losses on investments	**(624)**	770
Total investment return	**$ 1,167**	$ 3,014

Investment return related to temporarily restricted net assets totaled approximately $0.5 million in 2012.

5. Property, Buildings, and Equipment

A summary of property, buildings, and equipment and accumulated depreciation and amortization is as follows (in thousands):

	December 31 2012	2011
Land	**$ 895**	$ 895
Buildings and improvements	**126,323**	123,603
Fixed equipment	**64,777**	62,769
Movable equipment	**138,300**	129,114
	330,295	316,381
Less accumulated depreciation and amortization	**246,564**	234,172
	83,731	82,209
Construction-in-progress	**1,501**	5,893
	$ 85,232	$ 88,102

Substantially all property, buildings, and equipment have been pledged as collateral under various debt agreements (see Note 7).

5. Property, Buildings, and Equipment (continued)

Property, buildings, and equipment includes gross capitalized leases aggregating approximately $12.3 million and $12.5 million at December 31, 2012 and 2011, respectively, having accumulated amortization of approximately $8.3 million and $5.7 million at December 31, 2012 and 2011, respectively.

6. Short-Term Borrowings

On October 19, 2007 and as part of the Plan of Reorganization, the Hospital entered into a revolving line of credit agreement in accordance with its exit financing credit agreement (see Note 7(b)). The line of credit agreement provided the commitment to make revolving loans in an aggregate amount not to exceed $25.0 million. The line of credit agreement was collateralized by a security interest in a portion of the Hospital's accounts receivable. Interest was payable at LIBOR plus 2.5% (3.06% at December 31, 2011) or could be converted to the Prime rate plus 1.0%. The agreement called for a collection account to be set up for collateralized accounts receivable receipts. The outstanding balance of advances under the line of credit was $10.0 million at December 31, 2011.

On October 31, 2012, the Hospital refinanced the previous revolving line of credit agreement in connection with other debt restructuring activities (see Note 7(b)). Interest on the refinanced line of credit is currently payable at LIBOR plus 2.25% (2.56% at December 31, 2012) or can be converted to the Prime rate plus 1.0%. The outstanding balance of advances under the refinanced line of credit is approximately $13.7 million at December 31, 2012. All other material terms of the refinanced line of credit remained the same as the previous line.

The Hospital maintained a stand-by letter of credit totaling approximately $1.6 million, which expired in February 2013. At December 31, 2012, no draw-downs had been made under the letter of credit agreement.

7. Long-Term Debt

A summary of long-term debt and obligations under capital leases is as follows (in thousands):

	December 31 2012	2011
FHA Section 241 insured mortgage note[a]	**$ 35,360**	$ 36,921
Term loans[b]	**20,000**	45,000
Leases payable at varying amounts of interest and principal through 2015 *(Note 8)*	**3,781**	6,443
	59,141	88,364
Less current portion	**6,312**	4,792
Noncurrent portion	**$ 52,829**	$ 83,572

[a] On March 25, 1999, the Dormitory Authority of the State of New York ("DASNY") issued Federal Housing Administration ("FHA") Insured Mortgage Hospital Revenue Bonds, Series 1999 in the amount of approximately $73.8 million. Simultaneously, the Hospital executed a mortgage approximating $51.5 million, payable in monthly installments of approximately $0.3 million, representing principal and interest, at 5.29% scheduled through August 1, 2026. The mortgage is secured by certain of the Hospital's property and equipment. The FHA mortgage was final-endorsed by the FHA on May 17, 2012, at which time the preliminary mortgage insurance premium was reassessed and a refund of $722,000 was issued to the Hospital (see Note 13).

In accordance with the mortgage provisions, the Hospital established a depreciation reserve fund ("DRF"), with a fair value of approximately $18.8 million at December 31, 2011 (see Note 4). The fund had the characteristics of a sinking fund. In the event of a Hospital default and/or upon receipt of the appropriate approval, the DRF could be used to make principal and interest payments. At December 31, 2011, the Hospital met the depreciation reserve funding requirements.

In December 2012, the DASNY bonds were defeased and refinanced through the issuance of Government National Mortgage Association securities by a commercial lender. In connection therewith, DASNY assigned the Hospital's mortgage to the commercial lender. The mortgage continues to be insured under FHA. This transaction resulted in a reduction in the interest rate of the mortgage loan, effective December 18, 2012 to a fixed rate of 2.01% over the remaining term and resulted in

7. Long-Term Debt (continued)

the Hospital receiving a distribution of approximately $1.4 million. The Hospital recognized the distribution as a gain on extinguishment of debt in the consolidated statement of operations and changes in net assets. The Hospital also recorded approximately $0.9 million in deferred financing costs related to this transaction which are being amortized over the remaining life of the mortgage using the effective interest method and have a balance of approximately $0.9 million as of December 31, 2012. All other material terms of the mortgage remained the same.

Pursuant to the mortgage agreement and related documents, the Hospital is required to maintain certain debt service funds, including a mortgage reserve fund (see Note 4). In addition, the Hospital is required to maintain certain financial ratios and financial conditions. In the event these ratios or conditions are not met, the Hospital may be required to obtain approval to engage in certain transactions. Through December 31, 2012, the Hospital was in compliance with the financial covenants.

(b) On October 19, 2007, the Hospital entered into a credit agreement with two commercial lenders as part of its exit financing under the Plan of Reorganization. The credit agreement included a revolving line of credit agreement (see Note 6) and a term loan agreement (the "2007 Term Loan"). The 2007 Term Loan provided the Hospital with available credit of up to $65.0 million. At December 31, 2011, the balance outstanding under the term loan was $45.0 million. The 2007 Term Loan was initially scheduled to be due October 19, 2012, which was extended to January 19, 2013, with interest payable at LIBOR plus 3.25% (3.82% at December 31, 2011). Under the credit agreement, the Hospital was required to maintain certain financial ratios and financial and other conditions. Through December 31, 2011, the Hospital was in compliance with the financial covenants under the 2007 Term Loan.

Effective October 31, 2012, the Hospital refinanced the revolving line of credit agreement (see Note 6) and the 2007 Term Loan. The refinanced agreement resulted in the extinguishment of the 2007 Term Loan and the issuance of a $20.0 million term loan (the "2012 Term Loan"). The 2012 Term Loan is due October 31, 2017 with principal and interest payable at LIBOR plus 3.25% (3.56% at December 31, 2012). The 2012 Term Loan and revolving line of credit are cross-collateralized by substantially all of the Hospital's property and accounts receivable. Under the credit agreement, the Hospital is required to maintain certain financial ratios and financial and other conditions and to obtain approval to incur additional debt above specified

7. Long-Term Debt (continued)

levels. Through December 31, 2012 the Hospital was in compliance with the financial covenants under the 2012 Term Loan. The Hospital also recorded approximately $1.0 million in deferred financing costs related to this transaction which are being amortized over the remaining life of the mortgage using the effective interest method and have a balance of approximately $1.0 million as of December 31, 2012.

Required principal and capital lease payments applicable to long-term debt for each of the next five years subsequent to December 31, 2012 are as follows (in thousands):

2013	$ 6,312
2014	5,380
2015	5,173
2016	4,425
2017	14,474

The Hospital capitalized interest of approximately $0.1 million and $0.2 million in 2012 and 2011, respectively.

8. Leases

Future minimum lease payments under noncancelable capital leases (with interest rates ranging from 2% to 7%) and operating leases with initial or remaining noncancelable terms in excess of one year as of December 31, 2012 are as follows (in thousands):

	Operating Leases	**Capital Leases**
Year ending December 31:		
2013	$ 2,451	$ 2,218
2014	2,218	1,050
2015	2,274	796
2016	1,669	–
2017	1,313	–
Thereafter	9,305	–
Total minimum lease payments	$ 19,230	4,064
Less amounts representing interest		283
Present value of minimum lease payments (reported with long-term debt) *(Note 7)*		$ 3,781

8. Leases (continued)

The Hospital has noncancelable operating leases, primarily for certain information systems, medical facilities, and office space. Rent expense under such leases was approximately $4.6 million and $3.4 million for the years ended December 31, 2012 and 2011, respectively.

9. Due to Affiliate

Amounts due to affiliate at December 31, 2012 and 2011 consist of amounts payable to The New York and Presbyterian Hospital, a subsidiary of NYP Foundation, Inc., and are related to allocated costs for shared services, accrued interest, and other payables.

10. Retirement Benefits

For employees not covered by multiemployer union plans, the Hospital maintains a defined contribution pension plan. The defined contribution plan offers base and matching contributions paid by the Hospital for eligible employees meeting certain criteria. Base contributions for eligible employees are at the discretion of the Hospital determined annually. Matching contributions are computed at 1% of base salary if the employee voluntarily contributes at least 2% of the employee's salary to the plan. Expense under the Hospital's defined contribution plan totaled $0.9 million and $1.5 million in 2012 and 2011, respectively.

The Hospital participates in two noncontributory defined benefit multiemployer pension plans that cover substantially all union employees. The Hospital's contributions to such plans are based upon rates required under the respective union contracts. Information at December 31, 2012 regarding the Hospital's share of accumulated plan benefits and plan net assets for these multiemployer union plans is not presently available. Total pension expense under these plans amounted to approximately $8.4 million and $7.8 million for the years ended December 31, 2012 and 2011, respectively.

In relation to the two multiemployer defined benefit pension plans that cover the Hospital's union-represented employees, the risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:

- Assets contributed to a multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to a plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

10. Retirement Benefits (continued)

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

The Hospital's participation in these plans for the years ended December 31, 2012 and 2011 is outlined in the table below. The information included in this table is as follows:

- The "EIN/Pension Plan Number" column provides the Employee Identification Number ("EIN") and the three-digit plan numbers.
- The Pension Plan Protection Act of 2006 ("PPA") zone status is based on information that the Hospital received from the plans and is certified by the plans' 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 2012 and 2011 is for the plan's year-end at December 31, 2011 and December 31, 2010, 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 column "Surcharge Imposed" indicates whether the Hospital was required to pay a surcharge to the plan.
- The last column lists the expiration dates of the collective-bargaining agreements to which the plans are subject.

10. Retirement Benefits (continued)

The number of employees covered by the Hospital's multiemployer plans did not change significantly from 2011 to 2012. Contribution rates required to be paid to the plans have increased from 2011 to 2012. The Hospital was not identified in its plans' 2011 Forms 5500 as providing more than 5% of total plan contributions.

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status 2012	Pension Protection Act Zone Status 2011	FIP/RP Status Pending Implemented	Contributions of the Hospital 2012	Contributions of the Hospital 2011	Surcharge Imposed	Expiration Date of Collective-Bargaining Agreement
					(In Thousands)			
The New York State Nurses Association Pension Plan	EIN 13-6604799 Plan 001	Green	Green	No	$ 3,700	$ 3,700	No	9/12/2014
1199 SEIU Health Care Employees Pension Fund	EIN 13-3604862 Plan 001	Green	Green	Rehabilitation Plan adopted in 2010	$ 4,700	$ 4,100	No	4/30/2015

Effective January 1, 2009, the Internal Revenue Service ("IRS") issued final regulations for purposes of determining common control for qualified retirement plans sponsored by tax-exempt organizations. In general, tax-exempt entities that are under common control are treated as one entity for certain of the requirements of qualified plans. The regulations determine control based on facts and circumstances; for this purpose, common control would exist if, among other situations, at least 80% of the directors or trustees of one organization were either representatives of or directly or indirectly controlled by, another organization. These regulations could have an effect on the operations of the Hospital's and its related entities' retirement plans and the responsibilities of those entities for associated liabilities, although such effects are uncertain at this time.

11. Commitments and Contingencies

Various lawsuits and claims arising in the normal course of operations are pending or are in progress against the Hospital. Such lawsuits and claims are either specifically covered by insurance, accrued for in the Hospital's consolidated financial statements, or are not deemed material. While the outcome of these lawsuits cannot be determined at this time, management, based on advice from legal counsel, believes that any loss which may arise from these actions will not have a material adverse effect on the accompanying consolidated financial statements.

At December 31, 2012, approximately 74% of the Hospital's employees are covered by collective bargaining agreements. Collective bargaining agreements covering such employees are set to expire at various dates through April 2015.

12. Professional Insurance Liabilities

All of the Hospital's outstanding malpractice exposures as of September 30, 2005 were settled as part of the Plan of Reorganization. Effective October 1, 2005, the Hospital is self-insured for professional liability exposures and maintains a self-insurance trust for funding such exposures accruing on or after that date. The total estimated undiscounted professional liabilities for exposure since October 1, 2005, including amounts for asserted claims and for incidents that have been incurred but not yet reported, as of December 31, 2012 and 2011 aggregated approximately $38.2 million and $43.0 million, respectively. The actuarially determined present value of the professional liabilities for this period is approximately $34.3 million and $38.2 million at December 31, 2012 and 2011, respectively, based on a discount rate of 4.0% and 4.5% at December 31, 2012 and 2011, respectively. Professional liabilities are discounted based on the expected timing of the actuarially estimated future payments under the program using an interest rate expected to be earned on related invested assets during such future periods. Such estimates are reviewed and updated on an annual basis. As of December 31, 2012 and 2011, the self-insurance trust fund applicable to the self-insured period since October 1, 2005 had a balance of approximately $28.0 million and $36.8 million, respectively. Beginning in April 2008, the Hospital has maintained an excess coverage policy from a commercial carrier. Potential professional liability insurance recovery receivables under the excess coverage policy at December 31, 2012 are not significant and no amounts have been recorded in the accompanying consolidated financial statements. In addition, the Hospital maintains a commercial comprehensive general liability policy.

The estimates for professional liabilities are based upon complex actuarial calculations which utilize factors such as historical claim experience for the Hospital and related industry factors, trending models, estimates for the payment patterns of future claims, and present value discounting factors. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Revisions to estimated amounts resulting from actual experience differing from projected expectations are recorded in the period the information becomes known or when changes are anticipated.

Professional liability claims have been asserted against the Hospital by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. There are known incidents that have occurred through December 31, 2012 that may result in the assertion of additional claims, and other claims may be asserted arising from services provided to patients since October 1, 2005. It is the opinion of the Hospital's management, based on prior experience and the advice of legal counsel and consulting actuaries, that any loss which may arise from these claims will not have a material adverse effect on its consolidated financial position or results of operations.

13. Other Revenue

Other revenue consists of the following for the years ended December 31, 2012 and 2011 (in thousands):

	2012	2011
Grant revenue	**$ 7,638**	$ 6,260
Rental income	**2,014**	1,604
Investment return *(Note 4)*	**1,167**	3,014
Undergraduate medical education income	**5,431**	5,949
Equity income in LLC	**5,933**	5,549
Cafeteria sales	**854**	767
Contributions	**1,344**	1,077
Electronic health records incentive payments	**4,004**	5,292
Net assets released from restrictions	**844**	398
Mortgage insurance premium refund *(Note 7)*	**722**	–
Other	**797**	834
	$ 30,748	$ 30,744

The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act ("HITECH"). The provisions were designed to increase the use of electronic health record ("EHR") technology and establish the requirements for a Medicare and Medicaid incentive payment program beginning in 2011 for eligible providers that adopt and meaningfully use certified EHR technology. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. Initial Medicaid incentive payments are available to providers that adopt, implement or upgrade certified EHR technology. In subsequent years, providers must demonstrate meaningful use of such technology to qualify for additional Medicaid incentive payments. Hospitals that do not successfully demonstrate meaningful use of EHR technology are subject to payment penalties or downward adjustments to their Medicare payments beginning in federal fiscal year 2015.

The Hospital uses a grant accounting model to recognize revenue for the Medicare and Medicaid EHR incentive payments. Under this accounting policy, EHR incentive payment revenue is

13. Other Revenue (continued)

recognized when the Hospital is reasonably assured that the EHR meaningful use criteria for the required period of time were met and that the grant revenue will be received. EHR incentive payment revenue totaling $4.0 million and $5.3 million (Medicare: $1.8 million and $2.4 million; Medicaid: $2.2 million and $2.9 million, for 2012 and 2011, respectively) for the years ended December 31, 2012 and 2011, respectively, is included in other revenue. Income from Medicare incentive payments is subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were calculated. Additionally, the Hospital's attestation of compliance with the meaningful use criteria is subject to audit by the federal government.

In March 2010, the IRS announced that, for periods ending before April 1, 2005, medical residents would be eligible for the student exception of Federal Insurance Contributions Act ("FICA") taxes. Under the student exception, FICA taxes do not apply to wages for services performed by students employed by a school, college, or university where the student is pursuing a course of study. As a result, the IRS will allow refunds for institutions that file timely FICA refund claims and provide certain information to meet the requirements of perfection, established by the IRS, for their claims applicable to periods prior to April 1, 2005. Institutions are potentially eligible for medical resident FICA refunds for both the employer and employee portions of FICA taxes paid, plus statutory interest.

During 2010, the Hospital recorded an estimated net gain of approximately $2.0 million related to the Hospital's portion of the medical resident FICA refund claims and accumulated interest that are expected to meet the IRS requirements to be eligible for refunds. During 2012, the Hospital received a distribution of approximately $3.0 million of the $3.5 million receivable recorded as of December 31, 2011. At December 31, 2012, the Hospital has a remaining receivable of approximately $0.5 million, included in other receivables, net, and a liability related to the portion of the refunds collected on behalf of, and, therefore, to be remitted to the medical residents of approximately $1.5 million, included in other noncurrent liabilities. The Hospital has established these estimates based on information presently available; the estimates are subject to change as the IRS adjudicates the claims.

14. Charity Care, Other Uncompensated Services, and Community Service

The Hospital maintains documentation to identify and monitor the level of charity care it provides. This documentation includes, but is not limited to, the amount of charges forgone for services furnished to individuals with limited resources, either fully or in part, which may be discounted under certain sliding fee schedule arrangements, or deemed ultimately uncollectible. In addition, the Hospital provides outpatient clinic and emergency services to other indigent patients under the Medicaid program, which reimburses hospitals at levels less than the costs of the services provided.

14. Charity Care, Other Uncompensated Services, and Community Service (continued)

As the collection of amounts determined to qualify as charity care is not pursued, such services are not reported as patient revenue. The estimated cost of charity care includes the direct and indirect cost of providing such services and is estimated utilizing the Hospital's ratio of cost to gross charges, which is then multiplied by the gross uncompensated charges associated with providing care to charity patients. The estimated cost of charity care and other uncompensated care provided approximated $34.6 million and $30.6 million for the years ended December 31, 2012 and 2011, respectively.

The NYSDOH Hospital Indigent Care Pool (the "Pool") was established to help hospitals subsidize the cost of uncompensated care and is funded, in part, by a 1% assessment on hospital net inpatient service revenue. During the years ended December 31, 2012 and 2011, the Hospital recorded approximately $10.6 million and $10.5 million, respectively, in Pool distributions and paid approximately $1.6 million and $1.5 million, respectively, for the 1% assessment.

15. Fair Value Measurements

The Hospital utilizes various methods of calculating fair value of its financial assets and liabilities, when applicable. Fair value is defined as 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).

The Hospital uses a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

15. Fair Value Measurements (continued)

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, 2012 and 2011 are classified in the table below in one of the three categories described above (in thousands):

	Level 1	Level 2	Level 3	Total
December 31, 2012:				
Cash and cash equivalents	**$ 17,514**	**$ –**	**$**	**$ 17,514**
Investments:				
Equity mutual funds	**481**	**–**	**–**	**481**
Fixed income mutual funds	**292**	**–**	**–**	**292**
Total investments	**773**	**–**	**–**	**773**
Assets limited as to use:				
Cash and cash equivalents	**9,478**	**–**	**–**	**9,478**
U.S. Treasury securities	**12,124**	**–**	**–**	**12,124**
U.S. governmental agencies securities	**–**	**5,492**	**–**	**5,492**
Corporate bonds	**–**	**8,997**	**–**	**8,997**
Equities:				
Equity mutual funds	**2,613**	**–**	**–**	**2,613**
Fixed income mutual funds	**1,646**	**–**	**–**	**1,646**
Total assets limited as to use	**25,861**	**14,489**	**–**	**40,350**
Total assets at fair value	**$ 44,148**	**$ 14,489**	**$ –**	**$ 58,637**
December 31, 2011:				
Cash and cash equivalents	$ 24,246	$ –	$ –	$ 24,246
Investments				
Equity mutual funds	235	–	–	235
Fixed income mutual funds	157	–	–	157
Total investments	392	–	–	392
Assets limited as to use:				
Cash and cash equivalents	11,320	–	–	11,320
U.S. Treasury securities	20,906	–	–	20,906
U.S. governmental agencies securities	–	10,615	–	10,615
Corporate bonds	–	14,868	–	14,868
Equities:				
Equity mutual funds	2,246	–	–	2,246
Fixed income mutual funds	1,489	–	–	1,489
Total assets limited as to use	35,961	25,483	–	61,444
Total assets at fair value	$ 60,599	$ 25,483	$ –	$ 86,082

15. Fair Value Measurements (continued)

Fair value for Level 1 assets is based upon quoted market prices. Level 2 assets consist of certain fixed income securities for which the fair value at each year end is estimated based on quoted prices and other valuation considerations (e.g. credit quality and prevailing interest rates).

The Hospital's long-term debt obligations, excluding capital leases, are reported in the accompanying consolidated statements of financial position at carrying value which totaled approximately $55.4 million and $81.9 million at December 31, 2012 and 2011, respectively. The fair value of these obligations at December 31, 2012 and 2011 as estimated based on quoted market prices for related bonds, other valuation considerations and estimates such as discounted cash flows totaled $55.1 million and $80.3 million, respectively. The fair value of the long-term debt obligations is classified as Level 2 in the fair value hierarchy.

16. Subsequent Events

Subsequent events have been evaluated through April 10, 2013, which is the date the consolidated financial statements were issued. No subsequent events have occurred that require disclosure in or adjustment to the consolidated financial statements.

Supplementary Information

The Brooklyn Hospital Center and Subsidiaries

Consolidating Statement of Financial Position

December 31, 2012
(In Thousands)

	The Brooklyn Hospital Center	Caledonian Health Center, Inc.	The Brooklyn Hospital Foundation, Inc. and Subsidiaries	Physician Professional Corporations	Subtotal	Eliminations	Consolidated Total
Assets							
Current assets:							
Cash and cash equivalents	$ 16,126	$ 6	$ 1,204	$ 178	$ 17,514	$ –	$ 17,514
Investments	–	–	773	–	773	–	773
Assets limited as to use, current portion	8,107	–	–	–	8,107	–	8,107
Accounts receivable:							
Patient care, net	47,733	79	–	–	47,812	–	47,812
Other receivables, net	4,612	–	911	2,530	8,053	–	8,053
Total accounts receivable, net	52,345	79	911	2,530	55,865	–	55,865
Due from affiliates	109,385	–	–	–	109,385	(109,385)	–
Other current assets	5,311	12	9	–	5,332	–	5,332
Total current assets	191,274	97	2,897	2,708	196,976	(109,385)	87,591
Estimated receivable due from third-party payors	8,235	–	–	–	8,235	–	8,235
Assets limited as to use, net of current portion	32,243	–	–	–	32,243	–	32,243
Property, buildings, and equipment, net	84,145	–	1,087	–	85,232	–	85,232
Other noncurrent assets, net	38,624	–	–	–	38,624	–	38,624
Total assets	$ 354,521	$ 97	$ 3,984	$ 2,708	$ 361,310	$ (109,385)	$ 251,925

The Brooklyn Hospital Center and Subsidiaries

Consolidating Statement of Financial Position (continued)

December 31, 2012
(In Thousands)

	The Brooklyn Hospital Center	Caledonian Health Center, Inc.	The Brooklyn Hospital Foundation, Inc. and Subsidiaries	Physician Professional Corporations	Subtotal	Eliminations	Consolidated Total
Liabilities and net assets							
Current liabilities:							
Short-term borrowings	$ 13,695	$ –	$ –	$ –	$ 13,695	$ –	$ 13,695
Current portion of long-term debt	6,312	–	–	–	6,312	–	6,312
Accounts payable and accrued expenses	39,344	–	58	–	39,402	–	39,402
Accrued salaries and related liabilities	17,303	–	–	–	17,303	–	17,303
Due to affiliates	671	27,512	1,739	80,134	110,056	(109,385)	671
Current portion of professional insurance liabilities	7,437	–	–	–	7,437	–	7,437
Total current liabilities	84,762	27,512	1,797	80,134	194,205	(109,385)	84,820
Long-term debt, net of current installments	52,829	–	–	–	52,829	–	52,829
Other noncurrent liabilities	4,675	–	–	–	4,675	–	4,675
Professional insurance liabilities	26,815	–	–	–	26,815	–	26,815
Estimated liabilities due to third-party payors	6,832	–	–	–	6,832	–	6,832
Total liabilities	175,913	27,512	1,797	80,134	285,356	(109,385)	175,971
Net assets:							
Unrestricted net assets	173,955	(27,415)	973	(77,426)	70,087	–	70,087
Temporarily restricted net assets	1,574	–	1,214	–	2,788	–	2,788
Permanently restricted net assets	3,079	–	–	–	3,079	–	3,079
Total net assets	178,608	(27,415)	2,187	(77,426)	75,954	–	75,954
Total liabilities and net assets	$ 354,521	$ 97	$ 3,984	$ 2,708	$ 361,310	$ (109,385)	$ 251,925

The Brooklyn Hospital Center and Subsidiaries

Consolidating Statement of Operations

Year Ended December 31, 2012
(In Thousands)

	The Brooklyn Hospital Center	Caledonian Health Center, Inc.	The Brooklyn Hospital Foundation, Inc. and Subsidiaries	Physician Professional Corporations	Subtotal	Eliminations	Consolidated Total
Revenue							
Net patient service revenue	$ 348,182	$ 1,029	$ –	$ 20,617	$ 369,828	$ –	$ 369,828
Provision for bad debts	(16,264)	(166)	–	–	(16,430)	–	(16,430)
Net patient service revenue less provision for bad debts	331,918	863	–	20,617	353,398	–	353,398
Other revenue	29,975	–	2,614	715	33,304	(2,556)	30,748
Total revenue	361,893	863	2,614	21,332	386,702	(2,556)	384,146
Expenses							
Salaries and wages	171,330	611	474	22,234	194,649	–	194,649
Employee benefits	47,274	162	65	3,446	50,947	–	50,947
Medical supplies	29,665	53	–	25	29,743	–	29,743
Other	70,923	260	1,439	3,230	75,852	(2,556)	73,296
Insurance	10,096	–	–	4,831	14,927	–	14,927
Depreciation and amortization	12,356	–	304	–	12,660	–	12,660
Interest and amortization of deferred financing fees	4,602	–	–	–	4,602	–	4,602
Total expenses	346,246	1,086	2,282	33,766	383,380	(2,556)	380,824
Income from operations	15,647	(223)	332	(12,434)	3,322	–	3,322
Grants received for the purchase of fixed assets	623	–	–	–	623	–	623
Gain on extinguishment of debt	1,379	–	–	–	1,379	–	1,379
Excess (deficiency) of revenue over expenses	$ 17,649	$ (223)	$ 332	$ (12,434)	$ 5,324	$ –	$ 5,324

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