

Ernst & Young LLP



Financial Statements

Years Ended December 31, 2011 and 2010

Contents

Report of Independent Auditors	1
Balance Sheets	2
Statements of Operations	3
Statements of Changes in Net Assets (Deficiency)	4
Statements of Cash Flows	5
Notes to Financial Statements	6



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Report of Independent Auditors

The Board of Trustees Interfaith Medical Center

We have audited the accompanying balance sheets of Interfaith Medical Center (the "Medical Center") as of December 31, 2011 and 2010, and the related statements of operations, changes in net assets (deficiency) and cash flows for the years then ended These financial statements are the responsibility of the Medical Center'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 Medical Center'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 Medical Center'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 financial position of Interfaith Medical Center at December 31, 2011 and 2010, and the results of its operations, changes in its net assets (deficiency) and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States

The accompanying financial statements have been prepared assuming that the Medical Center will continue as a going concern. As more fully described in Note 1, the Medical Center has significant deficiencies in working capital and net assets and has incurred recurring operating losses. In addition, the Medical Center has not complied with certain requirements and covenants of its loan agreements. These conditions raise substantial doubt about the Medical Center's ability to continue as a going concern Management's plans in regard to these matters are also described in Note 1. The 2011 financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

As more fully discussed in Note 1 to the accompanying financial statements, in 2011 the Medical Center changed its financial statement reporting entity to exclude IM Foundation retrospective to January 1, 2010. The accompanying financial statements for all periods include the accounts of the Medical Center only.

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Balance Sheets

(In Thousands)

	December 31			31
		2011		2010
			Ŀ	ls Adjusted)
Assets				
Current assets				
Cash and eash equivalents	\$	9,915	\$	2,531
Receivables for patient care, net of allowance for uncollectible accounts				
of \$42,230 in 2011 and \$27,725 in 2010		18,412		17,053
Other accounts receivable		2,754		1,304
Inventories		580		1,077
Prepaid expenses		262		149
Due from third-party payors		9,300		10,850
Due from IM Foundation		526		388
Current portion of assets whose use is limited		5,604		7,414
Total current assets		47,353		40,766
Assets whose use is limited, net of current portion		17,418		18,754
Property, plant and equipment, net		86,564		99,416
Deferred financing costs, net		1,922		2,121
Other assets		13,441		10,112
Due from third-party payors		41		1,429
Total assets	\$	166,739	\$	172,598
Liabilities and net assets (deficiency)				
Current liabilities				
	\$	23,034	\$	20,980
Accounts payable and accrued expenses Accrued salaries and related liabilities	3		D	
		8,573		10,443 2,285
Accrued bond interest payable		2,225		
Current portion of due to third-party payors		6,059		4,104
Current portion of self-insured professional liabilities		5,145		6.357
Long-term debt in default		133,061		3,460
Current portion of long-term debt		1,456		3,735
Due to IM Foundation		9,810		_
Deferred revenue		_		346
Total current liabilities		189,363		51,710
Self-insured professional liabilities, net of current portion		61,038		64.885
Accrued retirement benefits		52,368		26,989
Due to third-party payors and other liabilities, net of current portion		23,982		22,387
Long-term debt, net of long-term debt in default and current portion of long-term debt		22,348		153,449
Total liabilities		349,099		319,420
Commitments and contingencies				
Net assets (deficiency)				
Unrestricted		(183,629)		(150,368)
Temporarily restricted		160		2,437
Permanently restricted		1,109		1,109
Total net assets (deficiency)		(182,360)		(146,822)
Total liabilities and net assets (deficiency)	\$	166,739	\$	172,598

See accompanying notes

Statements of Operations

(In Thousands)

	Year Ended December 31			
		2011		2010
			(A.	s Adjusted)
Operating revenue				
Net patient service revenue	\$	194,531	\$	191,188
Other revenue		7,754		3,130
Net assets released from restrictions		6,500		4,101
Total operating revenue		208,785		198,419
Operating expenses				
Salaries and wages		104,070		114,943
Employee benefits		31,458		33,153
Supplies and other expenses		46,651		75,173
Provision for bad debts		14,505		8,270
Depreciation and amortization		14,952		15,484
Asset impairment loss		_		7,300
Interest		6,603		6,894
Total operating expenses		218,239		261,217
Deficiency of operating revenue over operating expenses		(9,454)		(62,798)
Change in net assets related to defined benefit pension plans				
liability to be recognized in future periods		(23,807)		(2,673)
Decrease in unrestricted net assets	\$	(33,261)	\$	(65,471)

See accompanying notes.

Statements of Changes in Net Assets (Deficiency)

(In Thousands)

		Temporarily	Permanently	
	Unrestricted	Restricted	Restricted	Total
	.	.		
Net assets (deficiency), January 1, 2010 (as adjusted)	\$ (84,897)	\$ 2,443	\$ 1,109	\$ (81,345)
Decrease in unrestricted net assets	(65,471)	_	_	(65,471)
Net assets released from restrictions	_	(4,101)	_	(4,101)
Contributions and grants		4,095	_	4,095
Change in net assets (deficiency)	(65,471)	(6)	_	(65,477)
Net assets (deficiency), December 31, 2010	(150,368)	2,437	1,109	(146,822)
Decrease in unrestricted net assets	(33,261)	_	_	(33,261)
Net assets released from restrictions	_	(6,500)	_	(6,500)
Contributions and grants		4,223	_	4,223
Change in net assets (deficiency)	(33,261)	(2,277)	_	(35,538)
Net assets (deficiency). December 31, 2011	\$ (183,629)	\$ 160	\$ 1,109	\$ (182,360)

See accompanying notes

Statements of Cash Flows

(In Thousands)

	Year Ended December 31 2011 2010			
		(2	As Adjusted)	
Operating activities		(2= =22) A	(
Change in net assets (deficiency)	\$	(35,538) \$	(65,477)	
Adjustments to reconcile change in net assets (deficiency) to				
net cash used in operating activities				
Depreciation and amortization, including deferred financing		14.421	14.052	
costs and original issue premium Asset impairment loss		14,421	14,953 7,300	
Changes in operating assets and liabilities		_	7.300	
Receivables for patient care, net		(1,359)	8,833	
Other accounts receivable		(1,450)	(110)	
Inventories		497	493	
Prepaid expenses		(113)	(10)	
Other assets		(3,329)	(1.541)	
Accounts payable and accrued expenses		2,054	8,654	
Accrued salaries and related liabilities		(1,870)	994	
Accrued bond interest payable		(60)	_	
Self-insured professional liabilities		(5,059)	7,767	
Accrued retirement benefits		25,379	2,721	
Due from and to third-party payors and other		·		
long-term liabilities, net		6,488	2,055	
Due from/to IM Foundation, net		9,672	(226)	
Deferred revenue		(346)	346	
Net cash used in operating activities		9,387	(13,248)	
Investing activities				
Capital expenditures		(2,100)	(9,438)	
Net change in assets whose use is limited		3,146	21,104	
Net cash provided by investing activities		1,046	11,666	
Financing activities				
Proceeds from restructuring pool loan		2,000	_	
Repayments of secured bonds payable		(3,595)	_	
Repayments of capital lease obligations and note payable		(1,454)	(1,287)	
Net cash used in financing activities		(3,049)	(1,287)	
Net increase (decrease) in cash and cash equivalents		7,384	(2,869)	
Cash and cash equivalents, beginning of year		2,531	5,400	
Cash and cash equivalents, end of year	\$	9,915 \$	2,531	
Supplemental disclosure of cash flow information				
Cash paid during the year for interest	\$	6,663 \$	7,427	

See accompanying notes

Notes to Financial Statements

December 31, 2011

1. Organization and Basis of Presentation

Organization

Interfaith Medical Center (the "Medical Center") is a not-for-profit acute care hospital with 287 licensed beds providing a full range of health care services primarily to residents of central Brooklyn, New York

In 1983, under an agreement to merge, the Medical Center assumed the operations of two acute care hospitals, Jewish Hospital and Medical Center of Brooklyn ("JHMCB") and St John's Episcopal Hospital ("SJEH"), the Brooklyn Division of the Episcopal Health Services, Inc ("EHS") (formerly the Church Charity Foundation)

Change in Reporting Entity

In 2011, the Medical Center changed its financial statement reporting entity to exclude IM Foundation (the "Foundation") retrospective to January 1, 2010. The Foundation is a not-for-profit organization whose purpose is to support the charitable, educational and scientific purposes of the Medical Center or other charitable organizations throughout the central Brooklyn community. As both entities are not-for-profit organizations which operate under common management, it is permissible under U.S. generally accepted accounting principles to present a combined reporting entity. In 2011, the Board of Trustees of the Medical Center determined that presenting Medical Center-only financial statements would provide a better understanding of the Medical Center's financial condition. The change in reporting entity was retrospectively applied to the financial statements of the Medical Center for all periods presented. The impact of the change in reporting entity on previously reported financial statement line items is as follows.

	P	Amounts reviously Reported	A	djustments	As	Adjusted
Balance sheet – December 31, 2010						
Assets limited as to use, net of current portion	\$	32,112	\$	(13,358)	\$	18,754
Due from IM Foundation		_		388		388
Total assets		185,568		(12.970)		172,598
Unrestricted net assets (deficiency)		(137,398)		(12.970)		(150,368)
Total net assets (deficiency)		(133.852)		(12.970)		(146.822)
Total liabilities and net assets		185,568		(12.970)		172,598

Notes to Financial Statements (continued)

1. Organization and Basis of Presentation (continued)

	P	Amounts Previously				
		Reported	A	djustments	As	s Adjusted
Statement of operations – year ended December 31, 2010						
Other revenue	\$	3,321	\$	(191)	\$	3,130
Total revenue		198,610		(191)		198,419
Supplies and other expenses		75,396		(223)		75,173
Total operating expenses		261,440		(223)		261,217
Deficiency of operating revenue over operating expenses		(62.830)		32		(62.798)
Decrease in unrestricted net assets		(65.503)		32		(65,471)
Statement of changes in net assets						
Net assets (deficiency), January 1, 2010	\$	(68,343)	\$	(13,002)	\$	(81,345)
Decrease in unrestricted net assets – year ended						
December 31, 2010		(65,503)		32		(65.471)
Net change in net assets (deficiency) – year ended						
December 31, 2010		(65,509)		32		(65.477)
Net assets (deficiency). December 31, 2010		(133,852)		(12.970)		(146,822)
Statement of cash flows – year ended December 31, 2010						
Net change in net assets (deficiency)	\$	(65,509)	\$	32	\$	(65,477)
Due from IM Foundation		_		(226)		(226)
Net cash used in operating activities		(13.054)		(194)		(13,248)
Net change in assets whose use is limited		20,910		194		21,104
Net cash provided by investing activities		11,472		194		11,666

Basis of Presentation – Going Concern

At December 31, 2011, the Medical Center has an unrestricted net asset deficiency of approximately \$183 6 million and a working capital deficiency of approximately \$142 0 million Additionally, in 2011, the Medical Center did not meet its debt service fund requirements with respect to certain of its long-term debt agreements and was not in compliance with certain covenants of its loan agreements (see Note 5) As a result, the Medical Center is in default under these debt agreements which could result in the acceleration of substantially all of the Medical Center's long-term debt

Notes to Financial Statements (continued)

1. Organization and Basis of Presentation (continued)

In 2011 and 2010, the Medical Center met the criteria to receive funds from the Indigent Care Pool (the "Pool") under the third-party payment methodology in accordance with the New York State Commissioner of Health's Administrative Rules and Regulations The Pool is designed to financially assist medical facilities that provide medical care to low income patients and might be adversely affected because revenues from those patients are insufficient to cover costs due to losses from bad debts and costs of charity care The Medical Center recorded revenue approximating \$14.7 million and \$15.5 million in 2011 and 2010, respectively, for amounts received, or to be received, from the Pool Continued availability of payments from, and funding of, the Pool is not certain

The Medical Center's continued existence is dependent upon future operations in which cash revenue exceeds expenses to provide for the maintenance of adequate working capital and reduction of the net asset deficiency. For this to occur, continuation of funding and additional financial support from the New York State Department of Health ("NYSDOH") is required, along with favorable results of other matters discussed below, which cannot be assured

Management's plans for dealing with the historical and ongoing effects of the net asset deficiency are focused on cost reduction, revenue enhancement, program evaluation, improving patient and clinical risk management, and shared or integrated services with other health care providers However, challenges in patient volume and patients' insured status or ability to pay for services create significant uncertainties in billing and collection for services rendered Changes in reimbursement methodologies associated with federal and New York State health care reform are expected to affect financial operations unfavorably based on reductions in reimbursement rates and transition of insured patients from traditional government programs into commercial managed care products Management expects to continue to receive funds from uncompensated care pools, although amounts to be received in future years could vary due to, but not limited to, increases or decreases in need for other New York State hospitals, revisions to distribution methodologies, and federal or state budget deficits that reduce funding of the pool

Additionally, in June 2011, a task force was established as part of New York State's Medicaid Redesign Team, and began examining data and utilization patterns at several financially challenged Brooklyn hospitals, including the Medical Center One of the principal recommendations of the task force is the formation of an affiliation among the Medical Center and certain other providers in the Brooklyn geography The Medical Center is engaged in discussions with the other entities about how such recommendation might be implemented, although it is unclear how such a plan will materialize, what structure a potential collaboration or affiliation might take, and the effects and timing, all of which cannot be determined at this time

Notes to Financial Statements (continued)

1. Organization and Basis of Presentation (continued)

The Medical Center's working capital requirements are significantly affected by the timing of cash payments associated with its estimated long-term self-insured professional liabilities, amounts due to third-party payors and future pension funding While the classification of long-term estimates in the financial statements is based on historical and expected payment patterns, there is a high degree of uncertainty with respect to the timing of future cash payments Should amounts be due sooner than anticipated or in excess of amounts recorded, the Medical Center's working capital would be adversely affected, and such amounts could be material

The above matters raise substantial doubt about the Medical Center's ability to continue as a going concern The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of 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 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 financial statements, estimates relate primarily, although not exclusively, to the estimated loss related to asset impairment, 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 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

Tax Status

The Medical Center qualifies as a Section 501(c)(3) tax-exempt organization under Section 501(a) of the Internal Revenue Code and its income is not subject to federal, New York State, or local income taxes

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid financial instruments with a maturity, when purchased, of three months or less, excluding amounts included in assets whose use is limited. The Medical Center maintains cash on deposit with major banks and invests in money market securities with high credit quality financial institutions. Total deposits maintained at these institutions at times exceed the amount insured by federal agencies and, therefore, bear a risk of loss

Assets Whose Use Is Limited

Assets reported within assets whose use is limited represent cash and investments whose use is restricted for specific purposes under internal designation or terms of agreements All investments are considered trading securities

Inventories of Supplies

Inventories are stated at the lower of cost (first-in, first-out method) or market Inventories are used in the provision of patient care and are not held-for-sale

Property, Plant and Equipment

Property, plant and equipment purchased are carried at cost and those acquired by gifts and bequests are carried at fair value established at date of contribution Capital leases are recorded at the present value of future minimum lease payments at the inception of the leases and the related amortization of these assets is included in depreciation expense Depreciation expense is computed using the straight-line method over the estimated useful lives of such assets or the lesser of the estimated useful life of the asset or lease term

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 loss to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value (see Note 4)

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Deferred Financing Costs

Deferred financing costs represent costs incurred to obtain long-term financing Amortization of these costs is provided using the effective interest method over the term of the indebtedness Amortization, included in interest expense in the accompanying statements of operations, is approximately \$199,000 for the years ended December 31, 2011 and 2010

Receivables for Patient Care

Patient accounts receivable for which the Medical Center receives payment under cost reimbursement, prospective payment formulae or negotiated rates, which cover the majority of patient services, are stated at the estimated net amounts receivable from payors, which are generally less than the established billing rates of the Medical Center

The amount of the allowance for uncollectibles is based on management's assessment of historical and expected collections, business economic conditions, trends in health care coverage, and other collection indicators. Additions to the allowance for uncollectible accounts result from the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance for uncollectible accounts.

Net Patient Service Revenue

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 provided, and adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations

Non-Medicare Payments

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 Effective December 1, 2009, the New York State payment methodology was updated such that payments to hospitals for Medicaid, workers' compensation and no-fault

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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 Medical Center 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

Medicare Payments

Medicare pays hospitals for most inpatient and outpatient services under its respective national prospective payment systems, and uses other, generally fee-schedule based, methodologies for payment for other services Federal regulations provide for certain adjustments to current and prior years' payment rates, based on industry-wide and hospital-specific data

The Medical Center has established estimates, based on information presently available, of amounts due to or from payors for adjustments to current and prior years' payment rates, based on industry-wide and Medical Center-specific data. These retroactive settlements are estimated and recorded in the financial statements in the year to which they apply. The estimated settlements recorded at December 31, 2011 and 2010 could differ materially from actual settlements based on the results of cost report audits and other events. For the years ended December 31, 2011 and 2010, the net effects of prior years' changes in estimates, adjustments and settlements related to third-party payor programs were approximately \$2.5 million and \$9.5 million (increase to net patient service revenue), respectively

Revenue from the Medicare and Medicaid programs accounted for approximately 89 3% and 79 1% of the Medical Center's net patient service revenue for the years ended December 31, 2011 and 2010, 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 health care reform that has

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

been enacted by the federal and state governments, cannot presently be determined Future changes in the Medicare and Medicaid programs and any reductions of funding could have an adverse impact on the Medical Center

The current Medicaid, Medicare and other third-party 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. Medicare cost reports, which serve as the basis for final settlement with the Medicare program, have been settled through 2004, although revisions to final settlements could be made. Other years remain open for settlement as are numerous years related to the New York State Medicaid program. Additionally, non-compliance with relevant laws and regulations could result in fines, penalties and exclusion from such programs. The Medical Center is not aware of any allegations of noncompliance that could have a material adverse effect on the financial statements and believes it is in compliance with all applicable laws and regulations.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use has been limited by donors or granting agencies to a specific time period or purpose, generally for operating purposes. The funds for such purposes are commingled with the Medical Center's operating funds and are used in the Medical Center's overall cash management. Permanently restricted net assets are required, by donor restriction, to be invested in perpetuity. The income earned thereon is available for use in the Medical Center's operations. Net assets released from restrictions are primarily attributed to specific programs funded by various granting agencies.

Permanently restricted net assets have been restricted by donors to be maintained by the Medical Center in perpetuity The Medical Center 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 Medical Center followed the requirements of the Uniform Management of Institutional Funds Act of 1972, although this change did not affect significantly the Medical Center's policies related to permanently restricted endowments

The Medical Center 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 Medical Center classifies as permanently restricted net assets the

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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 Medical Center 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 Medical Center and the donor-restricted endowment fund, general economic conditions, the possible effects of inflation and deflation, and the investment and spending policies of the Medical Center

Changes in endowment net assets for the years ended December 31, 2011 and 2010 are summarized in the following table

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Contributions

Unconditional contributions, including promises to give cash and other assets, are reported at fair value on the date they are 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. 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

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

unrestricted net assets and reported in the statements of operations and statements of changes in net assets (deficiency) as net assets released from restrictions Donor-restricted contributions whose restrictions are met within the same year as received are reflected in temporarily restricted net assets and net assets released from restrictions in the accompanying financial statements During the year ended December 31, 2011, the Medical Center reviewed the classification of amounts included within its temporarily restricted net assets and determined that certain restrictions had been met in prior periods Accordingly, approximately \$2 3 million for net assets released from restrictions is included in unrestricted net assets for the year ended December 31, 2011

Investment in Limited Liability Company

The Medical Center 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 Medical Center recorded within other revenue its equity in the income of the LLC of approximately \$2 1 million and \$1 7 million, respectively

Performance Indicator

The statements of operations include the deficiency of operating revenue over operating expenses as the performance indicator Changes in unrestricted net assets which are excluded from the performance indicator include the change in net assets related to defined benefit pension plans liability to be recognized in future periods

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

Uncompensated Care

The Medical Center reports care provided for which the patient's payment obligation was not fully satisfied as uncompensated care Uncompensated care is the sum of the Medical Center's charity care provided and the provision for bad debts. The total uncompensated care provided was \$21.2 million and \$15.8 million for the years ended December 31, 2011 and 2010, respectively

The Medical Center provides services without charge or at amounts less than its established rates to patients who meet the criteria of its charity care policy For patients who are deemed eligible

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

for charity care, care given but not paid for is classified as charity care Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, such services are not reported as revenue For the years ended December 31, 2011 and 2010, the estimated cost of charity care was approximately \$6 7 million and \$7 5 million, respectively. The estimated cost of charity care includes the direct and indirect cost of providing charity care services and is estimated by utilizing a ratio of cost to gross charges applied to the gross uncompensated charges associated with providing charity care

For patients who were determined by the Medical Center to have the ability to pay but did not, the uncollected amounts are bad debt expense Distinguishing between bad debt and charity care is difficult in part because services are often rendered prior to full evaluation of a patient's ability to pay For the years ended December 31, 2011 and 2010, the provision for bad debts was approximately \$14.5 million and \$8.3 million, respectively

The Pool, as described in Note 1, was established to provide funds to hospitals for the provision of uncompensated care and is funded, in part, by a 1% assessment on hospital net inpatient service revenue During the years ended December 31, 2011 and 2010, the Medical Center received approximately \$14.7 million and \$14.2 million, respectively, in Pool distributions, of which approximately \$9.2 million and \$10.1 million, respectively, was related to charity care. The Medical Center made payments into the Pool of approximately \$1.5 million and \$1.3 million for the years ended December 31, 2011 and 2010, respectively, for the 1% assessment.

Reclassifications

Certain reclassifications have been made to 2010 balances previously reported in order to conform with the current year presentation

New Accounting Standards

In August 2010, the Financial Accounting Standards Board (the "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

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

ASU No 2010-23 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010 The Medical Center adopted the provisions of ASU No 2010-23 in 2011

In August 2010, the FASB issued ASU No 2010-24, *Health Care Entities (Topic 954): 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 ASU No 2010-24 is effective for fiscal years beginning after December 15, 2010 and was adopted by the Medical Center in 2011 As a result of the adoption of this standard, the Medical Center increased other noncurrent assets and other noncurrent liabilities by approximately \$1 6 million as of December 31, 2011

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. The provisions of ASU No 2011-07 require certain health care entities that recognize significant amounts of patient service revenue at the time the services are rendered without assessing the patient's ability to pay to present the provision for bad debts related to patient service revenue as a deduction from patient service revenue in the statement of operations rather than as an operating expense Additional disclosures relating to sources of patient service revenue and the allowance for uncollectible accounts are also required. This new guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2011, with early adoption permitted. The Medical Center plans to adopt the provisions of ASU No. 2011-07 in 2012.

In September 2011, the FASB issued ASU No 2011-09, *Disclosures about an Employer's Participation in a Multiemployer Plan* ("ASU 2011-09"), 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 Medical Center adopted ASU 2011-09 and applied its provisions to the financial statements.

Notes to Financial Statements (continued)

3. Assets Whose Use Is Limited

Investments are marketable securities (primarily U S Government obligations) and cash equivalents, stated at fair value based on quoted market prices The designation of assets whose use is limited related to the Medical Center's tax-exempt bonds and for other purposes at December 31, 2011 and 2010 is set forth in the following table (in thousands)

	2011		2010
		(A.	s Adjusted)
Assets related to debt agreements			
Debt service fund	\$ 4,520	\$	6,240
Capital reserve fund	 10,572		10,614
	 15,092		16,854
Designated for other purposes			
Self-insurance fund trusteed assets	6,807		8,191
Endowment fund-permanently restricted	1,109		1,109
Land purchase escrow and other	14		14
	 7,930		9,314
	 23,022		26,168
Less current portion	5,604		7,414
Assets whose use is limited, net of current portion	\$ 17,418	\$	18,754

Self-insurance fund trusteed assets are held in an escrow account by a trustee in accordance with a 2008 malpractice case settlement (see Note 8)

Investment income and net investment gains and losses, included in other revenue in the statements of operations, (on cash and cash equivalents and assets whose use is limited) was approximately \$55,000 and \$0.5 million for the years ended December 31, 2011 and 2010, respectively

Notes to Financial Statements (continued)

4. Property, Plant and Equipment

Property, plant and equipment consisted of the following at December 31

		2011	2010	Average Estimated Useful Life
	(In T	housands)		
Land Land improvements Buildings Fixed equipment Movable equipment	\$	1,305 1,225 27,574 29,237 78,411	\$ 1,305 1,222 27,527 29,232 76,663	15 years 40 years 10 years 7 years
Leasehold improvements and leased building and equipment		26,076 163,828	26,076 162,025	*
Less accumulated depreciation and amortization Construction in progress		78,077 813	63,125 516	
Property, plant and equipment, net	\$	86,564	\$ 99,416	

^{*} Amortized over the lease term or the life of the assets, whichever is shorter

Accumulated amortization for assets under capital lease obligations was approximately \$14.3 million and \$13.8 million at December 31, 2011 and 2010, respectively Substantially all property, plant and equipment have been pledged as collateral under various debt agreements

As a result of significant operating losses in 2010, the Medical Center performed an evaluation of long-lived assets at December 31, 2010 In performing the test, the Medical Center determined that the total of the expected future undiscounted cash flows directly related to its enterprise-wide asset group was less than the carrying value of the asset group, therefore, an impairment loss was required to be recorded. The impairment loss of \$7.3 million represents the difference between the fair value of the asset group and its related carrying value and is reported on the statement of operations for the year ended December 31, 2010, it has been allocated to various categories of fixed assets. Fair value of the asset group that was deemed to be impaired, principally fixed assets, was primarily based on a combination of the cost and sales comparison approaches. The cost approach provides an indication of the current cost to reproduce or replace an asset by an estimate of accrued depreciation. The sales comparison approach is based on the principle of whether a property is replaceable in the market. The remaining useful lives of the assets were also considered and determined to be reasonable based on presently known factors.

Notes to Financial Statements (continued)

4. Property, Plant and Equipment (continued)

At December 31, 2011, a similar analysis was performed to assess whether an additional impairment had been incurred No impairment loss was required to be recognized at December 31, 2011 Because of uncertainty in the current market, it is reasonably possible that the estimate of the fair value of the asset group may change in the near term

5. Long-Term Debt

Long-term debt consisted of the following at December 31

		2011	2010	
	(In Thousands)			
Secured bonds payable (a)	\$	118,880	\$ 122,475	
Capital leases, at interest rates ranging				
from 5 2% to 6 4% (b)		17,340	18,710	
Dormitory Authority restructuring pool loan (c)		2,000	_	
Dormitory Authority note payable (d)		12,181	12,265	
		150,401	153,450	
Original issue premium (net of accumulated				
amortization of \$2,918 and \$2,188)		6,464	7,194	
Less current portion		1,456	3,735	
Less long-term debt in default		133,061	3,460	
Total long-term debt, less current portion and long-term				
debt in default		22,348	\$ 153,449	

(a) In February 1998, the Medical Center participated in the issuance of \$148 5 million of bonds ("Series 1998 Bonds") through the Dormitory Authority of the State of New York (the "Dormitory Authority") The bonds were special obligations of the Dormitory Authority, with principal and interest payable from payments made by the Medical Center, pursuant to a mortgage (the "1998 Mortgage") Substantially all of the unrestricted assets and revenue of the Medical Center collateralized the 1998 Mortgage The proceeds of the bonds were used to finance the Medical Center's building and modernization project (the "Project"), which was completed during 2002, and to pay certain costs of issuance incurred in connection with the bond issue

Notes to Financial Statements (continued)

5. Long-Term Debt (continued)

The Project included a facilities improvement plan under which the Medical Center's two primary sites were consolidated, renovated and expanded The Project included the acquisition of the JHMCB and SJEH sites and renovation and construction at the SJEH site, the Medical Center sold the JHMCB facility during 2003 The Project also included construction of an ambulatory care center and construction of other facilities. The Project resulted in the redevelopment of the Medical Center as a community hospital and ambulatory care provider, through the decertification of 419 of the Medical Center's licensed beds, resulting in 287 beds consolidated at the SJEH site. In addition to funding costs of the Project, approximately \$22.0 million of bond proceeds were used to pay certain expenses and liabilities of the Medical Center. The remaining proceeds were used to establish reserve funds and for other purposes specified in the bond-related agreements.

On March 28, 2007, the Medical Center refinanced the 1998 Mortgage through participation in the issuance of bonds ("Series 2007 Bonds") in the amount of \$122,475,000 (excluding an original issue premium of \$10 1 million) through the Dormitory Authority for the purpose of providing funds which, together with other available funds, were used to (i) advance refund and defease all of the thenoutstanding Series 1998 Bonds of \$130,870,000, (ii) establish reserve funds specified in the bond-related agreements, and (iii) pay costs associated with the issuance of the Series 2007 Bonds Interest payments on the Series 2007 Bonds are due semiannually and principal payments are due annually The interest rates on the bonds range from 4 5% to 5 0% per annum

As of December 31, 2011, required principal repayments based on scheduled maturities on the Series 2007 Bonds for the next five years and thereafter, are as follows (in thousands)

2012	\$ 4,610
2013	4,835
2014	5,070
2015	5,315
2016	5,590
Thereafter	 93,460
	\$ 118,880

Notes to Financial Statements (continued)

5. Long-Term Debt (continued)

Under the terms of the Series 2007 Bonds agreement, the Medical Center is required to fund specified amounts to a debt service fund. The failure to make the required payments is considered an event of default, and if declared, could result in the acceleration of all outstanding amounts payable on the Series 2007 Bonds During October through December 2011 and continuing in 2012, the Medical Center did not meet its debt service funding requirements and received notice from the Dormitory Authority in April 2012 that the non-payment constitutes an event of default. As a result, the entire outstanding amount payable on the Series 2007 Bonds has been classified as a component of current liabilities (long-term debt in default) in the accompanying balance sheet at December 31, 2011

In addition, the Medical Center is required to maintain a specified debt service coverage ratio For 2011, the Medical Center did not meet its ratio requirement However, noncompliance with the ratio requirement is not considered an event of default and the Medical Center is undertaking the necessary actions required under the terms of its debt agreements

(b) In 2005, the Medical Center entered into a lease agreement for a new building for administrative and clinical services Construction of the building was completed and the building was occupied by the Medical Center in December 2007 Under the terms of the agreement, the Medical Center will pay specified lease payments and the building's ownership will revert to the Medical Center at the conclusion of the lease (in 2036) Future minimum lease payments, by year and in the aggregate, under the capital lease consisted of the amounts below at December 31, 2011 (in thousands)

2012	\$ 1,104
2013	1,115
2014	1,127
2015	1,138
2016	1,149
Thereafter	25,557
Total minimum lease payments	31,190
Less interest	16,081
Net minimum lease payments	\$ 15,109

Notes to Financial Statements (continued)

5. Long-Term Debt (continued)

In 2008, the Medical Center entered into two loan agreements with a commercial lender for the acquisition of certain capital equipment. Under the terms of the agreements, the Medical Center will pay specified lease payments and the Medical Center will have the option to purchase the equipment at the conclusion of the lease Future minimum lease payments, by year and in the aggregate, under the capital leases consisted of the amounts below at December 31, 2011 (in thousands)

2012	\$ 1,384
2013	947
Total minimum lease payments	2,331
Less interest	100
Net minimum lease payments	\$ 2,231

In connection with the two loan agreements, the Medical Center is required to submit its audited financial statements to the lender within a specified time period after year end Failure to do so is an event of default For 2010, the Medical Center did not meet this requirement As a result, the commercial lender had the ability to accelerate payment terms for the entire amount outstanding Consequently, the entire amount outstanding of \$2 3 million had been classified as a current obligation (long-term debt in default) at December 31, 2010

- (c) In November 2011, the Medical Center entered into a loan agreement with the Dormitory Authority as part of their restructuring pool loan program. The loan is due on January 1, 2013, with an interest rate of 1%. The loan agreement contains certain cross default provisions. As a result of the event of default related to the Series 2007. Bonds, an event of default has also occurred with respect to the restructuring pool loan which could result in the acceleration of all outstanding amounts payable for this loan. At December 31, 2011, the entire amount payable for this loan has been classified as a component of current liabilities (long-term debt in default) in the accompanying balance sheets.
- (d) In March 2005, the Medical Center entered into a long-term repayment agreement with the Dormitory Authority for approximately \$15 1 million related to a third-party payor liability due to the NYSDOH The agreement called for

Notes to Financial Statements (continued)

5. Long-Term Debt (continued)

repayment of the liability without interest over a 15-year period beginning after two years of positive financial performance by the Medical Center In July 2008, the Medical Center received correspondence from the Dormitory Authority that repayment would commence as of August 1, 2008 through June 1, 2023 in equal monthly installments of approximately \$84,000 In April 2011 and 2012, the Dormitory Authority granted one-year deferrals of payments under the repayment agreement Payments will resume on April 1, 2013 The loan agreement contains certain cross default provisions As a result of the event of default related to the Series 2007 Bonds, an event of default has also occurred with respect to this repayment agreement which could result in the acceleration of all outstanding amounts payable for this loan At December 31, 2011, the entire amount payable for this loan has been classified as a component of current liabilities (long-term debt in default) in the accompanying balance sheets

6. Operating Leases

Future minimum lease payments, by year and in the aggregate, under non-cancelable operating leases consisted of the amounts below at December 31, 2011 (in thousands)

2012	\$ 1,243
2013	601
2014	802
2015	798
2016	802
Thereafter	 7,437
	\$ 11,683

Rent expense charged to operations aggregated approximately \$1.6 million and \$2.0 million for the years ended December 31, 2011 and 2010, respectively

7. Pension Plans

The Medical Center maintains two non-contributory defined benefit pension plans One plan exclusively covers nursing personnel ("Nurses' Plan"), the other plan covers certain additional nurses and substantially all other employees not covered under a collective bargaining agreement with the 1199 Union ("Other Plan") Effective November 1991, pension benefits under the Other

Notes to Financial Statements (continued)

7. Pension Plans (continued)

Plan were frozen for non-nursing personnel On December 31, 2005, pension benefits under the Other Plan were frozen for nursing personnel Contributions to these plans made on behalf of nursing personnel are contractually obligated based on collective bargaining agreements With respect to other employees, the Medical Center's policy is to contribute amounts sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974, plus such additional amounts as the Medical Center may deem appropriate from time to time

The Medical Center recognizes the funded status (i e, the difference between the fair value of plan assets and the projected benefit obligations) of the defined benefit pension plans in its balance sheets

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

Notes to Financial Statements (continued)

7. Pension Plans (continued)

The following tables provide a reconciliation of the changes in both plans' benefit obligation and fair value of plan assets for 2011 and 2010 and a statement of the plans' funded status as of December 31, 2011 and 2010

	2011		2010
	(In Thousands)		
Change in benefit obligation			
Benefit obligation at beginning of year	\$	135,457 \$	127,399
Service cost		1,429	1,141
Interest cost		6,567	6,854
Actuarial loss		18,506	6,874
Benefit payments		(7,181)	(6,811)
Benefit obligation at end of year	154,778 13		135,457
Change in plan assets			
Fair value of plan assets at beginning of year		108,468	103,131
Actual return on plan assets		595	10,811
Employer contributions		528	1,337
Benefit payments		(7,181)	(6,811)
Fair value of plan assets at end of year		102,410	108,468
Funded status at December 31	\$	(52,368) \$	(26,989)

The following amounts relate to the individual plans

	Nurses' Plan		Othe	er Plan
	2011	2010	2011	2010
		(In Tho	usands)	
Projected benefit obligation	\$ 105,168	\$ 89,403	\$ 49,610	\$ 46,054
Accumulated benefit obligation	\$ 101,861	\$ 76,775	\$ 49,610	\$ 46,054
Fair value of plan assets	\$ 69,177	\$ 71,407	\$ 33,233	\$ 37,061
	Nurse	es' Plan	Othe	er Plan
	2011	2010	2011	2010
		(In Tho	usands)	
Funded status at December 31	\$ (35,991)	\$ (17,996)	\$ (16,377)	\$ (8,993)

Notes to Financial Statements (continued)

7. Pension Plans (continued)

The following table provides the components of the net periodic benefit cost for the plans on a basis for the years ended December 31, 2011 and 2010

		2011		2010
	(In Thousands)			nds)
Service cost	\$	1,429	\$	1,141
Interest cost		6,567		6,854
Expected return on plan assets		(9,094)		(8,994)
Amortization of prior service cost		_		223
Amortization of accumulated loss		3,198		2,161
Net periodic benefit cost	\$	2,100	\$	1,385

Prior service costs were amortized in accordance with the plans' amortization schedules A 10% corridor is used to determine the amortization of unrecognized gains and losses

Included 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

	2011	2010
	(In The	ousands)
Unrecognized actuarial loss	\$ (61,003)	\$ (37,196)
	\$ (61,003)	\$ (37,196)

The unrecognized actuarial losses included in unrestricted net assets expected to be recognized in net periodic benefit cost during the year ending December 31, 2012 are approximately \$6.2 million

The weighted-average assumptions used in determining the accumulated benefit obligations at December 31, 2011 and 2010 were as follows

	Nurse	Nurses' Plan		· Plan	
	2011	2010	2011	2010	
Discount rate	4.05%	5 09%	3.90%	4 94%	
Rate of compensation increase	3.00%	3 00%	N/A	N/A	

Notes to Financial Statements (continued)

7. Pension Plans (continued)

The weighted-average assumptions used in determining the net periodic benefit cost for the years ended December 31, 2011 and 2010 are shown in the following table

_	Nurses' Plan		Other Plan	
	2011 2010		2011	2010
Discount rate Expected long-term rate of return on	5.09%	5 66%	4.94%	5 53%
plan assets Rate of compensation increase	8.50% 3.00%	8 50% 3 00%	8.50% N/A	8 50% N/A

The overall expected long-term rate of return on plans' assets is based on the historical returns of each asset class weighted by the target asset allocation. The expected long-term rate is periodically reviewed to update for changes in the investment marketplace.

The weighted-average asset allocations at December 31, by asset category, are as follows

	2011	2010
Cash and cash equivalents	1.2%	1 5%
Equity securities	8.6	8 4
Equity mutual funds/common trust funds	71.4	71 4
Hedge funds	7.9	7 9
Debt securities	7.8	7 2
Private equity	0.7	0 6
Other	2.4	3 0
	100.0%	100 0%

The plans' overall objective is to provide broad exposure to both developed and emerging markets Assets are diversified to minimize the impact of large losses in individual investments

Assets invested in the Nurses' Plan and the Other Plan are carried at fair value (see Note 12) Debt and equity securities with readily determinable values are carried at fair value based on independent published sources. The Other Plan holds alternative investments (non-traditional, not readily marketable holdings) which primarily consist of hedge funds. Alternative investment interests generally are structured such that the Other Plan holds a limited partnership interest or an interest in an investment management company. The Other Plan's ownership structure does

Notes to Financial Statements (continued)

7. Pension Plans (continued)

not provide for control over the related investees and the Other Plan's financial risk is limited to the carrying amount reported for each investee. Fair value for alternative investments is determined by the Other Plan for each investment using net asset value as a practical expedient, as permitted by U.S. generally accepted accounting principles, rather than using another valuation method to independently estimate fair value

Financial information used to evaluate alternative investments is provided by the investment manager or general partner and includes fair value valuations (quoted market prices and values determined through other means) of underlying securities and other financial instruments held by the investee, and estimates that require varying degrees of judgment. The financial statements of the investee companies are audited annually by independent auditors, although the timing for reporting the results of such audits does not coincide with the Medical Center's annual financial statement reporting. There is uncertainty in determining values of alternative investments arising from factors such as lack of active markets (primary and secondary), lack of transparency into underlying holdings and time lags associated with reporting by the investee companies. As a result, there is at least a reasonable possibility that estimates will change

The Medical Center expects to contribute approximately \$8 2 million to the plans in 2012

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in thousands)

Years ending December 31	
2012	\$ 9,438
2013	9,616
2014	9,860
2015	10,150
2016	10,263
2017 to 2020	51,156

The Medical Center contributes to a multiemployer defined benefit pension plan under the terms of a collective-bargaining agreement that covers union-represented employees of the Medical Center The risks of participating in a multiemployer plan are different from single-employer plans in the following aspects

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

Notes to Financial Statements (continued)

7. Pension Plans (continued)

- 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 Medical Center stops participating in the multiemployer plan, the Medical Center may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability

The Medical Center's significant participation in a multiemployer plan for the year ended December 31, 2011 is outlined in the table below The following information for the 1199 SEIU Healthcare Employees Pension Fund (the "1199 Plan") is included within the table

- a The "EIN/Pension Plan Number" column provides the plans' Employee Identification Number ("EIN") and the three-digit plan numbers
- b The Pension Plan Protection Act of 2006 ("PPA") zone status is based on information that the Medical Center 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 percent funded, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent 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
- c 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
- d The column "Surcharge Imposed" indicates whether the Medical Center was required to pay a surcharge to the plan
- e The last column lists the expiration date of the collective-bargaining agreement to which the plans is subject

Notes to Financial Statements (continued)

7. Pension Plans (continued)

The number of employees covered by the Medical Center '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 Medical Center was not in the plan's 2010 Form 5500 as providing more than 5% of total plan contributions

		Pension I Act Zon	Protection e Status	1	Contributions of the Medical Center			Expiration Date of
Pension Fund	EIN/Pension Plan Number	2011 2010		FIP/RP Status Pending/ Implemented	2011			Collective- Bargaining Agreement
1199 Plan (a)	13-3604862	Green	Red	Implemented	\$ 3,052,411	\$ 2.875.612	No	4 30 15

⁽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

8. Insurance Arrangements

Since 1991, the Medical Center has been self-insured for professional liability claims. The annual provision for professional liability losses and expenses and the resultant self-insured liabilities included in the accompanying financial statements are based on the actuarially determined estimate of the liabilities and related expenses resulting from asserted and unasserted incidents. Professional self-insurance liabilities approximated \$60.8 million and \$71.2 million at December 31, 2011 and 2010, respectively

In January 2006, a jury awarded a plaintiff approximately \$316 million, which the Medical Center appealed In December 2008, the case was settled for approximately \$129 million, of which approximately \$15 million was paid upon settlement. The Medical Center is required to pay the remaining amount over a ten-year period through December 2018. The remaining payments are included as a component of professional self-insurance liabilities at December 31, 2011. The terms of the settlement agreement also required the Medical Center to establish an escrow fund for \$90 million to secure future payments. As payments are made by the Medical Center, amounts required to be in escrow are reduced. The escrow fund is included in assets whose use is limited in the accompanying balance sheets at December 31, 2011 and 2010 (see Note 3).

Notes to Financial Statements (continued)

8. Insurance Arrangements (continued)

The estimates for professional liabilities are based upon extremely complex actuarial calculations which utilize factors such as historical claim experience for the Medical Center and related industry factors, trending models, and estimates for the payment patterns of future claims. 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 Medical Center by various claimants. The claims are in various stages of processing and some have been and may ultimately be brought to trial and others are in the approval process. Furthermore, there are known incidents that have occurred that may result in the assertion of additional claims, and other claims may be asserted arising from services provided to patients in the past. In management's opinion, the outcome of these matters, including the specific cases referred to above, will not have a material effect on the Medical Center's financial position.

9. Commitments and Contingencies

Various lawsuits and claims arising in the normal course of operations are pending or are in progress against the Medical Center Such lawsuits and claims are either specifically covered by insurance, accrued for in the Medical Center's 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 financial statements

Approximately 80% of the Medical Center's employees are covered by collective bargaining agreements Registered professional nurses are represented by the New York State Nurses Association (the "NYSNA") Effective January 1, 2012, the Medical Center and the NYSNA executed a new collective bargaining agreement, which is effective through December 31, 2014 Full-time and regular part-time licensed practical nurses and non-professional employees at the Medical Center are represented by Technicians and Health Care Workers of New York, Inc, Local 721, Service Employees 1199/SEIU, New York's Health and Human Services Union, AFL-CIO ("1199") The collective bargaining agreement between the League of Voluntary Hospitals, of which the Medical Center is a member, and 1199 is effective through April 30, 2015

Notes to Financial Statements (continued)

9. Commitments and Contingencies (continued)

The Department of Buildings of the City of New York issued a temporary certificate of occupancy ("TCO") for the buildings located at the Medical Center's hospital site, upon completion of the modernization project discussed in Note 1 The TCO for certain portions of the cellar, first floor, four-story addition, and parking lot expired on June 18, 2009 The Medical Center received an extension through December 2010 The Medical Center is working to extend the extension and obtain a permanent certificate of occupancy, although the outcome of this matter is uncertain

10. Functional Expenses

The Medical Center provides health care and related services, including graduate medical education Expenses related to primary services were as follows

	Year Ended December 31					
		2011		2010		
		(As Adjusted) (In Thousands)				
Health care and related services General and administrative	\$	201,871 16,368	\$	241,558 19,659		
	\$	218,239	\$	261,217		

11. Concentration of Credit Risk

The Medical Center grants credit without collateral to its patients, most of whom are local residents and are insured under various third-party payor agreements. The concentration of net receivables from patients and third-party payors was as follows

	December 31			
	2011	2010		
Medicare and Medicare-managed care	32%	27%		
Medicaid and Medicaid-managed care	57	64		
Commercial payors	3	8		
Self-pay patients	8	1		
	100%	100%		

Notes to Financial Statements (continued)

12. Fair Values of Financial Instruments

For assets and liabilities required to be measured at fair value, the Medical Center 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 Medical Center'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 Medical Center 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 – 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

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 its entirety. In determining fair value, the Medical Center 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

Notes to Financial Statements (continued)

12. Fair Values of Financial Instruments (continued)

Financial instruments, including the defined benefit plans' assets carried at fair value as of December 31, 2011, are classified in the table below in one of the three categories described above (in thousands)

	 Level 1	Level 2	L	evel 3	Total
Cash and cash equivalents	\$ 19,086	\$ _	\$	_	\$ 19,086
U S Government/Agency obligations	15,106	_		_	15,106
Equity securities	8,853	_		_	8,853
Equity mutual/common trust funds	73,069	_		_	73,069
Debt securities	7,941	_		_	7,941
Real assets	_	2,418		_	2,418
Hedge funds	_	8,118		_	8,118
Private equity	-	_		756	756
	\$ 124,055	\$ 10,536	\$	756	\$ 135,347

Financial instruments, including assets held in the defined benefit plans, carried at fair value as of December 31, 2010, are classified in the table below in one of the three categories described above (in thousands)

		Level 1	I	Level 2	L	evel 3		Total
	(As Adjusted)							
Cash and cash equivalents	\$	13,395	\$	_	\$	_	\$	13,395
U S Government/Agency obligations		16,869		_		_		16,869
Equity securities		9,106		_		_		9,106
Equity mutual/common trust funds		74,093		3,390		_		77,483
Debt securities		7,831		_		_		7,831
Real assets		_		3,303		_		3,303
Hedge funds		_		8,558		_		8,558
Private equity		_		_		622		622
	\$	121,294	\$	15,251	\$	622	\$	137,167

Notes to Financial Statements (continued)

12. Fair Values of Financial Instruments (continued)

The following is a description of the Medical Center's valuation methodologies for assets measured at fair value Fair value for Level 1 is based upon quoted market prices Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets, or as described in Note 7 for certain alternative investments Inputs are obtained from various sources, including market participants, dealers and brokers Level 2 common collective trusts and alternative investments are redeemable in the near term Level 3 assets consist of private equity funds held by the defined benefit plans, the valuation for which is described in Note 7 The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair values Furthermore, while the Medical Center believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date

The fair values and carrying values of the Medical Center's financial instruments that are not required to be carried at fair value are as follows at December 31

	20)11	20	010			
	Fair Carrying Value Value		Fair Value	Carrying Value			
	(In Thousands)						
Long-term debt, excluding capital leases and original issue							
premium	\$ 149,335	\$ 133,061	\$ 140,383	\$ 134,740			

The fair value of the Medical Center's long-term debt is primarily based upon quoted market prices and other valuation considerations

Notes to Financial Statements (continued)

13. Other Revenue

Other revenue consists of the following for the years ended December 31, 2011 and 2010 (in thousands)

	 2011	2010		
		(As Adjusted)		
Investment income and net realized and unrealized				
gains and losses on investments	\$ 93	\$	285	
Rental income	535		511	
Equity in income of the LLC	2,086		1,654	
Electronic health records incentive payments	2,567		_	
Medical student training program	1,865		_	
Other	608		680	
	\$ 7,754	\$	3,130	

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 Medical Center 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 recognized when the Medical Center 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 from Medicaid totaling approximately \$2.6 million for the year ended December 31, 2011 is included in other revenue. Income from incentive payments is subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were calculated. Additionally, the Medical Center's attestation of compliance with the meaningful use criteria is subject to audit by the federal government and/or NYSDOH.

Notes to Financial Statements (continued)

14. Related Party Transactions

In 2011, the Foundation provided operational cash flow funding of approximately \$9 8 million which will be repaid by the Medical Center The repayment terms are being developed, however, at December 31, 2011 the Medical Center classified the entire balance as a current liability

15. Subsequent Events

Subsequent events have been evaluated through June 27, 2012, the date the financial statements were issued In 2012, the Medical Center continues to incur cash losses and is focusing on various measures, as discussed in Note 1, to improve cash flow and stabilize its long-term viability Except as disclosed in Notes 5 and 9, subsequent events have not occurred that require disclosure in or adjustment to the financial statements

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