The Long Island College Hospital

Financial Statements
December 31, 2010 and 2009

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Report of Independent Auditors

To the Board of Regents
The Long Island College Hospital

In our opinion, the accompanying balance sheets and the related statements of operations, changes in net assets (deficit) and cash flows present fairly, in all material respects, the financial position of The Long Island College Hospital ("LICH") as of December 31, 2010 and 2009, and the results of its operations, changes in its net assets (deficit) and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of LICH's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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.

The accompanying financial statements have been prepared assuming that LICH will continue as a going concern. As more fully described in Note 1, LICH's recurring operating losses and working capital deficiency raise substantial doubt about LICH's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The 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.

PricewaterhouseCoopers LLP

April 21, 2011

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The Long Island College Hospital
Balance Sheets
December 31, 2010 and 2009

(in thousands of dollars)

	2010	2009
Assets		
Current assets		
Cash and cash equivalents	$ 8,841	$ 12,014
Receivables for patient care, less allowance for doubtful accounts of $38,254 in 2010 and $33,739 in 2009	44,322	39,588
Inventories	1,438	1,246
Prepaid expenses and other current assets	8,887	5,828
Current portion of assets limited as to use	924	1,091
Total current assets	64,412	59,767
Assets limited as to use	24,470	25,564
Long-term investments	102,453	99,087
Property, plant and equipment, net	114,608	127,208
Deferred financing costs, net	2,061	2,178
Total assets	$ 308,004	$ 313,804
Liabilities and net assets (deficit)		
Current liabilities		
Accounts payable and accrued expenses	$ 26,903	$ 28,430
Accrued salaries and related liabilities	25,018	24,785
Current portion of long-term debt and capitalized leases	8,258	7,854
Other current liabilities	12,069	15,281
Total current liabilities	72,248	76,350
Long-term debt and capitalized leases	127,823	136,230
Other non-current liabilities	186,333	175,210
Total liabilities	386,404	387,790
Commitments and contingencies		
Net assets (deficit)		
Unrestricted (deficit)	(226,070)	(221,372)
Temporarily restricted	1,145	861
Permanently restricted	146,525	146,525
Total net assets (deficit)	(78,400)	(73,986)
Total liabilities and net assets (deficit)	$ 308,004	$ 313,804

The accompanying notes are an integral part of these financial statements.

The Long Island College Hospital
Statements of Operations
Years Ended December 31, 2010 and 2009

(in thousands of dollars)

	2010	2009
Operating revenue		
Net patient service revenue	$ 302,704	$ 298,972
Faculty practice revenue	34,793	32,531
Net assets released from restriction	178	5
Investment income	5,958	7,044
Other revenue	29,981	21,461
Total operating revenue	373,614	360,013
Operating expenses		
Salaries and wages	181,788	180,967
Employee benefits	44,372	45,206
Supplies and other expenses	121,896	122,651
Depreciation and amortization	15,094	14,310
Provision for bad debts	16,388	10,227
Interest	12,207	14,928
Total operating expenses	391,745	388,289
Operating loss before other items	(18,131)	(28,276)
Change in estimate for professional liability exposures	8,497	(7,176)
Gain (loss) from investments in captive insurance companies under the equity method	4,895	(3,600)
Operating loss	(4,739)	(39,052)
Unrestricted contributions, and other	41	(11)
Deficiency of revenue over expenses	(4,698)	(39,063)
Equity transfer from affiliates	-	30,009
Decrease in unrestricted net assets (deficits)	$ (4,698)	$ (9,054)

The accompanying notes are an integral part of these financial statements.

The Long Island College Hospital
Statements of Changes in Net Assets
Years Ended December 31, 2010 and 2009

(in thousands of dollars)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets (deficit) at December 31, 2008	$ (212,318)	$ 913	$ 146,525	$ (64,880)
Change in net assets (deficit)				
Deficiency of revenue over expenses	(39,063)	-	-	(39,063)
Contributions bequests and other	-	(47)	-	(47)
Net assets released from restrictions	-	(5)	-	(5)
Equity transfer from affiliates	30,009	-	-	30,009
Total change in net assets (deficit)	(9,054)	(52)		(9,106)
Net assets (deficit) at December 31, 2009	(221,372)	861	146,525	(73,986)
Change in net assets (deficit)				
Deficiency of revenue over expenses	(4,698)	-	-	(4,698)
Contributions bequests and other	-	462	-	462
Net assets released from restrictions	-	(178)	-	(178)
Equity transfer from affiliates	-	-	-	-
Total change in net assets (deficit)	(4,698)	284	-	(4,414)
Net assets (deficit) at December 31, 2010	$ (226,070)	$ 1,145	$ 146,525	$ (78,400)

The accompanying notes are an integral part of these financial statements.

The Long Island College Hospital
Statements of Cash Flows
Years Ended December 31, 2010 and 2009

(in thousands of dollars)

		2010		2009
Cash flows from operating activities				
Change in net assets	$	(4,414)	$	(9,106)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities				
Depreciation and amortization		15,094		14,310
Equity transfer from affiliates		-		(30,009)
Provision for bad debts		16,388		10,227
Net unrealized and realized (gains) and losses from investments		(4,618)		(4,364)
(Gain) loss from investments in captive insurance companies		(4,895)		3,600
(Increase) decrease in cash resulting from a change in:				
Receivables for patient care, net		(21,122)		(8,999)
Inventories, prepaid expenses and other current assets		(3,251)		(1,266)
Accounts payable and accrued expenses and accrued salaries and related liabilities		(1,294)		(2,989)
Other current and non current liabilities		12,804		33,881
Net cash provided by operating activities		4,692		5,285
Cash flows from investing activities				
Acquisitions of property, plant and equipment, net		(2,376)		(112)
Decrease in long term investments		1,251		25,389
Decrease in assets limited as to use		1,263		2,631
Net cash provided by investing activities		138		27,908
Cash flows from financing activities				
Proceeds from borrowings under long-term debt		-		5,000
Repayments of long-term debt		(8,003)		(31,916)
Increase in amounts due to affiliated organizations		-		1,633
Net cash (used) in financing activities		(8,003)		(25,283)
Net (decrease) increase in cash and cash equivalents		(3,173)		7,910
Cash and cash equivalents				
Beginning of year		12,014		4,104
End of year	$	8,841	$	12,014
Supplemental disclosures of cash flow information				
Cash paid for interest	$	12,338	$	12,783

The accompanying notes are an integral part of these financial statements.

(in thousands of dollars)

1. Organization and Summary of Significant Accounting Policies

Organization

The Long Island College Hospital ("LICH") is a not-for-profit tertiary care teaching hospital that provides inpatient, ambulatory, clinical, referred outpatient and emergency care to the community. As such, operating revenues include those generated from direct patient care, investment income, reimbursement of research and educational activities and the revenues related to the operation of LICH's facilities.

Continuum Health Partners, Inc. ("CHP") is the sole member of LICH. In addition, CHP is the sole corporate member of Beth Israel Medical Center ("BIMC"), St. Luke's- Roosevelt Hospital Center ("SLR") and New York Eye and Ear Infirmary ("NYEE"). BIMC is the sole corporate member of or controls the following entities: Beth Israel Ambulatory Services Corporation, Inc., B.I. Nursing Home Company, East 17th Street Properties, Inc., and East 88th Street Properties, Inc. SLR controls three other not-for-profit corporations: St. Luke's-Roosevelt Health Sciences, a research organization, Augustus & James Corporation, which owns and leases a building, and 425 West 59th Street Condominium LLC which owns and operates a building. NYEE is the sole corporate member of NYEE Housing Company, Inc., which provides housing and ancillary facilities to staff members and employees of NYEE, and the New York Eye and Ear Infirmary Foundation, whose sole purpose is to financially support NYEE.

The hospitals of CHP currently deliver care through five major inpatient facilities in Manhattan and Brooklyn, as well as through ambulatory health centers and group and private practice settings throughout New York City.

LICH is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting.

Basis of Presentation

The accompanying financial statements have been prepared assuming that LICH will continue as a going concern, which contemplates continuity of operations, realization of assets and the satisfaction of liabilities and commitments in the normal course of business. However, LICH has incurred recurring losses from operations, has a net accumulated deficit in unrestricted net assets of approximately $226,070 and $221,372 at December 31, 2010 and 2009, respectively, and has negative working capital of approximately $7,836 and $16,583 at December 31, 2010 and 2009, respectively.

LICH's financial position is the result of many factors which include:

- General challenges faced by all New York State hospitals which rank at the bottom of all states in terms of profitability
- A high level of service to uninsured patients
- Difficulty in growing market share

(in thousands of dollars)

- Escalating costs related to professional liability claims

- Contractual obligations with labor unions

- Constrained reimbursement rates from third party payors, Medicare, Medicaid and Managed Care payors.

In the absence of any significant changes, cash flows and operating results for the foreseeable future will be substantially below levels necessary for LICH to satisfy its future commitments. These circumstances create substantial doubt about LICH's ability to continue as a going concern. These 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.

With the goal of providing for ongoing Health Care Services at the LICH site, the governing body and management of LICH have worked to effect a transfer of sponsorship to a new organization which is part of the State University system of New York State. Management continues to work to finalize the transaction pending final regulatory approvals from State authorities. Under the structure of the proposed transaction, all of LICH's outstanding liabilities would be addressed in one of the following steps:

- Transferred to the new owner (along with related assets);

- Retained by "Old LICH" along with sufficient assets to satisfy them;

- Transfer to a medical malpractice trust fund, with assets deemed to be sufficient to satisfy these obligations.

Once all liabilities of "Old LICH" have been addressed the corporation would cease to exist.

Additionally, refer to Note 13.

Use of Estimates
The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant estimates relate to patient accounts receivable allowances, amounts due (to) from third-party payors, and professional liability costs. Actual results may differ from those estimates.

Cash and Cash Equivalents
Cash equivalents include investments in highly liquid financial instruments with a maturity, when purchased, of three months or less, excluding assets whose use is limited. Substantially all of LICH's cash and cash equivalents are deposited with four financial institutions at December 31, 2010 and 2009. Included in cash and cash equivalents are amounts in excess of $250 at December 31, 2010 and 2009 which are the maximum amounts insured by the Federal Deposit Insurance Company. However, management believes that these institutions are viable entities and therefore risk of loss is minimized.

(in thousands of dollars)

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value. Fair value, as determined in accordance with fair value measurement and disclosure authoritative guidance, is the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs, as further described in Note 3.

Other investments for which a readily determinable fair value is not available are accounted for using the equity method or cost method, depending on LICH's ownership percentage. Earnings and losses on equity method investments are included in excess (deficiency) of revenues over expenses. Investment income earned on permanently restricted net assets, upon which restrictions have been placed by donors, is added to temporarily restricted net assets and is reported within gifts, grants, bequests and other items.

Inventories

Inventories, primarily drug supplies, are stated at the lower of cost, determined on a first-in first-out method, or market.

Assets Limited as to Use

Assets limited as to use primarily includes assets held by trustees under indenture agreements and assets whose use is restricted for specific purposes. Amounts required to meet current liabilities of LICH have been classified as current assets in the balance sheets at December 31, 2010 and 2009. Fair value of assets limited as to use is determined in accordance with authoritative guidance, as further defined in Note 3.

Property, Plant and Equipment

Property, plant and equipment are carried at cost and those acquired by gifts and bequests are recorded at appraised or fair value established at the date of contribution. Depreciation expense is computed utilizing the straight-line method over the estimated useful lives of the assets in which building and building improvements range from 5 to 40 years, land improvements range from 2 to 25 years and equipment ranges from 5 to 20 years. In accordance with LICH's policy, one-half year's depreciation is recorded in the year of asset acquisition, and a half year's depreciation is recorded in the final year of the asset's useful life.

Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized, net of any interest earned, as a component of the cost of acquiring those assets.

Equipment under capital leases is recorded at the present value of future minimum lease payments at the inception of the leases and is amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. The amortization of assets recorded under capital leases is included in depreciation and amortization expense in the accompanying statements of operations. When assets are retired or otherwise disposed of, the cost and the related depreciation are reversed from the accounts, and any gain or loss is reflected in current operations. Repairs and maintenance expenditures are expensed as incurred.

(in thousands of dollars)

Impairment of 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 such assets are deemed to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. There were no impairment losses recorded for the years ended December 31, 2010 and 2009.

Asset Retirement Obligations
Asset retirement obligations, recorded in other non-current liabilities, are legal obligations associated with the retirement of long-lived assts. These liabilities are initially recorded at fair value and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, LICH records changes in the liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. LICH reduces their liabilities when the related obligations are settled.

Deferred Financing Costs
Deferred financing costs represent costs incurred to obtain financing for various construction and renovation projects at LICH. Amortization of these costs extends over the term of the applicable indebtedness. Gross deferred financing costs at December 31, 2010 and 2009 were $3,838 for each year. Total accumulated amortization at December 31, 2010 and 2009 was $1,777 and $1,659, respectively.

Other Non-current Liabilities
Other non-current liabilities in the accompanying balance sheets consist primarily of the non-current portion of estimated amounts due to third-party payors and estimated professional liability costs.

Temporarily and Permanently Restricted Net Assets
Net assets associated with restricted funds are classified and reported based on the existence or absence of donor-imposed restrictions. Unconditional promises to donate cash and other assets are reported at fair value at the date the promise is received. Conditional promises to donate and indications of intentions to donate are recognized when the condition is substantially met.

Temporarily restricted net assets are those whose use by LICH is limited by donor-imposed restrictions to a specific time period or purpose. Once restrictions are satisfied, those temporarily restricted net assets are released from restrictions, except for temporarily restricted revenue earned and expended in the same fiscal year, which is recorded as unrestricted revenue.

Gifts of long-lived assets under specific restrictions that specify the use of assets and gifts of cash or other assets that must be used to acquire long-lived assets are reported as additions to temporarily restricted net assets if the assets are not placed in service during the year.

Permanently restricted net assets have been restricted by donors to be maintained by LICH in perpetuity and these endowment funds are included in long term investments.

(in thousands of dollars)

Consistent with ASC 958-205 Endowments of Not-for-Profit Organizations Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), LICH records as permanently restricted assets the original amount of gifts which donors have given to be maintained in perpetuity. For financial statement purposes, all subsequent accumulated gains on such donor restricted endowment funds that are not classified as permanently restricted net assets are classified as temporarily restricted net assets until appropriated for expenditure by the Board of Regents of LICH. The amount of endowment return available for current spending (distribution) during the fiscal year will be calculated as the estimated annual income less inflation plus change in portfolio. The Board of Regents further understands its policies on retaining and spending from endowment to be consistent with the requirements of New York State law.

Under the policies established and approved by LICH's Investment Committee, donor-restricted endowment funds are invested in income-generating investment vehicles to generate appreciation and preserve capital.

Faculty Practice Revenue
LICH has a faculty practice plan ("FPP") which consists of employed multispecialty physicians. Based on the employment agreements, revenue generated from patient care services provided by the FPP are allocated to pay for physicians' salaries, overhead and to fund education and other expenses of the specific department.

Statement of Operations and Performance Indicator
LICH differentiates its operating activities through the use of operating loss as an intermediate measure of operations. For the purposes of display, unrestricted donor contributions, net of provision for uncollectible contributions, which management does not consider to be components of LICH's operating activities, are excluded from the loss from operations and reported as nonoperating revenues (expenses) in the statements of operations.

The statements of operations include deficiencies of revenue over expenses as the performance indicator. Changes in unrestricted net assets which are excluded from deficiency of revenue over expenses, includes permanent transfers of assets to and from affiliates for other than goods and services.

Charity Care
LICH provides care to all patients regardless of their ability to pay. As a matter of policy, LICH provides significant amounts of partially or totally uncompensated patient care. For accounting purposes, such uncompensated care is treated either as charity care or bad debt expense. LICH has defined charity care for accounting purposes as the difference between its customary charges and the discounted rates given to patients in need of financial assistance. Since payment of this difference is not sought, charity care allowances are not reported as revenue. Patients who do not qualify for financial assistance are billed at LICH's full rates. Uncollected balances for these patients are categorized as bad debts. Forgone charges related to the provision of charity care for all patient services approximated $7,436 and $5,211 for the years ended December 31, 2010 and 2009, respectively.

(in thousands of dollars)

New Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2009-12: Fair Value Measurements and Disclosures (Topic 820), Investments in certain Entities That Calculate Net Assets Value per Share (or its equivalent), which was effective for all periods after March 15, 2010. The new guidance requires entities to further disaggregate the presentation of investments by class of asset and liabilities rather than by major category and to disclose the valuation technique used and the inputs used in determining the fair values of each class of assets and liabilities. LICH adopted this guidance during 2010, and included the applicable disclosures on classification of investments (as further discussed in Note 3).

In 2009, LICH adopted the required disclosure requirements of Accounting Standards Codification 958-205, Endowments of Not-for-Profit Organizations Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). With the enactment of UPMIFA in New York State during 2010, authoritative guidance impacts the classification of net assets as there is an implied time restriction on those resources which previously did not exist, and any unspent endowment appreciation needs to be reclassified from unrestricted to temporarily restricted. LICH adopted the authoritative guidance in 2010, and it did not have a material impact on LICH's financial statements.

In February 2010, the FASB issued Accounting Standards Update No. 2010-09, Subsequent Events - Amendments of Certain Recognition and Disclosure Requirements, which clarified its intentions concerning the evaluation of subsequent events by conduit bond obligors that have debt securities traded in a public market. The updated guidance requires entities to evaluate subsequent events up through the date of the first wide distribution of the financial statements (that is, the date the statements are considered "issued"). "Wide distribution" includes posting financial statements on the entity's website, filing with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access (EMMA) system (if required), or filing the financial statements with other regulators. LICH evaluated subsequent events through the date the financial statements were issued and the date has been disclosed in the financial statements in Note 13.

In 2010, the FASB issued Accounting Standards Update No. 2010-06, Fair Value Measurements and Disclosures - Improving Disclosures about Fair Value Measurement which requires new disclosures and clarifies existing disclosure requirements about fair value measurements. The new guidance requires entities to disclose transfers of assets in and out of Levels 1 and 2 of the fair value hierarchy and the reasons for those transfers. The new standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. LICH is evaluating the effect of this new standard on its financial statement disclosures in 2011.

In August 2010, the FASB issued Accounting Standards Update No. 2010-23, Measuring Charity Care for Disclosure. The new standard requires that the level of charity care provided be presented based on the direct and indirect costs of the charity services provided and also requires separate disclosure of the amount of any cash reimbursements received for providing charity care. The new standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. LICH is evaluating the effect of this new standard on its financial statement disclosures in 2011.

(in thousands of dollars)

In August 2010, the FASB issued Accounting Standards Update No. 2010-24, Presentation of Insurance Claims and Related Insurance Recoveries. Under this new standard, anticipated insurance recoveries and estimated liabilities for medical malpractice claims or similar contingent liabilities should be presented separately on the balance sheet. The standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. LICH is evaluating the effect of this new standard on its financial statements in 2011.

2. Net Patient Service Revenue, Accounts Receivable and Allowance for Uncollectible Accounts

LICH has agreements with third-party payors that provide for payments to LICH at amounts different from its established rates (i.e., gross charges). Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments.

Billings relating to services rendered are recorded as net patient service revenue in the period in which the service is performed, net of contractual and other allowances which represent differences between gross charges and the estimated receipts under such programs. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Patient accounts receivable are also reduced for allowances for uncollectible accounts.

The process for estimating the ultimate collection of receivables involves significant assumptions and judgments. Account balances are written off against the allowance when management determines it is probable the receivable will not be recovered. The use of historical collection and payor reimbursement experience is an integral part of the estimation of reserves for uncollectible accounts. Revisions in reserve for uncollectible accounts estimates are recorded as an adjustment to the provision for bad debts.

A summary of the payment arrangements with major third-party payors is as follows:

- *Medicare*: Inpatient acute care and certain nonacute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Effective October 1, 2007, the Centers for Medicare and Medicaid Services ("CMS") revised the Medicare patient classification system. The new Medicare Security adjusted diagnosis related groups ("MS-DRGS") reflected changes in technology and current methods of care delivery. CMS has expanded the number of DRGS from 538 to 745 and requires identification of conditions that are present upon admission. Direct medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. LICH is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary.

(in thousands of dollars)

- *Non-Medicare Payments*: The New York Health Care Reform Act of 1996, as updated, governs payments to hospitals in New York State (NYS). Under this system, hospitals and all non-Medicare payors, except Medicaid, workers compensation and no-fault insurance programs, negotiate hospital's payment rates. If negotiated rates are not established, payors are billed at the hospitals established charges. Medicaid, workers compensation and no-fault payors pay hospital rates promulgated by the New York State Department of Health ("NYSDOH") on a prospective basis. Adjustments to current and prior years' rates for these payors will continue to be made in the future. Effective December 1, 2009, NYSDOH implemented inpatient reimbursement reform. The reform updated the data utilized to calculate NYS DRG rates and service intensity weighs ("SIWs") in order to utilize refined data and more current information in NYSDOH promulgated rates. Similar type outpatient reforms were implemented effective December 1, 2008.

There are various proposals at the Federal and State levels that could, among other things, reduce payment rates and increase managed care penetration, including Medicaid. The ultimate outcome of these proposals and other market changes cannot presently be determined.

Revenue from the Medicare and Medicaid programs accounted for approximately 61% and 57% of LICH's net patient service revenue for the years ended December 31, 2010 and 2009, respectively.

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. During 2010 and 2009, the net amounts recorded, related to prior years, decreased the performance indicator by approximately $1,310 and $1,131, respectively.

LICH's Medicare cost reports have been audited and finalized by the Medicare fiscal intermediary through December 31, 1999.

3. Investments and Assets Limited As to Use

Investments and Assets Limited as to Use with readily determinable values are recorded at fair value. Investments and Assets Limited as to Use for which a readily determinable value is not available are accounted for using the equity or cost method, depending upon LICH's ownership percentage. The fair value of LICH's investments in private equity funds and hedge funds is determined by the management of the respective fund. LICH believes that the carrying amount of these investments is a reasonable estimate of fair value as of December 31, 2010 and 2009. Because these investments are not marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investment existed and such differences could be material. The fair value hierarchy is based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value. The three levels of inputs are as follows:

- Level 1-Quoted prices in active markets for identical assets or liabilities.
- Level 2-Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of these assets or liabilities.

(in thousands of dollars)

- Level 3-Unobsevable inputs that are supported by little or no market activity and that are significant to the fair value of these assets or liabilities.

The following is a description of the valuation techniques used for assets measured at fair value.

Cash and cash equivalents includes money market instruments that are valued at amortized cost which approximates fair value.

Marketable equities and fixed income consists of investments in publicly traded U.S. and foreign equities, funds that invest in equity and fixed income based strategies, and cash held in separate accounts committed to these strategies. The fair value of these investments is based on quoted market prices. Investments that are listed on an exchange are valued, in general, at the last reported sale price (or, if there is no sales price, at the last reported bid price, or, in the absence of reported bid prices, at the mean between the last reported bid and asked prices thereof). Fund investments in equity and fixed income based strategies are valued in accordance with valuations provided by the investment managers of the underlying funds.

U.S. government debt securities are valued on the basis of the quoted market prices at year-end. If quoted market prices are not available for the investments, these investments are valued based on yields currently available on comparable securities or issuers with similar credit ratings.

Limited marketability investments include interests in absolute return strategy funds and private equity funds. LICH values these investments in accordance with valuations provided by the investment managers of the underlying funds. These funds may make investments in securities that are publicly traded, which are generally valued based on observable market prices, unless a restriction exists. In addition, interests in a private equity fund may be publicly traded and valued based on observable market prices. As a general rule, managers of funds invested in limited marketability investments value those investments based upon the best information available for a given circumstance and may incorporate assumptions that are the investment manager's best estimates after consideration of a variety of internal and external factors. Certain of these investments may be subject to restrictions that limit LICH's ability to withdraw capital after such investment (lock ups ranging from 0 to 1 year) and redemption notice periods that range from 0 days to 100 days.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value of reflective of future fair values. Furthermore, while management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different value measurement at the reporting date.

(in thousands of dollars)

Long-Term Investments

The composition and fair value hierarchy of long-term investments measured at fair value on a recurring basis at December 31, 2010 and 2009 is set forth in the following table:

	December 31, 2010			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 15,344	$ -	$ -	$ 15,344
Marketable equity investments	3,704	-	-	3,704
US government and fixed income	63,917	-	-	63,917
Total marketable securities	$ 82,965	$ -	$ -	82,965
Limited marketability investments				19,488
Total Long term investments				$ 102,453

	December 31, 2009			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 2,335	$ -	$ -	$ 2,335
Marketable equity investments	14,710	-	-	14,710
US government and fixed income	63,062	-	-	63,062
Total marketable securities	$ 80,107	$ -	$ -	80,107
Limited marketability investments				18,980
Total Long term investments				$ 99,087

Assets Limited as to Use

The composition and fair value hierarchy of assets limited as to use at December 31, 2010 and 2009 is set forth in the following table:

	December 31, 2010			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 4,142	$ -	$ -	$ 4,142
US government and other obligations	21,252	-	-	21,252
Total assets limited as to use	$ 25,394	$ -	$ -	$ 25,394

	December 31, 2009			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 5,143	$ -	$ -	$ 5,143
US government and other obligations	21,512	-	-	21,512
Total assets limited as to use	$ 26,655	$ -	$ -	$ 26,655

(in thousands of dollars)

Assets limited as to use under LICH's tax-exempt insured mortgage loans and other designated purposes are set forth in the following table:

	December 31, 2010	December 31, 2009
Mortgage reserve fund	$ 22,241	$ 22,359
Restricted cash and self-insurance fund	2,229	3,205
Board designated	924	1,091
	25,394	26,655
Less current portion	(924)	(1,091)
	$ 24,470	$ 25,564

Investment income, income from equity investments, and net realized gains or losses on long-term investments, assets limited as to use, interest and dividends, and cash and cash equivalents consist of the following:

	Years Ended December 31, 2010	Years Ended December 31, 2009
Interest and dividends	$ 1,340	$ 2,680
Net realized (loss) gain	(382)	506
Net unrealized gain	5,000	3,858
Total investment income	$ 5,958	$ 7,044

4. Property, Plant and Equipment

A summary of property, plant and equipment is as follows:

	December 31, 2010	December 31, 2009
Land and land improvements	$ 4,801	$ 4,771
Buildings and building improvements	296,161	295,559
Equipment held under capital leases	6,438	6,438
Equipment	93,963	91,663
	401,363	398,431
Less accumulated depreciation and amortization	(287,367)	(272,391)
	113,996	126,040
Construction in progress	612	1,168
	$ 114,608	$ 127,208

(in thousands of dollars)

Depreciation expense was $14,976 and $14,193 for the years ended December 31, 2010 and 2009, respectively. Substantially all property, plant and equipment has been pledged as collateral under various debt agreements. Accumulated depreciation associated with equipment held under capital leases was $3,788 and $3,302 at December 31, 2010 and 2009, respectively. During 2010 and 2009, LICH capitalized approximately $15 and $66, respectively, in interest expense related to various construction projects.

5. Long-Term Debt, Capitalized Leases and Short-Term Borrowings

A summary of long-term debt, capitalized leases and short-term borrowings is as follows:

	December 31, 2010	December 31, 2009
Insured mortgage loans (a)	$ 133,418	$ 140,673
Capital leases with interest rates ranging from 7.0% to 15%	1,889	2,551
10% mortgage note	774	860
Commercial paper (b)	-	-
	136,081	144,084
Less current portion	(8,258)	(7,854)
	$ 127,823	$ 136,230

a. In 2000, the Dormitory Authority of the State of New York (the "Authority") issued $197,745 of Federal Housing Administration (FHA) Insured mortgage hospital revenue taxable bonds ($127,675 of Series 2000A and $70,070 of Series 2000B bonds, together referred to as "Series 2000 Bonds"). Concurrent with the issuance of the Series 2000 Bonds, LICH entered into two mortgage agreements with the Authority, the first in the original amount of $104,451 ("Series 2000A Note") and the second in the original amount of $63,400 ("Series 2000B Note"). The Series 2000A Note bears interest at the rate of 11.35% per annum through its maturity of 2021. The Series 2000B Note bears interest at the rate of 9.30% per annum through its maturity of 2028. Included in the Series 2000 Bond agreements was the option for LICH to issue "Exchange Bonds." The Exchange Bonds, if and when issued, would exchange the taxable bonds for tax-exempt bonds, thereby reducing the interest on the mortgage agreements from the rates stated above to 9.10% and 6.875% on the Series 2000A and Series 2000B Notes, respectively. These mortgage notes are collateralized by substantially all of the assets of LICH.

On July 1, 2004, LICH exercised its option to issue the Exchange Bonds. As a result, LICH received approximately $3,500 of funds released by the Series 2000 bonds trustee primarily due to the reduction in the debt service reserve fund requirement resulting from the reduction in the interest rate. This amount was utilized to pay for additional issuance costs of approximately $3,500. This amount was capitalized and included in deferred financing fees. No other changes were made to the mortgage note agreements.

During 2009 LICH entered into a mortgage modification agreement with the Authorities for an additional $5,000 loan including a $3,000 health restructuring pool loan. The loan bears interest at the rate of 1.0% per annum through its maturity of December 1, 2012 with monthly installment payments of principal and interest of $142.

(in thousands of dollars)

Pursuant to these borrowings, LICH is required to maintain certain financial and non-financial covenants, the most restrictive of which are meeting minimum requirements under Long Term Debt Service Coverage Ratio and Days Cash on Hand calculations as well as the filing of unaudited semi-annual and audited annual financial statements within specified time frames. LICH was not in compliance with the financial covenants, however, is still considered to be in compliance with the covenants contained in the mortgage agreements as a result of meeting the non-financial covenants as per agreement.

As a condition of these borrowings, LICH is required to maintain a mortgage reserve fund at defined levels. Amounts deposited into the mortgage reserve fund, together with investment earnings thereon, are available for principal payments and purchases of specified levels of capital assets. As of December 31, 2010, LICH had $22,241 on deposit in the mortgage reserve fund, which was $120 less than the required amount. LICH has notified the appropriate authorities of the shortfall as required by the mortgage agreement and remediated in January 2011.

b. During 2000, LICH issued $25,700 in taxable commercial paper notes which are generally renewable based on their current terms at periods up to 270 days. The outstanding notes were issued in minimum denominations of $100, and issued at a discount representing interest. As notes become due, they are resold by the trustee. The notes are collateralized by an irrevocable direct pay letter of credit with a bank in the amount of $25,700 with an expiration date of July 14, 2014. If the notes were not resold upon maturity, the letter of credit would be drawn upon and interest would be payable at the higher of the prime rate or the federal fund ate plus 0.5%. On October 20, 2009 a drawing was made under the letter of credit for which the bank was not reimbursed, resulting in an event of default. As a result of the occurrence of such event of default, the commitment was terminated and on November 16, 2009 the bank sent a notice of termination, terminating the letter of credit. The collateral, which was funded from LICH's permanently restricted endowment funds (Note 6), was liquidated to generate a remittance of $25,800 to the bank to recover the outstanding debt and fees.

Long-term debt (excluding capital leases): The fair value of LICH's long term debt is estimated using discounted cash flow analyses, based on LICH's current incremental borrowing rates for similar types of borrowing arrangements. The fair value of LICH's debt approximates its carrying amount.

(in thousands of dollars)

Scheduled principal payments and payments on capital lease obligations are as follows:

	Debt	Capital Lease Obligations
2011	$ 7,887	$ 542
2012	8,456	463
2013	7,359	1,255
2014	8,013	-
2015	8,726	-
2016 and thereafter	93,751	-
	$ 134,192	2,260
Less amounts representing interest under capital lease obligations		(371)
		$ 1,889

6. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets of $1,145 and $861 at December 31, 2010 and 2009, respectively, are primarily restricted for clinical care and educational purposes.

For the years ended December 31, 2010 and 2009, net assets were released from restriction by incurring expenses and satisfying the restricted purposes of health education and program improvement and research in the amount of approximately $178 and $5, respectively.

Permanently restricted net assets are restricted as follows:

	December 31, 2010	December 31, 2009
Amounts to be held in perpetuity, the income from which is temporarily restricted as to use	$ 5,424	$ 5,424
Amounts to be held in perpetuity, the income from which is unrestricted as to use	141,101	141,101
	$ 146,525	$ 146,525

In 2000, LICH received approval from the New York Surrogate court to utilize up to $65,300 as collateral for its mortgage notes and up to $30,800 as collateral for its commercial paper obligations and approval to purchase real property including up to $5,000 for improvements from its permanently restricted endowment funds. During 2008, this property was sold and LICH repaid the $5,000 plus interest. During 2009, collateral available for its commercial paper obligations of $25,800 was liquidated as described in Note 5. These amounts are required to be paid back to the permanent fund, however no process for repayment has been stipulated.

(in thousands of dollars)

Additionally, in May 2006, LICH received approval from the New York Surrogate Court to borrow an additional $25,000 from its permanent endowment funds. The loan requires no interest and graduated repayment over 20 years. No principal repayment would be required to be made on or before the first anniversary date of the loan and then payments each year thereafter are as follows: $100 in years two through six, $500 in years seven through eleven, $2,000 in years twelve through sixteen and $3,000 in years seventeen through twenty. Through 2010 LICH has made all required payments.

As a result of the aforementioned transactions, the unrestricted fund has a liability to the permanently restricted fund of $50,400 at December 31, 2010.

7. Professional and General Liability Insurance Program

In the early 1980's, LICH, together with several other not-for-profit institutions, obtained primary and excess professional and general liability insurance, on an occurrence basis, through a jointly owned captive insurance company. As of December 31, 2010 and 2009, LICH had a 14.3% voting interest in the captive insurance company. This interest is accounted for using the equity method due to the combined ownership by SLR and LICH. Premiums were based on the experience of LICH and the other institutions. During the five year period July 1999 through June 2004, the combined losses of the captive members are expected to exceed the level of available insurance. The captive members have entered into an agreement to provide additional contributions to ensure adequate resources are available to cover all claims including those in excess of captive insurance limits. Management believes this agreement adequately covers this exposure. At June 30, 2004, the jointly owned captive insurance company went into runoff and no longer writes premiums.

Effective July 1, 2004, LICH joined with six other not-for-profit institutions, including SLR, to form a segregated cell captive insurance company which provides deposit liability based coverage up to the limits of the individual cell funding. Based on actuarial studies, management believes that the amount of professional liability insurance available in the segregated cells is not sufficient to meet the projected ultimate losses of the cell years. As such, LICH has recorded an additional liability on an undiscounted basis as of December 31, 2010 and 2009.

At December 31, 2010 and 2009 a liability for professional liability insurance of $172,543 and $163,851, respectively has been recorded. Of this amount $23,660 and $26,575 relates to premiums payable and $148,883 and $137,276 related to actuarially determined claims reserves and incurred-but-not reported losses in excess of insurance limits as of December 31, 2010 and 2009, respectively. Of this total liability, $8,678 and $26,575 has been recorded within other current liabilities at December 31, 2010 and 2009, respectively, and $163,865 and $137,276 within other non-current liabilities at December 31, 2010 and 2009, respectively.

LICH's equity investment in these captives at December 31, 2010 and 2009, are approximately $1,295 and $(3,600), respectively. Investment income includes equity accounted earnings in these captives of $4,895 and $(3,600) for the years ended December 31, 2010 and 2009, respectively.

(in thousands of dollars)

8. Retirement and Similar Benefits

LICH provides retirement and similar benefits to its union employees through several multi-employer defined contribution pension plans, to its nonunion employees through immediate vesting tax sheltered annuity plans and to certain employees through a supplemental retirement plan. Contributions to all plans are determined based on gross salaries and are funded on a current basis. Total pension expense under all plans amounted to $8,589 and $9,075 for the years ended December 31, 2010 and 2009, respectively.

Approximately 69% of LICH's employees are members of various unions, all of which are covered by union contracts. The union contract for 1199 will expire in April 2015 and the union contract for NYSNA expired in December 2010 and is currently in negotiations for renewal.

9. Related Party Transactions

LICH conducts various transactions with affiliated organizations. The following table summarizes amounts due to affiliated companies at December 31:

	2010	2009
St. Luke's-Roosevelt Hospital Center	$ -	$ 14,425
Beth Israel Medical Center	-	15,584
Total due to affiliated organizations	-	30,009
Less equity transfer	-	30,009
Total due to affiliated organizations, net of current portion	$ -	$ -

BIMC and SLR fund certain transactions and provide services to LICH on an ongoing basis. Certain transactions are paid directly to vendors on behalf of LICH and other charges are allocated or billed to LICH for corporate type services, such as administrative, human resources, and information technology, based on agreed-upon estimates of usage of those services which LICH pays to BIMC and SLR on a monthly basis.

In addition, BIMC charges LICH for the beneficial use of "Prism", a clinical management system for which the assets related to the purchase and implementation of "Prism" were recorded by BIMC. These charges are paid in full on a monthly basis. Total amounts charged by BIMC and recorded in other operating expenses in the statements of operations were $4,346, and $5,730 for the years ended December 31, 2010 and 2009, respectively. Prism rent payments are included in future minimum noncancelable operating lease payments in Note 10.

10. Commitments and Contingencies

Litigation

LICH is involved in litigation and claims in the normal course of business. The ultimate outcome of these cases cannot be predicted at this time. Management does not believe that the ultimate outcome of these matters will have a material adverse effect on the financial position as reported in these financial statements.

(in thousands of dollars)

Operating Leases

LICH leases various equipment and facilities under operating leases expiring at various dates through 2016 and thereafter. Total rental expense under operating leases charged to operations approximated $5,272 and $6,838 in 2010 and 2009, respectively.

Future minimum payments under noncancellable operating leases with initial or remaining terms of one year or more consisted of the following at December 31, 2010:

2011	$ 2,324
2012	1,383
2013	1,388
2014	701
2015	706
2016 and thereafter	4,346

11. Concentration of Credit Risk

LICH grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of net receivables (net of contractual allowances, advances from certain third-parties and allowance for doubtful accounts) from patients and third-party payors was as follows:

	December 31,	
	2010	2009
Medicare	31 %	31 %
Medicaid	23	26
Managed Care and other commercial insurance	35	35
Patients	11	8
	100 %	100 %

12. Functional Expenses

The functional expenses related to LICH providing its services are:

	Years Ended December 31,	
	2010	2009
Program services	$ 358,670	$ 350,146
Management/administrative	32,625	37,675
Fund raising	450	468
	$ 391,745	$ 388,289

(in thousands of dollars)

13. Subsequent Event

LICH is currently in negotiation with the State University of New York to sell certain assets and liabilities and to continue as a provider of healthcare services. The sale is pending necessary approval by state regulatory authorities.

LICH has performed an evaluation of subsequent events through April 21, 2011, which is the date the financial statements were issued.