Financial Statements

Maimonides Medical Center
Years Ended December 31, 2012 and 2011
With Report of Independent Auditors

Ernst & Young LLP

Maimonides Medical Center

Financial Statements

Years Ended December 31, 2012 and 2011

Contents

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Report of Independent Auditors

The Board of Trustees
Maimonides Medical Center

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

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

Change in Presentation of the Provision for Bad Debts

As discussed in Note 1 to the accompanying financial statements, in 2012 the Medical Center adopted the provisions of Accounting Standards Update 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,* which resulted in a change to the presentation of the provision for bad debts on the statements of operations and changes in net assets effective January 1, 2011. Our opinion is not modified with respect to this matter.

Ernst + Young LLP

May 1, 2013

Maimonides Medical Center

Statements of Financial Position

	December 31 2012	December 31 2011
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 45,171**	$ 47,188
Short-term investments *(Notes 1 and 3)*	**98,481**	95,294
Total cash, cash equivalents and short-term investments	**143,652**	142,482
Assets limited as to use, current portion *(Note 3):*		
Board designated	**13,774**	13,757
Medical resident FICA refund *(Note 1)*	**12,508**	–
Receivables for patient care, net of allowance for doubtful accounts (2012 – $94,696; 2011 – $83,819) *(Note 2)*	**141,247**	131,916
Due from affiliates, net, current portion *(Note 8)*	**9,376**	7,300
Supplies, at average cost	**9,271**	8,851
Estimated insurance claims receivable, current portion *(Note 7)*	**29,122**	28,000
Other current assets *(Note 1)*	**25,703**	45,866
Total current assets	**384,653**	378,172
Assets limited as to use, less current portion *(Notes 3, 5 and 7):*		
Sinking funds	**14,083**	12,883
Collateral	**2,630**	2,630
Self-insurance trust	**4,296**	3,917
Long-term investment funds *(Notes 1 and 3)*	**–**	1,102
Due from affiliates, net, less current portion *(Note 8)*	**2,761**	2,607
Property, plant and equipment, net *(Notes 4 and 5)*	**347,557**	340,954
Equity in captive insurance program *(Note 7)*	**62,321**	52,707
Estimated insurance claims receivable, less current portion *(Note 7)*	**165,022**	158,668
Other assets *(Note 1)*	**24,962**	16,534
Total assets	**$ 1,008,285**	$ 970,174

	December 31	
	2012	**2011**
	(In Thousands)	
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 62,488**	$ 54,948
Construction payable	**11,271**	7,291
Accrued salaries and related liabilities	**82,817**	74,152
Current portion of long-term debt and capital lease obligations *(Note 5)*	**26,176**	21,181
Line of credit borrowings *(Note 5)*	**15,976**	18,408
Estimated insurance claims liabilities, current portion *(Note 7)*	**29,122**	28,000
Other current liabilities *(Notes 1 and 7)*	**31,686**	41,812
Total current liabilities	**259,536**	245,792
Long-term debt and capital lease obligations, less current portion *(Note 5)*	**181,810**	158,532
Accrued pension and postretirement benefits *(Note 6)*	**68,094**	59,170
Other noncurrent liabilities *(Notes 2 and 5)*	**108,311**	127,878
Professional liabilities *(Note 7)*	**31,996**	41,912
Estimated insurance claims liabilities, less current portion *(Note 7)*	**165,022**	158,668
Total liabilities	**814,769**	791,952
Commitments and contingencies *(Notes 2, 5 ,6, 7, 9, 14 and 15)*		
Net assets *(Note 9):*		
Unrestricted	**178,480**	162,652
Temporarily restricted	**13,904**	14,438
Permanently restricted	**1,132**	1,132
Total net assets	**193,516**	178,222
Total liabilities and net assets	**$ 1,008,285**	$ 970,174

See accompanying notes.

Maimonides Medical Center

Statements of Operations and Changes in Net Assets

	Year Ended December 31 2012	2011
	(In Thousands)	
Operating revenue:		
Net patient service revenue	**$ 962,633**	$ 942,798
Provision for bad debts *(Notes 1 and 2)*	**(11,344)**	(15,122)
Net patient service revenue less provision for bad debts *(Note 2)*	**951,289**	927,676
Other revenue *(Note 10)*	**59,701**	48,654
Net assets released from restrictions	**1,810**	1,765
Total operating revenue	**1,012,800**	978,095
Operating expenses:		
Salaries and wages	**504,949**	476,048
Employee benefits	**147,268**	142,293
Supplies and other expenses	**298,151**	296,516
Depreciation and amortization	**50,201**	46,098
Interest and amortization of deferred financing costs	**11,013**	10,608
Total operating expenses	**1,011,582**	971,563
Excess of operating revenue over operating expenses before other items	**1,218**	6,532
Change in captive insurance program interest rate shortfall *(Note 7)*	**6,981**	(10,383)
Change in equity in captive insurance program *(Note 7)*	**9,615**	(1,727)
Medical residents FICA refund *(Note 1)*	**3,652**	–
Excess (deficiency) of revenue over expenses before net change in unrealized gains and losses on investments and change in fair value of interest rate swap agreements	**21,466**	(5,578)
Net change in unrealized gains and losses on investments and change in fair value of interest rate swap agreements *(Note 5)*	**(514)**	1,248
Excess (deficiency) of revenue over expenses	**20,952**	(4,330)
Change in accrued pension and postretirement benefits liabilities to be recognized in future periods	**(6,308)**	(11,099)
Grants for capital asset acquisitions and net assets released from restrictions used for capital asset acquisitions	**1,184**	8,863
Increase (decrease) in unrestricted net assets	**15,828**	(6,566)
Temporarily restricted net assets:		
Restricted contributions, grants and other receipts	**1,800**	1,937
Net assets released from restrictions:		
Operating expenses	**(1,810)**	(1,765)
Capital asset acquisitions	**(524)**	(350)
Decrease in temporarily restricted net assets	**(534)**	(178)
Increase (decrease) in net assets	**15,294**	(6,744)
Net assets at beginning of year	**178,222**	184,966
Net assets at end of year	**$ 193,516**	$ 178,222

See accompanying notes.

Maimonides Medical Center

Statements of Cash Flows

	Year Ended December 31 2012	2011
	(In Thousands)	
Operating activities		
Increase (decrease) in net assets	**$ 15,294**	$ (6,744)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Change in accrued pension and postretirement benefits liabilities to be recognized in future periods	**6,308**	11,099
Depreciation and amortization	**50,201**	46,098
Amortization of deferred financing costs	**1,231**	359
Net change in unrealized gains and losses on investments and change in fair value of interest rate swap agreements	**514**	(1,248)
Restricted contributions, grants and other receipts	**(1,800)**	(1,937)
Changes in operating assets and liabilities:		
Receivables for patient care	**(9,331)**	(12,223)
Due from affiliates	**(2,230)**	(2,526)
Other assets	**(1,516)**	(11,276)
Accounts payable and accrued expenses and accrued salaries and related liabilities	**16,205**	(1,065)
Other current liabilities	**(10,126)**	(1,942)
Other liabilities	**(16,113)**	35,181
Net cash provided by operating activities	**48,637**	53,776
Investing activities		
Purchase of investments	**(1,759)**	(1,693)
Acquisitions of property, plant and equipment – net	**(51,555)**	(44,596)
(Purchase) redemption of assets limited as to use	**(12,963)**	378
Purchase of sinking funds	**(1,278)**	(1,630)
Net cash used in investing activities	**(67,555)**	(47,541)
Financing activities		
Repayments of long-term debt and capital lease obligations	**(50,351)**	(21,725)
Restricted contributions, grants and other receipts	**1,800**	1,937
Line of credit (repayments) drawdown	**(2,432)**	2,000
Proceeds from financing	**67,884**	14,745
Net cash provided by (used in) financing activities	**16,901**	(3,043)
Net (decrease) increase in cash and cash equivalents	**(2,017)**	3,192
Cash and cash equivalents at beginning of year	**47,188**	43,996
Cash and cash equivalents at end of year	**$ 45,171**	$ 47,188
Supplemental disclosures of cash flow information		
Cash paid for interest	**$ 9,259**	$ 10,302
Capital lease arrangements, excluding those funded with cash	**$ 5,249**	$ 10,791

See accompanying notes.

1. Organization and Summary of Significant Accounting Policies

Organization

Maimonides Medical Center (the "Medical Center") is a not-for-profit membership corporation, organized under the New York State not-for-profit corporation law, whose sole member is Maimonides Health Resources, Inc. ("MHRI"). Located in Brooklyn, New York, the Medical Center provides health care and related services to residents of the metropolitan New York area. The accompanying financial statements do not include the accounts of MHRI, the Maimonides Research and Development Foundation, a not-for-profit corporation which solicits funds and awards grants primarily to the Medical Center for research purposes, or MMC Holding of Brooklyn, Inc., a for-profit company, which provides certain support services to the Medical Center and the surrounding community (see Note 8).

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, such as estimated uncollectibles for accounts receivable for services to patients, estimated settlements with third-party payors, estimated insurance claims liabilities and receivables and retirement liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the amounts of revenues and expenses reported during the period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Medical Center considers all highly liquid investments with a maturity of three months or less at the date of purchase to be cash equivalents. Cash and cash equivalents exclude assets limited as to use.

Investments

Investments consist of cash equivalents, U.S. government obligations, corporate bonds, a mutual fund, a certificate of deposit and alternative investments. Investments, other than alternative investments, are recorded at fair value based on quoted market prices.

1. Organization and Summary of Significant Accounting Policies (continued)

Alternative investments (nontraditional, not readily marketable securities) consisted of two investment vehicles: an equity fund and a fund of funds. The Medical Center's ownership of the equity fund and the fund of funds was carried on the equity method of accounting at net asset value per share. The Medical Center redeemed its investments in the equity fund during 2011 and the fund of funds during 2012.

Investment income, which comprises interest and realized gains and losses on investments as well as the change in equity in alternative investments, is reported as a component of other revenue. The net change in unrealized gains and losses on investments is reported as a separate component of the excess (deficiency) of revenue over expenses.

Net Patient Service Revenue and Accounts Receivable

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 revenue adjustments due to ongoing and future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

The Medical Center recognizes patient service revenue associated with services provided to patients who have third-party payor (insurance) coverage on the basis of contractual rates, governmental rates or established charges for the services rendered. For uninsured patients who are ineligible for any government assistance program, 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 uninsured patients and patients who were determined by the Medical Center to have the ability to pay but do not, including those covered by insurance who might be responsible for copayments and deductibles, the estimated uncollectible amounts are recorded as bad debts.

Patient revenue for 2012, net of contractual and charity care allowances, from third-party payors (insured patients) was approximately $953.4 million and from self-pay patients was approximately $9.2 million, before the provision for bad debts. For accounts receivable associated with services provided to patients who have third-party coverage, the Medical Center analyzes amounts due from third-parties and provides an allowance for doubtful accounts and a provision for bad debts. For accounts receivable associated with self-pay patients, which includes

1. Organization and Summary of Significant Accounting Policies (continued)

both patients without insurance and patients with deductible and copayment balances due after third-party coverage, the Medical Center records an allowance for doubtful accounts and provision for uncompensated care (charity care and bad debts) in the period of service based on historical experience.

The allowance for doubtful accounts represents the Medical Center's estimate of the uncollectible accounts receivable related to bad debts. Additions to the allowance for doubtful accounts result from the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance for doubtful accounts. The allowance for doubtful accounts is based upon the Medical Center's assessment of historical and expected net collections, business and economic conditions, trends in health care coverage and other collection indicators. In distinguishing charity care from the provision for bad debts, a number of factors are considered, certain of which require a high degree of judgment. Accounts that initially are estimated to be bad debts might ultimately be written off to charity care.

Uncompensated Care

For financial reporting purposes, the Medical Center reports as uncompensated care amounts related to care provided for which the patient's payment obligation has not been fully satisfied. Uncompensated care is the sum of the Medical Center's charity care, including free and reduced price medical care, and bad debts. During the registration, billing and collection process, a patient's eligibility for charity care is determined. For patients who are determined to be eligible for charity care under the Medical Center's charity care and financial aid policy, care given but not paid for is classified as charity care. The Medical Center amended its charity care and financial aid policy in order to authorize use of additional financial information for uninsured or under-insured patients who have not supplied the requisite information to qualify for charity care. The additional information obtained is used by the Medical Center to determine whether to qualify patients for charity care and/or financial aid in accordance with the Medical Center's policies. For patients who were determined by the Medical Center to have the ability to pay but did not, the uncollected amounts are classified as bad debts. 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.

The Medical Center's estimated costs for charity care were $45.0 million for 2012 and $37.0 million for 2011. This does not include the service loss of treating the Medicaid population. The cost of charity includes the direct and indirect cost of providing charity care

1. Organization and Summary of Significant Accounting Policies (continued)

services. The cost is estimated by utilizing a ratio of cost to gross charges applied to the gross uncompensated charges associated with providing charity care. Net of pool contributions, funds received from the New York State Indigent Care Pool to offset bad debts and charity care provided totaled $9.4 million and $9.5 million for the years ended December 31, 2012 and 2011, respectively. The charity care component of the indigent care pool payments is estimated utilizing a ratio of charity care charges to total charity care and bad debt charges applied to the indigent care pool reimbursement and excludes amounts designated for teaching programs.

Assets Limited as to Use

Assets limited as to use include assets designated by the Board of Trustees, over which the Board retains control and which the Board, at its discretion, may designate for use for other purposes; cash to be remitted to medical residents who participated in the FICA refund claims; assets held by trustees under bond indenture agreements; assets restricted for self-insurance; and assets restricted by donors for specific purposes or endowment. Assets limited as to use are carried at fair value based on quoted market prices. Amounts which are available to be used to fund current liabilities are reported as current assets.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, except for donated equipment, which is recorded at the fair value established at the date of the gift. Assets acquired through capitalized lease obligations are recorded at the present value of the future minimum lease payments. The carrying amounts of assets and the related accumulated depreciation are removed from the accounts when such assets are disposed of, and any resulting gain or loss is included in operations. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets.

Equipment acquired under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization expense in the accompanying statements of operations and changes in net assets. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

1. Organization and Summary of Significant Accounting Policies (continued)

Other Assets

Included in other assets are deferred costs, pledges receivable, other noncurrent investments and funding available to be spent on capital leased fixed assets. Deferred costs are approximately $3.0 million and $4.2 million at December 31, 2012 and 2011, respectively, net. Deferred costs include costs incurred with respect to debt financing and are amortized using the effective interest method over the period the applicable obligation is outstanding. Included in the $3.0 million of deferred costs at December 31, 2012 are approximately $0.4 million related to the 1996 FHA Section 242 mortgage loan (see Note 5) and $2.6 million related to the 2004 FHA Section 241 mortgage loan (see Note 5). At December 31, 2012 and 2011, the accumulated amortization for deferred costs was approximately $3.5 million and $3.2 million, respectively. Amortization of deferred financing costs is included in interest and amortization of deferred financing costs in the accompanying statements of operations and changes in net assets. Pledges receivable are approximately $829,000 and $708,000 at December 31, 2012 and 2011, respectively. Pledges receivable are unconditional promises to give cash, which are reported at the present value of their estimated cash flows at the date the promise is received. Funding available to be spent on capital leased fixed assets was approximately $6.8 million at December 31, 2012 ($1.3 million at December 31, 2011).

Equity Investments

Included in other assets is an amount related to the Medical Center's investment in a limited liability company. The Medical Center accounts for this investment using the equity method of accounting. During 2012 and 2011, the Medical Center recognized income of approximately $3.1 million and $3.0 million, respectively, and received distributions of approximately $1.2 million and $1.7 million , respectively.

Additionally, the Medical Center has an investment in First to Care Home Care, Inc., a joint venture with Metropolitan Jewish Geriatric Corporation. As a result of its ownership in this joint venture, the Medical Center recorded a loss of approximately $1.5 million in its statement of operations and changes in net assets for the year ended December 31, 2011. This joint venture was terminated in 2012 and the Medical Center has recorded a gain of approximately $1.4 million in its statement of operations and changes in net assets for the year ended December 31, 2012.

Temporarily and Permanently Restricted Net Assets

The Medical Center separately accounts for and reports upon donor restricted and unrestricted net assets.

1. Organization and Summary of Significant Accounting Policies (continued)

Temporarily restricted net assets are those whose use is temporarily limited by the donor. Permanently restricted net assets have been restricted by donors to be maintained by the Medical Center in perpetuity. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose of restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations and changes in net assets as net assets released from restrictions.

Faculty Practice Revenue

All employed physicians may participate in the Medical Center's faculty practice plan. Plan participants are authorized to conduct faculty practices and engage in professional consultation in accordance with established institutional guidelines. Professional service fee receipts are recorded and deposited in faculty practice funds established by the Medical Center for each individual participant or group practice when received by the Medical Center. Portions of these receipts are used to reimburse the Medical Center for costs incurred in supporting plan activities. The remaining amounts, after direct plan expenses, provide participant salary supplements and support departmental activities. Faculty practice revenue activities are included in net patient service revenue and are recorded on a modified cash basis, which approximates the accrual basis with respect to the accompanying statements of operations and changes in net assets. Physicians comprising the faculty practices participate in the Medical Center's professional and general liability insurance programs.

Performance Indicator

The statements of operations and changes in net assets include the excess (deficiency) of revenue over expenses as the performance indicator. Certain items that are peripheral to the Medical Center's operations (e.g., change in captive insurance program interest rate shortfall, change in equity in captive insurance program, medical residents FICA refund and net change in unrealized gains and losses on investments and change in fair value of interest rate swap agreements) are considered non-operating for purposes of financial statement presentation. Changes in unrestricted net assets which are excluded from the excess (deficiency) of revenue over expenses include contributions of long-lived assets (including grants for capital asset acquisitions and net assets released from restriction used for capital asset acquisitions) and the change in accrued pension and postretirement benefits liabilities to be recognized in future periods.

1. Organization and Summary of Significant Accounting Policies (continued)

Interest Rate Swap Agreements

The Medical Center uses interest rate swap agreements, which are derivative financial instruments, for interest rate risk exposure-management purposes. The Medical Center recognizes derivative instruments as either an asset or liability in the statements of financial position at fair value. The fair value of derivative instruments is determined using forward interest rate estimates and present value techniques and considers the risk of nonperformance by the parties, which the Medical Center considers to be low. The change in fair value is recognized as a component of the excess (deficiency) of revenue over expenses. The fair value of the interest rate swap agreements is included in other noncurrent liabilities in the accompanying statements of financial position.

Tax Status

The Medical Center is a Section 501(c)(3) organization exempt from Federal income taxes under Section 501(a) of the Internal Revenue Code. It also is exempt from New York State and City income taxes.

Change in Accounting Principle

In July 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 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* ("ASU No. 2011-07"). In accordance with ASU No. 2011-07, the Medical Center is required to present its provision for bad debts related to patient service revenue as a deduction from revenue, similar to contractual discounts. Accordingly, the Medical Center's revenue is reported net of both contractual discounts as well as its provision for bad debts related to patient service revenue. Additionally, ASU No. 2011-07 requires the Medical Center to make certain additional disclosures designed to help financial statement users understand how contractual discounts and bad debts affect recorded revenue in annual financial statements. ASU No. 2011-07 is required to be applied retrospectively and is effective for fiscal years beginning after December 15, 2011. The Medical Center adopted the provisions of ASU No. 2011-07 as of and for the year ended December 31, 2012 and retrospectively applied the presentation requirements to all periods presented. The change had no effect on net assets or the change therein.

1. Organization and Summary of Significant Accounting Policies (continued)

Medical Residents FICA Refund

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

In 2010, the Medical Center recorded estimated net revenue of approximately $10.7 million related to FICA medical resident refund claims and accumulated interest that were expected to meet the IRS requirements to be eligible for refunds. The Medical Center established its estimate based on information available, subject to change as the IRS adjudicates the claims.

In the fourth quarter of 2012, the Medical Center received approximately $14.4 million as compared to the $10.7 million in expected revenue accrued in 2010. The amount received in excess of the amount receivable recorded previously was approximately $3.7 million, which is recognized in the accompanying 2012 statement of operations and changes in net assets. The Medical Center also received $12.5 million of funds collected on behalf of and, therefore, to be remitted to medical residents. This amount is reflected as assets limited as to use, with a corresponding other current liability at December 31, 2012. In 2013, the Medical Center received and recognized an additional $2.4 million, including $1.2 million to be remitted to medical residents.

Reclassifications

Certain reclassifications have been made to amounts previously reported in 2011 to conform with the current year's presentation.

2. Third-Party Payor System

Non-Medicare Reimbursement: In New York State, hospitals and all non-Medicare payers, except Medicaid, workers' compensation and no-fault insurance programs, negotiate hospitals' payment rates. If negotiated rates are not established, payers are billed at hospitals' established charges. Medicaid, workers' compensation and no-fault payers pay hospital rates promulgated by the New York State Department of Health. Payments to hospitals for Medicaid, workers' compensation and no-fault inpatient services are based on a statewide prospective payment system, with retroactive adjustments. Outpatient services also are paid based on a statewide prospective system, APGs (Ambulatory Payment Group). 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 payers will continue to be made in future years.

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

The Medical Center has established estimates, based on information presently available, of amounts due to or from Medicare and non-Medicare payers for adjustments to current and prior years' payment rates, based on industry-wide and Medical Center-specific data. Medicare cost reports, which serve as the basis for final settlement with the Medicare program, have been audited by the Medicare fiscal intermediary and settled through 2008. Other years remain open for audit and settlement as are numerous issues related to the New York State Medicaid program for prior years. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount when open years are settled and additional information is obtained.

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

2. Third-Party Payor System (continued)

For the years ended December 31, 2012 and 2011, revenue from the Medicare and Medicaid programs on a combined basis accounted for approximately 76% and 75%, respectively, of the Medical Center's net patient service revenue. The current Medicaid, Medicare and other third-party payor programs are based upon extremely complex laws and regulations that are subject to interpretation. The Medical Center is not aware of any allegations of noncompliance that could have a material adverse effect on the accompanying financial statements and believes that it is in compliance, in all material respects, with all applicable laws and regulations. Action for noncompliance could result in repayment of amounts improperly reimbursed, fines, penalties and exclusion from such programs.

3. Investments and Assets Limited as to Use

A summary of investments and assets limited as to use is as follows:

	December 31 2012	2011
	(In Thousands)	
Short-term investments:		
U.S. government obligations	**$ 68,585**	$ 66,936
Corporate bonds	**27,179**	25,647
Time deposits	**2,000**	2,000
Alternative investments	**–**	12
Accrued interest	**717**	699
Total short-term investments	**$ 98,481**	$ 95,294
Assets limited as to use – current portion:		
Board designated:		
Cash and cash equivalents	**$ 5,959**	$ 6,156
U.S. government obligations	**7,769**	7,504
Accrued interest	**46**	97
Total board designated	**13,774**	13,757
Medical resident FICA refund:		
Cash and cash equivalents	**12,508**	–
Total medical resident FICA refund	**12,508**	–
Total assets limited as to use – current portion	**$ 26,282**	$ 13,757
Assets limited as to use – noncurrent portion:		
Sinking funds:		
Cash and cash equivalents	**$ 413**	$ 381
U.S. government obligations	**13,594**	12,419
Accrued interest	**76**	83
Total sinking funds	**14,083**	12,883
Collateral for standby letter of credit (*Note 5):*		
Certificate of deposit	**2,630**	2,630
Self-insurance trust:		
Mutual fund	**4,296**	3,917
Total assets limited as to use – noncurrent portion	**$ 21,009**	$ 19,430
Long-term investment funds:		
Alternative investments	**$ –**	$ 1,102

3. Investments and Assets Limited as to Use (continued)

Investment income comprises the following for the years ended:

	December 31 2012	December 31 2011
	(In Thousands)	
Interest income	**$ 2,548**	$ 2,696
Net realized gains on investments reported at fair value and equity in earnings of alternative investments	**2,842**	5,659
Equity in earnings of investees	**4,543**	1,480
	$ 9,933	$ 9,835

4. Property, Plant and Equipment

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

	December 31 2012	December 31 2011
	(In Thousands)	
Land	**$ 4,980**	$ 4,980
Buildings and building improvements	**392,902**	393,396
Equipment	**564,557**	516,789
	962,439	915,165
Less accumulated depreciation and amortization	**626,765**	576,564
	335,674	338,601
Capital projects in progress	**11,883**	2,353
	$ 347,557	$ 340,954

Substantially all property, plant and equipment are pledged as collateral under various loan agreements (see Note 5).

4. Property, Plant and Equipment (continued)

Capitalized leases, included in property, plant and equipment, are as follows:

	December 31 2012	2011
	(In Thousands)	
Assets recorded under capital leases	**$ 120,100**	$ 87,958
Less accumulated amortization	**67,659**	59,448
	$ 52,441	$ 28,510

5. Long-Term Debt, Capital Lease Obligations, Other Borrowings and Related Matters

A summary of long-term debt is as follows:

	December 31 2012	2011
	(In Thousands)	
1996 FHA Section 242 insured mortgage loan (a and c)	**$ 9,970**	$ 10,669
2004 FHA Section 241 insured mortgage loan (b and d)	**91,423**	94,041
Construction bank loans (e and g)	**20,359**	2,822
Capital lease obligations (f)	**59,798**	45,836
2006 New York City Capital Resource Corporation loan (g)	**–**	26,345
Syndicated bank credit facility (g)	**26,436**	–
	207,986	179,713
Less current portion	**26,176**	21,181
	$ 181,810	$ 158,532

5. Long-Term Debt, Capital Lease Obligations, Other Borrowings and Related Matters (continued)

(a) In 1977 and 1983, the Medical Center entered into mortgage loan agreements to expand its facilities. Repayment of the loans was insured under the provisions of the Federal Housing Administration ("FHA") Hospital Mortgage Loan Program, with the Dormitory Authority of the State of New York ("DASNY"). In April 1996, the Medical Center entered into an FHA Section 242 mortgage loan agreement to borrow $32.7 million. Some of the proceeds from this agreement ($15.8 million) were used to refinance the 1977 mortgage loan agreement. Under the terms of the agreement, for this element of the loan, monthly installments approximating $210,000 were applied to principal and interest, at 5.75% per annum, through August 2005. This portion of the mortgage was satisfied in 2005.

Other proceeds from the 1996 mortgage loan ($16.8 million) were used to finance the expansion and modernization of the Medical Center's facilities. For this element of the loan, monthly payments of approximately $115,000 are applied to principal and interest, at 6.55% per annum, through October 2022.

As a condition of these borrowings, the Medical Center is required to establish and maintain a sinking fund. Amounts deposited into the sinking fund, together with investment earnings thereon, are available for principal payments and purchases of specified levels of capital assets. Assets on deposit in the sinking fund at December 31, 2012 and 2011 are in compliance with the required amounts. This loan was refinanced in March 2013 (see Note 5(c)).

(b) In June 2004, the Medical Center entered into an FHA Section 241 loan in the amount of $104.7 million. Proceeds of the loan, which were raised by DASNY through the issuance of tax-exempt revenue bonds, supported the Medical Center's major modernization project. The loan is insured by FHA. The loan bore interest at 7.5% during the construction period (based on amounts drawn) until final endorsement and thereafter at a rate of 5.45% with monthly payments commencing April 1, 2007 through March 1, 2032. This project was completed in 2009. Although final endorsement occurred in March 2013, effective November 2009, DASNY approved the monthly interest rate of 5.45%.

5. Long Term-Debt, Capital Lease Obligations, Other Borrowings and Related Matters (continued)

Under the terms of the agreements, the Medical Center was required to maintain three standby letters of credit. The first letter of credit was cancelled in 2009, based upon the approval of DASNY. The second letter of credit in the amount of $1.5 million through February 2, 2013 was cancelled based upon the approval of DASNY related to the application of the final equity payment. The third letter of credit in the amount of $2.2 million that was due to expire on February 1, 2016, and was fully collateralized, has also been cancelled.

As a condition of this borrowing, the Medical Center is required to establish and maintain a sinking fund. Amounts deposited into the sinking fund, together with investment earnings thereon, are available for principal payments. Assets on deposit in the sinking fund at December 31, 2012 and 2011 are in compliance with the required amounts. This loan was refinanced in March 2013. (see Note 5(d)).

(c) In March 2013, the Medical Center refinanced its 1996 FHA loan in the amount of $9.8 million. Proceeds were raised by the Medical Center through the issuance of GNMA collateralized taxable revenue bonds (the “GNMA Taxable Bonds”). This loan remains insured by FHA. The loan bears interest at 3.595% with monthly payments commencing April 1, 2013 through October 1, 2022.

As a condition of this borrowing, the Medical Center is required to maintain a sinking fund. Amounts deposited into the sinking fund, together with investment earnings thereon, are available for principal payments and purchases of specific levels of capital assets.

(d) In March 2013, the Medical Center refinanced its 2004 FHA loan in the amount of $90.7 million. Proceeds were raised by the Medical Center through the issuance of GNMA Taxable Bonds. This loan remains insured by FHA. The loan bears interest at 3.595% with monthly payments commencing April 1, 2013 through March 1, 2032.

As a condition of this borrowing, the Medical Center is required to maintain a sinking fund. Amounts deposited into the sinking fund, together with investment earnings thereon, are available for principal payments.

5. Long-Term Debt, Capital Lease Obligations, Other Borrowings and Related Matters (continued)

(e) The Medical Center entered into a ten-year, $8.0 million construction bank loan in February 2004 for the renovation of the property to house a comprehensive cancer center. The interest rate is variable and was 1.46% and 1.51% at December 31, 2012 and 2011, respectively. Monthly payments are due through January 2014.

During 2005, the Medical Center entered into a second construction loan for ten years in the amount of $2.5 million for additional renovations of the cancer center. The interest rate for this loan is variable and was 1.46% and 1.52% at December 31, 2012 and 2011, respectively. Monthly payments are due through August 2015.

(f) The Medical Center has various capital lease obligations with interest rates ranging up to 6.7%.

(g) On May 25, 2006, the Medical Center entered into a loan agreement in the amount of $31.2 million. The proceeds of the loan, which were raised by the New York City Capital Resource Corporation through the issuance of tax-exempt revenue bonds, were used to renovate, improve, repair and equip the Medical Center's facilities. The loan bore interest at a variable rate, which was 1.82% (including letter of credit fees) at December 31, 2011, with monthly payments due through 2026. The loan was secured by a letter of credit of approximately $26.6 **million** which was due to expire on May 25, 2016.

On June 1, 2012, this loan was prepaid and refinanced with a syndicated bank credit facility that bears interest at December 31, 2012 at 1.91% with monthly payments through June 2019. The syndicated arrangement also includes a construction loan of $20.0 million, that bears interest at 1.91% at December 31, 2012, with monthly payments through June 2019. In connection with the refinancing, the Medical Center wrote off deferred financing costs of approximately $915,000, which is included in interest and amortization of deferred financing costs in the accompanying 2012 statement of operations and changes in net assets. As part of these financing transactions, the Medical Center restructured its existing lines of credit with two banks ($40.0 million) to one line of credit for $30.0 million; as of December 31, 2012, approximately $16.0 million was outstanding (interest rate of 1.86%; due June 28, 2013).

5. Long-Term Debt, Capital Lease Obligations, Other Borrowings and Related Matters (continued)

Scheduled principal payments on long-term debt and capital lease obligations are as follows:

	Loans Payable	Capital Leases	Total
	(In Thousands)		
2013	$ 8,508	$ 18,901	$ 27,409
2014	8,026	15,107	23,133
2015	8,241	14,096	22,337
2016	8,469	8,899	17,368
2017	8,884	4,917	13,801
Thereafter	106,060	624	106,684
Total minimum payments	148,188	62,544	210,732
Less amounts representing interest	–	2,746	2,746
Total long-term debt	148,188	59,798	207,986
Less current portion of long-term debt	8,508	17,668	26,176
Long-term debt, net of current portion	$ 139,680	$ 42,130	$ 181,810

As a result of the refinancing in March 2013, the scheduled principal payments did not change significantly.

Required sinking fund balances for loan agreements revised in March 2013 for the next five years are as follows (in thousands):

2013	$ 13,489
2014	14,567
2015	15,572
2016	16,553
2017	16,290

As discussed in Note 7, the Medical Center also has a letter of credit from a bank of $1.0 million at December 31, 2012, for the benefit of one of its captive insurance companies. This letter of credit expires on November 1, 2013. During the years ended December 31, 2012 and 2011, no drawdowns were made under this letter of credit agreement. The Medical Center expects to extend this letter of credit in 2013.

5. Long-Term Debt, Capital Lease Obligations, Other Borrowings and Related Matters (continued)

In addition, the Medical Center maintained two lines of credit with two banks, in the amount of $20 million each. At December 31, 2011, approximately $18.4 million was outstanding on these two lines of credit. The drawdowns were for interim financing of capital expenditures and working capital needs. The average interest rate charged in 2011 was 2.3% on one line and 2.2% on the other. These lines of credit were to expire on June 22, 2012 and July 31, 2012, respectively. As indicated in Note 5(g), the Medical Center restructured its existing lines of credit with the two banks ($40.0 million) to one line of credit for $30.0 million; as of December 31, 2012, approximately $16.0 million was outstanding. The average interest rate charged in 2012 was 1.7%.

In connection with various debt agreements, the Medical Center is required to maintain certain financial covenants. The Medical Center was not in compliance with the current ratio financial covenant related to its FHA mortgage loans at December 31, 2012. The Medical Center has notified the U.S. Department of Housing and Urban Development of the noncompliance for 2012. This noncompliance does not constitute an event of default under the terms of the related agreements.

Interest Rate Swap Agreements

The Medical Center uses interest rate swap agreements to manage risk associated with changes in interest rates associated with its long-term debt. Under the terms of the interest rate swaps, the Medical Center pays fixed rates monthly and receives from the counterparties variable payments based on percentages of LIBOR. Interest payments and the change in fair value of the swaps (loss of approximately $0.7 million in 2012 and $1.1 million in 2011) are recorded in the excess (deficiency) of revenue over expenses.

5. Long-Term Debt, Capital Lease Obligations, Other Borrowings and Related Matters (continued)

At December 31, 2012 and 2011, the swaps are reported in other noncurrent liabilities and are summarized as follows:

Notional Amount	Maturity Date	Fixed Payment Rate	2012 Fair Value (All Liabilities)
$ 26,435,942	June 1, 2027	3.95%	**$ 5,339,052**
18,701,986	June 1, 2019	1.186	**316,978**
7,930,783	June 1, 2019	1.28	**112,581**
990,476	January 31, 2014	6.19	**27,305**
666,667	August 15, 2015	5.985	**39,538**
			$ 5,835,454

Notional Amount	Maturity Date	Fixed Payment Rate	2011 Fair Value (All Liabilities)
$ 26,345,000	January 1, 2026	4.14%	$ 4,974,997
1,904,762	January 31, 2014	6.19	92,080
916,667	August 15, 2015	5.985	66,221
			$ 5,133,298

6. Pension Plans and Postretirement Health Care Benefits

The Medical Center provides retirement and similar benefits to its union employees through several defined benefit multiemployer pension plans and to its nonunion employees through a noncontributory defined benefit pension plan, tax deferred annuity plans, and a nonqualified defined contribution plan covering certain employees. Payments to the defined benefit multiemployer union plans are made in accordance with contractual arrangements under which contributions are generally based on gross salaries and are funded on a current basis. The Medical Center contributes amounts to the nonunion plan sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974. The Medical Center's pension expense under all existing plans aggregated approximately $39.9 million and $38.0 million for the years ended December 31, 2012 and 2011, respectively.

6. Pension Plans and Postretirement Health Care Benefits (continued)

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

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

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

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

The Medical Center's participation in these plans for the years ended December 31, 2012 and 2011 is outlined in the table below. The "EIN Number" column provides the Employer Identification Number ("EIN"). Unless otherwise noted, the most recent Pension Protection Act ("PPA") zone status available in 2012 and 2011 is for a plan's year-end at December 31, 2011 and 2010, respectively. The zone status is based on information that the Medical Center received from the plans and is certified by the plans' actuaries. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan ("FIP") or a rehabilitation plan ("RP") is pending or has been implemented. The last column lists the expiration dates of the collective bargaining agreements to which the plans are subject.

The number of employees covered by the Medical Center's multiemployer plans did not change significantly from 2011 to 2012. Contribution rates required to be paid to the plans have increased from 2011 to 2012.

Pension Fund	EIN Number	Plan Number	Pension Protection Act Zone Status		FIP/RP Pending/ Implemented	Contributions by the Medical Center		Surcharge Imposed	Expiration Date of Collective Bargaining Agreement
			2012	2011		2012	2011		
The New York State Nurses Association Pension Plan	13-6604799	001	Green	Green	No	$10,344,000	$10,172,000	No	1/01/2014
1199 SEIU Health Care Employees Pension Fund	13-3604862	001	Green	Green	No	$11,788,000	$10,959,000	No	4/30/2015

6. Pension Plans and Postretirement Health Care Benefits (continued)

The Medical Center was listed in The New York State Nurses Association Pension Plan Form 5500 as providing more than 5% of the total contributions of the plan for plan years ended December 31, 2011 and 2010.

In addition to the plans described above, the Medical Center sponsors a defined benefit health care plan that provides postretirement medical, dental and life insurance benefits to certain full-time employees hired prior to July 1, 1984 and who have worked ten years and attained age 65 while in service with the Medical Center. The plan contains cost-sharing features such as deductibles and coinsurance.

The Medical Center uses a December 31 measurement date for its pension and postretirement benefits plans.

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

Included in other changes in unrestricted net assets at December 31, 2012 and 2011 are the following amounts that have not yet been recognized in net periodic pension and postretirement cost:

	Pension Benefits		**Postretirement Health Care Benefits**	
	2012	**2011**	**2012**	**2011**
	(In Thousands)			
Unrecognized prior service (cost) credit	**$ (236)**	$ (278)	**$ 663**	$ 198
Unrecognized actuarial loss	**(47,509)**	(41,140)	**(4,396)**	(3,950)
	$ (47,745)	$ (41,418)	**$ (3,733)**	$ (3,752)

6. Pension Plans and Postretirement Health Care Benefits (continued)

The net prior service cost and actuarial loss included in unrestricted net assets and expected to be recognized in net periodic pension and postretirement cost during the year ending December 31, 2013 is approximately $4.1 million.

The following table sets forth the change in benefit obligations, change in plan assets and the funded status of the plans as of December 31, 2012 and 2011:

	Pension Benefits		Postretirement Health Care Benefits	
	2012	**2011**	**2012**	**2011**
	(In Thousands)			
Change in benefit obligation:				
Benefit obligation, beginning of year	**$ 120,766**	$ 98,873	**$ 12,335**	$ 12,279
Service cost	**6,611**	5,546	**217**	190
Interest cost	**5,117**	4,990	**503**	555
Plan amendments	**–**	–	**(521)**	(158)
Medicare Part D reimbursements	**–**	–	**18**	20
Actuarial losses	**13,398**	14,612	**623**	46
Net benefits paid and expected expenses	**(4,118)**	(3,255)	**(523)**	(597)
Benefit obligation, end of year	**141,774**	120,766	**12,652**	12,335
Change in plan assets:				
Fair value of plan assets, beginning of year	**73,356**	64,339	**–**	–
Actual return on plan assets	**9,227**	6,021	**–**	–
Contributions	**7,615**	6,298	**523**	597
Benefits paid and actual expenses	**(4,351)**	(3,302)	**(523)**	(597)
Fair value of plan assets, end of year	**85,847**	73,356	**–**	–
Unfunded status	**$ (55,927)**	$ (47,410)	**$ (12,652)**	$ (12,335)

The following table provides the amounts recognized in the statements of financial position:

	Pension Benefits		Postretirement Health Care Benefits	
	2012	**2011**	**2012**	**2011**
	(In Thousands)			
Accrued benefit liability – noncurrent	**$ (55,927)**	$ (47,410)	**$ (12,167)**	$ (11,760)
Accrued benefit liability – current	**–**	–	**(485)**	(575)
	$ (55,927)	$ (47,410)	**$ (12,652)**	$ (12,335)

6. Pension Plans and Postretirement Health Care Benefits (continued)

The projected benefit obligation, accumulated benefit obligation and fair value of pension plan assets are as follows:

	December 31 2012	December 31 2011
	(In Thousands)	
Projected benefit obligation	**$ 141,774**	$ 120,766
Accumulated benefit obligation	**122,902**	105,205
Fair value of plan assets	**85,847**	73,356

Net periodic pension costs, included in employee benefits expense, consist of the following components:

	Pension Benefits 2012	Pension Benefits 2011	Postretirement Health Care Benefits 2012	Postretirement Health Care Benefits 2011
	(In Thousands)			
Service cost	**$ 6,611**	$ 5,546	**$ 217**	$ 190
Interest cost on projected benefit obligation	**5,117**	4,990	**503**	555
Expected return on plan assets	**(5,836)**	(5,049)	**–**	–
Net amortization and deferral	**3,913**	2,433	**121**	43
Net periodic pension cost	**$ 9,805**	$ 7,920	**$ 841**	$ 788

6. Pension Plans and Postretirement Health Care Benefits (continued)

The following are assumptions used in the measurement of the Medical Center's benefit obligations and net periodic benefit cost:

	Pension Benefits		Postretirement Health Care Benefits	
	2012	**2011**	**2012**	**2011**
Weighted-average assumptions used to determine benefit obligations as of December 31:				
Discount rate	**3.75%**	4.25%	**3.75%**	4.25%
Rate of compensation increase	**4.0**	4.0	**4.0**	4.0
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31:				
Discount rate	**4.25%**	5.25%	**4.25%**	5.25%
Expected return on plan assets	**8.0**	8.0	**N/A**	N/A
Rate of compensation increase	**4.0**	4.0	**4.0**	4.0

The overall long-term rate of return was developed by estimating the expected long-term real return for each asset class within the portfolio, computing an average weighted real rate of return for the portfolio as a whole, reflecting both the plan's expected asset class allocation and the correlations between the various asset classes and adding that expected real rate of return to the expected long-term rate of inflation component per year.

6. Pension Plans and Postretirement Health Care Benefits (continued)

	2012	2011
Assumed health care cost trend rates at December 31:		
Pre-65 Medical:		
Initial rate for health care costs	**7.3%**	12.9%
Ultimate rate for health care costs	**4.4%**	4.3%
Ultimate year of health care increase	**2083**	2083
Post-65 Medical:		
Initial rate for health care costs	**7.3%**	9.0%
Ultimate rate for health care costs	**4.5%**	4.3%
Ultimate year of health care increase	**2083**	2083
Dental:		
Initial rate for health care costs	**5.0%**	94.0%
Ultimate rate for health care costs	**4.3%**	4.3%
Ultimate year of health care increase	**2083**	2083

Assumed health care cost trend rates may have a significant effect on the amounts reported for the health care plans. A 1% change in assumed health care cost trend rates would have the following effects at December 31, 2012:

	1% Increase	1% Decrease
	(In Thousands)	
Effect on total of service and interest cost components of net periodic postretirement health care benefit cost	$ 91	$ (76)
Effect on health care components of the accumulated postretirement benefit obligation	1,521	(1,279)

6. Pension Plans and Postretirement Health Care Benefits (continued)

Plan Assets

The Medical Center's pension plan weighted-average asset allocation at December 31, 2012 and 2011 by asset category is as follows:

	Plan Assets as of December 31	
	2012	**2011**
Asset category:		
Equities	**49%**	46%
Fixed income	**50**	52
Other	**1**	2
Total	**100%**	100%

Refer to Note 13 for fair value measurement information related to the defined benefit plan asset categories noted in the table above.

Investment Strategy

The overall investment philosophy of the Medical Center is to maximize return while minimizing risk in a diversified portfolio. The rate of return of the total fund is compared to the return of a policy portfolio consisting of 50% of Barclays Capital Bond Index, 35% of Russell 3000 Index and 15% of the Morgan Stanley Capital International Europe, Australia and Far East Index. The target asset allocation permissible ranges by asset category are as follows:

Asset Category	Permissible Range
Equities – Domestic	30% – 40%
Equities – Non-U.S.	12% – 18%
Fixed income	45% – 55%

Cash Flows

Contributions: The Medical Center expects to contribute $8.0 **million** to its defined benefit pension plan in 2013.

6. Pension Plans and Postretirement Health Care Benefits (continued)

Expected Future Benefit Payments: The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension Benefits	Postretirement Health Care Benefits
	(In Thousands)	
Year:		
2013	$ 7,157	$ 511
2014	6,816	584
2015	7,051	724
2016	7,476	761
2017	8,373	841
2018 to 2022	45,487	4,510

Medicare Prescription Drug, Improvement and Modernization Act of 2003

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 became law. It introduced a prescription drug benefit under Medicare ("Medicare Part D") as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. The Medical Center follows guidelines for companies that sponsor defined benefit postretirement health care plans that provide prescription drug benefits under Medicare Part D. Those guidelines address situations in which a company has determined that the benefit provided is at least actuarially equivalent to Medicare Part D benefits. The Medical Center determined that, as of January 1, 2004, the benefit provided to retirees is actuarially equivalent to Medicare Part D and should be accounted for as such. Accordingly, the effect to the accumulated postretirement benefit obligation was a reduction of approximately (in thousands):

2013	$ 17
2014	17
2015	18
2016	17
2017	16
Thereafter	79

7. Professional Liabilities

Beginning in 1977, the Medical Center has participated in a pooled professional and general liability program with certain other health care facilities (principally hospitals) affiliated with the Federation of Jewish Philanthropies of New York (the "FOJP Program"). This participation has been with captive and commercial insurance companies utilizing occurrence basis type coverage. At December 31, 2012, the Medical Center retained ownership in three captive insurance companies affiliated with the FOJP Program. The captive insurance companies are primarily accounted for using the equity method.

In 2011, certain member hospitals of the captive insurance companies purchased the interest of another of its members under an agreement that requires payments to be made over the next three years. This resulted in a change of ownership percentage for each of the remaining members. As a result, the Hospital's equity in the captive insurance companies increased by approximately \$9.7 million and its liabilities increased by \$8.5 million. These amounts are included in equity in captive insurance program, other current assets, other current liabilities and long-term professional liabilities in the accompanying statement of financial position at December 31, 2011.

The aggregate net carrying value of the Medical Center's interests in the insurance program was approximately \$64.8 million and \$55.2 million at December 31, 2012 and 2011, respectively, of which approximately \$62.3 million and \$52.7 million is included in equity in captive insurance program and \$2.5 million for both 2012 and 2011 is included in other current assets in the accompanying statements of financial position.

The Medical Center changed its malpractice insurance program for the period from January 1, 1998 through December 31, 1998. Under the terms of the revised program, a portion of the Medical Center's coverage became self-retained. Effective January 1, 1999, this program was terminated prospectively and the Medical Center no longer maintains a self-retained component. At December 31, 2012 and 2011, the Medical Center's statements of financial position reflected professional liabilities of approximately \$3.3 million and \$4.9 million, respectively, for the actuarial present value of the self-retained component of malpractice insurance based on a study prepared by independent consulting actuaries discounted at 3% and 5%, respectively. In conjunction with this program, the Medical Center, together with several other hospitals, invested approximately \$6.7 million at December 31, 1998 (Medical Center's portion) in pooled investment unit trusts. At December 31, 2012 and 2011, the fair value of these units is approximately \$4.3 million and \$3.9 million, respectively.

7. Professional Liabilities (continued)

Effective January 1, 1999, the Medical Center's malpractice insurance program reverted to a coverage agreement similar to the arrangement that existed prior to January 1, 1998. This program, however, provides for a deferral of premium payments through 2015 for years commencing in 2010. At December 31, 2012 and 2011, approximately $36.7 million and $35.4 million, respectively, represent the estimated present value of future payments. Amounts due in 2013 and 2012, respectively, are included in other current liabilities and the balance is included in long-term professional liabilities in the accompanying statements of financial position.

The Medical Center, as part owner of its malpractice captive, guarantees a certain level of investment return. As a result of market losses in 2011, the Medical Center was required to fund its share of market losses of $10.4 million. At December 31, 2012, this liability was reduced to $1.4 million as a net result of gains in the financial market, accrued interest, as well as the Medical Center's 2012 payment to fund the 2011 losses. The remaining liability excluding interest will be paid over a period of three years, subject to financial market performance. At December 31, 2012, approximately $1.4 million of the 2011 liability and $1.1 million of accrued interest remaining from prior years' market losses was included in long-term professional liabilities in the accompanying statement of financial position.

The Medical Center presents in its statement of financial position its gross professional liabilities and insurance recoveries receivable. The estimate of professional liabilities and the estimate for incidents that have been incurred but not reported is included in estimated insurance claims liabilities in the accompanying statements of financial position at the actuarially determined present value of approximately $194.1 million and $186.7 million based on a discount rate of 3.5% at December 31, 2012 and 2011, respectively. The Medical Center has recorded related estimated insurance claims receivable of approximately $194.1 million and $186.7 million at December 31, 2012 and 2011, respectively, in consideration of the expected insurance recoveries. The current portion of estimated insurance claims liabilities and the related estimated insurance claims receivable represents an estimate of expected settlements and insurance recoveries over the next 12 months.

At December 31, 2012 and 2011, the Medical Center had an unsecured letter of credit for the benefit of one of its captive insurance companies from a bank in the amount of $1.0 million. During the years ended December 31, 2012 and 2011, no drawdowns were made under this letter of credit agreement.

8. Transactions with Affiliates

Services provided by MMC Holding of Brooklyn, Inc. through its various subsidiaries to the Medical Center include pharmaceuticals, medical supplies and equipment, technical support services, contracted services and management reviews for various Medical Center properties. Expenses incurred by the Medical Center for such services approximated $19.6 million and $19.9 million during 2012 and 2011, respectively. Additionally, MMC Holding of Brooklyn, Inc. purchases various goods and services from the Medical Center. Revenue generated from such activity approximated $751,000 and $516,000 during 2012 and 2011, respectively.

The net amounts due from affiliates in the accompanying statements of financial position include a revolving loan receivable and accrued interest thereon from MMC Holding of Brooklyn, Inc. of approximately $2.8 million and $2.6 million at December 31, 2012 and 2011, respectively. The loan bears interest at 5.75% at December 31, 2012 and 2011 and has no specified repayment date. Also included in the balances each year are amounts due from and to MMC Holding of Brooklyn, Inc. and its subsidiaries for services provided by and to the Medical Center, as previously described.

9. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31:

	2012	2011
	(In Thousands)	
Research and education	**$ 1,098**	$ 1,115
Plant replacement and expansion	**12,806**	13,323
	$ 13,904	$ 14,438

Permanently restricted net assets at December 31, 2012 and 2011 consist of investments to be held in perpetuity, the income from which is to be used for health care related services.

10. Other Revenue

Other revenue consisted of the following for the years ended December 31:

	2012	2011
	(In Thousands)	
Government grant income	**$ 13,396**	$ 6,762
Electronic health records incentive payments	**6,066**	–
Real estate rentals	**4,952**	4,703
Investment income	**9,933**	9,835
Special funds income	**11,538**	9,921
Dining room and parking lot income	**1,429**	1,458
Grants and contributions	**1,962**	2,211
Settlements	–	4,275
Insurance company surplus distribution	**6,527**	4,649
Other	**3,898**	4,840
	$ 59,701	$ 48,654

In May 2011, the Medical Center reached an agreement with a bank related to the valuation of an investment and received a settlement in the amount of $2.0 million. The Medical Center also settled a legal matter with a utility company during 2011 in the amount of $2.3 million related to incorrect charges.

The Medical Center was awarded grants under the HEAL NY program. Grant revenue recorded is $8.4 million and $4.3 million for the years ended December 31, 2012 and 2011, respectively, and is related to expenditures incurred. The proceeds from these grants were used for the establishment of a health information network as well as care management to provide patient centered services for the mental health patients through a consortium of various healthcare providers.

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

10. Other Revenue (continued)

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 totaling $6.1 million (Medicare–$3.4 million; Medicaid–$2.7 million) for the year ended December 31, 2012 is included in other revenue. These incentive payments were received by the Medical Center during 2012. 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.

11. Functional Expenses

Functional expenses for the years ended December 31 are as follows:

	2012	2011
	(In Thousands)	
Health care and related services	**$ 794,127**	$ 775,291
Program support and general	**217,455**	196,272
	$ 1,011,582	$ 971,563

12. Concentration of Credit Risk

The Medical Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Net accounts receivable by payor were as follows:

	December 31	
	2012	**2011**
Medicare and Medicaid	**45%**	42%
Commercial and managed care	**50**	53
Self pay	**5**	5
	100%	100%

At December 31, 2012 and 2011, substantially all of the Medical Center's cash and cash equivalents were held in custodial accounts at four financial institutions. Management believes that credit risk related to these deposits is minimal.

The Medical Center routinely invests its operating cash in money market funds. These funds generally invest in highly liquid U.S. government and agency obligations. Investments in money market funds are not insured or guaranteed by the U.S. government.

13. Fair Value Measurements

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.

13. Fair Value Measurements (continued)

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 determining fair value, the Medical Center utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value. Financial assets and liabilities, including the defined benefit plan assets, carried at fair value as of December 31, 2012 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
	(In Thousands)			
Assets				
Cash and cash equivalents	**$ 66,051**	**$ –**	**$ –**	**$ 66,051**
U.S. government notes and bonds	**89,948**	**–**	**–**	**89,948**
Corporate bonds	**–**	**27,179**	**–**	**27,179**
Certificate of deposit	**2,630**	**–**	**–**	**2,630**
Mutual funds	**–**	**4,296**	**–**	**4,296**
Total assets at fair value	**$ 158,629**	**$ 31,475**	**$ –**	**$ 190,104**
Defined benefit plan assets				
Cash and cash equivalents	**$ 630**	**$ –**	**$ –**	**$ 630**
Mutual funds – equity	**42,518**	**–**	**–**	**42,518**
Mutual funds – fixed income	**42,699**	**–**	**–**	**42,699**
Total defined benefit plan assets at fair value	**$ 85,847**	**$ –**	**$ –**	**$ 85,847**
Liabilities				
Interest rate swap agreements	**$ –**	**$ 5,835**	**$ –**	**$ 5,835**

13. Fair Value Measurements (continued)

Financial assets and liabilities carried at fair value as of December 31, 2011 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
		(In Thousands)		
Assets				
Cash and cash equivalents	$ 55,725	$ –	$ –	$ 55,725
U.S. government notes and bonds	86,859	–	–	86,859
Corporate bonds	–	25,647	–	25,647
Certificate of deposit	2,630	–	–	2,630
Mutual funds	–	3,917	–	3,917
Total assets at fair value	$ 145,214	$ 29,564	$ –	$ 174,778
Defined benefit plan assets				
Cash and cash equivalents	$ 1,517	$ –	$ –	$ 1,517
Mutual funds – equity	33,376	–	–	33,376
Mutual funds – fixed income	38,463	–	–	38,463
Total defined benefit plan assets at fair value	$ 73,356	$ –	$ –	$ 73,356
Liabilities				
Interest rate swap agreements	$ –	$ 5,133	$ –	$ 5,133

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. Inputs are obtained from various sources including market participants, dealers and brokers. 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.

13. Fair Value Measurements (continued)

The Medical Center's long-term debt obligations are reported at carrying value. The fair value of the Medical Center's long-term debt obligations is approximately $212.4 million and $185.5 million at December 31, 2012 and 2011, respectively, based on quoted market prices and other valuation considerations. These fair values are categorized as Level 2 in the fair value hierarchy described above.

14. Operating Lease Obligations

The Medical Center has entered into various agreements under non-cancellable operating leases. Rent payments are recognized as expense on a straight-line basis over the term of the related lease. At December 31, 2012 and 2011, the Medical Center had an asset of approximately $4.0 million and $3.3 million, respectively, representing rental payments made in excess of rent expense on a straight-line basis.

Future minimum payments under non-cancellable operating leases with initial or recurring terms of one year or more are as follows (in thousands):

2013	$ 12,690
2014	12,676
2015	11,660
2016	10,806
2017	8,846
Thereafter	57,075
Total minimum operating lease payments	$ 113,753

Total rental expense charged to operations for the years ended December 31, 2012 and 2011 aggregated approximately $13.4 million and $12.8 million, respectively.

15. Commitments and Contingencies

Various investigations, lawsuits and claims arising out of the normal course of operations are pending or on appeal against the Medical Center. While the ultimate effect of such actions cannot be determined at this time, it is the opinion of management that the liabilities which may arise from such actions would not materially affect the Medical Center's financial position or results of operations.

15. Commitments and Contingencies (continued)

Approximately 70% of the Medical Center's employees are members of various unions. The Local 1199 union contract expires on April 30, 2015. The New York State Nurses Association contract expires on January 1, 2014 and the Committee on Interns and Residents contract expires on October 31, 2013.

16. Subsequent Events

Subsequent events have been evaluated through May 1, 2013, which is the date the financial statements were issued. Except as disclosed below and in Note 5, subsequent events have not occurred that require disclosure in or adjustment to the financial statements.

On February 26, 2013, the Medical Center announced in a press release that it has entered into an initial three year strategic alliance agreement with Montefiore Medical Center ("Montefiore") located in the Bronx, New York, to leverage the strengths of both institutions and to allow both institutions to better prepare for new models of health care delivery in the future. The Medical Center and Montefiore will each remain independent under this affiliation. The Medical Center also announced an affiliation agreement with Yeshiva University through its Albert Einstein College of Medicine ("Einstein"). Under the affiliation agreement, the Medical Center will become a university hospital and the Brooklyn clinical campus of Einstein. Both Einstein and the Medical Center will continue to be autonomous and governed independently by their respective governing bodies and administrations.

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