

# **The New York Methodist Hospital**

## **Consolidated Financial Statements and Supplementary Information**

**Years Ended December 31, 2012 and 2011**

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## Report of Independent Auditors

The Board of Trustees  
The New York Methodist Hospital

We have audited the accompanying consolidated financial statements of The New York Methodist Hospital and controlled organizations (collectively referred to as the "Hospital"), which comprise the consolidated statements of financial position as of December 31, 2012 and 2011, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

## **Opinion**

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

## **Supplementary Information**

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

*Ernst & Young LLP*

April 23, 2013

|  | December 31           |            |
|--|-----------------------|------------|
|  | 2012                  | 2011       |
|  | <i>(In Thousands)</i> |            |
| <b>Liabilities and net assets</b>                                    |                       |            |
| Current liabilities:   |                       |            |
| Current portion of long-term debt <i>(Note 5)</i>                    | \$ 3,790              | \$ 3,734   |
| Accounts payable and accrued expenses                                | 41,760                | 33,148     |
| Accrued salaries and related liabilities                             | 40,397                | 36,560     |
| Due to affiliates, net <i>(Note 10)</i>                              | 589                   | 763        |
| Professional insurance liabilities – current <i>(Note 8)</i>         | 18,682                | 20,765     |
| Other current liabilities  | 4,169                 | 7,155      |
| Total current liabilities  | 109,387               | 102,125    |
| Long-term debt, less current portion <i>(Note 5)</i>                 | 42,041                | 45,655     |
| Accrued pension liability <i>(Note 9)</i>                            | 39,665                | 40,228     |
| Deferred employee compensation plan liabilities <i>(Note 9)</i>      | 7,071                 | 6,050      |
| Professional insurance liabilities – noncurrent <i>(Note 8)</i>      | 139,077               | 127,651    |
| Other noncurrent liabilities <i>(Note 2)</i>                         | 67,730                | 63,853     |
| Insurance claims liability <i>(Note 8)</i>                           | 21,116                | 20,440     |
| Total liabilities  | 426,087               | 406,002    |
| Commitments and contingencies <i>(Notes 2, 5, 6, 7, 8, 9 and 12)</i> |                       |            |
| Net assets:  |                       |            |
| Unrestricted   | 158,100               | 110,720    |
| Temporarily restricted <i>(Note 7)</i>                               | 16,469                | 16,090     |
| Permanently restricted <i>(Note 7)</i>                               | 6,587                 | 6,587      |
| Total net assets   | 181,156               | 133,397    |
| Total liabilities and net assets                                     | \$ 607,243            | \$ 539,399 |

*See accompanying notes.*

The New York Methodist Hospital

Consolidated Statements of Operations

|   | Year Ended December 31 |            |
|---|------------------------|------------|
|   | 2012                   | 2011       |
|   | <i>(In Thousands)</i>  |            |
| <b>Revenue, gains and other support</b>   |                        |            |
| Net patient service revenue   | \$ 684,145             | \$ 629,220 |
| Provision for bad debts   | (20,553)               | (18,835)   |
| Net patient service revenue less provision for bad debts  | 663,592                | 610,385    |
| Other revenue <i>(Note 11)</i>  | 62,966                 | 43,543     |
| Net assets released from restrictions   | 1,270                  | 1,430      |
| Total revenue, gains and other support  | 727,828                | 655,358    |
| <b>Operating expenses</b>   |                        |            |
| Salaries and wages  | 270,950                | 254,827    |
| Employee benefits   | 82,583                 | 72,980     |
| Supplies and other expenses   | 304,094                | 276,721    |
| Interest and amortization of deferred financing fees  | 2,333                  | 2,701      |
| Depreciation and amortization   | 22,439                 | 23,485     |
| Total operating expenses  | 682,399                | 630,714    |
| Excess of revenue over expenses   | 45,429                 | 24,644     |
| <b>Other changes in unrestricted net assets</b>   |                        |            |
| Change in unrealized gains and losses on investments –<br>other than trading securities <i>(Note 3)</i> | 2,437                  | 180        |
| Net assets released from restrictions for purchases of property,<br>buildings and equipment             | 2,188                  | 2,259      |
| Change in pension liability to be recognized in future periods  | (2,674)                | (26,251)   |
| Increase in unrestricted net assets   | \$ 47,380              | \$ 832     |

*See accompanying notes.*

# The New York Methodist Hospital

## Consolidated Statements of Changes in Net Assets

|  | Unrestricted          | Temporarily Restricted | Permanently Restricted | Total Net Assets |
|--|-----------------------|------------------------|------------------------|------------------|
|  | <i>(In Thousands)</i> |                        |                        |                  |
| Net assets at January 1, 2011  | \$ 109,888            | \$ 18,325              | \$ 6,587               | \$ 134,800       |
| Increase in unrestricted net assets  | 832                   | —                      | —                      | 832              |
| Restricted gifts, bequests and similar items   | —                     | 2,242                  | —                      | 2,242            |
| Change in net unrealized gains and losses on investments                                 | —                     | (788)                  | —                      | (788)            |
| Net assets released from restrictions for operations                                     | —                     | (1,430)                | —                      | (1,430)          |
| Net assets released from restrictions for purchases of property, buildings and equipment | —                     | (2,259)                | —                      | (2,259)          |
| Total change in net assets   | 832                   | (2,235)                | —                      | (1,403)          |
| Net assets at December 31, 2011  | 110,720               | 16,090                 | 6,587                  | 133,397          |
| Increase in unrestricted net assets  | 47,380                | —                      | —                      | 47,380           |
| Restricted gifts, bequests and similar items   | —                     | 1,884                  | —                      | 1,884            |
| Change in net unrealized gains and losses on investments                                 | —                     | 1,953                  | —                      | 1,953            |
| Net assets released from restrictions for operations                                     | —                     | (1,270)                | —                      | (1,270)          |
| Net assets released from restrictions for purchases of property, buildings and equipment | —                     | (2,188)                | —                      | (2,188)          |
| Total change in net assets   | 47,380                | 379                    | —                      | 47,759           |
| Net assets at December 31, 2012  | \$ 158,100            | \$ 16,469              | \$ 6,587               | \$ 181,156       |

See accompanying notes.

**The New York Methodist Hospital**  
**Consolidated Statements of Cash Flows**

|   | <b>Year Ended December 31</b> |                  |
|---|-------------------------------|------------------|
|   | <b>2012</b>                   | <b>2011</b>      |
|   | <i>(In Thousands)</i>         |                  |
| <b>Operating activities</b>   |                               |                  |
| Change in net assets  | \$ 47,759                     | \$ (1,403)       |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: |                               |                  |
| Depreciation and amortization   | 22,439                        | 23,485           |
| Amortization of deferred financing fees   | 76                            | 80               |
| Gain on sale of SBHC  | (1,430)                       | —                |
| Change in unrealized gains and losses on investments – other than trading securities        | (4,390)                       | 608              |
| Changes in operating assets and liabilities:  |                               |                  |
| Patient care accounts receivable, net   | 1,414                         | 8,639            |
| Other assets  | 5,679                         | (5,512)          |
| Accounts payable and accrued expenses   | 8,612                         | (343)            |
| Accrued salaries and related liabilities  | 3,837                         | (2,212)          |
| Due to affiliates, net  | (174)                         | (626)            |
| Accrued pension liability   | (563)                         | 21,321           |
| Professional insurance liabilities  | 9,343                         | 8,821            |
| Other liabilities   | 1,912                         | 5,894            |
| Net cash provided by operating activities   | <u>94,514</u>                 | <u>58,752</u>    |
| <b>Investing activities</b>   |                               |                  |
| Acquisitions of property, buildings and equipment, net                                      | (15,278)                      | (13,850)         |
| Purchases of investments, net   | (37,845)                      | (616)            |
| Proceeds from sale of SBHC  | 1,430                         | —                |
| Net decrease in investments in real estate  | 354                           | 355              |
| Net increase in assets limited as to use  | (30,410)                      | (17,350)         |
| Net cash used in investing activities   | <u>(81,749)</u>               | <u>(31,461)</u>  |
| <b>Financing activities</b>   |                               |                  |
| Principal repayments on long-term debt  | (3,751)                       | (3,942)          |
| Net cash used in financing activities   | <u>(3,751)</u>                | <u>(3,942)</u>   |
| Net increase in cash and cash equivalents   | 9,014                         | 23,349           |
| Cash and cash equivalents at beginning of year  | 75,122                        | 51,773           |
| Cash and cash equivalents at end of year  | <u>\$ 84,136</u>              | <u>\$ 75,122</u> |
| <b>Supplemental disclosure of noncash investing and financing activities</b>                |                               |                  |
| Assets acquired under capitalized lease obligations   | <u>\$ 193</u>                 | <u>\$ —</u>      |

*See accompanying notes.*

# The New York Methodist Hospital

## Notes to Consolidated Financial Statements

December 31, 2012

### 1. Organization and Significant Accounting Policies

#### Organization

The New York Methodist Hospital ("Methodist") is incorporated under New York State not-for-profit corporation law for the purpose of providing health care services primarily to residents of the Brooklyn, New York area. Methodist is a membership corporation, whose members are selected by New York-Presbyterian Healthcare System, Inc. ("System, Inc."), which is a tax-exempt organization whose members are selected by New York-Presbyterian Foundation, Inc. ("Foundation, Inc."). The members elect Methodist's Board of Trustees. System, Inc. and Foundation, Inc. are related to a number of organizations.

On February 26, 2013, NYHB, Inc., a New York not-for-profit corporation, became the sole member of Methodist. NYHB, Inc. is a member corporation whose members are selected by System, Inc. NYHB, Inc. elects Methodist's Board of Trustees and the governing board of The New York Community Hospital of Brooklyn, Inc., a separate legal entity whose members prior to February 26, 2013 were also selected by System, Inc. This change is not expected to impact Methodist's operations or financial reporting.

The following is a summary of significant accounting policies:

*Basis of Presentation:* Included in Methodist's consolidated financial statements are the following controlled tax-exempt entities: South Brooklyn Health Center, Inc. ("SBHC") (through January 2012), Park Slope Medical Service, P.C., Park Slope Pathology Services, P.C., Park Slope Physician Services, P.C., Park Slope Obstetrics Gynecology, P.C., Park Slope Hematology & Oncology, P.C., Park Slope Pediatric Medicine, P.C., Park Slope Medicine, P.C., Brooklyn Foot & Ankle, P.C., Park Slope Emergency Physician Services, P.C., Brooklyn Dental Services, P.C., Brooklyn Radiology Services P.C., and Park Slope Medical Health Provider P.C.

In April 2010, Methodist, as the sole member, formed MSO of Kings County, LLC ("MSO"), a management service organization established to provide administrative personnel to the various professional corporations. MSO is included in Methodist's consolidated financial statements.

During April 2011, Methodist entered into a sale agreement with an entity to sell SBHC. Methodist received approval from the State of New York Department of Health ("DOH") for the sale in 2011, while certain approvals impacting the buyer were pending. Final approval for the transaction occurred in January 2012. The gain on sale recognized in 2012 totaled approximately \$1.4 million and is reported within the caption other revenue in the accompanying statements of operations.

# The New York Methodist Hospital

## Notes to Consolidated Financial Statements (continued)

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

The reporting entity resulting from the consolidation of Methodist, SBHC (through January 2012), the professional corporations, and MSO is referred to herein as the "Hospital." The accompanying consolidated financial statements do not contain the accounts of other affiliated noncontrolled organizations. All significant intercompany transactions have been eliminated in consolidation.

*Use of Estimates:* The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, such as estimated uncollectibles for accounts receivable for services to patients and the valuation of alternative investments, and liabilities, such as estimated settlements with third-party payors, professional insurance liabilities, and pension and postretirement benefits liabilities, and disclosures of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the amounts of revenue and expenses reported during the period. There is at least a reasonable possibility that certain estimates will change by material amounts in the near term. Actual results could differ from those estimates.

*Cash and Cash Equivalents:* Cash and cash equivalents include investments in highly liquid financial instruments with original maturities of three months or less when purchased, which are not classified as investments or assets limited as to use. Total deposits maintained at these institutions at times exceed the amount insured by Federal agencies and, therefore, bear a risk of loss. The Hospital has not experienced such losses on these funds.

*Receivables for Patient Care:* Patient accounts receivable for which the Hospital receives payment under cost reimbursement or prospective payment formulae or negotiated rates, which cover the majority of patient services, are stated at the estimated net amount receivable from such payors, which are generally less than the established billing rates of the Hospital.

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

# The New York Methodist Hospital

## Notes to Consolidated Financial Statements (continued)

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

*Investments:* Investments consist of marketable securities and alternative investments. Marketable securities are carried at fair value based on quoted market prices and are classified as other than trading securities. Marketable securities received as a gift are recorded at fair value on the date of contribution. Alternative investments consist of interests in hedge funds and funds of funds, structured as limited partnerships, and investments held by captive insurance companies. Alternative investment interests in limited partnerships (nontraditional, not readily marketable securities) are reported based upon net asset values derived from the application of the equity method of accounting. Financial information used by the Hospital to evaluate its alternative investments is provided by the investment manager or general partner and includes fair value valuations (quoted market prices and values determined through other means) of underlying securities and other financial instruments held by the investee and estimates that require varying degrees of judgment. The financial statements of the investee companies are audited annually by independent auditors, although the timing for reporting the results of such audits does not coincide with the Hospital's annual consolidated financial statement reporting.

The Hospital's investments held by captive insurance companies consist of assets which are pooled with other assets maintained by the companies and include marketable securities (94.7% and 93.7% at December 31, 2012 and 2011, respectively) and alternative investments (5.3% and 6.3% at December 31, 2012 and 2011, respectively) that are recorded by the captive insurance companies at fair value based on quoted market prices or other means for the companies' holdings of alternative investments, and capital contributions for certain captive insurance entities carried at cost. The Hospital reports an allocation of the pooled investments in its consolidated statements of financial position.

The Hospital's holdings of alternative investment interests may indirectly expose the Hospital to liquidity restrictions, securities lending, short sales of securities, and trading in futures, forward contracts, options and other derivative products. There is uncertainty in determining fair values of alternative investments arising from factors such as lack of active markets (primary and secondary), lack of transparency into underlying holdings, time lags associated with reporting by the investee companies and the subjective evaluation of liquidity restrictions. As a result, the values of alternative investments reported in the accompanying consolidated statements of financial position might differ from the value that would have been used had a ready market for the alternative investment interests existed and there is at least a reasonable possibility that estimates will change by material amounts in the near term.

# The New York Methodist Hospital

## Notes to Consolidated Financial Statements (continued)

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

Investments available for current use in operations and which are not classified as assets limited as to use are reported as short-term investments.

*Investment Return:* Interest and dividend income, realized gains and losses on marketable securities, equity in income on alternative investments, and investment return of captive insurance companies are reported as investment income within the caption other revenue in the accompanying consolidated statements of operations. Realized gains or losses are computed using the average cost method and are recognized in the period in which the transaction is settled. The net change in unrealized gains and losses on investments which are classified as other-than-trading securities is reported as a separate component of the change in unrestricted net assets.

*Assets Limited as to Use:* Assets so classified represent assets whose use is restricted for specific purposes under internal designation or terms of agreements. Assets limited as to use required to meet current liabilities are reported as current assets.

*Supplies:* Supplies, which are determined on the first-in, first-out method, are stated at the lower of the cost or market value. Supplies are used in the provision of patient care and are not held for sale.

*Property, Buildings and Equipment:* Property, buildings and equipment are recorded at cost, or if donated, at appraised or fair value at the time of the donation. Assets acquired under capitalized leases are recorded at the present value of the lease payments at the inception of the lease. The carrying amount 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 and amortization are determined by use of the straight-line method over the estimated useful life of the asset or the lesser of the estimated useful life of the asset or lease term (ranging from 3 to 40 years). Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring these assets.

*Investments in Real Estate:* Investments in real estate consist of certain real estate properties acquired which are used to generate rental income. Depreciation is computed using the straight-line method over the estimated useful lives of the rental property. Accumulated depreciation at December 31, 2012 and 2011, is approximately \$5.7 million and \$5.3 million, respectively.

# The New York Methodist Hospital

## Notes to Consolidated Financial Statements (continued)

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

*Deferred Financing Costs:* Deferred financing costs are included in other noncurrent assets and are amortized using the effective interest method over the term that the related debt is expected to be outstanding.

*Insurance Recovery Receivable and Insurance Claims Liability:* The Hospital presents anticipated insurance recoveries separately from estimated insurance liabilities for medical malpractice claims and similar contingent liabilities on the consolidated statements of financial position. The insurance recovery receivable and related insurance claims liability totaled approximately \$21.1 million and \$20.4 million as of December 31, 2012 and 2011, respectively.

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

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

*Net Patient Service Revenue:* Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered and includes estimated retroactive revenue adjustments due to ongoing and future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are provided, and 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 New York Methodist Hospital

## Notes to Consolidated Financial Statements (continued)

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

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

|                                      | 2012                | 2011              |
|--------------------------------------|---------------------|-------------------|
|                                      | <i>In Thousands</i> |                   |
| Health care and related services     | \$ 549,136          | \$ 512,122        |
| Program support and general services | 133,263             | 118,592           |
|                                      | <u>\$ 682,399</u>   | <u>\$ 630,714</u> |

*Performance Indicator:* The accompanying consolidated statements of operations include excess of revenue over expenses as the performance indicator. Changes in unrestricted net assets which are excluded from the performance indicator include change in unrealized gains and losses on investments – other than trading securities, net assets released from restrictions for purchases of property, buildings and equipment, and change in pension liability to be recognized in future periods.

*Tax Status:* Methodist and the physician PC entities are Section 501(c)(3) organizations exempt from Federal income taxes under Section 501(a) of the Internal Revenue Code. The entities are also exempt from New York State and City income taxes. MSO is a for-profit entity and, as such, is subject to Federal and State income taxes. The provision for income taxes is not material to the Hospital's consolidated results of operations.

*Recent Accounting Pronouncements:* In May 2011, the Financial Accounting Standards Board issued Accounting Standards Update No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* ("ASU No. 2011-04"). ASU No. 2011-04 amended Accounting Standards Codification 820, *Fair Value Measurement*, to converge the fair value measurement guidance in U.S. generally accepted accounting principles and International Financial Reporting Standards. In addition, ASU No. 2011-04 requires additional fair value disclosures. The amendments are to be applied prospectively and are effective for interim and annual periods beginning after December 15, 2011. The Hospital adopted ASU No. 2011-04 in 2012 and has applied its provisions to the accompanying consolidated financial statements. The Hospital's adoption of ASU No. 2011-04 did not have a significant effect on the consolidated financial statements and relate only to disclosures.

# The New York Methodist Hospital

## Notes to Consolidated Financial Statements (continued)

### 2. Net Patient Service Revenue

#### Accounts Receivable and Net Patient Service Revenue

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

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

|   | 2012              | 2011              |
|---|-------------------|-------------------|
| Third Party Payors  | \$ 678,172        | \$ 626,322        |
| Self-Pay  | 5,973             | 2,898             |
| Patient service revenue (net of contractual allowances and discounts) | <u>\$ 684,145</u> | <u>\$ 629,220</u> |

Deductibles and copayments under third-party payment programs within the third-party payor amounts above are the patient's responsibility and the Hospital considers these amounts in its determination of the provision for bad debts based on collection experience.

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

# The New York Methodist Hospital

## Notes to Consolidated Financial Statements (continued)

### 2. Net Patient Service Revenue (continued)

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

The Hospital's allowance for doubtful accounts totaled approximately \$25.3 million and \$21.1 million at December 31, 2012 and 2011, respectively. The allowance for doubtful accounts for self-pay patients was approximately 42% and 46% of self-pay accounts receivable as of December 31, 2012 and 2011, respectively. Overall, the total of self-pay discounts and write-offs has not changed significantly for the years ended December 31, 2012 and 2011. The Hospital has not experienced significant changes in write-off trends and has not changed its charity care policy for the years ended December 31, 2012 and 2011.

### Third-Party Payment Programs

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

*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. Effective December 1, 2009, the New York State payment methodology was updated such that payments to hospitals for Medicaid, workers' compensation and no-fault inpatient services are based on a statewide prospective payment system, with retroactive adjustments; prior to December 1, 2009, the payment system provided for retroactive adjustments to payment rates, using a prospective payment formula.

# The New York Methodist Hospital

## Notes to Consolidated Financial Statements (continued)

### 2. Net Patient Service Revenue (continued)

Outpatient services also are paid based on a statewide prospective system that was effective December 1, 2008. Medicaid rate methodologies are subject to approval at the Federal level by the Centers for Medicare and Medicaid Services ("CMS"), which may routinely request information about such methodologies prior to approval. Revenue related to specific rate components that has not been approved by CMS is not recognized until the Hospital is reasonably assured that such amounts are realizable. Adjustments to the current and prior years' payment rates for those 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.

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

The Hospital 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 Hospital-specific data. The current Medicaid, Medicare and other third-party payor programs are based upon extremely complex laws and regulations that are subject to interpretation. 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 2006 at December 31, 2012, although revisions to final settlements could be made. 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. Additionally, noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs. The Hospital is not aware of any allegations of noncompliance that could have a material adverse effect on the accompanying consolidated financial statements and believes that it is in compliance with all applicable laws and regulations.

# The New York Methodist Hospital

## Notes to Consolidated Financial Statements (continued)

### 2. Net Patient Service Revenue (continued)

Net patient service revenue for the years ended December 31, 2012 and 2011 was increased by approximately \$6.5 million and \$3.1 million, respectively, for net adjustments and settlements relating to prior years.

In April 2012 CMS settled a series of lawsuits filed in 2007 that challenged the calculation involving the use of the rural floor provision of the Balanced Budget Act of 1997. The Hospital participated in this lawsuit and as a result received a cash settlement of approximately \$6.7 million, which is included in the increase in net patient service revenue for 2012 as described in the preceding paragraph, from Medicare for fiscal years 2005 through 2011. Fees associated with participating in this lawsuit were approximately \$1.0 million and increased supplies and other expenses for the year ended December 31, 2012.

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

Similar to most health care organizations, the Hospital grants credit without collateral to its patients, most of whom are residents of Brooklyn, New York and are insured under third-party payor agreements. Significant concentrations of gross receivables from patients and third-party payors at December 31, were as follows:

|   | <b>Patient Accounts<br/>Receivable</b> |               |
|---|--|---------------|
|   | <b>2012</b>                            | <b>2011</b>   |
| Commercial and health maintenance organizations | 32.4%                                  | 33.4%         |
| Medicare  | 18.1                                   | 19.3          |
| Medicare managed care                           | 6.9                                    | 8.3           |
| Medicaid  | 9.8                                    | 11.1          |
| Medicaid managed care                           | 24.0                                   | 18.1          |
| Self-pay and other                              | 8.8                                    | 9.8           |
|   | <b>100.0%</b>                          | <b>100.0%</b> |

# The New York Methodist Hospital

## Notes to Consolidated Financial Statements (continued)

### 2. Net Patient Service Revenue (continued)

The Hospital's net patient service revenue was derived from the following payors:

|   | Net Patient Service Revenue |               |
|---|-----------------------------|---------------|
|   | 2012                        | 2011          |
| Medicare and Medicaid                               | 32.2%                       | 35.6%         |
| Medicare and Medicaid managed care                  | 26.9                        | 25.1          |
| Commercial insurance and managed care organizations | 40.0                        | 38.9          |
| Self-pay  | 0.9                         | 0.4           |
|   | <u>100.0%</u>               | <u>100.0%</u> |

### Uncompensated Care and Community Benefit Costs

The Hospital's commitment to community service is evidenced by services provided to the poor and benefits provided to the broader community. Services provided to the poor include services provided to persons who cannot afford health care because of inadequate resources and/or who are uninsured or underinsured.

The Hospital provides quality medical care regardless of race, creed, sex, sexual orientation, national origin, handicap, age or ability to pay. Although payment for services rendered is critical to the operations and stability of the Hospital, it is recognized that not all individuals possess the ability to pay for essential medical services and, furthermore, the Hospital's mission is to serve the community with respect to health care and health care education. Therefore, in keeping with the Hospital's commitment to serve members of the community, the Hospital provides the following: charity care to the indigent; care to persons covered by governmental programs at below cost; and health care activities and programs to support the community. These activities include wellness programs, community education programs, health screenings and a broad variety of community support services.

The Hospital believes it is important to quantify comprehensively the benefits it provides to the community, which is an area of emphasis for not-for-profit health care providers. The costs of uncompensated care and community benefit activities are derived from various Hospital records. Amounts for activities as reported below are based on estimated and actual data, subject to changes in estimates upon the finalization of the Hospital's cost report and other regulatory filings.

# The New York Methodist Hospital

## Notes to Consolidated Financial Statements (continued)

### 2. Net Patient Service Revenue (continued)

The Hospital reports care provided for which the patient's payment obligation was not fully satisfied as uncompensated care. Uncompensated care is the sum of the Hospital's charity care provided and the provision for bad debts. For the years ended December 31, 2012 and 2011, uncompensated care amounted to approximately \$26.9 million and \$25.4 million, respectively.

For patients who are deemed eligible for charity care, and patients who apply and qualify for financial aid under the Hospital's financial aid policy, care given but not paid for is classified as charity care. For the years ended December 31, 2012 and 2011, the estimated cost of charity care was approximately \$6.3 million and \$6.6 million, respectively. The estimated cost of charity care includes the direct and indirect cost of providing charity care services and is estimated by utilizing a ratio of cost to gross charges applied to the gross uncompensated charges associated with providing charity care.

For patients who were determined by the Hospital to have the ability to pay but did not, the uncollected amounts are bad debt expense. Distinguishing between bad debt and charity care is difficult in part because services are often rendered prior to full evaluation of a patient's ability to pay. For the years ended December 31, 2012 and 2011, the provision for bad debts was approximately \$20.6 million and \$18.8 million, respectively.

The DOH Hospital Indigent Care Pool (the "Pool") was established to help hospitals subsidize the cost of uncompensated care and is funded, in part, by a 1% assessment on hospital net inpatient service revenue. During the years ended December 31, 2012 and 2011, the Hospital received approximately \$6.3 million and \$5.5 million, respectively, in Pool distributions and paid approximately \$4.5 million and \$4.4 million, respectively, for the 1% assessment.

# The New York Methodist Hospital

## Notes to Consolidated Financial Statements (continued)

### 3. Investments and Assets Limited as to Use

The composition and reported value of investments and assets limited as to use is as follows:

|  | <b>December 31</b>    |                  |
|--|-----------------------|------------------|
|  | <b>2012</b>           | <b>2011</b>      |
|  | <i>(In Thousands)</i> |                  |
| Marketable securities, at fair value:  |                       |                  |
| Cash and cash equivalents  | \$ 5,367              | \$ 5,684         |
| U.S. government notes and bonds  | 3,092                 | 4,261            |
| Mutual funds   | 117,315               | 73,025           |
| Corporate debt securities  | 4,206                 | 4,412            |
|  | <u>129,980</u>        | <u>87,382</u>    |
| Alternative investments:   |                       |                  |
| Alternative investments – hedge funds and funds of funds, at equity method value | 9,327                 | 8,670            |
| Investments held by captive insurance companies, at allocated fair value         | 122,430               | 93,040           |
|  | <u>131,757</u>        | <u>101,710</u>   |
|  | 261,737               | 189,092          |
| Less short-term investments  | 118,722               | 76,487           |
| Less current portion of assets limited as to use                                 | 20,750                | 18,898           |
| Assets limited as to use – noncurrent  | <u>\$ 122,265</u>     | <u>\$ 93,707</u> |

# The New York Methodist Hospital

## Notes to Consolidated Financial Statements (continued)

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

The components of investment return included in the accompanying consolidated statements of operations follow:

|   | Year Ended December 31 |          |
|---|------------------------|----------|
|   | 2012                   | 2011     |
|   | <i>(In Thousands)</i>  |          |
| Interest and dividend income  | \$ 3,774               | \$ 2,443 |
| Net realized gains and losses and equity in income on alternative investments | 1,387                  | 194      |
| Investment return of captive insurance companies<br><i>(Note 8)</i>           | 13,113                 | 582      |
| Investment income reported in other revenue <i>(Note 11)</i>                  | 18,274                 | 3,219    |
| Net change in unrealized gains and losses – other than trading securities:    |                        |          |
| Unrestricted  | 2,437                  | 180      |
| Temporarily restricted  | 1,953                  | (788)    |
|   | 4,390                  | (608)    |
| Total investment return   | \$ 22,664              | \$ 2,611 |

At December 31, 2012 and 2011, gross unrealized losses related to other-than-trading securities are as follows:

|                                 | 2012                  |                         | 2011       |                         |
|---------------------------------|-----------------------|-------------------------|------------|-------------------------|
|                                 | Fair Value            | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
|                                 | <i>(In Thousands)</i> |                         |            |                         |
| U.S. government notes and bonds | \$ 1,961              | \$ (7)                  | \$ 1,259   | \$ (2)                  |
| Corporate debt securities       | –                     | –                       | 2,222      | (84)                    |
| Mutual funds                    | –                     | –                       | 30,410     | (150)                   |
| Total                           | \$ 1,961              | \$ (7)                  | \$ 33,891  | \$ (236)                |

Unrealized losses included in the above table are not deemed to be other-than-temporary impairments based on the expectation of recovery in value and the Hospital's intent and ability to hold the related securities.

# The New York Methodist Hospital

## Notes to Consolidated Financial Statements (continued)

### 4. Property, Buildings and Equipment

A summary of property, buildings and equipment follows:

|  | December 31           |                   |
|--|-----------------------|-------------------|
|  | 2012                  | 2011              |
|  | <i>(In Thousands)</i> |                   |
| Land and land improvements   | \$ 4,233              | \$ 4,240          |
| Buildings, building improvements and fixed equipment                     | 372,009               | 366,153           |
| Movable equipment  | 188,222               | 181,404           |
|  | <u>564,464</u>        | <u>551,797</u>    |
| Less accumulated depreciation and amortization of leasehold improvements | 412,159               | 393,250           |
|  | <u>152,305</u>        | <u>158,547</u>    |
| Construction-in-progress   | 6,333                 | 7,059             |
|  | <u>\$ 158,638</u>     | <u>\$ 165,606</u> |

Movable equipment includes gross capitalized leases aggregating approximately \$23.1 million and \$22.9 million at December 31, 2012 and 2011, respectively, having accumulated amortization of approximately \$17.7 million and \$16.2 million at December 31, 2012 and 2011, respectively.

### 5. Long-Term Debt

A summary of the Hospital's debt follows:

|   | December 31           |                  |
|---|-----------------------|------------------|
|   | 2012                  | 2011             |
|   | <i>(In Thousands)</i> |                  |
| Dormitory Authority of the State of New York ("DASNY") Revenue Bonds, Series 2004, subject to a 5.25% interest rate, with principal due in varying amounts through 2033 | \$ 42,538             | \$ 44,301        |
| Capitalized leases with interest rates ranging from 3.25% to 5.73%, secured by the financed equipment (Note 6)  | 3,293                 | 5,088            |
|   | <u>45,831</u>         | <u>49,389</u>    |
| Less current portion  | 3,790                 | 3,734            |
|   | <u>\$ 42,041</u>      | <u>\$ 45,655</u> |

# The New York Methodist Hospital

## Notes to Consolidated Financial Statements (continued)

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

In 2004, DASNY issued Revenue Bonds, Series 2004 ("Series 2004 Bonds") in the amount of \$46.6 million (inclusive of an original issue premium of \$2.1 million and an underwriter discount of \$0.4 million). Pursuant to the agreements related to the Series 2004 Bonds, the Hospital is required to maintain, among other matters, a debt service reserve fund (initially funded at approximately \$3.8 million), a minimum debt service coverage ratio and other financial ratios.

Under the terms of the various debt agreements, the Hospital is required to be in compliance with certain financial covenants as described in the respective agreements. The Hospital was in compliance with its financial ratio covenants at December 31, 2012 and 2011, respectively.

Required principal payments on all long-term debt, including capital leases, for each of the five years subsequent to December 31, 2012, are as follows (in thousands):

|      |          |
|------|----------|
| 2013 | \$ 3,790 |
| 2014 | 2,790    |
| 2015 | 2,460    |
| 2016 | 2,169    |
| 2017 | 2,254    |

Substantially all property, buildings and equipment and revenue from operations serve as collateral for the debt agreements.

Interest paid under all borrowings, net of capitalized interest, for the years ended December 31, 2012 and 2011, aggregated approximately \$2.3 million and \$2.4 million, respectively. Capitalized interest totaled approximately \$143,000 in 2012 and \$80,000 in 2011, net of investment earnings on related funds.

# The New York Methodist Hospital

## Notes to Consolidated Financial Statements (continued)

### 6. Leases

Total rental expense charged to operations for the years ended December 31, 2012 and 2011, aggregated approximately \$5.9 million and \$6.0 million, respectively.

Future minimum payments under non-cancellable capital leases and operating leases with initial or remaining terms of one year or more at December 31, 2012, consisted of the following:

|   | <b>Capital<br/>Leases</b> | <b>Operating<br/>Leases</b> |
|---|---------------------------|-----------------------------|
|   | <i>(In Thousands)</i>     |                             |
| 2013  | \$ 2,050                  | \$ 4,785                    |
| 2014  | 897                       | 4,868                       |
| 2015  | 441                       | 4,283                       |
| 2016  | 44                        | 3,902                       |
| 2017  | 22                        | 1,814                       |
| 2018 and thereafter   | —                         | 4,695                       |
| Total minimum lease payments  | 3,454                     | \$ 24,347                   |
| Less amounts representing interest  | 161                       |                             |
| Present value of minimum lease payments<br>(reported with long-term debt, see Note 5) | \$ 3,293                  |                             |

### 7. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

|   | <b>December 31</b>    |             |
|---|-----------------------|-------------|
|   | <b>2012</b>           | <b>2011</b> |
|   | <i>(In Thousands)</i> |             |
| Health education                                      | \$ 710                | \$ 643      |
| Research  | 1,621                 | 1,712       |
| Accumulated endowment earnings – health care services | 14,138                | 13,735      |
|   | \$ 16,469             | \$ 16,090   |

## The New York Methodist Hospital

### Notes to Consolidated Financial Statements (continued)

#### 7. Temporarily and Permanently Restricted Net Assets (continued)

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

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

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

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

# The New York Methodist Hospital

## Notes to Consolidated Financial Statements (continued)

### 7. Temporarily and Permanently Restricted Net Assets (continued)

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

|   | Temporarily<br>Restricted | Permanently<br>Restricted | Total     |
|---|---------------------------|---------------------------|-----------|
|   | <i>(In Thousands)</i>     |                           |           |
| Endowment net assets at January 1, 2011           | \$ 16,123                 | \$ 6,587                  | \$ 22,710 |
| Investment return:                                |                           |                           |           |
| Investment income                                 | 461                       | —                         | 461       |
| Net depreciation (realized and unrealized)        | (788)                     | —                         | (788)     |
| Total investment return                           | (327)                     | —                         | (327)     |
| Appropriation of endowment assets for expenditure | (2,061)                   | —                         | (2,061)   |
| Endowment net assets at December 31, 2011         | 13,735                    | 6,587                     | 20,322    |
| Investment return:                                |                           |                           |           |
| Investment income                                 | 678                       | —                         | 678       |
| Net appreciation (realized and unrealized)        | 1,953                     | —                         | 1,953     |
| Total investment return                           | 2,631                     | —                         | 2,631     |
| Appropriation of endowment assets for expenditure | (2,228)                   | —                         | (2,228)   |
| Endowment net assets at December 31, 2012         | \$ 14,138                 | \$ 6,587                  | \$ 20,725 |

### 8. Professional Liability Insurance Program

In 1983, the Hospital and a number of other health care providers formed Combined Coordinating Council, Inc. of New York ("CCCI") to coordinate the access of insurance for professional and comprehensive general liability risks and to serve as a risk management advisor to the providers who participate in CCCI. The shareholders of CCCI are also the shareholders of CCC Insurance Company, Ltd. of Bermuda, a captive insurer formed in 1983, and its subsidiary, CCC Corporation of Barbados, formed in 1987.

Effective July 1, 2004, CCCI formed CCC Insurance SCC and implemented a "cell captive" structure which replaced the previous coverage structure. Under this program, primary coverage for individual claims for each participating hospital is provided through a commercial insurance carrier on an occurrence basis. The first layer of excess coverage under the program utilizes individual cells for each participating hospital, under which invested assets and insurance-related liabilities are segregated for each participant and there is no shared risk amongst the entities. This layer provides excess coverage over the primary coverage with per-claim limits up to \$15.0 million on an occurrence basis for each participating hospital.

# The New York Methodist Hospital

## Notes to Consolidated Financial Statements (continued)

### 8. Professional Liability Insurance Program (continued)

In addition to coverage for the participating hospitals' professional liability, the program also includes a cell captive for coverage of physicians' professional liability. Premiums for this cell captive are to be paid by the participating physicians; however, the participating hospitals are responsible for funding a portion of the cell's initial capital and surplus requirements and could be subject to additional capital contributions in the future if the equity of this cell falls below certain levels. Coverage within the physician cell is pooled; however, there is no shared risk with the hospital-liability cell captives. During both 2012 and 2011, the Hospital paid additional capital funding of approximately \$2.7 million to the physician liability cell.

The Hospital transfers funds to the cell captive based on desired capitalization levels. The Hospital records its investment under the cell captive structure, the related changes in its segregated account as reported by CCC Insurance SCC, and its investments in other insurance companies within the CCC insurance group in the accompanying consolidated statements of financial position. At December 31, 2012 and 2011, investments held by the captive insurance companies totaling approximately \$122.4 million and \$93.0 million, respectively, are included in assets limited as to use—investments held by captive insurance companies in the Hospital's accompanying consolidated statements of financial position.

Through June 30, 2004, the CCCI insurance program provided insurance under a common occurrence-basis structure, which included self-insurance through the two offshore captive insurance companies, as well as the purchase of commercial insurance. Through June 30, 2004, CCCI had reinsurance coverage from outside reinsurers for specified amounts above per-claim limits.

Beginning in 2008, the Hospital records an obligation for estimated professional liabilities under the CCCI program related to program years 1999 through 2004 to account for estimated projected ultimate losses for that period that are anticipated to exceed funded insurance levels and reinsurance limits applicable to those program years. At December 31, 2012 and 2011, the Hospital recorded an obligation of approximately \$2.8 million and \$3.9 million, respectively, for these estimated liabilities.

## The New York Methodist Hospital

### Notes to Consolidated Financial Statements (continued)

#### 8. Professional Liability Insurance Program (continued)

The estimated undiscounted professional liabilities for asserted claims and for incidents that have been incurred but not yet reported under the first excess layer of the cell captive insurance program and other liabilities related to CCC insurance companies as of December 31, 2012 and 2011, aggregated approximately \$195.3 million and \$182.5 million, respectively, and are reported as liabilities in the accompanying consolidated statements of financial position at the actuarially determined present value of approximately \$157.8 million and \$148.4 million at December 31, 2012 and 2011, respectively, based on a discount rate of 5% at December 31, 2012 and December 31, 2011. Professional liabilities are discounted based on the expected timing of the actuarially estimated future payments under the program using an interest rate expected to be earned on related invested assets during such future periods. Such estimates are reviewed and updated on an annual basis.

Of the total professional liabilities at December 31, 2012 and 2011, approximately \$18.7 million and \$20.8 million, respectively, is estimated to be paid in the subsequent year and is reported as a current liability.

At December 31, 2012 and 2011, the Hospital recorded an estimated insurance recovery receivable and insurance claim liability related to professional liabilities of \$17.3 million and \$18.0 million, respectively.

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

Professional liability claims have been asserted by various claimants. The claims are in various stages of processing and some have been and may ultimately be brought to trial. Furthermore, there are known incidents that have occurred that may result in the assertion of additional claims, and other claims may be asserted arising from services provided to patients in the past. It is the opinion of management, based on prior experience and the advice of legal counsel, that the ultimate resolution of professional liability claims will not have a significant effect on the Hospital's consolidated financial position.

# The New York Methodist Hospital

## Notes to Consolidated Financial Statements (continued)

### 9. Pension and Similar Benefit Plans

*Retirement Benefits:* The Hospital provides pension and similar benefits to its employees through several plans, including various multi-employer plans for union employees and a defined benefit plan primarily for eligible nonunion employees. Additionally, the Hospital established a defined contribution pension plan in 2005 for certain employees.

Benefits under the Hospital's defined benefit plan are based on years of service and the highest average compensation for five consecutive years during the last ten years of employment at the Hospital. Contributions to the Hospital's defined benefit plan are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future. The Hospital's funding policy is to contribute amounts to the defined benefit plan sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974, plus additional amounts that the Hospital may deem appropriate from time to time. The Hospital contributed \$8.8 million and \$8.4 million to its defined benefit pension plan in 2012 and 2011, respectively. The Hospital expects to contribute approximately \$9.0 million to its defined benefit pension plan in 2013.

Effective December 31, 2008, the defined benefit plan was amended to freeze future benefit accruals. Effective January 1, 2010, the plan was amended once again to unfreeze future benefit accruals. Effective July 1, 2003, the defined benefit plan was amended for future benefit accruals. Benefits earned after June 30, 2003, for plan participants are earned under a cash balance accrual formula. Prior to July 1, 2003, benefits were earned under a final average pay formula. Also effective July 1, 2003, nurses that are covered under collective-bargaining agreements will no longer accrue benefits under the Hospital-sponsored defined benefit plan. The benefits earned after June 30, 2003, for nurses that are covered under collective-bargaining agreements will be provided by union-sponsored pension plans with funding provided by the Hospital in accordance with the applicable collective-bargaining agreements.

The Hospital recognizes in its consolidated statements of financial position an asset, for a defined benefit postretirement plan's overfunded status, or a liability, for a plan's underfunded status; measures a defined benefit postretirement plan's assets and obligations that determine funded status as of the end of the Hospital's fiscal year; and recognizes the periodic change in the funded status of a defined benefit postretirement plan as a component of changes in unrestricted net assets in the year in which the change occurs. Amounts that are recognized as a component of changes in unrestricted net assets will be subsequently recognized as net periodic pension cost.

# The New York Methodist Hospital

## Notes to Consolidated Financial Statements (continued)

### 9. Pension and Similar Benefit Plans (continued)

The following table provides a reconciliation of the benefit obligation, change in fair value of plan assets, and the funded status of the defined benefit pension plan for the years ended December 31, 2012 and 2011:

|  | <b>Pension Benefits</b>   |                           |
|--|---------------------------|---------------------------|
|  | <b>2012</b>               | <b>2011</b>               |
|  | <i>(In Thousands)</i>     |                           |
| <b>Change in benefit obligation</b>            |                           |                           |
| Benefit obligation at beginning of year        | \$ 176,859                | \$ 157,083                |
| Service cost                                   | 2,590                     | 2,517                     |
| Interest cost                                  | 8,369                     | 8,768                     |
| Actuarial losses                               | 15,838                    | 16,017                    |
| Benefits paid                                  | (7,731)                   | (7,526)                   |
| Benefit obligation at end of year              | <u>195,925</u>            | <u>176,859</u>            |
| <b>Change in plan assets</b>                   |                           |                           |
| Fair value of plan assets at beginning of year | 136,631                   | 138,176                   |
| Actual return on plan assets                   | 18,610                    | (2,429)                   |
| Employer contributions                         | 8,750                     | 8,410                     |
| Benefits paid                                  | (7,731)                   | (7,526)                   |
| Fair value of plan assets at end of year       | <u>156,260</u>            | <u>136,631</u>            |
| Funded status                                  | <u><u>\$ (39,665)</u></u> | <u><u>\$ (40,228)</u></u> |

At December 31, 2012 and 2011, the funded status of the pension benefit plan is reported in the consolidated statements of financial position as a noncurrent liability.

The accumulated benefit obligation of the plan totaled approximately \$193.0 million and \$173.9 million at December 31, 2012 and 2011, respectively.

Included in other changes in unrestricted net assets at December 31, 2012 and 2011, are \$70.3 million and \$67.6 million, respectively, related to unrecognized losses that have not yet been recognized in net periodic pension cost. The change in the pension liability to be recognized in future periods as reported in the accompanying consolidated statements of operations totaled \$2.7 million in 2012 and represents the change in these amounts.

# The New York Methodist Hospital

## Notes to Consolidated Financial Statements (continued)

### 9. Pension and Similar Benefit Plans (continued)

The actuarial loss included in changes in unrestricted net assets at December 31, 2012 and expected to be recognized in net periodic pension cost during the year ending December 31, 2013, totals approximately \$4.9 million.

Weighted-average assumptions used to determine the benefit obligations at December 31, were as follows:

|                               | <b>December 31</b> |              |
|-------------------------------|--------------------|--------------|
|                               | <b>2012</b>        | <b>2011</b>  |
| Discount rate                 | <b>4.25%</b>       | <b>4.88%</b> |
| Rate of compensation increase | <b>3.75</b>        | <b>3.75</b>  |

Net periodic benefit cost under the defined benefit plan consists of the following for the years ended December 31:

|                                    | <b>2012</b>            | <b>2011</b>            |
|------------------------------------|------------------------|------------------------|
|                                    | <i>(In Thousands)</i>  |                        |
| Service cost                       | <b>\$ 2,590</b>        | <b>\$ 2,517</b>        |
| Interest cost                      | <b>8,369</b>           | <b>8,768</b>           |
| Expected return on plan assets     | <b>(10,220)</b>        | <b>(10,332)</b>        |
| Amortization of net actuarial loss | <b>4,774</b>           | <b>2,386</b>           |
| Net periodic pension cost          | <b><u>\$ 5,513</u></b> | <b><u>\$ 3,339</u></b> |

Weighted-average assumptions used to determine the net periodic pension cost for the years ended December 31, are as follows:

|  | <b>2012</b>  | <b>2011</b>  |
|--|--------------|--------------|
| Service cost                           | <b>4.88%</b> | <b>5.75%</b> |
| Expected rate of return on plan assets | <b>7.50</b>  | <b>7.50</b>  |
| Rate of compensation increase          | <b>3.75</b>  | <b>3.75</b>  |

# The New York Methodist Hospital

## Notes to Consolidated Financial Statements (continued)

### 9. Pension and Similar Benefit Plans (continued)

The overall expected long-term rate of return of the assets is based on the historical returns of each asset class weighted by the target asset allocation. The target asset allocation has been selected consistent with the Hospital's desired risk and return characteristics. The Hospital reviews the expected long-term rate periodically, and based on the building block approach, updates for changes in the marketplace.

Funds are invested with a long-term (five years or greater) objective. Plan assets are passively invested in institutional funds and are rebalanced quarterly to remain at the Hospital's target levels. Performance is reviewed quarterly based on performance results and benchmarks compiled independently by the plan trustee. The Hospital's weighted-average asset allocations and target asset allocation policy at December 31, are as follows:

| Asset Category                        | Target Asset Allocation | Pension Plan Assets at |      |
|---------------------------------------|-------------------------|------------------------|------|
|                                       |                         | December 31<br>2012    | 2011 |
| Equity securities                     | 25%                     | 33%                    | 33%  |
| Debt securities                       | 25                      | 26                     | 27   |
| Alternative investments – hedge funds | 25                      | 18                     | 19   |
| International equity securities       | 25                      | 23                     | 21   |
|                                       | 100%                    | 100%                   | 100% |

Assets invested in the defined benefit pension plan are carried at fair value. Debt and equity securities with readily determinable values are carried at fair value as determined based on independent published sources. Alternative investments, as described in Note 1, are stated at fair value, as estimated in an unquoted market. Fair value for alternative investments is determined by the Hospital's management for each investment using net asset value as a practical expedient, as permitted by generally accepted accounting principles, rather than using another valuation method to independently estimate fair value.

# The New York Methodist Hospital

## Notes to Consolidated Financial Statements (continued)

### 9. Pension and Similar Benefit Plans (continued)

See Note 13 for the composition and reported value of the defined benefit pension plan assets at December 31, 2012 and 2011.

The Hospital expects to pay the following benefit payments (in thousands):

| Year:        | Pension<br>Benefits |
|--------------|---------------------|
| 2013         | \$ 9,250            |
| 2014         | 9,515               |
| 2015         | 9,885               |
| 2016         | 10,341              |
| 2017         | 10,804              |
| 2018 to 2022 | 60,254              |

In determining the net pension cost, the average future working life was used in 2011 and 2012.

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

*Deferred Compensation:* Certain Hospital employees participate in deferred compensation plans. In connection with these plans, the Hospital deposits amounts with trustees on behalf of the participating employees. Under the terms of the plans, the Hospital is not responsible for investment gains or losses incurred. The assets are restricted for payments under the plans, but may revert to the Hospital under certain specified circumstances. At December 31, 2012 and 2011, amounts on deposit with trustees (at fair value) were equal to liabilities under the plans and aggregated approximately \$7.1 million and \$6.1 million, respectively.

# The New York Methodist Hospital

## Notes to Consolidated Financial Statements (continued)

### 9. Pension and Similar Benefit Plans (continued)

*Postretirement Benefits:* Effective March 1, 2001, full-time employees who are at least 62 years of age with 20 years of continuous service who take early retirement from the Hospital will be eligible to continue to participate in the Hospital's employee health plan as if they were active employees who reached normal retirement age. The plan contains cost-sharing features such as copayments. The estimated postretirement benefit liability at December 31, 2012 and 2011 was approximately \$0.9 million and \$0.8 million, respectively. The periodic postretirement benefit cost for each of the years ended December 31, 2012 and 2011, was approximately \$70,000 and \$80,000 respectively.

*Multiemployer Pension Plans:* The Hospital contributes to the New York State Nurses Association Pension Plan ("NYSNA") and the 1199 SEIU Healthcare Employees Pension Fund ("1199 SEIU"). These are multiemployer defined benefit pension plans under the terms of collective bargaining agreements that cover the Hospital's union-represented employees. Contributions to union plans are based on union employee gross salary levels and rates required under union contractual arrangements. The risks of participating in these multiemployer plans are different from single-employer plans in the following respects:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- If the Hospital chooses to stop participating in some of its multiemployer plans, the Hospital may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

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

- The "EIN/Pension Plan Number" column provides the Employee Identification Number ("EIN") and the three-digit plan numbers.
- The Pension Plan Protection Act of 2006 ("PPA") zone status is based on information that the Hospital received from the plans and is certified by the plans' actuaries. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. Unless otherwise noted, the most recent PPA zone status available in 2012 and 2011 is for the plan's year-end at December 31, 2011 and December 31, 2010, respectively.

# The New York Methodist Hospital

## Notes to Consolidated Financial Statements (continued)

### 9. Pension and Similar Benefit Plans (continued)

- The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan ("FIP") or a rehabilitation plan ("RP") is either pending or has been implemented.
- The column "Surcharge Imposed" indicates whether the Hospital was required to pay a surcharge to the plan.
- The last column lists the expiration dates of the collective-bargaining agreements to which the plans are subject.

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

| Pension Fund | EIN/Pension Plan Number     | Pension Protection Act Zone Status |       | FIP/RP Status | Contributions by the Hospital |          | Surcharge Imposed | Expiration Date of Collective Bargaining - Agreement |
|--------------|-----------------------------|------------------------------------|-------|---------------|-------------------------------|----------|-------------------|--|
|              |                             | 2012                               | 2011  |               | 2012                          | 2011     |                   |  |
|              |                             | (In Thousands)                     |       |               |                               |          |                   |  |
| NYSNA        | 13-6604799/<br>Plan No. 001 | Green                              | Green | No            | \$ 5,774                      | \$ 5,377 | No                | 4/30/2014  |
| 1199 SEIU    | 13-3604862/<br>Plan No. 001 | Green                              | Green | No            | 6,114                         | 4,678    | Yes               | 4/30/2015  |

### 10. Due to Affiliates

The following balances are due (to) from affiliates:

|   | December 31     |                 |
|---|-----------------|-----------------|
|   | 2012            | 2011            |
| <i>(In Thousands)</i>                           |                 |                 |
| The New York and Presbyterian Hospital ("NYPH") | \$ (741)        | \$ (778)        |
| Rogosin Institute                               | 161             | 61              |
| Network Recovery Services, Inc. ("NRS")         | (9)             | (46)            |
|   | <u>\$ (589)</u> | <u>\$ (763)</u> |

# The New York Methodist Hospital

## Notes to Consolidated Financial Statements (continued)

### 10. Due to Affiliates (continued)

At December 31, 2012 and 2011, the amount due to NYPH represents amounts owed for allocation of shared costs, primarily data processing and personnel, incurred by NYPH on behalf of the Hospital.

Amounts due from Rogosin Institute relate to amounts owed to the Hospital for certain administrative services. NRS provides certain patient accounts receivable billing and collection services to the Hospital.

### 11. Other Revenue

Other revenue consists of the following:

|   | Year Ended December 31 |                  |
|---|------------------------|------------------|
|   | 2012                   | 2011             |
|   | (In Thousands)         |                  |
| Rental income   | \$ 8,785               | \$ 9,119         |
| Interest and dividend income  | 3,774                  | 2,443            |
| Net realized gains and losses and equity in income on alternative investments | 1,387                  | 194              |
| Investment return of captive insurance companies                              | 13,113                 | 582              |
| Contributions   | 293                    | 257              |
| Hospital-medical home demonstration program                                   | 721                    | —                |
| Faculty practice billing and other receipts                                   | 17,910                 | 17,283           |
| Electronic health records incentive payments                                  | 4,238                  | 5,412            |
| Grant revenue   | 2,620                  | 2,601            |
| Net revenue from professional corporations                                    | 3,842                  | 2,817            |
| Cafeteria income  | 1,197                  | 409              |
| Vendor discounts and rebates  | 1,812                  | 1,043            |
| Miscellaneous income  | 1,844                  | 1,383            |
| Gain on sale of SBHC (Note 1)   | 1,430                  | —                |
|   | <u>\$ 62,966</u>       | <u>\$ 43,543</u> |

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

# The New York Methodist Hospital

## Notes to Consolidated Financial Statements (continued)

### 11. Other Revenue (continued)

program beginning in 2011 for eligible providers that adopt and meaningfully use certified EHR technology. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. Initial Medicaid incentive payments are available to providers that adopt, implement, or upgrade certified EHR technology. In subsequent years, providers must demonstrate meaningful use of such technology to qualify for additional Medicaid incentive payments. Hospitals that do not successfully demonstrate meaningful use of EHR technology are subject to payment penalties or downward adjustments to their Medicare payments beginning in federal fiscal year 2015.

The Hospital uses a grant accounting model to recognize revenue for the Medicare and Medicaid EHR incentive payments. Under this accounting policy, EHR incentive payment revenue is recognized when the Hospital is reasonably assured that the EHR meaningful use criteria for the required period of time were met and that the grant revenue will be received. EHR incentive payment revenue totaling approximately \$4.2 million and \$5.4 million for the years ended December 31, 2012 and 2011, respectively (Medicare: \$2.5 million and \$3.2 million for 2012 and 2011, respectively; Medicaid: \$1.7 million and \$2.2 million for 2012 and 2011, respectively), is included in other revenue in the accompanying consolidated statements of operations. Income from Medicare incentive payments is subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were calculated. Additionally, the Hospital's attestation of compliance with the meaningful use criteria is subject to audit by the federal government.

### 12. Commitments and Contingencies

At December 31, 2012, approximately 67% of the Hospital's employees are covered by collective-bargaining agreements. The collective-bargaining agreements are set to expire at various dates through 2015.

## The New York Methodist Hospital

### Notes to Consolidated Financial Statements (continued)

#### 13. Fair Value Measurements

The Hospital utilizes various methods of calculating fair value of its financial assets. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are applied based on the unit of account from the Hospital's perspective. The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated).

The fair value hierarchy is composed of three levels based on the source of inputs as follows:

*Level 1:* Unadjusted quoted prices in active markets that are accessible to the reporting entity at the measurement date for identical assets and liabilities.

*Level 2:* Inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability.

*Level 3:* Unobservable inputs for the asset or liability (i.e., supported by little or no market activity). Level 3 inputs include management's own assumption about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk).

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

# The New York Methodist Hospital

## Notes to Consolidated Financial Statements (continued)

### 13. Fair Value Measurements (continued)

Financial assets carried at fair value as of December 31, 2012 and 2011, excluding assets invested in the Hospital's defined benefit pension plan, are classified in the table below in one of the three categories described above:

|   | Level 1               | Level 2    | Level 3  | Total      |
|---|-----------------------|------------|----------|------------|
|   | <i>(In Thousands)</i> |            |          |            |
| <b>December 31, 2012</b>  |                       |            |          |            |
| Cash and cash equivalents   | \$ 89,503             | \$ —       | \$ —     | \$ 89,503  |
| U.S. Treasury notes   | 2,078                 | —          | —        | 2,078      |
| U.S. government and agencies notes and bonds                              | —                     | 1,014      | —        | 1,014      |
| Mutual funds:   |                       |            |          |            |
| Equity funds  | 55,357                | —          | —        | 55,357     |
| Fixed income funds  | 53,694                | —          | —        | 53,694     |
| Domestic/international blend funds  | 3,407                 | —          | —        | 3,407      |
| International equity funds  | 4,857                 | —          | —        | 4,857      |
| Corporate debt securities   | —                     | 4,206      | —        | 4,206      |
| Alternative investments – investments held by captive insurance companies | —                     | 115,964    | 6,466    | 122,430    |
| Total assets at fair value  | \$ 208,896            | \$ 121,184 | \$ 6,466 | \$ 336,546 |
| <b>December 31, 2011</b>  |                       |            |          |            |
| Cash and cash equivalents   | \$ 80,807             | \$ —       | \$ —     | \$ 80,807  |
| U.S. Treasury notes   | 2,015                 | —          | —        | 2,015      |
| U.S. government and agencies notes and bonds                              | —                     | 2,246      | —        | 2,246      |
| Mutual funds:   |                       |            |          |            |
| Equity funds  | 21,013                | —          | —        | 21,013     |
| Fixed income funds  | 44,989                | —          | —        | 44,989     |
| Domestic/international blend funds  | 2,860                 | —          | —        | 2,860      |
| International equity funds  | 4,163                 | —          | —        | 4,163      |
| Corporate debt securities   | —                     | 4,412      | —        | 4,412      |
| Alternative investments – investments held by captive insurance companies | —                     | 87,148     | 5,892    | 93,040     |
| Total assets at fair value  | \$ 155,847            | \$ 93,806  | \$ 5,892 | \$ 255,545 |

# The New York Methodist Hospital

## Notes to Consolidated Financial Statements (continued)

### 13. Fair Value Measurements (continued)

Fair value for Level 1 is based upon quoted market prices. Level 2 assets consist of the Hospital's interest in marketable securities held in pooled investments managed by captive insurance companies and certain fixed income securities for which the fair value at each year end is estimated based on quoted prices and other valuation considerations (e.g., credit quality and prevailing interest rates). Level 3 assets consist of the Hospital's interest in pooled alternative investments managed by captive insurance companies, the valuation for which is described in Note 1. The methods described above may produce a fair value that is not indicative of net realizable value or reflective of future fair values.

Financial assets invested in the Hospital's defined benefit pension plan at fair value as of December 31, 2012 and 2011, are classified in the tables below in one of the three categories described above:

|                                       | Level 1               | Level 2          | Level 3     | Total             |
|---------------------------------------|-----------------------|------------------|-------------|-------------------|
|                                       | <i>(In Thousands)</i> |                  |             |                   |
| <b>December 31, 2012</b>              |                       |                  |             |                   |
| Cash and cash equivalents             | \$ 686                | \$ —             | \$ —        | \$ 686            |
| Equity mutual funds                   | 51,401                | —                | —           | 51,401            |
| Fixed income mutual funds             | 40,294                | —                | —           | 40,294            |
| International equity mutual funds     | 36,024                | —                | —           | 36,024            |
| Alternative investments — hedge funds | —                     | 27,855           | —           | 27,855            |
|                                       | <u>\$ 128,405</u>     | <u>\$ 27,855</u> | <u>\$ —</u> | <u>\$ 156,260</u> |
| <b>December 31, 2011</b>              |                       |                  |             |                   |
| Cash and cash equivalents             | \$ 622                | \$ —             | \$ —        | \$ 622            |
| Equity mutual funds                   | 44,315                | —                | —           | 44,315            |
| Fixed income mutual funds             | 36,521                | —                | —           | 36,521            |
| International equity mutual funds     | 29,085                | —                | —           | 29,085            |
| Alternative investments — hedge funds | —                     | 26,088           | —           | 26,088            |
|                                       | <u>\$ 110,543</u>     | <u>\$ 26,088</u> | <u>\$ —</u> | <u>\$ 136,631</u> |

# The New York Methodist Hospital

## Notes to Consolidated Financial Statements (continued)

### 13. Fair Value Measurements (continued)

Following is a rollforward of the statement of financial position amounts for financial instruments classified by the Hospital in Level 3 of the valuation hierarchy defined above:

|  | <u>2012</u>           | <u>2011</u>     |
|--|-----------------------|-----------------|
|  | <i>(In Thousands)</i> |                 |
| Fair value at beginning of year  | \$ 5,892              | \$ 6,118        |
| Total realized and unrealized gains or losses                                    | 651                   | (80)            |
| Distributions  | —                     | (111)           |
| Allocated expenses   | (83)                  | (44)            |
| Other receipts   | 6                     | 9               |
| Fair value at end of year  | <u>\$ 6,466</u>       | <u>\$ 5,892</u> |
| Change in unrealized losses related to financial instruments held at end of year | <u>\$ 731</u>         | <u>\$ (478)</u> |

The Hospital's long-term debt obligations are reported in the accompanying consolidated statements of financial position at carrying value which totaled approximately \$42.5 million and \$44.3 million at December 31, 2012 and 2011, respectively, excluding capital leases. The fair value of these obligations at December 31, 2012 and 2011, as estimated primarily based on quoted market prices for related DASNY bonds, other valuation considerations and estimations such as discounted cash flows, totaled approximately \$43.9 million and \$44.1 million, respectively, and are classified by the Hospital in Level 2 of the valuation hierarchy above.

### 14. Medical Resident Tax Refund

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

# **The New York Methodist Hospital**

## **Notes to Consolidated Financial Statements (continued)**

### **14. Medical Resident Tax Refund (continued)**

In the year ended December 31, 2010, the Hospital recorded an estimated net gain of approximately \$4.3 million related to medical resident FICA refund claims that were expected to meet the IRS requirements to be eligible for refunds. At December 31, 2011, the Hospital recorded a receivable of approximately \$7.9 million for the total expected medical resident FICA refunds and accumulated interest, included in other accounts receivable, and a liability of approximately \$3.5 million, included in other current liabilities, related to the portion of the refunds to be collected on behalf of, and, therefore, to be remitted to, the medical residents. During 2012, the Hospital received a distribution of approximately \$6.3 million of the \$7.9 million receivable recorded as of December 31, 2011. At December 31, 2012, the Hospital has a remaining receivable of approximately \$1.6 million, included in other accounts receivable. A liability related to the portion of the refunds collected and to be collected on behalf of, and, therefore, to be remitted to, the medical residents of approximately \$3.7 million is included in other current liabilities. The Hospital has established these estimates based on information presently available; the estimates are subject to change as the IRS adjudicates the claims.

### **15. Subsequent Events**

Subsequent events have been evaluated through April 23, 2013, which is the date the consolidated financial statements were issued. Except as disclosed in Note 1, no subsequent events have occurred that require disclosure in or adjustment to the consolidated financial statements.

## Supplementary Information

**The New York Methodist Hospital**  
**Consolidating Statement of Financial Position**

December 31, 2012  
*(In Thousands)*

|   | Methodist  | Combined<br>Professional<br>Corporations | Subtotal   | Eliminating Entries |           | Consolidated |
|---|------------|--|------------|---------------------|-----------|--------------|
|   |            |  |            | Debits              | Credits   |              |
| <b>Assets</b>                                   |            |  |            |                     |           |              |
| Current assets:                                 |            |  |            |                     |           |              |
| Cash and cash equivalents                       | \$ 78,127  | \$ 6,009                                 | \$ 84,136  | \$ —                | \$ —      | \$ 84,136    |
| Short-term investments                          | 118,722    | —  | 118,722    | —                   | —         | 118,722      |
| Accounts receivable:                            |            |  |            |                     |           |              |
| Patient care, less allowance for uncollectibles | 47,779     | 7,598                                    | 55,377     | —                   | —         | 55,377       |
| Other — net                                     | 61,901     | 2,205                                    | 64,106     | —                   | 52,597    | 11,509       |
|   | 109,680    | 9,803                                    | 119,483    | —                   | 52,597    | 66,886       |
| Other current assets                            | 10,086     | 919                                      | 11,005     | —                   | —         | 11,005       |
| Assets limited as to use — current portion      | 20,750     | —  | 20,750     | —                   | —         | 20,750       |
| Total current assets                            | 337,365    | 16,731                                   | 354,096    | —                   | 52,597    | 301,499      |
| Assets limited as to use:                       |            |  |            |                     |           |              |
| Project fund                                    | 1,098      | —  | 1,098      | —                   | —         | 1,098        |
| Debt service reserve                            | 3,761      | —  | 3,761      | —                   | —         | 3,761        |
| Debt service                                    | 2,068      | —  | 2,068      | —                   | —         | 2,068        |
| Donor restricted                                | 6,587      | —  | 6,587      | —                   | —         | 6,587        |
| Investments held by captive insurance companies | 122,430    | —  | 122,430    | —                   | —         | 122,430      |
| Deferred employee compensation plan assets      | 7,071      | —  | 7,071      | —                   | —         | 7,071        |
|   | 143,015    | —  | 143,015    | —                   | —         | 143,015      |
| Less assets limited as to use — current portion | 20,750     | —  | 20,750     | —                   | —         | 20,750       |
| Assets limited as to use — noncurrent           | 122,265    | —  | 122,265    | —                   | —         | 122,265      |
| Property, buildings and equipment — net         | 158,627    | 11                                       | 158,638    | —                   | —         | 158,638      |
| Investments in real estate — net                | 1,453      | —  | 1,453      | —                   | —         | 1,453        |
| Other noncurrent assets                         | 2,272      | —  | 2,272      | —                   | —         | 2,272        |
| Insurance recovery receivable                   | 21,116     | —  | 21,116     | —                   | —         | 21,116       |
| Total assets                                    | \$ 643,098 | \$ 16,742                                | \$ 659,840 | \$ —                | \$ 52,597 | \$ 607,243   |

# The New York Methodist Hospital

## Consolidating Statement of Financial Position (continued)

December 31, 2012

(In Thousands)

|   | Methodist  | Combined<br>Professional<br>Corporations | Subtotal   | Eliminating Entries |         | Consolidated |
|---|------------|--|------------|---------------------|---------|--------------|
|   |            |  |            | Debits              | Credits |              |
| <b>Liabilities and net assets</b>               |            |  |            |                     |         |              |
| Current liabilities:                            |            |  |            |                     |         |              |
| Current portion of long-term debt               | \$ 3,790   | \$ —                                     | \$ 3,790   | \$ —                | \$ —    | \$ 3,790     |
| Accounts payable and accrued expenses           | 35,894     | 5,866                                    | 41,760     | —                   | —       | 41,760       |
| Accrued salaries and related liabilities        | 37,224     | 3,173                                    | 40,397     | —                   | —       | 40,397       |
| Due to affiliates, net                          | 589        | 52,580                                   | 53,169     | 52,580              | —       | 589          |
| Professional insurance liabilities – current    | 18,682     | —  | 18,682     | —                   | —       | 18,682       |
| Other current liabilities                       | 3,941      | 245                                      | 4,186      | 17                  | —       | 4,169        |
| Total current liabilities                       | 100,120    | 61,864                                   | 161,984    | 52,597              | —       | 109,387      |
| Long-term debt, less current portion            | 42,041     | —  | 42,041     | —                   | —       | 42,041       |
| Accrued pension liability                       | 39,665     | —  | 39,665     | —                   | —       | 39,665       |
| Deferred employee compensation plan liabilities | 7,071      | —  | 7,071      | —                   | —       | 7,071        |
| Professional insurance liabilities – noncurrent | 139,077    | —  | 139,077    | —                   | —       | 139,077      |
| Other noncurrent liabilities                    | 67,730     | —  | 67,730     | —                   | —       | 67,730       |
| Insurance claims liability                      | 21,116     | —  | 21,116     | —                   | —       | 21,116       |
| Total liabilities                               | 416,820    | 61,864                                   | 478,684    | 52,597              | —       | 426,087      |
| Net assets:                                     |            |  |            |                     |         |              |
| Unrestricted                                    | 203,222    | (45,122)                                 | 158,100    | —                   | —       | 158,100      |
| Temporarily restricted                          | 16,469     | —  | 16,469     | —                   | —       | 16,469       |
| Permanently restricted                          | 6,587      | —  | 6,587      | —                   | —       | 6,587        |
| Total net assets                                | 226,278    | (45,122)                                 | 181,156    | —                   | —       | 181,156      |
| Total liabilities and net assets                | \$ 643,098 | \$ 16,742                                | \$ 659,840 | \$ 52,597           | \$ —    | \$ 607,243   |

**The New York Methodist Hospital**  
**Consolidating Statement of Operations**

Year Ended December 31, 2012  
*(In Thousands)*

|   | Methodist  | SBHC *    | Combined<br>Professional<br>Corporations | Subtotal   | Eliminating Entries |           | Consolidated |
|---|------------|-----------|--|------------|---------------------|-----------|--------------|
|   |            |           |  |            | Debits              | Credits   |              |
| <b>Revenue, gains and other support</b>   |            |           |  |            |                     |           |              |
| Net patient service revenue   | \$ 581,385 | \$ —      | \$ 102,760                               | \$ 684,145 | \$ —                | \$ —      | \$ 684,145   |
| Provision for bad debts   | (10,774)   | 4         | (9,783)                                  | (20,553)   | —                   | —         | (20,553)     |
| Net patient service revenue less provision for bad debts                                    | 570,611    | 4         | 92,977                                   | 663,592    | —                   | —         | 663,592      |
| Other revenue   | 74,772     | 1,430     | 18,545                                   | 94,747     | 31,781              | —         | 62,966       |
| Net assets released from restrictions   | 1,270      | —         | —  | 1,270      | —                   | —         | 1,270        |
| Total revenue, gains and other support  | 646,653    | 1,434     | 111,522                                  | 759,609    | 31,781              | —         | 727,828      |
| <b>Operating expenses</b>   |            |           |  |            |                     |           |              |
| Salaries and wages  | 248,054    | —         | 30,675                                   | 278,729    | —                   | 7,779     | 270,950      |
| Employee benefits   | 77,595     | 10        | 4,978                                    | 82,583     | —                   | —         | 82,583       |
| Supplies and other expenses   | 242,808    | 1         | 85,273                                   | 328,082    | —                   | 23,988    | 304,094      |
| Interest and amortization of deferred financing fees  | 2,333      | 13        | 1  | 2,347      | —                   | 14        | 2,333        |
| Depreciation and amortization   | 22,437     | —         | 2  | 22,439     | —                   | —         | 22,439       |
| Total operating expenses  | 593,227    | 24        | 120,929                                  | 714,180    | —                   | 31,781    | 682,399      |
| Excess (deficiency) of revenue over expenses  | 53,426     | 1,410     | (9,407)                                  | 45,429     | 31,781              | 31,781    | 45,429       |
| <b>Other changes in unrestricted net assets</b>   |            |           |  |            |                     |           |              |
| Change in unrealized gains and losses on investments —<br>other than trading securities     | 2,437      | —         | —  | 2,437      | —                   | —         | 2,437        |
| Net assets released from restrictions for purchases of property,<br>buildings and equipment | 2,188      | —         | —  | 2,188      | —                   | —         | 2,188        |
| Change in pension liability to be recognized in future periods                              | (2,674)    | —         | —  | (2,674)    | —                   | —         | (2,674)      |
| Transfer of net assets  | 1,000      | —         | (1,000)                                  | —          | —                   | —         | —            |
| Release of liability due to affiliate upon sale   | (10,238)   | 10,238    | —  | —          | —                   | —         | —            |
| Increase (decrease) in unrestricted net assets  | \$ 46,139  | \$ 11,648 | \$ (10,407)                              | \$ 47,380  | \$ 31,781           | \$ 31,781 | \$ 47,380    |

\* Refer to Note 1 to the accompanying consolidated financial statements.