

**UNIVERSITY HOSPITAL OF BROOKLYN -
STATE UNIVERSITY OF NEW YORK
HEALTH SCIENCE CENTER AT BROOKLYN**

Financial Statements and
Required Supplementary Information

December 31, 2012 and 2011

**UNIVERSITY HOSPITAL OF BROOKLYN -
STATE UNIVERSITY OF NEW YORK
HEALTH SCIENCE CENTER AT BROOKLYN**

Financial Statements and Required Supplementary Information

Index

	<u>Page</u>
Independent Auditor's Report	1 - 2
Management's Discussion and Analysis (Unaudited)	3 - 13
Balance Sheets	14
Statements of Revenues, Expenses and Changes in Fund Net Position	15
Statements of Cash Flows	16 - 17
Notes to Financial Statements	18 - 45

INDEPENDENT AUDITOR'S REPORT

University Hospital of Brooklyn - State University
of New York Health Science Center at Brooklyn:

We have audited the balance sheets of University Hospital of Brooklyn (the Hospital), a department of the State University of New York (SUNY) Health Science Center at Brooklyn as of December 31, 2012 and 2011, and the related statements of revenues, expenses and changes in fund net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 judgement, 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.

University Hospital of Brooklyn - State University
of New York Health Science Center at Brooklyn:
Page 2 of 2

Auditor's Responsibility, Continued

As discussed in note 1, the financial statements of the Hospital are intended to present the financial position, changes in financial position, and cash flows of only that portion of the financial reporting entity of SUNY attributable to the transactions of the Hospital. They do not purport to, and do not, present fairly the financial position of SUNY as of December 31, 2012 and 2011, the changes in its financial position, or its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Fust Charles Chambers LLP

July 19, 2013

**UNIVERSITY HOSPITAL OF BROOKLYN -
STATE UNIVERSITY OF NEW YORK
HEALTH SCIENCE CENTER AT BROOKLYN**

Management's Discussion and Analysis as of
and for the year ended December 31, 2012

(Unaudited)

Our discussion and analysis of University Hospital of Brooklyn - State University of New York Health Science Center at Brooklyn (the Hospital or "UHB") financial performance provides an overview of the financial activities as of and for the year ended December 31, 2012, with comparative information as of and for the years ended December 31, 2011 and 2010. This discussion and analysis has been prepared by management and should be read in conjunction with the Hospital's financial statements and notes hereto, which follow.

SIGNIFICANT EVENT

On May 29, 2011, the State University of New York acquired Long Island College Hospital (LICH) through an Asset Purchase Agreement. Under the terms of the agreement, the State University of New York acquired assets of approximately \$143,000,000 and assumed liabilities of approximately \$310,000,000 (comprised of capital debt and other liabilities approximating \$170,000,000 and endowment fund approximating \$140,000,000), all at historical cost. A resulting (loss)/gain on acquisition and acquisition fees and other of approximately (\$168.5) million and \$6.9 million is included in non-operating (expenses)/revenues on the 2011 and 2012 statements of revenues, expenses and changes in fund net position, respectively.

Financial Highlights (in millions)

- Current assets increased \$29.9 (13.8%) in 2012 and increased \$4.8 (2.3%) in 2011
- Total assets increased \$51.7 (6.2%) in 2012 and increased \$50.3 (6.4%) in 2011
- Current liabilities increased \$28.7 (13.5%) in 2012 and increased \$71.1 (50.2%) in 2011
- Long-term liabilities increased \$123.3 (15.7%) in 2012 and increased \$255.1 (48.1%) in 2011
- Net patient service revenue increased \$164.6 (30.0%) in 2012 and increased \$88.8 (19.3%) in 2011
- Total operating expenses increased \$252.6 (37.5%) in 2012 and increased \$160.5 (31.2%) in 2011

**UNIVERSITY HOSPITAL OF BROOKLYN -
STATE UNIVERSITY OF NEW YORK
HEALTH SCIENCE CENTER AT BROOKLYN**

Management's Discussion and Analysis as of
and for the year ended December 31, 2012

(Unaudited)

Using this Annual Report

The Hospital's audited financial statements include the balance sheet, statement of revenues, expenses and changes in fund net position and statement of cash flows, which have been prepared in accordance with Government Accounting Standards Board ("GASB") principles. The Hospital is a department of the Brooklyn campus of the State University of New York ("SUNY"). The financial statements of the Hospital are intended to present the financial position, changes in financial position and cash flows of only that portion of the financial reporting entity of the Brooklyn campus of SUNY attributable to the transactions of the Hospital. They do not purport to, and do not, present fairly the financial position of the Brooklyn campus of SUNY, changes in its financial position or its cash flows.

The balance sheet reports an entity's financial resources (assets), obligations (liabilities) and net position (assets less liabilities) at a point in time. Increases and decreases in net position over time indicate whether an entity's financial position improved or deteriorated.

The statement of revenues, expenses and changes in fund net position reports an entity's results from operations (revenues less expenses) for a particular period of time, which is generally one year. Increases and decreases in revenues over expenses indicate whether an entity's financial operation has improved or deteriorated.

The statement of cash flows reports an entity's sources of cash (receipts) and uses of cash (payments) as they relate to an entity's operating, investing, financing and noncapital financing activities.

The notes to the financial statements explain information in the financial statements and provide more detailed data.

The Hospital as a Whole

The Hospital's net position is the difference between its assets and liabilities reported in the balance sheets. The Hospital's net position decreased \$100.2 and \$275.9 million in 2012 and 2011, respectively. The analysis below focuses on the balance sheets (Table 1) and the statements of revenues, expenses and changes in fund net position (Table 2). Changes in capital assets and long-term debt will be discussed under the heading "Capital Assets and Long-term Debt."

**UNIVERSITY HOSPITAL OF BROOKLYN -
STATE UNIVERSITY OF NEW YORK
HEALTH SCIENCE CENTER AT BROOKLYN**

Management's Discussion and Analysis as of
and for the year ended December 31, 2012

(Unaudited)

Table 1: Summary of Balance Sheets (in millions)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets:			
Current assets	\$ 246.3	\$ 216.4	\$ 211.6
Long-term assets	401.9	369.7	433.6
Capital assets, net	<u>235.8</u>	<u>246.1</u>	<u>136.7</u>
Total assets	\$ <u>884.0</u>	\$ <u>832.2</u>	\$ <u>781.9</u>
Liabilities:			
Current liabilities	\$ 241.2	\$ 212.6	\$ 141.5
Long-term liabilities	<u>908.5</u>	<u>785.2</u>	<u>530.1</u>
Total liabilities	1,149.7	997.8	671.6
Net position:			
Unrestricted	(271.8)	(196.0)	51.5
Net investment in capital assets	<u>6.1</u>	<u>30.4</u>	<u>58.8</u>
Total net position	<u>(265.7)</u>	<u>(165.6)</u>	<u>110.3</u>
Total liabilities and net position	\$ <u>884.0</u>	\$ <u>832.2</u>	\$ <u>781.9</u>

**UNIVERSITY HOSPITAL OF BROOKLYN -
STATE UNIVERSITY OF NEW YORK
HEALTH SCIENCE CENTER AT BROOKLYN**

Management's Discussion and Analysis as of
and for the year ended December 31, 2012

(Unaudited)

Current Assets

The Hospital's current assets, as of December 31, 2012, when compared to the prior year end, increased \$29.9 million. The increase is primarily attributed to an increase in cash of \$29.1 million from the SUNY loan and an increase of \$11.9 million from Due from State of New York for the support of the malpractice expenses offset by a decrease of \$14.3 million in patient accounts receivable.

The Hospital's current assets, as of December 31, 2011, when compared to the prior year end, increased \$4.8 million. The increase is primarily attributed to an increase of \$52.6 million due to the acquisition of Long Island College Hospital (LICH) with the offset by a net decrease of \$47.8 million in patient accounts receivable and third parties receivable resulting from decreasing patient volume and timing.

Long-Term Assets, Net of Capital Assets

The Hospital's long-term assets, net of capital assets as of December 31, 2012, when compared to prior year end, increased \$32.2 million. This change is primarily attributed to an increase of \$34 million in State support receivable for malpractice due to malpractice liability increasing and a \$3.4 million decrease in unexpended bond and capital lease proceeds.

The Hospital's long-term assets, net of capital assets as of December 31, 2011, when compared to prior year end, decreased \$63.9 million. This change is primarily attributed to a decrease of \$41 million in State support receivable for malpractice due to malpractice liability decreasing and \$24 million decrease in unexpended bond and capital lease proceeds. This is offset by the increase of \$24 million in long-term assets as a result of the acquisition of LICH.

Current Liabilities

The Hospital's current liabilities increased by \$28.7 million as of December 31, 2012, when compared to the prior year end. This is primarily due to increases in payables to the State of New York and Affiliates of \$20.1 million, accounts payable of \$9 million and the current portion of estimated professional liabilities of \$7.1 million offset by a decrease in third party payables of \$9.6 million.

The Hospital's current liabilities increased by \$71.1 million as of December 31, 2011, when compared to the prior year end. This is primarily attributed to the increase of \$34.5 million as a result of the acquisition of LICH, and additional third party payables of \$10 million and fringe benefits payable of \$20 million.

**UNIVERSITY HOSPITAL OF BROOKLYN -
STATE UNIVERSITY OF NEW YORK
HEALTH SCIENCE CENTER AT BROOKLYN**

Management's Discussion and Analysis as of
and for the year ended December 31, 2012

(Unaudited)

Long-Term Liabilities

The Hospital's long-term liabilities increased by \$123.2 million as of December 31, 2012 when compared to the prior year end. This is primarily attributed to a loan of \$75 million from SUNY, an increase of \$34.1 million of malpractice payable and \$20.2 million from bonds payable.

The Hospital's long-term liabilities increased by \$255.1 million as of December 31, 2011 when compared to the prior year end. This is primarily attributed to the increase of \$310 million as a result of the acquisition of LICH (see note 1) offset by a decrease in the malpractice payable of \$55 million and the reduction of TELP loan liabilities at UHB (main campus).

Net Position

The Hospital's net position decreased as of December 31, 2012 when compared to the prior year end by \$100.2 million. The decrease during 2012 is largely attributable to losses from operations due to patient volumes and reimbursement as reported in the Hospital's Statement of Revenues, Expenses and Changes in Fund Net Position, and changes in Net Position as outlined in Table 2.

The decrease during 2012 is largely attributable to losses from operations partially offset by \$19 million in trailing gains from the LICH acquisition and the associated HEAL grant. Changes in revenues, expenses, and state support that result in the loss from operations are outlined in the Hospital's Statement of Revenues, Expenses and Changes in Fund Net Position summarized in Table 2.

**UNIVERSITY HOSPITAL OF BROOKLYN -
STATE UNIVERSITY OF NEW YORK
HEALTH SCIENCE CENTER AT BROOKLYN**

Management's Discussion and Analysis as of
and for the year ended December 31, 2012

(Unaudited)

Table 2: Summary of Statements of Revenues, Expenses and Changes in Fund Net Position (in millions)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating revenue:			
Net patient service revenue	\$ 713.6	\$ 549.0	\$ 460.2
Other operating revenue	<u>23.1</u>	<u>7.8</u>	<u>4.1</u>
Total operating revenue	<u>736.7</u>	<u>556.8</u>	<u>464.3</u>
Operating expenses:			
Salaries, wages and benefits	606.0	508.2	374.0
Supplies and other	286.6	139.9	122.2
Depreciation and amortization	<u>34.1</u>	<u>26.0</u>	<u>17.4</u>
Total operating expenses	926.7	674.1	513.6
Operating loss	(190.0)	(117.3)	(49.3)
Non-operating revenues (expenses)	<u>91.0</u>	<u>(158.5)</u>	<u>34.3</u>
Deficiency of revenues over expenses	(99.0)	(275.8)	(15.0)
Transfers from (to) the State of New York for capital and debt allocations	<u>(1.2)</u>	<u>(0.1)</u>	<u>2.2</u>
Change in net position	(100.2)	(275.9)	(12.8)
Net position at beginning of year	<u>(165.6)</u>	<u>110.3</u>	<u>123.1</u>
Net position at end of year	\$ <u><u>(265.8)</u></u>	\$ <u><u>(165.6)</u></u>	\$ <u><u>110.3</u></u>

**UNIVERSITY HOSPITAL OF BROOKLYN -
STATE UNIVERSITY OF NEW YORK
HEALTH SCIENCE CENTER AT BROOKLYN**

Management's Discussion and Analysis as of
and for the year ended December 31, 2012

(Unaudited)

Net Patient Service Revenue

For the year ended December 31, 2012, as compared to the corresponding period in the prior year, the Hospital's net patient service revenue increased \$164.6 million. This is mainly attributable to additional patient revenues of \$147 million from LICH as only seven months of operations were included for 2011 and an increase of \$17 million at UHB (main campus) due to increase in patient volumes.

For the year ended December 31, 2011, as compared to the corresponding period in the prior year, the Hospital's net patient service revenue increased \$88.8 million. This is mainly attributable to patient revenue of \$156.2 million from LICH offset by a decrease of \$63 million at UHB (main campus) due to decrease in patient volumes.

Other Operating Revenue

For the years ended December 31, 2012 and 2011, other operating revenue increased \$15.3 million and \$2.7 million, respectively. This is primarily the result of the settlement of outstanding claims to recover FICA for full time medical residents.

Salaries, Wages and Benefits

For the year ended December 31, 2012, as compared to the corresponding period in the prior year, the Hospital's salaries, wages and benefits increased \$97.8 million resulting primarily from the addition of \$95.6 million in salary, wages and benefit expenses from LICH as only seven months of operations were included for 2011.

For the year ended December 31, 2011, as compared to the corresponding period in the prior year, the Hospital's salaries, wages and benefits increased \$134.2 million resulting primarily from the addition of \$130.6 million in salary, wages and benefit expenses from LICH and the increase of fringe benefits expenses from UHB (main campus).

**UNIVERSITY HOSPITAL OF BROOKLYN -
STATE UNIVERSITY OF NEW YORK
HEALTH SCIENCE CENTER AT BROOKLYN**

Management's Discussion and Analysis as of
and for the year ended December 31, 2012

(Unaudited)

Supplies and Other

For the year ended December 31, 2012, as compared to the corresponding period in the prior year, the Hospital's supplies and other expenses increased \$146.7 million primarily as a result of \$71.6 million of expenses from LICH as only seven months of operations were included for 2011, and an increase in malpractice expenses of \$85.1 million.

For the year ended December 31, 2011, as compared to the corresponding period in the prior year, the Hospital's supplies and other expenses increased \$17.7 million primarily as a result of \$63 million of expenses from LICH offset by the decrease in malpractice expenses of \$55 million from UHB (main campus) and an increase in supplies and other expenses of \$9 million from UHB (main campus).

State of New York Appropriations, Net

For the year ended December 31, 2012, as compared to the corresponding period in the prior year, operating transfers from the State of New York increased \$94.8 million primarily as a result of an increase of \$85 million in amounts due from the State of New York for professional liability cases at UHB, and an increase of \$10 million in State cash support.

For the year ended December 31, 2011, as compared to the corresponding period in the prior year, operating transfers from the State of New York decreased \$42.4 million primarily as a result of a decrease of \$55 million in amounts due from the State of New York for professional liability cases at UHB, and decrease of \$10 million in State cash support offset by the increase of \$22 million additional operating transfers from State of New York relating to professional liability cases at LICH.

**UNIVERSITY HOSPITAL OF BROOKLYN -
STATE UNIVERSITY OF NEW YORK
HEALTH SCIENCE CENTER AT BROOKLYN**

Management's Discussion and Analysis as of
and for the year ended December 31, 2012

(Unaudited)

Capital Assets and Long-Term Debt

At December 31, 2012 and 2011, the Hospital had \$235.7 million and \$246.1 million, respectively, in capital assets. This decrease in capital assets is a result of the ongoing Hospital renovation and improvement plans at UHB (main campus), offset by depreciation expense of approximately \$34.1 million. The primary funding source for additions to building and improvements are bonds issued by the Dormitory Authority of the State of New York ("DASNY"). Purchases of equipment are financed through a tax-exempt equipment leasing program ("TELP") through the State of New York.

A summary of capital assets (in millions) is as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Land	\$ 3.5	\$ 3.5	\$ 0.8
Building and leasehold improvements	490.3	475.6	163.9
Moveable equipment (including TELP equipment)	259.6	246.0	143.5
Equipment under capital lease	0.3	0.3	0.2
Construction-in-progress	16.4	23.0	13.4
	<u>770.1</u>	<u>748.4</u>	<u>321.8</u>
Accumulated depreciation	<u>(534.4)</u>	<u>(502.3)</u>	<u>(185.1)</u>
	<u>\$ 235.7</u>	<u>\$ 246.1</u>	<u>\$ 136.7</u>

A summary of long-term debt (in millions) is as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
TELP and other capital lease obligations	\$ 27.0	\$ 40.6	\$ 51.6
Obligation to Dormitory Authority of State of New York	208.6	193.0	72.1
	<u>235.6</u>	<u>233.6</u>	<u>123.7</u>
Less current portion	<u>(14.7)</u>	<u>(20.5)</u>	<u>(14.7)</u>
	<u>\$ 220.9</u>	<u>\$ 213.1</u>	<u>\$ 109.0</u>

**UNIVERSITY HOSPITAL OF BROOKLYN -
STATE UNIVERSITY OF NEW YORK
HEALTH SCIENCE CENTER AT BROOKLYN**

Management's Discussion and Analysis as of
and for the year ended December 31, 2012

(Unaudited)

Capital Assets and Long-Term Debt, Continued

In 2012 and 2011, the Hospital's long-term debt increased by \$7.8 million and \$104.1 million, respectively. The increases in 2012 are primarily due to a net increase of bond funding.

In October 2012, New York State issued Personal Income Tax Revenue bonds Series 2012D. Among other projects, approximately \$100 million was allocated to refund the 2004A and 2004B LICH Series bonds which the Hospital assumed responsibility for with the acquisition of LICH. The Hospital recorded a premium of approximately \$20 million and a deferred loss of approximately \$2.8 million associated with the refunding. With the repayment of the 2004A and 2004B obligations, the assets of LICH cease to be collateral for those obligations.

In 2012, New York State also allocated to the Hospital approximately \$50 million of Personal Income Tax Revenue bonds and Revenue bonds to support capital projects on the UHB central Flatbush campus and refund existing Hospital obligations.

The increases in 2011 are primarily due to a net increase of \$117.3 million as a result of the asset acquisition of LICH offset by a net decrease of \$13 million in existing bond liabilities and TELP obligations at UHB (main campus).

Economic Outlook

The Hospital continues to serve a significant number of patients in its community who are uninsured, under-insured, or covered by Medicare and Medicaid programs. As a result, the Hospital's continued viability is directly linked to appropriate levels of funding from Medicare, Medicaid and the Federal Social Security Act Disproportionate Share Hospital (DSH) programs.

With the pressure to reduce the Federal budget deficit, we anticipate that both the federal and state governments will be under pressure to reduce their overall spending for the upcoming fiscal year. These spending reductions could result in significant cuts to our Medicare and Medicaid rates and the State's Support for Costs of State Sponsorship, having a negative impact on our overall revenue.

**UNIVERSITY HOSPITAL OF BROOKLYN -
STATE UNIVERSITY OF NEW YORK
HEALTH SCIENCE CENTER AT BROOKLYN**

Management's Discussion and Analysis as of
and for the year ended December 31, 2012

(Unaudited)

Economic Outlook, Continued

At the behest of the New York State Executive and Legislature (Article VII Budget Bill: Health and Mental Hygiene (HMH) (S2606-D/A3006-D), Chapter 56 Part Q of the Laws of 2013-14), the Chancellor of The State University of New York was required to submit a plan to provide for the fiscal viability of the State University of New York Health Science Center at Brooklyn including UHB. The legislation requires that the Sustainability Plan:

- 1) "set forth recommendations for accomplishing the restructuring of Downstate Hospital (UHB) for the purpose of achieving fiscal viability while preserving its status as a teaching hospital";
- 2) "include elimination and/or reduction of acute, ambulatory and support services that are not necessary or financially sustainable"; and
- 3) provide "any additional measures necessary to achieve such restructuring and achieve financial stability."

The plan was amended and approved by the New York State Department of Health and Division of Budget on June 13, 2013 and discloses estimated future UHB baseline losses and costs to exit LICH operations as follows (in millions):

<u>Fiscal year</u> <u>(July 1 – June 30)</u>	<u>Baseline Losses</u>	<u>LICH Exit Costs</u>	<u>Total Sustainability</u> <u>Plan Target</u>
2013-14	\$ 120	\$ 35	\$ 155
2014-15	\$ 101	\$ 54	\$ 155
2015-16	\$ 94	\$ 20	\$ 114
2016-17	\$ 107	\$ 20	\$ 127

The Sustainability Plan calls for this gap to be closed through efficiencies, service line prioritization, state restructuring assistance, and leveraging LICH assets to cover exit costs. Such plan was approved by the New York State Division of Budget and Department of Health on June 15, 2013 with the commensurate funding commitment:

<u>Fiscal year</u>	<u>Efficiencies</u>	<u>Service Line</u> <u>Prioritization</u>	<u>State</u> <u>Restructuring</u> <u>Assistance</u>	<u>Asset</u> <u>Leveraging</u>	<u>Total</u>
2013-14	\$ 49	\$ -	\$ 71	\$ 35	\$ 155
2014-15	\$ 67	\$ 15	\$ 18	\$ 55	\$ 155
2015-16	\$ 79	\$ 15	\$ -	\$ 20	\$ 114
2016-17	\$ 82	\$ 25	\$ -	\$ 20	\$ 127

**UNIVERSITY HOSPITAL OF BROOKLYN -
STATE UNIVERSITY OF NEW YORK
HEALTH SCIENCE CENTER AT BROOKLYN**

Balance Sheets

December 31, 2012 and 2011

<u>Assets</u>	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash held by the State	\$ 37,186,932	\$ 8,079,676
Patient accounts receivable, net of allowance for doubtful accounts of approximately \$217,007,000 and \$185,369,000 in 2012 and 2011, respectively	84,396,155	98,769,282
Due from State of New York	30,634,293	18,720,545
Inventories	7,158,097	6,405,342
Estimated due from third-party payors	56,067,215	51,390,475
Prepaid expenses and other assets	30,861,911	33,051,112
Total current assets	246,304,603	216,416,432
Capital assets, net	235,746,048	246,097,954
Due from State of New York, net of current portion	359,041,974	325,000,000
Assets limited as to use:		
Unexpended bond and capital lease proceeds	18,789,189	22,081,257
Internally designated	2,292,439	3,039,298
Estimated due from third-party payors, net of current portion	5,108,816	5,450,832
Other assets	16,689,072	14,153,966
Total assets	<u>\$ 883,972,141</u>	<u>\$ 832,239,739</u>
<u>Liabilities and Net Position</u>		
Current liabilities:		
Current maturities of long-term debt and capital lease obligations	\$ 14,689,500	\$ 20,533,555
Current portion of estimated professional liability	23,100,000	16,000,000
Accounts payable and accrued expenses	58,639,856	49,679,419
Accrued salaries and benefits	70,018,009	63,124,760
Accrued interest	2,040,237	1,034,034
Estimated due to third-party payors	18,837,099	28,430,008
Due to State of New York and affiliates	53,921,748	33,783,362
Total current liabilities	241,246,449	212,585,138
Long-term debt, net of current portion:		
Obligation to Dormitory Authority	206,361,557	186,058,371
Capital lease obligations	14,536,301	26,971,748
Employee benefits accrued, net of current portion	34,529,300	30,081,538
Estimated professional liability, net of current portion	359,041,974	325,000,000
Estimated due to third-party payors, net of current portion	59,388,106	64,157,377
Due to State of New York and affiliates, net of current portion	80,847,970	7,814,489
Due to Health Science Center at Brooklyn Foundation, Inc. (note 6)	149,490,982	141,231,833
Other liabilities	4,301,040	3,919,846
Total liabilities	1,149,743,679	997,820,340
Unrestricted net position	(271,831,861)	(195,996,060)
Net investment in capital assets	6,060,323	30,415,459
Total net position	<u>(265,771,538)</u>	<u>(165,580,601)</u>
Commitments and contingencies (notes 5, 12 and 13)		
Total liabilities and net position	<u>\$ 883,972,141</u>	<u>\$ 832,239,739</u>

See accompanying notes to the financial statements.

**UNIVERSITY HOSPITAL OF BROOKLYN -
STATE UNIVERSITY OF NEW YORK
HEALTH SCIENCE CENTER AT BROOKLYN**

Statements of Revenues, Expenses and Changes in Fund Net Position

Years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenues:		
Net patient service revenue (net of provision for bad debts of approximately \$52,945,000 and \$77,000,000 in 2012 and 2011, respectively)	\$ 713,582,900	\$ 548,979,645
Other operating revenue	<u>23,143,432</u>	<u>7,772,570</u>
Total operating revenues	<u>736,726,332</u>	<u>556,752,215</u>
Operating expenses:		
Salaries and wages	446,149,809	378,839,920
Employee benefits	159,810,630	129,365,083
Supplies and other	286,594,421	139,878,686
Depreciation and amortization	<u>34,139,144</u>	<u>26,011,018</u>
Total operating expenses	<u>926,694,004</u>	<u>674,094,707</u>
Operating loss	<u>(189,967,672)</u>	<u>(117,342,492)</u>
Non-operating revenues (expenses):		
HEAL grant revenue (note 11)	12,100,000	25,900,000
Appropriations, net (note 3)	90,261,206	(4,533,441)
Interest expense on capital-related debt	(18,330,150)	(11,539,212)
Interest income on cash accounts	114,354	169,830
Loss on acquisition (note 1)	-	(166,996,184)
Acquisition fees and other	<u>6,866,570</u>	<u>(1,536,190)</u>
Total net non-operating revenues (expenses)	<u>91,011,980</u>	<u>(158,535,197)</u>
Deficiency of revenues over expenses	(98,955,692)	(275,877,689)
Transfers to the State of New York for capital and debt allocations (note 3)	<u>(1,235,245)</u>	<u>(53,290)</u>
Change in net position	(100,190,937)	(275,930,979)
Net position:		
Beginning of year	<u>(165,580,601)</u>	<u>110,350,378</u>
End of year	<u>\$ (265,771,538)</u>	<u>\$ (165,580,601)</u>

See accompanying notes to the financial statements.

**UNIVERSITY HOSPITAL OF BROOKLYN -
STATE UNIVERSITY OF NEW YORK
HEALTH SCIENCE CENTER AT BROOKLYN**

Statements of Cash Flows

Years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Services to patients	\$ 733,343,325	\$ 561,330,080
Other	25,385,482	(11,150,085)
Payroll	(429,063,133)	(374,811,699)
Employee benefits	(152,027,535)	(104,575,350)
Supplies and other expenses	<u>(221,889,806)</u>	<u>(159,585,082)</u>
Net cash used in operating activities	<u>(44,251,667)</u>	<u>(88,792,136)</u>
Cash flows from noncapital financing activities:		
Net appropriations from the State of New York	<u>97,127,776</u>	<u>26,924,818</u>
Net cash provided by noncapital financing activities	<u>97,127,776</u>	<u>26,924,818</u>
Cash flows from capital and related financing activities:		
Proceeds from issuance of long-term debt	144,741,306	-
Interest paid on long-term debt	(17,323,947)	(11,620,548)
Repayment of long-term debt and capital lease obligations	(142,717,622)	(22,857,280)
Purchases of capital assets	(24,721,871)	(25,926,912)
Proceeds from HSCB Foundation	-	15,000,000
Proceeds from HEAL Grant	12,100,000	25,900,000
Decrease in assets limited as to use	<u>4,038,927</u>	<u>26,673,522</u>
Net cash provided by (used in) capital and related financing activities	<u>(23,883,207)</u>	<u>7,168,782</u>
Cash flows from investing activities:		
Interest income received on cash accounts	<u>114,354</u>	<u>169,830</u>
Net cash provided by investing activities	<u>114,354</u>	<u>169,830</u>
Net increase (decrease) in cash and cash held by the State	29,107,256	(54,528,706)
Cash and cash held by the State:		
Beginning of year	<u>8,079,676</u>	<u>62,608,382</u>
End of year	<u>\$ 37,186,932</u>	<u>\$ 8,079,676</u>

**UNIVERSITY HOSPITAL OF BROOKLYN -
STATE UNIVERSITY OF NEW YORK
HEALTH SCIENCE CENTER AT BROOKLYN**

Statements of Cash Flows, Continued

Years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Operating loss	\$ (189,967,672)	\$ (117,342,492)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	34,139,144	26,011,018
Provision for bad debts	52,945,288	77,009,278
Loss on disposal	1,154,528	103,621
Malpractice provision and general liability losses	41,141,974	(32,994,449)
Other noncash transactions	(1,235,245)	(53,290)
Changes in operating assets and liabilities:		
Patient accounts receivable	(38,572,161)	(115,273,358)
Inventories, prepaid expenses and other assets	(1,318,555)	(18,985,674)
Estimated due to/due from third-party payors, net	(18,696,904)	49,844,267
Accounts payable and accrued expenses	8,960,437	13,594,204
Accrued salaries and benefits	11,341,011	9,046,026
Due to State of New York, net	55,475,294	19,466,874
Other liabilities	<u>381,194</u>	<u>781,839</u>
Net cash used in operating activities	\$ <u>(44,251,667)</u>	\$ <u>(88,792,136)</u>
Supplemental disclosures of cash flow information:		
Assets from LICH acquisition (note 1)	\$ -	142,761,863
Liabilities from LICH acquisition (note 1)	-	309,758,047

See accompanying notes to the financial statements.

**UNIVERSITY HOSPITAL OF BROOKLYN -
STATE UNIVERSITY OF NEW YORK
HEALTH SCIENCE CENTER AT BROOKLYN**

Notes to Financial Statements

December 31, 2012 and 2011

(1) Organization

University Hospital of Brooklyn - State University of New York Health Science Center at Brooklyn (the "Hospital" or "UHB") is operated as a department of the State University of New York, Health Science Center at Brooklyn (the "Health Science Center" or "HSCB"), an operating entity of the State University of New York (the "University" or "SUNY"). The University is a corporation created in the Department of Education of the State of New York (the "State"). Cash received by the Hospital from collection of accounts receivable or other sources is remitted to the University. All expenditures of the Hospital are paid by the State. In addition, expenditures related to certain general, professional and administrative services incurred by the Health Science Center, are allocated to the Hospital based on various statistics and other data reflective of the Hospital's use of such services. These financial statements are intended to present the financial position, changes in financial position and cash flows of only that portion of the financial reporting entity of SUNY attributable to the transactions of the Hospital. They do not purport to, and do not, present the financial position of SUNY, the changes in its financial position or its cash flows. The Hospital has recorded in the accompanying financial statements those assets, liabilities, revenues and expenses which it believes reflect its financial position and results of operations. The accounts of the Health Science Center or any of its constituent parts or other affiliated institutions are not included. The Health Science Center is comprised of the College of Medicine, College of Health Related Professions, College of Nursing, School of Graduate Studies, and University Hospital of Brooklyn. The Health Science Center educates the men and women who will comprise the health care community of tomorrow and contributes to the knowledge base of the health sciences. The Hospital's financial position should be viewed as part of the University and not as an independent entity.

The Hospital is located in Brooklyn, New York, and provides a full range of inpatient and outpatient services at its UHB Central Flatbush and Long Island College Hospital (LICH) campuses. As a department of the Health Science Center, the Hospital is not subject to federal or state income taxes.

On May 29, 2011, the University acquired Long Island College Hospital through an Asset Purchase Agreement, signed April 18, 2011 and submitted to the Supreme Court of the State of New York, Kings County. Under the terms of this agreement, and by order of the court under sections 510 and 511 of the New York Not-for-Profit Corporation Law, the University received assets of approximately \$143,000,000 and assumed liabilities of approximately \$310,000,000, excluding discrete enumerated liabilities and assets required to fund those excluded liabilities. Included in the \$310,000,000 of assumed liabilities is approximately \$140,000,000 due to the Health Science Center at Brooklyn Foundation, Inc., for repayment of an endowment fund. A resulting gain on acquisition and acquisition fees and other of approximately \$6.9 million and a loss of approximately \$168.5 million is included in non-operating revenues (expenses) on the 2012 and 2011 statements of revenues, expenses and changes in fund net position, respectively.

**UNIVERSITY HOSPITAL OF BROOKLYN -
STATE UNIVERSITY OF NEW YORK
HEALTH SCIENCE CENTER AT BROOKLYN**

Notes to Financial Statements

(1) Organization, Continued

Assets and liabilities assumed by SUNY, (acting through the Hospital) from Long Island College Hospital approximated the following as of May 29, 2011:

Assets:	
Limited use assets	\$ 3,000,000
Other receivables	5,000,000
Inventories	1,000,000
Capital assets, net	109,000,000
Other assets, net	<u>25,000,000</u>
 Total assets	 <u><u>\$ 143,000,000</u></u>
Liabilities:	
Accrued compensated absences	10,000,000
Due to third-party payors, net	24,000,000
Due to Health Science Center at Brooklyn Foundation, Inc.	140,000,000
Long-term debt obligations	133,000,000
Other liabilities	<u>3,000,000</u>
 Total liabilities	 <u><u>\$ 310,000,000</u></u>

Cash and patient accounts receivable were retained by Long Island College Hospital to be used to pay down accounts payable and certain accrued expenses, which also remained with Long Island College Hospital. During 2012, approximately \$15,000,000 of residual assets were released to the Hospital and included in acquisition fees and other in the statement of revenues, expenses and changes in fund net position. Upon satisfaction of the remaining liabilities of Long Island College Hospital, any additional residual assets will be transferred to SUNY in accordance with the terms of the Asset Purchase Agreement.

Also, as part of the acquisition, the Downstate at LICH Holding Company, Inc. (Holding Company), a separate 501(c)(3) not-for-profit corporation was created, a single member corporation of the University which was formed for the purpose of acquiring, developing, holding, maintaining, and supporting health care and education facilities and their related properties for use by and for the benefit of the University. The Holding Company is a Corporation defined in subparagraph (a)(5) of Section 102 of the Not-for-Profit Corporation Law. The financial activity of the Holding Company is blended within the Hospital's financial statements with all intercompany activity eliminated.

**UNIVERSITY HOSPITAL OF BROOKLYN -
STATE UNIVERSITY OF NEW YORK
HEALTH SCIENCE CENTER AT BROOKLYN**

Notes to Financial Statements

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The financial statements are prepared on the accrual basis of accounting and in conformity with accounting principles generally accepted in the United States of America as prescribed by the Government Accounting Standards Board ("GASB") and in accordance with principles established by the *Audit and Accounting Guide for Health Care Entities* issued by the American Institute of Certified Public Accountants.

The Hospital prepares its financial statements under the economic resources measurement focus, whereby all inflows, outflows and balances affecting net position are reported, and uses the accrual basis of accounting. Reported revenue includes net transfers from the State representing its support to the Hospital for the costs of state sponsorship (see note 3). Revenues are recognized when earned and expenses are recognized when incurred. Reported expenses include the direct expenses of the Hospital and an allocation of costs from (and to) other units of the University for services provided to, and shared with the Hospital.

(b) Operating Considerations

The accompanying financial statements have been prepared assuming that the Hospital will continue as a going concern, which contemplates continuity of operations, realization of assets and the satisfaction of liabilities and commitments in the normal course of business. However, the Hospital has incurred recurring losses from operations and has a deficiency in net position of approximately \$265,772,000 at December 31, 2012.

**UNIVERSITY HOSPITAL OF BROOKLYN -
STATE UNIVERSITY OF NEW YORK
HEALTH SCIENCE CENTER AT BROOKLYN**

Notes to Financial Statements

(2) Summary of Significant Accounting Policies, Continued

(b) Operating Considerations, Continued

The Hospital's financial position is the result of many factors. At the national level, there are the effects of technology, consumerism, budgetary pressures, and the Affordable Care Act. Within Brooklyn, there are the costs of addressing health disparities and serving as a safety net for the uninsured and underinsured.

In addition, the Hospital is confronted with:

- An extremely competitive Brooklyn healthcare market;
- Limited statutory freedom that impacts decision making and actions;
- Chronic lack of attention to needed operational changes;
- An aging physical plant that has not received capital reinvestment;
- High rates of complex chronic disease and co morbidities in a population that is largely publicly insured or uninsured;
- Labor costs which represent more than 70% of overall expenses; and
- Shifts in patient utilization of hospitals, and a need to change the way in which hospitals serve patients.

In response to these considerations, the Chancellor submitted a Sustainability Plan, which was approved on June 13, 2013 by the New York State Department of Health and Division of Budget, which calls for significant efficiencies, product line prioritization, New York State assistance, and the leverage of LICH asset values to address these considerations.

(c) New Accounting Pronouncements

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Statement No. 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

- 1) Financial Accounting Standards Board (FASB) Statements and Interpretations
- 2) Accounting Principles Board Opinions
- 3) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure

**UNIVERSITY HOSPITAL OF BROOKLYN -
STATE UNIVERSITY OF NEW YORK
HEALTH SCIENCE CENTER AT BROOKLYN**

Notes to Financial Statements

(2) Summary of Significant Accounting Policies, Continued

(c) New Accounting Pronouncements, Continued

Statement No. 62 also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of Statement No. 20 for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements. This new guidance is effective for financial statements for periods beginning after December 15, 2011 with retrospective application required for all periods presented. The Hospital adopted this guidance as of and for the year ended December 31, 2012, with retrospective application to all periods presented. The adoption of Statement No. 62 did not have any effect on the amounts reported in the financial statements.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources, which are distinct from assets and liabilities. Statement No. 63 also amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. This new guidance is effective for financial statements for periods beginning after December 15, 2011 with retrospective application required for all periods presented. The Hospital adopted this guidance as of and for the year ended December 31, 2012, with retrospective application to all periods presented. The adoption of Statement No. 63 did not have any effect on the amounts reported in the financial statements.

(d) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates relate to the allowance for doubtful accounts, contractual allowances, amounts due to or due from third-party payors, allocations from the University and the State, estimated employee benefits costs, and reserves for professional liabilities. Actual results could differ from those estimates.

**UNIVERSITY HOSPITAL OF BROOKLYN -
STATE UNIVERSITY OF NEW YORK
HEALTH SCIENCE CENTER AT BROOKLYN**

Notes to Financial Statements

(2) Summary of Significant Accounting Policies, Continued

(e) Cash and Cash Held by the State

The Hospital considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents, excluding amounts limited as to use.

Cash and cash held by the State represent funds held by or on behalf of the University and designated by the University for the Hospital. Such funds include an allocation of the University's cash and deposits with New York State. Deposits with New York State represent University funds held in the State Treasury. The available cash balance in the University's designated accounts beyond immediate need is pooled with other State funds for short-term investment purposes.

The Hospital does not have a formal policy for collateral requirements for cash deposits. The New York State comprehensive annual financial report contains the GASB No. 40 risk disclosures for deposits held in the State Treasury.

The balances pooled are limited to legally stipulated investments which include obligations of, or guaranteed by, the United States, obligations of the State and its political subdivisions, and repurchase agreements. These investments are held by the State's agent in its name on behalf of the University. The funds allocated by SUNY in its records for the Hospital are interest-earning to the Hospital and are disbursed by the State on behalf of the Hospital, subject to the appropriate authorization.

The University does not have a formal policy for collateral requirements for cash deposits. The New York State comprehensive annual financial report reflects the standard defining risk disclosures for deposits held in State treasury. Deposits not held in the State treasury that are not covered by a depository insurance are a) uncollateralized, b) collateralized with securities held by a pledging financial institution, or c) collateralized with securities held by a pledging financial institution's trust department or agency but not in the University or affiliate's name.

At December 31, 2012 and 2011, the Hospital had cash balances in a financial institution that exceeded Federal Deposit Insurance Corporation limits. Management believes that the credit risk related to these deposits is minimal. Unexpended bond and capital lease proceeds and limited as to use assets are excluded from cash and cash held by the State.

**UNIVERSITY HOSPITAL OF BROOKLYN -
STATE UNIVERSITY OF NEW YORK
HEALTH SCIENCE CENTER AT BROOKLYN**

Notes to Financial Statements

(2) Summary of Significant Accounting Policies, Continued

(f) Assets Limited as to Use

Assets limited as to use include assets set aside for specific purposes under internal designations or terms of agreements. Assets limited as to use totals approximately \$21,082,000 and \$25,121,000 in 2012 and 2011, respectively. Specific purpose funds include amounts held by the University Construction Fund (the "Construction Fund"), a public benefit corporation which designs, constructs and rehabilitates facilities for the Hospital. Specific purpose funds also include equipment financing leases, unexpended escrow funds and internally designated funds for future depreciation, fringe benefit costs, related party physician network corporations and capital projects.

As the Hospital enters into equipment financing leases, unexpended funds remain in escrow until such time as the Hospital designates equipment to be financed under these arrangements (see note 7).

(g) Inventories

Inventories consist of drugs and other supplies and are valued at the lower of average cost or market on a first-in, first-out basis.

(h) Investment

The Hospital maintains an investment in Healthfirst Management Services, LLC, representing a 5.1% ownership percentage of approximately \$12,655,000 and \$9,934,000 at December 31, 2012 and 2011, respectively (included in other long-term assets). As the Hospital has the ability to exercise significant influence but not control, the investment is recorded under the equity method. For the years ended December 31, 2012 and 2011, income related to this investment was approximately \$4,253,000 and \$4,281,000, respectively. This income has been reported within other operating revenue on the statements of revenues, expenses and changes in fund net position.

**UNIVERSITY HOSPITAL OF BROOKLYN -
STATE UNIVERSITY OF NEW YORK
HEALTH SCIENCE CENTER AT BROOKLYN**

Notes to Financial Statements

(2) Summary of Significant Accounting Policies, Continued

(i) Capital Assets

Capital assets are stated at cost or fair value for donated assets. Maintenance and repairs are charged to expense and betterments are capitalized. Depreciation is provided on the straight-line method over the estimated useful lives of the assets ranging from 2 to 40 years. For movable equipment the Hospital is allowed, for Medicaid reimbursement purposes, to use accelerated depreciation resulting in a timing difference which is recorded as deferred revenue. Deferred revenue of approximately \$1,293,000 and \$911,000 was recorded at December 31, 2012 and 2011, respectively, within other non-current liabilities. Equipment under capital lease obligations is recorded at present value at the inception of the lease. Amortization is on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements.

All capital assets are owned by the State and are remitted back to the State, upon retirement and/or disposal at book value. All capital assets of the Hospital are pledged as collateral for all SUNY long-term obligations. The Hospital evaluates its capital assets for impairment whenever events or changes in circumstances indicate the carrying amount of the capital asset may not be recoverable.

(j) Financing Costs

Financing costs related to the issuance of long-term debt incurred for the acquisition of capital assets are capitalized and are being amortized over the period during which the debt is outstanding using a method approximating the effective interest method. Accumulated amortization was approximately \$3,382,000 and \$4,614,000 at December 31, 2012 and 2011, respectively. Amortization expense amounted to approximately \$264,000 and \$175,000 for the years ended December 31, 2012 and 2011, respectively. Amortization expense associated with these costs will be approximately \$205,000 in each of the next five years.

**UNIVERSITY HOSPITAL OF BROOKLYN -
STATE UNIVERSITY OF NEW YORK
HEALTH SCIENCE CENTER AT BROOKLYN**

Notes to Financial Statements

(2) Summary of Significant Accounting Policies, Continued

(k) Net Patient Service Revenue and Patient Accounts Receivable

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under the provisions of case payment and cost reimbursement formulae. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Significant concentrations of the current portion of patient accounts receivable by payor at December 31 are as follows:

	<u>2012</u>	<u>2011</u>
<u>Patient Accounts Receivable</u>		
Medicaid	\$ 38,877,385	\$ 58,863,005
Medicare	29,409,189	29,588,872
Empire Blue Cross/Blue Shield	14,748,276	12,571,768
Commercial insurance carriers and managed care (including governmental sponsored programs)	124,584,939	101,536,350
Other	<u>93,783,701</u>	<u>81,578,660</u>
Total patient accounts receivable	301,403,490	284,138,655
Less allowance for doubtful accounts	<u>(217,007,335)</u>	<u>(185,369,373)</u>
Patient accounts receivable, net	<u>\$ 84,396,155</u>	<u>\$ 98,769,282</u>

(l) Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue. During 2012 and 2011, costs incurred by the Hospital in the provision for charity care were based on a ratio of the Hospital's costs to gross charges and approximated \$2,866,000 and \$2,675,000, respectively.

**UNIVERSITY HOSPITAL OF BROOKLYN -
STATE UNIVERSITY OF NEW YORK
HEALTH SCIENCE CENTER AT BROOKLYN**

Notes to Financial Statements

(2) Summary of Significant Accounting Policies, Continued

(m) Accrued Vacation and Sick Pay

Hospital employees are permitted to accumulate unused vacation and sick leave time up to specified maximum amounts. The Hospital accrues the estimated expense related to vacation pay based on pay rates currently in effect. At eligible retirement, any unused sick leave credits may be used to pay for the employee's share of post-employment health insurance payments. The Hospital accrues an estimated liability for these anticipated termination payments.

(n) Employee Benefits

Employee benefit expenses (e.g. health insurance, survivors' benefits, workers' compensation, retirement benefits and postretirement health and survivor benefits) are paid by the State, which are reimbursed by the Hospital. As of December 31, 2012 and 2011, employee benefits are approximately 35.8% and 34.1%, respectively, of gross salaries. In addition to these allocated costs, the Hospital recognizes certain direct costs as employee benefit expenses.

The State provides health insurance coverage and survivor benefits to eligible retired Hospital employees and their survivors. For the years ended December 31, 2012 and 2011, respectively, expenditures of approximately \$5,232,000 and \$4,251,000 were recognized for postretirement health insurance.

(o) Federal Insurance Contributions Act (FICA) Refund

Prior to March 2010, the Internal Revenue Service (IRS) maintained that medical residents are employees and therefore not eligible for the student exemption from FICA taxations. The Hospital paid the taxes and filed protective claims with the IRS to preserve their rights to contest the IRS position. In March of 2010, the IRS made an administrative determination to exempt medical residents from FICA taxes for periods before April 1, 2005, the effective date of a change in Treasury Department regulations that addressed the resident and student issues more directly. During 2012, the Hospital was awarded FICA refunds of \$11,263,000 and related interest of \$6,321,000 related to FICA taxes for the period 1996 to April 1, 2005. This was recorded in prepaid and other current assets on the balance sheet and other operating revenue of approximately \$15 million and \$2.6 million was recorded on the statements of revenues, expenses and changes in fund net position, respectively for 2012 and 2011. The amounts were received in March 2013.

**UNIVERSITY HOSPITAL OF BROOKLYN -
STATE UNIVERSITY OF NEW YORK
HEALTH SCIENCE CENTER AT BROOKLYN**

Notes to Financial Statements

(2) Summary of Significant Accounting Policies, Continued

(p) Estimated Professional Liability Costs

The provision for estimated medical professional liability claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported (see note 13).

(q) Pollution Remediation Obligation

Effective December 15, 2007, the Governmental Accounting Standards Board (GASB) issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the document excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and postclosure care and nuclear power plant decommissioning. The Hospital assumed as part of the LICH acquisition a pollution remediation obligation relating to future asbestos abatement of approximately \$3,008,000, included in other liabilities as of December 31, 2012 and 2011.

(r) Net Position

Net position of the Hospital is classified in two components. *Net investment in capital assets* consists of capital assets net of accumulated depreciation and reduced by the outstanding borrowings used to finance the purchase or construction of those assets. *Unrestricted* is the net amount that is not included in the determination of *net investment in capital assets*.

(s) Performance Indicator

For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of healthcare services are reported as operating revenues and expenses. All other activities are reported as non-operating activities. The statements of revenues, expenses and changes in fund net position include deficiency of revenues over expenses as the performance indicator.

**UNIVERSITY HOSPITAL OF BROOKLYN -
STATE UNIVERSITY OF NEW YORK
HEALTH SCIENCE CENTER AT BROOKLYN**

Notes to Financial Statements

(2) Summary of Significant Accounting Policies, Continued

(t) Appropriations from the State of New York

Support of the Hospital operations is provided by the State of New York in the form of funds transferred to, or expenses incurred on behalf of the Hospital. These fund transfers or expenses are reflected on an accrual basis in the Hospital's statement of revenues, expenses, and changes in fund net position.

(u) Statement of Cash Flows

For the purposes of the statement of cash flows, (1) expenditures of the Hospital paid by the State are reflected as both cash outflows and inflows (increases in funds from the State), and (2) cash received by the Hospital and remitted to the State is reflected as both cash inflows and outflows (reduction of funds to the State).

(v) Reclassifications

Certain amounts in the 2011 financial statements have been reclassified to conform with the 2012 presentation.

(3) Transactions with Affiliates

The Hospital is an operating unit of the State University of New York. The following describes its related party transactions for the years ended December 31, 2012 and 2011:

Cash and Cash Held by the State

The Hospital's cash collections are electronically transferred daily to the Office of State Comptroller. In 2012 and 2011, substantially all cash was held by the State of New York. These funds are held in escrow and maintained by the State of New York on behalf of the Hospital. The Hospital reports these funds as current operating cash and cash held by the State in its balance sheets.

**UNIVERSITY HOSPITAL OF BROOKLYN -
STATE UNIVERSITY OF NEW YORK
HEALTH SCIENCE CENTER AT BROOKLYN**

Notes to Financial Statements

(3) Transactions with Affiliates, Continued

Health Science Center at Brooklyn (HSCB)

The Hospital purchased physicians services, including direct care from HSCB for \$109 million and \$95 million in 2012 and 2011, respectively. The Hospital recognized \$37 million and \$24 million in direct patient care revenue from physician services in 2012 and 2011, respectively.

In addition, the Hospital purchased utilities and other services from HSCB. The Hospital paid approximately \$44 million and \$42 million in 2012 and 2011, respectively.

Appropriations from the State of New York

The Hospital's reported operating expenses include an allocation of costs to and from other units of the Health Science Center.

In addition, the State provides support to the Hospital for various operating needs. The State also funds all malpractice expenses of the Hospital through the State self-funded malpractice program. The Hospital recognizes malpractice expense (income) and correspondingly records the related amount as a transfer from the State. The reported net transfers representing this support from (to) the State for the years ended December 31 include the following amounts:

	<u>2012</u>	<u>2011</u>
Non-operating:		
Employee benefits	\$ 2,284,143	\$ 1,257,194
Professional liability insurance	52,116,474	(32,994,449)
Net indirect costs allocated to the Hospital	(2,326,090)	(1,596,097)
Other State support payments	36,190,359	26,803,591
Debt service (STIP loan)	1,996,320	1,996,320
	<u>\$ 90,261,206</u>	<u>\$ (4,533,441)</u>
Other transfers:		
Debt Service	\$ (1,729,543)	\$ (52,389)
Capital assets	494,298	(901)
	<u>\$ (1,235,245)</u>	<u>\$ (53,290)</u>

**UNIVERSITY HOSPITAL OF BROOKLYN -
STATE UNIVERSITY OF NEW YORK
HEALTH SCIENCE CENTER AT BROOKLYN**

Notes to Financial Statements

(3) Transactions with Affiliates, Continued

Due from (to) the State of New York and Affiliates

As of December 31, amounts due from/to the State of New York consist of the following:

	<u>2012</u>	<u>2011</u>
Due from the State of New York:		
Estimated professional liability claims payable by the State	\$ 389,676,267	\$ 341,000,000
State support payments	-	2,720,545
	<u>\$ 389,676,267</u>	<u>\$ 343,720,545</u>
Due to the State of New York and affiliates:		
Appropriation payable - STIP loan	12,315,391	14,307,978
Appropriation payable - employee benefits	28,807,421	24,350,314
Due to State of New York - debt service	8,618,009	-
Due to State University of New York	75,028,897	-
Advances - state support	-	2,939,559
Due to Health Science Center	10,000,000	-
	<u>\$ 134,769,718</u>	<u>\$ 41,597,851</u>

In June 2012, SUNY established a line of credit, convertible later into a term loan, to the Hospital in an amount not to exceed \$75 million. No principal payments are due for the first three years and repayment of the line of credit is to be over a period not to exceed ten years after repayment begins.

During 2012, the Hospital received an additional \$10,000,000 advance from the Health Science Center. The advance is classified as a current liability within due to the State of New York and Affiliates.

Transfers to the State of New York

At June 30, 2001, the State University of New York converted the Hospital's outstanding balances due to the State of New York for employee benefits and debt service into an informal Short-Term Interest Pool ("STIP") loan. Interest is accrued at the average daily short-term interest rate as provided by the Office of the State Comptroller. During 2012, interest was accrued at rates ranging from 0.11% to 0.13%. During 2011, interest was accrued at rates ranging from 0.13% to 0.23%.

The State of New York has informally agreed to repay approximately 40% of the Hospital's STIP loan obligation. The Hospital has taken the position that the State portion should be recognized as a liability of the Hospital until such time a State appropriation is made available. The outstanding balance of the State portion as of December 31, 2012 and 2011 is approximately \$3,755,000 and \$5,751,000, respectively.

During both 2012 and 2011, the State paid \$1,996,320, for STIP repayments, while the Hospital did not make any payments.

**UNIVERSITY HOSPITAL OF BROOKLYN -
STATE UNIVERSITY OF NEW YORK
HEALTH SCIENCE CENTER AT BROOKLYN**

Notes to Financial Statements

(4) Net Patient Service Revenue, Accounts Receivable, Allowance for Doubtful Accounts

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from the established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments.

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

The process for estimating the ultimate collection of receivables involves significant assumptions and judgments. The Hospital has implemented a monthly standardized approach to estimate and review the collectibility of receivables based on the payor classification and the period from which the receivables have been outstanding. Historical collection and payor reimbursement experience is an integral part of the estimation process related to reserves for doubtful accounts. Revision in reserve for doubtful accounts estimates are recorded as an adjustment to the provision for bad debts.

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

- Medicare: Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient nonacute services, capital, medical education costs and disproportionate share costs related to Medicare beneficiaries are paid based on an estimated tentative calculation. The Hospital is reimbursed for the cost of reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.
- Non-Medicare Payments: The New York Health Care Reform Act of 1996, as updated, governs payments to hospitals in New York State. Under this system, hospitals and all non-Medicare payors, except Medicaid, workers' compensation and no-fault insurance programs, negotiate hospital's payment rates. If negotiated rates are not established, payors are billed at hospitals established charges. Medicaid, workers' compensation and no-fault payors pay hospital rates promulgated by the New York State Department of Health (DOH) on a prospective basis. Adjustments to current and prior years' rates for these payors will continue to be made in the future. Effective December 1, 2009, NYS implemented inpatient reimbursement reform. The reform updated the data utilized to calculate the NYS DRG rates and service intensity weights (SIWs) in order to utilize refined data and more current information in DOH promulgated rates. Similar type outpatient reforms were implemented effective December 1, 2008.

**UNIVERSITY HOSPITAL OF BROOKLYN -
STATE UNIVERSITY OF NEW YORK
HEALTH SCIENCE CENTER AT BROOKLYN**

Notes to Financial Statements

(4) Net Patient Service Revenue, Accounts Receivable, Allowance for Doubtful Accounts, Continued

The current Medicaid, Medicare and other third-party payor programs are based upon extremely complex laws and regulations that are subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

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 financial statements and believes that it is in compliance with all applicable laws and regulations.

Revenue from the Medicare and Medicaid programs accounted for approximately 32% and 18%, respectively, of the Hospital's net patient service revenue for the year ended December 31, 2012 and 26% and 19%, respectively, for the year ended December 31, 2011.

UHB cost reports have been audited and finalized by the Medicare fiscal intermediary through December 31, 2003. In addition, UHB cost reports have been audited and finalized by the Medicare fiscal intermediary for 2006 and 2007. LICH cost reports have been audited and finalized by the Medicare fiscal intermediary through December 31, 2001.

The Hospital has established estimates, based on information presently available, of amounts due to or from Medicare and non-Medicare payors for potential adjustments to current and prior year payment rates, resulting from audit and final settlement. Differences between the estimates and the amounts settled are recorded in the year of settlement.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, managed Medicaid, Family Health Plus, Child Health Plus, managed Medicare and preferred provider organizations. The basis for payment to the Hospital under these agreements includes negotiated per diem rates, case rates, global rates as well as capitation.

Monies are appropriated to the Hospital in connection with a petition filed by the State of New York, on behalf of governmental hospitals, to receive Medicaid Disproportionate Share Hospital ("DSH") payments. Included in net patient service revenue for the years ended December 31, 2012 and 2011 is revenue recognized for amounts earned from the DSH program of approximately \$93,235,000 and \$93,744,000, respectively. For the years ended December 31, 2012 and 2011, the Hospital has recorded net patient service revenue of approximately \$28,435,000 and \$25,744,000, respectively, related to the amendment of the original DSH need calculations for prior years. As of December 31, 2012 and 2011, the Hospital DSH receivable included in due from third parties is approximately \$33,570,000 and \$33,938,000, respectively.

Due to changes in estimates of third-party receivables/payables and changes in patient accounts receivable valuation methodology, during 2012 and 2011, the Hospital recorded a net increase/(decrease) in net patient service revenue of approximately \$15,986,000 and \$(22,511,000), respectively, resulting from changes in estimated prior year third-party adjustments.

**UNIVERSITY HOSPITAL OF BROOKLYN -
STATE UNIVERSITY OF NEW YORK
HEALTH SCIENCE CENTER AT BROOKLYN**

Notes to Financial Statements

(5) Capital Assets

Capital assets reported at historical cost and capital assets activities as of and for the years ended December 31, 2012 and 2011 are as follows:

	December 31, <u>2011</u>	<u>Additions</u>	Closed projects and <u>retirements</u>	December 31, <u>2012</u>
Depreciable assets:				
Building and leasehold improvements	\$ 475,584,003	\$ 205,569	\$ 14,525,426	\$ 490,314,998
Moveable equipment (including TELP equipment)	246,006,015	15,193,812	(1,558,332)	259,641,495
Equipment under capital lease	<u>330,783</u>	<u>-</u>	<u>-</u>	<u>330,783</u>
	721,920,801	15,399,381	12,967,094	750,287,276
Accumulated depreciation	(502,271,989)	(33,875,486)	1,706,460	(534,441,015)
Non-depreciable assets:				
Land	3,501,687	-	-	3,501,687
Construction-in-progress	<u>22,947,455</u>	<u>8,822,425</u>	<u>(15,371,780)</u>	<u>16,398,100</u>
	<u>\$ 246,097,954</u>	<u>\$ (9,653,680)</u>	<u>\$ (698,226)</u>	<u>\$ 235,746,048</u>
	December 31, <u>2010</u>	<u>Additions</u>	Closed projects and <u>retirements</u>	December 31, <u>2011</u>
Depreciable assets:				
Building and leasehold improvements	\$ 163,853,420	\$ 308,251,824	\$ 3,478,759	\$ 475,584,003
Moveable equipment (including TELP equipment)	143,481,377	104,244,776	(1,720,138)	246,006,015
Equipment under capital lease	<u>159,600</u>	<u>171,183</u>	<u>-</u>	<u>330,783</u>
	307,494,397	412,667,783	1,758,621	721,920,801
Accumulated depreciation	(185,057,544)	(318,830,965)	1,616,520	(502,271,989)
Non-depreciable assets:				
Land	821,454	2,680,233	-	3,501,687
Construction-in-progress	<u>13,437,154</u>	<u>12,989,060</u>	<u>(3,478,759)</u>	<u>22,947,455</u>
	<u>\$ 136,695,461</u>	<u>\$ 109,506,111</u>	<u>\$ (103,618)</u>	<u>\$ 246,097,954</u>

The estimated cost to complete construction-in-progress projects at December 31, 2012 is approximately \$35,150,000.

**UNIVERSITY HOSPITAL OF BROOKLYN -
STATE UNIVERSITY OF NEW YORK
HEALTH SCIENCE CENTER AT BROOKLYN**

Notes to Financial Statements

(6) Transactions with Related Parties

University Physicians of Brooklyn

The Hospital purchased physician services from the Clinical Practical Management Plan (also called University Physicians of Brooklyn or UPB) for approximately \$2.5 million and \$2.4 million for 2012 and 2011, respectively. UPB rents clinical space from the Hospital.

Staffco of Brooklyn, LLC (Staffco)

As part of the acquisition of Long Island College Hospital, a separate corporation, Staffco was created under section 203 of the Limited Liability Company Law of the State of New York. Staffco is a single member corporation of the Health Science Center at Brooklyn Foundation, Inc. (the Foundation). Staffco was created to provide professional and non-professional staffing, as a registered Professional Employer Organization under the New York Professional Employer Act, to the Hospital.

In 2011, Staffco entered into a professional employer agreement with SUNY (acting through the Hospital) to provide non-physician staffing at the LICH campus. Staffco is responsible for providing all routine administrative and human resources functions with respect to the employment of the Staffco employees. Staffco is also responsible for paying wages and employment taxes, providing vacation and other benefits, and maintaining all benefit plans under which Staffco employees are entitled to participate.

For the year ended December 31, 2012 and 2011, salaries and benefits expense incurred by LICH for Staffco employees approximated \$151 million and \$91 million, respectively.

Health Science Center at Brooklyn Foundation, Inc.

As part of the acquisition, the Hospital assumed a liability approximating \$140 million, due to the Foundation, related to legacy LICH endowment funds. There is no specific repayment schedule, and no interest will accrue on the unpaid balance. However, repayment of the principal balance will be made as funds are available and repayment is feasible.

The Hospital also has amounts due to the Foundation of approximately \$9.5 million and \$0.8 million for Hospital expenses paid by the Foundation as of December 31, 2012 and 2011, respectively.

**UNIVERSITY HOSPITAL OF BROOKLYN -
STATE UNIVERSITY OF NEW YORK
HEALTH SCIENCE CENTER AT BROOKLYN**

Notes to Financial Statements

(7) Long-Term Debt and Capital Lease Obligations

On behalf of the Hospital, the University has entered into financing arrangements with the Dormitory Authority of the State of New York ("DASNY") to finance most of its capital facilities. The Hospital records long-term debt for its share of the bonds that have been allocated by DASNY. The portion of the bond proceeds that have not been expended are classified as assets limited as to use in the accompanying balance sheets, and will be used to finance future capital projects at the Hospital.

Principal and interest on the bonds which have a maximum 30-year life are repaid by the State on behalf of the Hospital, and amounts are subsequently reimbursed to the State for payment by the Hospital.

During the year, proceeds of new SUNY obligations were placed in an irrevocable trust to provide for all future debt service payments on defeased obligations. Accordingly, the trust account assets and liabilities for the defeased obligations are not included in SUNY's or the Hospital's financial statements.

**UNIVERSITY HOSPITAL OF BROOKLYN -
STATE UNIVERSITY OF NEW YORK
HEALTH SCIENCE CENTER AT BROOKLYN**

Notes to Financial Statements

(7) Long-Term Debt and Capital Lease Obligations, Continued

Roll-forward of the Hospital's obligations to DASNY is as follows in 2012:

<u>Issue</u>	<u>Due</u>	<u>Interest rate %</u>	<u>Balance January 1, 2012</u>	<u>Increase/ (decrease)</u>	<u>Balance December 31, 2012</u>
<u>UHB</u>					
1990A	May 2013	7.00 - 7.50	\$ 115,997	\$ (23,329)	\$ 92,668
1993A	May 2021	5.25 - 5.875	1,821,004	293,616	2,114,620
1993B	May 2019	5.20 - 5.50	435,635	(4,114)	431,521
1998A	May 2025	4.30 - 5.25	180,417	(180,417)	-
2000C	May 2017	5.75	210,701	167,403	378,104
2002A	May 2016	3.0 - 5.25	434,125	(434,125)	-
2002AB	November 2030	3.0 - 5.25	24,265,615	(24,265,615)	-
2003A	March 2018	3.0 - 5.50	382,800	(265,300)	117,500
2004A	March 2034	2.0 - 5.00	4,222,500	(3,090,000)	1,132,500
2005A	March 2024	3.25 - 5.50	6,697,076	(144,654)	6,552,422
2005B	March 2030	3.5 - 5.50	1,420,606	-	1,420,606
2005D	March 2022	2.75 - 5.00	3,280,000	(1,042,000)	2,238,000
2005F	March 2035	3.25 - 5.00	4,504,330	(898,701)	3,605,629
2007A	March 2037	4.0 - 5.00	16,110,157	(322,524)	15,787,633
2008C	March 2032	5.0 - 5.70	689,000	-	689,000
2009A	July 2024	1.0 - 5.00	6,038,225	(120,567)	5,917,658
2010H	July 2020	3.0 - 5.00	448,374	(123,411)	324,963
2012A	May 2030	3.00 - 5.00	-	24,144,079	24,144,079
2012D	March 2042	3.70 - 5.25	-	25,814,440	25,814,440
<u>LICH</u>					
2004A	July 2021	9.1	68,528,341	(68,528,341)	-
2004B	July 2028	6.875	51,659,054	(51,659,054)	-
	August				
2012D	2021/2028	6.00 - 6.65	-	100,221,684	100,221,684
Restructuring loan	December 2012	1.0	1,556,276	(1,556,276)	-
Total long-term debt			193,000,233	(2,017,206)	190,983,027
Premium on long-term debt			-	20,413,335	20,413,335
2012D Refunding deferred loss			-	(2,811,158)	(2,811,158)
Long-term debt including premium and deferred loss			193,000,233	\$ 15,584,971	208,585,204
Less current portion of long-term debt			6,941,862		2,223,647
Long-term debt, net of current portion			\$ 186,058,371		\$ 206,361,557

**UNIVERSITY HOSPITAL OF BROOKLYN -
STATE UNIVERSITY OF NEW YORK
HEALTH SCIENCE CENTER AT BROOKLYN**

Notes to Financial Statements

(7) Long-Term Debt and Capital Lease Obligations, Continued

Roll-forward of the Hospital's obligations to DASNY is as follows in 2011:

<u>Issue</u>	<u>Due</u>	<u>Interest rate %</u>	<u>Balance January 1, 2011</u>	<u>Increase/ (decrease)</u>	<u>Balance December 31, 2011</u>
<u>UHB</u>					
1990A	May 2013	7.00 - 7.50	\$ 115,997	\$ -	\$ 115,997
1990B	May 2011	-	37,262	(37,262)	-
1993A	May 2021	5.25 - 5.875	2,186,173	(365,169)	1,821,004
1993B	May 2019	5.20 - 5.50	486,302	(50,667)	435,635
1998A	May 2025	4.30 - 5.25	179,445	972	180,417
1999A	May 2011	4.625 - 5.25	133,399	(133,399)	-
2000B	May 2011	4.75 - 5.375	118,791	(118,791)	-
2000C	May 2017	5.75	210,701	-	210,701
2002A	May 2016	3.0 - 5.25	566,536	(132,411)	434,125
2002AB	November 2030	3.0 - 5.25	24,356,474	(90,859)	24,265,615
2003A	March 2018	3.0 - 5.50	488,600	(105,800)	382,800
2004A	March 2034	2.0 - 5.00	4,321,667	(99,167)	4,222,500
2005A	March 2024	3.25 - 5.50	6,681,927	15,149	6,697,076
2005B	March 2030	3.5 - 5.50	1,420,606	-	1,420,606
2005D	March 2022	2.75 - 5.00	3,280,000	-	3,280,000
2005F	March 2035	3.25 - 5.00	4,603,578	(99,248)	4,504,330
2007A	March 2037	4.0 - 5.00	16,417,301	(307,144)	16,110,157
2008C	March 2032	5.0 - 5.70	689,000	-	689,000
2009A	July 2024	1.0 - 5.00	5,185,846	852,379	6,038,225
2010H	July 2020	3.0 - 5.00	595,240	(146,866)	448,374
<u>LICH</u>					
2004A(a)	July 2021	9.1	-	68,528,341	68,528,341
2004B(a)	July 2028	6.875	-	51,659,054	51,659,054
Restructuring loan	December 2012	1.0	-	1,556,276	1,556,276
Total			72,074,845	\$ 120,925,388	193,000,233
Less current portion of long-term debt			2,000,557		6,941,862
Long-term debt, net of current portion			\$ 70,074,288		\$ 186,058,371

The Hospital's principal and interest requirements for obligations to DASNY are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 2,223,647	\$ 8,065,981	\$ 10,289,628
2014	2,231,306	8,901,307	11,132,613
2015	3,012,050	8,780,350	11,792,400
2016	2,402,505	8,647,814	11,050,319
2017	4,099,890	8,487,677	12,587,567
2018 - 2022	83,670,049	33,514,261	117,184,310
2023 - 2027	40,588,682	17,908,853	58,497,535
2028 - 2032	29,631,014	7,299,674	36,930,688
2033 - 2037	13,178,292	3,564,553	16,742,845
2038 - 2042	9,945,592	1,073,176	11,018,768
	\$ 190,983,027	\$ 106,243,646	\$ 297,226,673

**UNIVERSITY HOSPITAL OF BROOKLYN -
STATE UNIVERSITY OF NEW YORK
HEALTH SCIENCE CENTER AT BROOKLYN**

Notes to Financial Statements

(7) Long-Term Debt and Capital Lease Obligations, Continued

In October 2012, New York State issued Personal Income Tax Revenue bonds Series 2012D. Among other projects, approximately \$100 million was allocated to refund the 2004A and 2004B LICH Series bonds which the Hospital assumed responsibility for with the acquisition of LICH. The Hospital recorded a premium of approximately \$20 million and a deferred loss of approximately \$2.8 million associated with the refunding. With the repayment of the 2004A and 2004B obligations, the assets of LICH cease to be collateral for those obligations.

In 2012, New York State also allocated to the Hospital approximately \$50 million of Personal Income Tax Revenue bonds and Revenue bonds to support capital projects on the UHB central Flatbush campus and refund existing Hospital obligations.

The Hospital, in conjunction with DASNY and commercial lenders, participates in the DASNY's Tax-Exempt Equipment Leasing Program ("TELP") for financing equipment. Capital leases are issued through a third party and the Hospital is responsible for payments of principal and interest.

The Hospital has entered into various arrangements for the financing of certain equipment through the issuance of certificates of participation. The certificates are issued through a trustee and the Hospital is responsible for payments to the trustee that approximates the interest and principal payments made by the trustee to the certificate holders. The Hospital maintains custody and use of the equipment; however, in some cases, title is held by the trustee as security for the certificate holders, until such time as the certificates are fully paid. Proceeds from the issuance of these certificates and the related capital expenditures have been recorded as capital leases in the accompanying balance sheets. The capital leases carry interest rates ranging from 1.94% to 9.10%. The capital leases are payable through various dates with certain leases payable through 2015.

A summary of future lease payments under capital leases as of December 31, 2012, is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total payments</u>
Year ending December 31:			
2013	\$ 12,465,853	\$ 584,071	\$ 13,049,924
2014	9,341,497	272,410	9,613,907
2015	5,194,804	75,667	5,270,471
	<u>\$ 27,002,154</u>	<u>\$ 932,148</u>	<u>\$ 27,934,302</u>

The principal at the end of the year is classified \$12,465,853 as current liabilities and \$14,536,301 as non-current liabilities.

Debt covenants on the bond obligations are the responsibility of the State of New York and are measured at the State level.

**UNIVERSITY HOSPITAL OF BROOKLYN -
STATE UNIVERSITY OF NEW YORK
HEALTH SCIENCE CENTER AT BROOKLYN**

Notes to Financial Statements

(8) Other Non-Current Liabilities

A schedule of changes in the Hospital's other non-current liabilities for 2012 and 2011 is as follows:

	Balance December 31, 2011	Additions	Reductions	Balance December 31, 2012	Amounts due within one year
Due to State of New York and affiliates	\$ 41,597,851	\$ 98,148,857	\$ (4,976,990)	\$ 134,769,718	\$ 53,921,748
Estimated malpractice and general liability claims	341,000,000	80,200,000	(39,058,026)	382,141,974	23,100,000
Accrued employee benefits, net	93,206,298	11,341,011	-	104,547,309	70,018,009
Due to Health Science Center of Brooklyn Foundation, Inc.	141,231,833	8,259,149	-	149,490,982	-
Due to third-party payors	92,587,385	-	(14,362,180)	78,225,205	18,837,099
Other	3,919,846	381,194	-	4,301,040	-
Total non-current liabilities	<u>\$ 713,543,213</u>	<u>\$ 198,330,211</u>	<u>\$ (58,397,196)</u>	<u>\$ 853,476,228</u>	<u>\$ 165,876,856</u>

	Balance December 31, 2010	LICH	Additions	Reductions	Balance December 31, 2011	Amounts due within one year
Due to State of New York and affiliates	\$ 22,913,624	\$ -	\$ 24,767,863	\$ (6,083,636)	\$ 41,597,851	\$ 33,783,362
Estimated malpractice and general liability claims	382,000,000	-	68,000,000	(109,000,000)	341,000,000	16,000,000
Accrued employee benefits, net	73,830,819	10,265,925	9,109,554	-	93,206,298	63,124,760
Due to Health Science Center of Brooklyn Foundation, Inc.	-	141,231,833	-	-	141,231,833	-
Due to third-party payors	31,367,452	22,456,002	112,258,523	(73,494,592)	92,587,385	28,430,008
Other	632,296	3,008,455	279,095	-	3,919,846	-
Total non-current liabilities	<u>\$ 510,744,191</u>	<u>\$ 176,962,215</u>	<u>\$ 214,415,035</u>	<u>\$ (188,578,228)</u>	<u>\$ 713,543,213</u>	<u>\$ 141,338,130</u>

**UNIVERSITY HOSPITAL OF BROOKLYN -
STATE UNIVERSITY OF NEW YORK
HEALTH SCIENCE CENTER AT BROOKLYN**

Notes to Financial Statements

(9) Employee Retirement Plans

There are two major retirement plans for Hospital employees, the New York State Employees' Retirement System ("ERS") and the State University Optional Retirement Program ("ORP"). Obligations of employers and employees to contribute and related benefits are governed by the New York State Retirement and Social Security Law ("NYSRSSL") and Education Law. These plans offer a wide range of programs and benefits. ERS is a cost sharing multiple-employer plan administered by the State Comptroller. ERS provides benefits based on years of credited service and final average salary. ORP is a multi-employer defined contribution plan administered by independent insurance companies. Substantially all full-time employees participate in one of the plans. Approximately 1,994 Hospital employees, mainly nursing, secretarial, clerical, security and maintenance personnel participate in ERS and approximately 1,370 Hospital employees have elected to join ORP. The following describes both of the retirement plans:

ERS

ERS provides retirement benefits as well as death and disability benefits. Benefits generally vest after five years of credited service. ERS is noncontributory, except for employees who joined after July 27, 1976, and have less than 10 years of service, who contribute 3% of their salary. Employee contributions are deducted from their salaries and are sent on a current basis to ERS. Contributions are made on the Hospital's behalf by the State and are recorded as an expense by the Hospital based on a percentage of participating employees' payroll. The State's payment to ERS is billed on the basis of salaries paid during ERS's fiscal year ended March 31 and is made in accordance with actuarially determined funding requirements.

Hospital employer contributions to ERS for the years ended December 31, 2012, 2011 and 2010 were approximately \$26,908,000, \$21,080,000 and \$16,386,000, respectively.

NYSRSSL provides that all participating employers are jointly and severally liable for any actuarially unfunded amounts. Such amounts are collected through annual billings to all participating employers. The pension benefit obligation of credited projected benefits is a standardized disclosure measure of the actuarial present value of pension benefits, adjusted for the effects of projected salary increases estimated to be payable in the future as a result of employees' service to date. ERS does not make separate measurements for individual employers.

**UNIVERSITY HOSPITAL OF BROOKLYN -
STATE UNIVERSITY OF NEW YORK
HEALTH SCIENCE CENTER AT BROOKLYN**

Notes to Financial Statements

(9) Employee Retirement Plans, Continued

ERS, Continued

The Comptroller of the State of New York serves as sole trustee of the Common Retirement Fund and administrative head of the ERS. Benefits are provided under the provisions of the NYSRSSL and are guaranteed by the State Constitution. ERS is a cost-sharing multiple-employer defined benefit plan. The annual report of the Plan may be obtained on the web at www.osc.state.ny.us/pension/cafr.htm or by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, New York 12244-0001.

ORP

TIAA/CREF is a not-for-profit organization that provides benefits through annuity contracts and is the principal insurer of the University's retirement program known as ORP. Other for-profit and not-for-profit insurance companies also participate in ORP. ORP is a defined contribution retirement plan which provides benefits to certain employees of the University. The University assumes no liability for ORP members other than payment of contributions. Insurance companies provide retirement and death benefits for or on behalf of those full-time professional employees and faculty members electing to participate in this ORP.

Participation, eligibility, as well as contributory and noncontributory requirements are established by NYSRSSL and the New York State Education Law. Benefits are determined by the amount of individual accumulations and the retirement income option selected. All benefits generally vest after the completion of one year of service if the employee is retained thereafter. Individually owned annuity contracts that provide for full ownership of retirement and survivor benefits are purchased at the time of vesting. Most participating employees contribute 3% of salary on a pre-tax basis, and anyone with 10 years of service or more, contribute 1% of salary on a pre-tax basis. Employee contributions are deducted from their salaries and are sent on a current basis to the insurance companies. Employer contributions range from 8% to 15% depending upon when the employee was hired.

Hospital employer contributions to ORP for the years ended December 31, 2012, 2011 and 2010 were approximately \$14,602,000, \$12,528,000 and \$11,465,000, respectively.

**UNIVERSITY HOSPITAL OF BROOKLYN -
STATE UNIVERSITY OF NEW YORK
HEALTH SCIENCE CENTER AT BROOKLYN**

Notes to Financial Statements

(10) Other Post Employment Benefits

The State, on behalf of the Hospital, provides health insurance coverage for eligible retired Hospital employees and their spouses as part of the New York State Health Insurance Plan ("NYSHIP"). NYSHIP offers comprehensive benefits through various providers consisting of hospital, medical, mental health, substance abuse and prescription drug programs. The State administers NYSHIP and has the authority to establish and amend the benefit provisions offered. NYSHIP is considered an agent multiple-employer defined benefit plan, is not a separate entity or trust, and does not issue stand-alone financial statements. OPEB expense amounted to \$5,232,000, \$4,300,000 and \$1,400,000 for 2012, 2011 and 2010, respectively, and is included in employee benefits in the statements of revenues, expenses and changes in fund net position.

(11) HEAL Grant Revenue

In May 2011, the Hospital was awarded a grant in the amount of \$38,000,000 under the Health Care Efficiency and Affordability Law for New Yorkers (HEAL NY) Grant Program to provide assistance in completing the acquisition of LICH. The proceeds received under the grant agreement are to be used to pay debt of \$18,400,000 and for other integration costs, including transitioning LICH employees to Staffco, of \$19,600,000. HEAL grant revenue of \$12,100,000 and \$25,900,000 was recognized as non-operating revenue in the statements of revenues, expenses and changes in fund net position for the years ended December 31, 2012 and 2011, respectively.

(12) Operating Leases

The Hospital utilizes various types of equipment leases and office space under separate operating leases expiring in various years from 2013 through 2024. The related expenses for the years ended December 31, 2012 and 2011 were approximately \$9,939,000 and \$9,191,000, respectively. Annual rentals under all noncancellable operating leases having initial or remaining terms of one year or more consist of the following:

2013	\$ 10,254,974
2014	10,549,581
2015	10,853,102
2016	11,165,808
2017	11,487,980
2018 - 2022	62,624,424
2023 - 2024	<u>72,248,208</u>
	<u>\$ 189,184,077</u>

**UNIVERSITY HOSPITAL OF BROOKLYN -
STATE UNIVERSITY OF NEW YORK
HEALTH SCIENCE CENTER AT BROOKLYN**

Notes to Financial Statements

(13) Contingencies and Litigation

In the normal course of business, medical professional and other liability claims have been asserted against the Hospital by various claimants, and other claims may be asserted arising from services provided to patients in the past.

The Hospital maintained occurrence-based professional liability insurance through March 31, 1985 and claims-made basis professional liability insurance coverage through June 30, 1987 with limits that have increased over time. Effective July 1, 1987, the State's Attorney General's office assumed self-insurance for the Hospital relative to medical professional liability.

Records related to medical professional and other liability claims and litigation are maintained by the State. All settlements in excess of insurance coverage and uninsured claims are paid from the adjustment and claims accounts in the State. The State is contingently liable in connection with claims and other legal actions involving the Hospital, including those currently in litigation arising in the normal course of Hospital activities. The Hospital does not carry malpractice insurance and, instead, the State administers these types of cases in the same manner as all other claims against the State involving Hospital activities in that any settlements of judgments and claims are paid by the State from an account established for this purpose. The malpractice reserves were decreased by approximately \$28,000,000 in 2012 and by approximately \$101,000,000 in 2011 as a result of changes in estimates in the professional liability reserve and settlements of certain claims that were credited or charged to the Hospital's operations. Corresponding amounts were also recorded as transfers from the State.

The University and the Hospital, at any given time, are involved in a number of legal actions and proceedings, the greater number involve special proceedings seeking the reversal of various administrative determinations. A number of cases are pending against the State in the Court of Claims seeking damages in tort or contract cases involving the University, some of which may involve the Hospital. Based upon information presently available, University counsel and Hospital management believe there are substantial defenses in connection with these claims. Any settlements in excess of insurance coverage, including those relating to asserted and unasserted medical professional liability claims, would be paid from the judgment and claims accounts of the State.

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations are subject to government review and interpretation.

**UNIVERSITY HOSPITAL OF BROOKLYN -
STATE UNIVERSITY OF NEW YORK
HEALTH SCIENCE CENTER AT BROOKLYN**

Notes to Financial Statements

(14) Disclosures About Fair Value of Financial Instruments

The following methods and assumptions were used by the Hospital in estimating the fair value of its financial instruments:

The carrying amounts reported in the balance sheet of the Hospital for cash and cash held by the State, patient accounts receivable, assets limited as to use, accounts payable and all accrued expenses, estimated due to/from third-party payors, and due to/from State of New York and affiliates, approximate their fair value.

The Hospital is operated as a component of the State of New York. The Dormitory Authority of the State of New York issues bonds on behalf of the Hospital. The Authority has numerous separate maturities of bonds which would have to be separately valued, and secondly, the unique circumstances affecting the State make it impractical to estimate the fair value of bonds. Additionally, considering the restrictive nature of the bond issuer, it is management's opinion that such disclosure would not enhance the usefulness of the financial statements.

(15) Subsequent Events

On May 1, 2013, SUNY issued Request For Information (C002521) seeking expressions of interest from qualified parties who could provide health care services, including operation of an acute hospital at or around LICH. Seven responses have been received in response to the request. On July 18, 2013, SUNY issued a formal Request For Proposal (X002539).

On July 18, 2013, the Hospital submitted a LICH closure plan to the New York State Department of Health (DOH). On July 19, 2013, the DOH approved certain elements of the closure plan.

Subsequent events have been evaluated through July 19, 2013, the date in which the financial statements were issued.