Kingsbrook Jewish Medical Center and Rutland Nursing Home, Inc.

Combined Financial Report

December 31, 2012

Contents

McGladrey

Independent Auditor's Report

To the Board of Trustees
Kingsbrook Jewish Medical Center and
Rutland Nursing Home, Inc.
Brooklyn, New York

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of Kingsbrook Jewish Medical Center and Rutland Nursing Home, Inc., which comprise the combined balance sheet as of December 31, 2012, and the related combined statements of operations, changes in unrestricted net assets (deficit) and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Kingsbrook Jewish Medical Center and Rutland Nursing Home, Inc. as of December 31, 2012, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The combined financial statements of Kingsbrook Jewish Medical Center and Rutland Nursing Home, Inc., as of and for the year ended December 31, 2011, were audited by other auditors whose report, dated May 29, 2012, expressed an unmodified opinion on those statements.

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as of and for the year ended December 31, 2012 as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information for the year ended December 31, 2012 has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information for the year ended December 31, 2012 is fairly stated in all material respects in relation to the combined financial statements as a whole. The supplementary information for the year ended December 31, 2011 was audited by other auditors whose report, dated May 29, 2012, expressed an unqualified opinion on such information in relation to the combined financial statements as a whole.

McGladrey LLP

New York, New York
May 31, 2013

Kingsbrook Jewish Medical Center and Rutland Nursing Home, Inc.

Combined Balance Sheets
December 31, 2012 and 2011
(in thousands of dollars)

	2012	2011
ASSETS		
Current Assets:		
Cash and cash equivalents	**$ 6,157**	$ 6,894
Cash - funds held in trust for residents	**225**	240
Investments	**109**	112
Assets limited as to use	**10,485**	11,588
Accounts receivable, less allowance for doubtful accounts of approximately $12,251 in 2012 and $11,553 in 2011	**36,284**	36,164
Inventories and other current assets	**4,763**	4,632
Other receivables	**2,832**	6,228
Total current assets	**60,855**	65,858
Assets Limited as to Use, less current portion	**5,753**	5,567
Property, Buildings and Equipment, net	**45,153**	44,400
Other Assets	**738**	2,053
Interest in Kingsbrook Jewish Medical Center Foundation, Inc.	**1,508**	1,336
Total assets	**$ 114,007**	$ 119,214
LIABILITIES AND UNRESTRICTED NET ASSETS (DEFICIT)		
Current Liabilities:		
Current portion of long-term debt	**$ 4,968**	$ 4,811
Accounts payable and accrued expenses	**34,702**	32,970
Accrued salaries and related liabilities	**17,048**	18,152
Funds held in trust for residents	**225**	240
Other current liabilities	**10,599**	10,244
Total current liabilities	**67,542**	66,417
Liabilities:		
Long-term debt, less current portion	**8,173**	13,068
Estimated self-insurance liabilities, less current portion	**13,617**	12,178
Accrued pension liability	**6,587**	7,173
Accrued postretirement benefit cost	**1,529**	1,468
Estimated third-party settlements and other noncurrent liabilities	**33,297**	30,770
Total liabilities	**130,745**	131,074
Commitments and Contingencies		
Unrestricted Net Assets (Deficit)	**(16,738)**	(11,860)
Total liabilities and unrestricted net assets (deficit)	**$ 114,007**	$ 119,214

See Notes to Combined Financial Statements.

Kingsbrook Jewish Medical Center and Rutland Nursing Home, Inc.

Combined Statements of Operations
Years Ended December 31, 2012 and 2011
(in thousands of dollars)

	2012	2011
Revenues:		
Net patient and resident service revenue	**$ 255,806**	$ 265,258
Less provision for bad debts	**7,959**	8,913
Net patient and resident service revenue, less provision for bad debts	**247,847**	256,345
Other revenues	**16,074**	8,751
Total revenues	**263,921**	265,096
Expenses:		
Salaries and wages	**136,835**	136,823
Employee benefits	**48,195**	45,848
Supplies and other expenses	**74,270**	65,183
Depreciation and amortization	**7,886**	8,259
Interest	**2,138**	3,413
Total expenses	**269,324**	259,526
(Deficiency) excess of revenues over expenses	**(5,403)**	5,570
Other Changes in Unrestricted Net Assets:		
Pension-related changes other than net periodic pension costs	**525**	(3,374)
Other	**-**	(192)
(Decrease) increase in unrestricted net assets	**$ (4,878)**	$ 2,004

See Notes to Combined Financial Statements.

Kingsbrook Jewish Medical Center and Rutland Nursing Home, Inc.

Combined Statements of Changes in Unrestricted Net Assets (Deficit)
Years Ended December 31, 2012 and 2011
(in thousands of dollars)

Unrestricted net assets (deficit), December 31, 2010	$ (13,864)
Excess of revenues over expenses	5,570
Pension-related changes other than net periodic pension cost	(3,374)
Other	(192)
Total change in unrestricted net assets	2,004
Unrestricted net assets (deficit), December 31, 2011	(11,860)
Deficiency of revenues over expenses	(5,403)
Pension-related changes other than net periodic pension cost	525
Total change in unrestricted net assets	(4,878)
Unrestricted net assets (deficit), December 31, 2012	**$ (16,738)**

See Notes to Combined Financial Statements.

Kingsbrook Jewish Medical Center and Rutland Nursing Home, Inc.

Combined Statements of Cash Flows
Years Ended December 31, 2012 and 2011
(in thousands of dollars)

	2012	2011
Cash Flows From Operating Activities:		
Change in unrestricted net assets	**$ (4,878)**	$ 2,004
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Undistributed portion of change in interest in net assets of Kingsbrook Jewish Medical Center Foundation, Inc.	**(172)**	52
Provision for bad debts	**7,959**	8,913
Depreciation and amortization	**7,886**	8,259
Long-term debt forgiven by grant	**(2,175)**	-
Pension-related changes other than net periodic pension costs	**(525)**	3,374
Changes in operating assets and liabilities:		
Accounts receivable	**(8,079)**	(8,137)
Inventories, other assets, and other receivables	**4,579**	(2,256)
Accounts payable and accrued expenses	**1,732**	3,408
Accrued salaries and related liabilities	**(1,104)**	1,250
Estimated third-party settlements and other liabilities	**2,882**	(4,607)
Estimated self-insurance liabilities	**1,439**	(3,913)
Net cash provided by operating activities	**9,544**	8,347
Cash Flows From Investing Activities:		
Acquisition of property, buildings and equipment	**(8,638)**	(5,658)
Net change in investments	**3**	1,104
Net change in assets limited as to use	**917**	(123)
Net cash used in investing activities	**(7,718)**	(4,677)
Cash Flows From Financing Activities:		
Proceeds from notes payable	**2,351**	904
Principal payments of long-term debt, including capital leases	**(4,914)**	(5,936)
Net cash used in financing activities	**(2,563)**	(5,032)
Net decrease in cash and cash equivalents	**(737)**	(1,362)
Cash and Cash Equivalents:		
Beginning	**6,894**	8,256
Ending	**$ 6,157**	$ 6,894
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	**$ 2,147**	$ 3,421
Supplemental Disclosure of Noncash Investing and Financing Activities:		
Long-term debt forgiven by grant	**$ 2,175**	$ -
Assets acquired under capital leases	**$ 415**	$ 550

See Notes to Combined Financial Statements.

Note 1. Organization

Kingsbrook Jewish Medical Center (the "Medical Center") is a 501(c)(3) tax-exempt organization formed in 1926 under the Membership Corporations Law of the State of New York and is governed by the Not-for-Profit Corporation Law of the State of New York. The Medical Center is a 318-bed multi-specialty teaching hospital, located in Brooklyn, New York, which provides a full range of inpatient and outpatient services, medical and surgical treatment, rehabilitation medicine, geriatric psychiatric medicine, as well as an ambulatory surgery center, a 24-hour emergency room, and outpatient general and specialty clinics. Rutland Nursing Home, Inc. (the "Nursing Home") is a 501(c)(3) tax-exempt organization that was incorporated in 1971 under the Not-for-Profit Corporation Law of the State of New York. The Nursing Home is a 466-bed facility that provides long-term and sub-acute services to primarily residents of the Metropolitan New York area. The Nursing Home and Medical Center share a campus and various building facilities, as well as various staff and other resources. In addition, many of the individuals who serve on the Board of Trustees of the Medical Center also serve on the Board of Trustees of the Nursing Home.

Kingsbrook HealthCare System, Inc. ("KHS") is a 509(a)(3) tax-exempt organization formed on June 21, 2002. It was formed by the Medical Center and the Nursing Home and became the sole member of both entities on January 19, 2005. KHS is organized as a membership corporation. Its members are those individuals who serve on its Board of Directors.

KSI, Inc. ("KSI") was formed as a New York business corporation on February 3, 2003 under the Business Corporation Law of the State of New York for the purpose of holding the equity interests of other ventures, particularly ATM Nurse Registry, LLC ("ATM") and Singulab, Inc. ("Singulab"). ATM was formed as a New York limited liability company on February 4, 2003 for the purpose of providing temporary nursing services as an independent entity. Singulab was established as a for-profit Delaware Corporation for the purpose of pursuing the potential acquisition of three commercial laboratories. Singulab did not acquire these three commercial laboratories and at December 31, 2012 is a dormant company. KHS is the sole corporate member of KSI and, therefore, controls KSI and through it, ATM and Singulab. On February 25, 2005, the Articles of Organization for KHS Security Agency, LLC (a New York limited liability company) ("KHS Security") were filed with the Secretary of State of the State of New York. KHS Security was formed to provide security guard services to the Medical Center and Nursing Home. KHS is the sole member of KHS Security.

Kingsbrook Jewish Medical Center Foundation, Inc. (the "Foundation") was formed on February 13, 1987 for the purpose of, among other things, rendering assistance and making grants to the Medical Center. KHS is the sole corporate member of the Foundation.

Kingsbrook Medical Associates, P.C. (the "PC") is a "captive" professional corporation that was incorporated on May 12, 2011. It was formed to facilitate the billing and collection of professional services (Part B) revenue by physicians currently employed by the Medical Center. The shareholders in the PC are two physician leaders at the Medical Center (Sibte Burney, M.D. and Wilfrid Herard, M.D.) whose shares of stock are subject to a Stock Transfer Restriction Agreement, thus making the PC a "captive."

Note 2. Summary of Significant Accounting Policies

The following is a summary of significant accounting policies:

<u>Basis of Financial Statement Presentation</u>: The combined financial statements are prepared on the accrual basis of accounting. For financial reporting purposes the Medical Center and Nursing Home, which are under common control, are combined and herein are referred to collectively as the "Company". All significant intercompany transactions have been eliminated.

Note 2. Summary of Significant Accounting Policies (Continued)

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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant estimates relate to patient accounts receivable allowances, self-insurance liabilities, estimated third-party settlements and estimated employee benefit costs. Actual results could differ from those estimates.

During 2012 and 2011, amounts recognized related to prior years, including adjustments to prior-year estimates, increased the performance indicator by $4,153 and $5,800, respectively.

Income Taxes: The Company is exempt from income taxes under Sections 501(c)(3) and 509(a)(3) of the Internal Revenue Code (the “Code”). Additionally, the Company, as a nonprofit entity, is subject to unrelated business income tax ("UBIT"), if applicable. For the tax years ended December 31, 2012 and 2011, the Company did not owe any UBIT.

Management evaluated the Company's tax positions for all open tax years and has concluded that the Company had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 740, *Accounting for Income Taxes*.

The Company is subject to U.S. federal and state examinations by tax authorities for fiscal years ended December 31, 2009 and thereafter. Per the requirement to assess for tax uncertainty, management has determined that it does not have any uncertain tax positions required to be reported.

Cash and Cash Equivalents: The Company classifies as cash equivalents all highly liquid investments with a maturity of three months or less when purchased which are not assets limited as to use or held in the marketable securities portfolio. The Company maintains cash on deposit with major banks, invests in money market securities with high-credit-quality financial institutions and limits the credit exposure to any one financial institution. Included in cash and cash equivalents are amounts in excess of federally insured limits. However, management believes that the credit risk related to these deposits is minimal.

Cash Funds Held in Trust for Residents: Funds for the personal use of residents are maintained for them by the Nursing Home. These funds are segregated in a separate interest-bearing account for the residents’ benefit and are not available for other uses.

Investments: Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the combined balance sheets. Investment income or loss consists of interest, dividends, realized gains or losses on investments sold or redeemed and recognized other than temporary declines in market value of investments. Investment income is included in (deficiency) excess of revenues over expenses unless the income or loss is restricted by donor or law.

Note 2. Summary of Significant Accounting Policies (Continued)

Fair Value of Financial Instruments: The Company follows FASB ASC 820, *Fair Value Measurements and Disclosures*, which provides a framework for measuring fair value under accounting principles generally accepted in the United States of America, and applies to all financial instruments that are being measured and reported on a fair value basis. FASB ASC 820 sets out a fair value hierarchy and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy is defined as follows:

Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date. The types of investments in Level 1 generally include listed equities.

Level 2: Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly, including inputs in markets that are not considered to be active. Investments in this category generally include corporate debt, U.S. government debt, and less liquid securities such as securities traded on certain foreign exchanges. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement.

Level 3: Inputs that are unobservable for the asset or liability and that include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimates. Investments in this category generally include equity and debt positions in private companies.

Assets and liabilities measured at fair value are based on one or more of three valuation techniques. The three valuation techniques are as follows:

- Market approach - Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;

- Cost approach - Amount that would be required to replace the service capacity of an asset (i.e., replacement cost); and

- Income approach - Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing models, and lattice models).

The Company assesses the levels of the investments at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer in accordance with its accounting policy regarding the recognition of transfers between levels of the fair value hierarchy. There were no significant transfers among Levels 1, 2 and 3 during the year.

The Company also applies an amendment to FASB ASC 820, Accounting Standards Update (“ASU”) 2010-06, *Fair Value Measurements and Disclosures - Improving Disclosures about Fair Value Measurements*, which requires new disclosures concerning the reasons for transferring financial assets and liabilities between Levels 1 and 2. This amendment also clarifies that fair value measurement disclosures are required for each class of financial assets and liabilities, and disclosures about inputs and valuation techniques are required for both Level 2 and Level 3 measurements. It further clarifies that the reconciliation of Level 3 measurements should separately present purchases, sales, issuances and settlements instead of netting these changes.

Impairment of Investments: Investments are reviewed for impairment whenever events or changes in circumstances indicate that the fair value of investments below cost will be considered other than temporary. There were no such losses reported for the years ended December 31, 2012 and 2011.

Note 2. Summary of Significant Accounting Policies (Continued)

Assets Limited as to Use: Assets so classified represent assets whose use is restricted for specific purposes under a self-insurance trust agreement, donor restrictions, internal designations, and terms of debt and lease agreements. Amounts required to meet current liabilities of the Company have been classified in the combined balance sheets as current assets at December 31, 2012 and 2011.

Accounts Receivable: Patient/resident accounts receivable for which the Company receives payment under prospective payment cost reimbursement formulae or negotiated rates, which cover the majority of patient services, are stated at the estimated net amounts receivable from payors, which are generally less than the established billing rates of the Company. The allowance for doubtful accounts is based upon management's assessment of historical and expected cash collections, business and economic conditions, trends in federal and state governmental and other collection indicators. See Note 3 for additional information relative to third-party payor programs.

Inventories: Inventories consist primarily of medical materials, and are stated at the lower of cost, determined on a first-in, first-out basis, or market.

Property, Buildings and Equipment: Property, buildings and equipment purchased are carried at cost less accumulated depreciation. The carrying amount of assets and the related accumulated depreciation and amortization are removed from the accounts when such assets are disposed of, and any resulting gain or loss is included in the combined statements of operations. Depreciation is computed using the straight-line method over the estimated useful lives of all assets ranging from 3 to 30 years. Assets acquired under capitalized leases are recorded at the present value of the minimum lease payments at the inception of the lease. Equipment under capital lease obligations is amortized using the straight-line method over the lesser of the estimated useful life of the assets or lease term. Such amortization is included in depreciation and amortization in the accompanying combined statements of operations.

Asset Retirement Obligations: Asset retirement obligations, reported in estimated third-party settlements and other noncurrent liabilities in the combined balance sheets, are legal obligations associated with the retirement of long-lived assets. These liabilities are initially recorded at fair value and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, the Company accounts for changes in the liability resulting from the passage of time and revisions to either the timing or the amounts of the original estimate of undiscounted cash flows as an increase or decrease to its asset retirement obligation with a corresponding amount in the combined statements of operations. The Company reduces these liabilities when the related obligations are settled. At December 31, 2012 and 2011, the Company recorded approximately $2.2 million in asset retirement obligations.

Interest in Kingsbrook Jewish Medical Center Foundation, Inc.: The Company recognizes its accumulated interest in net assets held by the Foundation as Interest in the Kingsbrook Jewish Medical Center Foundation, Inc. The Company has the ability to influence the timing and amount of distributions (either directly or indirectly) and therefore has classified its interest in the net assets as unrestricted. The periodic changes in such interest are reflected in the combined statements of operations and changes in unrestricted net assets.

Defined Benefit Pensions and Other Postretirement Plans: The Company follows pension accounting which requires plan sponsors of defined benefit pension and postretirement benefit plans to recognize the overfunded or underfunded status of its plans in the combined balance sheets, measure the fair value of plan assets and benefit obligations as of the fiscal year-ends, and provide additional disclosures. The guidance also requires that changes that occur in the funded status of the plans be recognized by the Company in the year in which the changes occur as a change in unrestricted net assets presented below (deficiency) excess of revenues over expenses in the combined statements of operations and changes in unrestricted net assets (deficit).

Note 2. Summary of Significant Accounting Policies (Continued)

Vacation Benefits: These benefits are accrued as earned.

Unrestricted Net Assets: Unrestricted net assets are not restricted by donors or the donor-imposed restrictions have expired. They include resources under the full control of the Board of Trustees for use in achieving the purposes of the Company.

Temporarily Restricted Net Assets: Temporarily restricted net assets are those whose use by the Company has been limited by donors to a specific time frame or purpose. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are included in the accompanying combined financial statements as net assets released from restrictions for operating purposes or as a transfer for capital acquisitions. As of December 31, 2012 and 2011, there were no donor-restricted net assets.

Net Patient and Resident Service Revenue: The Company has agreements with third-party payors that provide for payments to the Company at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem rates. Net patient and resident services revenue is reported at the estimated net amounts due from patients, residents, and third-party payors for services rendered. For uninsured patients and residents that do not qualify for charity care, the Company recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a portion of the Company's uninsured patients and residents will be unable and unwilling to pay for services provided. Thus, the Company records a provision for bad debts related to uninsured patients in the period the services are provided. This provision for bad debts is presented on the accompanying combined statements of operations as a component of net patient and resident services revenue.

Charity Care: The Company provides care to patients who meet certain criteria defined by the New York Public Health Law without charge or at amounts less than its established rates. The Company maintains records to identify and monitor the level of charity care provided. These records include the amount of charges foregone for services and supplies furnished. The Company receives partial reimbursement for the uncompensated care provided. Of the Company's $269.3 million and $259.5 million of total combined expenses reported for 2012 and 2011, respectively, an estimated cost of $6,923 and $5,822 for 2012 and 2011, respectively, is attributable to providing services to charity patients. The estimated costs of providing charity care services are based on a calculation which applies a ratio of cost to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charge is calculated based on the Company's total expenses, including bad debt expense, divided by gross patient service revenue.

On February 19, 2004, the Secretary of Health and Human Services confirmed that hospitals can provide discounts for uninsured patients, which allowed the Medical Center to implement a discount policy in accordance with state law. The Medical Center's goal was to create a financial aid program that is consistent with the mission, values, and capacity of the Medical Center, while considering an individual's ability to contribute to his or her care.

Performance Indicator: The combined statements of operations include (deficiency) excess of revenues over expenses as the performance indicator. Changes in unrestricted net assets, which are excluded from the performance indicator, consistent with industry practice, include pension-related changes other than net periodic pension costs.

(in thousands of dollars)

Note 2. Summary of Significant Accounting Policies (Continued)

Contributions, Legacies and Bequests: Contributions unrestricted as to use are reflected within the caption other revenues in the accompanying combined statements of operations. Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from (deficiency) excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed into service.

Grants and Subsidies: Grants for specific operating and capital purposes are included in other revenues in the period in which qualified expenditures are made and were approximately $5,771 and $4,253 for the years ended December 31, 2012 and 2011, respectively.

Functional Allocations of Expenses: The costs of providing the Company’s programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Program Services: The Company’s program services consist of providing healthcare and related services to patients/residents within its geographic area. Program expenses related to providing these services are as follows:

	December 31,	
	2012	2011
Healthcare services	**$ 225,694**	$ 217,483
General and administrative	**43,630**	42,043
	$ 269,324	$ 259,526

Reclassifications: Certain amounts in the 2011 combined financial statements have been reclassified to conform to the current year's presentation with no change to net assets (deficit) or (deficiency) excess of revenues over expenses.

Recent Accounting Pronouncement: In 2012, the Company changed its method of presentation and disclosure of patient and resident services revenue, provision for uncollectible accounts, and the allowance for uncollectible accounts in accordance with FASB ASU 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and Allowance for Doubtful Accounts for Certain Health Care Entities.* The major changes associated with ASU 2011-07 are to reclassify the provision for bad debts related to patient and resident services revenue to a deduction from patient and resident services revenue and to provide enhanced disclosure related to the Company’s policies related to bad debts. As a result of adopting ASU 2011-07, total net patient and resident service revenue, total revenues and total expenses decreased by $7,959 and $8,913 for the years ended December 31, 2012 and 2011, respectively. The change had no effect on income from current activities or on prior-year change in net assets (deficit).

Note 3. Net Patient and Resident Service Revenue, Accounts Receivable and Allowance for Doubtful Accounts

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

Note 3. Net Patient and Resident Service Revenue, Accounts Receivable and Allowance for Doubtful Accounts (Continued)

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

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

Federal and state law requires that hospitals provide emergency services regardless of a patient's ability to pay. Uninsured patients seen in the emergency department, including patients subsequently admitted for inpatient services, often do not provide information necessary to allow the Medical Center to qualify such patients for charity care. Uncollectible amounts due from such uninsured patients represent the substantial portion of the provision for bad debts reflected in the accompanying combined statements of operations. The Medical Center records a significant provision for bad debts related to uninsured patients in the period the services are provided.

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

- Medicare: Inpatient acute care and certain nonacute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain inpatient nonacute services and defined medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Company is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary.

- 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 hospitals' payment rates. If negotiated rates are not established, payors are billed at hospitals' established charges. Medicaid, workers' compensation and no-fault payors pay hospital rates promulgated by the New York State Department of Health on a prospective basis. Adjustments to current and prior years' rates for these payors will continue to be made in the future.

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

Revenue from the Medicare and Medicaid programs accounted for approximately 36% and 12% and 37% and 13% of the Medical Center's gross patient service revenue for the years ended December 31, 2012 and 2011, respectively.

The Medical Center's and the Nursing Home's cost reports have been audited and finalized by the Medicare fiscal intermediary through December 31, 2007.

(in thousands of dollars)

Note 3. Net Patient and Resident Service Revenue, Accounts Receivable and Allowance for Doubtful Accounts (Continued)

Resident and patient revenue of the Nursing Home is recorded at established rates when services are performed. Reimbursement by third-party payor programs under the provisions of reimbursement formulae or negotiated rates are generally less than the established billing rates of the Nursing Home. Adjustments for such differences are recorded as contractual allowances and are deducted directly from accounts receivable and patient and resident revenue in the period incurred.

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 repayment of amounts improperly reimbursed, fines, penalties and exclusion from such programs. The Company is not aware of any allegations of noncompliance that could have a material adverse effect on the combined financial statements and believes that it is in compliance, in all material respects, with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing.

Similar to most healthcare organizations, the Company grants credit without collateral to its patients, most of whom are residents of Brooklyn and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at December 31, 2012 and 2011 was as follows:

	2012	2011
Medicare	**20%**	21%
Medicaid	**22%**	22%
Commercial	**39%**	38%
Self-pay	**19%**	19%
	100%	100%

Net patient and resident service revenue for the years ended December 31 consisted of the following:

	2012	2011
Net patient and resident service revenue (net of contractual allowances and discounts)	**$ 255,806**	$ 265,258
Less provision for bad debts	**7,959**	8,913
Net patient and resident service revenue	**$ 247,847**	$ 256,345

The Company recognizes patient and resident services revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients and residents that do not quality for charity care, the Company recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a portion of the Company's patients and residents will be unable or unwilling to pay for the services provided. Patient and resident services revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the year ended

(in thousands of dollars)

Note 3. Net Patient and Resident Service Revenue, Accounts Receivable and Allowance for Doubtful Accounts (Continued)

December 31, 2012, from these major payor sources, are as follows:

	Third-Party Payors	Self-Pay	Total All Payors
Net patient and resident service revenue (net of contractual allowances and discounts)	$ 252,145	$ 3,661	$ 255,806

The Medical Center engaged an outside consultant to review the Medical Center's billings to Fidelis Care ("Fidelis") for the years ended December 31, 2006 to 2013 to ensure accurate reimbursement. The Medical Center reached an agreement with Fidelis in 2013, to settle all years under review for $2 million. The money was received by the Medical Center in April 2013, and recognized as accounts receivable and revenue in the December 31, 2012 combined financial statements.

Note 4. Incentive Revenue

The Health Information Technology for Economic and Clinic Health ("HITECH") portion of the American Recovery and Reinvestment Act of 2009 included $27 billion in incentives through Medicare and Medicaid reimbursement systems to foster electronic health record ("EHR") adoption. In order to be eligible for EHR incentive funding, eligible hospitals and professionals must used a certified EHR, report quality measures, and achieve "meaningful use," as defined by HITECH. The Company is entitled to receive Medicare and Medicaid incentive payments for the adoption of certified EHR technology for its eligible hospitals and employed physicians, as the Company has satisfied the statutory and regulatory requirements. The Company applies the grant accounting model for recognizing incentive revenue. As a result, incentives earned totaling $3.6 million for the year ended December 31, 2012 are included in other revenue. Income from incentive payments is subject to retrospective adjustments as the incentive payments are calculated by Medicare cost report data that is subject to audit. Additionally, the Company's compliance with the meaningful use criteria is subject to audit by the federal government.

Note 5. Assets Limited as to Use and Investments

Assets limited as to use are restricted for the following purposes:

	December 31,	
	2012	2011
Board-designated funds	**$ 10,000**	$ 10,000
Mortgage reserve fund	**3,305**	3,306
Professional liabilities trust fund	**68**	1,216
Mortgage escrow	**106**	61
Operating escrow	**2,448**	2,261
Other	**311**	311
	16,238	17,155
Less current portion of assets limited to use	**10,485**	11,588
	$ 5,753	$ 5,567

(in thousands of dollars)

Note 5. Assets Limited as to Use and Investments (Continued)

The Board of Trustees designated funds of $10 million at December 31, 2012 and 2011 that are not restricted and that can be used for the paying of current liabilities.

The composition of investments, assets limited as to use and Interest in Kingsbrook Jewish Medical Center Foundation, Inc. at December 31, 2012 and 2011 consists of:

	2012	2011
Cash and money market funds	**$ 7,442**	$ 8,341
Certificates of deposit	**8,662**	8,665
U.S. Treasury obligations	**930**	931
Equity securities	**821**	666
	$ 17,855	$ 18,603

Investment income and gains are compromised of the following:

	Year Ended December 31,	
	2012	2011
Interest and dividend income	**$ 172**	$ 198

The table below reports the fair value measurements of investments using the fair value hierarchy defined in Note 2 at December 31, 2012 and 2011:

	Fair Value at December 31, 2012	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Money market funds	**$ 4,131**	**$ 4,131**	**$ -**	**$ -**
U.S. Treasury obligations	**930**	**930**	**-**	**-**
Equity securities	**821**	**821**	**-**	**-**
	$ 5,882	**$ 5,882**	**$ -**	**$ -**

	Fair Value at December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	$ 4,131	$ 4,131	$ -	$ -
U.S. Treasury obligations	931	931	-	-
Equity securities	666	666	-	-
	$ 5,728	$ 5,728	$ -	$ -

(in thousands of dollars)

Note 6. Property, Buildings and Equipment

Property, buildings and equipment consist of the following:

	December 31, 2012	December 31, 2011
Land and land improvements	**$ 1,881**	$ 1,838
Buildings and improvements	**87,431**	83,793
Fixed equipment	**47,197**	45,330
Movable equipment	**99,337**	94,355
	235,846	225,316
Less accumulated depreciation and amortization	**192,595**	184,709
	43,251	40,607
Construction-in-progress	**1,902**	3,793
	$ 45,153	$ 44,400

Depreciation and amortization expense for the years ended December 31, 2012 and 2011 was $7,886 and $8,259, respectively. Substantially all of the Company's property, buildings and equipment are pledged as collateral under various debt arrangements.

Note 7. Long-Term Debt

A summary of long-term debt at December 31, 2012 and 2011 follows:

	December 31, 2012	December 31, 2011
Section 242 insured mortgage loan (a)	**$ 6,776**	$ 8,205
Mortgage payable (b)	**2,310**	4,115
Restructuring pool loan (c)	**886**	1,000
Notes payable (d)	**554**	828
Capital leases (e)	**2,615**	3,731
	13,141	17,879
Less current portion	**4,968**	4,811
	$ 8,173	$ 13,068

(a) FHA Section 242 Insured Mortgage Loan: The Medical Center's mortgage is insured under the provisions of the Federal Housing Agency ("FHA") Section 242 Program with the Dormitory Authority of the State of New York ("DASNY"). The mortgage carries an interest rate of 4.96%. Monthly principal and interest payments are due through March 2017.

(in thousands of dollars)

Note 7. Long-Term Debt (Continued)

Mortgage Reserve Fund: Pursuant to the mortgage agreement and related documents, the Medical Center is required to maintain a Mortgage Reserve Fund ("MRF") at a minimum level of $2,447 and $2,963 at December 31, 2012 and 2011, respectively. At December 31, 2012 and 2011, the MRF balance was $3,305 and $3,306, respectively, and is included in assets limited as to use.

Minimum balances for the mortgage reserve fund for each of the next three years are:

	Minimum Balance
2013	$ 1,932
2014	1,417
2015	902
2016	386

The Medical Center is required to comply with certain covenants, the most restrictive of which is to obtain approval to distribute assets or to incur additional debt above specified levels if profitability requirements are not met. The mortgage is collateralized by the Medical Center's land, buildings and equipment and gross receipts derived from operations.

Principal payments under the Section 242 insured mortgage loan for the next five years consist of:

2013	$ 1,501
2014	1,577
2015	1,657
2016	1,742
2017	299
	$ 6,776

(b) Mortgage Payable: The Nursing Home's mortgage agreement with the New York State Department of Health and the New York State Housing Finance Agency ("NYDOH and NYHFA") is commercially insured and requires monthly principal and interest payments through August 2016 and carries interest rates ranging from 3.6% to 5.2%. Pursuant to the mortgage agreement, the Company is, among other things, required to maintain a depreciation reserve fund used for fixed asset replacements and other funds. As of December 31, 2012, the Nursing Home met the funding requirements of the depreciation reserve fund. The mortgage is collateralized by substantially all of the Nursing Home's property, buildings and equipment and gross receipts derived from operations.

As part of NYS Health Efficiency and Affordability Law ("HEAL") NY Phase 20 – Alternatives for Long-Term Care Initiatives, Phase 2, the Nursing Home was approved for $4.6 million in funding to decertify 60 Nursing Home beds. The beds were decertified in 2012, and funding was received in February 2013. As part of this funding, $750 will be applied towards the Nursing Home's outstanding mortgage. The $750 was recorded as a reduction in the mortgage payable at December 31, 2012.

(in thousands of dollars)

Note 7. Long-Term Debt (Continued)

Principal payments under the NYDOH and NYHFA mortgage for the next three years consist of:

2013	$	1,110
2014		955
2015		245
	$	2,310

(c) Restructuring Pool Loan: The Medical Center borrowed, through DASNY, $2,425, of which $886 was outstanding at December 31, 2012.

Based on the recommendations of New York State's Governor Cuomo's Medicaid Redesign Team, the Medical Center submitted an application to apply for funding under the HEAL act. The purpose of this HEAL grant was to acquire funding to pay back previously issued healthcare restructuring loans issued from DASNY. The Medical Center was awarded $1.4 million, which was paid directly from the state to DASNY. The $1.4 million was recorded in the year ended December 31, 2012 as reduction in the loan.

The loan does not bear interest and in-kind interest has not been recorded. Principal payments under the restructuring pool loan consists of:

2013	$	664
2014		222
	$	886

(d) Notes Payable: In December 2012, the Company signed a note for $511 with a lender to finance its annual insurance premiums. The note bears an interest rate of 3.5% and provides for monthly payments of approximately $51 and the first payment was made in January 2013.

In July 2010, the Company signed a three-year note for $256 with a vendor to finance the purchase of computer software. There is no interest rate and in-kind interest has not been recorded. The note provides for monthly payments of $7. The computer software has been pledged as collateral. The outstanding balance at December 31, 2012 is $43.

(e) Capital Leases: Scheduled payments on capital lease obligations are in the following table. Interest rates related to these capital lease obligations range from 4.0% to 12.3%. The various assets purchased from these lease agreements have been pledged as collateral. Payments under the capital leases consist of:

2013	$	1,291
2014		966
2015		486
2016		129
		2,872
Less imputed interest		(257)
	$	2,615

(in thousands of dollars)

Note 7. Long-Term Debt (Continued)

The fair value of long-term debt excluding capital leases at December 31, 2012 and 2011 is $10,991 and $19,976, respectively. Fair values are based on current borrowing rates for similar types of debt, using discounted cash flow analyses.

In 2010, the Company entered into a structured settlement agreement (“PRI Liability”) with the New York State Department of Health relating to previously established liabilities. Pursuant to the agreement, the liability will be settled through a combination of withholdings of future Medicaid reimbursements, additional repayments based on predetermined excess operating cash thresholds, and through withholdings of future positive retroactive adjustments. The outstanding liability at December 31, 2012 and 2011 is approximately $24.1 million and $23.6 million, respectively, and is properly segregated between current and long-term based on the expected payment stream. Expected annual payments, exclusive of withholdings of future positive retroactive adjustments, approximate $490.

Note 8. Commitments and Contingencies

The following schedule presents future minimum lease payments under noncancelable operating leases at December 31, 2012:

2013	$ 1,101
2014	1,053
2015	808
2016	278
	$ 3,240

Total rental expense charged to operations aggregated approximately $1,338 and $1,437 for the years ended December 31, 2012 and 2011, respectively.

Various lawsuits and claims arising in the normal course of operations are pending or are in progress against the Company. Such lawsuits and claims are either specifically covered by insurance or are not deemed material by management. While the outcome of these lawsuits cannot be determined at this time, management believes the ultimate outcome of these matters will not have a material adverse effect on the financial position, results of operations, or cash flows of the Company.

At December 31, 2012, approximately 82% of the Company’s total employees are covered by collective bargaining agreements.

Laws and regulations concerning government programs, including Medicare, Medicaid, and various grant programs, are complex and subject to varying interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. As a result of the nationwide investigations by government agencies, various healthcare organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties and potential exclusion from the related programs. The Company expects that the level of review and audit to which it and other healthcare providers are subject will increase. There can be no assurance that regulatory authorities will not challenge the Company’s compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Company.

(in thousands of dollars)

Note 8. Commitments and Contingencies (Continued)

The Centers for Medicare Services ("CMS") implemented a project using recovery auditors as part of CMS's further efforts to assure accurate payments. The project uses the recovery auditors to search for potentially inaccurate Medicare payments that may have been made to healthcare providers and that were not detected through existing CMS program integrity efforts. Once a recovery auditor identifies a claim believed to be inaccurate, the recovery auditor makes a deduction from or addition to the provider's Medicare reimbursement in an amount estimated to equal the overpayment or underpayment. The Company will deduct from revenue amounts assessed under the Recovery Audit Program ("RAP") audits at the time a notice is received until such time the estimates of net amounts due can be reasonably estimated. RAP assessments against the Company are anticipated; however, the outcome of such assessments are unknown and cannot be reasonably estimated.

In March 2010, President Obama signed the Patient Protection and Affordable Care Act ("PPACA") into law. PPACA will result in sweeping changes across the healthcare industry, including how care is provided and paid. A primary goal of this comprehensive reform legislation is to extend health coverage, to approximately 32 million uninsured legal U.S. residents through a combination of public program expansion and private sector health insurance reforms. To fund the expansion of insurance coverage, the legislation contains measures designed to promote quality and cost efficiency in healthcare delivery and to generate budgetary savings in the Medicare and Medicaid programs. Given that the final regulations and interpretive guidelines have yet to be published, the Company is unable to fully predict the impact of PPACA on its operations and financial results. The Company's management expects that in the coming years, patients that were previously uninsured and unable to pay for care will have basic insurance coverage, and amounts for reimbursement for services from both public and private payors will be reduced and made conditional on various quality measures. Management of the Company is studying and evaluating the anticipated impact and developing strategies needed to prepare form implementation, and is preparing to work cooperatively with other constituents to optimize available reimbursement.

Note 9. Interest in Foundation

Assets held by the Foundation for which the Company is deemed to have an economic interest consist of cash and marketable securities (at fair value). These assets were comprised of the following at December 31, 2012 and 2011:

	2012	2011
Cash and cash equivalents	**$ 778**	$ 670
Equity securities	**730**	666
	$ 1,508	$ 1,336

Note 10. Pension and Similar Benefit Plans

The Company has various pension plans and postretirement benefit plans.

Union employees are covered by the Company's contributions to the union fund. Total annual expense of the plan was $7,514 and $7,043 for the years ended December 31, 2012 and 2011, respectively.

Nonunion employees are covered by the Health Services Retirement Plan ("HSRP"), which is a collection of 10 single employer plans co-administered and co-invested as a defined benefit plan. This plan allows for amortization of prior service costs, for funding purposes, over a period of up to 30 years. Effective January 1, 2002, the Company amended its retirement plan document to curtail future benefits of the defined benefit pension plan. As a result of the plan amendment, employees no longer earn additional defined benefits for future services.

The Company has a contributory postretirement medical benefit plan and a noncontributory postretirement life insurance benefit plan which cover all nonunion employees that have a minimum of 10 years of service and attained age 55 by December 31, 1994 or have a minimum of 20 years of service and have attained age 65 by December 31, 1994. Spouses receive medical benefits coverage up to the end of the calendar year when the retiree dies, or six months following the retiree's death, whichever is less. As a result of the plan amendment, employees no longer earn additional benefits for future services.

There are no employee contributions for grandfathered retirees for the Medicare supplemental plan. For retirees and active employees who are not grandfathered by July 1, 1995, the retirees must contribute the excess of $700 and $500 per annum per retiree and per spouse, respectively, for the Medicare supplemental plan and other benefits. Life insurance benefits are $5,000 for all future retirees. Current retiree life insurance benefits of $5,000 or less are grandfathered.

(in thousands of dollars)

Note 10. Pension and Similar Benefit Plans (Continued)

The following table summarizes the pension and postretirement plans benefit obligation, fair value of plan assets, and the funded status as of December 31:

	Retirement Benefits		Postretirement Benefits	
	2012	2011	**2012**	2011
Change in benefit obligation				
Benefit obligation at beginning of year	**$ 18,615**	$ 16,634	**$ 1,468**	$ 1,466
Interest cost	**701**	786	**54**	72
Actuarial loss	**690**	2,266	**96**	-
Benefits paid	**(1,346)**	(1,071)	**(89)**	(70)
Benefit obligation at end year	**18,660**	18,615	**1,529**	1,468
Change in plan assets				
Fair value of plan assets at beginning of year	**11,442**	12,833	**-**	-
Actual return on plan assets	**990**	(319)	**-**	-
Employer contributions	**987**	-	**89**	70
Benefits paid	**(1,346)**	(1,072)	**(89)**	(70)
Fair value of plan assets at end of year	**12,073**	11,442	**-**	-
Funded status	**$ (6,587)**	$ (7,173)	**$ (1,529)**	$ (1,468)
Amounts recognized in the combined balance sheets consist of:				
Current liabilities	**$ -**	$ -	**$ (121)**	$ (116)
Noncurrent liabilities	**(6,587)**	(7,173)	**(1,408)**	(1,352)
Net amounts recognized	**$ (6,587)**	$ (7,173)	**$ (1,529)**	$ (1,468)
Amounts recognized in net unrestricted assets consist of:				
Transaction obligation	**$ -**	$ -	**$ 144**	$ 216
Net loss (gain)	**9,860**	9,852	**29**	(67)
Prior service	**3**	5	**-**	2
Total amounts recognized	**$ 9,863**	$ 9,857	**$ 173**	$ 151
Amounts in net unrestricted assets expected to be recognized in net periodic benefit cost in next year				
Amortization of transition obligation	**$ -**	$ -	**$ 72**	$ 72
Amortization of prior service cost	**2**	2	**2**	9
	$ 2	$ 2	**$ 74**	$ 81

(in thousands of dollars)

Note 10. Pension and Similar Benefit Plans (Continued)

Weighted-average assumptions used to determine benefit obligations at December 31 are as follows:

	Retirement Benefits		Postretirement Benefits	
	2012	2011	**2012**	2011
Discount rate	**3.48%**	4.02%	**3.11%**	3.78%
Rate of compensation increase	**N/A**	N/A	**N/A**	N/A
Medical cost inflation per year	**N/A**	N/A	**5.00%**	5.00%
Year that rate reaches ultimate trend rate	**N/A**	N/A	**2012**	2011

The healthcare trend rate used in the expense computation for 2012 and 2011 is 5%, which is the ultimate trend rate. The healthcare cost trend rate assumption has an insignificant effect on the amounts reported.

In 2012, the effect of a 1% change in the healthcare cost trend rate is as follows:

	1% Increase	1% Decrease
Effect on total service and interest cost	$ 6	$ 4
Effect on postretirement benefit obligation	155	103

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

	Retirement Benefits		Postretirement Benefits	
	2012	2011	**2012**	2011
Discount rate	**4.02%**	5.04%	**3.78%**	5.00%
Expected long-term return on plan assets	**7.75%**	7.75%	**N/A**	N/A
Rate of compensation increase	**N/A**	N/A	**N/A**	N/A

(in thousands of dollars)

Note 10. Pension and Similar Benefit Plans (Continued)

The following table provides the components of the net periodic benefit cost for the plans for the years ended December 31:

	Retirement Benefits		Postretirement Benefits	
	2012	2011	**2012**	2011
Components of net periodic benefit (credit cost)				
Interest cost	**$ 701**	$ 786	**$ 54**	$ 71
Amortization of loss (gain)	**676**	392	**-**	-
Net amortization of transition obligation	**-**	-	**72**	72
Expected return on plan assets	**(985)**	(1,021)	**-**	-
Net amortization of prior service cost	**2**	2	**2**	9
Net periodic benefit cost	**394**	159	**128**	152
Other changes in net unrestricted assets				
Recognized in net unrestricted assets				
Net loss (gain)	**685**	3,606	**-**	-
Amortization of loss	**(676)**	(392)	**-**	-
Amortization of prior service cost	**(2)**	(2)	**-**	-
Total recognized net unrestricted assets	**7**	3,212	**-**	-
Total recognized in net periodic benefit cost and net unrestricted assets	**$ 401**	$ 3,371	**$ 128**	$ 152

Basis Used to Determine the Expected Long-Term Rate of Return of Assets

The assets in the plan trust are invested in a mix of equity and fixed income securities, with a current weighting of about 60%. The long-term compound annual returns in the past 20-, 30-, 40-, or 50-year periods has ranged from 6.76% to 9.16% for various mixes of fixed income securities. The returns on large-cap U.S. equities have ranged from 10.6% to 12.99% for those same periods. Based on the plan's mix, and these historical statistics, HSRP believes that an asset return assumption in the range of 7.5% to 8.5% is reasonable.

The measurement date used to determine pension and postretirement benefit measurements is December 31.

(in thousands of dollars)

Note 10. Pension and Similar Benefit Plans (Continued)

Plan Assets

The Company's pension plan weighted-average allocations at December 31, by asset category, are as follows:

	Plan Assets 2012	Plan Assets 2011
Equity securities	**42** %	46 %
Debt	**21**	24
Other	**37**	30
	100 %	100 %

The following table summarizes the Plan's financial instruments, not included with the Company's combined balance sheets, measured at fair value on a recurring basis by caption and by level within the valuation hierarchy as described in Note 2 as of December 31, 2012 and 2011:

	Fair Value December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Plan assets:				
Cash and cash equivalents	$ 513	$ -	$ 513	$ -
Equity:				
Domestic	2,628	2,628	-	-
Global	1,711	713	998	-
Emerging markets	780	241	539	-
Fixed income	2,483	1,484	999	-
Marketable alternatives	1,964	328	-	1,636
Inflation hedging	1,665	443	1,222	-
Nonmarketable alternatives	329	-	-	329
	$ 12,073	$ 5,837	$ 4,271	$ 1,965

(in thousands of dollars)

Note 10. Pension and Similar Benefit Plans (Continued)

	Fair Value December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Plan assets:				
Cash and cash equivalents	$ 211	$ -	$ 211	$ -
Equity:				
Domestic	2,787	2,787	-	-
Global	1,497	581	916	-
Emerging markets	569	71	498	-
Fixed income	2,733	1,679	1,054	-
Marketable alternatives	1,798	188	-	1,610
Inflation hedging	1,587	376	1,211	-
Nonmarketable alternatives	260	-	-	260
	$ 11,442	$ 5,682	$ 3,890	$ 1,870

The Company's valuation methods and assumptions have been described in Note 2.

The table below presents the change in fair value measurements that used Level 3 inputs during the years ended December 31, 2012 and 2011:

	2012		2011	
	Marketable Alternatives	**Nonmarketable Alternatives**	Marketable Alternatives	Nonmarketable Alternatives
Balance, beginning of year	**$ 1,610**	**$ 260**	$ 1,816	$ 216
Realized gain (loss) on securities	**6**	**(2)**	(1)	(8)
Transfers and fees	**-**	**(24)**	(57)	(14)
Unrealized gain (loss) on securities	**20**	**18**	(148)	28
Net redemptions on investments	**-**	**77**	-	38
Balance, end of year	**$ 1,636**	**$ 329**	$ 1,610	$ 260

(in thousands of dollars)

Note 10. Pension and Similar Benefit Plans (Continued)

Description of Investment Policies and Strategies

The plan's assets have a target allocation as follows:

	Target Allocation	Allowable Range
U.S. Equity	21.00%	16%-26%
Global ex. U.S. Equity	14.00%	10%-20%
Emerging Markets Equity	6.50%	5%-8%
Hedge Funds	14.00%	10%-20%
Inflation Hedging/Real Assets	15.00%	10%-20%
Private Equity/Venture Capital	9.50%	0%-10%
Long Bonds	20.00%	15%-25%
Cash	0.00%	0%-5%
	100.00%	100%

The investment policy of the plan's trust is to maintain a diversified portfolio with a target allocation of approximately 60% equities and 40% fixed income.

The objective for the non-U.S. stock component is to provide broad exposure to developed and emerging markets, best represented by the Morgan Stanley Capital International All-Country World Ex-U.S. Index. The passive investment vehicle employed tracks the MSC1 EAFE Index that excludes the emerging markets. A dedicated active emerging markets allocation will be maintained within the non-U.S. stock component to offset the lack of emerging markets exposure in the passive portfolio. The target allocation of the aggregated dedicated emerging market portfolio relative to the passive portfolio will be the emerging market weight within the Morgan Stanley Capital International All-Country World Ex-U.S. Index with a permissible range of plus or minus 4%.

Ordinary cash flows will be used to maintain the allocation as close as practical to the normal allocation. If cash flows are insufficient to maintain the allocation within the permissible ranges as of any calendar quarter-end, the Health Services Retirement Plan ("HSRP") staff shall transfer balances as necessary between the asset classes to bring the allocation back to the target.

Funds are to be diversified in order to minimize the impact of large losses in individual investments. Multiple investment managers may be retained to further that end.

(in thousands of dollars)

Note 10. Pension and Similar Benefit Plans (Continued)

Estimated Future Benefit Payments

Benefit payments, which reflect expected future service, as appropriate, are expected to be:

	Pension Benefits	Postretirement Benefits
2013	$ 1,138	$ 122
2014	1,197	121
2015	1,175	124
2016	1,205	121
2017	1,164	117
Years 2018 to 2022	5,795	519

The Company has established a 403(b) defined contribution plan effective January 1, 2002 for all nonunion employees who work more than 1,000 hours and are at least age 21. Employer contributions of 6.25% to 9.50% are made to all eligible employees. Total expenses were approximately $1,587 and $2,378 for the years ended December 31, 2012 and 2011, respectively. Total contributions to the defined contribution plan for fiscal 2012 are expected to be $1,587.

On December 8, 2003, the Medical Prescription Drug, Improvement and Modernization Act of 2003 (the “Act”) was signed into law. The Act introduced a prescription drug benefit under Medicare Part D as well as a federal subsidy to employers whose plans provide an “actuarial equivalent” prescription drug benefit. As management opted not to apply for the subsidy, there was no impact on the 2012 and 2011 combined financial statements.

The Affordable Care Act was enacted in 2010 but was deemed not to have a significant impact on the Plan’s obligations.

Note 11. Insurance

Professional and General Liability Insurance: The Company maintains a self-insurance program for medical professional and general liability losses as follows:

Medical Professional Liability: The Company is self-insured for medical professional liability claims for occurrences subsequent to November 17, 1985. Prior to that date, the Company had commercial coverage with a variety of retention levels, which vary by year and type of claimant (i.e., patient, nonpatient).

General Liability: The Company self-insures for general liability claims for patients for occurrences from November 22, 1989 through December 31, 2000 and subsequent to January 1, 2001. The Company had commercial coverage with varying retention levels for nonpatient and patient losses for all other periods prior to November 1989.

The estimated discounted professional and general liabilities including incurred but not recorded claims from the Medical Center aggregated approximately $17,170 and $15,468 at December 31, 2012 and 2011, respectively, and are reflected in the Company’s combined balance sheets based on actuarially determined values and current estimates provided by external legal counsel.

Note 11. Insurance (Continued)

The Company funds a revocable self-insurance trust fund for the projected cost of future medical professional liabilities. Suggested funding levels are actuarially determined based on assumed funding levels and a projected investment return on the self-insured trust fund. At December 31, 2012 and 2011, the balance of the self-insurance trust fund was approximately $17,102 less and $14,252 less, respectively, than the actuarially determined suggested funding levels.

Note 12. Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist of accounts receivable, cash, and investments. The Company receives a significant portion of its payments for services rendered from a limited number of government and commercial third-party payors, including Medicare and Medicaid (see Note 3). At December 31, 2012 and 2011, the Company had approximately 42.30% and 39.42%, respectively, of its cash deposited in one financial institution. Investments, which include government and agency securities and stocks, are not concentrated in any corporation or industry. The Company has not historically incurred any significant credit losses outside the normal course of business.

Note 13. Related Party

At December 31, 2012, the Company advanced approximately $175 to the PC, an entity related through common control. The advance is unsecured, noninterest-bearing and payment is anticipated within one year.

Note 14. Subsequent Events

During 2012, the senior management of the Nursing Home entered into settlement talks with the New York State Department of Health ("DOH") for all open rate appeals. In May 2013, the Nursing Home received a signed agreement from DOH agreeing to a $7.3 million settlement, of which $2.1 million will be received in cash by the Nursing Home while the remaining $5.2 million will be applied to the Nursing Home's outstanding PRI Liability (see Note 7). The settlement is subject to final regulatory approval, which is in process. As such, no amounts have been recognized in the December 31, 2012 combined financial statements.

The Company evaluated events and transactions occurring subsequent to December 31, 2012 through May 31, 2013, the date of issuance of the combined financial statements. During this period, there were no subsequent events requiring recognition in the combined financial statements, other than what has been noted above. Additionally, there were no nonrecognized subsequent events requiring disclosure, other than what has been noted above.

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Kingsbrook Jewish Medical Center and Rutland Nursing Home, Inc.

Combining Balance Sheets
December 31, 2012 and 2011
(in thousands of dollars)

	Kingsbrook Jewish Medical Center	Rutland Nursing Home, Inc.	Eliminations	2012	2011
ASSETS					
Current Assets:					
Cash and cash equivalents	$ 3,138	$ 3,019	$ -	**$ 6,157**	$ 6,894
Cash - funds held in trust for residents	-	225	-	**225**	240
Investments	-	109	-	**109**	112
Assets limited as to use	10,067	418	-	**10,485**	11,588
Accounts receivable, less allowance for doubtful accounts of approximately $12,251 in 2012 and $11,553 in 2011	26,482	9,802	-	**36,284**	36,164
Inventories and other current assets	4,763	-	-	**4,763**	4,632
Other receivables	2,832	-	-	**2,832**	6,228
Total current assets	47,282	13,573	-	**60,855**	65,858
Assets Limited as to Use, less current portion	3,305	2,448	-	**5,753**	5,567
Property, Buildings and Equipment, net	38,186	6,967	-	**45,153**	44,400
Other Assets	738	-	-	**738**	2,053
Interest in Kingsbrook Jewish Medical Center Foundation, Inc.	1,508	-	-	**1,508**	1,336
Due From Related Organization	41,880	-	(41,880)	**-**	-
Total assets	$ 132,899	$ 22,988	$ (41,880)	**$ 114,007**	$ 119,214
LIABILITIES AND UNRESTRICTED NET ASSETS (DEFICIT)					
Current liabilities:					
Current portion of long-term debt	$ 3,858	$ 1,110	$ -	**$ 4,968**	$ 4,811
Accounts payable and accrued expenses	33,797	905	-	**34,702**	32,970
Accrued salaries and related liabilities	17,048	-	-	**17,048**	18,152
Funds held in trust for residents	-	225	-	**225**	240
Other current liabilities	10,109	490	-	**10,599**	10,244
Total current liabilities	64,812	2,730	-	**67,542**	66,417
Liabilities:					
Long-term debt, less current portion	6,973	1,200	-	**8,173**	13,068
Estimated self-insurance liabilities less current portion	13,617	-	-	**13,617**	12,178
Accrued pension liability	6,587	-	-	**6,587**	7,173
Accrued postretirement benefit cost	1,529	-	-	**1,529**	1,468
Due to related organization	-	41,880	(41,880)	**-**	-
Estimated third-party settlements and other noncurrent liabilities	8,066	25,231	-	**33,297**	30,770
Total liabilities	101,584	71,041	(41,880)	**130,745**	131,074
Unrestricted Net Assets (Deficit)	31,315	(48,053)	-	**(16,738)**	(11,860)
Total liabilities and unrestricted net assets (deficit)	$ 132,899	$ 22,988	$ (41,880)	**$ 114,007**	$ 119,214

Kingsbrook Jewish Medical Center and Rutland Nursing Home, Inc.

Combining Statements of Operations
Years Ended December 31, 2012 and 2011
(in thousands of dollars)

	Kingsbrook Jewish Medical Center	**Rutland Nursing Home, Inc.**	**Eliminations**	**2012**	2011
Revenues:					
Net patient and resident service revenue	$ 189,172	$ 66,634	$ -	**$ 255,806**	$ 265,258
Less provision for bad debts	5,609	2,350	-	**7,959**	8,913
Net patient and resident service revenue, less provision for bad debts	183,563	64,284	-	**247,847**	256,345
Other revenues	55,612	3,350	(42,888)	**16,074**	8,751
Total revenues	239,175	67,634	(42,888)	**263,921**	265,096
Expenses:					
Salaries and wages	99,205	37,630	-	**136,835**	136,823
Employee benefits	34,508	13,687	-	**48,195**	45,848
Supplies and other expenses	90,406	26,752	(42,888)	**74,270**	65,183
Depreciation and amortization	6,915	971	-	**7,886**	8,259
Interest	745	1,393	-	**2,138**	3,413
Total expenses	231,779	80,433	(42,888)	**269,324**	259,526
Excess (deficiency) of revenues over expenses	7,396	(12,799)	-	**(5,403)**	5,570
Other Changes in Unrestricted Net Assets:					
Pension-related changes other than net periodic pension costs	525	-	-	**525**	(3,374)
Other	-	-	-	**-**	(192)
Increase (decrease) in unrestricted net assets	$ 7,921	$ (12,799)	$ -	**$ (4,878)**	$ 2,004

Kingsbrook Jewish Medical Center and Rutland Nursing Home, Inc.

Combining Statements of Changes in Unrestricted Net Assets (Deficit)
Years Ended December 31, 2012 and 2011
(in thousands of dollars)

	Kingsbrook Jewish Medical Center Unrestricted	Rutland Nursing Home, Inc. Unrestricted	Total Unrestricted
Unrestricted net assets (deficit), December 31, 2010	$ 15,563	$ (29,427)	$ (13,864)
Excess (deficiency) of revenues over expenses	11,397	(5,827)	5,570
Pension-related changes other than net periodic pension costs	(3,374)	-	(3,374)
Other	(192)	-	(192)
Total change in unrestricted net assets	7,831	(5,827)	2,004
Unrestricted net assets (deficit), December 31, 2011	23,394	(35,254)	(11,860)
Excess (deficiency) of revenues over expenses	7,396	(12,799)	(5,403)
Pension-related changes other than net periodic pension costs	525	-	525
Total change in unrestricted net assets	7,921	(12,799)	(4,878)
Unrestricted net assets (deficit), December 31, 2012	**$ 31,315**	**$ (48,053)**	**$ (16,738)**