WYCKOFF HEIGHTS MEDICAL CENTER

Consolidated Financial Statements

December 31, 2012 and 2011

(With Independent Auditors' Report Thereon)

WYCKOFF HEIGHTS MEDICAL CENTER

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KPMG LLP
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Independent Auditors' Report

The Board of Trustees
Wyckoff Heights Medical Center
Queens, New York:

We have audited the accompanying consolidated financial statements of Wyckoff Heights Medical Center (the Medical Center), which comprise the consolidated statements of financial position as of December 31, 2012 and 2011, and the related consolidated statements of operations and net asset deficiency and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Wyckoff Heights Medical Center as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

The accompanying consolidated financial statements have been prepared assuming that the Medical Center will continue as a going concern. As discussed in note 2 to the consolidated financial statements, the Medical Center has incurred losses from operating and nonoperating activities in recent years and has net working capital and net asset deficiencies that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

As discussed in note 3 to the consolidated financial statements, the Medical Center adopted the provisions of Financial Accounting Standards Board (FASB) ASU No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities,* in 2012. Our opinion is not modified with respect to this matter.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary consolidating statement of financial position and consolidating statement of operations as of and for the year ended December 31, 2012 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole. The supplementary summarized comparative totals as of and for the year ended December 31, 2011, have been derived from supplementary information audited by us, whose report thereon dated December 17, 2012, expressed an unmodified opinion on the supplementary information.

KPMG LLP

June 14, 2013

WYCKOFF HEIGHTS MEDICAL CENTER

Consolidated Statements of Financial Position

December 31, 2012 and 2011

(In thousands)

Assets		2012	2011
Current assets:			
Cash and cash equivalents	$	7,952	4,707
Patient accounts receivable, net of allowance for uncollectible accounts of $56,141 in 2012 and $45,916 in 2011		32,152	31,091
Other receivables, net		7,510	11,093
Due from third-party payors		17,055	3,112
Inventories and other current assets		5,016	3,038
Due from related organizations		106	111
Assets limited as to use – current portion		10,874	10,886
Other		419	419
Total current assets		81,084	64,457
Assets limited as to use under bond indenture, net of current portion		8,566	8,088
Property, buildings, and equipment, net		60,252	62,040
Insurance claims receivable		27,000	27,000
Total assets	$	176,902	161,585
Liabilities and Net Asset Deficiency			
Current liabilities:			
Accounts payable and accrued expenses	$	44,971	35,874
Accrued salaries and related liabilities		17,125	16,174
Current portion of due to third-party payors		20,830	13,606
Accrued interest payable		1,755	1,727
Current portion of long-term debt		8,094	8,169
Current portion of estimated professional liabilities		961	1,070
Due to related organization		4,818	4,471
Deferred revenue		—	4,363
Total current liabilities		98,554	85,454
Long-term liabilities:			
Due to third-party payors, less current portion		21,407	9,700
Long-term debt, less current portion		92,116	98,759
Estimated self-insured professional liabilities, less current portion		36,760	44,048
Estimated insured professional liabilities		27,000	27,000
Total liabilities		275,837	264,961
Commitments and contingencies			
Net asset deficiency – unrestricted		(98,935)	(103,376)
Total liabilities and net asset deficiency	$	176,902	161,585

See accompanying notes to consolidated financial statements.

WYCKOFF HEIGHTS MEDICAL CENTER

Consolidated Statements of Operations and Net Asset Deficiency

Years ended December 31, 2012 and 2011

(In thousands)

	2012	2011
Operating revenues:		
Net patient service revenue	$ 263,166	275,093
Provision for bad debts	(17,000)	(17,542)
Net patient service revenue less provisions for bad debts	246,166	257,551
Physician billing	17,955	16,206
Grants	3,648	4,676
Medical training program	8,094	6,337
Other revenue (notes 3(s) and 14(b))	4,877	6,957
Total operating revenues	280,740	291,727
Operating expenses:		
Salaries and wages	145,789	143,630
Employee benefits	41,816	44,158
Supplies and other	75,426	84,410
Interest and amortization of financing fees	4,911	4,882
Depreciation and leasehold improvement amortization	9,104	11,181
Total operating expenses	277,046	288,261
Excess of revenues over expense from operations	3,694	3,466
Nonoperating revenue and expenses:		
Investment income	74	65
Other revenue	—	1,033
Caritas legacy expenses	12	(16,869)
Other expenses	—	(499)
Total nonoperating revenue and expenses	86	(16,270)
Excess (deficiency) of total revenues over total expenses	3,780	(12,804)
Other changes in net asset deficiency:		
Grant for capital purchases	661	—
Decrease (increase) in net asset deficiency	4,441	(12,804)
Net asset deficiency, beginning of year	(103,376)	(90,572)
Net asset deficiency, end of year	$ (98,935)	(103,376)

See accompanying notes to consolidated financial statements.

WYCKOFF HEIGHTS MEDICAL CENTER

Consolidated Statements of Cash Flows

Years ended December 31, 2011 and 2012

(In thousands)

	2012	2011
Cash flows from operating activities:		
Change in unrestricted net asset deficiency	$ 4,441	(12,804)
Adjustments to reconcile change in unrestricted net asset deficiency to net cash provided by operating activities:		
Depreciation and leasehold improvement amortization	9,104	11,181
Provision for bad debts	17,000	17,542
Changes in assets and liabilities:		
Patient accounts receivable	(18,061)	(24,368)
Other receivables, net	3,583	(8,278)
Due to/from third-party payors	4,988	2,522
Inventories and other current assets	(1,978)	3,107
Due to/from related organizations	352	773
Accounts payable and accrued expenses	9,097	17,698
Accrued salaries and related liabilities	951	(3,309)
Accrued interest payable	28	(107)
Estimated self-insured professional liabilities	(7,397)	8,321
Deferred revenue	(4,363)	(612)
Net cash provided by operating activities	17,745	11,666
Cash flows from investing activities:		
Purchases of assets limited as to use	(47,462)	(34,511)
Sale of assets limited as to use	46,996	30,291
Acquisition of property, buildings, and equipment, net	(7,316)	(9,135)
Net cash used in investing activities	(7,782)	(13,355)
Cash flows from financing activities:		
Repayments of long-term debt	(6,718)	(6,589)
Net cash used in financing activities	(6,718)	(6,589)
Net increase (decrease) in cash and cash equivalents	3,245	(8,278)
Cash and cash equivalents, beginning of year	4,707	12,985
Cash and cash equivalents, end of year	$ 7,952	4,707
Supplemental disclosure of cash flow information:		
Cash paid for interest and financing fees	$ 4,855	5,849
Assets acquired under capital leases	1,364	804

See accompanying notes to consolidated financial statements.

(1) Nature of Organization and Principles of Consolidation

(a) Operating Activity

Wyckoff Heights Medical Center (Wyckoff or the Medical Center) is a tax-exempt organization, which was incorporated under New York State not-for-profit corporation law for the purpose of providing healthcare services primarily to residents of the Brooklyn and Queens, New York areas. Effective December 21, 2006, Brooklyn-Queens Health Care, Inc. (BQHC), formerly known as Wyckoff Heights Medical Center Properties, became the sole member of the Medical Center and of Caritas Health Care, Inc. (Caritas). Caritas filed a voluntary petition of relief under Chapter 11 of the Federal bankruptcy laws in February 2009 and ceased operations on March 6. 2009 (see note 3(p)). Through December 31, 2011, the Medical Center was an affiliate of the New York-Presbyterian Healthcare System. The affiliation agreement was ended as of January 1, 2012 by mutual agreement (see note 11 (d)).

(b) Principles of Consolidation

The Medical Center consolidates the operations of its tax-exempt and taxable subsidiaries, which are as follows:

Tax-exempt

- Stockholm Obstetrics and Gynecological Services, P.C. (Stockholm)
- Wyckoff Medical Services, P.C. (Wyckoff Medical)
- Wyckoff Heights Dental Services, P.C. (Wyckoff Dental)
- Wyckoff Orthopedic, P.C. (Wyckoff Orthopedic)
- Wyckoff Anesthesia Medical Services, P.C. (Wyckoff Anesthesia)
- Wyckoff Heights Medical Center Foundation (Wyckoff Foundation)
- Wyckoff Neonatal Services, P.C. (Wyckoff Neonatal)
- Wyckoff Imaging Services, P.C. (Wyckoff Imaging)
- Wyckoff Family Medical Services, P.C. (Wyckoff Family Medical)

Taxable

- Wyckoff Practice Management Corporation (Wyckoff Practice Management)
- Wyckoff Emergency Medicine Services, P.C. (Wyckoff Emergency Medicine)
- Wyckoff Surgical Services, PC (Wyckoff Surgical)
- Preferred Health Ventures Pharmacy (inactive)
- Preferred Health Ventures Placement (inactive)
- Preferred Health Ventures Properties (inactive)

The consolidated financial statements include the accounts of the Medical Center and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

(2) Going Concern

At December 31, 2012 and 2011, the Medical Center had a working capital deficiency of approximately $17.5 million and $21.0 million, respectively, and a net asset deficiency of approximately $98.9 million and $103.4 million, respectively. The Medical Center has also incurred recurring losses from operating and nonoperating activities in recent years. While the Medical Center has reflected small operating profits in the past two years, as discussed in note 3 there was a significant change in estimate related to estimated self-insured professional liabilities in 2012. In the absence of this change in estimate, fiscal 2012 would have reflected an operating loss. Prior to 2011, the Medical Center was incurring losses each year which resulted in working capital deficiencies and net asset deficiencies. Management plans include identifying revenue enhancements and cost reductions and is developing strategies to improve the Medical Center's financial condition. This includes revenue cycle improvements for billings and collections of patient revenue using an outside consultant, workforce reductions, and settlements with vendors. However, there can be no assurance that management's plans will be sufficient or timely enough to generate sufficient cash to meet its operating needs and achieve financial stability for the Medical Center. These uncertainties raise substantial doubt about the Medical Center's ability to continue as a going concern. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability of assets and classification of liabilities that may result from the outcome of this uncertainty.

(3) Summary of Significant Accounting Policies

(a) Basis of Financial Statement Presentation

The accompanying consolidated financial statements are prepared on the accrual basis of accounting.

(b) 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 included in the preparation of the consolidated financial statements relate to the allowance for doubtful accounts, estimated settlements with third-party payors, malpractice liabilities, and the recoverability and useful lives of long-lived assets. Actual results could differ from those estimates. Changes in prior year estimates included within the consolidated statements of operations and net asset deficiency increased excess (deficiency) of revenues over expenses from operations by approximately $13.2 million, of which $11.1 million is related to changes in estimated self-insured professional liabilities related to prior periods, and $1.4 million for the years ended December 31, 2012 and 2011, respectively.

(c) Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To increase the

comparability of fair value measurements, a three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies, is as follows:

Level 1 – Valuations based on quoted prices for identical assets and liabilities in active markets.

Level 2 – Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Valuations based on unobservable inputs reflecting the Medical Center's own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

At December 31, 2012 and 2011, the fair value of the Medical Center's financial instruments including cash and cash equivalents, patient accounts receivable, accounts payable, and accrued expenses, approximated book value due to the short maturity of these instruments.

Refer to note 5 for the disclosures of investments measured at fair value.

(d) Cash and Cash Equivalents

The Medical Center classifies as cash and cash equivalents all highly liquid investments with maturities of three months or less when purchased, which are not deemed to be assets limited as to use.

(e) Receivables for Patient Care/Allowance for Doubtful Accounts

The process for estimating the ultimate collection of receivables involves significant assumptions and judgments. Patient accounts receivable are recorded at the reimbursement or contracted amount, and are based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid healthcare coverage, and other collection indicators. Accounts deemed uncollectible, and written off, are deducted from the allowance for doubtful accounts. Revisions in reserve for doubtful accounts estimates are recorded as an adjustment to bad debt expense.

(f) Inventories

Inventories consist of medical supplies valued at the lower of cost or market with cost determined using the first-in, first-out method and with market defined as the lower of replacement cost or realizable value.

(g) Assets Limited as to Use

Assets limited as to use represent assets whose use is restricted for specific purposes under internal designation or terms of debt indentures or other agreements. Amounts required to meet current liabilities are reported as current assets.

(h) Deferred Financing Fees

Deferred financing fees represent costs incurred to obtain financing. These costs are amortized using the effective-interest method over the term that the related debt is outstanding.

(i) Property, Buildings, and Equipment

Property, buildings, and equipment purchased are recorded at cost and those acquired by gifts and bequests are recorded at appraised or market value established at the date of contribution. Assets acquired under capitalized leases are recorded at the present value of the future minimum lease payments at the inception of the lease. Depreciation is computed using the straight-line method over the estimated useful lives of all assets. Equipment acquired through capital lease obligations is amortized using the straight-line method over the lesser of the estimated useful life of the asset or lease term. The carrying amounts of the assets and the related accumulated depreciation are removed from the accounts when such assets are disposed of, and any resulting gain or loss is included in operations. The estimated useful lives of the assets are as follows:

Leasehold improvements, buildings, and improvements	8 to 40 years
Movable equipment	5 to 20 years
Fixed equipment	5 to 15 years

(j) Impairment of Long-Lived Assets to be Disposed of

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 360, *Property, Plant, and Equipment*, provides a single accounting model for long-lived assets to be disposed of. FASB ASC Topic 360 also changes the criteria for classifying an asset as held for sale, and broadens the scope of business to be disposed of that qualify for reporting as discontinued operations and changes the timing of recognizing losses on such operations.

In accordance with FASB ASC Topic 360, long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated fair value of the asset as determined by an independent third party. If the carrying amount of an asset exceeds its fair value, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. The Medical Center has not deemed any long-lived assets to be impaired at December 31, 2012 and 2011.

Assets to be disposed of would be separately presented in the consolidated statements of financial position and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held-for-sale would be presented separately in the appropriate asset and liability sections of the consolidated statements of financial position.

(k) Estimated Self-Insured Malpractice Liability

The provision for estimated self-insured malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. The Medical Center, when evaluating probable losses relating to malpractice claims, reviews the latest information available. When the latest information indicates the probable loss is within a range of amounts, the most likely amount of the loss in the range is accrued.

(l) Deferred Revenue

Deferred revenue consists of advance payments made to the Medical Center from the medical schools that have contracted with the Medical Center to provide teaching services to their respective medical students.

(m) Classification of Net Asset Deficiency

The Medical Center's net asset deficiency is classified as unrestricted. Unrestricted net assets are not externally restricted for identified purposes by donors or grantors.

(n) Net Patient Service Revenue

The Medical Center has agreements with its third-party payors that provide for payments to the Medical Center at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounts from charges, and per diem payments. Net patient service revenue is reported at estimated net realizable amounts due from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are provided and adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

(o) Functional Expenses

The Medical Center's program services consist of providing healthcare and related services to residents within its geographic location. Operating expenses related to providing these services are as follows (in thousands):

		2012	2011
Healthcare and related services	$	186,308	193,850
Program support and general services		90,738	94,411
	$	277,046	288,261

(p) Caritas Legacy Expenses

The Caritas legacy expense represents costs incurred by the Medical Center that relate to the Caritas entity. These costs are not part of the normal operations of the Medical Center and are, therefore, presented as nonoperating expenses on the consolidated statement of operations and net asset

deficiency for 2012 and 2011. During 2012, the Medical Center entered into settlement agreement with certain creditors of Caritas who had made claims against the Medical Center in connection with the bankruptcy, principally related to claims by medical schools that had claims against Caritas. The Medical Center has recorded these settlements during 2011 and to the best of management's knowledge and belief, there are no additional claims outstanding against the Medical Center associated with the Caritas bankruptcy that have not been accrued for as of December 31, 2012. As of December 31, 2012 and 2011, the Medical Center had accrued $8.4 million associated with Caritas.

(q) Uncompensated Care

The Medical Center reports care provided, for which the patient's payment obligation was not fully satisfied, as uncompensated care. Uncompensated care is the sum of the Medical Center's charity care and the provision for bad debts. The total uncompensated care provided was $19.5 million and $22.5 million for the years ended December 31, 2012 and 2011, respectively.

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Since the Medical Center does not anticipate collection of amounts determined to qualify as charity care, they are not reported as revenue. For the years ended December 31, 2012 and 2011, the estimated cost of charity care was approximately $1.1 million and $2.3 million, respectively. The estimated cost of charity care includes the direct and indirect costs of providing charity care services and is estimated utilizing a ratio of cost to gross charges applied to the gross uncompensated charges associated with providing charity care.

For patients who were determined by the Medical Center to have the ability to pay but did not, the uncollected amounts are bad debt expense. Distinguishing between bad debt and charity care is difficult in part because services are often rendered prior to full evaluation of patient's ability to pay. For the years ended December 31, 2012 and 2011, the provision for bad debts was approximately $17.0 and $17.5 million, respectively.

(r) Excess of Revenue over Expenses

The excess of revenue over expenses includes results from all healthcare operations and excludes investment income, Caritas legacy expenses, and ancillary income and expenses.

(s) Tax Status

The Medical Center and certain subsidiaries were incorporated in the State of New York and have been exempt from federal, state, and local income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code), and, therefore, have made no provision for income taxes in the accompanying consolidated financial statements. There was no unrelated business income for the years ended December 31, 2012 and 2011. The taxable subsidiaries' operations are not material for the calculation of a tax liability.

As of December 31, 2012 and 2011, the Medical Center had accrued a refund of FICA taxes previously paid for medical residents in prior years in the amount of $0.8 million and $2 million,

respectively, as the result of an appeal. The Medical Center received these funds in 2013 and 2012, respectively.

(t) Uncertainty in Income Taxes

Under FASB ASC Topic 740, *Income Taxes*, an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more likely than not that the position will be sustained. The Medical Center does not believe there are any material uncertain tax positions, and, accordingly, it will not recognize any liability for unrecognized tax benefits. The Medical Center has filed for and received income tax exemptions in the jurisdictions where required.

(u) Reclassifications

Certain accounts relating to the prior year have been reclassified to conform to the current year's presentation. These reclassifications have no effect on net income previously reported.

(v) New Accounting Pronouncements

In September 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-24, *Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries*. The amendments in the ASU clarify that a healthcare entity may not net insurance recoveries against related claim liabilities. In addition, the amount of the claim liability must be determined without consideration of insurance recoveries. ASU No. 2010-24 is effective for fiscal years beginning after December 15, 2010 and was adopted by the Medical Center in 2011. As a result of the adoption of this standard, the Medical Center increased other noncurrent assets and other noncurrent liabilities by approximately $27 million as of December 31, 2012 and 2011, respectively, to account for estimated malpractice claims associated with its employed physicians who have malpractice insurance.

In August 2010, the FASB issued ASU No. 2010-23, *Health Care Entities (Topic 954): Measuring Charity Care for Disclosure*. ASU No. 2010-23 is intended to reduce the diversity in practice regarding the measurement basis used in the disclosure of charity care. ASU 2010-23 requires that cost be used as the measurement basis for charity care disclosure purposes and that cost be identified as the direct and indirect costs of providing the charity care. As a result of the amendments in this ASU, various techniques will likely be used to determine how the direct and indirect costs are identified, such as obtaining the information directly from a costing system or through reasonable estimation techniques. Therefore, ASU No. 2010-23 also requires disclosure of the method used to identify or determine such costs.

ASU No. 2010-24 and ASU No. 2010-23 are effective for fiscal years beginning after December 15, 2010. The adoption of ASU No. 2010-24 and ASU No. 2010-23 did not have a material impact on the Medical Center's consolidated financial statements other than changes to disclosures.

In January 2010, the FASB issued ASU No. 2010-06 (ASU 2010-06) *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*, requiring reporting entities to make new disclosures about recurring or nonrecurring fair value measurements including significant transfers into and out of Level 1 and Level 2 fair value measurements, and information on purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair value measurements. The guidance is effective for interim and annual reporting periods

after December 15, 2009, except for Level 3 reconciliation disclosures, which are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of ASU No. 2010-06 did not have a material impact on the Medical Center's consolidated financial statements.

In September 2011, the FASB issued ASU 2011-09, *Disclosures about an Employer's Participation in a Multiemployer Plan*. This guidance is intended to provide financial statement users with greater transparency about an employer's participation in a multiemployer pension plan. The guidance requires additional qualitative and quantitative information disclosures to assist users of the financial statements in understanding the commitments and risks involved in participating in multiemployer pension plans, including the financial health of all of the significant plans in which the employer participates. This ASU does not change the current recognition and measurement guidance for an employer's participation in a multiemployer pension plan. This ASU is effective for the Medical Center for the year ending December 31, 2011. Adoption of this guidance required additional disclosures and did not have an impact on the financial position of the Medical Center.

In July 2011, the FASB issued ASU No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. ASU No. 2011-07 is intended to provide financial statement users with greater transparency about a healthcare entity's net patient service revenue and related allowance for doubtful accounts. The guidance provides information to assist financial statement users in assessing an entity's sources of patient service revenue and related changes in its allowance for doubtful accounts. The guidance requires certain healthcare entities to change the presentation of their consolidated statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, those healthcare entities are required to provide enhanced disclosures about their policies for recognizing revenue and assessing bad debts. The guidance also requires disclosures of patient services revenue (net of contractual allowances and discounts), as well as qualitative information about changes in the allowance for doubtful accounts. For the year ended December 31, 2012 the Medical Center adopted ASU No. 2011-07 and reclassified the provision for bad debt expense, net, totaling $17.0 million and $17.5 million for the years ended December 31, 2012 and 2011, respectively, from operating expenses to a reduction of patient services revenue in the consolidated statement of operations and net asset deficiency. See note 4 for the required disclosures related to the Medical Center's sources of patient service revenue and changes in the allowance for doubtful accounts.

(4) Concentration of Credit Risk

The Medical Center and its subsidiaries maintain cash balances in several financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to $250,000 per institution and unlimited coverage on noninterest-bearing accounts. From time to time, the Medical Center and subsidiaries' balances may exceed these limits. There were no uninsured cash balances at December 31, 2012 and 2011. The Medical Center and subsidiaries believe they are not exposed to any significant credit risk for cash and cash equivalents.

The Medical Center grants credit without collateral to its patients, most of whom are local residents and are insured under various third-party arrangements. Significant concentrations of net patient accounts receivable from patients and third-party payors are as follows:

	2012	2011
Medicare (including Medicare managed care)	26%	32%
Medicaid (including Medicaid managed care)	38	41
Commercial and other payors	34	25
Self-pay	2	2
	100%	100%

For patient accounts receivable associated with self-pay patients, which includes those patients without insurance coverage and patients with deductibles and copayment balances for which third-party coverage exists for a portion of the bill, the Medical Center records a significant provision for bad debts for patients that are unable or unwilling to pay for the portion of the bill representing their financial responsibility.

The following table sets forth the components of change in the allowance for doubtful accounts for the year ended December 31, 2012:

Primary payor	Balance at the beginning of the period	Provision for Bad Debts	Write-offs, net of recoveries	Balance at the end of the period
Medicare (including managed Medicare)	$ (8)	(3)	1	(10)
Medicaid (including managed Medicaid and Medicaid pending)	(141)	(52)	21	(172)
Commercial and managed care	(572)	(212)	84	(700)
Self-pay and other fee for service	(45,195)	(16,733)	6,669	(55,259)
Grand total	$ (45,916)	(17,000)	6,775	(56,141)

Net patient service revenue (after contractual allowances and discounts), recognized during the year ended December 31, 2012 from the Medical Center's major payor sources, is as follows:

	Medicare	Medicaid	Commercial and managed care	Self-pay and other fee for service	Total all payors
Net patient service revenue (after contractual allowances and discounts)	$ 65,600	105,116	85,896	6,554	263,166

(Continued)

(5) Fair Value Measurements

The Medical Center measures its assets limited as to use in the form of marketable securities at fair value. Fair value is an exit price, representing the amount that would be received on the sale of an asset or that would be paid to transfer a liability in an orderly transaction between market participants. As a basis for considering such assumptions, a three-tier fair value hierarchy is used, which prioritizes the inputs in the valuation methodologies in measuring fair value.

Fair Value Hierarchy

The methodology for measuring fair value specifies a hierarchy of valuation techniques based upon whether the inputs to those valuation techniques reflect assumptions other market participants would use based upon market data obtained from independent sources (observable inputs) or reflect the Medical Center's own assumptions of market participant valuation (unobservable inputs).

The following table presents the Medical Center's assets that are measured at fair value on a recurring basis at December 31, 2012 (in thousands):

	Total	Level 1
Marketable securities:		
U.S. Treasury bills and notes	$ 19,440	19,440

The following table presents the Medical Center's assets that are measured at fair value on a recurring basis at December 31, 2011 (in thousands):

	Total	Level 1
Marketable securities:		
U.S. Treasury bills and notes	$ 18,974	18,974

There were no Level 2 or Level 3 securities at December 31, 2012 and 2011.

(6) Assets Limited as to Use

The components of the balance at December 31, 2012 and 2011 are classified in the consolidated statements of financial position as follows (in thousands):

	2012	2011
Cash and cash equivalents	$ 927	2,493
U.S. Treasury bills and notes	18,513	16,481
	19,440	18,974
Less current portion	10,874	10,886
Assets limited as to use, net of current portion	$ 8,566	8,088

Included within assets limited as to use under bond indenture are assets held by a trustee under the Medical Center's Secured Hospital Revenue Refunding Bonds Series 1998H indenture agreements. At December 31, 2012 and 2011, the assets are held for the following purposes (in thousands):

	2012	2011
Capital reserve fund	$ 11,066	11,070
Debt service fund	8,020	7,551
Rebate fund	292	290
Construction and renewal, replacement, and depreciation funds	62	63
	19,440	18,974
Less current portion	10,874	10,886
Assets limited as to use, net of current portion	$ 8,566	8,088

(Continued)

(7) Property, Buildings, and Equipment

Property, buildings, and equipment, net consist of the following (in thousands):

	2012	2011
Land	$ 6,075	6,075
Land improvements	1,392	1,392
Leasehold improvements	314	314
Buildings and improvements	101,686	94,679
Movable equipment	105,858	104,341
Fixed equipment	62,393	60,808
	277,718	267,609
Less accumulated depreciation and amortization	219,269	210,311
	58,449	57,298
Construction-in-progress	1,803	4,742
	$ 60,252	62,040

Depreciation and amortization amounted to approximately $9.1 million and $11.2 million (including a loss on abandonment of projects of $2.1 million in 2011) for the years ended December 31, 2012 and 2011, respectively. Movable equipment includes gross capitalized leases aggregating approximately $5.7 million and $4.3 million, with $3.6 million and $2.6 million of accumulated amortization at December 31, 2012 and 2011, respectively.

Substantially all property, buildings, and equipment have been pledged as collateral under various debt agreements.

Construction in progress at December 31, 2012 includes renovations to several units.

(Continued)

(8) Long-Term Debt

Long-term debt consists of the following (in thousands):

	2012	2011
Series 1998H bonds (a)	$ 96,400	102,875
Restructuring pool loan (b)	1,436	1,750
Notes payable (c)	50	620
Capitalized lease obligations (d)	2,324	1,683
	100,210	106,928
Less current portion	8,094	8,169
	$ 92,116	98,759

(a) Series 1998H Bonds

In 1998, the Medical Center, through the Dormitory Authority of the State of New York (DASNY), issued tax-exempt Secured Hospital Revenue Refunding Bonds, Series 1998H (the Series 1998H Bonds). The Series 1998H Bonds have maturity dates ranging from February 2011 to August 2021 and interest rates ranging from 5.0% to 5.3% and are secured by a first mortgage lien on the Medical Center's property, buildings, and equipment and substantially all other assets. Additional security is provided through the Secured Hospital Program, a special bond financing program, which effectively implements a service agreement between New York State (the State) and DASNY that calls for the State to make payments, if required, at amounts equal to the principal and interest, subject to annual appropriations made by the State Legislature.

At December 31, 2012, there were five bonds that had not yet reached maturity.

Pursuant to the bond documents and related mortgage agreement, the Medical Center is required to maintain a capital reserve fund, a debt service fund, and other funds whose use is limited to debt repayments, capital asset acquisitions, and related items. The funds consist principally of U.S. Treasury securities (note 6). The Medical Center is also required to maintain certain financial ratios as well as other covenants.

On May 4, 2011, the Medical Center entered into a forbearance agreement with DASNY, whereby DASNY for bore its rights and remedies under the existing loan documents and the arrearage of approximately $15.7 million, including approximately $0.2 million in financing fees. This amount has been added to the end of the existing bond maturities, extending the maturity an additional 18 months. The amount due on the first interest payment date equals accrued interest, of one percent, from the date of the forbearance agreement through January 31, 2012. Payments on the arrearage, including monthly principal and interest at a rate of 1.0%, are estimated to begin in September 2021, after the original maturity of the 1998H bonds.

Pursuant to the bond documents and the May 2011 forbearance agreement, between the Medical Center and DASNY, the current portion of the Series 1998H Bonds at December 31, 2012 and 2011

has been restructured and is approximately $6.8 million and $6.5 million, respectively. At December 31, 2012 and 2011, the Medical Center did not meet certain financial covenants under the mortgage agreement and obtained a waiver in October 2012 and June 2011, respectively, from DASNY. The October 2012 waiver included a waiver of the financial covenant violation as of December 31, 2011. As of December 31, 2012, there has been no violation and, as such, no waiver required.

Required principal payments on the Series 1998H Bonds for the next five years and thereafter consist of the following (in thousands):

Year ending December 31:		
2013	$	6,805
2014		7,155
2015		7,530
2016		7,920
2017		8,335
Thereafter		58,655
	$	96,400

(b) Restructuring Pool Loan

During January 2002, the Medical Center obtained a $4.9 million Restructuring Pool Loan (the Loan), through DASNY, with an interest rate of 1.0%, in conjunction with the New York State Department of Health. The Reimbursement Agreement for the Loan provides for repayment over a 36-month period. At December 31, 2012 and 2011, the outstanding balance on this loan was $0.44 million and $0.75 million, respectively.

In August 2009, also through the Loan, the Medical Center obtained an additional $1.0 million, through DASNY, with an interest rate of 1.0%. This additional loan provides for repayment of $100,000 over a 10-month period. At December 31, 2012 and 2011, the outstanding balance on this loan was $1.0 million and $1.0 million, respectively.

In August 2011, these amounts were consolidated into one loan with DASNY, with monthly payments, bearing interest at 1%, beginning in March 2012, and commencing in February 2017.

Required principal payments this consolidated loan for the next five years and thereafter consist of the following (in thousands):

Year ending December 31:		
2013	$	349
2014		352
2015		356
2016		359
2017		20
Thereafter		—
	$	1,436

(c) Notes Payable

Notes payable consist of the following (in thousands):

	2012	2011
Note payable to a financing agency, due August 2013, payable in current monthly installments of $5,133, including interest of 4.76%, secured by related property	$ 50	120
Note payable to a financing agency, due June 1, 2012, Interest is at 12% per annum; the note is secured by related property.	—	500
Total notes payable	50	620
Less current portion	50	576
	$ —	44

(Continued)

(d) Capitalized Lease Obligations

During 2012 and 2011, the Medical Center had capital lease obligations with balances aggregating approximately $2.3 million and $1.8 million, respectively. The leases, which are secured by the underlying equipment, require monthly payments of principal and interest. Interest rates related to the capitalized leases are at various rates ranging from approximately 0.6% to 11.9% with payments scheduled through 2014 as follows (in thousands):

Year ending December 31:		
2013	$	971
2014		482
2015		454
2016		346
2017		258
		2,511
Less amount representing interest		187
Present value of future minimum lease payments		2,324
Less current portion		890
	$	1,434

Interest expense under all borrowings for the years ended December 31, 2012 and 2011 aggregated approximately $4.9 million and $4.9 million, respectively.

During 2012, the Medical Center incurred $1.2 million of new capital lease obligations for the acquisition of equipment.

(9) Pension Benefits

On November 1, 2007, the Board of Directors of the Medical Center approved a resolution, which resulted in an amendment to the noncontributory defined-contribution plan, effective January 1, 2008. The amendment provided that the noncontributory defined-contribution plan cease and shall be a profit sharing plan (the Plan) instead. The Medical Center will make discretionary contributions into the Plan each year, which shall be determined annually by the Board of Directors, with separate contribution determinations made for each employment classification as specified in the Plan.

On June 28, 2007, the Executive Committee of the Medical Center and the Board of Directors of Caritas passed resolutions for the adoption of and participation in the Plan by Caritas for its eligible employees, effective January 1, 2007.

The Plan is for substantially all full-time employees meeting certain minimum age and service requirements who are not covered by union-sponsored plans. At December 31, 2012 and 2011, the Medical Center has recorded an unfunded pension expense in accrued salaries and related liabilities on the

consolidated statements of financial position of approximately $2.4 million and $2.9 million, respectively. The Medical Center also included in accrued salaries and related liabilities on the consolidated statements of financial position approximately $3.1 million of accrued pension expense relating to Caritas' employees for 2007. The Medical Center as the plan sponsor and, therefore, has the obligation to pay the entire unfunded amount.

On March 14, 2008, the Medical Center submitted a request for waiver of the minimum funding standard to the IRS for the 2007 plan year. The request for waiver has not yet been approved. However, based on advice from legal counsel, the Medical Center has begun making payments. Monthly payments of $100,000 commenced in May 2009.

Union employees are generally included in the pension and welfare plans of their collective bargaining units. Under these plans, the Medical Center is required to make payments based on contractual amounts. Expenses incurred under these plans were approximately $25.3 million and $24.6 million for the years ended December 31, 2012 and 2011, respectively.

The Medical Center participates in two major multiemployer union pension plans, covering substantially all employees not eligible for the Medical Center's plan.

Local 1199

The Employee Identification Number/three-digit Pension Plan number is 13-3604862/001. The most recent Pension Protection Act (PPA) zone status is green and red at December 31, 2012 and 2011, respectively, which is for the plan years ended December 31, 2011 and 2010, respectively. The zone status is based on information that the Medical Center received from the plan sponsor and, as required by the PPA, is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded.

The financial improvement plan (FIP) or a rehabilitation plan (RP), as required by PPA, has been implemented by the plan's sponsor. The expiration date of the collective-bargaining agreement requiring contributions to the plan is April 30, 2015. The contributions by the Medical Center to the union pension fund were (in thousands) $3,478 and $3,258 for the years ended December 31, 2012, and 2011, respectively. There have been no significant changes that affect the comparability of 2012, 2011, and 2010 contributions.

NYSNA

The Employee Identification Number/three-digit Pension Plan number is 13-3604862/001. The most recent Pension Protection Act (PPA) zone status is green at both December 31, 2012 and 2011, which is for the plan years ended December 31, 2011 and 2010, respectively. The zone status is based on information that the Medical Center received from the plan sponsor and, as required by the PPA, is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded.

The financial improvement plan (FIP) or a rehabilitation plan (RP), as required by PPA, has been implemented by the plan's sponsor. The expiration date of the collective-bargaining agreement requiring contributions to the plan is December 31, 2013. The contributions by the Medical Center to the union pension fund were (in thousands) $3,153, and $2,757 for the years ended December 31, 2012, and 2011, respectively. There have been no significant changes that affect the comparability of 2012, 2011, and 2010 contributions.

If the Medical Center were to withdraw from the plan or should the plan be terminated, the Medical Center could be liable for a proportionate share of the unfunded actuarial present value of plan benefits at the date of withdrawal or termination.

(10) Professional Liabilities Insurance

The Medical Center was self-insured for its primary professional liabilities for the period April 1, 1979 through May 31, 1997.

For the period from June 1, 1997 to May 31, 1998, the Medical Center purchased primary and excess professional liability insurance from a commercial carrier.

Effective June 1, 1998 through September 17, 2004, the Medical Center purchased occurrence-based primary and multiple layers of excess professional and general liability insurance from commercial insurance carriers and Network Insurance Company Ltd. (NICL), an offshore captive insurance company that is a related party. Effective September 18, 2004, the Medical Center began a self-insurance program for its primary layer of professional liability. In 2005, the Medical Center retroactively discontinued its initial layer of excess professional liability coverage, provided by NICL, effective September 18, 2004, and assumed this exposure through its self-insurance program through the present.

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

The Medical Center records estimated liabilities related to professional liability claims occurring during self-insured periods for asserted and unasserted claims and for claims incurred but not reported. Such estimates are based upon valuations prepared by consulting actuaries and the advice of legal counsel. Actuarial valuations are based upon complex calculations, which utilize factors such as historical claim experience and related industry factors, trending models, estimates for the payment patterns of future claims, and present value discounting factors. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Revisions to estimated amounts resulting from actual experience differing from projected expectations are recorded in the period the information becomes known. Estimated undiscounted professional liabilities at December 31, 2012 and 2011 aggregating approximately $37.7 million and $45.1 million, respectively, have been recorded in the accompanying consolidated statements of financial position.

The Medical Center utilizes a revocable self-insurance trust fund for purposes of funding its self-insurance program. At December 31, 2012 and 2011, the trust fund was unfunded.

(11) Related Organization and affiliates

The following balances are due from the Medical Center's related organization and affiliates (in thousands):

	2012	2011
The New York Hospital Medical Center of Queens (a)	$ 6	11
Garity Post (b)	117	117
BQHC (c)	(17)	(17)
Due from related organization and affiliates	$ 106	111

The following balances are due to the Medical Center's related organization and affiliates (in thousands):

	2012	2011
The New York and Presbyterian Hospital (NYPH) (d)	$ 3,601	3,658
Preferred Health Network, Inc. (PHN) (e)	469	469
Network Recovery Services, Inc. (NRS) (f)	344	344
Wyckoff Foundation (g)	232	—
Preferred Health Ventures Placement (h)	172	—
Due to related organization and affiliates	$ 4,818	4,471

(a) The net amount due from Queens at December 31, 2012 and 2011 represents costs for the podiatric residency program provided by the Medical Center to Queens.

(b) Amounts due from Garity Post represent employee salaries and benefits paid by the Medical Center in 2008 and 2007 on behalf of Garity Post.

(c) Amounts due from BQHC represent salaries and benefits, net of employee parking revenue collected, paid by the Medical Center for the BQHC parking facility staff, which the Medical Center utilizes as onsite parking.

(d) Amounts due to NYPH at December 31, 2012 and 2011 represent the unpaid balance of amounts owed for the allocation of shared costs, primarily personnel and information systems, incurred by NYPH on behalf of the Medical Center (note 1 (a)).

(e) At December 31, 2012 and 2011, the amount due to PHN represents the unpaid balance of a number of transactions relating to 1997 and prior years, including rent of office space, shared services, and severance obligations.

(Continued)

(f) NRS was incorporated for the purpose of serving as a collection agency. Amounts due to NRS represent fees for collection services.

(g) Wyckoff Foundation (the Foundation) is a not-for-profit organization, recognized under Section 501(c)(3) of the internal revenue code, as an organization that is exempt from federal income taxes. The purpose of the Foundation is to solicit, accept, and receive real and personal property and to collect the related income to be applied exclusively for the Medical Center.

(h) Preferred Health Ventures Placement is an employment, temporary nursing agency.

(12) Commitments

The Medical Center leases office space and equipment under noncancelable operating leases requiring aggregate future minimum rental payments as follows (in thousands):

Year ending December 31:		
2013	$	1,062
2014		570
2015		441
2016		195
2017		108
Thereafter		255
	$	2,631

Rent expense for the years ended December 31, 2012 and 2011 amounted to approximately $2.2 million and $2.4 million, respectively. In accordance with FASB ASC Topic 420, *Exit or Disposal Cost Obligations*, the Medical Center recorded a liability covering rental payments due through the end of the lease, which was terminated early. Included in accrued expenses at December 31, 2012 and 2011 is approximately $1.4 million and $1.4 million, respectively, related to the lease exit cost.

(13) Contingencies

At December 31, 2012 and 2011, respectively, approximately 72% and 74% of the Medical Center's employees were union employees covered by collective bargaining agreements.

The Medical Center is a defendant in various legal actions arising out of the normal course of its operations, the final outcome of which cannot presently be determined. Management and legal counsel are of the opinion that the ultimate liability, if any, with respect to all of these matters will not have a material adverse effect on the Medical Center's consolidated financial statements.

In addition, the Medical Center has several government investigations ongoing. The Medical Center has received subpoenas from the Brooklyn District Attorney office and U.S. Attorney Office of the Eastern District of New York in connection with certain criminal investigations relating to the Medical Center and certain former officers of the Medical Center. The Medical Center is cooperating with such investigations and no claims have been asserted against the Medical Center arising out of the investigations to date. The Board of Trustees is monitoring these matters with the assistance of independent counsel. If either of these

investigations results in a legal proceeding, it could have a material adverse effect on the Medical Center's business and results of operations.

(14) Net Patient Service Revenue

(a) Non-Medicare Reimbursement

The New York Health Care Reform Act of 1996 (the Act), as periodically updated, governs nonpayments to hospitals in New York State. The Act is subject to periodic renewal and is effective through March 31, 2011. Under the Governor's current proposal, the Act is proposed to be extended to March 31, 2014. Under the Act, Medicaid, workers' compensation, and no-fault payors pay rates are promulgated by the New York State Department of Health. Fixed payment amounts per inpatient discharge are established based on the patient's assigned case mix intensity, similar to a Medicare DRG. All other third-party payors, principally Blue Cross, other private insurance companies, Health Maintenance Organizations (HMOs), Preferred Provider Organizations (PPOs), and other managed care plans, negotiate payment rates directly with the Medical Center. Such arrangements include DRG-based payment systems, per diems, case rates, and percentage of billed charges. If such rates are not negotiated, then the payors are billed at the Medical Center's established charges.

New York State regulations provide for the distribution of funds from an indigent care pool, which is intended to partially offset the cost of services provided to the uninsured. The funds are distributed to the Medical Center based on industry-wide and hospital-specific data.

(b) Medicare Reimbursement

Under the Medicare program, the Medical Center receives reimbursement under a prospective payment system (PPS) for inpatient services. Under the Medical Center inpatient PPS, fixed payment amounts per inpatient discharge are established based on the patient's assigned diagnosis-related group (DRG). When the estimated cost of treatment for certain patients is higher than the average, providers typically will receive additional "outlier" payments. Under the outpatient PPS, services are paid based on service groups called ambulatory payment classifications.

Both federal and New York State regulations provide for certain adjustments to current and prior years' payment rates and indigent care pool distributions based on industry-wide and hospital-specific data. The Medical Center has established estimates based on information presently available of the amounts due to or from Medicare, Medicaid, workers' compensation, and no-fault payors, and amounts due from the indigent care pool for such adjustments.

There are various proposals at the federal and New York State levels that could, among other things, reduce reimbursement rates, modify reimbursement methods, and increase managed care penetration, including Medicare and Medicaid. The ultimate outcome of these proposals and other market changes cannot presently be determined.

For the years ended December 31, 2012 and 2011, respectively, revenue from the Medicare and Medicaid programs (including managed care related revenue) accounted for approximately 88% and 87% of the Medical Center's net patient service revenue. The federal government and many states have aggressively increased enforcement under Medicare and Medicaid antifraud and abuse legislation. Recent federal initiatives have prompted a national review of federally funded healthcare

programs. The Medical Center has a compliance program to monitor conformance with applicable laws and regulations, but the possibility of future government review and interpretation exists. The Medical Center 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. Compliance with such laws and regulations can be subject to future government review and interpretation. Noncompliance with such laws and regulations could result in repayments of amounts improperly reimbursed, substantial monetary fines, civil and criminal penalties, and exclusion from the Medicare and Medicaid programs.

The Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (collectively, the Health Reform Law), which was signed into law on March 23, 2010, will change how healthcare services are covered, delivered, and reimbursed through expanded coverage of uninsured individuals, reduced growth in Medicare program spending, reductions in Medicare and Medicaid Disproportionate Share Hospital (DSH) payments, and the establishment of programs in which reimbursement is tied to quality and integration. In addition, the Health Reform Law reforms certain aspects of health insurance, expands existing efforts to tie Medicare and Medicaid payments to performance and quality, and contains provisions intended to strengthen fraud and abuse enforcement. Because of the many variables involved with the Health Reform Law, the Medical Center is unable to predict the net effect on the Medical Center of the expected increases in insured individuals using its facilities, the reductions in Medicare spending and reductions in Medicare and Medicaid DSH funding, and numerous other provisions in the law that may affect the Medical Center.

The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act (HITECH). These provisions were designed to increase the use of electronic health records (EHR) technology and establish the requirements for a Medicare and Medicaid incentive payments program beginning in 2012 for eligible hospitals and providers that adopt and meaningfully use certified EHR technology. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. Initial Medicaid incentive payments are available to providers that adopt, implement, or upgrade certified EHR technology; but providers must demonstrate meaningful use of such technology in subsequent years to qualify for additional incentive payments.

During the year ended December 31, 2012 and 2011, the Medical Center recognized approximately $2.3 million and $4.9 million, respectively, of revenue for HITECH incentives from the Medicare and Medicaid program that is related to the Medical Center meeting the requirement of the Meaningful Use Incentive program. The Medical Center elected to recognize the revenue associated with the EHR incentive payment under the cliff recognition model and included such amounts in other revenue in the accompanying consolidated statement of operations and net asset deficiency. The amount of the EHR incentive payment was based on the Medical Center discharges, which are subject to audit by CMS or its intermediaries and amounts recognized are the Medical Center's best estimate and are subject to change.

(c) Budget Control Act

The Budget Control Act of 2011 (the Budget Control Act) mandated significant reductions and spending caps on the federal budget for fiscal years 2012 through 2021. The Budget Control Act also created a Joint Select Committee on Deficit Reduction (the Super Committee) to develop a plan to further reduce the federal deficit by $1.5 trillion on or before November 23, 2011. Since the Super Committee failed to act before the mandated deadline, a 2% reduction in Medicare spending, among other reductions, was to take effect beginning January 1, 2013 in a process known as Sequestration. The Budget Control Act also required a 26.5% reduction in the sustainable growth rate formula regarding physician reimbursement under Medicare to be effective January 1, 2013.

On January 2, 2013, President Obama signed into law the American Taxpayer Relief Act, which delayed sequestration until March 1, 2013 and is now in effect as of March 1, 2013 and will continue until Congress takes further action. Further, the American Taxpayer Relief Act delays the implementation of the reduction to the sustainable growth rate formula regarding physician reimbursement under Medicare through the end of 2013. As such, the Medical Center nonphysician Medicare payments were reduced by the mandatory 2% reduction for claims with dates of service or dates of discharge on or after April 1, 2013.

(15) Subsequent Events

The Medical Center has evaluated subsequent events from the date of the Statement of Financial Position through June 14, 2013, the date at which the financial statements were available to be issued, and determined that there are no other items to disclose.

WYCKOFF HEIGHTS MEDICAL CENTER

Supplementary Information

Consolidating Statement of Financial Position

December 31, 2012
(with summarized comparative totals at December 31, 2011)

(In thousands)

Assets	Wyckoff	Wyckoff Dental	Wyckoff Medical	Wyckoff Emergency Medicine	Wyckoff Anesthesia	Wyckoff Practice Management	Wyckoff Neonatal	Wyckoff Orthopedic	Wyckoff Family Medical
Current assets:									
Cash and cash equivalents	$ 5,991	47	135	89	104	22	2	2	19
Patient accounts receivable, net	32,152	—	—	—	—	—	—	—	—
Other receivables, net	7,308	—	—	—	—	—	—	—	—
Due from third-party payors	17,055	—	—	—	—	—	—	—	—
Inventories and other current assets	4,992	—	—	—	—	—	—	—	—
Due from related organizations	5,987	—	2,510	—	—	—	145	100	25
Assets limited as to use – current portion	10,874	—	—	—	—	—	—	—	—
Other	419	—	—	—	—	—	—	—	—
Total current assets	84,778	47	2,645	89	104	22	147	102	44
Assets limited as to use under bond indenture	8,566	—	—	—	—	—	—	—	—
Property, buildings, and equipment, net	60,252	—	—	—	—	—	—	—	—
Insurance claims receivable	27,000	—	—	—	—	—	—	—	—
Total assets	$ 180,596	47	2,645	89	104	22	147	102	44

See accompanying independent auditors' report on supplementary information.

Stockholm	Wyckoff Imaging	Wyckoff Surgical	Preferred Health Ventures Pharmacy	Preferred Health Ventures Placement	Preferred Health Ventures Properties	Wycokff Foundation	397 Himrod Corp.	Subtotal	Elimination entries	Consolidated 2012	Consolidated 2011
99	80	7	28	4	3	1,320	—	7,952	—	7,952	4,707
—	—	—	—	—	—	—	—	32,152	—	32,152	31,091
—	—	—	—	—	—	202	—	7,510	—	7,510	11,093
—	—	—	—	—	—	—	—	17,055	—	17,055	3,112
—	—	—	24	—	—	—	—	5,016	—	5,016	3,038
—	—	64	60	161	—	2,471	—	11,523	(11,417)	106	111
—	—	—	—	—	—	—	—	10,874	—	10,874	10,886
—	—	—	—	—	—	—	—	419	—	419	419
99	80	71	112	165	3	3,993	—	92,501	(11,417)	81,084	64,457
—	—	—	—	—	—	—	—	8,566	—	8,566	8,088
—	—	—	—	—	—	—	—	60,252	—	60,252	62,040
—	—	—	—	—	—	—	—	27,000	—	27,000	27,000
99	80	71	112	165	3	3,993	—	188,319	(11,417)	176,902	161,585

WYCKOFF HEIGHTS MEDICAL CENTER

Supplementary Information

Consolidating Statement of Financial Position

December 31, 2012
(with summarized comparative totals at December 31, 2011)

(In thousands)

Liabilities and Net Deficiency	Wyckoff	Wyckoff Dental	Wyckoff Medical	Wyckoff Emergency Medicine	Wyckoff Anesthesia	Wyckoff Practice Management	Wyckoff Neonatal	Wyckoff Orthopedic	Wyckoff Family Medical
Current liabilities:									
Accounts payable and accrued expenses	$ 44,882	—	15	19	22	(5)	(4)	—	4
Accrued salaries and related liabilities	17,125	—	—	—	—	—	—	—	—
Current portion of due to third-party payors	20,830	—	—	—	—	—	—	—	—
Accrued interest payable	1,755	—	—	—	—	—	—	—	—
Current portion of long-term debt	8,094	—	—	—	—	—	—	—	—
Current portion of estimated professional liabilities	961	—	—	—	—	—	—	—	—
Due to related organization	6,053	208	575	1,956	1,723	1,859	146	11	249
Deferred revenue	—	—	—	—	—	—	—	—	—
Total current liabilities	99,700	208	590	1,975	1,745	1,854	142	11	253
Long-term liabilities:									
Due to third-party payors, less current portion	21,407	—	—	—	—	—	—	—	—
Long-term debt, less current portion	92,116	—	—	—	—	—	—	—	—
Estimated self-insured professional liabilities, less current portion	36,760	—	—	—	—	—	—	—	—
Estimated insured professional liabilities	27,000	—	—	—	—	—	—	—	—
Total liabilities	276,983	208	590	1,975	1,745	1,854	142	11	253
Commitments and contingencies									
Net asset deficiency – unrestricted	(96,387)	(161)	2,055	(1,886)	(1,641)	(1,832)	5	91	(209)
	$ 180,596	47	2,645	89	104	22	147	102	44

See accompanying independent auditors' report on supplementary information.

Stockholm	Wyckoff Imaging	Wyckoff Surgical	Preferred Health Ventures Pharmacy	Preferred Health Ventures Placement	Preferred Health Ventures Properties	Wycokff Foundation	397 Himrod Corp.	Subtotal	Elimination entries	Consolidated 2012	Consolidated 2011
(2)	1	—	39	—	—	—	—	44,971	—	44,971	35,874
—	—	—	—	—	—	—	—	17,125	—	17,125	16,174
—	—	—	—	—	—	—	—	20,830	—	20,830	13,606
—	—	—	—	—	—	—	—	1,755	—	1,755	1,727
—	—	—	—	—	—	—	—	8,094	—	8,094	8,169
—	—	—	—	—	—	—	—	961	—	961	1,070
742	897	10	215	—	634	957	—	16,235	(11,417)	4,818	4,471
—	—	—	—	—	—	—	—	—	—	—	4,363
740	898	10	254	—	634	957	—	109,971	(11,417)	98,554	85,454
—	—	—	—	—	—	—	—	21,407	—	21,407	9,700
—	—	—	—	—	—	—	—	92,116	—	92,116	98,759
—	—	—	—	—	—	—	—	36,760	—	36,760	44,048
—	—	—	—	—	—	—	—	27,000	—	27,000	27,000
740	898	10	254	—	634	957	—	287,254	(11,417)	275,837	264,961
(641)	(818)	61	(142)	165	(631)	3,036	—	(98,935)	—	(98,935)	(103,376)
99	80	71	112	165	3	3,993	—	188,319	(11,417)	176,902	161,585

WYCKOFF HEIGHTS MEDICAL CENTER

Supplementary Information

Consolidating Statement of Operations and Net Asset Deficiency

December 31, 2012
(with summarized comparative totals at December 31, 2011)

(In thousands)

	Wyckoff	Wyckoff Dental	Wyckoff Medical	Wyckoff Emergency Medicine	Wyckoff Anesthesia	Wyckoff Practice Management	Wyckoff Neonatal	Wyckoff Orthopedic	Wyckoff Family Medical
Operating revenues:									
Net patient service revenue	$ 263,166	446	5,381	4,136	2,233	—	528	20	1,025
Provision for bad debt	(17,000)	—	—	—	—	—	—	—	—
	246,166	446	5,381	4,136	2,233	—	528	20	1,025
Physician billing	17,955	—	—	—	—	—	—	—	—
Grants	3,648	—	—	—	—	—	—	—	—
Medical training program	8,094	155	(183)	1,885	2,605	358	200	—	460
Other revenue – electronic health records and FICA refund	4,877	—	—	—	—	—	—	—	—
Total operating revenues	280,740	601	5,198	6,021	4,838	358	728	20	1,485
Operating expenses:									
Salaries and wages	125,864	703	2,170	5,219	4,654	600	436	(70)	1,007
Employee benefits	41,816	—	—	—	—	—	—	—	—
Supplies and expenses	94,456	91	1,131	1,872	957	110	160	23	466
Interest and amortization of financing fees	4,911	—	—	—	—	—	—	—	—
Depreciation and leasehold improvement amortization	9,104	—	—	—	—	—	—	—	—
Total operating expenses	276,151	794	3,301	7,091	5,611	710	596	(47)	1,473
Excess (deficiency) of revenues over expense from operations	4,589	(193)	1,897	(1,070)	(773)	(352)	132	67	12
Nonoperating revenue and expenses:									
Investment income	74	—	—	—	—	—	—	—	—
Other revenue	—	—	—	—	—	—	—	—	—
Caritas legacy expenses	12	—	—	—	—	—	—	—	—
Other expenses	—	—	—	—	—	—	—	—	—
Total nonoperating revenues and expenses	86	—	—	—	—	—	—	—	—
Excess (deficiency) of total revenues over total expenses	4,675	(193)	1,897	(1,070)	(773)	(352)	132	67	12
Other changes in net asset deficiency:									
Grant for capital purchases	661	—	—	—	—	—	—	—	—
Decrease (increase) in net asset deficiency	5,336	(193)	1,897	(1,070)	(773)	(352)	132	67	12
Net asset deficiency, beginning of year	(101,723)	32	158	(816)	(868)	(1,480)	(127)	24	(221)
Net asset deficiency, end of year	$ (96,387)	(161)	2,055	(1,886)	(1,641)	(1,832)	5	91	(209)

See accompanying independent auditors' report on supplementary information.

Stockholm	Wyckoff Imaging	Wyckoff Surgical	Preferred Health Ventures Pharmacy	Preferred Health Ventures Placement	Preferred Health Ventures Properties	Wycokff Foundation	397 Himrod Corp.	Subtotal	Elimination entries	Consolidated 2012	Consolidated 2011
2,200	2,286	—	—	—	—	—	—	281,421	(18,255)	263,166	275,093
—	—	—	—	—	—	—	—	(17,000)	—	(17,000)	(17,542)
2,200	2,286	—	—	—	—	—	—	264,421	(18,255)	246,166	257,551
—	—	—	—	—	—	—	—	17,955	—	17,955	16,206
—	—	—	—	—	—	—	—	3,648	—	3,648	4,676
1,154	1,002	82	—	—	—	192	—	16,004	(7,910)	8,094	6,337
—	—	—	—	—	—	—	—	4,877	—	4,877	6,957
3,354	3,288	82	—	—	—	192	—	306,905	(26,165)	280,740	291,727
2,434	2,771	—	(4)	—	—	5	—	145,789	—	145,789	143,630
—	—	—	—	—	—	—	—	41,816	—	41,816	44,158
1,216	1,016	21	—	—	—	72	—	101,591	(26,165)	75,426	84,410
—	—	—	—	—	—	—	—	4,911	—	4,911	4,882
—	—	—	—	—	—	—	—	9,104	—	9,104	11,181
3,650	3,787	21	(4)	—	—	77	—	303,211	(26,165)	277,046	288,261
(296)	(499)	61	4	—	—	115	—	3,694	—	3,694	3,466
—	—	—	—	—	—	—	—	74	—	74	65
—	—	—	—	—	—	—	—	—	—	—	1,033
—	—	—	—	—	—	—	—	12	—	12	(16,869)
—	—	—	—	—	—	—	—	—	—	—	(499)
—	—	—	—	—	—	—	—	86	—	86	(16,270)
(296)	(499)	61	4	—	—	115	—	3,780	—	3,780	(12,804)
—	—	—	—	—	—	—	—	661	—	661	—
(296)	(499)	61	4	—	—	115	—	4,441	—	4,441	(12,804)
(345)	(319)	—	(146)	165	(631)	2,921	—	(103,376)	—	(103,376)	(90,572)
(641)	(818)	61	(142)	165	(631)	3,036	—	(98,935)	—	(98,935)	(103,376)