

FINANCIAL STATEMENTS

The New York and Presbyterian Hospital  
Years Ended December 31, 2013 and 2012  
With Report of Independent Auditors

Ernst & Young LLP



# The New York and Presbyterian Hospital

## Financial Statements

Years Ended December 31, 2013 and 2012

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## Report of Independent Auditors

The Board of Trustees  
The New York and Presbyterian Hospital

We have audited the accompanying financial statements of The New York and Presbyterian Hospital (the “Hospital”), which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management’s Responsibility for the Financial Statements**

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

### **Auditor’s Responsibility**

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The New York and Presbyterian Hospital at December 31, 2013 and 2012, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

*Ernst + Young LLP*

April 30, 2014

# The New York and Presbyterian Hospital

## Statements of Financial Position

	<b>December 31</b>	
	<b>2013</b>	<b>2012</b>
	<i>(As Adjusted)</i>	
	<i>(In Thousands)</i>	
<b>Assets</b>		
Current assets:		
Cash, cash equivalents and short-term investments:		
Cash and cash equivalents	\$ 152,982	\$ 181,856
Short-term investments <i>(Note 13)</i>	882,499	770,773
Total cash, cash equivalents and short-term investments	<b>1,035,481</b>	952,629
Patient accounts receivable, less allowance for uncollectibles (2013 – \$181,945; 2012 – \$219,727)	<b>559,638</b>	466,157
Other current assets	<b>71,252</b>	83,121
Assets limited as to use – current portion <i>(Notes 3, 5, 8 and 13)</i>	<b>28,390</b>	25,578
Due from related organizations – net <i>(Note 10)</i>	–	4,658
Professional liabilities insurance recoveries receivable – current portion <i>(Note 8)</i>	<b>60,812</b>	53,729
Beneficial interest in net assets held by related organizations – current portion <i>(Note 7)</i>	<b>68,420</b>	61,615
Total current assets	<b>1,823,993</b>	1,647,487
Assets limited as to use – noncurrent <i>(Notes 3, 5, 8 and 13)</i>	<b>1,490,430</b>	906,287
Property, buildings and equipment – net <i>(Note 4)</i>	<b>2,169,218</b>	2,088,036
Other noncurrent assets – net	<b>36,941</b>	35,191
Professional liabilities insurance recoveries receivable – noncurrent <i>(Note 8)</i>	<b>165,350</b>	153,692
Beneficial interest in net assets held by related organizations – noncurrent <i>(Note 7)</i>	<b>1,684,944</b>	1,401,209
Total assets	<b>\$ 7,370,876</b>	\$ 6,231,902

	<b>December 31</b>	
	<b>2013</b>	<b>2012</b>
	<i>(As Adjusted)</i>	
	<i>(In Thousands)</i>	
<b>Liabilities and net assets</b>		
Current liabilities:		
Long-term debt – current portion <i>(Note 5)</i>	\$ 113,411	\$ 94,487
Accounts payable and accrued expenses	334,479	320,266
Accrued salaries and related liabilities	175,823	211,206
Due to related organizations – net <i>(Note 10)</i>	4,671	–
Pension and postretirement benefit liabilities – current portion <i>(Note 9)</i>	12,112	11,384
Professional liabilities and other – current portion <i>(Note 8)</i>	60,812	55,729
Other current liabilities <i>(Note 2)</i>	120,879	113,378
Total current liabilities	822,187	806,450
Long-term debt <i>(Note 5)</i>	1,063,385	666,778
Professional liabilities and other <i>(Note 8)</i>	331,170	311,121
Pension liability <i>(Note 9)</i>	38,633	213,724
Postretirement benefit liability <i>(Note 9)</i>	24,823	28,148
Deferred revenue <i>(Note 5)</i>	3,770	4,813
Other noncurrent liabilities <i>(Note 2)</i>	291,595	271,613
Total liabilities	2,575,563	2,302,647
Commitments and contingencies <i>(Notes 2, 5, 6, 8, 9, 10 and 12)</i>		
Net assets:		
Unrestricted	3,041,949	2,446,864
Temporarily restricted:		
Lower Manhattan Hospital	–	12,857
Held by related organizations	1,507,968	1,234,020
Total temporarily restricted	1,507,968	1,246,877
Permanently restricted:		
Lower Manhattan Hospital	–	6,710
Held by related organizations	245,396	228,804
Total permanently restricted	245,396	235,514
Total net assets	4,795,313	3,929,255
Total liabilities and net assets	\$ 7,370,876	\$ 6,231,902

*See accompanying notes.*

# The New York and Presbyterian Hospital

## Statements of Operations

	<b>Year Ended December 31</b>	
	<b>2013</b>	<b>2012</b>
	<i>(As Adjusted)</i>	
	<i>(In Thousands)</i>	
<b>Operating revenues</b>		
Net patient service revenue <i>(Note 2)</i>	<b>\$ 4,050,632</b>	\$ 3,720,255
Provision for bad debts <i>(Note 2)</i>	<b>(54,081)</b>	(47,346)
Net patient service revenue, less provision for bad debts	<b>3,996,551</b>	3,672,909
Other revenue <i>(Note 11)</i>	<b>267,959</b>	240,962
Total operating revenues	<b>4,264,510</b>	3,913,871
<b>Operating expenses</b>		
Salaries and wages	<b>1,945,813</b>	1,785,613
Employee benefits	<b>551,330</b>	494,447
Supplies and other expenses	<b>1,270,885</b>	1,143,925
Interest and amortization of deferred financing fees, including loss on extinguishment of debt <i>(Note 5)</i>	<b>39,022</b>	56,598
Depreciation and amortization	<b>255,297</b>	239,880
Total operating expenses	<b>4,062,347</b>	3,720,463
Operating income	<b>202,163</b>	193,408
Investment return <i>(Note 3)</i>	<b>153,945</b>	99,424
Excess of revenues over expenses before net medical resident tax refund, prior year reimbursement settlement, and gain on previous year sale of real estate	<b>356,108</b>	292,832
Net medical resident tax refund	<b>214</b>	4,180
Prior year reimbursement settlement <i>(Note 2)</i>	–	27,714
Gain on previous year sale of real estate <i>(Note 4)</i>	–	24,000
Excess of revenues over expenses	<b>356,322</b>	348,726
Other changes in unrestricted net assets:		
Transfer of fixed assets from Royal Charter Properties, Inc.	<b>3,191</b>	–
Transfer of unrestricted net assets related to Lower Manhattan Hospital from New York-Presbyterian Healthcare System, Inc. <i>(Note 1)</i>	–	197,846
Distributions from New York-Presbyterian Fund, Inc. and other for the purchase of fixed assets <i>(Note 10)</i>	<b>77,785</b>	47,616
Change in pension and postretirement benefit liabilities to be recognized in future periods <i>(Note 9)</i>	<b>157,787</b>	(45,456)
Change in unrestricted net assets	<b>\$ 595,085</b>	\$ 548,732

See accompanying notes.

## Statements of Changes in Net Assets

*See accompanying notes.*



# The New York and Presbyterian Hospital

## Statements of Cash Flows

	Year Ended December 31	
	2013	2012
	(As Adjusted)	
	(In Thousands)	
<b>Operating activities</b>		
Change in net assets	\$ 866,058	\$ 701,476
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	255,297	239,880
Amortization of deferred financing costs, deferred revenue, fair value adjustment to debt related to NYP/LMH acquisition and mortgage discount, including loss on extinguishment of debt	2,603	22,505
Distributions from New York-Presbyterian Fund, Inc. and other for the purchase of fixed assets	(77,785)	(47,616)
Equity in earnings of common collective/commingled trusts and alternative investments	(85,627)	(45,961)
Net realized gains on sales of investment companies	(1,925)	(9,227)
Change in unrealized gains and losses	(39,576)	(24,385)
Transfer of net assets related to Lower Manhattan Hospital from New York-Presbyterian Healthcare System, Inc.	–	(216,909)
Transfer of fixed assets from Royal Charter Properties, Inc.	(3,191)	–
Changes in operating assets and liabilities:		
Patient accounts receivable	(93,481)	(51,213)
Other assets	14,469	27,824
Beneficial interest in net assets held by related organizations	(290,540)	(133,177)
Accounts payable and accrued expenses	14,213	40,615
Accrued salaries and related liabilities	(35,383)	16,227
Due to/from related organizations – net	9,329	(6,905)
Other liabilities	27,483	76,482
Professional liabilities and other and related insurance recoveries receivable	6,391	(4,973)
Pension and postretirement benefit liabilities	(177,688)	(55,495)
Net cash provided by operating activities	390,647	529,148
<b>Investing activities</b>		
Net purchases of short-term investments	(111,726)	(253,107)
Acquisitions of property, buildings and equipment, net	(319,052)	(254,988)
Net purchases of assets limited as to use	(459,827)	(23,174)
Net cash used in investing activities	(890,605)	(531,269)
<b>Financing activities</b>		
Repayments of long-term debt	(98,164)	(89,150)
Repayment related to refinancing of long-term debt	–	(262,955)
Proceeds from issuance of long-term debt	500,000	262,955
Payment of deferred financing costs	(8,537)	(1,371)
Distributions from New York-Presbyterian Fund, Inc. for the purchase of fixed assets	77,785	47,616
Net cash provided by (used in) financing activities	471,084	(42,905)
Net decrease in cash and cash equivalents	(28,874)	(45,026)
Cash and cash equivalents at beginning of year	181,856	226,882
Cash and cash equivalents at end of year	\$ 152,982	\$ 181,856
<b>Supplemental disclosure of non-cash investing and financing activities</b>		
Assets acquired under capitalized lease obligations	\$ 14,236	\$ 13,101

See accompanying notes.

# The New York and Presbyterian Hospital

## Notes to Financial Statements

December 31, 2013

### 1. Organization and Basis of Presentation and Significant Accounting Policies

*Organization and Basis of Presentation:* The New York and Presbyterian Hospital (the “Hospital”) is a tax-exempt organization that was incorporated under New York State not-for-profit corporation law. The Hospital is a major academic medical center providing a full range of inpatient and outpatient services, mainly to residents of the New York metropolitan area. The Board of Trustees of the Hospital consists of persons who have first been elected as members of New York-Presbyterian Foundation, Inc. (“Foundation, Inc.”), a New York State not-for-profit corporation. Foundation, Inc. is related to a number of organizations.

On September 6, 2012, New York Downtown Hospital (“NYDH”) executed a Corporate Relationship Agreement with New York-Presbyterian Healthcare System, Inc. (“System, Inc.”), a tax-exempt organization whose members are selected by Foundation, Inc. As a result of the Corporate Relationship Agreement, NYDH’s by-laws were amended and restated such that, effective September 6, 2012, NYDH became a membership corporation consisting of five members who were appointed by System, Inc. This transaction was accounted for as an acquisition in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 805, *Business Combinations*. Consequently, the assets acquired and liabilities assumed were adjusted to fair value at September 6, 2012. The net excess of the aggregate fair value of the acquired net assets over their historical carrying value was as follows at September 6, 2012 (in thousands):

Property, plant and equipment	\$ 165,522
Deferred financing costs and bond premium	955
Long-term debt	(2,828)
	<u>\$ 163,649</u>

On July 1, 2013, NYDH (and its controlled affiliates) merged into the Hospital, at which time the operating facilities of NYDH became the sixth campus of the Hospital and NYDH was renamed NewYork-Presbyterian/Lower Manhattan Hospital (referred to herein as “NYP/LMH” or “Lower Manhattan Hospital”). In accordance with ASC Topic 805, this transaction was accounted for similar to a pooling of interests with retrospective adjustment in prior period financial statements for the period in which the entities were under common control. Therefore, the accompanying financial statements as of and for the years ended December 31, 2013 and 2012 reflect the financial position, operations, changes in net assets and cash flows of the Hospital, including NYP/LMH, as if the merger had been completed on September 6, 2012; all relevant disclosures have been adjusted.

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

### 1. Organization and Basis of Presentation and Significant Accounting Policies (continued)

The following table presents financial statement amounts as of December 31, 2012 (in thousands):

	<b>The Hospital, as Previously Reported</b>	<b>Adjustments to Include NYP/LMH</b>	<b>As Adjusted</b>
Current assets:			
Cash, cash equivalents and short-term investments	\$ 944,711	\$ 7,918	\$ 952,629
Patient accounts receivable, less allowance for uncollectibles	443,941	22,216	466,157
Assets limited as to use – current	21,816	3,762	25,578
Other current assets	181,064	22,059	203,123
Total current assets	1,591,532	55,955	1,647,487
Assets limited as to use – noncurrent	845,123	61,164	906,287
Property, buildings and equipment – net	1,800,619	287,417	2,088,036
Beneficial interest in net assets held by related organizations – noncurrent	1,401,209	–	1,401,209
Other noncurrent assets – net	185,030	3,853	188,883
Total assets	<u>\$ 5,823,513</u>	<u>\$ 408,389</u>	<u>\$ 6,231,902</u>
Current liabilities:			
Long-term debt – current portion	\$ 91,760	\$ 2,727	\$ 94,487
Other current liabilities	658,635	53,328	711,963
Total current liabilities:	750,395	56,055	806,450
Long-term debt	619,277	47,501	666,778
Other noncurrent liabilities	764,441	64,978	829,419
Total liabilities	2,134,113	168,534	2,302,647
Net assets:			
Unrestricted	2,226,576	220,288	2,446,864
Temporarily restricted	1,234,020	12,857	1,246,877
Permanently restricted	228,804	6,710	235,514
Total net assets	3,689,400	239,855	3,929,255
Total liabilities and net assets	<u>\$ 5,823,513</u>	<u>\$ 408,389</u>	<u>\$ 6,231,902</u>

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

### 1. Organization and Basis of Presentation and Significant Accounting Policies (continued)

The following table presents financial statement amounts for the year ended December 31, 2012 (in thousands):

	<b>The Hospital, as Previously Reported</b>	<b>Adjustments to Include NYP/LMH *</b>	<b>As Adjusted</b>
Net patient service revenue, less provision for bad debts	\$ 3,627,166	\$ 45,743	\$ 3,672,909
Other revenue	220,459	20,503	240,962
Total operating revenues	3,847,625	66,246	3,913,871
Total operating expenses	3,653,001	67,462	3,720,463
Operating income	194,624	(1,216)	193,408
Other	131,288	24,030	155,318
Excess of revenue over expenses	325,912	22,814	348,726
Other changes in unrestricted net assets	2,532	(372)	2,160
Transfer of unrestricted net assets related to Lower Manhattan Hospital	—	197,846	197,846
Change in unrestricted net assets	<u>\$ 328,444</u>	<u>\$ 220,288</u>	<u>\$ 548,732</u>
Change in temporarily restricted net assets (including transfer of temporarily restricted net assets related to Lower Manhattan Hospital)	<u>\$ 117,065</u>	<u>\$ 12,857</u>	<u>\$ 129,922</u>
Change in permanently restricted net assets (including transfer of permanently restricted net assets related to Lower Manhattan Hospital)	<u>\$ 16,112</u>	<u>\$ 6,710</u>	<u>\$ 22,822</u>

\* Represents the results of operations of NYP/LMH for the period from September 6, 2012 to December 31, 2012.

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

### 1. Organization and Basis of Presentation and Significant Accounting Policies (continued)

Selected financial statement amounts of NYP/LMH for the year ended December 31, 2013 are as follows (in thousands):

Total operating revenues	\$ 194,800
Total operating expenses	219,790
Change in unrestricted net assets	(22,490)

The following table presents pro forma financial information of the Hospital, combined with NYP/LMH, for the year ended December 31, 2012, assuming the acquisition of NYP/LMH had taken place on January 1, 2012. The pro forma financial information is not necessarily indicative of the results of operations as they would have been had the transaction occurred on January 1, 2012 (in thousands):

Net patient service revenue, less provision for bad debts	\$ 3,760,592
Other revenue	279,315
Total operating revenues	<u>4,039,907</u>
Total operating expenses	<u>3,859,235</u>
Operating income	180,672
Other revenue and expenses	<u>154,960</u>
Excess of revenue over expenses	335,632
Other changes in unrestricted net assets	2,923
Change in unrestricted net assets	<u>\$ 338,555</u>
 Change in temporarily restricted net assets	 <u>\$ 117,706</u>
 Change in permanently restricted net assets	 <u>\$ 16,112</u>

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

### 1. Organization and Basis of Presentation and Significant Accounting Policies (continued)

The following is a summary of significant accounting policies:

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

*Cash and Cash Equivalents and Short-term Investments:* The Hospital classifies as cash equivalents all highly liquid financial instruments with a maturity of three months or less when purchased, excluding those held in short-term investments and assets limited as to use. Investments that are readily marketable and that are not classified as assets limited as to use are considered short-term investments and are classified as current assets. Short-term investments are used for cash management purposes and consist of cash and cash equivalents, fixed income and equity securities. At December 31, 2013 and 2012, the Hospital's cash and cash equivalents include money market funds and interest-bearing accounts that are not fully insured by the U.S. government.

*Receivables for Patient Care:* Patient accounts receivable for which the Hospital receives payment under cost reimbursement, prospective payment 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 Hospital.

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

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

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

### 1. Organization and Basis of Presentation and Significant Accounting Policies (continued)

*Investments and Investment Gains, Losses and Income:* Investments consist of money market funds, fixed income securities (including U.S. government bonds, non-U.S. government bonds, agency notes, mortgage and asset backed and corporate bonds), equity securities (including readily tradeable stocks, exchange traded funds and mutual funds), real asset investments (including individual investments and mutual funds invested in natural resources, energy and commodities), interests in common collective/commingled trusts and alternative investments (including hedge funds, investments in private equity firms and real asset funds). All investments (excluding alternative investments) are carried at fair value based on quoted market prices and are classified as trading investments. See Note 9 for a description of the accounting policies related to assets held in the Hospital's defined benefit pension plan.

Alternative investment interests generally are structured such that the Hospital holds a limited partnership interest or an interest in an investment management company. The Hospital's ownership structure does not provide for control over the related investees and the Hospital's financial risk is limited to the carrying amount reported for each investee, in addition to any unfunded capital commitment.

Individual investment holdings within the alternative investments include non-marketable and market-traded debt, equity and real asset securities and interests in other alternative investments. The Hospital may be exposed indirectly to securities lending, short sales of securities and trading in futures and forward contracts, options and other derivative products. Alternative investments often have liquidity restrictions under which the Hospital's capital may be divested only at specified times.

Alternative investments are reported in the accompanying statements of financial position based upon net asset values derived from the application of the equity method of accounting. Financial information used by the Hospital to evaluate its alternative investments is provided by the investment manager or general partner and includes fair value valuations (quoted market prices and values determined through other means) of underlying securities and other financial instruments held by the investee, and estimates that require varying degrees of judgment. The financial statements of the investee companies are audited annually by independent auditors, although the timing for reporting the results of such audits does not coincide with the Hospital's annual financial statement reporting.

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

### 1. Organization and Basis of Presentation and Significant Accounting Policies (continued)

There is uncertainty in the accounting for alternative investments arising from factors such as lack of active markets (primary and secondary), lack of transparency into underlying holdings and time lags associated with reporting by the investee companies. As a result, there is at least a reasonable possibility that estimates will change in the near term.

Investments received as a gift are recorded at fair value on the date of contribution.

Realized gains and losses on sales of marketable securities are based on the average cost method. Investment income, realized and unrealized gains and losses on marketable securities held by the Hospital, and equity in earnings of alternative investments are recorded as investment income or loss within the performance indicator in the accompanying statements of operations. Investment return on investments held for the Hospital by New York Presbyterian Fund, Inc. ("Fund, Inc.") and The New York Weill Cornell Medical Center Fund, Inc. ("WCMC Fund") in various investment pools is included within the changes in beneficial interest in net assets held by related organizations in the accompanying statements of changes in net assets. Investment returns are reported net of investment expenses.

*Assets Limited as to Use:* Assets so classified represent investments whose use is restricted for specific purposes under internal and/or external designation, terms of loan agreements and for self-insured professional liabilities. Assets limited as to use which are internally designated for funded depreciation represent amounts that will be expended in future periods for acquisitions of property, buildings and equipment. Assets limited as to use required to meet current liabilities are reported as current assets.

*Beneficial Interest in Net Assets Held by Related Organizations:* Accounting principles generally accepted in the United States establish standards for transactions in which an entity – the donor – makes a contribution by transferring assets to a not-for-profit organization or charitable trust organization – the recipient – that accepts the assets from the donor and agrees to use those assets on behalf of or transfer those assets, the return on investment of those assets, or both, to another entity – the beneficiary – that is specified by the donor. Accordingly, the Hospital recognizes its accumulated interest in the net assets held by Fund, Inc. and WCMC Fund as beneficial interest in net assets held by related organizations in its statements of financial position and also recognizes the periodic changes in such interests in its statements of changes in net assets.



# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

### 1. Organization and Basis of Presentation and Significant Accounting Policies (continued)

*Property, Buildings and Equipment:* Property, buildings and equipment purchased are recorded at cost and those acquired through gifts and bequests are carried at appraised or fair value established at the date of contribution. The carrying amounts of assets and the related accumulated depreciation are removed from the accounts when such assets are disposed of and any resulting gain or loss is included in operations. Depreciation of buildings, building improvements, and fixed equipment is recorded using the straight-line method over the estimated useful lives of the assets. Depreciation of movable equipment is recorded using the sum-of-the-years-digits method. Equipment under capital lease obligations and leasehold improvements is amortized using the straight-line method over the lesser of the estimated useful life of the asset or the lease term. Such amortization is included in depreciation and amortization in the accompanying statements of operations.

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

*Deferred Revenue:* In conjunction with the refinancing of certain bonds in 1998, the Hospital elected not to reduce the interest rate and, in lieu thereof, received in cash the present value of the foregone reductions of the mortgage interest rate. Such amounts are being amortized using the interest method over the life of the related debt.

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

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

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

### 1. Organization and Basis of Presentation and Significant Accounting Policies (continued)

*Net Patient Service Revenue:* Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered and includes estimated retroactive revenue adjustments due to ongoing and future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

*Operating Leases:* Scheduled base rent increases under operating leases are recognized as rental expense on a straight-line basis over the lease term.

*Program Services:* The Hospital's program services consist of providing health care and related services, including graduate medical education. For the years ended December 31, 2013 and 2012, expenses related to providing these services are summarized as follows (in thousands):

	<u>2013</u>	<u>2012</u>
Health care and related services	\$ 3,331,125	\$ 3,050,780
Program support and general services	<u>731,222</u>	<u>669,683</u>
	<u>\$ 4,062,347</u>	<u>\$ 3,720,463</u>

The Hospital maintains academic affiliations with two medical colleges: The Columbia University College of Physicians & Surgeons and the Joan and Sanford I. Weill Medical College of Cornell University (collectively referred to as the "Schools"). Transactions occur on a routine basis between the Hospital and the Schools, based upon arrangements between the parties.

*Performance Indicator:* The accompanying statements of operations include excess of revenues over expenses as the performance indicator. Excluded from the performance indicator are permanent transfers of assets to or from related entities and changes in pension and postretirement benefit liabilities to be recognized in future periods.

Transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenue and operating expenses and included in operating income. Investment income and certain transactions of an infrequent nature are excluded from operating income.

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

### 1. Organization and Basis of Presentation and Significant Accounting Policies (continued)

*Tax Status:* The Hospital is a Section 501(c)(3) organization exempt from Federal income taxes under Section 501(a) of the Internal Revenue Code. The Hospital also is exempt from New York State and City income taxes.

### 2. Net Patient Service Revenue

#### Net Patient Service Revenue and Accounts Receivable

The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual or formula-driven rates for the services rendered (see description of third-party payor payment programs below). For uninsured and under-insured patients who do not qualify for charity care, the Hospital recognizes revenue on the basis of charges. Under the charity care policy, a patient who has no insurance or is under-insured and is ineligible for any government assistance program has his or her bill reduced to (1) the lesser of charges or the Medicaid diagnostic-related group for inpatient and (2) a discount from rates of the highest volume commercial payor for outpatient. The effect of this policy on the financial statements is lower net patient service revenue, as the discount is considered an allowance.

Patient service revenue for the years ended December 31, 2013 and 2012, net of contractual allowances and discounts (but before the provision for bad debts), recognized from these major payor sources based on primary insurance designation, is as follows (in thousands):

	<u>2013</u>	<u>2012</u>
Third-party payors	\$ 3,974,176	\$ 3,655,143
Self-pay	76,456	65,112
	<u>\$ 4,050,632</u>	<u>\$ 3,720,255</u>

Accounts receivable is recorded at its expected net realizable value. In evaluating the collectibility of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

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

The allowance for doubtful accounts for self-pay patients was approximately 52% and 86% of self-pay accounts receivable as of December 31, 2013 and 2012, respectively. The Hospital did not experience significant changes in write-off trends and did not change its charity care policy in 2013 or 2012.

### Third-Party Payment Programs

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

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

*Non-Medicare Reimbursement:* In New York State, hospitals and all non-Medicare payors (including Medicare and Medicaid managed care plans), 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. Payments to hospitals for Medicaid, workers' compensation and no-fault inpatient services are based on a statewide prospective payment system, with retroactive adjustments. Outpatient services also are paid based on a statewide prospective system. Medicaid rate methodologies are subject to approval at the Federal level by the Centers for Medicare and Medicaid Services ("CMS"), which may routinely request information about such methodologies prior to approval. Revenue related to specific rate components that have not been approved by CMS is not recognized until the Hospital is reasonably assured that such amounts are realizable. Adjustments to the current and prior years' payment rates for those payors will continue to be made in future years.

The Hospital has established estimates, based on information presently available, of amounts due to or from Medicare and non-Medicare payors for adjustments to current and prior years' payment rates, based on industry-wide and Hospital-specific data. Medicare cost reports, which serve as the basis for final settlement with the Medicare program, have been audited by the Medicare fiscal intermediary and settled through 2001 (NYP/LMH is settled through 2008).

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

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

Other years and various issues remain open for audit and settlement, as are numerous issues related to the New York State Medicaid program for prior years. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount when open years are settled, audits are completed and additional information is obtained. The current Medicaid, Medicare and other third-party payor programs are based upon extremely complex laws and regulations that are subject to interpretation. Non-compliance with such laws and regulations could result in fines, penalties and exclusion from such programs. The Hospital is not aware of any allegations of non-compliance that could have a material adverse effect on its financial statements and believes that it is in compliance with all applicable laws and regulations.

During 2013 and 2012, the Hospital revised estimates made in prior years to reflect the passage of time and the availability of more recent information, such as settlement activity, associated with the related payment items. For the years ended December 31, 2013 and 2012, the net effect of the Hospital's revisions to prior year estimates resulted in net patient service revenue increasing by approximately \$38.4 million and \$40.0 million, respectively. The 2012 amount includes approximately \$27.7 million related to the Medicare rural floor budget neutrality settlement which is reported in the accompanying 2012 statement of operations as a prior year reimbursement settlement.

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

The Hospital grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. Significant concentrations of patient accounts receivable at December 31, 2013 and 2012 are as follows:

	<b>2013</b>	<b>2012</b>
Medicare	<b>21%</b>	20%
Medicaid	<b>17</b>	17
Commercial carriers and health maintenance organizations	<b>55</b>	56
Self-pay patients	<b>7</b>	7
	<b>100%</b>	100%

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

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

For the years ended December 31, 2013 and 2012, revenue from the Medicare and Medicaid programs accounted for approximately 44% and 48%, respectively, of the Hospital's net patient service revenue.

### **Uncompensated Care and Community Benefit Expense**

The Hospital's commitment to community service is evidenced by services provided to special populations such as minorities, the elderly, persons with disabilities, the mentally ill, persons with AIDS and poor persons ("Special Populations") and benefits provided to the broader community. Services provided to such Special Populations include services provided to persons who cannot afford health care because of inadequate resources and who are uninsured or underinsured.

The Hospital provides quality medical care regardless of race, creed, sex, sexual orientation, national origin, handicap, age or ability to pay. Although reimbursement for services rendered is critical to the operations and stability of the Hospital, the Hospital recognizes that not all individuals have the ability to pay for medically necessary services and, furthermore, the Hospital's mission is to serve the community with respect to health care. Therefore, in keeping with the Hospital's commitment to serve members of the community, the Hospital provides uncompensated care through: medical care to the indigent for free or discounted prices (charity care/financial aid) and care to persons covered by governmental programs that pay the Hospital less than the full cost of services provided. In addition, the Hospital provides significant community benefit activities which include wellness programs, community education programs, health screenings and a broad variety of community support services, health professionals' education, school based programs and subsidized health services.

The Hospital believes it is important to quantify comprehensively the benefits it provides to the community, which is an area of emphasis for not-for-profit health care providers. The costs of uncompensated care and community benefit activities are derived from various Hospital records. Amounts for activities as reported below are based on estimated and actual data, subject to changes in estimates upon the finalization of the Hospital's cost report and other government filings. The amounts reported below are calculated in accordance with guidelines prescribed by the Internal Revenue Service ("IRS"); 2012 estimates have been updated to reflect actual amounts. The net cost of charity care includes the direct and indirect cost of providing charity care services, offset by revenues received from indigent care pools and other subsidies. The cost is estimated by utilizing a ratio of cost to gross charges applied to the gross uncompensated charges associated with providing charity care. Funds received to offset bad debt and charity

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

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

services totaled approximately \$53.4 million and \$50.8 million for the years ended December 31, 2013 and 2012, respectively, including approximately \$51.7 million and \$49.7 million, respectively, from the indigent care pool under the New York State Medicaid program. The charity care component of the indigent care pool payments (approximately 64% and 63% for 2013 and 2012, respectively) is estimated utilizing a ratio of charity care charges to total charity care and bad debt charges applied to the indigent care pool reimbursement.

Costs related to uncompensated care and community benefit activities are summarized for the years ended December 31, 2013 and 2012 as follows (in thousands):

	<b>2013</b>	<b>2012</b>
Charity care, net <sup>(a)</sup>	\$ <b>35,010</b>	\$ 38,120
Means-tested programs <sup>(b)</sup>	<b>200,471</b>	183,600
Other community benefits <sup>(c) (d)</sup>	<b>334,744</b>	306,572
Total charity care and other community benefits	<b>\$ 570,225</b>	\$ 528,292

Charity care, at cost, and means-tested programs include the following (and exclude losses incurred on providing services to Medicare patients):

<sup>(a)</sup>*Charity Care:* As part of its charity care and financial aid policy, the Hospital obtains and uses additional financial information for uninsured or under-insured patients who have not supplied the requisite information to qualify for charity care. The additional information obtained is used by the Hospital to determine whether to qualify patients for charity care and/or financial aid in accordance with the Hospital's policies.

The Hospital makes available free care programs for qualifying patients under its charity care and financial aid policy. During the registration, billing and collection process, a patient's eligibility for free care funds is determined. For patients who do not receive free care and who are determined to be eligible for charity care in the form of discounted medical services under the Hospital's charity care and financial aid policy, care given but not paid for is classified as charity care. For patients who were determined by the Hospital to have the ability to pay but did not, the uncollected amounts are classified as provision for bad debt (approximately \$54.1 million in 2013 and \$47.3 million in 2012). Distinguishing between bad debt and charity care is difficult in part because services are often rendered prior to full evaluation of a patient's ability to pay.

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

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

Annually, the Hospital accrues for potential losses that meet the definition of charity care (including free and discounted medical care) allowances.

<sup>(b)</sup>*Means-Tested Programs:* Community benefits include losses incurred in providing services to patients who participate in certain public health programs such as Medicaid. Payments received by the Hospital for patient services provided to Medicaid program participants are less than the actual cost of providing such services. Therefore, to the extent Medicaid payments are less than the cost of care provided to Medicaid patients, the uncompensated cost of that care is considered to be a community benefit.

Other community benefits include the following:

<sup>(c)</sup>*Community Health Improvement Services and Community Benefit Operations:* The Hospital is committed to serving the vast array of neighborhoods comprising its service area and recognizes the importance of preserving a local community focus to effectively meet community need. The Hospital adheres to a single standard for assessing and meeting community need, while retaining a geographically focused approach for soliciting community participation and involvement and providing community outreach.

The Hospital has fostered continued community participation and outreach activities through linkages with numerous community-based groups. Community health improvement services and related operations include clinical services, screening and exams, and other education or support services in areas such as the following: asthma, behavioral health, cancer, children's health, community-based outreach and health education, digestive diseases, emergency services/emergency preparedness, heart disease, HIV/AIDS, neuroscience, vascular disease and women's health (a complete description of each service can be found in the Hospital's annual community service plan).

<sup>(d)</sup>*Health Professions Education:* Helping to prepare future health care professionals is a distinguishing characteristic of major academic not-for-profit teaching hospitals and constitutes a significant community benefit. The Hospital has a world renowned residency program and trains approximately 1,700 residents each year in all clinical programs (the programs are in two medical schools and cover 147 accredited graduate medical education programs). The Hospital is committed to offering quality graduate medical education programs as part of its education mission.



# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

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

The composition and reported value of assets limited as to use, excluding assets held by related organizations (see Note 7), at December 31, 2013 and 2012 consist of the following (in thousands):

	<u>2013</u>	<u>2012</u>
Marketable securities, carried at fair value ( <i>see Note 13</i> )	\$ <b>915,198</b>	\$ 419,333
Investments accounted for using the equity method:		
Equities and bonds held in common		
collective/commingled trusts:		
U.S. equities	<b>80,106</b>	88,601
Corporate bonds	<b>16,797</b>	15,794
Non-U.S. equities	<b>118,827</b>	100,952
Non-U.S. government bonds	<b>11,859</b>	11,961
Total equities and bonds held in common		
collective/commingled trusts	<b>227,589</b>	217,308
Hedge funds	<b>168,415</b>	142,809
Private equity	<b>131,904</b>	105,620
Private real assets	<b>75,714</b>	46,795
Total investments accounted for using the equity method	<b>603,622</b>	512,532
Total assets limited as to use	<b>1,518,820</b>	931,865
Less current portion	<b>28,390</b>	25,578
Assets limited as to use – noncurrent	<b>\$ 1,490,430</b>	\$ 906,287

See Note 13 for a description of the hedge fund, private equity and private real asset categories.

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

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

Assets limited to use at December 31, 2013 and 2012 are limited to the following uses (in thousands):

	<b>2013</b>	<b>2012</b>
Funded depreciation	\$ 834,473	\$ 710,604
Funds held under loan agreements	640,562	149,485
Employee benefit funds	25,045	21,816
Funded self-insurance (professional liabilities) (Note 8)	15,125	16,443
Secured letters of credit	3,460	3,451
Donor restricted (NYP/LMH temporarily and permanently restricted)	155	17,188
The Blackwell Foundation	–	12,878
	<b>\$ 1,518,820</b>	<b>\$ 931,865</b>

Funds held under loan agreements are for the following purposes (in thousands):

	<b>2013</b>	<b>2012</b>
Construction escrow	\$ 500,149	\$ –
Mortgage reserve funds	118,035	130,498
Escrow fund (Note 5)	10,576	10,560
Capital reserve fund	3,522	3,520
Debt service fund	3,544	876
Capital lease agreements (Note 5)	142	142
Other	4,594	3,889
	<b>\$ 640,562</b>	<b>\$ 149,485</b>

Investment return for the years ended December 31, 2013 and 2012 consisted of the following (in thousands):

	<b>2013</b>	<b>2012</b>
Interest and dividend income	\$ 26,817	\$ 19,851
Net realized gains on sales of investments	1,925	9,227
Equity in earnings of common collective/commingled trusts and alternative investment companies	85,627	45,961
Net change in unrealized gains and losses	39,576	24,385
	<b>\$ 153,945</b>	<b>\$ 99,424</b>

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

### 4. Property, Buildings and Equipment

A summary of property, buildings and equipment at December 31, 2013 and 2012 follows (in thousands):

	<b>2013</b>	<b>2012</b>
Land and land improvements	\$ 240,882	\$ 239,882
Buildings, building improvements and fixed equipment	3,514,441	3,318,019
Movable equipment	1,256,524	1,169,465
Leasehold improvements	11,171	10,151
	<b>5,023,018</b>	4,737,517
Less accumulated depreciation and amortization	3,041,724	2,775,343
	<b>1,981,294</b>	1,962,174
Construction-in-progress	187,924	125,862
	<b>\$ 2,169,218</b>	<b>\$ 2,088,036</b>

Substantially all property, buildings and equipment have been pledged as collateral under various debt agreements (see Note 5).

At December 31, 2013 and 2012, assets recorded in connection with capital leases aggregated approximately \$162.2 million and \$156.8 million, respectively, with accumulated amortization aggregating approximately \$129.7 million and \$113.5 million, respectively.

The Hospital leases certain buildings from Royal Charter Properties – Westchester, Inc., a related entity (see Note 10).

In 2004, NYP/LMH sold a parking lot adjacent to the hospital. As part of the sale transaction, the buyer agreed to convey to NYP/LMH, upon completion of a building proposed to be built on the site, certain parking spaces and an ambulatory care site. In connection with the conveyance of such property, the buyer agreed to liquidating damages in the event that such properties were not conveyed. Due to the uncertainty associated with the valuation of the properties to be conveyed and other contingencies, NYP/LMH did not reflect the value of such properties in its initial recognition of the gain in 2004. In December 2012, the constructed property was conveyed to NYP/LMH, which included a 170-unit parking facility and approximately 15,000 square feet of vacant shell space designated for future medical office space. The estimated fair value of the property at the date of conveyance was approximately \$11.1 million for the parking facility and \$12.9 million for the medical office space. The total fair value of the property, approximately \$24.0 million, was reported as gain on previous year sale of real estate in the accompanying 2012 statement of operations.

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

### 5. Long-Term Debt

A summary of long-term debt at December 31, 2013 and 2012 follows (in thousands):

	<b>2013</b>	<b>2012</b>
FHA Section 242 insured mortgage loan – 1998 – Downtown Campus <sup>(a)</sup>	\$ <b>271,725</b>	\$ 299,658
FHA Section 242 insured mortgage loans – 2004 – Uptown Campus <sup>(b)</sup>	<b>56,832</b>	95,893
FHA Section 241 insured mortgage loan – 2007 <sup>(c)</sup>	<b>255,268</b>	263,162
Secured hospital revenue refunding bonds – 2011 – NYP/LMH Campus <sup>(d)</sup>	<b>32,570</b>	32,570
Beekman mortgage payable <sup>(e)</sup>	<b>7,352</b>	7,300
FHA Section 241 insured mortgage loan – 2013 <sup>(f)</sup>	<b>497,277</b>	–
Capital leases <sup>(g)</sup>	<b>53,615</b>	59,984
	<b>1,174,639</b>	758,567
Add unamortized fair value adjustment related to NYP/LMH acquisition	<b>2,157</b>	2,698
Less current portion	<b>113,411</b>	94,487
Long-term portion	<b>\$ 1,063,385</b>	\$ 666,778

<sup>(a)</sup>*FHA Section 242 Insured Mortgage Loan – 1998:* The Hospital’s original mortgage agreement with the Dormitory Authority of the State of New York (“DASNY”) is insured under the provisions of the U.S. Department of Housing and Urban Development Federal Housing Agency (“FHA”) Section 242 mortgage insurance program.

During 2005, the Hospital received \$8.4 million from DASNY in relation to a release of assets held by DASNY in reserve under the mortgage note and recorded the receipts as an increase to the Hospital’s deferred revenue balance in the accompanying statement of financial position. The deferred revenue is being amortized over the remaining life of the mortgage using the effective interest method.

In August 2009, the Hospital completed the final endorsement of the FHA Section 242 Insured Mortgage Loan – 1998. The remaining amortization schedule was finalized with principal and interest payments due through July 1, 2025. The terms of the mortgage were amended and, effective September 1, 2009, interest was to be paid at a fixed annual rate of 5.99% of the unpaid balance until the loan was fully paid. As a result of the final

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

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

endorsement, DASNY released to the Hospital an additional \$40.8 million of unused proceeds from the initial mortgage loan and the Hospital received approximately \$2.9 million from the IRS related to prior years' bond proceeds arbitrage, all used for certain capital projects and as additional equity for the December 2010 transaction (see below). Additionally, the final endorsement resulted in the Hospital's debt escrow fund (approximately \$12.5 million at final endorsement) being released for partial payment of the debt obligation at various future intervals. The Hospital includes the amount in other noncurrent assets, to be amortized over the remaining life of the mortgage using the effective interest method.

In December 2010, DASNY assigned the Hospital's mortgage to Prudential Huntton Paige Associates, Ltd. ("Prudential"). In connection therewith, DASNY bonds were defeased and Prudential issued new Government National Mortgage Association bonds to fund the mortgage loan. This transaction resulted in a reduction in the interest rate of the mortgage loan, effective December 15, 2010, to a fixed rate of 4.22% over the remaining term and required the Hospital to make an equity contribution of \$23.8 million (\$15.1 million of the equity contribution was made with the remaining balance of amounts held in assets limited as to use as part of the final endorsement). The equity contribution is being amortized over the remaining life of the mortgage using the effective interest method and has a balance in noncurrent assets, net of accumulated amortization, of approximately \$14.9 million and \$17.5 million at December 31, 2013 and 2012, respectively. All other material terms of the mortgage remained the same.

<sup>(b)</sup>*FHA Section 242 Insured Mortgage Loans – 2004:* The Hospital has two mortgage loans, with identical terms most recently amended in 2004, issued through DASNY. The two mortgage loans are insured under the provisions of the FHA Section 242 mortgage insurance program. The mortgage loans are payable monthly through April 2015 and carry an interest rate of 7.5%. In connection with a 1998 revision to one of the original mortgage notes, deferred revenue with an initial balance of \$29.5 million was recognized reflecting the present value of the interest rate savings that were advanced to the Hospital upon creation of the 1998 mortgage. The deferred revenue is being amortized over the remaining life of the mortgage using the effective interest method.

<sup>(c)</sup>*FHA Section 241 Insured Mortgage Loan – 2007:* In September 2007, DASNY issued \$296.1 million of The New York and Presbyterian Hospital FHA-Insured Mortgage Hospital Revenue Bonds, Series 2007. A portion of the proceeds of the bonds was used to fund a mortgage loan from DASNY to the Hospital. The maximum principal amount of

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

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

\$278.5 million incorporated a discount of \$5.4 million. The mortgage is insured under the provisions of the FHA Section 241 mortgage insurance program. The mortgage bore interest at a rate of 6.5% through May 31, 2010 and 4.9% through July 31, 2012 (in addition, the Hospital paid an incremental rate of 1.6% until final endorsement). On August 7, 2012, the Hospital completed final endorsement and the terms of the mortgage were amended and, effective August 1, 2012, interest was to be paid at a rate of 4.55%. The remaining amortization schedule was finalized, with principal and interest payments through June 1, 2035. In addition, the final endorsement resulted in the termination of the Hospital's letter of credit with a bank that provided security for equity contributions required under the plan of financing.

In December 2012, DASNY assigned the Hospital's mortgage loan to Prudential. In connection therewith, the DASNY bonds were refunded and Prudential issued new Government National Mortgage Association securities to fund the Hospital's mortgage. This transaction resulted in a reduction in the interest rate on the mortgage loan to a fixed rate of 2.74% over the remaining term of the loan, effective December 13, 2012. All other material terms of the mortgage remained the same. The Hospital recorded a loss on extinguishment of the debt of approximately \$13.2 million in 2012 related to this transaction, which is included in interest and amortization of deferred financing fees, including loss on extinguishment of debt in the accompanying statements of operations. The Hospital has approximately \$1.1 million of financing costs in connection with the assignment of the mortgage that will be amortized over the life of the mortgage.

<sup>(d)</sup>*Secured Hospital Revenue Refunding Bonds – 2011:* In March 2011, NYP/LMH issued \$32.57 million of Secured Hospital Revenue Refunding Bonds – 2011 through DASNY. The bonds bear interest at a fixed interest rate of 5%, payable semi-annually, with a final maturity date of February 15, 2022. NYP/LMH has granted to DASNY, with certain permitted exceptions, a security interest in gross receipts and certain fixtures, furnishings and equipment that secure the payment of the debt. The bonds are further secured by amounts, if required, that would be payable under a service contract between the DASNY and the State of New York.

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

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

In January 2005, in connection with the then outstanding NYP/LMH Series 1998 Bonds, DASNY required NYP/LMH to fund an escrow account with two years of principal and interest payments on the outstanding bonds. Such amount (approximately \$10.6 million, including accumulated investment earnings, at December 31, 2013 and 2012) is reported within assets limited as to use in the accompanying statements of financial position.

<sup>(e)</sup>*Beekman Mortgage Payable:* In July 1977, NYP/LMH, through an affiliate, entered into an agreement with the New York City Housing Development Corporation (“HDC”), whereby the then existing mortgage agreement was modified and the mortgage debt was divided into a senior mortgage, which is insured by the U.S. Secretary of Housing and Urban Development (“HUD”) and a junior mortgage that is held by HDC. HDC administers both the senior and junior mortgages.

The senior mortgage is self-amortizing and has a principal balance of \$0.4 million as of December 31, 2013 and the note bears interest at 7.25%, with principal and interest payable in monthly installments of approximately \$8,000 through August 1, 2017. The provisions of the senior mortgage, among other things, provide for establishment of an escrow reserve for replacement and maintenance. These funds may not be used without prior written authorization from HDC. The junior mortgage has a principal balance, inclusive of accumulated unpaid interest, of approximately \$7.0 million as of December 31, 2013, and the note bears interest at 7.82% with monthly payments approximating \$13,400, payable until such time as HUD ceases to insure the senior mortgage (the “Release Date”). Subsequent to the Release Date, equal monthly payments are to be made at a rate of 8.50% sufficient to retire the outstanding principal and interest by the earlier of August 1, 2027 or 15 years subsequent to the retirement of the senior mortgage. NYP/LMH did not make junior mortgage principal payments in 2013 or 2012, because it did not generate surplus cash, as defined in the regulatory agreement, which would require principal payments to be made. Both the senior and junior mortgages can be prepaid, subject to certain prepayment fees.

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

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

<sup>(f)</sup>*FHA Section 241 Insured Mortgage Loan – 2013:* In September 2013, the Hospital executed a \$500.0 million mortgage note with Prudential. The mortgage note bears interest at a fixed interest rate of 4.5%, payable semi-annually. The loan has a final maturity of September 1, 2038, principal payable annually. The proceeds of the loan were issued to a construction escrow account and are to be used to construct an ambulatory care center and for related costs (see Note 3). The Hospital incurred approximately \$8.5 million of financing costs in connection with the issuance of the loan that will be amortized over the life of the loan.

Estimated principal payments under all long-term debt (reflective of amounts obligated to date) for the next five years and thereafter consist of the following (in thousands):

2014	\$ 94,251
2015	62,917
2016	43,833
2017	45,602
2018	47,414
Thereafter	827,007

Pursuant to the mortgage agreements and related documents, the Hospital is required to maintain certain debt service funds, including mortgage reserve funds. In addition, the Hospital is required to maintain certain working capital, debt service coverage and other financial ratios and financial conditions, and to obtain approval to incur additional debt above specified levels if certain covenant requirements are not met. Through December 31, 2013 and 2012, the Hospital was in compliance with the financial covenants. The mortgages are collateralized by substantially all of the Hospital's property, buildings and equipment and gross receipts derived from operations.



# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

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

<sup>(g)</sup>*Capital Leases:* Certain equipment leases are the equivalent of an installment purchase for purposes of financial statement reporting. The lenders hold a first security interest in the financed equipment. The Hospital has entered into several capital lease financing agreements with commercial lenders in conjunction with DASNY's tax-exempt lease program. The total amount outstanding related to the tax-exempt lease program is approximately \$13.4 million and \$21.6 million at December 31, 2013 and 2012, respectively. Remaining funds available to be spent under these lease agreements are reported as assets limited as to use at December 31, 2013 and 2012 (approximately \$0.1 million). The Hospital entered into several other capital leases in 2013 totaling approximately \$14.2 million. Interest rates related to the Hospital's outstanding capital lease obligations range from 1.7% to 6.3%.

Following is a summary of payments due under capital lease obligations for the years ending December 31 (in thousands):

2014	\$ 20,538
2015	14,172
2016	10,128
2017	6,553
2018	3,383
Thereafter	1,938
	<hr/> 56,712
Less imputed interest	3,097
	<hr/> <hr/> \$ 53,615

Interest paid under all borrowings for the years ended December 31, 2013 and 2012 aggregated approximately \$39.6 million and \$42.9 million, respectively.

The Hospital has a \$100.0 million unsecured line of credit agreement with a bank which expires on June 30, 2014. No amounts have been drawn on this credit facility.

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

### 6. Operating Leases

Total rental expense for the years ended December 31, 2013 and 2012 aggregated approximately \$56.9 million and \$51.4 million, respectively. Sublease income and contingent rentals were not significant. The Hospital leases certain properties owned by related entities (see Note 10).

Future minimum lease payments under non-cancellable operating leases with initial or remaining terms of one year or more at December 31, 2013 consisted of the following (in thousands):

2014	\$ 48,821
2015	43,476
2016	38,739
2017	36,344
2018	35,013
Thereafter	74,768

### 7. Beneficial Interest in Net Assets Held by Related Organizations

The Hospital recognizes its accumulated interest in net assets held by Fund, Inc. and WCMC Fund, which were as follows at December 31, 2013 and 2012 (in thousands):

	<u>2013</u>	<u>2012</u>
Temporarily restricted:		
Fund, Inc.:		
Building and equipment replacement	\$ 748,914	\$ 574,237
Specific purpose health care services	537,623	462,576
Endowment earnings restricted for specific-purpose health care services	221,431	197,207
	<u>1,507,968</u>	<u>1,234,020</u>
Permanently restricted:		
Fund, Inc. – Investments to be held in perpetuity	211,090	197,109
WCMC Fund – Investments held in perpetual trust	34,306	31,695
	<u>245,396</u>	<u>228,804</u>
Total beneficial interest in net assets held by related organizations	1,753,364	1,462,824
Less current portion	68,420	61,615
	<u>\$ 1,684,944</u>	<u>\$ 1,401,209</u>

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

### **7. Beneficial Interest in Net Assets Held by Related Organizations (continued)**

Permanently restricted net assets represent endowments that have been restricted by donors to be maintained in perpetuity and are held by Fund, Inc. and WCMC Fund on behalf of the Hospital. The Hospital follows the requirements of the New York Prudent Management of Institutional Funds Act (“NYPMIFA”) as they relate to its permanently restricted contributions and net assets.

The Hospital has interpreted NYPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund, absent explicit donor stipulations to the contrary. The Hospital classifies as permanently restricted net assets the original value of the gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowment. Accumulations to the permanent endowment are used in accordance with the direction of the applicable donor gift. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until the amounts are appropriated for expenditure in accordance with a standard of prudence prescribed by NYPMIFA. The Hospital considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (i) the duration and preservation of the fund; (ii) the purposes of the Hospital and the donor-restricted endowment fund; (iii) general economic conditions; (iv) the possible effects of inflation and deflation; (v) where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on the Hospital; (vi) the expected total return from income and the appreciation of investments; (vii) other resources of the Hospital and (viii) the investment and spending policies of the Hospital. Fund, Inc.’s endowment investment returns distribution policy, which applies to the Hospital, allows for expenditures of investment return only, at a rate not to exceed 4.5% of the permanently restricted net asset balance on an annual basis.

The Hospital has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding related to the endowment funds, while seeking to maintain the purchasing power of the funds. To satisfy long-term return objectives, the Hospital relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Hospital employs a long-term equity oriented strategy of investing in both traditional and alternative asset classes.

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

### 7. Beneficial Interest in Net Assets Held by Related Organizations (continued)

Assets held by Fund, Inc. and WCMC Fund for the benefit of the Hospital consist of pledges and investments (at fair value) that represent allocated amounts from Fund, Inc.'s pooled investments portfolio and WCMC Fund's interest in a perpetual trust. These assets are comprised of the following at December 31, 2013 and 2012 (in thousands):

	<b>2013</b>	<b>2012</b>
Marketable securities:		
Cash and cash equivalents	\$ 86,717	\$ 38,352
Fixed income:		
U.S. government	92,467	121,367
Non-U.S. government	40,471	28,112
Corporate	33,730	29,377
Mortgage and asset backed	7,463	9,996
Other	2,463	2,138
Equities:		
U.S. equities	216,817	190,145
Non-U.S. equities	206,947	193,711
Real assets	18,185	25,670
Total marketable securities	<b>705,260</b>	638,868
Hedge funds	251,017	209,985
Private equity	178,386	160,550
Private real assets	98,388	61,742
Total investments	<b>1,233,051</b>	1,071,145
Pledges receivable, net	<b>486,007</b>	359,984
	<b>1,719,058</b>	1,431,129
WCMC Fund:		
Investment held in perpetual trusts	34,306	31,695
Total beneficial interests in net assets held by related organizations	<b>1,753,364</b>	1,462,824
Less current portion	<b>68,420</b>	61,615
	<b>\$ 1,684,944</b>	<b>\$ 1,401,209</b>

The current portion of beneficial interest in net assets held by related organizations represents amounts the Hospital expects to receive and expend on operations in the subsequent year.

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

### 7. Beneficial Interest in Net Assets Held by Related Organizations (continued)

Pledges receivable, net of present value discount and valuation allowance of approximately \$119.0 million and \$82.7 million at December 31, 2013 and 2012, respectively, are to be paid as follows (in thousands):

	<b>December 31</b>	
	<b>2013</b>	<b>2012</b>
Less than one year	\$ 140,214	\$ 95,571
One to five years	181,326	154,158
Thereafter	164,467	110,255
	<u>\$ 486,007</u>	<u>\$ 359,984</u>

Fund, Inc. uses a discount and valuation allowance factor of 7.35%. The discount and valuation allowance reflects the time value of money and credit risk.

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

### 7. Beneficial Interest in Net Assets Held by Related Organizations (continued)

Changes in the net assets held by Fund, Inc. and WCMC Fund on the Hospital's behalf are recognized in the Hospital's statements of changes in net assets for the years ended December 31, 2013 and 2012 and are summarized as follows (in thousands):

	Temporarily Restricted				Permanently Restricted	Total Interest in Net Assets
	Plant Replacement	Specific Purpose	Endowment Earnings	Total Temporarily Restricted		
<b>Year ended December 31, 2013</b>						
Gifts, bequests and similar items	\$ 194,792	\$ 96,178	\$ –	\$ 290,970	\$ 2,727	\$ 293,697
Net investment income and realized and unrealized gains and losses	61,984	43,779	29,215	134,978	7,155	142,133
Net assets released from restrictions for administrative and fund raising costs	(7,073)	(5,697)	(4,856)	(17,626)	–	(17,626)
Net assets released from restrictions for program expenditures	(1,114)	(67,454)	(108)	(68,676)	–	(68,676)
Net assets released from restrictions for distribution to the Hospital for the purchase of fixed assets	(74,759)	(3,617)	(27)	(78,403)	–	(78,403)
Transfer of donor-restricted net assets related to Lower Manhattan Hospital	847	11,858	–	12,705	6,710	19,415
Changes in net assets	<u>\$ 174,677</u>	<u>\$ 75,047</u>	<u>\$ 24,224</u>	<u>\$ 273,948</u>	<u>\$ 16,592</u>	<u>\$ 290,540</u>
<b>Year ended December 31, 2012</b>						
Gifts, bequests and similar items	\$ 85,301	\$ 77,548	\$ –	\$ 162,849	\$ 11,559	\$ 174,408
Net investment income and realized and unrealized gains and losses	39,077	31,699	8,929	79,705	4,553	84,258
Net assets released from restrictions for administrative and fund raising costs	(6,090)	(5,152)	(4,579)	(15,821)	–	(15,821)
Net assets released from restrictions for program expenditures	(559)	(60,459)	(597)	(61,615)	–	(61,615)
Net assets released from restrictions for distribution to the Hospital for the purchase of fixed assets	(43,725)	(4,272)	(56)	(48,053)	–	(48,053)
Changes in net assets	<u>\$ 74,004</u>	<u>\$ 39,364</u>	<u>\$ 3,697</u>	<u>\$ 117,065</u>	<u>\$ 16,112</u>	<u>\$ 133,177</u>

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

### 8. Insurance

*Professional Liability Insurance:* In 1978, the Hospital, in conjunction with a number of unrelated health care entities, participated in the formation of captive insurance companies (collectively, the “Captive”) to provide professional liability and general liability insurance to its participants. The premiums are based on a modified claims-made coverage and are actuarially determined based on the actual experience of the Captive, Hospital-specific experience, and estimated current exposure. The Captive has reinsurance coverage from reinsurers for certain amounts above its coverage level per claim limits.

The investments in the Captive are owned by Fund, Inc. Accordingly, insurance premiums are paid by the Hospital initially to Fund, Inc. (see Note 10).

Effective July 1, 2013, NYP/LMH is insured by the Captive. Prior to July 1, 2013, NYP/LMH was covered by various self-insured, claims-made, and excess insurance policies. Most recently, effective July 1, 2009, NYP/LMH increased its claims-made self-insured program to \$6.0 million with a retroactive date of August 6, 2003. The primary layer consists of \$2.0 million per claim with a \$10.0 million aggregate (the aggregate includes \$1.5 million of general liability coverage) followed by an excess layer of \$4.0 million per claim and aggregate limit (the excess excludes general liability). For this layer, however, NYP/LMH has the option to activate claims-made coverage from an insurance company for a specified premium. The purchase option can be activated at any point during the next seven years after inception and the coverage applies to all claims in the layer from the July 1, 2009 inception date.

The undiscounted estimate for professional liabilities and the estimate for incidents that have been incurred but not reported aggregated approximately \$422.4 million and \$398.1 million at December 31, 2013 and 2012, respectively, and is included in professional liabilities in the accompanying statements of financial position at the actuarially determined present value of approximately \$381.4 million and \$357.8 million, respectively, based on a discount rate of 3.0% for each of the years ended December 31, 2013 and 2012 (the NYP/LMH self-insured liability of approximately \$26.1 million and \$22.2 million at December 31, 2013 and 2012, respectively, is undiscounted). The Hospital has recorded related insurance recoveries receivable of approximately \$226.2 million and \$207.4 million at December 31, 2013 and 2012, respectively, in consideration of the expected insurance recoveries for the total discounted modified claims-made insurance. Funded amounts (approximately \$15.1 million and \$16.4 million at December 31, 2013 and 2012, respectively) have been placed in a separate account and are included in assets limited as to use in the accompanying statements of financial position. The current portion of professional liabilities and the related insurance recoveries receivable represents an estimate of expected settlements and insurance recoveries over the next 12 months.

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

### 8. Insurance (continued)

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

*Workers' Compensation Insurance:* Prior to April 1, 1999, the Hospital was self-insured for workers' compensation claims. Since April 1, 1999, the Hospital has purchased insurance through the New York State Insurance Fund in a program that effectively transfers risk from the Hospital. At December 31, 2013 and 2012, the estimate for self-insured workers' compensation claims and incurred but not reported liabilities prior to April 1, 1999 aggregated approximately \$10.6 million and \$10.4 million, respectively, and is included in professional liabilities in the accompanying statements of financial position.

In connection with the workers' compensation self-insurance programs, the Hospital maintains two letters of credit through banks in the aggregate amount of approximately \$15.2 million, which satisfies the collateral deposit requirement.

### 9. Pension and Similar Benefit Plans

*Retirement Benefits:* The Hospital provides pension and similar benefits to its employees through several plans, including various multiemployer plans for union employees (see Note 14), a qualified noncontributory defined benefit plan primarily for eligible non-union employees of the Hospital (the "Qualified Pension Plan"), a defined benefit retirement plan under a collective bargaining agreement for certain employees of NYP/LMH (the "NYP/LMH Pension Plan") and a nonqualified defined benefit plan for certain executives (the "Nonqualified Pension Plan") (the non-multiemployer plans are collectively referred to as the "Pension Plans"). Through December 31, 2008, the Hospital also provided pension and similar benefits to certain employees through a defined contribution plan. The employees who participated in the defined contribution plan became participants of the qualified defined benefit plan effective December 31, 2008 in a change that responded to certain regulatory requirements. The Hospital funds the noncontributory defined benefit plans in accordance with the minimum funding requirement of the Employee Retirement Income Security Act of 1974 ("ERISA"), plus additional amounts that the Hospital may deem appropriate from time to time. Amounts contributed to the Pension Plans are based on actuarial valuations.



# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

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

The benefits for participants or their beneficiaries in the Pension Plans sponsored by the Hospital are based on years of service and employees' compensation during their years of employment.

Certain employees of NYP/LMH are covered under a defined contribution plan to which annual discretionary contributions are made based on percentages of both applicable salaries and voluntary contributions.

*Postretirement Benefits:* The Hospital provides certain health care and life insurance benefits to its retired non-union employees through several plans (the "Postretirement Benefit Plans"). The Hospital provides postretirement benefits if eligible employees have worked 15 years and attained age 62 while still working for the Hospital. Coverage continues until the retiree is Medicare-eligible and is 100% paid by the Hospital up to certain predetermined limits. Special coverage for non-Medicare-eligible dependents may be purchased at group rates. The plans contain cost-sharing features, such as deductibles and coinsurance. Certain union employees who retire after age 60 are eligible for a medical stipend until age 65.

NYP/LMH terminated its postretirement benefit plan, effective January 1, 1996, which provided certain health care and life insurance benefits for certain eligible employees. Employees vested prior to this date continued to receive benefits until May 31, 2009. Effective June 1, 2009, NYP/LMH participates in the United Medicare Advantage Supplemental Plan. The vested members and benefits were transferred and the members will continue to receive benefits under the new plan.

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

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

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

The reconciliation of the beginning and ending balances of the benefit obligation and the fair value of the plans' assets for the years ended December 31, 2013 and 2012 is as follows (in thousands):

	Pension Plans		Postretirement Benefit Plans	
	2013	2012	2013	2012
<b>Benefit obligation</b>				
Benefit obligation at beginning of year*	\$ 1,036,184	\$ 912,569	\$ 31,133	\$ 34,874
Service cost	55,889	49,114	290	267
Interest cost	40,912	41,602	1,013	1,239
Actuarial losses (gains)	(80,088)	70,469	(2,319)	(2,499)
Effect of curtailment and settlement	(1,128)	(887)	—	—
Medicare Part D subsidy	—	—	121	351
Plan participant contributions	—	—	203	235
Benefits paid	(47,236)	(36,683)	(2,729)	(3,334)
Benefit obligation at end of year	1,004,533	1,036,184	27,712	31,133
<b>Fair value of plan assets</b>				
Fair value of plan assets at beginning of year*	814,061	637,287	—	—
Actual return on plan assets	110,727	59,329	—	—
Hospital contributions	80,253	155,015	2,526	3,099
Plan participant contributions	—	—	203	235
Effect of settlement	(1,128)	(887)	—	—
Benefits paid	(47,236)	(36,683)	(2,729)	(3,334)
Fair value of plan assets at end of year	956,677	814,061	—	—
Funded status	\$ (47,856)	\$ (222,123)	\$ (27,712)	\$ (31,133)

\* As of September 6, 2012 for the NYP/LMH Pension Plan.

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

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

At December 31, 2013 and 2012, the funded status of the pension and postretirement benefits plans are reported in the accompanying statements of financial position as follows (in thousands):

	Pension Plans		Postretirement Benefit Plans		Total	
	2013	2012	2013	2012	2013	2012
Current liability	\$ 9,223	\$ 8,399	\$ 2,889	\$ 2,985	\$ 12,112	\$ 11,384
Noncurrent liability	38,633	213,724	24,823	28,148	63,456	241,872
	<u>\$ 47,856</u>	<u>\$ 222,123</u>	<u>\$ 27,712</u>	<u>\$ 31,133</u>	<u>\$ 75,568</u>	<u>\$ 253,256</u>

Included in other changes in unrestricted net assets for the years ended December 31, 2013 and 2012 are the following amounts that have not yet been recognized in net periodic pension and postretirement cost (in thousands):

	Pension Plans		Postretirement Benefit Plans		Total	
	2013	2012	2013	2012	2013	2012
Unrecognized prior service cost	\$ 1,758	\$ 1,943	\$ 142	\$ 2,041	\$ 1,900	\$ 3,984
Unrecognized actuarial loss	214,591	366,011	4,565	6,887	219,156	372,898
	<u>\$ 216,349</u>	<u>\$ 367,954</u>	<u>\$ 4,707</u>	<u>\$ 8,928</u>	<u>\$ 221,056</u>	<u>\$ 376,882</u>

The change in net assets from pension and postretirement benefit liabilities to be recognized in future periods as reported in the accompanying statements of operations is an increase of approximately \$157.8 million and a decrease of approximately \$45.5 million for 2013 and 2012, respectively, and represents the combined change in the amounts for pension and postretirement benefits plans in the table above.

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

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

The prior service cost and actuarial loss included in changes in unrestricted net assets at December 31, 2013 that are expected to be recognized in net periodic pension and postretirement cost during the year ending December 31, 2014 are as follows (in thousands):

	<b>Pension Plans</b>	<b>Postretirement Benefit Plans</b>
Unrecognized prior service cost	\$ 608	\$ 90
Unrecognized actuarial loss	15,502	201

At December 31, 2013 and 2012, the projected benefit obligation, accumulated benefit obligation, and fair value of the plans' assets by defined benefit pension plan follow (in thousands):

	<b>Qualified Pension Plan</b>		<b>Nonqualified Pension Plan</b>		<b>NYP/LMH Pension Plan</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Projected benefit obligation	\$ 931,644	\$ 966,102	\$ 37,890	\$ 36,081	\$ 34,999	\$ 34,001
Accumulated benefit obligation	919,960	957,868	27,659	26,324	33,902	31,603
Fair value of plans' assets	931,882	792,365	—	—	24,795	21,695

Weighted-average assumptions used in determining the pension and postretirement benefits obligations as of December 31, 2013 and 2012 were as follows:

	<b>Pension Plans</b>		<b>Postretirement Benefit Plans</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Discount rate – Hospital	4.75%	4.00%	4.00%	3.50%
Discount rate – NYP/LMH	4.75	3.88	4.00	3.88
Rate of compensation increase – Hospital	3.50	3.50	—	—
Rate of compensation increase – NYP/LMH	4.00	4.00	—	—

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

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

Net periodic pension cost and postretirement benefits cost for the years ended December 31, 2013 and 2012 consist of the following (in thousands):

	Pension Plans		Postretirement Benefit Plans	
	2013	2012	2013	2012
Service cost	\$ 55,889	\$ 49,114	\$ 290	\$ 267
Interest cost	40,912	41,602	1,013	1,239
Expected return on plan assets	(66,180)	(54,907)	—	—
Net amortization of prior service cost	644	662	(67)	(15)
Recognized actuarial loss	29,488	20,151	416	379
Recognized actuarial (gain) loss due to settlement	(13)	91	—	—
Net periodic pension cost and postretirement benefits cost	\$ 60,740	\$ 56,713	\$ 1,652	\$ 1,870

Weighted-average assumptions used in determining the net periodic pension and postretirement benefits cost for the years ended December 31, 2013 and 2012 were as follows:

	Pension Plans		Postretirement Benefit Plans	
	2013	2012	2013	2012
Discount rate – Hospital	4.00%	4.75%	3.50%	4.25%
Discount rate – NYP/LMH	4.75	4.28	4.00	4.28
Expected rate of return on plan assets – Hospital	7.75	7.75	—	—
Expected rate of return on plan assets – NYP/LMH	7.75	8.00	—	—
Rate of compensation increase – Hospital	3.50	3.50	—	—
Rate of compensation increase – NYP/LMH	4.00	4.00	—	—

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

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

The overall expected long-term rate of return on assets of the Pension Plans is based on the historical returns of each asset class weighted by the target asset allocation. The target asset allocation has been selected consistent with the Hospital's desired risk and return characteristics. The Hospital reviews the expected long-term rate periodically and, based on the building block approach, updates the rate for changes in the marketplace. The market conditions in 2013 and 2012 and changes in the pension asset allocations were considered in the Hospital's evaluation of the expected long-term rate of return assumption.

In relation to the Hospital's postretirement benefit plan (excluding the postretirement benefit plan for NYP/LMH), the weighted-average annual assumed rate of increase per capita cost of covered benefits (i.e., health care cost trend rate) is assumed to start at 7.05% and decrease to 4.50% by 2023. The health care cost trend rate assumption may have an effect on the amounts reported. A one percent change in the assumed health care cost trend rate would have the following effects (in thousands):

	<b>1% Increase</b>	<b>1% Decrease</b>
Effect on total of service and interest cost components in health care cost trend rate	\$ 51	\$ (46)
Effect on postretirement benefit obligation as of as of December 31, 2013	1,266	(1,138)

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

*Plan Assets:* The Qualified Pension Plan and the NYP/LMH Pension Plan have separate asset allocation targets. The overall objective of the investment policy of the Qualified Pension Plan is to produce an asset allocation that will generate return annually in order to meet the expense and income needs and provide for sufficient annual asset growth. Funds are invested with a long-term (five years or greater) return objective.

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

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

The Qualified Pension Plan's investment policy includes the following asset allocation guidelines:

<b>Asset Category</b>	<b>Strategic Asset Allocation Policy Target</b>
Equities	33%
Fixed income	22
Alternative assets	19
Private equity	15
Natural resources	6
Real estate	5

The policy target percentages are reevaluated at least quarterly. Investment performance is reviewed quarterly with performance results and benchmarks compiled independently by the plan's trustee.

NYP/LMH Pension Plan's weighted-average asset allocations at December 31, by asset category, are as follows:

	<b>2013</b>	<b>2012</b>
Mutual funds	<b>18%</b>	19%
Common collective trusts	<b>82</b>	81
	<b>100%</b>	100%

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

The composition and reported value of the Pension Plans' assets at December 31, 2013 and 2012 are disclosed in Note 13.

The Hospital expects to contribute approximately \$56 million to its Pension Plans and \$4 million to its Postretirement Benefit Plans in 2014.

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

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

The Medicare Prescription Drug Act introduced a prescription drug benefit under Medicare (“Medicare Part D”) as well as a Federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. The Hospital expects to pay the following benefit payments, which reflect expected future service as appropriate, and receive the following Medicare Part D subsidies (in thousands):

Year:	Pension Plans	Postretirement Benefit Plans	Medicare Part D Subsidies
2014	\$ 62,951	\$ 3,191	\$ 223
2015	62,302	3,142	218
2016	71,876	3,024	210
2017	78,911	2,915	200
2018	79,198	2,763	191
2019 to 2023	429,480	11,432	780

### 10. Related Organizations

Fund, Inc. is an affiliated not-for-profit public charity whose revenue is derived from soliciting, receiving and administering funds. Royal Charter Properties, Inc. (“RCP, Inc.”), Royal Charter Properties-East, Inc. (“RCP-East”) and Royal Charter Properties-Westchester, Inc. (“RCP-West”) are affiliated not-for-profit support corporations that derive revenue from acquiring and holding direct and indirect interests in real estate and related personal property, which are primarily used to provide residential housing, office space and parking to the Hospital and its employees based on the market value of such services. RCP, Inc., RCP-East and RCP-West provide services primarily to or for the benefit of the Hospital.

Amounts received by the Hospital from or amounts contributed by the Hospital to related support organizations, reflected in other revenue in the accompanying statements of operations for the years ended December 31, 2013 and 2012 are as follows (see Note 11) (in thousands):

	2013	2012
Distributions from (payments to) according to organization’s bylaws:		
RCP, Inc.	\$ 10,820	\$ 14,388
RCP-East	39,763	33,486
RCP-West	(70)	(92)
	<u>\$ 50,513</u>	<u>\$ 47,782</u>



# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

### 10. Related Organizations (continued)

Fund, Inc. also pays certain program related costs on behalf of the Hospital (see Note 7). Fund, Inc. paid approximately \$8.0 million and \$8.2 million in 2013 and 2012, respectively, related to malpractice and postretirement costs incurred by the Hospital. Other distributions made by Fund, Inc. to the Hospital include approximately \$77.8 million and \$47.3 million in 2013 and 2012, respectively, for the purchase of fixed assets.

Services provided to the Hospital by related entities for the years ended December 31, 2013 and 2012 are as follows (in thousands):

	<b>2013</b>	<b>2012</b>
Fund, Inc. – insurance ( <i>Note 8</i> )	\$ <b>62,087</b>	\$ 65,974
RCP, Inc. – rentals (net)	<b>1,422</b>	1,648
RCP-East – rentals	<b>9,291</b>	11,419
RCP-West – rentals	<b>294</b>	309
	<u><b>\$ 73,094</b></u>	<u>\$ 79,350</u>

In connection with a financing completed by RCP, Inc. in 2001 for the renovation and improvement of a parking garage facility, the Hospital entered into a noncancellable lease with RCP, Inc., for a period not longer than 29 years, whereby the Hospital will lease 50% of the parking spaces at an amount sufficient to cover the debt service on the financing.

In connection with the financing completed by RCP-East in 1998, the Hospital entered into a lease through April 2035, whereby the Hospital is required to pay a fixed rent in the event that RCP-East does not meet certain covenants.

The Hospital received distributions of \$8.0 million and \$5.0 million in 2013 and 2012, respectively, from Weill Cornell Imaging at New York-Presbyterian, a radiology and imaging joint venture affiliated with the Hospital and Weill Cornell Medical College.

The Hospital provides employee and other services to related entities for which the Hospital receives reimbursement, and the costs of providing such services are recorded directly by those entities. Accordingly, such amounts are not included in the accompanying financial statements of the Hospital. Charges for such services are based on the approximate cost to provide the services and totaled approximately \$43.3 million and \$47.3 million for the years ended December 31, 2013 and 2012, respectively. The services consist of patient accounting, financial planning,

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

### 10. Related Organizations (continued)

information systems and telecommunications, general accounting, medical supplies, biomedical engineering services, house staff, ambulance services, institutional billings, engineering and other services.

The following balances are due (to) from related organizations at December 31, 2013 and 2012 (in thousands):

	<b>2013</b>	<b>2012</b>
Fund, Inc.	\$ (8,785)	\$ (2,296)
RCP, Inc.	1,235	2,279
RCP-East	2,111	2,765
RCP-West	113	183
Network Recovery Services, Inc.	(985)	(313)
Silvercrest Extended Care Facility	85	72
The Brooklyn Hospital Center	1,043	671
The Hospital for Special Surgery	334	606
The New York Community Hospital of Brooklyn, Inc.	108	93
The New York Gracie Square Hospital, Inc.	141	51
The New York Hospital Medical Center of Queens	3,591	4,625
The New York Methodist Hospital	765	741
New York-Presbyterian Healthcare System, Inc.	(4,152)	(3,979)
The New York Westchester Square Medical Center ("Westchester Square")	2,927	3,065
The Rogosin Institute	186	168
Nyack Hospital	99	72
	<b>(1,184)</b>	<b>8,803</b>
Less noncurrent portion included in other noncurrent assets, before valuation allowance	<b>(3,487)</b>	<b>(4,145)</b>
Due (to) from related organizations – net	<b>\$ (4,671)</b>	<b>\$ 4,658</b>

The Hospital periodically assesses the collectibility of amounts due from related organizations. The amounts included in other noncurrent assets are adjusted to state the receivables at their estimated net realizable value. Westchester Square filed for bankruptcy protection in December 2006. Effective February 21, 2013, Westchester Square is no longer a related organization. The balances due from certain related organizations are provided for through a valuation allowance.

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

### 11. Other Revenue

Other revenue consisted of the following for the years ended December 31, 2013 and 2012 (in thousands):

	<u>2013</u>	<u>2012</u>
Grants and contracts	\$ 32,253	\$ 33,159
Amounts received from related organizations, net (Note 10)	58,513	52,782
Rental of space	35,921	35,316
Cafeteria and vending	13,048	10,682
Net assets released from restrictions, included in changes in beneficial interest in net assets held by related organizations (Note 7)	68,676	61,615
Affiliation agreements	6,201	5,791
Other	53,347	41,617
	<u>\$ 267,959</u>	<u>\$ 240,962</u>

### Electronic Health Records Incentive Payments

The American Recovery and Reinvestment Act of 2009 includes provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act (“HITECH”). The provisions were designed to increase the use of electronic health record (“EHR”) technology and establish the requirements for a Medicare and Medicaid incentive payment program to eligible providers that adopt and meaningfully use certified EHR technology. The Medicare EHR incentive program provides annual incentive payments to eligible providers demonstrating meaningful use of EHR technology in each period over a four-year period. Initial Medicaid incentive payments are available to providers for efforts to adopt, implement, or upgrade certified EHR technology. In subsequent years, providers must demonstrate meaningful use of such technology to qualify for additional Medicaid incentive payments. Hospitals that do not successfully demonstrate meaningful use of EHR technology are subject to payment penalties or downward adjustments to their Medicare payments beginning in federal fiscal year (“FFY”) 2015.

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

### **11. Other Revenue (continued)**

The Hospital uses a grant accounting model to recognize EHR incentive revenues and, therefore, records EHR incentive revenue ratably throughout the incentive reporting period if reasonably assured it will meet the meaningful use objective for the required reporting period and that the grants will be received. The EHR reporting period for hospitals is based on the FFY, which runs from October 1 through September 30. The Hospital is reasonably assured that it has met the meaningful use objectives for the 2013 FFY and will continue to meet the objectives for the 2014 FFY. The Hospital recorded EHR incentive revenue of approximately \$3.6 million (Medicare \$2.2 million; Medicaid \$1.4 million) and \$11.2 million (Medicare \$6.6 million; Medicaid \$4.6 million) for the years ended December 31, 2013 and 2012, respectively. EHR incentive revenues are included in other revenue in the accompanying statements of operations. EHR incentive receivables from Medicare and Medicaid, which are included in other current assets, were approximately \$3.9 million (Medicare \$2.2 million; Medicaid \$1.7 million) and \$4.2 million (Medicare \$0.4 million; Medicaid \$3.8 million) at December 31, 2013 and 2012, respectively. Income from incentive payments is subject to retrospective adjustment, as the incentive payments are calculated using Medicare cost report data that is subject to audit. Additionally, the Hospital's compliance with the meaningful use criteria is subject to audit by the Federal government.

### **12. Commitments and Contingencies**

Various lawsuits and claims arising in the normal course of operations are pending or are in progress against the Hospital. Such lawsuits and claims are either specifically covered by insurance or are not deemed material. While the outcome of these lawsuits cannot be determined at this time, management, based on advice from legal counsel, believes that any loss which may arise from these actions will not have a material adverse effect on the financial position or results of operations of the Hospital.

At December 31, 2013, approximately 38% of the Hospital's employees were covered by collective bargaining agreements. Collective bargaining agreements covering all such employees are set to expire at various dates through 2018.

Effective January 1, 2009, the IRS issued final regulations for purposes of determining common control for qualified retirement plans sponsored by tax-exempt organizations. In general, tax-exempt entities that are under common control are treated as one entity for certain of the requirements of qualified plans. The regulations determine control based on facts and circumstances; for this purpose, common control would exist if, among other situations, at least

## The New York and Presbyterian Hospital

### Notes to Financial Statements (continued)

#### **12. Commitments and Contingencies (continued)**

80% of the directors or trustees of one organization were either representatives of, or directly or indirectly controlled by, another organization. These regulations could have an effect on the operations of the Hospital's and its related entities' retirement plans and the responsibilities of those entities for associated liabilities, although such effects are uncertain at this time.

#### **13. Fair Value Measurements**

The Hospital uses various methods of calculating fair value of its financial assets and liabilities, when applicable. The Hospital 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 and establishes a framework for measuring fair value. Fair value measurements are applied based on the unit of account from the Hospital's perspective. The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated).

The Hospital uses a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

*Level 1:* Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

*Level 2:* Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.

*Level 3:* Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

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

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

### 13. Fair Value Measurements (continued)

The following table presents financial instruments carried at fair value, excluding assets invested in the Hospital's Pension Plans, as of December 31, 2013 and 2012 (in thousands):

	December 31, 2013			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents – held for investment	\$ 621,823	\$ 621,823	\$ –	\$ –
Fixed income:				
U.S. government	426,495	426,495	–	–
Non-U.S. government	27,308	27,308	–	–
Corporate	220,884	37,350	183,534	–
Mortgage and asset backed	129,968	2,049	127,919	–
Other	5,764	876	4,888	–
Equities:				
U.S. equities	207,218	207,218	–	–
Non-U.S. equities	123,279	123,279	–	–
Real assets	9,913	9,913	–	–
Mutual funds	25,045	25,045	–	–
	<u>\$ 1,797,697</u>	<u>\$ 1,481,356</u>	<u>\$ 316,341</u>	<u>\$ –</u>
	December 31, 2012			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents – held for investment	\$ 135,291	\$ 135,291	\$ –	\$ –
Fixed income:				
U.S. government	354,867	354,867	–	–
Non-U.S. government	13,127	13,127	–	–
Corporate	221,289	25,111	196,178	–
Mortgage and asset backed	152,207	5,126	147,081	–
Other	6,413	1,262	5,151	–
Equities:				
U.S. equities	152,581	152,581	–	–
Non-U.S. equities	106,194	106,194	–	–
Real assets	16,402	16,402	–	–
Mutual funds	31,735	31,735	–	–
	<u>\$ 1,190,106</u>	<u>\$ 841,696</u>	<u>\$ 348,410</u>	<u>\$ –</u>

The Hospital's alternative investments and common collective/commingled trusts are reported using the equity method of accounting and, therefore, are not included in the tables above (see Note 1).

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

### 13. Fair Value Measurements (continued)

Financial instruments invested in the Hospital's Pension Plans at fair value are classified in the table below in one of the three categories described above as of December 31, 2013 and 2012 (in thousands):

	December 31, 2013			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 71,357	\$ 71,357	\$ —	\$ —
Fixed income:				
U.S. government	70,225	70,225	—	—
Non-U.S. government	30,713	16,695	14,018	—
Corporate bonds	36,247	6,371	29,876	—
Mortgage and asset backed	5,740	5,740	—	—
Other	1,892	1,892	—	—
Equities:				
U.S. equities <sup>(a)</sup>	175,173	72,370	102,803	—
Non-U.S. equities <sup>(b)</sup>	164,937	12,349	152,588	—
Real assets	14,687	14,687	—	—
Hedge funds <sup>(c)</sup>	164,536	—	144,114	20,422
Private equity <sup>(d)</sup>	146,164	—	—	146,164
Private real assets <sup>(e)</sup>	75,006	—	7,277	67,729
	<u>\$ 956,677</u>	<u>\$ 271,686</u>	<u>\$ 450,676</u>	<u>\$ 234,315</u>

  

	December 31, 2012			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 24,019	\$ 24,019	\$ —	\$ —
Fixed income:				
U.S. government	95,874	95,874	—	—
Non-U.S. government	19,956	6,001	13,955	—
Corporate bonds	35,093	7,705	27,388	—
Mortgage and asset backed	17,914	17,914	—	—
Other	3,719	3,719	—	—
Equities:				
U.S. equities <sup>(a)</sup>	154,826	39,588	115,238	—
Non-U.S. equities <sup>(b)</sup>	146,313	12,846	133,467	—
Real assets	19,380	19,380	—	—
Hedge funds <sup>(c)</sup>	120,106	—	106,590	13,516
Private equity <sup>(d)</sup>	132,622	—	—	132,622
Private real assets <sup>(e)</sup>	44,239	—	7,023	37,216
	<u>\$ 814,061</u>	<u>\$ 227,046</u>	<u>\$ 403,661</u>	<u>\$ 183,354</u>

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

### 13. Fair Value Measurements (continued)

- <sup>(a)</sup> Equity portfolios and common collective/commingled trusts invested in common stock of corporations primarily domiciled in the United States.
- <sup>(b)</sup> Equity portfolios and common collective/commingled trusts invested in common stock of corporations primarily domiciled outside the United States, including Emerging Market countries.
- <sup>(c)</sup> Hedge funds include long and short equity, multi-strategy, event driven and relative value funds invested with managers who invest with different strategies and typically employ some leverage. In long and short equity, fund managers create a portfolio of long positions in stocks expected to appreciate over time and short positions in stocks expected to depreciate. Event-driven managers create a portfolio designed to profit from corporate events, such as mergers, spin-offs, defaults and bankruptcy. Relative value managers invest in long and short positions, but typically have a more neutral net market position than long and short. Multi-strategy is a fund employing a variety of hedge fund strategies.
- <sup>(d)</sup> Private equity investments include limited partnership investments in funds pursuing strategies in corporate buyouts, venture capital, growth equity, distressed and turnaround investments.
- <sup>(e)</sup> Real estate and natural resources investments.

The following is a description of the Hospital's valuation methodologies for assets measured at fair value. The fair value methodologies are not necessarily indicators of investment risk, but are descriptive of the measures used to arrive at fair value pricing. Fair value for Level 1 is based upon quoted market prices. Investments classified as Level 2 are primarily valued using techniques that are consistent with the market approach. Valuations for Level 2 are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs, which include broker/dealer quotes, reported/comparable trades, and benchmark yields are obtained from various sources including market participants, dealers and brokers. Level 2 common collective/commingled trusts and alternative investments are redeemable in the near term. Level 3 assets consist of alternative investments that are not redeemable in the near term. The valuation for alternative investments included in Levels 2 and 3 is described in Note 9. The methods described above may produce a fair value that is not indicative of net realizable value or reflective of future fair values. Furthermore, while the Hospital believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.



# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

### 13. Fair Value Measurements (continued)

Following is a rollforward of the statement of financial position amounts for financial instruments classified by the Hospital in Level 3 of the fair value hierarchy defined above for the years ended December 31, 2013 and 2012 (in thousands):

	<b>2013</b>	<b>2012</b>
Balance, beginning of year	\$ 183,354	\$ 161,531
Total realized and unrealized gains or losses	23,979	16,983
Purchases	57,375	53,153
Transfers out	(30,393)	(48,313)
Balance, end of year	<u>\$ 234,315</u>	<u>\$ 183,354</u>
Change in unrealized gains related to financial instruments held at the reporting date	<u>\$ 19,298</u>	<u>\$ 14,432</u>

Transfers out are recognized once the underlying investment is determined to be redeemable in the near term.

The following is a summary of investments (by major class) that have restrictions on the Hospital's ability to redeem its investments at the measurement date, any unfunded capital commitments and the investments strategies of the investees as of December 31, 2013 (including investments accounted for using the equity method) (in thousands):

Description of Investment	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Hedge funds	\$ 332,951	\$ —	Monthly to tri-annually	45 to 180 days
Private equity	278,068	150,564	*	*
Private real assets	150,720	129,532	*	*
	<u>\$ 761,739</u>	<u>\$ 280,096</u>		

\* The Hospital's liquidity restrictions range from several months to ten years for certain private equity and real asset investments. Liquidity restrictions may apply to all or portions of a particular invested amount.

## The New York and Presbyterian Hospital

### Notes to Financial Statements (continued)

#### **13. Fair Value Measurements (continued)**

The carrying values of cash and cash equivalents, receivables, accounts payable and accrued expenses, other current assets and liabilities are reasonable estimates of fair value due to the short-term nature of these financial instruments. Carrying value approximates fair value for other noncurrent financial instruments, excluding long-term debt obligations and financial instruments included in the fair value tables. At December 31, 2013 and 2012, the fair value of long-term debt obligations totaled approximately \$1,180.2 million and \$739.7 million at December 31, 2013 and 2012, respectively, excluding capital leases and unamortized discount (see carrying value of long-term debt at Note 5). The fair value of long-term debt is classified as Level 2 in the fair value hierarchy, using techniques consistent with the market approach. Valuations for long-term debt are based on quoted market prices for related bonds.

#### **14. Multiemployer Pension Plans**

The Hospital contributes to the New York State Nurses Association Pension Plan (“NYSNA”) and the 1199 SEIU Healthcare Employees Pension Fund (“1199 SEIU”). These are multiemployer defined benefit pension plans under the terms of collective bargaining agreements that cover the Hospital’s union-represented employees. Contributions to union plans are based on union employee gross salary levels and rates required under union contractual arrangements.

The risks of participating in these multiemployer plans are different from single-employer plans in the following respects:

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

The Hospital’s participation in these plans for the annual period ended December 31, 2013 is outlined in the table below. The “EIN/Pension Plan Number” column provides the Employee Identification Number (“EIN”) and the three-digit plan number, if applicable. Unless otherwise noted, the most recent Pension Protection Act (“PPA”) zone status available in 2013 and 2012 is for the plan’s year-end at December 31, 2012 and December 31, 2011, respectively. The zone

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

### 14. Multiemployer Pension Plans (continued)

status is based on information that the Hospital received from the plan and 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 "FIP/RP Status" column indicates plans for which a financial improvement plan ("FIP") or a rehabilitation plan ("RP") is either pending or has been implemented. The last column lists the expiration dates of the collective bargaining agreements to which the plans are subject.

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status	Contributions by the Hospital		Surcharge Imposed	Expiration Date of Collective Bargaining Agreement
		2013	2012		2013	2012		
		(In Thousands)						
NYSNA	13-6604799/ Plan No. 001	Green	Green	No	\$ 20,620	\$ 19,835	No	12/31/2014
1199 SEIU	13-3604862/ Plan No. 001	Green	Green	No	32,210	23,748	No	4/30/2015
					\$ 52,830	\$ 43,583		

The Hospital was listed in the NYSNA plan's Forms 5500 as providing more than 5% of the total contributions during each of the plans 2012 and 2011 plan years. Forms 5500 are not yet available for the plan years ended in 2013.

### 15. Events Subsequent to December 31, 2013

Subsequent events have been evaluated through April 30, 2014, which is the date the financial statements were issued. No subsequent events have occurred that require disclosure in or adjustment to the financial statements.

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