ALBANY MEDICAL CENTER AND RELATED ENTITIES

Reports Required by OMB Circular A-133

December 31, 2012

ALBANY MEDICAL CENTER AND RELATED ENTITIES

Reports Required by OMB Circular A-133

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KPMG LLP
515 Broadway
Albany, NY 12207-2974

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Directors
Albany Medical Center and Related Entities:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the combined financial statements of Albany Medical Center and Related Entities (the Center), which comprise the combined balance sheet as of December 31, 2012, and the related combined statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated April 26, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered the Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's combined financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Center's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Albany, New York
April 26, 2013

KPMG LLP
515 Broadway
Albany, NY 12207-2974

Independent Auditors' Report on Compliance for Each Major Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*

The Board of Directors
Albany Medical Center and Related Entities:

Report on Compliance for Each Major Federal Program

We have audited Albany Medical Center and Related Entities' (the Center) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the year ended December 31, 2012. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Center's compliance.

Opinion on Each Major Federal Program

In our opinion, the Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control over Compliance

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the combined financial statements of the Center as of and for the year ended December 31, 2012, and have issued our report thereon dated April 26, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying schedule of expenditures of federal awards for the year ended December 31, 2012 is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the combined financial statements as a whole.

KPMG LLP

Albany, New York
September 25, 2013

ALBANY MEDICAL CENTER AND RELATED ENTITIES

Schedule of Expenditures of Federal Awards

Year ended December 31, 2012

Federal grantor/pass-through grantor/program title	Federal CFDA number	Pass-through	Direct	Total
Student financial assistance cluster:				
U.S. Department of Education – Direct Programs:				
Federal Work-Study Program	84.033	$ —	137,509	137,509
Federal Perkins Loan Program	84.038	—	1,012,000	1,012,000
Health Professions Student and Primary Care Loan Programs	93.342	—	74,476	74,476
Loans for Disadvantaged Students Program	93.342	—	112,365	112,365
Total U.S. Department of Education		—	1,336,350	1,336,350
Total student financial assistance cluster		—	1,336,350	1,336,350
Research and development cluster:				
U.S. Department of Health & Human Services:				
ARRA – Trans-NIH Recovery Act Research Support:				
National Institute of Allergy & Infectious Diseases	93.701	—	991,387	991,387
National Institute of General Medical Sciences	93.701	—	25,979	25,979
National Heart, Lung & Blood Institute	93.701	—	32,322	32,322
National Institute of Alcohol Abuse & Alcoholism:				
Alcohol Research Programs	93.273	—	2,806	2,806
National Institute of Allergy & Infectious Diseases:				
Allergy, Immunology and Transplantation Research	93.855	80,660	3,176,090	3,256,750
National Institute of Aging:				
Aging Research	93.866	—	4,832	4,832
National Cancer Institute:				
Cancer Cause and Prevention Research	93.393	14,860	348,551	363,411
Cancer Detection and Diagnosis Research	93.394	—	204,888	204,888
Cancer Treatment Research	93.395	—	117,073	117,073
Cancer Biology Research	93.396	—	584,403	584,403
Cancer Research Manpower	93.398	—	54,662	54,662
National Institute on Drug Abuse:				
Drug Abuse and Addiction Research Programs	93.279	9,024	369,585	378,609
National Institute on Deafness & Other Communication Disorders:				
Research Related to Deafness and Communication Disorders	93.173	—	495,068	495,068
National Eye Institute:				
Vision Research	93.867	28,856	—	28,856
National Institute of General Medical Sciences:				
Biomedical Research and Research Training	93.859	—	839,987	839,987
National Heart, Lung & Blood Institute:				
Heart and Vascular Diseases Research	93.837	—	1,755,253	1,755,253
Lung Diseases Research	93.838	—	724,630	724,630
National Institute of Mental Health:				
Mental Health Research Grants	93.242	—	369,380	369,380
National Institute of Neurological Disorders & Strokes:				
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	—	676,725	676,725
Office of Naval Research:				
Basic and Applied Scientific Research	12.300	20,223	—	20,223
National Science Foundation				
Engineering Grants	47.041	9,958	—	9,958
U.S. Department of the Army:				
Military Medical Research and Development	12.420	—	145,339	145,339
Basic Scientific Research	12.431	—	547,810	547,810
Total research and development cluster		163,581	11,466,770	11,630,351
Other federal awards:				
U.S. Department of Health & Human Services:				
ARRA-National Institute of Allergy & Infectious Diseases	93.701	7,779	—	7,779
ARRA-National Center for Research Resources	93.702	—	5,411,952	5,411,952
Substance Abuse and Mental Health Services Projects of Regional National Significance	93.243	—	355,223	355,223
Aging Research	93.866	27,358	—	27,358
Allergy, Immunology and Transplantation Research	93.855	—	88,056	88,056
Research and Training in Complementary and Alternative Medicine	93.213	22,937	—	22,937
Cancer Treatment Research	93.395	34,771	—	34,771
Health Care and Other Facilities	93.887	—	16,632	16,632

(Continued)

ALBANY MEDICAL CENTER AND RELATED ENTITIES

Schedule of Expenditures of Federal Awards

Year ended December 31, 2012

Federal grantor/pass-through grantor/program title	Federal CFDA number	Pass-through	Direct	Total
HIV Formula Care Grants	93.917	$ 204,384	—	204,384
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	—	1,217,153	1,217,153
Coordinated Services & Access to Research for Women, Infants, Children and Youth	93.153	—	674,389	674,389
AIDS Education & Training Centers	93.145	541,163	—	541,163
Cardiovascular Diseases Research	93.837	2,612	42,669	45,281
National Bioterrorism Hospital Preparedness Program	93.889	275,214	—	275,214
Center for Disease Control and Prevention – Disabilities Prevention	93.184	16,010	—	16,010
Diabetes, Digestive, and Kidney Extramural Research	93.847	5,409	134,550	139,959
Child Health and Human Development Extramural Research	93.865	7,875	—	7,875
Maternal and Child Health Federal Consolidated Programs	93.110	25,761	—	25,761
Medical Library Assistance	93.879	9,751	—	9,751
Extramural Research Programs in the Neurosciences ad Neurological Disorders	93.853	113,471	—	113,471
Biomedical Technology	93.371	919	—	919
Maternal & Child Health Services Block Grant to the States	93.994	191,638	—	191,638
Electricity Delivery and Energy Reliability, Research, Development & Analysis	81.122	6,710	—	6,710
Medical Assistance Program	93.778	61,986	—	61,986
Total U.S. Department of Health & Human Services		1,555,748	7,940,624	9,496,372
U.S. Department of Justice:				
Violence Against Women Formula Grants	16.588	40,636	—	40,636
		40,636	—	40,636
U.S. National Highway Traffic & Safety Administration:				
Occupant Protection	20.602	16,227	—	16,227
		16,227	—	16,227
U.S. Department of Agriculture:				
Special Supplemental Nutrition Program for Women, Infants & Children	10.557	2,032,957	—	2,032,957
Child & Adult Care Food Program	10.558	35,972	—	35,972
		2,068,929	—	2,068,929
Total other federal awards		3,681,540	7,940,624	11,622,164
Total federal awards		$ 3,845,121	20,743,744	24,588,865

See accompanying notes to schedule of expenditures of federal awards.

ALBANY MEDICAL CENTER AND RELATED ENTITIES

Notes to Schedule of Expenditures of Federal Awards

Year ended December 31, 2012

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards presents the activity of federal award programs administered by Albany Medical Center and Related Entities (the Center) as defined in the notes to the financial statements and is presented on an accrual basis.

(2) Federal Expenditures

The amounts reported as federal expenditures were obtained from the Center's general ledger, which is the source of the Center's combined financial statements. The general ledger is reconciled to the appropriate federal financial reports for the applicable program and periods. The amounts reported in these federal financial reports are prepared from records maintained for each program.

(3) Indirect Costs

Indirect costs are charged to federal grants and contracts at a federally approved predetermined rate. The predetermined rates for the period January 1, 2012 through December 31, 2012 were 58% and 26% for on-campus programs and off-campus programs, respectively. Indirect costs are included in the reported federal expenditures.

(4) Administrative Cost Allowance

Albany Medical College (the College) receives an administrative cost allowance for certain programs. The College's share of certain program administrative costs are included in the reported federal disbursements/expenditures.

(5) Guaranteed Student Loan Programs

As part of the Center, the College offers student financial assistance through the Federal Direct Student Loan Program under the U.S. Department of Education, which is a guaranteed student loan program. The loans processed and guaranteed under this program during the year ended December 31, 2012 are as follows:

Program title	CFDA number	Value of loans guaranteed during year ended December 31, 2012
Federal Direct Student Loans	84.268	$ 28,764,872

The College is only responsible for the performance of certain administrative duties relating to this program and therefore the loan program is not included in the schedule of expenditures of federal awards.

(Continued)

ALBANY MEDICAL CENTER AND RELATED ENTITIES

Notes to Schedule of Expenditures of Federal Awards

Year ended December 31, 2012

(6) Federal Perkins Loan Program and Health Professions Student Loan Program

For the year ended December 31, 2012, the College made loans totaling $1,012,000 in the Federal Perkins Loan Program (CFDA number 84.038) and incurred administrative costs of $29,250. This entire amount was funded with principal and interest repaid to the College related to previous loans. The outstanding balance of loans under the Federal Perkins Loan Program was $4,348,224 at December 31, 2012.

For the year ended December 31, 2012, the College made loans totaling $74,476 in the Health Professions Student and Primary Care Loan Programs (CFDA number 93.342). The outstanding balance of loans under the Health Professions Student and Primary Care Loan Programs was $575,511 at December 31, 2012.

For the year ended December 31, 2012, the College made loans totaling $112,365 in the Loans for Disadvantaged Students Program (CFDA number 93.342). The outstanding balance of loans under the Loans for Disadvantaged Students Program was $281,882 at December 31, 2012.

(7) Mortgage Insurance

The Hospital has the following long-term debt obligations outstanding as of December 31, 2012, which is insured by the U.S. Department of Housing and Urban Development:

Program title	CFDA number		Original loan amount	Loan balance at December 31, 2012
Mortgage Insurance Hospitals	14.128	$	106,203,443	44,611,354
Mortgage Insurance Hospitals-Refinance Loan	14.128		9,584,200	8,894,698
Mortgage Insurance Hospitals-Construction Loan	14.128		311,856,000	150,700,770

In December 2010, the Center entered into a $321,440,000 mortgage loan, comprised of a Construction Loan of $311,856,000 and a Refinance Loan of $9,584,200, both of which are insured under the FHA-241 mortgage insurance program. The Construction Loan will be used to complete the Hospital’s expansion project, which includes a six-story patient tower, to house 96 new beds, 20 new operating rooms and a co-generation plant. The construction period started in November 2010 and is expected to last approximately 30 months. The interest rate on the construction loan is 6.2%. The permanent mortgage, when fully drawn, will have a 25 year term, fixed monthly payments and an annual interest rate of 6.2%. The final endorsement on the construction loan is expected to be in August 2013, with a loan maturity date of July 2038. The Refinance Loan was used to retire the Center’s Series 1999 Bonds. The Refinance Loan’s interest rate is 4.66%, with an amortization period through May 1, 2029.

(Continued)

ALBANY MEDICAL CENTER AND RELATED ENTITIES

Notes to Schedule of Expenditures of Federal Awards

Year ended December 31, 2012

(8) Pass-Through Funds

During the year ended December 31, 2012, the Center received pass-through funds for research and development and other federal awards, which are included in the schedule of expenditures of federal awards, from the following primary recipients:

Program title	Federal CFDA number	Agency or pass-through number		Federal expenditures
Research and development:				
University of Washington-Seattle	93.855	AI074509	$	80,660
Health Research, Inc.	93.393	15-0689		14,860
University of South Carolina	93.279	DA023593		9,024
Regenerative Research Foundation	93.867	EY022079		28,856
Iowa State University	12.300	N00014-06-1-1176		20,223
iFyber, LLC	47.041	0945749		9,958
Other federal awards:				
ARRA-The Regents of the University of California, San Diego Campus	93.701	AG036535		7,779
University of California	93.866	AG024904		27,358
Massachusetts General Hospital	93.213	AT000613		22,937
National Childhood Cancer Foundation	93.395	CA98543		3,503
The Children’s Hospital of Philadelphia	93.395	CA98543		31,268
Health Research, Inc.	93.917	15-3357		204,384
Health Research, Inc.	93.889	2057		265,479
Health Research, Inc.	93.889	2423		9,735
Health Research, Inc.	93.110	3710		1,627
Battelle Memorial Institute	81.122	C114380		6,710
Columbia University	93.145	HA00071		541,163
John Hopkins University	93.853	NS060118		8,954
University of Vermont	93.837	HL084899		2,612
New York State Department of Health	10.557	C025720		2,032,957
New York State Department of Health	93.994	C023836		134,404
New York State Department of Health	10.558	2086		35,972
New York State Department of Health	93.778	C023906		61,986
New York State Governor’s Traffic Safety Committee	20.602	CPS-2013-Albany Med. Col.-00261-(088)		179
New York State Governor’s Traffic Safety Committee	20.602	CPS-2012-Albany Med. Col.-00227-(088)		16,048
NYS Dept. of Criminal Justice	16.588	T554444		17,834
NYS Dept. of Criminal Justice	16.588	T554445		22,802
Mount Sinai School of Medicine of New York Univ.	93.110	MC00019		11,293

(Continued)

ALBANY MEDICAL CENTER AND RELATED ENTITIES

Notes to Schedule of Expenditures of Federal Awards

Year ended December 31, 2012

Program Title	Federal CFDA Number	Agency or pass-through Number		Federal Expenditures
Mount Sinai School of Medicine of New York Univ.	93.184	DD000862	$	16,010
Mount Sinai School of Medicine of New York Univ.	93.110	MC24048		12,841
Mount Sinai	93.853	NS045719		9,136
George Washington University	93.847	DK61055		5,409
The Research Foundation SUNY	93.865	HD59757		7,875
The Research Foundation SUNY	93.994	RF59562		57,234
University of Pittsburgh	93.879	HHSN276201100003C		9,751
Yale University	93.853	NS044876		14,188
University of Washington	93.853	NS065070		669
Massachusetts General Hospital	93.853	NS052592		15,623
Massachusetts General Hospital	93.853	NS049640		26,155
Weill Medical College	93.853	NS050324		3,247
Integrated Tissue Dynamics, LLC	93.853	NS070387		7,195
University of Minnesota	93.853	NS062091		640
Albany Research Institute, Inc	93.853	NS069454		26,831
University of Rochester	93.853	NS050095		833
X-Ray Optical Systems	93.371	44RR021797		919
Total pass-through funds			$	3,845,121

(9) Non-cash Assistance

Included in the Special Supplemental Nutrition Program for Women, Infants, and Children (CFDA number 10.557) is $1,639,121 of non-cash assistance, which is the value of checks redeemed during the fiscal year.

ALBANY MEDICAL CENTER AND RELATED ENTITIES

Notes to Schedule of Expenditures of Federal Awards

Year ended December 31, 2012

(10) Subrecipients

Of the federal expenditures presented in the schedule, the Center provided federal awards to subrecipients as follows:

Program title	Federal CFDA number	Subrecipient		Amount
Research and development:				
National Institute of Allergy & Infectious Diseases	93.701	The Research Foundation of SUNY (Albany)	$	43,926
National Institute of Allergy & Infectious Diseases	93.855	New York Medical College		33,440
National Institute of Allergy & Infectious Diseases	93.855	East Carolina University, Brody School of Medicine		4,067
National Institute of Allergy & Infectious Diseases	93.855	The University of Alabama at Birmingham		35,569
National Cancer Institute	93.394	Rensselaer Polytechnic Institute		80,501
National Institute of Drug Abuse	93.279	Health Research, Inc.		43,816
National Institute of Deafness & other communication Disorders	93.173	Michigan State University		205,960
National Institute of General Medical Sciences	93.859	The Research Foundation of SUNY (CNSE)		13,285
National Institute of Neurological Disorders & Stroke	93.853	Health Research, Inc.		92,377
U.S. Department of the Army	12.431	The University of Texas @ El Paso		42,125
U.S. Department of the Army	12.431	Rensselaer Polytechnic Institute		15,939
U.S. Department of the Army	12.431	The University of Chicago		57,510
U.S. Department of the Army	12.431	University of Maryland, Baltimore		90,855
Total research and development				759,370
Other federal awards:				
Health resources & services administration:				
AIDS Education & Training Centers	93.145	University of Rochester		42,000
AIDS Education & Training Centers	93.145	Erie County Medical Center Corp.		25,750
HIV Formula Care Grants	93.917	Aids Council Northeastern NY		31,064

(Continued)

ALBANY MEDICAL CENTER AND RELATED ENTITIES

Notes to Schedule of Expenditures of Federal Awards

Year ended December 31, 2012

Program Title	Federal CFDA Number	Subrecipient	Amount
Grants for Coordinated HIV Services & Access to Research for Children, Youth, Women & Families	93.153	Aids Council Northeastern NY	$ 32,063
Grants for Coordinated HIV Services & Access to Research for Children, Youth, Women & Families	93.153	Hudson Valley Community Services Inc. (Aids Related Community Services)	7,989
Grants for Coordinated HIV Services & Access to Research for Children, Youth, Women & Families	93.153	Albany Damien Center	16,885
Grants for Coordinated HIV Services & Access to Research for Children, Youth, Women & Families	93.153	Hudson River Health Center	45,194
Grants for Coordinated HIV Services & Access to Research for Children, Youth, Women & Families	93.153	Whitney Health Center	44,105
Total other federal awards			245,050
Grand total			$ 1,004,420

ALBANY MEDICAL CENTER AND RELATED ENTITIES

Schedule of Findings and Questioned Costs

Year ended December 31, 2012

Section I – Summary of Auditors' Reports

Financial Statements

Type of auditors' report issued:	Unmodified			
Internal control over financial reporting:				
• Deficiency(ies) identified?	______	yes	X	no
• Material weakness(es) identified?	______	yes	X	no
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	______	yes	X	none reported
Noncompliance material to the financial statements noted?	______	yes	X	no

Federal Awards

Internal control over major programs:				
• Material weakness(es) identified?	______	yes	X	no
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	______	yes	X	none reported
Type of auditors' report issued on compliance for major programs:	Unmodified			
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	______	yes	X	no

Identification of Major Programs

Name of federal program or cluster	CFDA number(s)
Mortgage Insurance Hospitals	14.128
ARRA – National Center for Research Resources	93.702

Dollar threshold used to distinguish between type A and type B programs	$1,720,815			
Auditee qualified as low-risk auditee?	X	yes	______	no

(Continued)

ALBANY MEDICAL CENTER AND RELATED ENTITIES

Schedule of Findings and Questioned Costs

Year ended December 31, 2012

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

Appendix A

ALBANY MEDICAL CENTER AND RELATED ENTITIES

Combined Financial Statements
and Supplementary Information

December 31, 2012 and 2011

(With Independent Auditors' Report Thereon)

ALBANY MEDICAL CENTER AND RELATED ENTITIES

Combined Financial Statements
and Supplementary Information

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KPMG LLP
515 Broadway
Albany, NY 12207-2974

Independent Auditors' Report

The Board of Directors
Albany Medical Center:

Report on the Financial Statements

We have audited the accompanying combined financial statements of Albany Medical Center and Related Entities (the Center), which comprise the combined balance sheets as of December 31, 2012 and 2011, and the related combined statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Albany Medical Center and Related Entities as of December 31, 2012 and 2011, and the results of their operations and changes in net assets, and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combining information included on pages 42 though 49 is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audits of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2013 on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

KPMG LLP

Albany, New York
April 26, 2013

ALBANY MEDICAL CENTER
AND RELATED ENTITIES

Combined Balance Sheets

December 31, 2012 and 2011

(Dollars in thousands)

Assets		2012	2011
Current assets:			
Cash and cash equivalents	$	122,967	100,393
Receivables, net:			
Patient service		94,144	98,841
Contributions		3,254	1,917
Other		18,262	13,619
		115,660	114,377
Inventories		13,923	12,076
Prepaid expenses and other current assets		9,732	9,663
Total current assets		262,282	236,509
Assets whose use is limited:			
Under bond indenture agreements		10,834	11,696
Self-insurance funds		59,282	61,974
		70,116	73,670
Property and equipment, at cost, net of accumulated depreciation and amortization		510,243	390,700
Long-term investments		173,017	119,984
Other assets:			
Student loan receivables		5,727	5,828
Deferred compensation agreements		11,276	8,357
Contributions receivable, noncurrent		6,042	5,372
Assets held in charitable trusts		3,845	3,585
Other assets		18,242	20,354
		45,132	43,496
Total assets	$	1,060,790	864,359

See accompanying notes to combined financial statements.

Liabilities and Net Assets		2012	2011
Current liabilities:			
Current maturities of long-term debt	$	22,524	18,637
Accounts payable		55,408	50,985
Accrued expenses:			
Salaries and related items		34,840	27,231
Compensated absences		31,917	30,179
Deferred revenue		17,220	16,326
Other liabilities		10,021	11,711
Total current liabilities		171,930	155,069
Long-term debt, net of current maturities		307,506	191,360
Federal loan programs		6,179	6,164
Accrued pension obligation		28,628	54,324
Other liabilities, long-term		91,925	73,116
Professional liability self-insurance reserve		70,919	76,802
Total liabilities		677,087	556,835
Commitments and contingencies (notes 3, 8, 10, and 13)			
Net assets:			
Unrestricted		257,436	194,607
Temporarily restricted		65,724	56,280
Permanently restricted		60,543	56,637
		383,703	307,524
Total liabilities and net assets	$	1,060,790	864,359

ALBANY MEDICAL CENTER
AND RELATED ENTITIES

Combined Statements of Operations and Changes in Net Assets

Years ended December 31, 2012 and 2011

(Dollars in thousands)

		2012	2011
Operating revenue:			
Patient service revenue, net	$	852,881	803,677
Net provision for uncollectible accounts		(17,990)	(22,741)
Patient service revenue, less provision for uncollectible accounts		834,891	780,936
Tuition and fees		36,340	33,812
Federal, state, and local grants and contracts		16,463	17,501
Private gifts, grants, and contracts		9,154	6,067
Interest and dividend income		5,016	3,637
Other revenue		21,557	20,634
Net assets released from restrictions used for operations		11,805	11,385
Total operating revenue		935,226	873,972
Operating expenses:			
Salaries		458,043	428,921
Employee benefits		75,697	76,931
Supplies		195,469	177,374
Purchased services		120,953	102,713
Depreciation and amortization		49,828	46,991
Interest		7,182	7,602
Other expenses		13,848	12,821
Total operating expenses		921,020	853,353
Operating margin		14,206	20,619
Nonoperating gains:			
Net realized gains (losses) on sales of investments		340	(567)
Other, net		16,191	999
Total nonoperating gains, net		16,531	432
Excess of revenue over expenses	$	30,737	21,051

(Continued)

ALBANY MEDICAL CENTER
AND RELATED ENTITIES

Combined Statements of Operations and Changes in Net Assets

Years ended December 31, 2012 and 2011

(Dollars in thousands)

		2012	2011
Unrestricted net assets:			
Excess of revenue over expenses	$	30,737	21,051
Changes in net unrealized gains and losses on investments		10,806	(2,220)
Net assets released from restrictions used for purchase of property and equipment		6,353	4,509
Change in fair value of interest rate swaps		(170)	(4,485)
Pension related changes other than net periodic pension costs		15,103	6,340
Increase in unrestricted net assets		62,829	25,195
Temporarily restricted net assets:			
Private gifts, grants, contracts and other		11,144	10,995
Investment interest, dividends, and net realized gains, net		3,206	3,713
Net assets released from restrictions for operations		(11,805)	(11,385)
Changes in net unrealized gains and losses on investments		6,519	(5,709)
Contributions for property and equipment		6,733	4,255
Net assets released from restrictions used for purchase of property and equipment		(6,353)	(4,509)
Increase (decrease) in temporarily restricted net assets		9,444	(2,640)
Permanently restricted net assets:			
Private gifts		3,888	1,556
Net investment income		18	11
Increase in permanently restricted net assets		3,906	1,567
Change in net assets		76,179	24,122
Net assets, beginning of year		307,524	283,402
Net assets, end of year	$	383,703	307,524

See accompanying notes to combined financial statements.

ALBANY MEDICAL CENTER
AND RELATED ENTITIES

Combined Statements of Cash Flows

Years ended December 31, 2012 and 2011

(Dollars in thousands)

		2012	2011
Cash flows from operating activities:			
Change in net assets	$	76,179	24,123
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Restricted gifts and income		(10,639)	(5,822)
Net realized and change in net unrealized gains and losses on investments		(20,021)	4,409
Impaired losses on investments		1,435	2,030
Pension related changes other than net periodic pension costs		(15,103)	(6,340)
Change in fair value of interest rate swaps		168	4,509
Depreciation and amortization		49,828	46,991
Loss on disposal of property and equipment		24	102
Changes in operating assets and liabilities:			
Receivables, net		(1,852)	(158)
Inventories		(1,847)	(1,052)
Prepaid expenses and other assets		1,601	(903)
Professional liability self-insurance reserve		(5,883)	(5,528)
Accounts payable		4,423	1,705
Accrued expenses and other liabilities		27,207	11,635
Accrued pension obligation		(10,593)	(5,279)
Net cash provided by operating activities		94,927	70,422
Cash flows from investing activities:			
Additions to property and equipment		(168,817)	(105,516)
Change in bond indenture agreements		735	50,999
Investment purchases		(95,329)	(67,828)
Proceeds from investment maturities and sales		60,522	61,872
Net cash used in investing activities		(202,889)	(60,473)
Cash flows from financing activities:			
Principal payments on long-term debt		(19,896)	(20,242)
Restricted gifts and income		10,639	5,822
Issuance of long term debt		139,929	7,213
Cash paid for financing costs		(136)	(36)
Net cash provided by (used in) financing activities		130,536	(7,243)
Net increase in cash and cash equivalents		22,574	2,706
Cash and cash equivalents, beginning of year		100,393	97,687
Cash and cash equivalents, end of year	$	122,967	100,393
Supplemental disclosures of cash flow information:			
Cash paid during the year for interest	$	7,025	7,515

See accompanying notes to combined financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

The Albany Medical Center was organized in 1982 as a not-for-profit corporation for the purpose of coordinating planning, financial management, resource utilization, fundraising, and policy direction for the Albany Medical Center Hospital (Hospital), the Albany Medical College (College), the Albany Medical Center Foundation, Inc. (Foundation), and other related organizations.

The combined financial statements of the Albany Medical Center and Related Entities (Center) are designed to present, in a summarized fashion, an aggregation of all the financial resources and activities of the discrete operating entities comprising the Albany Medical Center and Related Entities.

The Center also includes the accounts of the Center and its subsidiaries, the Albany Medical Center Kidskeller Corporation, a not-for-profit day-care facility, and Madison Avenue Services Corporation, a taxable corporation.

(b) Mission

As an academic health sciences center, the Center has a mission of providing excellence in medical education, biomedical research, and patient care. The Center has a responsibility to:

- Educate medical students, physicians, biomedical students, and other health care professionals in order to meet the future health care needs of the region and nation;
- Foster biomedical research that leads to scientific advances and the improvement of the health of the public; and
- Provide a broad range of patient services to the people of Eastern New York and Western New England, including illness-prevention programs, comprehensive care, and the highly complex care associated with academic medical centers.

The mission will be achieved through commitment to the values of Quality, Excellence, Services, Collaboration, Compassion, Integrity, and Fiscal Responsibility.

(c) Basis of Presentation

The accompanying combined financial statements, which are presented on the accrual basis of accounting, have been prepared consistent with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 954, *Healthcare Entities* (ASC 954), which addresses the accounting for healthcare entities. In accordance with the provisions of the ASC 954, net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the combined entity are classified as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed restrictions. Items that affect this net asset category include revenues and expenses related to the core activities of the combined entities. In addition, changes in this category of net assets include certain types of unrestricted gifts as well as restricted gifts whose donor imposed restrictions are for current or developing programs and were satisfied during the fiscal year.

Temporarily restricted net assets – Net assets subject to donor-imposed restrictions that may or will be met by actions of the combined entities and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor imposed restrictions that require the principal to be invested in perpetuity. The donors of these assets require that the combined entities use the income earned for a specific purpose.

All significant interinstitutional transactions and accounts have been eliminated in combination.

The Center considers events or transactions that occur after the combined balance sheet date, but before the combined financial statements are issued, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. These combined financial statements were issued on April 26, 2013 and subsequent events have been evaluated through that date.

(d) Use of Estimates

Management of the Center has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period to prepare these combined financial statements in conformity with U.S. generally accepted accounting principles. The most significant areas affected by the use of estimates include the allowance for uncollectible accounts, third-party settlements, defined benefit pension assumptions, self-insurance reserves, and the valuation of certain investments and interest rate swaps. Actual results could differ from those estimates.

(e) Cash and Cash Equivalents

Cash and cash equivalents, as referred to in the combined statements of cash flows, consist of highly liquid investments with original maturities of less than three months, excluding amounts included in assets whose use is limited. As more fully discussed in note 1(i), cash equivalents available for operating purposes are stated at fair value using Level 1 measurement.

(f) Provision for Uncollectible Patient Accounts Receivable

The Center grants credit without collateral to patients, most of whom are local residents and are insured by private and government insurance plans. The amount of the provision for uncollectable accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Federal and state governmental health care coverage, and other collection indicators. The provision for uncollectable accounts primarily relates to patients without insurance and to those that are either underinsured or without the necessary resources to pay co insurance and deductible balances.

(g) Inventories

Inventories are stated at the lower of cost (weighted average) or market on a first-in, first-out (FIFO) method.

(h) Investments and Investment Income

Investments and defined benefit pension plan assets are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants at the measurement date. See notes 1(i) and 5 for a discussion of fair value measurements.

Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in excess of revenue over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from excess of revenue over expenses unless the investments are trading securities. A decline in the market value of an investment security below its cost that is designated to be other than temporary is recognized through an impairment charge. The impairment charge is included in the excess of revenue over expenses in the combined statements of operations and changes in net assets as a component of nonoperating gains (losses) and a new cost basis is established. To determine whether an impairment is other-than-temporary for an investment classified as other than trading, the Center considers whether it has the ability and intent to hold the investment until a market price recovery will occur and whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. For the years ended December 31, 2012 and 2011, the charge for other-than-temporary impairment was $1,435 and $2,030, respectively and is included in net realized gains (losses) on sales of investments in the accompanying combined statements of operations and changes in net assets.

Long-term investments represent endowed funds and other funds set aside for long-term planning purposes.

(i) Fair Value Measurement of Financial Instruments

The Center estimates fair value based on a valuation framework that uses a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy, as defined by ASC 820, *Fair Value Measurements and Disclosures* are described below:

- Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for assets or liabilities.

- Level 2 – Prices other than quoted prices in active markets that are either directly or indirectly observable as of the date of measurement.
- Level 3 – Prices or valuation techniques that are both significant to the fair value measurement and unobservable and require significant management judgment or estimation or are investments with liquidity restrictions.

The Center applies the accounting provisions of Accounting Standards Update (ASU) 2009-12, *Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)* (ASU 2009-12). ASU 2009-12 allows for the estimation of fair value of investments in investment companies, for which the investment does not have a readily determinable fair value, to use net asset value (NAV) per share or its equivalent as a practical expedient, subject to the Center's ability to redeem its investment.

The carrying amount of receivables, inventories, prepaid expenses and other current assets, payables, accrued expenses, and other current liabilities approximates fair value due to the short term nature of these instruments. See note 8 for further discussion regarding the fair value of long-term debt and note 5 for further discussion regarding the fair value of interest rate swaps.

(j) Deferred Compensation Agreements

The Center sponsors a deferred compensation plan consistent with IRC §457(b)(6). Each eligible employee (participant) may elect to defer a portion of their compensation as an employee contribution. The employer contribution is 3% or 4% of excess compensation depending on the employee's employment date with the Center. Excess compensation represents the portion of an employee's gross compensation in excess of earnings as defined under the defined benefit pension plan of the Center. The employer contribution for a plan year will be made if the employee remains in employment for 60 days after that calendar year-end to which the contribution relates. The obligation of the Center will not exceed the actual amount or value of the participant accounts. The value of the participant accounts is included in other liabilities, long-term at December 31, 2012 and 2011. The deferred compensation amounts are invested in mutual and common funds, for which fair value is based on Level 1 and Level 2 measurements, respectively.

(k) Property and Equipment

Property and equipment are recorded at cost except in the case of gifts, which are recorded at fair value at the date of donation. Costs include interest incurred on related indebtedness during periods of construction. Depreciation and amortization of property and equipment are computed by the straight-line method over the estimated useful lives of the assets ranging from 3 to 40 years. Assets recorded as capital leases are amortized over the shorter of the lease term of the asset or its useful life. Lease amortization is included within depreciation and amortization.

(l) Student Loan Receivables

Student loan receivables are comprised principally of federally sponsored student loans with U.S. government mandated interest rates and repayment terms subject to significant restrictions as to their transfer and disposition. The fair value approximates the recorded value at December 31, 2012 and 2011.

(m) Deferred Revenue

Tuition revenue is billed and paid semi-annually in advance of the academic period. Deferred revenue represents an estimate of tuition revenue received in advance and is recognized as revenue over the academic period.

(n) Excess of Revenue over Expenses

The combined statement of operations and changes in net assets includes a performance indicator, excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from excess of revenue over expenses, consistent with industry practice, include changes in net unrealized gains and losses on investments that are other than trading securities, net assets released from restrictions used for the purchase of property and equipment, the effective portion of change in fair value of interest rate swaps, and changes in the funded status of the pension plan other than net periodic pension costs.

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services, including interest and dividend income related to unrestricted investments, are reported as operating revenue and expenses in the determination of the Center's operating results. Activities, including unrestricted contributions associated with the furtherance of the Center's mission are considered to be operating activities. Peripheral transactions and the results related to investment sales are reported as nonoperating activity.

(o) Charity and Uncompensated Care

As part of its mission, the Center accepts all patients regardless of their ability to pay for services rendered. Patients who meet established criteria qualify for charity care. Because the Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue. The Center maintains records to identify and monitor the level of charity care it provides. The cost of charity care provided was determined based on the application of a ratio of overall costs to patient charges.

(p) Estimated Self-Insurance Costs

The Center is self-insured for losses arising for medical malpractice, general liability insurance, and worker's compensation claims. The provision for self-insured losses include estimates of the ultimate costs for both reported claims and claims incurred but not reported. Independent actuaries have been retained to assist the Center with determining the provision for self-insured losses. The Center provides self-insured health benefits to employees of all related entities. The Center has recorded a provision for estimated claims, which is based on the Center's own experience. The provision for self-insured losses includes estimates of the ultimate costs for both reported claims and claims incurred but not yet reported. See note 10 for further discussion regarding professional liability and workers' compensation plans.

(q) Donor Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received which is then treated as the cost basis. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the combined statements of operations and changes in net assets as net assets released from restrictions.

The contributions receivable are collectible over future periods and have been recorded at their estimated present value (see note 6).

(r) Income Taxes

With the exception of Madison Avenue Services Corporation, all entities comprising the Albany Medical Center and Related Entities are not-for-profit corporations under Section 501(c)(3) of the Internal Revenue Code and are exempt from federal income taxes pursuant to Section 501(a) of the Code. The Center recognizes income tax positions when it is more-likely than-not that the position will be sustainable based on the merits of the position. Management has concluded that there are no uncertain tax positions that need to be recorded at December 31, 2012 and 2011.

(s) Derivative Instruments and Hedging Activities

The Center accounts for derivatives and hedging activities in accordance with ASC 815, *Derivatives and Hedging*, which requires that all derivative instruments be recorded on the combined balance sheet at their respective fair values.

The Center, on the date derivative contracts are executed, designates the derivative on the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge). For all hedging relationships, the Center formally documents the hedging relationship and its risk-management objective and strategy for undertaking the hedging instrument, the item, the nature of the risk being hedged, how the hedging instrument's effectiveness in offsetting the hedged risk will be assessed, and a description of the method of measuring and recording ineffectiveness. This process includes linking all derivatives that are designated as cash-flow hedges to specific assets and liabilities on the combined balance sheets.

The Center formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash-flow hedge are recorded as a change in unrestricted net assets to the extent that the derivative is effective. Any ineffectiveness associated with the cash flow hedge is recorded in nonoperating gains (losses) in the combined statements of operations and changes in net assets.

The Center will discontinue hedge accounting prospectively when it is determined that the derivative is no longer highly effective in offsetting changes in the cash flows of the hedged item, the derivative expires or is sold, terminated, or exercised, the derivative is undesignated as a hedging instrument, a hedged firm commitment no longer meets the definition of a firm commitment, or management determines that designation of the derivative as a hedging instrument is no longer appropriate.

(t) Asset Retirement Obligations

The Center recognizes a liability for the fair value of asset retirement obligations if the fair value of the liability can be reasonably estimated. At December 31, 2012 and 2011, included as a component of other long-term liabilities, the Center has recorded $2,522 and $2,133, respectively, for asset retirement obligations.

(u) Endowment Funds

The Center's permanently restricted net assets consist of individual endowment funds established by donors to support a variety of purposes.

The New York Prudent Management of Institutional Funds Act (NYPMIFA or Act) is New York State's version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which provides standards of fund management for those charged with governance of institutional or endowment funds. NYPMIFA updates various provisions of prior New York State law governing fund management. The Act requires covered organizations to take specific actions with respect to appropriation from endowment funds and investment of institutional funds, including adoption of a written investment policy; diversification of investments; and adherence to a specified process to lift donor restrictions, which is only allowable in certain limited circumstances. The Act permits an institution to determine the appropriate level of endowment expenditure, subject to donor-imposed restrictions expressed in the gift instrument. It establishes a rebuttable presumption of imprudence, however, if such expenditure in any year is greater than 7% of the fair market value of an endowment funds established by a gift instrument entered into on or after the effective date of the Act.

The Center classifies as permanently restricted net assets (a) the original value of gifts donated to an endowment fund; (b) the original value of subsequent gifts to that fund, and (c) accumulations to the fund made in accordance with the direction, if any of the applicable donor gift instrument at the time the accumulation is added to the fund. Expendable portions of endowment gifts restricted by donors to specific purposes and any retained income and appreciation thereon is included as a component of temporarily restricted net assets. When the temporary restrictions on these assets have been met, the assets are reclassified to unrestricted net assets pursuant to the Center's spending policy.

(Continued)

(v) Health Information Technology for Economic and Clinical Health Act

The Health Information Technology for Economic and Clinical Health (HITECH) Act included in the American Recovery and Reinvestment Act (ARRA) provides incentives for the adoption and use of health information technology by Medicare and Medicaid providers and eligible professionals through 2016. To receive such incentives, providers are required to establish an electronic medical record system and maintain its meaningful use status for a continuous 90-day period in year one and for 365-days in subsequent years. The Hospital and College record revenue related to this program when management is reasonably assured that the Hospital has complied with the terms of the program and the incentive monies have been received. During the year ended December 31, 2012, the Hospital and College certified to Centers for Medicare and Medicaid Services (CMS) and Medicaid that it met the required elements for year one of the electronic health record meaningful use and therefore qualified to receive approximately $8,600 of incentive funds under the HITECH Act for Medicare and Medicaid. The amount received from CMS and Medicaid is reflected as other operating revenue in the combined statement of operations for the year ended December 31, 2012.

(w) Reclassifications

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

(2) Community Benefit, Charity Care and Uncompensated Care

(a) Community benefit

The Center offers numerous community benefit programs and services in community-based settings in response to the needs of the communities it serves. They include community health fairs, health screenings, health education lectures and workshops for community groups and the general public, consumer health information, facilitated (insurance plan) enrollment services and clinical services such as outpatient clinics, adult and pediatric care services, neonatal intensive care services and behavioral health services. Staff members of the Center also participate in community leadership efforts by donating significant hours of board service to other not-for-profit organizations. The Center supports graduate medical education and offers health professions education support for community members through continuing education programs and scholarships.

(Dollars in thousands)

(b) Charity and Uncompensated Care

The Center's net cost of charity care, including payments to and receipts from the statewide pool for 2012 and 2011, was as follows:

		Year ended December 31	
		2012	**2011**
Charity care at cost	$	8,861	7,318
Payments to statewide pool		5,372	4,967
Receipts from statewide pool		(3,563)	(3,337)
Cost of charity care, net	$	10,670	8,948

The cost of charity care provided was determined using direct and indirect costs to provide services based on the application of the ratio of the Center's overall cost to patient charges.

The Center also subsidizes services to Medicaid patients which are paid at reimbursement levels below the Center's cost of rendering the related services. In addition, during 2012 and 2011, the Center incurred approximately $18,000 and $22,700 in provisions for uncollectable accounts, respectively.

(3) Patient Service Revenue and Related Receivables and Liabilities

Patient service revenue is recorded at established rates with contractual allowances, bad debts, charity service, and courtesy allowances provided to employees deducted to arrive at net patient service revenue.

A significant portion of the Center's net patient service revenue is derived through arrangements with third-party payors, including government payors (63% in 2012 and 61% in 2011) and commercial payors (35% in 2012 and 37% in 2011), and private and other payors (2% in 2012 and 2011).

The Hospital and College have agreements with third-party payors that provide for payments at amounts different from its established rates. Inpatient acute care services rendered are paid at prospectively determined rates per discharge in accordance with the Federal Prospective Payment System (PPS) for Medicare and generally at negotiated or otherwise pre-determined amounts under the provisions of the New York Health Care Reform Act (HCRA) and related legislation for all other third-party payors. Reimbursement rates for Medicaid, Worker's Compensation, and No-Fault are determined on a prospective basis defined by HCRA that is based on clinical, diagnostic and other factors. These rates also vary according to a patient classification system defined by HCRA that is based on clinical, diagnostic, and other factors. Inpatient nonacute and outpatient services are paid at various rates under different arrangements with third-party payors, commercial insurance carriers and health maintenance organizations. The basis for payment under these agreements includes prospectively determined per diem rates, discounts from established charges and fee schedules.

(Dollars in thousands)

In addition, under HCRA, all non-Medicare payors are required to make surcharge payments for the subsidization of indigent care and other health care initiatives. The percentage amount of the surcharge varies by payor and applies to a broader array of health care services. Also, certain payors are required to make a covered lives payment to further fund the indigent care pools and other health care initiatives for inpatient services or through voluntary election to pay a covered lives assessment directly to the New York State Department of Health (DOH).

The Hospital is required to prepare and file various reports of actual and allowable costs annually. Provisions have been made in the combined financial statements for prior and current years' estimated final settlements. The difference between the amount provided and the actual final settlement is recorded as an adjustment to net patient service revenue in the year the final settlement is determined. During 2012 and 2011, the Hospital recorded adjustments for estimated settlements with third-party payors which resulted in increases to net patient service revenue of approximately $7,900 and $4,600, respectively. The laws and regulations governing the reimbursement for health care services are complex and subject to interpretation. Third-party payors retain the right to review and propose adjustments to amounts requested and recorded by the Hospital and College. In the opinion of management, retroactive adjustments, if any, would not be material to the financial position or results of operations of the Center and Related Entities.

Cost reports supporting third party service revenue have been audited and finalized through December 31, 2008 by the designated intermediaries. Cost reports through 2011 have been filed. The 2009 through 2011 Medicare cost reports have not been audited. The 2012 cost report has not yet been filed. A provision for the estimated settlements for all open years has been recorded at December 31, 2012. In the opinion of management, no material adjustments are expected to result from the audit of 2009 through 2011 cost reports. The Center has classified a portion of the accrual for estimated third-party payor settlements as other long-term liabilities because such amounts, by their nature or by virtue of regulations or legislation, will not be paid within one year.

At December 31, 2012 and 2011, significant concentrations of patient accounts receivable are as follows:

	2012	2011
Medicare	20%	16%
Medicaid	17	19
Health maintenance organizations	29	30
Blue Cross and Blue Shield	11	13
Commercial carriers	7	7
No-fault and worker's compensation	6	5
Private pay	6	5
Other third party payors	4	5
	100%	100%

Net patient service revenue receivables are presented net of allowances for estimated uncollectable accounts of approximately $13,533 and $14,450 in 2012 and 2011, respectively. Additions to the

(Continued)

(Dollars in thousands)

allowance for uncollectable accounts are made by means of reserve provisions. Accounts written off to bad debt as uncollectible are deducted from the allowance and subsequent recoveries are added.

(4) Investments

(a) Assets Whose Use is Limited

The composition of assets whose use is limited at December 31 is set forth in the following table.

		2012	2011
Under bond indenture agreements (note 8):			
Cash and cash equivalents	$	654	615
U.S. government and agency obligations		10,180	11,081
	$	10,834	11,696
Self insurance funds:			
Cash and cash equivalents	$	480	677
Equity securities		36,215	37,731
Fixed income securities		22,282	23,317
Real estate limited partnerships		305	249
	$	59,282	61,974

(b) Long-Term Investments

Long-term investments represent endowed funds and other funds set aside for long-term planning purposes. The composition of long-term investments at December 31 is set forth in the following table.

		2012	2011
Equity securities	$	111,715	74,155
Fixed income securities		37,207	27,819
Real estate limited partnerships		8,931	6,259
Directive hedge funds		15,164	11,751
	$	173,017	119,984

(Continued)

(Dollars in thousands)

(c) Assets Held in Charitable Trusts

The composition of assets held in charitable trusts at December 31 is set forth in the following table.

		2012	2011
Cash and cash equivalents	$	223	127
Equity securities		2,705	2,568
Fixed income securities		917	890
	$	3,845	3,585

Income on cash and cash equivalents and investments are comprised of the following for the years ended December 31:

		2012	2011
Income (unrestricted and restricted):			
Interest and dividend income, net of investment fees	$	7,319	5,304
Impairment charge related to other-than-temporary declines in value of investment securities		(1,435)	(2,030)
Net realized gains on sales of securities		2,696	3,520
	$	8,580	6,794

Information regarding unrestricted investments with unrealized losses at December 31, 2012 and 2011 is presented below, segregated between those that have been in a continuous unrealized loss position for less than twelve months and those that have been in a continuous unrealized loss position for twelve or more months.

		December 31, 2012			
		Less than twelve months		More than twelve months	
Description of security		Fair value	Unrealized losses	Fair value	Unrealized losses
Equity securities	$	—	—	4,628	(247)
Fixed income securities		2,565	(2)	5,338	(58)
Real estate limited partnership		—	—	105	(17)
Total	$	2,565	(2)	10,071	(322)

(Dollars in thousands)

	December 31, 2011			
	Less than twelve months		More than twelve months	
Description of security	Fair value	Unrealized losses	Fair value	Unrealized losses
Equity securities	$ 7,251	(472)	—	—
Fixed income securities	6,780	(220)	6,134	(69)
Real estate limited partnership	249	(22)	—	—
Directive hedge	952	(39)	—	—
Total	$ 15,232	(753)	6,134	(69)

Management reviewed the unrestricted investments with unrealized losses, summarized in the preceding tables, and determined that the investments were not other-than-temporarily impaired. Management reached this conclusion in consultation with its investment advisors and portfolio managers, industry analyst reports, credit ratings, current market conditions, and other information they deemed relevant to their assessment.

(5) Fair Value Measurements

The following is a description of the valuation methodologies used by the Center for its assets and liabilities measured at fair value on a recurring basis:

Cash equivalents: Cash equivalents are valued at the NAV reported by the financial institution.

Equity and fixed income securities: The Center's equity and fixed income portfolios consist of direct investment in individual equity and fixed income securities that are valued based on quoted market prices (Level 1 measurements). If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments or, if necessary, matrix pricing from a third party pricing vendor to determine fair value (Level 2 measurements). Matrix prices are based on quoted prices for fixed income securities with similar coupons, ratings and maturities, rather than on specific bids and offers for a designated security.

In addition, the Center's equity and fixed income portfolios include investments in actively traded mutual funds valued at the closing price on the active market in which the individual funds are traded (Level 1 measurements) and pooled/commingled investment funds where the Center owns shares, units, or interests of pooled funds rather than the underlying securities in the fund. The pooled/commingled funds are measured at fair value based on the nature of the underlying investments, timing of the pricing of the fund's NAV, and liquidity restrictions for the funds (Levels 2 measurement).

Limited partnerships: Limited partnerships consist of real estate and hedge funds. Limited partnership investments are redeemable with the fund at NAV under the original terms of the partnership agreement and/or subscription agreements. The estimation of fair value of investments in limited partnerships for which the underlying securities do not have a readily determinable value is made using the NAV per share or its equivalent as a practical expedient. The Center owns interests in these funds rather than in securities or assets underlying each fund and, therefore, is generally required to consider such investments as Level 2 or Level 3, even though certain underlying securities may not be difficult to value or may be readily marketable.

(Dollars in thousands)

The fair value of the *interest rate swaps* are determined based on future cash flows calculated through a projection of forward rates, which are then discounted to their present value (see note 13).

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Center 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 fair value measurement at the reporting date. Also, because the use of NAV as a practical expedient to estimate fair value of certain investments, the level in the fair value hierarchy in which each fund's fair value measurement is classified is based primarily on the Center's ability to redeem its interest in the fund at or near the date of the combined balance sheet. Accordingly, the inputs or methodology used for valuing or classifying investments for financial reporting purposes are not necessarily an indication of the risk associated with investing in those investments or a reflection on the liquidity of each fund's underlying assets and liabilities.

The following tables present the Center's assets and liabilities that are measured at fair value as of December 31, 2012 and 2011, on a recurring basis. Financial instruments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement:

	2012				
	Total	**Level 1**	**Level 2**	**Redemption or liquidation**	**Days notice**
Assets:					
Cash and cash equivalents	$ 1,357	1,357	—	Daily	1
Equity securities:					
Domestic	101,066	101,066	—	Daily – monthly	1 – 30
International	49,569	29,443	20,126	Daily – monthly	1 – 30
Fixed income securities:					
U.S. government and agency obligations	10,180	9,617	563	Daily	1
Domestic	14,935	14,935	—	Daily	1
International	45,471	45,471	—	Daily	1
Limited partnerships:					
Real estate	9,236	—	9,236	Quarterly	15
Directive hedge funds	15,164	—	15,164	Quarterly	45 – 65
Total	$ 246,978	201,889	45,089		
Liabilities:					
Interest rate swaps	$ 9,878	—	9,878		
Total	$ 9,878	—	9,878		

(Dollars in thousands)

	2011				
	Total	**Level 1**	**Level 2**	**Redemption or liquidation**	**Days notice**
Assets:					
Cash and cash equivalents	$ 1,419	1,419	—	Daily	1
Equity securities:					
Domestic	80,901	80,901	—	Daily – monthly	1 – 30
International	33,553	16,934	16,619	Daily – monthly	1 – 30
Fixed income securities:					
U.S. government and agency obligations	11,081	8,563	2,518	Daily	1
Domestic	13,090	13,090	—	Daily	1
International	38,936	38,936	—	Daily	1
Limited partnerships:					
Real estate	6,508	—	6,508	Quarterly	15
Directive hedge funds	11,751	—	11,751	Quarterly	45 – 65
Total	$ 197,239	159,843	37,396		
Liabilities:					
Interest rate swaps	$ 9,711	—	9,711		
Total	$ 9,711	—	9,711		

As of December 31, 2012, the Center is able to redeem or sell its investments at fair value in accordance with the following terms: daily ($193,500), monthly ($29,100), quarterly ($24,400).

As of December 31, 2011, the Center is able to redeem or sell its investments at fair value in accordance with the following terms: daily ($154,700), monthly ($24,200), quarterly ($18,300).

The Center had no financial instruments that are classified as Level 3 measurements as of December 31, 2012 and 2011. There were no significant transfers between Level 1 and Level 2 fair value measurements due to changes in valuation methodologies during the years ended December 31, 2012 and 2011.

(Dollars in thousands)

(6) Contributions Receivable

Included in contributions receivable at December 31 are the following unconditional promises to give:

		2012	2011
Redevelopment	$	6,974	5,048
Research, education, and other		4,956	4,857
Unconditional promises to give before unamortized discount and allowance for uncollectibles		11,930	9,905
Less unamortized discount, and allowance for uncollectibles		2,634	2,616
Net unconditional promises to give	$	9,296	7,289
Amounts due in:			
Less than one year	$	3,254	1,917
One to five years		7,735	6,677
More than five years		941	1,311
	$	11,930	9,905

Contributions receivable reflect their net present value using discount rates reflecting average interest rates available on treasury bills with similar terms at the time the gift was pledged. Due to the various terms and dates, these discount rates range from 1.0% to 5.8%.

(7) Property and Equipment

Property and equipment at December 31 consisted of:

		2012	2011
Land and land improvements	$	13,272	7,060
Buildings and fixed equipment		500,697	492,982
Moveable equipment		385,195	373,395
Projects in progress		207,501	85,608
		1,106,665	959,045
Property held under capital leases		87,245	70,682
		1,193,910	1,029,727
Less accumulated depreciation and amortization		683,667	639,027
	$	510,243	390,700

(Dollars in thousands)

The net book value of moveable equipment applicable to capital leases is approximately $33,600 and $27,500 at December 31, 2012 and 2011, respectively.

Within projects in progress are the Hospital's patient tower construction and information system improvements anticipated to be operational in 2013 and beyond. Total costs incurred to date for the Hospital's patient tower project was approximately $189.1 million as of December 31, 2012, of which $16.8 million represents retainage at December 31, 2012 (see notes 8 and 13).

(8) Long-Term Debt

Long-term debt at December 31 consisted of:

		2012	2011
Mortgage note (a)	$	44,611	53,236
Mortgage loan (b)		159,596	39,181
Industrial development agency (IDA) bonds payable (c)		84,385	86,715
Capital lease obligations (d)		34,280	23,260
Term loans (e)		7,158	7,605
		330,030	209,997
Less current maturities of long-term debt		22,524	18,637
	$	307,506	191,360

(a) Mortgage Note Payable

New York State Dormitory Authority (Dormitory Authority)

The Dormitory Authority holds a collateralized interest and first mortgage lien on the real and personal property of the Hospital, imposes restrictions on certain operating and capital transactions, and requires the retention of a depreciation reserve fund (see note 13). The mortgage note is insured under the FHA-242 program. Monthly principal and interest payments of approximately $867,000 are payable through September 1, 2017. The interest rate on the mortgage note is 3.6%.

Future principal payments on the mortgage note payable for the next five years and thereafter are as follows:

Year ending December 31:		
2013	$	8,940
2014		9,267
2015		9,606
2016		9,958
2017		6,840
Total	$	44,611

(Dollars in thousands)

(b) Mortgage Loan

On December 6, 2010, the Hospital closed on a $321,440 mortgage loan which is comprised of a "Refinance Loan" of $9,584 and a "Construction Loan" of $311,856. The loan is insured under the FHA-241 program.

The mortgage loan is secured by a second lien mortgage of the real and personal property of the Hospital, subject to certain exceptions itemized in the title insurance policy and a first mortgage lien on the South Clinical Campus of the Hospital.

The Refinance Loan was used to retire the Series 1999 Bonds the original purpose of which was to acquire properties and rights of the former Child's Hospital and Samaritan Service Corporation. The interest rate is 4.66% on the Refinance Loan. Monthly principal and interest payments of approximately $65 are payable through May 1, 2029.

The Construction Loan is being used to complete the Hospital's expansion project (The Project), which includes a six-story patient tower, to house 96 new beds, 20 new operating rooms and a co-generation plant. The construction period officially started on November 19, 2010 and is expected to last approximately 30 months. The interest rate on the construction loan is 6.2%. The permanent mortgage, when fully drawn, will have a 25 year term, fixed monthly payments and an annual interest rate of 6.2%. The final endorsement on the construction loan is expected to be in August 2013, with a loan maturity date of July 2038. The Hospital expects to make mortgage principal payments of approximately $2,200 during 2013.

The total estimated cost of The Project is approximately $359,156 of which $311,856 will be funded with proceeds of the Construction Loan and the remaining $47,300 will be the Hospital's equity contribution. On December 6, 2010, the Hospital funded approximately $38,390 of the required equity contribution into an escrow account and posted a 30 month letter of credit for the remaining $8,910. The letter of credit is secured by an equal amount of Center investments. The annual fee for the letter of credit is approximately $86 and matures August 2013. At December 31, 2012, the Hospital has drawn approximately $150,700 for costs related to The Project.

Future principal payments on the Refinance Loan for the next five years and thereafter are as follows:

Year ending December 31:		
2013	$	370
2014		387
2015		406
2016		425
2017		445
Thereafter		6,863
Total	$	8,896

(Dollars in thousands)

The Regulatory Agreement for the FHA 241 and 242 loans require the Hospital measure and report on certain covenants annually.

(c) IDA Bonds Payable

Series 2005 Bonds

In June 2005, the Hospital issued Series 2005A and Series 2005B City of Albany Industrial Development Civic Facility Revenue Variable Rate Demand Bonds in the amount of $10,000 and $3,000, respectively. The proceeds of the bonds were being utilized to fund an addition to "Building A." The bonds are secured by separate irrevocable direct pay letters of credit, one for each series. The letters of credit are secured by the same security agreement associated with the line of credit described in note 12 and mature on June 30, 2014. The letters of credit require the Hospital to measure and report on certain financial benchmarks on a quarterly basis. In the event of default, the Hospital must submit a corrective action plan within 30 days of notice of default.

The bonds bear interest at a variable rate established by the remarketing agent on a weekly basis (0.20% and 0.30% at December 31, 2012 for Series 2005A and 2005B, respectively, 0.21% and 0.40% at December 31, 2011 for Series 2005A and 2005B, respectively). The Hospital entered into an interest rate swap agreement with respect to the Series A bonds, as described in note 13. Interest payments are due each year on July 1 through 2035. Principal payments, ranging from $205 to $845, began on July 1, 2008 and will end on July 1, 2035.

The Series 2005 bonds are subject to mandatory sinking fund redemption prior to maturity from sinking fund payments made by the Center at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption, in the years and in the respective principal amounts set forth in the table below:

Year ending December 31:		
2013	$	270
2014		285
2015		305
2016		320
2017		340
Thereafter		9,915
Total	$	11,435

Series 2006 Bonds

In May 2006, the Center issued Series 2006A and 2006B City of Albany Industrial Development Civic Facility Revenue Variable Rate Demand Bonds in the amount of $4,800 and $4,470, respectively. Also in May 2006, the Hospital issued Series 2006A and 2006B City of Albany Industrial Development Civic Facility Revenue Variable Rate Demand Bonds in the amount of $5,855 and $1,000, respectively. The bonds are secured by four separate irrevocable direct pay letters of credit, one for each series. The proceeds of the bonds were used for purchases of real estate, refinancing of existing mortgages and bank notes, and to support the construction of a parking garage and other renovation projects. The letters of credit are secured by the related real estate and mature in 2014. The letters of credit require the Center and Hospital to measure and report on certain financial benchmarks on an annual basis. In the event of default, the Hospital must submit a corrective action plan within 30 days of notice of default.

(Dollars in thousands)

The bonds bear interest at a variable rate established by the remarketing agent on a weekly basis (0.18% for the Series A and 0.83% and 2.43% for the Center and Hospital Series B bonds, respectively, at December 31, 2012). The Center and Hospital entered into interest rate swap agreements with respect to all four series, as described in note 13. Interest payments are due monthly. Principal payments began on May 1, 2007 and range as follows through May 1, 2035:

Center Series A	$	130 – 240
Center Series B		95 – 220
Hospital Series A		85 – 360
Hospital Series B		10 – 70

The Series 2006 bonds are not subject to mandatory redemption pursuant to any mandatory sinking fund requirements. Future principal payments are set forth in the following table:

Year ending December 31:		
2013	$	480
2014		465
2015		570
2016		550
2017		590
Thereafter		10,045
Total	$	12,700

Series 2007 Bonds

In June 2007, the Center issued Series 2007A and 2007B City of Albany Industrial Development Civic Facility Revenue Variable Rate Demand Bonds in the amount of $3,020 and $535, respectively. Also in June 2007, the Hospital issued Series 2007A and 2007B City of Albany Industrial Development Civic Facility Revenue Variable Rate Demand Bonds in the amount of $6,645 and $2,335, respectively. The bonds are secured by four separate irrevocable direct pay letters of credit, one for each series and mature in 2015. The proceeds of the bonds were utilized for the acquisition of certain properties and the renovation of certain portions of the existing facilities. The letters of credit require the Center and Hospital to measure and report on certain financial benchmarks on an annual basis. In the event of default, the Center and Hospital must submit a corrective action plan within 30 days of notice of default.

(Dollars in thousands)

In November 2007, the Hospital issued Series 2007C and 2007D City of Albany Industrial Development Civic Facility Revenue Variable Rate Demand Bonds in the amount of $13,160 and $1,465, respectively. The bonds are secured by separate irrevocable direct pay letters of credit, one for each series. The proceeds of the bonds were utilized for the construction of an addition to the existing facility and other renovation projects. The letters of credit require the Hospital to measure and report on certain financial benchmarks on an annual basis and mature in 2015.

The bonds bear interest at a variable rate established by the remarketing agent on a weekly basis. Those rates were as follows as of December 31:

	2012	2011
Hospital Series A	0.17%	0.18%
Hospital Series B	0.59	0.42
Hospital Series C	0.17	0.18
Hospital Series D	1.00	0.84
Center Series A	0.17	0.18
Center Series B	1.00	0.82

The Center and Hospital entered into interest rate swap agreements with respect to Series 2007A and 2007C, as described in note 12. Interest payments are due monthly. Principal payments on Series 2007 Bonds began on May 1, 2008 and range as follows through May 1, 2027:

Center Series A	$ 95 – 230
Center Series B	15 – 45
Hospital Series A	210 – 500
Hospital Series B	65 – 195
Hospital Series C	380 – 970
Hospital Series D	45 – 115

The Series 2007 bonds are not subject to mandatory redemption pursuant to any mandatory sinking fund requirements. Future principal amounts are set forth in the table below:

Year ending December 31:	
2013	$ 1,050
2014	1,065
2015	1,185
2016	1,210
2017	1,270
Thereafter	16,345
Total	$ 22,125

(Dollars in thousands)

Series 2009 and 2010 Bonds

In August of 2009, the Center entered into a 75 year ground lease with the Department of Veterans Affairs (VA) for 2.4 acres of land. During the period beginning October 2009 and ending October 2010 the Center completed construction of a 1,500 car parking garage on the leased land. As compensation for the ground lease, the Center agreed to finance and construct an office building to be used and owned by the VA. The cost of the building and value of the ground lease are both estimated to be approximately $4,000.

For purposes of financing the construction of the parking garage and the office building, the Center issued bonds in 2009 and 2010. Series 2009 tax exempt, bank qualified bonds were in the amount of $25,000 with the City of Albany Industrial Development Agency. The 2009 bonds are held by four banks. The loan agreement with the banks provides for a 10 year term, 30 year amortization and a balloon payment due in 2019. The interest rate is fixed for 5 years through 2014 at 4.74%, which was 3.75% over the 5 year Federal Home Loan Bank of New York rate at closing. The interest rate shall be reset after 5 years based upon the same index and spread. The banks hold a first lien on the garage. The loan agreement requires the Center to measure and report on certain covenants annually.

The Series 2010 bonds are comprised of $14,500 of tax exempt bonds and $33 thousand of taxable bonds with the City of Albany Industrial Development Agency. Of the $14,500, the same four banks hold $10,300 under similar terms to the Series 2009 bank qualified bonds, except that the interest rate for the initial 5-year term is 4.89%. The remaining $4,200 of bonds are held by private investors, are unsecured, and carry a fixed rate of 5.5% for a term of 10 years.

Future principal amounts are set forth in the table below:

Year ending December 31:		
2013	$	647
2014		680
2015		714
2016		751
2017		789
Thereafter		34,544
Total	$	38,125

(d) Capital Lease Obligations

The Hospital has entered into various lease transactions through the Dormitory Authority Tax-Exempt Leasing Program (TELP) over the last several years to finance certain medical equipment and related renovations.

(Dollars in thousands)

Future minimum lease payments for the next five years under TELP and other capital lease obligations at December 31, 2012 are as follows:

Year ending December 31:		
2013	$	8,902
2014		6,617
2015		5,552
2016		5,551
2017		5,551
Thereafter		4,384
Total minimum lease payments		36,557
Less amounts representing imputed interest (rates ranging from 1.87% to 4.39%)		2,277
Present value of net minimum lease payments		34,280
Less current installments		8,115
Long-term present value of net minimum lease payments	$	26,165

(e) Term Loan Agreements

In November 2008, the Hospital and Center each entered into 5 year revolving loan agreements in the amount of $4,000 and $4,500, respectively. The Hospital and Center had the option of converting the revolving loan agreements into a term loan agreement within 30 days of maturity. The loan proceeds were to be utilized for various renovations and equipment expenditures. The Hospital and the Center are the guarantors of each others' loans. The rate on the term loans are based on the 1 month LIBOR plus 115 basis points. As of December 31, 2012 and 2011, the revolving loans were converted into term loans and have an interest rate of 1.47% and 1.44%, respectively.

Future principal payments are set forth in the following table:

Year ending December 31:		
2013	$	447
2014		447
2015		447
2016		447
2017		447
Thereafter		4,923
Total	$	7,158

(Dollars in thousands)

(f) Other

In July 2010, the Hospital entered into a 7 year term note for $7,500. The interest during the draw period accrues against the outstanding principal at LIBOR plus 3%. On and after the conversion period, the rate is fixed at the Federal Home Loan Bank (FHLB) rate plus 3%. The Hospital had not drawn against this term loan as of December 31, 2012.

Under the terms of the borrowing agreements, the Center and Hospital established certain bank trusteed accounts with the proceeds related to the mortgage note and loan agreements, TELP and IDA debt. Included in the accompanying combined financial statements, classified as assets whose use is limited, are balances in these funds at December 31 as follows:

		2012	2011
Depreciation reserve fund	$	6,525	11,081
TELP escrow		3,655	—
Tower financing equity fund		12	12
IDA bonds payable		642	603
	$	10,834	11,696

The fair value of the Center's debt, exclusive of capital lease obligations, approximates $281,600 and $174,000 at December 31, 2012 and 2011, respectively, which is estimated based on the quoted market prices for the same or similar issues or on the current rates available to the Center for debt with similar characteristics, which represents a Level 2 fair value measurement.

(9) Pension Plan

Defined Benefit Plan – The Center and Related Entities participate in a defined benefit pension plan for substantially all full-time employees. The projected unit credit method is used in determining employees' benefits. Pension costs are funded to the minimum levels established by the Employee Retirement Income Security Act (ERISA) of 1974. The defined benefit plan is a qualified plan under Section 401(a) of the Internal Revenue Code and has been determined by the Internal Revenue Service to be exempt from federal income taxes.

(Dollars in thousands)

The following table sets forth the defined benefit pension plan's projected benefit obligations and fair value of plan assets at December 31:

		2012	2011
Change in projected benefit obligation:			
Benefit obligations at beginning of year	$	289,586	292,832
Service cost		13,385	15,915
Interest cost		12,552	15,273
Actuarial gain		(2,114)	(3,581)
Plan amendment		—	(21,544)
Benefits paid and expected expenses		(12,801)	(9,309)
Benefit obligations at end of year	$	300,608	289,586
Change in plan assets:			
Fair value of plan at beginning of year	$	235,262	226,889
Actual return on plan assets		31,025	(2,768)
Employer contributions		18,497	20,430
Benefits paid and actual expenses		(12,804)	(9,289)
Fair value of plan assets at end of year	$	271,980	235,262

The funded status of the plan and amounts recognized in the combined balance sheets at December 31 are as follows:

		2012	2011
Funded status, end of year:			
Fair value of plan assets	$	271,980	235,262
Projected benefit obligation		300,608	289,586
Long-term pension costs	$	(28,628)	(54,324)

In December 2011, the Center approved amending the plan to freeze average monthly earnings for grandfathered participants, effective April 1, 2012. The effect of this plan amendment was reflected in the projected benefit obligation and long-term pension costs in 2011.

Amounts recorded in unrestricted net assets, end of year:

		2012	2011
Unrecognized net actuarial loss	$	54,845	71,603
Unrecognized prior service credit		(19,201)	(20,856)
	$	35,644	50,747

(Dollars in thousands)

The estimated net actuarial loss and prior service credit for the plan that will be amortized from unrestricted net assets into net periodic pension cost in 2013 are approximately ($2,000), and $1,700, respectively.

The accumulated benefit obligations at the Plan's measurement date for 2012 and 2011 was approximately $296,500 and $289,100, respectively.

The components of net periodic pension cost for the years ended December 31 is as follows:

		2012	2011
Service cost	$	13,385	15,915
Interest cost		12,552	15,273
Expected return on plan assets		(17,798)	(18,214)
Amortization of prior service (credit) cost		(1,655)	94
Amortization of actuarial loss		1,421	2,083
Net periodic pension cost	$	7,905	15,151

The weighted average assumptions used to determine pension cost and benefit obligations at the Plan's measurement date (December 31):

	2012	2011
Weighted average discount rate for net periodic pension cost	4.94%	5.42%
Weighted average discount rate for benefit obligations	3.98	4.94
Expected long-term return on plan assets	7.50	8.00
Rate of compensation increase	Below age 45 – 4.00% Age 45 and up – 3.50%	4.75

The methodology utilized by the Center to determine the discount rate assumptions is a bond matching model, which uses individual AAA rated bond yield data consistently applied and expected future benefit payments to develop a weighted discount rate specific to the Center.

Investment Policy – The Plan's investment policy provides for a diversified portfolio to minimize risk to the extent possible. The portfolio mix policy as of December 31, 2012 and 2011 is as follows:

	2012	
	Policy	Range
Domestic equities	41.0%	38.0% – 68.0%
International equities	20.0	14.0% – 20.0%
Domestic fixed income	32.0	18.0% – 28.0%
Real estate	5.0	2.5% – 7.5%
Cash	2.0	0.0% – 10.0%

(Dollars in thousands)

	2011	
	Policy	**Range**
Domestic equities	53.0%	38.0% – 68.0%
International equity	17.0	14.0% – 20.0%
Fixed income	22.0	18.0% – 28.0%
Real assets	5.0	2.5% – 7.5%
Cash	2.0	0.0% – 10.0%
All other strategies	1.0	0.0% – 2.0%

Basis for Determination of Long-Term Rate of Return – The expected long-term rate of return on plan assets reflects long-term earnings expectations on existing plan assets and those contributions expected to be received during the current plan year. In estimating that rate, appropriate consideration was given to historical returns earned by plan assets in the fund and the rates of return expected to be available for reinvestment. Rates of return are adjusted periodically to reflect capital market assumptions and changes in investment allocations.

The following tables present the Center's defined benefit pension plan's assets at December 31, 2012 and 2011 that are measured at fair value on a recurring basis. The hierarchy and inputs to valuation techniques to measure fair value of the plan's assets are the same as outlined in the note 5.

	2012				
	Total	**Level 1**	**Level 2**	**Redemption or liquidation**	**Days notice**
Investments:					
Cash and cash equivalents	$ 3,027	3,027	—	Daily	1
Fixed income securities:					
Domestic	59,301	59,301	—	Daily – monthly	1 – 30
Equities securities:					
Domestic	91,964	91,964	—	Daily – monthly	1 – 30
International	77,073	31,817	45,256	Daily – monthly	1 – 30
Limited partnerships:					
Hedge	26,182	—	26,182	Monthly – quarterly	45 – 90
Private equity	14,433	—	14,433	Quarterly	15
	$ 271,980	186,109	85,871		

(Dollars in thousands)

	2011				
	Total	Level 1	Level 2	Redemption or liquidation	Days notice
Investments:					
Cash and cash equivalents	$ 4,244	4,244	—	Daily	1
Fixed income securities:					
Domestic	52,943	52,943	—	Daily – monthly	1 – 30
Equities securities:					
Domestic	82,551	82,551	—	Daily – monthly	1 – 30
International	60,671	23,042	37,629	Daily – monthly	1 – 30
Limited partnerships:					
Hedge	23,522	—	23,522	Monthly – quarterly	45 – 90
Private equity	11,331	—	11,331	Quarterly	15
	$ 235,262	162,780	72,482		

The Center had no financial instruments that are classified as Level 3 measurements as of December 31, 2012 and 2011. There were no significant transfers between Level 1 and Level 2 measurements due to changes in valuation methodologies during the years ended December 31, 2012 and 2011.

Contributions – The Center is expected to contribute approximately $15,600 to the Plan in 2013.

Estimated Future Benefit Payments – The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the Plan:

Year	Pension benefits
2013	$ 16,307
2014	16,725
2015	17,833
2016	18,923
2017	20,150
2018 – 2021	115,415

(10) Professional Liability Insurance and Workers' Compensation Program

The Center has a self-insurance program for professional and general liability insurance which involves the combination of purchased excess coverage and the establishment of funded reserves. The purchased coverage includes an excess policy retroactive to January 1, 1990. The Center and Related Entities maintain a risk management department to monitor and estimate professional liability exposure. Management accrues for professional and general liability reserves and the corresponding charge to operating expenses based on estimates of asserted and currently identifiable unasserted claims, if any, and a provision for unknown incidents. Independent actuaries have been retained to assist the Center.

(Dollars in thousands)

Professional and general liability reserves are recorded at their estimated undiscounted value at December 31, 2012 and 2011.

Management maintains a balance in a trusteed account for purposes of paying claims. The trusteed funded reserves are held in the name of the Center, however, such balances are allocated to and recorded on the books of the Hospital, College, and other related entities based on the source of the funds contributed.

The Center has a self-insurance program for workers' compensation insurance, which involves the combination of purchased excess coverage and the establishment of reserves. Management accrues reserves and the corresponding charges to operating expenses based on estimates of asserted and currently identifiable unasserted claims, if any, and a provision for unknown incidents. Independent actuaries have been retained to assist the Center. Workers' compensation reserves are recorded at their estimated discounted value using discount rates of 1.75% at December 31, 2012 and 2011. The Hospital, College, and Center (inclusive of SCC) are guarantors on a letter of credit, which collateralizes approximately $4,600 of the self-insurance workers' compensation liability. The total liability was approximately $12,415 and $10,269 at December 31, 2012 and 2011, respectively.

(11) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

		2012	2011
Purchase of equipment/construction projects	$	13,703	9,930
Fellowships		494	4,336
Scholarships, prizes, and awards		11,601	5,220
Chairs and professorships		10,452	8,130
Research		7,437	7,217
Department/division support		7,119	6,274
Health education		9,835	10,728
Lectureships and other		5,083	4,445
	$	65,724	56,280

(Dollars in thousands)

Permanently restricted net assets are assets to be held in perpetuity, the income from which is restricted for:

		2012	2011
Chairs and professorships	$	25,718	25,561
Research and education		4,884	4,825
Scholarships, prizes, and awards		19,539	16,516
Department/division support		5,567	4,810
Fellowships		416	416
Lectureships and other		389	530
General purposes		4,030	3,979
	$	60,543	56,637

During 2012 and 2011, net assets were released from donor restrictions by satisfying the restricted purpose as follows:

		2012	2011
Construction projects purchase of property and equipment	$	6,353	4,509
Department/division support		3,048	2,420
Scholarship, prizes, and awards		1,099	1,075
Fellowships		230	226
Lectureships and other		5,144	5,083
Chairs and professorships		1,313	1,343
Research		971	1,238
	$	18,158	15,894

In addition to permanently restricted net assets, which generally represent the original value of gifts donated to the permanent endowment, the Center has other donor restricted endowment fund net assets classified as temporarily restricted net assets and unrestricted amounts designated by the Board to function as endowments. The temporarily restricted portion represents the unexpended income generated from the permanent endowments.

(Dollars in thousands)

Changes in the donor restricted and board designated endowment net assets for the year ended December 31, 2012 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted
Endowment net assets, beginning of year	$	2,086	31,399	56,637
Investment return:				
Interest and dividend income		130	3,489	18
Net appreciation		547	7,357	—
Contributions		—	98	3,888
Appropriation of endowment assets for expenditures		(238)	(4,583)	—
Endowment net assets, end of year	$	2,525	37,760	60,543

Changes in the donor restricted and board designated endowment net assets for the year ended December 31, 2011 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted
Endowment net assets, beginning of year	$	2,404	37,030	55,070
Investment return:				
Interest and dividend income		101	2,072	11
Net depreciation		(186)	(3,571)	—
Contributions		—	219	1,556
Appropriation of endowment assets for expenditures		(233)	(4,351)	—
Endowment net assets, end of year	$	2,086	31,399	56,637

The Center has investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power.

(Dollars in thousands)

(12) Expenses by Function

The Center's expenses by function are as follows for the years ended December 31:

		2012	2011
Patient service	$	763,285	705,146
Research		13,261	15,550
Education		15,935	15,731
Program expense		96,943	93,149
Public service		11,043	11,006
Fund raising efforts		3,492	3,649
Student services		1,248	1,164
Academic support		3,084	2,789
Scholarships and fellowships		1,149	1,030
Special event activities		1,212	1,310
Institutional support		791	689
		911,443	851,213
Management and general		194,055	178,769
		1,105,498	1,029,982
Less interinstitutional eliminations		184,478	176,629
	$	921,020	853,353

(13) Commitments and Contingencies

(a) HUD Depreciation Reserve Fund

During 1999, the Department of Housing and Urban Development (HUD) allowed the Hospital to borrow up to $18,000 of assets whose use is limited under the bond indenture agreements (depreciation reserve fund). Of this amount, $10,399 is required to be re-deposited by October 21, 2015 and is secured by a line of credit with Bank of America in the amount of $10,399.

This line of credit is only available for this purpose and may only be drawn against by HUD. No borrowings have been drawn on this line to date, and no amounts have been repaid by the Hospital to the depreciation reserve fund. This line of credit requires the Center and Hospital to measure and report on certain financial benchmarks on a quarterly basis.

(b) Interest Rate Swaps

The Center uses derivative financial instruments for the purpose of hedging variability in cash flows associated with interest payments on long-term debt. The Center does not hold or issue derivative financial instruments for trading or speculative purposes.

(Dollars in thousands)

The Center and Hospital entered into interest rate swap agreements with a duration of at least 20 years and with the following notional amounts to hedge against variability in cash flows associated with variable rate Industrial Development Agency bonds as follows:

Bond series		Notional amount	Fixed rate swap	Hedge instrument
Hospital Series 2005A	$	10,000	3.995%	100% SIFMA
Center Series 2006A		4,800	3.947	70% LIBOR
Center Series 2006B		4,470	5.545	100% LIBOR
Hospital Series 2006A		5,855	3.959	70% LIBOR
Hospital Series 2006B		1,000	5.560	100% LIBOR
Center Series 2007A		3,020	4.260	100% SIFMA
Hospital Series 2007A		6,645	4.260	100% SIFMA
Hospital Series 2007C		13,160	3.745	100% SIFMA

At December 31, 2012 and 2011, the Center recorded other long term liabilities for the fair value of the interest rate swaps as follows:

Bond series	Maturity		2012	2011
Hospital Series 2005 A	July 1, 2035	$	2,543	2,426
Hospital Series 2006 A	May 1, 2026		1,316	1,350
Hospital Series 2006 B	May 1, 2026		326	334
Hospital Series 2007 A	May 1, 2027		1,196	1,157
Hospital Series 2007 C	May 1, 2027		1,928	1,811
Center Series 2006 A	May 1, 2026		852	889
Center Series 2006 B	May 1, 2026		1,173	1,218
Center Series 2007 A	May 1, 2027		544	526
		$	9,878	9,711

The portion of the change in fair value of the interest rate swaps that is considered highly effective is reflected in unrestricted net assets in the combined statements of operations and changes in net assets for the years ended December 31, 2012 and 2011. The ineffective portion of the change in fair value of the interest rate swaps was not material to the combined statements of operations and changes in net assets for the years ended December 31, 2012 and 2011.

(c) Line of Credit

The Hospital, College and Center are co-borrowers on a line of credit with Key Bank which has an available limit of $12,700. There was no outstanding balance at December 31, 2012 and 2011. The maturity date of the line is June 30, 2012. The line bears interest at thirty day LIBOR plus 225 basis points. The Hospital and the College have executed a security agreement associated with this line of credit which grants Key Bank a first security interest in their gross receipts. This line of credit requires the Center to measure and report on certain financial benchmarks on a quarterly basis.

(Dollars in thousands)

(d) Contract Commitment

In 2007, the Center entered into a contract with Siemens for the acquisition and implementation of advanced clinical systems and financial and billing systems. During 2011, the contract term was extended through 2016. The Center's remaining financial commitment over the term of the contract approximates $51,000.

(e) Lease Commitments

The Hospital, College and Center have operating lease commitments expiring at various dates, principally for equipment and office space. Future minimum lease payments under noncancelable operating leases having initial terms in excess of one year at December 31, 2012, approximate the following for the next five years:

Year ending December 31:		
2013	$	7,097
2014		4,820
2015		4,477
2016		4,163
2017		3,786

Total expense under all rental agreements amounted to approximately $11,711 and $9,824 for the years ended December 31, 2012 and 2011, respectively.

(14) Medical Resident FICA Tax Refunds

In March 2010, the Internal Revenue Service (IRS) made an administrative determination to accept the position that medical residents were exempt from Federal Insurance Contributions Act (FICA) taxes for tax periods ending before April 1, 2005, when new IRS regulations went into effect. In 2005, the Center began to file refund claims for years 1999 through the first quarter of 2005. Subsequently the IRS acknowledged the receipt of the claims and the completion of the necessary actions to perfect the claims and during 2012 the Center received a refund of approximately $14,500 for the employer portion of medical resident FICA paid for years 1999 through the first quarter of 2005, including applicable interest. The FICA refund was recorded as a component of other nonoperating income in the accompanying combined statement of operations for 2012. In addition, the Center has received approximately $16,000 for the resident portion of the FICA refunds, which has been recorded in other long term liabilities in the accompanying combined balance sheet as of December 31, 2012 and is intended to be remitted to affected residents when all amounts due from the IRS are received.

ALBANY MEDICAL CENTER AND RELATED ENTITIES

Schedule of Expenditures of State Awards

Year ended December 31, 2012

Appendix B

ALBANY MEDICAL CENTER AND RELATED ENTITIES

Schedule of Expenditures of State Awards

Year ended December 31, 2012

(Unaudited)

Program title	Contract #	Federal CFDA number	Distributions/expenditures Pass-through	Direct	Total
New York State Department of Health:					
Maternal & Child Health Services Block Grant	C023836	93.994	$ 134,404	49,711	184,115
Special Supplemental Nutrition Program for Women, Infants & Children	C025720	10.557	2,032,957	87,746	2,120,703
Clinical Education Initiative	C023553	—	—	412,418	412,418
Service Delivery Models for Treatment Adherence to Combination Antiretroviral Therapy	C023869	—	—	149,547	149,547
Community-Based HIV Primary Care Services	C026250	—	—	224,143	224,143
Comprehensive Care Centers for Eating Disorders	C026735	—	—	62,242	62,242
Diabetes Centers of Excellence	C021747	—	—	83,173	83,173
Regional Perinatal Centers	C023906	93.778	61,986	240,502	302,488
Child & Adult Care Food Program	2086	10.558	35,972	—	35,972
Empire Clinical Research Investigator Program		—	—	65,144	65,144
Stem Cell Research	C024324	—	—	386,110	386,110
Adolescent/Young Adult Specialized HIV Care	C027230	—	—	262,549	262,549
Family Focused HIV Health Care for Women	C027221	—	—	256,408	256,408
Doctors across New York Ambulatory Care Training Program	C027961	—	—	5,900	5,900
Alzheimer's Disease Assistance Centers	C026944	—	—	101,154	101,154
New York State Education Department Coordinated Collection Development Aid	0315200004	—	—	4,421	4,421
New York Office of Mental Retardation & Development Disabilities:					
Family Support Services	C023692	—	—	111,647	111,647
New York State Governor's Traffic Safety Committee:					
Child Passenger Safety	CPS-2011-Albany Med.Col 00040-(088)	20.602	179	—	179
Child Passenger Safety	CPS-2012-Albany Med.Col 00227-(088)	20.602	16,048	—	16,048
New York Department of Criminal Justice:					
NYS Dept. of Criminal Justice	T554444	16.588	17,834	—	17,834
NYS Dept. of Criminal Justice	T554445	16.588	22,802	—	22,802
New York State Energy Research & Development Authority:					
NYSERDA-ERDAI-0000023480	21555		—	400,000	400,000
Total State Funding			$ 2,322,182	2,902,815	5,224,997

See accompanying independent auditors' report.