

THE BRONX-LEBANON HOSPITAL CENTER
CONSOLIDATED FINANCIAL STATEMENTS
AND AUDITOR'S REPORTS

DECEMBER 31, 2012

THE BRONX-LEBANON HOSPITAL CENTER

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THE BRONX-LEBANON HOSPITAL CENTER

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**Independent Auditor's Report
on Financial Statements and Supplementary Information**

**Board of Trustees
The Bronx-Lebanon Hospital Center**

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The Bronx-Lebanon Hospital Center which comprise the consolidated balance sheet as of December 31, 2012, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Bronx-Lebanon Hospital Center as of December 31, 2012, and the results of its operations, change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the information in Schedule 2 are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited The Bronx-Lebanon Hospital Center's December 31, 2011 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 21, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 9, 2013 on our consideration of The Bronx-Lebanon Hospital 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 Bronx-Lebanon Hospital Center's internal control over financial reporting and compliance.

Loeb & Troper LLP

April 9, 2013, except for Schedules 1 and 2,
as to which the date is August 29, 2013.

THE BRONX-LEBANON HOSPITAL CENTER

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 2012
 (With Summarized Financial Information
 for December 31, 2011)

ASSETS	<u>2012</u>	<u>2011</u>
Current assets		
Cash and cash equivalents	\$ 34,985,917	\$ 51,709,353
Certificates of deposit	3,280,041	5,771,757
Investments (Note 4)	4,583,861	4,579,346
Assets limited as to use (Note 6)	19,518,681	13,137,500
Patient accounts receivable (net of allowance for doubtful accounts of \$54,773,009 in 2012)	67,717,918	61,863,346
Grants receivable	4,772,112	4,300,037
Due from third parties (Note 13)	5,573,614	5,274,562
Other receivables	1,355,248	744,864
Inventory of materials and supplies	2,528,670	2,119,702
Prepaid expenses and other assets	2,541,564	2,400,452
Tenant and patient deposits held in trust	461,951	474,210
Total current assets	<u>147,319,577</u>	<u>152,375,129</u>
Assets limited as to use (Note 6)	<u>29,932,105</u>	<u>41,793,735</u>
Other assets		
Investment in affiliated organization	304,571	284,500
Investment in health insurance organization (Note 5)	27,456,689	21,351,878
Fixed assets - net (Note 7)	216,011,918	206,072,718
Deferred financing costs	3,154,200	3,361,426
Total other assets	<u>246,927,378</u>	<u>231,070,522</u>
Total assets	<u>\$ 424,179,060</u>	<u>\$ 425,239,386</u>

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THE BRONX-LEBANON HOSPITAL CENTER

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 2012
 (With Summarized Financial Information
 for December 31, 2011)

LIABILITIES AND NET ASSETS	<u>2012</u>	<u>2011</u>
Current liabilities		
Accounts payable	\$ 51,115,064	\$ 44,129,203
Accrued salaries and related expenses payable	26,147,824	23,734,287
Accrued vacations payable	19,940,369	20,201,762
Advances	6,870,260	3,349,439
Accrued pension cost (Note 10)	16,922,250	22,524,734
Accrued postretirement benefit costs (Note 18)	83,100	100,500
Long-term debt (Note 8)	14,764,682	14,218,715
Capital leases payable (Note 9)	3,827,925	3,581,631
Self-insurance reserve (Note 12)	300,000	275,000
Due to third parties (Note 13)	53,107,185	57,050,324
Deferred compensation and other liabilities	6,304,562	4,998,678
Tenant and patient deposits	461,951	474,210
	<u>199,845,172</u>	<u>194,638,483</u>
Long-term liabilities		
Accrued pension costs (Note 10)	93,528,604	91,139,465
Accrued postretirement benefit costs (Note 18)	2,697,617	2,461,228
Long-term debt (Note 8)	76,733,395	91,497,687
Capital leases payable (Note 9)	11,163,596	9,978,242
Self-insurance reserve (Note 12)	2,200,000	2,125,000
Due to third parties (Note 13)	22,044,556	24,886,000
	<u>408,212,940</u>	<u>416,726,105</u>
Net assets (Exhibit B)		
Unrestricted	14,162,715	6,709,876
Permanently restricted (Note 20)	1,803,405	1,803,405
	<u>15,966,120</u>	<u>8,513,281</u>
Total net assets	<u>15,966,120</u>	<u>8,513,281</u>
Total liabilities and net assets	<u>\$ 424,179,060</u>	<u>\$ 425,239,386</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

THE BRONX-LEBANON HOSPITAL CENTER

EXHIBIT B

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2012
(With Summarized Financial Information
for the Year Ended December 31, 2011)

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
			<u>2012</u>	<u>2011</u>
Operating revenues				
Patient service revenues (net of contractual allowances and discounts)	\$ 665,530,512		\$ 665,530,512	\$ 670,133,764
Provision for bad debts	(40,644,037)		(40,644,037)	(63,211,632)
Net patient service revenues less provision for bad debts	624,886,475		624,886,475	606,922,132
Grants	28,271,008		28,271,008	25,561,747
Auxiliary and other services	17,589,914		17,589,914	17,369,437
Total revenues	<u>670,747,397</u>		<u>670,747,397</u>	<u>649,853,316</u>
Operating expenses				
Salaries and wages	325,677,446		325,677,446	321,269,318
Employee benefits	109,423,686		109,423,686	97,936,560
Supplies and other	210,044,092		210,044,092	191,116,184
Interest	3,542,463		3,542,463	4,116,475
Depreciation and amortization	26,793,387		26,793,387	27,315,477
Bad debt expenses				4,058
Total expenses	<u>675,481,074</u>		<u>675,481,074</u>	<u>641,758,072</u>
Gain (loss) from operations	<u>(4,733,677)</u>		<u>(4,733,677)</u>	<u>8,095,244</u>

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THE BRONX-LEBANON HOSPITAL CENTER

EXHIBIT B

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CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2012
(With Summarized Financial Information
for the Year Ended December 31, 2011)

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
			<u>2012</u>	<u>2011</u>
Nonoperating and other				
Departmental funds - patient service revenues (net of contractual allowances and discounts)	\$ 40,821,530		\$ 40,821,530	\$ 34,307,890
Provision for bad debts	<u>(11,639,323)</u>		<u>(11,639,323)</u>	<u>(11,509,449)</u>
Net patient service revenues less provision for bad debts	<u>29,182,207</u>		<u>29,182,207</u>	<u>22,798,441</u>
Departmental funds expenses	(27,509,306)		(27,509,306)	(22,623,945)
Contributions and event income	442,993		442,993	529,608
Cost of annual event	(392,286)		(392,286)	(426,978)
Investment income (Note 4)	9,930,615		9,930,615	7,981,556
Adjustment required to recognize an additional minimum pension liability (Note 10)	<u>532,293</u>		<u>532,293</u>	<u>(40,644,781)</u>
Change in net assets (Exhibit C)	7,452,839		7,452,839	(24,290,855)
Net assets - beginning of year	<u>6,709,876</u>	\$ <u>1,803,405</u>	<u>8,513,281</u>	<u>32,804,136</u>
Net assets - end of year (Exhibit A)	<u>\$ 14,162,715</u>	<u>\$ 1,803,405</u>	<u>\$ 15,966,120</u>	<u>\$ 8,513,281</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

THE BRONX-LEBANON HOSPITAL CENTER
CONSOLIDATED STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ 7,452,839	\$ (24,290,855)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Net gain on investments	(9,605,941)	(7,238,330)
Depreciation and amortization	26,793,387	27,315,477
Decrease (increase) in assets		
Patient accounts, grants and other receivables	(6,937,031)	(8,943,041)
Due from third parties	(299,052)	(3,053,564)
Inventory of materials and supplies	(408,968)	(5,795)
Prepaid expenses and other assets	(141,112)	265,776
Increase (decrease) in liabilities		
Accounts payable	6,985,861	(4,953,745)
Accrued salaries and related expenses payable	2,413,537	4,411,302
Accrued vacations payable	(261,393)	(1,133,211)
Advances	3,520,821	(825,950)
Accrued pension cost	(3,213,345)	36,866,808
Accrued postretirement benefit costs	218,989	546,429
Due to third parties	(6,784,583)	(11,735,149)
Deferred compensation and other liabilities	1,305,884	68,546
Self-insurance reserve	100,000	
Net cash provided by operating activities	<u>21,139,893</u>	<u>7,294,698</u>
Cash flows from investing activities		
Proceeds from sale of certificates of deposit	2,491,716	4,394,344
Investment in affiliated organization	(20,071)	(284,500)
Purchase of investments	(3,385)	
Proceeds from sale of investments		68,028
Proceeds from investment distribution	3,500,000	3,492,540
Decrease in assets limited as to use	5,480,449	13,769,267
Purchases of fixed assets	<u>(31,179,068)</u>	<u>(31,176,072)</u>
Net cash used by investing activities	<u>(19,730,359)</u>	<u>(9,736,393)</u>

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THE BRONX-LEBANON HOSPITAL CENTER
CONSOLIDATED STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Cash flows from financing activities		
Repayments of long-term debt	\$ (14,218,325)	\$ (13,759,005)
Principal payments on capital lease	<u>(3,914,645)</u>	<u>(3,433,023)</u>
Net cash used by financing activities	<u>(18,132,970)</u>	<u>(17,192,028)</u>
Net change in cash and cash equivalents	(16,723,436)	(19,633,723)
Cash and cash equivalents - beginning of year	<u>51,709,353</u>	<u>71,343,076</u>
Cash and cash equivalents - end of year	<u><u>\$ 34,985,917</u></u>	<u><u>\$ 51,709,353</u></u>
Supplemental disclosure of cash flow information		
Cash paid for interest	<u><u>\$ 3,542,463</u></u>	<u><u>\$ 4,116,475</u></u>
Supplemental disclosure of noncash investing and financing activities		
Capital lease obligations of \$5,346,293 for 2012 were incurred when the Center entered into leases for new equipment.		

See independent auditor's report.

The accompanying notes are an integral part of these statements.

THE BRONX-LEBANON HOSPITAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 1 - NATURE OF ORGANIZATION

The accompanying consolidated financial statements include the following corporations:

The Bronx-Lebanon Hospital Center
1650 BLHC Services Corp.
1770 BLHC Services Corp.
Bronx-Lebanon Hospital New Directions Fund, Inc.
Bronx-Lebanon Special Care Center, Inc.
The Bronx-Lebanon Highbridge Woodycrest Center
Martin Luther King, Jr. Health Center, Inc.

The above entities are related through board control by The Bronx-Lebanon Hospital Center.

The Bronx-Lebanon Hospital Center (the "Hospital Center") is a not-for-profit acute care hospital that provides inpatient, ambulatory, psychiatric, preventive and emergency hospital care to the community. The Hospital Center provides a full range of health care services to the local community and qualifies as a tax-exempt organization under existing provisions of Section 501(c)(3) of the Internal Revenue Code. The Hospital Center is supported primarily by patient service fees paid by Medicaid, Medicare and commercial insurance carriers.

1650 BLHC Services Corp. ("1650 BLHC") and 1770 BLHC Services Corp. ("1770 BLHC") were incorporated in 2004 under New York State not-for-profit law and qualify as tax-exempt organizations under existing provisions of Section 501(c)(3) of the Internal Revenue Code. 1650 BLHC and 1770 BLHC are supported primarily by tenant rental fees. 1650 BLHC and 1770 BLHC's purpose is to provide housing support for employees and programs at the Hospital Center.

Bronx-Lebanon Hospital New Directions Fund, Inc. ("NDF") was organized to engage in fund-raising activities and to provide grants and scholarships to support not-for-profit organizations, including the Hospital Center. NDF is supported primarily by contributions through its annual event. NDF qualifies as a tax-exempt organization under existing provisions of Internal Revenue Code Section 501(c)(3).

Bronx-Lebanon Special Care Center, Inc. ("BLSCC") is a not-for-profit voluntary nursing home located in the Bronx, New York, which is certified to provide care to 120 geriatric and 120 AIDS residents. BLSCC is exempt from federal income tax under Internal Revenue Code Section 501(c)(3), and was organized under the provisions of Article 28 of the New York State Public Health Law and the Not-for-Profit Corporation Law. BLSCC is supported primarily by patient service fees paid by Medicaid, Medicare and private individuals.

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THE BRONX-LEBANON HOSPITAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 1 - NATURE OF ORGANIZATION (continued)

The Bronx-Lebanon Highbridge Woodycrest Center (“BLHWC”), formerly known as Highbridge-Woodycrest Center, Inc., was incorporated in 1989 to establish and operate a not-for-profit special care nursing facility (“NF”) for adults and children who test positive for the human immunodeficiency virus (“HIV”) and are symptomatic or are diagnosed as having contracted acquired immune deficiency syndrome (“AIDS”). BLHWC operates a 90-bed NF whose primary sources of revenue are resident service fees paid by Medicaid. The Internal Revenue Service (“IRS”) has determined that BLHWC meets the requirements of the Internal Revenue Code under Section 501(c)(3) and is exempt from federal income tax. In 2007, BLSCC acquired BLHWC and is its sole member.

Martin Luther King, Jr. Health Center, Inc. (“MLK”) is a free-standing diagnostic and treatment center licensed under Article 28 of the New York State Health Law and is recognized as a Federally Qualified Health Center. MLK provides a broad range of health services to a largely economically deprived population, and is supported primarily by patient service fees. MLK is a not-for-profit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

Concourse Replacement, LLC (“Concourse”) is a New York limited liability company owned 50% by BLSCC and 50% by Island Rehabilitative Services Corp. Concourse was formed for the purpose of owning and operating an end stage renal dialysis facility to be established under Article 28 of the New York Public Health Law. Establishment was approved and operations began in November 2008. BLSCC invested \$20,071 in Concourse in 2012.

The Bronx Care Development Corporation (“BCDC”), a New York corporation, is wholly owned by The Bronx-Lebanon Hospital Center. BCDC, a general partner for .01%, Sterling Corporate Tax Credit Fund XXIII, L.P. (“Investor”), a limited partner for 99.98% and Sterling Corporate Services Inc., a special interest limited partner for .01% have entered into a partnership agreement to form Bronx Care Associates (“LP”). The LP is a New York limited partnership established to develop a parcel of land located at 1600 Morris Avenue, Bronx, NY into a 52-unit affordable rental housing for low income, frail, elderly individuals and individuals with physical disabilities. The construction project was financed through tax credits. The Hospital Center has the right to buy the property from the partnership pursuant to the “Right of First Refusal Agreement” entered into by the partnership. The housing building became operational in 2007. Based on preliminary 2012 numbers, LP had total assets of \$7,650,609, total liabilities of \$2,982,907, total revenues of \$525,071, and total expenses of \$680,208. The Hospital Center’s portion is immaterial for inclusion in these consolidated financial statements.

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THE BRONX-LEBANON HOSPITAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - The financial statements are prepared on the accrual basis of accounting.

Consolidation - All material intercompany transactions and balances have been eliminated in the consolidation. The consolidated entity is referred to in these notes as “Center”. The Hospital Center, BLSCC and BLHWC have recorded an allowance for doubtful accounts of \$30,550,000 for amounts due from MLK. MLK includes this \$30,550,000 on its balance sheet. This was adjusted on the consolidated balance sheet and statement of activities.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Summarized financial information - The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the organization’s financial statements for the year ended December 31, 2011, from which the summarized information was derived.

Reclassification - 2011 advances from government agencies, due to third parties, and grants receivable have been reclassified to conform to the 2012 presentation. In addition, the amounts shown as current and long term have been reclassified.

Cash and cash equivalents - Cash and cash equivalents include highly liquid instruments with maturities of three months or less at the date of purchase.

Certificates of deposit - Certificates of deposit have maturity dates of more than three months and are considered investments for purposes of cash flow reporting.

Investments - Investments are carried at fair value except for the investment in the health insurance organization and the investment in affiliated organization (“Concourse”), which are reported on the equity method. The entities invest in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, based upon the markets’ fluctuations, and that such changes could materially affect the entities’ financial statements.

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THE BRONX-LEBANON HOSPITAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Patient accounts receivable - The Center records receivables based on established rates or contracts for service provided. No interest is charged on these receivables.

Grants receivable - Grants receivable represent amounts due from government agencies and others to fund and/or enhance various programs. The Center has determined that no allowance for uncollectible accounts for grants receivable is necessary as of December 31, 2012. Such estimates are based on the aged basis of the receivables and subsequent collections.

Other receivables - Other receivables represent amounts due from various sources for expense reimbursement. Included in other receivables are also amounts due for rental revenues. 1650 BLHC and 1770 BLHC record rental income and tenant accounts receivable based on established rates and lease agreements. The leases are for one year with an option to renew. Rental income is included in auxiliary and other services in these statements. No interest is charged or accrued on outstanding receivables.

Allowance for doubtful accounts - Bad debt is recorded if the receivable is determined to be uncollectible based on periodic review by management. Factors used to determine whether an allowance should be recorded include the age of the receivable and a review of payments subsequent to year end.

Due from/to third parties - Due from/to third parties represents amounts that are owed to, or due back from, various third parties that the Center is responsible for reporting to, among which are the Centers for Medicare and Medicaid Services ("CMS") and New York State Department of Health.

Inventory of materials and supplies - The inventory of materials and supplies is stated at cost and recorded on the first-in, first-out basis.

Prepaid expenses, deposits and other assets - Payments made to vendors for contracts that cover future periods are recorded as prepaid expenses. Deposits are amounts held by third parties as collateral.

Tenant and patient deposits - Funds for the personal use of tenants and patients are held in trust for them by the Center. These funds are segregated in a separate interest-bearing account for the patients and are not available for other uses.

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THE BRONX-LEBANON HOSPITAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets limited as to use - Assets limited as to use include assets set aside by indenture agreements for the repayment of capital debt, taxes and capital improvements. Investment income related to assets limited as to use under indenture agreements is included in nonoperating revenues of the general fund. The Center has received approval from the Dormitory Authority of the State of New York (DASNY) to utilize certain limited use assets for operating purposes in 2012 and 2013.

Fixed assets - Fixed assets are stated at cost. Individual items with a cost in excess of \$150 and an estimated useful life of greater than one year are capitalized. Capital leases are recorded at the present value at the inception of the leases. Depreciation of assets and amortization of capital leases are computed using the straight-line method over the estimated useful lives of the individual assets as recommended by the American Hospital Association, or the lease term, whichever is shorter. In accordance with the entities' policy, depreciation and amortization are recorded using the half-year convention method.

Deferred financing costs - Deferred financing costs are amortized on the straight-line method over the term of the related debt.

Cost of borrowing - Interest incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Accrued vacations payable - Employees are permitted to accumulate unused vacation time up to certain maximum amounts according to the Center's policy. The Center accrues the estimated expense related to vacation based on pay rates in effect at year end.

Unrestricted net assets - Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors.

Permanently restricted net assets - Permanently restricted net assets have been restricted by donors to be maintained by the Center in perpetuity.

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THE BRONX-LEBANON HOSPITAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net patient service revenues - Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Laws and regulations governing the health care program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates may change by a material amount in the near term. Additionally, noncompliance with such laws and regulations could result in fines, penalties and exclusion from the Medicare and Medicaid programs.

Patient service revenues, net of contractual allowances and discounts, include revenues from third-party payors of \$660,337,497 and self-pay revenues of \$46,014,545 for a total of \$706,352,042.

Provision for bad debts - Bad debt is reported as a reduction of patient service revenues net of contractual allowances and discounts.

Charity care - The Center has adopted ASU 2010-23, Measuring Charity Care for Disclosure, which requires health care entities to use cost as the measurement basis for the disclosure of charity care provided. The Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue (see Note 19).

Contributions - Unconditional promises to give cash and other assets are reported at fair value at the date the promise 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 statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

Government grants - Government grants in support of operations are reflected in the general fund. For expense-based grants, revenue is recognized when reimbursable expenditures are incurred. Revenues from government agencies are subject to audit by the agencies. No provision for any disallowance is reflected in the financial statements, since management does not anticipate any material adjustments.

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THE BRONX-LEBANON HOSPITAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Advertising costs - Advertising costs are expensed as incurred. The Center incurred advertising costs of \$218,406 in 2012.

Functional expenses - The costs of providing the Center's services have been summarized on a functional basis. Accordingly, certain costs have been allocated between the programs and supporting services benefited.

Measure of operations - The Center includes in its measure of operations all revenues and expenses that are an integral part of its program and supporting activities.

Departmental funds - Departmental funds are administered by specific department heads and, due to contractual arrangements, are not available for general operations of the Center.

Subsequent events - Subsequent events have been evaluated through April 9, 2013, which is the date the financial statements were available to be issued.

Uncertainty in income taxes - The entities have determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending December 31, 2009 and subsequent remain subject to examination by applicable taxing authorities.

Fair Value Measurements

Fair Value Measurements establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted 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 the fair value hierarchy are described below. Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Center has the ability to access. Level 2 inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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THE BRONX-LEBANON HOSPITAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements (continued)

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2012 as compared to those used at December 31, 2011.

Cash equivalents, money market funds, fixed income and common stocks - Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds - Valued at the net asset value ("NAV") of shares held at year end.

Commingled funds and investment in limited partnership - Valued at the NAV of shares held at year end as determined by the investment managers and/or similar market prices.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values.

NOTE 3 - NET PATIENT SERVICE REVENUES

The Center has agreements with third-party payors that provide for payments to the Center at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. A description of the significant provisions of the payment arrangements follows:

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THE BRONX-LEBANON HOSPITAL CENTER**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2012****NOTE 3 - NET PATIENT SERVICE REVENUES (continued)**

Inpatient acute services are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other related factors. Payments for Medicare beneficiaries are governed by regulations issued by the federal government whereas all other third-party payors (Medicaid, Blue Cross, workers' compensation, no-fault and commercial insurance carriers) and self-pay patients are governed by regulations issued by the New York State Department of Health ("Health Department") under the New York Health Care Reform Act of 1996 ("NYHCRA"). Hospitals are authorized to negotiate inpatient rates with non-Medicare payors except Medicaid, workers' compensation and no-fault pay rates, which are promulgated by the New York State Department of Health. Medicaid rate methodologies are subject to approval at the federal level by the Centers for Medicare and Medicaid Services ("CMS"), which may routinely request information about such methodologies prior to approval. Adjustments to the current and prior years' payment rates for those payors will continue to be in future years. Commencing December 1, 2009, the Health Department rebased inpatient Medicaid rates from 1981 cost data to 2005 cost data.

Inpatient revenues include amounts to reimburse the Center for a portion of its bad debt and charity care. The amount of this reimbursement is predicated on a formula to determine a facility's need subject to the availability of funds. The need of the participating medical centers is distributed based on a pool of funds available to be shared according to prescribed criteria. The amount reflected on the combined financial statements is based on estimates of the needs of each of the facilities in the pool and the amount that will be available.

The amounts awarded are subject to adjustment based on funds available and the requirements of other facilities. There are various proposals to change the current methodology, which could have a significant impact on the amounts budgeted for bad debt and charity care reimbursement.

The Department of Health and Human Services has designated two of the Center's clinics as Federally Qualified Health Centers ("FQHC"). Based on the FQHC designation, these clinics are eligible to participate in the Medicaid Managed Care shortfall payment program. Under this program, clinics bill to Medicaid for the difference between the average Medicaid rate and the average Medicaid Managed Care rate per visit. The Health Department has granted approval to the Hospital Center to bill for shortfall payments.

Outpatient and other services are paid based upon a fee schedule or a cost reimbursement basis. Certain items (e.g., defined capital costs) are reimbursed on a cost-basis methodology subject to certain limitations and exclusions. These items are paid at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital Center and audits thereof by the Medicare fiscal intermediary.

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THE BRONX-LEBANON HOSPITAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 3 - NET PATIENT SERVICE REVENUES (continued)

The Center has also entered into payment agreements with certain health maintenance organizations (“HMOs”) and preferred provider organizations. The basis for payment to the Hospital Center under these agreements includes prospectively determined rates per discharge or per day and discounts from established charges.

Under certain contractual arrangements, the Center is at risk for and is eligible to receive benefit from cost variance. These arrangements include cost and liability sharing among other institutions. Revenues from these HMOs are predicated on the HMOs’ estimates and projections. As of the date of this report, certain of these estimates have not been verified on an actuarial basis. It is not possible to determine if the final results will vary significantly from the estimates utilized.

Revenue from capitation agreements amounted to \$13,919,300.

Federal and New York State regulations contain certain provisions that allow for retroactive adjustments to current and prior years’ payment rates based on industry-wide and hospital-specific data. Those adjustments which can be reasonably estimated have been provided for in the accompanying consolidated financial statements. However, those adjustments which are either (a) without current specific regulations to implement such adjustments, or (b) dependent on certain future events cannot be reasonably estimated and, accordingly, have not been provided for in the consolidated financial statements. The Center has estimated the potential impact of such retrospective adjustments based upon the most recent information available. Management believes that amounts recorded in the accompanying consolidated financial statements will not be materially affected upon the implementation of such retrospective adjustments.

In addition, there are various proposals at the federal and state levels to reduce future hospital reimbursement and the expansion of negotiated rates may significantly impact the Center’s results of operations. Due to these uncertainties, it is not practicable for the Center to estimate the effect on its financial position or results of operations, if any, that may result from the outcome of these proposals and the changes in the reimbursement system.

THE BRONX-LEBANON HOSPITAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 4 - INVESTMENTS

	<u>Level 1 Fair Values</u>
Cash and cash equivalents	\$ 158,372
Fixed income	
Corporate obligations	1,687,022
U.S. Government Agency obligations	802,357
Asset-backed	164,950
U.S. Treasury notes	1,710,525
Common stocks	<u>60,635</u>
	<u>\$ 4,583,861</u>

Investment income consists of:

Interest and dividends	\$ 324,674
Unrealized gain on common stocks	1,130
Unrealized gain on investment in health insurance organization	<u>9,604,811</u>
	<u>\$ 9,930,615</u>

NOTE 5 - INVESTMENT IN HEALTH INSURANCE ORGANIZATION

The Hospital Center has invested in a health insurance company as part of a joint venture. The Hospital Center is an 11.06% owner in HF Management Services, LLC which, based on the equity method, was valued at \$27,456,689 in 2012.

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THE BRONX-LEBANON HOSPITAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 5 - INVESTMENT IN HEALTH INSURANCE ORGANIZATION (continued)

	<u>Health Insurance Organization</u>
Beginning balance	\$ 21,351,878
Distributions	(3,500,000)
Total unrealized gains or losses included in changes in net assets for 2012	<u>9,604,811</u>
Ending balance	\$ <u>27,456,689</u>
Change in unrealized gains (losses) relating to assets still held at the reporting date	\$ <u>9,604,811</u>

Investments in the health insurance organization are not available for redemption unless the health insurance organization meets certain reserve requirements and distributes excess cash, or the Hospital Center's share is sold to other investors.

NOTE 6 - ASSETS LIMITED AS TO USE

The composition of assets limited as to use at December 31, 2012 is set forth in the following table. Investments are stated at fair value.

	<u>Level 1 Fair Values</u>
Under indenture agreements - held by trustee	
Cash and cash equivalents	\$ 31,705,681
U.S. Government obligations	22,283
Investments held by the Dormitory Authority of the State of New York	
Cash and cash equivalents	6,031
U.S. Government obligations	<u>17,716,791</u>
	\$ <u>49,450,786</u>

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THE BRONX-LEBANON HOSPITAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 7 - FIXED ASSETS

	<u>Cost</u>	<u>Accumulated Depreciation and Amortization</u>	<u>Estimated Useful Lives</u>
Land	\$ 1,539,193		
Land improvements	4,543,881	\$ 3,989,360	12-40 years
Leasehold improvements	15,127,871	6,167,856	15-20 years
Buildings and building improvements	403,596,696	300,178,848	10-40 years
Equipment	200,616,196	173,203,038	3-20 years
Construction in progress	<u>74,127,183</u>		
	699,551,020	<u>\$ 483,539,102</u>	
Accumulated depreciation and amortization	<u>(483,539,102)</u>		
	<u>\$ 216,011,918</u>		

Building costs of \$15,665,000 and associated accumulated amortization of \$4,812,500 are subject to capital lease agreements as described in Note 9.

Equipment costing \$11,968,357 and associated accumulated amortization of \$4,865,138 are subject to capital lease agreements as described in Note 9.

The Center is currently building two new buildings. They are both expected to be completed in 2013 at an approximate cost of \$58 million.

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THE BRONX-LEBANON HOSPITAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 8 - LONG-TERM DEBT

A. Dormitory Bonds Payable - Housing and Home Finance Agency

In order to finance part of the interns and residents dormitory, the Board of Trustees of the Hospital Center authorized the issuance of the Bronx-Lebanon Hospital Center Interns & Residents Dormitory Bonds of 1962, Series A and Series B in the aggregate amount of \$870,000, which matured in 2012. The bonds were being amortized serially in accordance with the terms of the trust indenture. Principal payments on the Series A bonds ended in 1994. Principal payments on the Series B bonds for the year ended December 31, 2012 were \$36,000. The interest rate was 3-3/8%.

During 1988, the Hospital Center established an escrow fund that pays the mortgage obligations as they come due.

B. Mortgages Payable - Morgan Stanley Mortgage Capital, Inc.

In connection with the purchase of the land and building at 1650 Selwyn Avenue, 1650 BLHC entered into a mortgage loan agreement in the amount of \$5,000,000 with Morgan Stanley Mortgage Capital, Inc. on December 28, 2004. Monthly payments in the amount of \$29,978 began on February 1, 2005 at a 6% interest rate. The loan matures in January 2015 with a balloon payment of \$4,247,228. The balance of the mortgage as of December 31, 2012 was \$4,437,667. The mortgage is secured by the land and building.

In connection with the purchase of the land and building at 1770 Grand Concourse, 1770 BLHC entered into a mortgage loan agreement in the amount of \$7,000,000 with Morgan Stanley Mortgage Capital, Inc. on November 10, 2004. Monthly payments in the amount of \$41,969 began on January 1, 2005 at a 6% interest rate. The loan matures in December 2014 with a balloon payment of \$5,947,757. The balance of the mortgage as of December 31, 2012 was \$6,203,353. The mortgage is secured by the land and building.

THE BRONX-LEBANON HOSPITAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 8 - LONG-TERM DEBT (continued)

B. Mortgages Payable - Morgan Stanley Mortgage Capital, Inc. (continued)

1770 BLHC has entered into a contract with GC 1770, LLC, a New York limited liability company, to sell its building located at 1770 Grand Concourse for \$27.7 million. In order to relocate clinical operation in the building, Hospital Center management has signed a 10-year lease with 1775 Grand Concourse LLC, with two 5-year renewal options, with an annual rent of \$910,000. This will provide 35,000 square feet of space on the 6th floor, located at 1775 Grand Concourse. The Hospital Center intends to build out the space using outside financing of \$6 million. This space will accommodate the MLK Dental Clinic, Bronx-Lebanon Hospital Center's Therapeutic Services and Management Information Systems Department. This move will provide additional capacity to serve approximately 27,000 more outpatient visits. The ultimate dissolution of 1770 BLHC is contemplated after the sale of the building and the winding down of the affairs of 1770 BLHC. Proceeds from the sale of the building will be used to pay off the existing loan with Morgan Stanley Mortgage Capital, Inc. and closing costs, with the remaining balance transferred to the Hospital Center.

C. Mortgage Payable - Dormitory Authority of the State of New York

In January 2007, the Hospital Center refinanced its mortgage with DASNY. The principal amount of the refinanced mortgage was \$97,065,000. The first principal payment was due on August 1, 2008 and the final payment is due on February 15, 2016. The mortgage is collateralized by all of the Hospital Center's property, buildings and equipment, aside from capital lease equipment. Interest ranges from 3.6% to 4.0%, with an average rate of 3.9%. The balance of the mortgage as of December 31, 2012 is \$43,939,167.

D. Mortgage Payable - Dormitory Authority of the State of New York

In February 2009, the Hospital Center entered into a new mortgage agreement with DASNY for the construction of a new Ambulatory Care Network building. The principal amount of the mortgage is \$36,510,000. The first principal payment was due on August 1, 2010 and the final payment is due on February 1, 2035. The mortgage is collateralized by all of the Hospital Center's property, buildings and equipment, aside from capital lease equipment. The net interest cost on the mortgage is 7.5% per annum, including a letter of credit cost of 1% paid to TD Bank. The balance of the mortgage as of December 31, 2012 is \$34,917,890. The mortgage agreement requires that the Hospital Center maintain a minimum debt service coverage ratio of 1.25. For 2012, the Hospital Center met the debt service coverage ratio.

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THE BRONX-LEBANON HOSPITAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 8 - LONG-TERM DEBT (continued)

E. Long-term Loan - ARAMARK Healthcare Support Services

On July 1, 2010, the Hospital Center and ARAMARK Healthcare Support Services (ARAMARK) entered into a fifteen-year contract to have ARAMARK exclusively provide management services in the areas of dietary, transportation, call center and clinical technology services. As part of this contract, ARAMARK has made a financial commitment to lend interest-free \$2,400,000 to the Hospital Center in order to buy certain medical equipment. The loan is payable over a fifteen-year period. If the Hospital Center decides to terminate the service contract before the fifteen years are complete, the loan will become due on termination, or will be charged a 1.5% monthly interest rate or maximum legally allowed interest rate, whichever is lower. The balance of the loan as of December 31, 2012 was \$2,000,000.

The aggregate amount of required principal payments of long-term indebtedness at December 31, 2012 is as follows:

2013	\$ 14,764,682
2014	15,358,852
2015	10,194,986
2016	9,502,501
2017	8,495,833
Later years	<u>33,181,223</u>
Principal amount of required payments	91,498,077
Less current portion	<u>(14,764,682)</u>
	<u>\$ 76,733,395</u>

NOTE 9 - LEASES

The Center leases various equipment under operating leases expiring in 2017 and capital lease agreements expiring in 2019. The Center leases space under various leases expiring between 2013 and 2022. Total rent expense in 2012 was \$5,497,067.

In 2004, the Hospital Center transferred the operations of certain clinics to MLK. Accordingly, leases related to these clinic locations were also assigned to the Center. These noncancelable leases expire between 2013 and 2017. MLK also leases equipment from different vendors under various noncancelable leases expiring between 2013 and 2016. Lease payments of \$1,396,362 were made in 2012.

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THE BRONX-LEBANON HOSPITAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 9 - LEASES (continued)

Capital Leases Payable

On July 1, 2004, BLSCC refinanced its existing mortgage with DASNY and obtained financing pursuant to a capital lease through the New York City Industrial Development Agency (NYCIDA) amounting to \$9,245,000.

The financing consists of the \$9,245,000 NYCIDA Civic Facility Refunding and Improvement Revenue Bonds, Series 2004 (Tax Exempt) at a fixed interest rate of 6.75%, due November 1, 2015.

NYCIDA issued the Bonds on behalf of BLSCC on a conduit basis, i.e., the proceeds of the financing were for the benefit and use of BLSCC, which is responsible for paying the debt service on the Bonds.

As part of the agreement with NYCIDA, BLSCC leased its facility to NYCIDA. NYCIDA then sold its leasehold interest in the nursing facility back to BLSCC for a term concurrent with that of the Bonds. BLSCC has the obligation to make payments to the bond trustee equal to the amounts payable as principal and interest on the Bonds. The Bonds are secured by mortgage liens on the respective interests of NYCIDA and BLSCC in the facility; and a guaranty agreement from BLSCC to the Bond Trustee, in which BLSCC guarantees payment of the debt service of the Bonds to the Bond Trustee. Principal payments on the Bonds began July 1, 2004, with the final payment due November 1, 2015.

On June 29, 2006, BLHWC obtained financing pursuant to a capital lease through NYCIDA amounting to \$6,420,000.

The financing consists of the following NYCIDA bonds (Bonds):

- \$5,990,000 NYCIDA Adjustable Fixed Rate Civic Facility Refunding and Improvement Revenue Bonds, Series 2005A (Tax Exempt) at an interest rate of 4.346%, due November 1, 2025.
- \$430,000 NYCIDA Adjustable Fixed Rate Civic Facility Refunding and Improvement Revenue Bonds, Series 2005B (Taxable) at an interest rate of 6.946%, due November 1, 2025.

NYCIDA issued the Bonds on behalf of BLHWC. The proceeds of the financing were for the benefit and use of BLHWC, which is responsible for paying the debt service on the Bonds.

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THE BRONX-LEBANON HOSPITAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 9 - LEASES (continued)

Capital Leases Payable (continued)

As part of the agreement with NYCIDA, BLHWC leased its facility to NYCIDA which, in turn, then sold its leasehold interest in the NF back to BLHWC for a term concurrent with that of the Bonds. BLHWC has the obligation to make payments to the bond trustee (Bond Trustee) equal to the amounts payable as principal and interest on the Bonds. The Bonds are secured by mortgage liens on the respective interests of NYCIDA and BLHWC in the facility; a guaranty agreement from BLHWC to the Bond Trustee, in which BLHWC guarantees payment of the debt service of the Bonds; and a pledge of certain BLHWC revenues to the Bond Trustee. Monthly principal payments on the Bonds began November 1, 2007, with the final payment due November 1, 2025.

Bond covenants require BLHWC to maintain a minimum debt service coverage ratio of 1.25, as well as minimum net assets of \$4,000,000. For 2012, BLHWC met the debt service coverage ratio as well as the minimum net asset requirement.

The aggregate amount of required payments of all lease obligations at December 31, 2012 is as follows:

	Capital Leases	Operating Leases
	<u> </u>	<u> </u>
2013	\$ 4,599,970	\$ 4,844,943
2014	3,005,286	4,088,044
2015	2,654,139	4,030,543
2016	1,327,718	2,593,280
2017	1,147,204	1,674,176
Thereafter	<u>5,092,290</u>	<u>5,450,041</u>
Total minimum lease payments	17,826,607	\$ <u>22,681,027</u>
Less amount representing interest	<u>(2,835,086)</u>	
Principal amount of net minimum lease payments	\$ <u>14,991,521</u>	

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THE BRONX-LEBANON HOSPITAL CENTER

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012

NOTE 10 - PENSIONS

The Center has various retirement plans covering the majority of its employees. The expense for all plans in 2012 was \$28,912,101.

Union employees are covered by a union-administered plan funded by Hospital Center contributions.

The following information was obtained from the Center's union-managed pension plans:

<u>Pension Fund</u>	<u>EIN/ Pension Plan Number</u>	<u>Pension Protection Act Zone Status</u>	<u>FIP/RP Status Pending/ Implemented</u>	<u>2012 Contributions</u>	<u>Surcharge Imposed</u>	<u>Expiration Date of Collective Bargaining Agreement</u>
1199 SEIU Health Care Employees Pension Fund	EIN 13- 3604862 Plan No. 001	Green	N/A	\$ 9,314,418	No	July 31, 2015

As of the date the financial statements were available to be issued, Form 5500 was not yet available for the plan year ended December 31, 2012. However, the plan's actuaries have certified that the plan is not endangered, seriously endangered or critical, as those terms are defined in the Pension Protection Act of 2006 for the plan years beginning January 1, 2013 and 2012.

Substantially all nonunion and New York State Nurses Association (NYSNA) employees were covered by a noncontributory defined benefit pension plan. On June 30, 1998, the Hospital Center terminated coverage for nonunion employees. Effective July 1, 1998, nonunion employees are being covered by a noncontributory defined contribution pension plan. Contributions to the defined contribution pension plan are made at the discretion of the Hospital Center. Accrued pension payable on the defined contribution pension plan on December 31, 2012 is \$5,200,000.

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THE BRONX-LEBANON HOSPITAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 10 - PENSIONS (continued)

The following table sets forth the defined benefit pension plan's funded status and amounts recognized in the balance sheet at December 31, 2012:

Actuarial present value of benefit obligations:

Projected benefit obligation	\$ (257,367,839)
Plan assets at fair value	<u>152,116,985</u>
Funded status	<u>\$ (105,250,854)</u>
Accrued benefit cost included in the balance sheet	<u>\$ 105,250,854</u>
Benefit cost	\$ 13,907,183
Employer contributions	16,732,799
Benefits paid	8,579,197

Assumptions in the accounting were as follows:

Discount rate for active plan	4.05%
Discount rate for frozen plan	3.56%
Rate of increase in compensation levels	2.75%
Expected long-term rate of return on assets	7.00%

As of December 31, 2012, the projected benefit obligation exceeded the fair value of plan assets, and required a positive pension adjustment of \$532,293 to net assets.

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THE BRONX-LEBANON HOSPITAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 10 - PENSIONS (continued)

Plan Assets

The following table sets forth by level, within the fair value hierarchy, the plan assets at fair value as of December 31, 2012:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Cash	\$ 975,036	\$ -	\$ 975,036
Money market funds	1,475,844	-	1,475,844
Common stock			
Energy	1,206,304	-	1,206,304
Materials	744,368	-	744,368
Industrials	1,751,976	-	1,751,976
Consumer discretionary	2,552,006	-	2,552,006
Consumer staples	1,767,145	-	1,767,145
Health care	1,531,400	-	1,531,400
Financials	3,756,580	-	3,756,580
Information technology	2,232,746	-	2,232,746
Mutual funds			
Fixed-income funds	46,348,075	-	46,348,075
Equity funds	44,927,006	-	44,927,006
Commingled funds			
Collective equity funds	-	36,436,192	36,436,192
Investment in limited partnership	-	6,412,307	6,412,307
	<u>\$ 109,268,486</u>	<u>\$ 42,848,499</u>	<u>\$ 152,116,985</u>

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THE BRONX-LEBANON HOSPITAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 10 - PENSIONS (continued)

Level 3 Gains and Losses

The Guggenheim Real Estate Plus Trust is part of the commingled funds which are considered Level 3 assets. The table below sets forth a summary of changes in the fair value of the Level 3 assets for the year ended December 31, 2012:

	<u>Plan's Portion, Guggenheim Real Estate Plus Trust</u>
Balance, beginning of year	\$ 802,740
Sales, issuances and settlements	(828,398)
Interest and dividends	7,162
Unrealized gains	24,413
Realized loss	<u>(5,917)</u>
Balance, end of year	<u>\$ -</u>

The Hospital Center's investment policies are designed to ensure adequate plan assets are available to provide future payments of pension benefits to eligible participants. Taking into account the expected long-term rate of return on plan assets, the Hospital Center formulates the investment portfolio composed of the optimal combination of equity, debt and real estate securities.

The expected returns on plan assets are developed in conjunction with actuaries and investment advisors, and take into account long-term expectations for future returns and investment strategy. Amounts are compared to historical averages for reasonableness.

Cash Flows

Contribution

The Hospital Center expects to contribute \$11,722,250 to its pension plan in 2013.

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THE BRONX-LEBANON HOSPITAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 10 - PENSIONS (continued)

Cash Flows (continued)

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, are expected to be paid as follows:

2013	\$ 10,444,000
2014	10,960,000
2015	11,330,000
2016	11,764,000
2017	12,171,000
2018-2022	66,680,000

NOTE 11 - UNEMPLOYMENT INSURANCE

The Center has elected the option of reimbursing the State Unemployment Insurance Fund for payments made to former employees. Unemployment insurance expense for self-insured plans in 2012 was \$467,180.

NOTE 12 - MALPRACTICE AND GENERAL LIABILITY INSURANCE

The Hospital Center maintains a combined professional liability and general liability program on an occurrence basis with its primary layer purchased through a New York State-licensed insurance company. In addition, the Hospital Center participates in a pooled professional and general liability excess program with certain other health care facilities (primarily hospitals). The participation is with captive and commercial insurance companies utilizing the occurrence-basis-type coverage.

The program consists of a primary layer in the amount of \$1,000,000 per claim and \$8,000,000 in the aggregate for professional liability and \$1,000,000 per claim and \$2,000,000 in the aggregate for general liability. The excess program includes coverage with combined limits of up to \$150,000,000 per claim and \$150,000,000 in the aggregate plus an additional \$25,000,000 excess specific to the Hospital Center.

In 1999, the Hospital Center acquired a claims-made policy and subsequently purchased a policy to cover the tail with initial layers of coverage of \$1,000,000 per claim and \$8,000,000 in the aggregate.

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THE BRONX-LEBANON HOSPITAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 12 - MALPRACTICE AND GENERAL LIABILITY INSURANCE (continued)

Prior to 1999, a self-insurance trust was established to cover the first layer of coverage for claims through December 31, 1998. The self-insurance liability represents the present value of the Hospital Center's anticipated exposure.

In addition, the Hospital Center received "Deemed" status from the Health Resource and Services Administration (HRSA) for Free Clinic Federal Tort Claims Act (FTCA) Medical Malpractice Insurance. This is a federal program that covers physician and hospital services within the Hospital Center's scope of the Section 330 grant from Bronx-Lebanon Integrated Services System, Inc.

NOTE 13 - DUE TO THIRD PARTIES

The Center is responsible to report to various third parties, among which are the Centers for Medicare and Medicaid Services ("CMS") and the New York State Department of Health ("DOH"). These agencies, as well as the New York State Office of Attorney General's Medicaid Fraud Control Unit ("MFCU"), the Internal Revenue Service, the New York State Department of Charities Registration, the New York State Office of Inspector General ("OIG"), and Office of Medicaid Inspector General ("OMIG") have the right to audit the Center. DOH, Bureau of Health Care Reimbursement and CMS have the right to audit fiscal as well as programmatic compliance, i.e., clinical documentation and physician certifications, among other compliance requirements, and adjust assigned rates of reimbursement accordingly.

The Secretary of Health and Human Services, in granting New York State the Medicare waiver for the years 1983-1985, stipulated that the Medicare increase in hospital costs will not exceed the national average in the three years of the waiver. If the percentage increase in New York hospital costs exceeds the national average, a payback will be required. It cannot be determined at this time if any payback is necessary.

The Hospital Center has, in addition, appealed various other reimbursement rates. The final outcome of these appeals is not determinable. Therefore, no other accrual for possible revenues has been recorded.

The Hospital Center is subject to audits by various government and third-party payors. Various interim and final reports have been submitted for settlement. The Hospital Center has extrapolated its potential liability and estimated the exposure at \$25,000,000. Management believes that they will be able to provide additional documentation to reduce the ultimate disallowance.

-continued-

THE BRONX-LEBANON HOSPITAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 13 - DUE TO THIRD PARTIES (continued)

Third-party rates are subject to the interpretation of laws and regulations as well as retroactive adjustments. As of December 31, 2012, estimated liabilities approximate \$14,800,000.

Timing differences between depreciation expense and third-party reimbursement have been accrued in the consolidated financial statements in the approximate amount of \$6,100,000.

Various rate enhancements have been provided for comprehensive outpatient programs, which were subject to various limitations. As of December 31, 2012, approximately \$2,500,000 has been accrued as an estimated liability.

Medicare provides advances (periodic interim payments) for patient services, which are subject to final settlements. The Hospital Center has filed Medicare cost reports with CMS. The Hospital Center's Medicare cost reports have been audited by the fiscal intermediary and settled through December 31, 2006. The Hospital Center has accrued potential final settlement liabilities for 2007 through 2012. As of December 31, 2012, approximately \$20,300,000 has been accrued.

In March 2012, the New York State budget, effective April 1, 2012, for the state's fiscal year 2012 was passed. The impact of the reimbursement reduction provisions in the state budget will dictate how the Hospital Center will be paid in the future for the delivery of health care services.

The major provisions of the budget include a global Medicaid spending cap on the state's share of Medicaid funding for all services at \$15.9 billion, elimination of the trend factor, a 2% across-the-board (ATB) reduction in Medicaid payments, expansion of the current potentially preventable readmission (PPR) policy to other potentially preventable negative outcomes that will reduce statewide Medicaid payments, the Medicaid payment of Medicare Part B co-insurance will be limited to Medicaid covered services and for outpatient clinics and diagnostic and treatment centers. The amount of total Medicare/Medicaid payments cannot exceed the total that would have been paid if the patient were a Medicaid-only patient, delinking the workers compensation and no-fault reimbursement rates from the Medicaid payment reductions.

The Hospital Center has recorded amounts due from NYHCRA, bad debt and indigent care pools. These amounts were subsequently received in 2013.

BSLCC and BLHWC have filed cost reports with CMS in connection with the Medicare program. These reports are subject to audit and retroactive adjustments. All settlements are recorded in the period when received. No provision has been recorded for possible negative audit adjustments arising from final settlements, since it is management's opinion that there will be no material adjustments. In addition, CMS has the right to audit billings and related documentation.

-continued-

THE BRONX-LEBANON HOSPITAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 13 - DUE TO THIRD PARTIES (continued)

The New York State budget, effective state fiscal year April 1, 2011 and continuing into state fiscal year 2012, includes Medicaid reimbursement reduction provisions. The major provisions of the 2012 budget include a global Medicaid spending cap on the state's share of Medicaid funding for all services at \$15.9 billion, elimination of the trend factor for a two-year period, and a 2% across-the-board (ATB) reduction for two years in Medicaid payments.

In lieu of the 2% across-the-board reductions in Medicaid payments, skilled nursing facilities (SNFs) experienced a 1.2% unreimbursed cash receipts assessment tax commencing New York State fiscal year April 1, 2011 through March 31, 2012. SNFs experienced a 1.0% unreimbursed cash receipts assessment tax through October 31, 2012, which was subsequently reduced on November 1, 2012 to 0.8%.

Commencing January 2012, nursing facility rates are based on statewide price, utilizing the 2007 RHCF cost report data, adjusted facility-specific and regional labor factors, as well as facility-specific Medicaid case mix. The facility-specific case mix at January 1, 2011 was utilized for the January 1, 2012 through June 30, 2012 rates. The facility-specific case mix at January 1, 2012 will be utilized for the July 1, 2012 through December 31, 2012 rates. The July 1, 2012 rates will be subject to a five percent (5%) positive or negative case mix adjustment. BLSCC has accrued this liability in these financial statements.

Medicaid per diem rates for skilled nursing facilities effective for the period April 1, 2009 through December 31, 2011 were updated utilizing the 2002 RHCF cost report data. Rates prior to April 1, 2009 were based on 1983 cost report data. In accordance with Section 2808 (a) (ii) of NYS Public Health Law, rates for the periods 2007 and 2008 were adjusted by a per diem add-on amount, reflecting the proportional amount of each facility's projected Medicaid benefit of the 2002 base year methodology. However, the aggregate total of the rate adjustments made pursuant to this subparagraph was capped at \$137.5 million for 2007 and \$167.5 million for 2008. The add-on that resulted from this provision was known as the transition add-on. The transition add-on for 2007 and 2008 was issued in September 2008 based on the estimated impact of the 2002 base year methodology for each facility. At the time the transition add-on was issued, DOH indicated that the transition add-on would be reconciled based on the actual impact of the 2002 base year methodology. Subsequently, DOH has indicated that the transition add-on will not be reconciled.

-continued-

THE BRONX-LEBANON HOSPITAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 13 - DUE TO THIRD PARTIES (continued)

During 2008, OMIG commenced conducting audits in connection with nursing facilities' billing compliance as it relates to Medicaid billing for nursing facility bed reservation days. In November 2009, an administrative judge ruled adverse to OMIG and in favor of another facility that challenged audit adjustments based on substantially similar alleged documentation requirements. Notwithstanding the ruling, OMIG has not yet indicated if it will pursue this issue any further. At this time, the ultimate outcome is unknown.

DOH increased nursing facility rates for the purposes of recruitment and retention through March 31, 2009. These rates are subject to audit.

Effective July 1, 2012, New York State's bed hold payment methodology was reduced retroactively for the period April 1, 2012 to March 31, 2013. This was implemented as a per diem reduction in BLSCC's 2013 Medicaid rates for the period of January 1, 2013 to March 31, 2013. BLSCC has recorded in these financial statements the effect of this reduction through December 31, 2012.

Medicare Part "A" services for the facility are reimbursed under a Prospective Payment System (PPS), which is a case mix system of mutually exclusive groups with varying prices. The groupings are based on patient assessment data, which are subject to audit.

Based on the successful litigation of the Medicaid Part "B" recoupment formula as issued by DOH, BLSCC has computed the Part B receivable/liability status through December 31, 2011 based on the DOH formula. The cost and other data included in the formula are subject to audit by DOH, OMIG and MFCU.

Effective September 1, 2009, a new payment methodology, Ambulatory Patient Groups (APGs), went into effect for most Medicaid outpatient services. APGs are a patient classification system designed to characterize the amount and type of resources used in an ambulatory care visit for patients with similar clinical characteristics. Use of APGs will result in different payments based on intensity of services.

As a federally qualified health center, the Center is entitled to supplemental reimbursement for the reduction in rates as a result of the conversion to APGs as well as the difference between rates paid by health maintenance organizations and the per diem Medicaid rates established by the State of New York. These amounts are reflected as due from third parties.

Effective January 1, 2013, the Center has opted for the Prospective Payment System (PPS), which is the reimbursement methodology at a fixed rate. The APG system was used in the prior periods.

-continued-

THE BRONX-LEBANON HOSPITAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 13 - DUE TO THIRD PARTIES (continued)

There are various proposals at the federal and state levels that could, among other things, significantly reduce reimbursement rates or modify reimbursement methods. The ultimate outcome of these proposals and other market changes cannot presently be determined. Future changes in Medicare and Medicaid programs and any reduction of funding could have an adverse impact.

NOTE 14 - FUNCTIONAL EXPENSES

The Hospital Center's expenses, grouped by functional classification, are as follows:

Health care services	\$ 606,728,119
General and administrative	96,221,384
Fund raising	40,877
Cost of annual event	<u>392,286</u>
Total expenses	<u>\$ 703,382,666</u>

NOTE 15 - CONCENTRATIONS

The Center is dependent on the State of New York for payment for Medicaid patients and uninsured patients. These groups represent a major portion of the patient population. The rate of payment is subject to adjustments based on the financial activity of other hospitals, interpretation of the Center's statistical data and the overall availability of funds.

The Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party-payor agreements. The mix of receivables and revenues from third-party payors is as follows:

	<u>Receivables</u>	<u>Revenues</u>
Medicaid	55%	68%
Medicare	28%	22%
Other third-party payors	17%	10%

Financial instruments which potentially subject the Center to a concentration of credit risk are cash accounts with financial institutions in excess of FDIC insurance limits.

-continued-

THE BRONX-LEBANON HOSPITAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 16 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts reported on the balance sheet for the Center's financial instruments approximate their fair value.

NOTE 17 - CONTINGENCIES

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

NOTE 18 - ACCRUED POSTRETIREMENT BENEFIT COSTS

The Hospital Center has a noncontributory postretirement health benefit plan which covers all employees who qualify for health benefits from New York State Nurses Association (NYSNA), which involves employment for a continuous period of 7 years immediately preceding retirement at age 65 or later or for a continuous period of 20 years immediately preceding retirement at ages 62 through 64. The following table sets forth the plan's combined unfunded status and amounts recognized in the balance sheet at December 31, 2012:

Benefit obligation at December 31, 2012	\$ (2,780,717)
Fair value of plan assets at December 31, 2012	<u>-</u>
Funded status	<u>\$ (2,780,717)</u>
Accrued benefit cost recorded	<u>\$ (2,780,717)</u>
Benefit cost	\$ 331,704
Employer contribution	59,505
Benefits paid	59,505

Weighted average assumptions as of December 31, 2012:

Discount rate	3.90%
Rate of compensation increase	N/A

-continued-

THE BRONX-LEBANON HOSPITAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 18 - ACCRUED POSTRETIREMENT BENEFIT COSTS (continued)

Cash Flows

Contributions

The Hospital Center expects to contribute \$83,100 to the plan in 2013.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, are expected to be paid as follows:

2013	\$ 83,100
2014	88,000
2015	98,300
2016	104,700
2017	111,200
2018-2022	659,300

NOTE 19 - CHARITY CARE

The total cost of charity care provided was approximately \$19,493,000 for the year ended December 31, 2012. The cost of charity care is estimated by management based on the ratio of cost to gross charges multiplied by the gross uncompensated charges associated with providing care to charity patients.

NOTE 20 - ENDOWMENT FUNDS

General

The Hospital Center has donor-restricted endowment funds established to support health care services and to provide fellowships to further clinical and scientific investigation in the field of medicine. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

-continued-

THE BRONX-LEBANON HOSPITAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 20 - ENDOWMENT FUNDS (continued)

Interpretation of Relevant Law

The Board of Trustees of the Hospital Center has adopted the New York Prudent Management of Institutional Funds Act (“NYPMIFA”). NYPMIFA moves away from the “historic dollar value” standard, and permits charities to apply a spending policy to endowments based on certain specified standards of prudence. The Hospital Center is now governed by the NYPMIFA spending policy, which establishes a maximum spending limit of 7% of the average of its previous five years’ balance. As a result of this interpretation, the Hospital Center classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standards of prudence prescribed by NYPMIFA.

Return Objectives, Strategies Employed and Spending Policy

The objective of the Hospital Center is to maintain the principal endowment funds at the original amount designated by the donor, while generating income. The investment policy to achieve this objective is to invest in low-risk securities. Interest earned in relation to the endowment funds is recorded as unrestricted, since it is spent in the year that it is earned.

Funds with Deficiencies

The Hospital Center does not have any funds with deficiencies.

Endowment Net Asset Composition by Type of Fund as of December 31, 2012

The endowment net asset composition of \$1,803,405 consists of permanently donor-restricted funds.

To support health care services (reported as operating income)	\$ 290,115
Fellowships to further clinical and scientific investigation in the field of medicine	<u>1,513,290</u>
	<u>\$ 1,803,405</u>

-continued-

THE BRONX-LEBANON HOSPITAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 20 - ENDOWMENT FUNDS (continued)

Changes in Endowment Net Assets for the Year Ended December 31, 2012

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year		\$ 1,803,405	\$ 1,803,405
Investment income	\$ 4,412		4,412
Amounts appropriated for expenditure	<u>(4,412)</u>	<u> </u>	<u>(4,412)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 1,803,405</u>	<u>\$ 1,803,405</u>

THE BRONX-LEBANON HOSPITAL CENTER

SCHEDULE 1

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2012

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) Passed through New York State Department of Health (Note 3)	10.557	C-025725	\$ <u>4,366,117</u>
Total U.S. Department of Agriculture			<u>4,366,117</u>
U.S. Department of Health and Human Services Training in General, Pediatric, and Public Health Dentistry	93.059		<u>229,442</u>
Maternal and Child Health Federal Consolidated Programs	93.110		<u>320,292</u>
AIDS Education and Training Centers Passed through Columbia University	93.145	HAD0071	<u>60,621</u>
Health Program for Toxic Substances and Disease Registry Passed through New York State Department of Health	93.161	C-021000	<u>19,536</u>
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers) Passed through Bronx-Lebanon Integrated Services System, Inc.	93.224	H80CS00625	<u>1,991,023</u>
Immunization Grants Passed through New York City Department of Health (Note 5)	93.268	GR101A	<u>2,041,660</u>
Affordable Care Act (ACA) Primary Care Residency Expansion Program	93.510		<u>785,173</u>

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THE BRONX-LEBANON HOSPITAL CENTER

SCHEDULE 1

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2012

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Health and Human Services (continued)			
Grants to States for Access and Visitation Programs	93.597		
Passed through New York State Division of Child Support Enforcement		C020781	\$ <u>6,202</u>
Head Start	93.600		<u>734,982</u>
ARRA - Grants to Health Center Programs	93.703		
Increased Demand for Services			
Passed through Bronx-Lebanon Integrated Services System, Inc.		H8BCS12370	18,342
Capital Improvement Project			
Passed through Bronx-Lebanon Integrated Services System, Inc.		C81CS13746	<u>14,379</u>
Total ARRA - Grants to Health Center Programs			<u>32,721</u>
ARRA - Health Information Technology Regional Extension Centers Program	93.718		
Passed through Fund for Public Health in New York		90RC0015	<u>46,838</u>
Grants for Primary Care Training and Enhancement	93.884		
Residency Training in Primary Care			292,981
Dental Faculty Development			344,525
Residency Training in General Dentistry			<u>454,446</u>
Total Grants for Primary Care Training and Enhancement			<u>1,091,952</u>
Health Care and Other Facilities	93.887		<u>15,259</u>
National Bioterrorism Hospital Preparedness Program	93.889		
Passed through New York State Department of Health		12450700	<u>68,609</u>

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THE BRONX-LEBANON HOSPITAL CENTER

SCHEDULE 1

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2012

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Health and Human Services (continued)			
HIV Emergency Relief Project Grants	93.914		\$ <u>1,370,549</u>
HIV Care Formula Grants	93.917		
Integrated Mental Health (CHAPS)			
Passed through Health Research, Inc.		3420	<u>346,697</u>
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease (Ryan White HIV/AIDS Program Part C)	93.918		<u>546,959</u>
Ryan White HIV/AIDS Dental Reimbursement and Community Based Dental Partnership Grants	93.924		<u>268,539</u>
Special Projects of National Significance	93.928		<u>141,361</u>
HIV Prevention Activities - Health Department Based	93.940		
Community Action for Prenatal Care			
Passed through Public Health Solutions		11-HRX-130 06-CON-130	339,172 <u>146,408</u>
Total HIV Prevention Activities - Health Department Based			<u>485,580</u>
Maternal and Child Health Services Block Grant to the States Passed through New York State Department of Health	93.994	C027524	<u>33,653</u>

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THE BRONX-LEBANON HOSPITAL CENTER

SCHEDULE 1

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2012

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Health and Human Services (continued)			
<u>Research and Development Cluster</u>			
Coordinated Services and Access to Research for Women, Infants, Children and Youth (Ryan White Program) Passed through Albert Einstein College of Medicine of Yeshiva University	93.153	H12HAD1065	\$ <u>147,532</u>
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243		<u>760,137</u>
ARRA - Trans-NIH Recovery Act Research Support Passed through Harvard School of Public Health	93.701	3U01HD052102-05S1	<u>29,966</u>
Allergy, Immunology and Transplantation Research AIDS Clinical Trial - IMPAACT HIV Prevention Trial Passed through Family Health International (FHI) ACTG Passed through George Washington University Osteoporosis in HIV Infection Passed through Columbia University Task Order 3 Start Study Passed through George Washington University HPTN Passed through Columbia University	93.855	U01-AI068619 5U01AI064503 R01AI0652000 M01-BR-005-0704 1U04FH1659	715,763 189,910 445,107 63,931 65,589 <u>425,116</u>
Total Allergy, Immunology and Transplantation Research			<u>1,905,416</u>

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THE BRONX-LEBANON HOSPITAL CENTER

SCHEDULE 1

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2012

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Health and Human Services (continued)			
<i>Research and Development Cluster (continued)</i>			
Child Health and Human Development Extramural Research Pediatric HIV/AIDS (PHACS) Passed through Harvard School of Public Health	93.865	5U01 HD052102	\$ <u>895,286</u>
Total Research and Development Cluster			<u>3,738,337</u>
Total U.S. Department of Health and Human Services			<u>14,375,985</u>
Total expenditures of federal awards			<u>\$ <u>18,742,102</u></u>

See independent auditor's report.

The accompanying notes are an integral part of this schedule.

THE BRONX-LEBANON HOSPITAL CENTER

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2012

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of The Bronx-Lebanon Hospital Center under programs of the federal government for the year ended December 31, 2012. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of The Bronx-Lebanon Hospital Center, it is not intended to and does not present the financial position, changes in net assets or cash flows of The Bronx-Lebanon Hospital Center.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

NOTE 3 - WOMEN, INFANTS, AND CHILDREN (WIC) PROGRAM

The total grant reported represents the value of food checks issued plus administrative costs. The value of the food checks is not reflected on the consolidated statement of activities. As state funds are commingled with the federal funds received by New York State, percentages were applied to determine the total amount of federal funds expended to be reported in this schedule. These percentages were supplied by the New York State Department of Health. The value of food checks issued plus administrative costs is as follows:

WIC food checks	\$ 3,689,273
Administrative	<u>676,844</u>
Total	<u>\$ 4,366,117</u>

-continued-

THE BRONX-LEBANON HOSPITAL CENTER
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2012

NOTE 4 - SUBRECIPIENTS

For federal awards received during the year ended December 31, 2012, there were no payments made to subrecipients.

NOTE 5 - NON-CASH ASSISTANCE

Of the federal expenditures presented in the Schedule, the Hospital Center received non-cash assistance as follows:

<u>Cluster/Program Title</u>	<u>Type</u>	<u>Federal CFDA Number</u>	<u>Amount</u>
Immunization Grants	Vaccines	93.268	\$ 2,041,660

THE BRONX-LEBANON HOSPITAL CENTER

CONSOLIDATED SCHEDULE OF UNRESTRICTED OPERATIONS -
CFDA 93.224 FUNDED PROGRAMS VS. OTHER PROGRAMS

YEAR ENDED DECEMBER 31, 2012

	CFDA 93.224 Funded Programs	Other Programs	Total
	<u> </u>	<u> </u>	<u> </u>
Operating revenues			
Patient service revenues (net of contractual allowances and discounts)	\$ 80,978,616	\$ 584,551,896	\$ 665,530,512
Provision for bad debts	<u>(9,952,221)</u>	<u>(30,691,816)</u>	<u>(40,644,037)</u>
Net patient service revenues less provision for bad debts	71,026,395	553,860,080	624,886,475
Grants	2,826,915 *	25,444,093	28,271,008
Auxiliary and other services	<u>341,574</u>	<u>17,248,340</u>	<u>17,589,914</u>
Total operating revenues	<u>74,194,884</u>	<u>596,552,513</u>	<u>670,747,397</u>
Operating expenses			
Salaries and wages	40,487,687	285,189,759	325,677,446
Employee benefits	15,054,056	94,369,630	109,423,686
Supplies and other	17,449,416	192,594,676	210,044,092
Interest		3,542,463	3,542,463
Depreciation and amortization	<u>1,034,047</u>	<u>25,759,340</u>	<u>26,793,387</u>
Total operating expenses	<u>74,025,206</u>	<u>601,455,868</u>	<u>675,481,074</u>
Gain (loss) from operations	<u>\$ 169,678</u>	<u>\$ (4,903,355)</u>	<u>\$ (4,733,677)</u>

* This amount consists of the following grants:

Consolidated health centers	\$ 1,991,023
Immunization grants	828,484
Other grants	<u>7,408</u>
	<u>\$ 2,826,915</u>

See independent auditor's report.

**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***

Independent Auditor's Report

**The Board of Trustees
The Bronx-Lebanon Hospital Center**

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 financial statements of The Bronx-Lebanon Hospital Center, which comprise the balance sheet as of December 31, 2012 and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 9, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Bronx-Lebanon Hospital 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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Bronx-Lebanon Hospital Center's internal control. Accordingly, we do not express an opinion on the effectiveness of The Bronx-Lebanon Hospital 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 a 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 Bronx-Lebanon Hospital Center's 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Loeb & Troper LLP

April 9, 2013

**Report on Compliance for Each Major Federal Program; and
Report on Internal Control Over Compliance**

Independent Auditor's Report

**The Board of Trustees
The Bronx-Lebanon Hospital Center**

Report on Compliance for Each Major Federal Program

We have audited The Bronx-Lebanon Hospital Center's 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 Bronx-Lebanon Hospital Center's major federal programs for the year ended December 31, 2012. The Bronx-Lebanon Hospital 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.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of The Bronx-Lebanon Hospital 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 Bronx-Lebanon Hospital 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 Bronx-Lebanon Hospital Center's compliance.

Opinion on Each Major Federal Program

In our opinion, The Bronx-Lebanon Hospital 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 Bronx-Lebanon Hospital 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 Bronx-Lebanon Hospital 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 Bronx-Lebanon Hospital 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.

Loeb & Troper LLP

August 29, 2013

THE BRONX-LEBANON HOSPITAL CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2012

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:		Unmodified	
Internal control over financial reporting:			
Material weakness(es) identified?	_____ yes	_____ <u>X</u> no	
Significant deficiency(ies) identified?	_____ yes	_____ <u>X</u> none reported	
Noncompliance material to financial statements noted?	_____ yes	_____ <u>X</u> no	

Federal Awards

Internal control over major programs:		Unmodified	
Material weakness(es) identified?	_____ yes	_____ <u>X</u> no	
Significant deficiency(ies) identified?	_____ yes	_____ <u>X</u> none reported	
Type of auditor's report issued on compliance for major programs:			
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	_____ yes	_____ <u>X</u> no	

Identification of major programs:

CFDA Number(s)/ Grant I.D.s	Name of Federal Program or Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
93.224	Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers)
93.268	Immunization Grants
93.510	Affordable Care Act (ACA) Primary Care Residency Expansion Program
93.600	Head Start
93.884	Grants for Primary Care Training and Enhancement

THE BRONX-LEBANON HOSPITAL CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2012

Section I - Summary of Auditor's Results (continued)

Dollar threshold used to distinguish between
Type A and Type B programs:

\$562,263

Auditee qualified as low-risk auditee?

 X yes

 no

Section II - Financial Statement Findings

No matters were reported.

Section III - Federal Award Findings and Questioned Costs

No matters were reported.

THE BRONX-LEBANON HOSPITAL CENTER
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2012

Section II - Financial Statement Findings

No matters were reported.

Section III - Federal Award Findings and Questioned Costs

2011-1 - Davis-Bacon Act - Prevailing Wage Rates/Weekly Certified Payrolls

Information on the Federal Program

U.S. Department of Health and Human Services - Grants for Training in Primary Care Training and Enhancement [CFDA Number 93.884]

Criteria or Specific Requirements

OMB Circular A-133 requires construction contracts and subcontracts that are greater than \$2,000 to have the required prevailing wage rate clauses included, and that the contractor or subcontractor submit, weekly, the required certified payrolls.

Condition/Context

We noted that a construction contract did not include the prevailing wage rate clauses, nor did the contractor submit the required weekly certified payrolls. Total federal expenditures related to this project were \$175,000 and total awards for this CFDA are \$1,716,007.

Questioned Costs

Not able to be determined.

Cause

The contractor was not made aware that this project was being funded by a federal award.

Effect

The Bronx-Lebanon Hospital Center was not in compliance.

Recommendation

We recommend that The Bronx-Lebanon Hospital Center ascertain that contractors or subcontractors comply with the requirements of the Davis-Bacon Act.

Follow up

There was no construction in the current year. The condition no longer exists.

THE BRONX-LEBANON HOSPITAL CENTER
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2012

Section III - Federal Award Findings and Questioned Costs (continued)

2011-2 - Matching, Level of Effort, Earmarking - Targeted Earmark

Information on the Federal Program

U.S. Department of Health and Human Services - ARRA - Head Start [CFDA Number 93.708]

Criteria or Specific Requirements

OMB Circular A-133 requires each Head Start agency to enroll 100 percent of its funded enrollment.

Condition/Context

We noted that the Head Start program only had 67 clients and did not meet the funded client population of 72.

Questioned Costs

Not able to be determined.

Cause

Employees left the program midyear, and in effect, the program did not have the capability to retain full enrollment.

Effect

The Bronx-Lebanon Hospital Center did not meet the targeted earmark and was not in compliance.

Recommendation

We recommend that The Bronx-Lebanon Hospital Center retains full enrollment for its Head Start program.

Follow up

The condition no longer exists.