Consolidated Financial Statements and Supplementary Information and Audit Reports and Schedules Related to Office of Management and Budget Circular A-133

The Brooklyn Hospital Center and Subsidiaries
Year Ended December 31, 2014
With Reports of Independent Auditors

Ernst & Young LLP

Building a better working world

The Brooklyn Hospital Center and Subsidiaries

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and Audit Reports and Schedules Related to Office
of Management and Budget Circular A-133

Year Ended December 31, 2014

Contents

Building a better
working world

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Report of Independent Auditors

The Board of Trustees
The Brooklyn Hospital Center

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The Brooklyn Hospital Center and Subsidiaries (the "Hospital"), which comprise the consolidated statements of financial position as of December 31, 2014 and 2013, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States 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 of material misstatement.

An audit involves performing procedures to obtain 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 consolidated financial position of The Brooklyn Hospital Center and Subsidiaries at December 31, 2014 and 2013, and the consolidated results of their operations, changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards for the year ended December 31, 2014, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated April 20, 2015, on our consideration of the Hospital'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 Hospital's internal control over financial reporting and compliance.

Ernst & Young LLP

April 20, 2015, except for the schedule of
expenditures of federal awards for which the
date is September 30, 2015.

The Brooklyn Hospital Center and Subsidiaries

Consolidated Statements of Financial Position

		December 31		
		2014		**2013**
		(In Thousands)		
Assets				
Current assets:				
Cash and cash equivalents	**$**	**22,294**	$	17,582
Investments		**1,896**		1,739
Assets limited as to use, current portion *(Note 4)*		**6,408**		8,520
Accounts receivable:				
Patient care, less allowance for uncollectible accounts (2014 – $22,587; 2013 – $18,085)		**45,903**		47,093
Other receivables, net		**7,125**		11,245
Total accounts receivable, net		**53,028**		58,338
Other current assets		**6,988**		6,262
Total current assets		**90,614**		92,441
Estimated receivable due from third-party payors		**13,152**		12,609
Assets limited as to use, net of current portion *(Note 4)*		**32,725**		29,615
Property, plant and equipment, net *(Note 5)*		**100,803**		92,430
Other noncurrent assets, net		**61,035**		57,590
Total assets	**$**	**298,329**	$	284,685
Liabilities and net assets				
Current liabilities:				
Short-term borrowings *(Note 6)*	**$**	**14,695**	$	15,195
Current portion of long-term debt *(Note 7)*		**8,495**		5,994
Accounts payable and accrued expenses		**33,073**		43,508
Accrued salaries and related liabilities		**21,132**		17,472
Due to affiliate *(Notes 1 and 9)*		**–**		1,042
Current portion of professional insurance liabilities *(Note 12)*		**6,007**		8,113
Total current liabilities		**83,402**		91,324
Long-term debt, net of current installments *(Note 7)*		**46,235**		49,484
Other noncurrent liabilities		**21,531**		20,366
Professional insurance liabilities *(Note 12)*		**31,658**		28,101
Estimated liability due to third-party payors		**9,316**		5,556
Total liabilities		**192,142**		194,831
Commitments and contingencies *(Notes 2, 6, 7, 8, 10, 11, and 12)*				
Net assets:				
Unrestricted		**95,781**		81,841
Temporarily restricted		**7,327**		4,934
Permanently restricted		**3,079**		3,079
Total net assets		**106,187**		89,854
Total liabilities and net assets	**$**	**298,329**	$	284,685

See accompanying notes.

The Brooklyn Hospital Center and Subsidiaries

Consolidated Statements of Operations

	Year Ended December 31 2014	2013
	(In Thousands)	
Revenue		
Net patient service revenue	**$ 378,472**	$ 369,115
Provision for bad debts	**(15,558)**	(16,418)
Net patient service revenue, less provision for bad debts	**362,914**	352,697
Other revenue *(Note 13)*	**40,010**	26,593
Total revenue	**402,924**	379,290
Expenses		
Salaries and wages	**212,362**	195,041
Employee benefits	**54,634**	51,261
Medical supplies	**37,210**	34,740
Other	**63,411**	61,523
Insurance	**10,322**	14,044
Depreciation and amortization	**14,181**	13,143
Interest and amortization of deferred financing fees	**2,825**	2,830
Total expenses	**394,945**	372,582
Income from operations	**7,979**	6,708
Grants received for purchase of fixed assets	**3,393**	7,610
Excess of revenue over expenses	**11,372**	14,318
Increase in unrestricted net assets before effect of discontinued operations	**11,372**	14,318
Gain on disposal of discontinued home health service division, net *(Note 2)*	**3,860**	–
Loss from operations of discontinued home health service division *(Note 2)*	**(1,292)**	(2,564)
Gain (loss) from discontinued operations	**2,568**	(2,564)
Increase in unrestricted net assets	**$ 13,940**	$ 11,754

See accompanying notes.

The Brooklyn Hospital Center and Subsidiaries

Consolidated Statements of Changes in Net Assets

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Assets
	(In Thousands)			
Net assets at January 1, 2013	$ 70,087	$ 2,788	$ 3,079	$ 75,954
Increase in unrestricted net assets	11,754	–	–	11,754
Contributions and other items	–	3,162	–	3,162
Net assets released from restrictions	–	(1,584)	–	(1,584)
Change in net realized and unrealized gains and losses on investments	–	568	–	568
Change in net assets	11,754	2,146	–	13,900
Net assets at December 31, 2013	81,841	4,934	3,079	89,854
Increase in unrestricted net assets	**13,940**	**–**	**–**	**13,940**
Contributions and other items	**–**	**4,357**	**–**	**4,357**
Net assets released from restrictions	**–**	**(2,282)**	**–**	**(2,282)**
Change in net realized and unrealized gains and losses on investments	**–**	**318**	**–**	**318**
Change in net assets	**13,940**	**2,393**	**–**	**16,333**
Net assets at December 31, 2014	**$ 95,781**	**$ 7,327**	**$ 3,079**	**$ 106,187**

See accompanying notes.

The Brooklyn Hospital Center and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2014	**2013**
	(In Thousands)	
Operating activities		
Change in net assets	**$ 16,333**	$ 13,900
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**14,181**	13,143
Amortization of deferred financing costs	**322**	300
Change in net unrealized gains and losses on investments	**(400)**	144
Changes in operating assets and liabilities:		
Patients' accounts receivable, net	**1,190**	2,806
Other receivables and other assets	**(238)**	(12,286)
Accounts payable and accrued expenses	**(10,435)**	(838)
Accrued salaries and related liabilities	**3,660**	169
Due to affiliate	**(1,042)**	371
Other noncurrent liabilities	**1,165**	2,502
Professional insurance liabilities	**1,451**	1,962
Estimated amounts due from and to third-party payors, net	**3,217**	(5,650)
Net cash provided by operating activities	**29,404**	16,523
Investing activities		
Net change in assets limited as to use and investments	**(755)**	1,105
Acquisitions of property, plant, and equipment	**(10,106)**	(12,814)
Net cash used in investing activities	**(10,861)**	(11,709)
Financing activities		
Proceeds from short-term borrowings	**–**	1,500
Repayments on short-term borrowings	**(500)**	–
Payments on long-term debt and capital lease obligations	**(13,196)**	(6,246)
Payment of deferred financing costs	**(135)**	–
Net cash used in financing activities	**(13,831)**	(4,746)
Net increase in cash and cash equivalents	**4,712**	68
Cash and cash equivalents, beginning of year	**17,582**	17,514
Cash and equivalents, end of year	**$ 22,294**	$ 17,582
Supplemental disclosure of cash flow information		
Interest paid	**$ 2,412**	$ 2,311
Supplemental disclosure of noncash investing and financing activities		
Equipment acquired through capitalized lease obligations	**$ 12,448**	$ 2,583
Property, plant and equipment acquired through construction payable	**$ –**	$ 4,944

See accompanying notes.

1. Organization

The Brooklyn Hospital Center (the "Hospital") is a 464-bed acute care voluntary, not-for-profit hospital. The Hospital was incorporated under New York State not-for-profit corporation law for the purpose of providing health care services primarily to residents of Brooklyn, New York. The Hospital is a membership corporation, with at least five members pursuant to its bylaws. The members elect the Hospital's Board of Trustees.

In 1998, the Hospital entered into a sponsorship agreement with New York-Presbyterian Healthcare System, Inc. (the "Network"), a tax-exempt organization. Under the sponsorship agreement, five members were appointed as the members of the Hospital. Two members were appointed by the Hospital and three members were appointed by the Network.

Effective September 5, 2014, the Hospital disaffiliated with the Network. Effective on that date, the Hospital's bylaws were amended to effectuate this change. The amended bylaws specify certain Trustees from the Hospital's Board of Trustees, as reconstituted post-disaffiliation, that will serve as the five members of the Hospital.

The Hospital entered into agreements to become an academic affiliate of The Icahn School of Medicine at Mount Sinai and a clinical affiliate of the Mount Sinai Hospital. The agreements were effective July 1, 2014.

The Brooklyn Hospital Foundation, Inc. (the "Foundation"), a subsidiary of the Hospital, is a not-for-profit corporation under Section 501(c)(3) of the Internal Revenue Code, whose main purpose is to solicit contributions on behalf of the Hospital.

Ashland Place Houses, Inc. ("Ashland"), a subsidiary of the Foundation, was originally formed pursuant to the New York State Urban Development Corporation Act and regulatory and other agreements with the New York State Urban Development Corporation ("UDC"). In October 2007, the Certificate of Incorporation of Ashland was amended and restated to reflect that Ashland was a not-for-profit corporation with its corporate member designated by the Executive Director of the Hospital and delete all further references to the UDC, as Ashland had complied with all UDC requirements. The member is now the Foundation.

Other subsidiaries of the Hospital include Ashland Place Holding Corp. and Park Ventures Housing Corp. Parkventures, Inc. is a subsidiary of the Foundation.

1. Organization (continued)

During December 2013, the Hospital formed Metropolis Assurance Company Ltd. (“Metropolis”), an exempt company incorporated in the Cayman Islands, whose main purpose is to act as a captive insurance company. Operations began January 1, 2014 (see Note 12).

The Hospital and the following physician practices operate professional corporations (collectively referred to as the “PCs”) for the purpose of operating faculty practices: Brooklyn Hospital Radiology, P.C.; TBHC Medical Services, P.C.; TBHC Emergency Medicine, P.C.; TBHC Physician Services, P.C.; TBHC Medical Testing Services, P.C.; TBHC Pediatric Services, P.C,; Brooklyn Hospital Women’s Healthcare Medical Providers, P.C.; Brooklyn Hospital ECG Medical Services, P.C. (inactive); and Brooklyn Hospital Nuclear Medicine, P.C. (inactive).

The accompanying consolidated financial statements include the accounts of the Hospital, the Foundation, Ashland, Metropolis and the PCs. All significant intercompany transactions and account balances have been eliminated in consolidation.

2. Summary of Significant Accounting Policies

The Hospital’s significant accounting policies are as follows:

Use of Estimates: The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, including estimated uncollectibles for accounts receivable for services to patients, and liabilities, including estimated payables to third-party payors and professional insurance liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the amounts of revenue and expenses reported during the period. There is at least a reasonable possibility that certain estimates will change by material amounts in the near term. Actual results could differ from those estimates.

Cash and Cash Equivalents: Cash equivalents include all highly liquid amounts invested in accounts with depository institutions which are readily convertible to known amounts of cash with original maturities of three months or less, and which are not included within assets limited as to use.

Investments: Investments consist of mutual funds. All investments are carried at fair value based on quoted market prices (see Note 15) and are classified as trading investments.

2. Summary of Significant Accounting Policies (continued)

Assets Limited as to Use: Assets so classified represent cash and investment securities whose use is restricted for specific purposes under internal designation or terms of agreements. The Hospital reports investments in equity securities with readily determinable fair values and all investments in debt securities at fair value based on quoted market prices (see Note 15). Investment income or loss (including realized gains or losses on investments, interest, and dividends) is included in other revenue in the accompanying consolidated statements of operations, unless the income or loss is temporarily or permanently restricted by explicit donor stipulations. All assets limited as to use investments are classified as trading securities.

Investment in Limited Liability Company: The Hospital accounts for its investment in HF Management Services, LLC, a limited liability company (the "LLC"), under the equity method of accounting. For the years ended December 31, 2014 and 2013, the Hospital recorded its equity in the income of the LLC of approximately $0.1 million and $4.9 million, respectively, and distributions received from the LLC of approximately $2.0 million in each year.

Additionally, the Hospital participates as a member in certain managed care insurance entities affiliated with the LLC (the "Healthfirst Programs"). Under health care services agreements with these entities, certain payments due to the Hospital as a health care provider to insured enrollees are retained by the Healthfirst Programs as additional capital contributions. The Hospital may be entitled to have its retained payments repaid in the future upon the dissolution of an entity in the Healthfirst Programs or similar circumstances, or with the approval of the Healthfirst Programs' governing board, subject to any restrictions by the State of New York, as detailed in such agreements. Total accumulated retained payments at December 31, 2014 and 2013, are approximately $21.0 million and $18.3 million, respectively, and are reported within other noncurrent assets in the accompanying consolidated statements of financial position.

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

The Hospital recognizes accounts receivable and patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the

2. Summary of Significant Accounting Policies (continued)

services rendered (see description of third-party payor payment programs below). For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of discounted rates under the Hospital's self-pay patient policy. Under the policy for self-pay patients, a patient who has no insurance and is ineligible for any government assistance program has his or her bill reduced to the amount which would be billed to a commercially insured patient. The impact of this policy on the financial statements is lower net patient service revenue, as the discount is considered a revenue allowance, and a lower provision for bad debt.

Patient service revenue for the years ended December 31, 2014 and 2013, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources based on primary insurance designation, is as follows:

	2014	2013
Third-party payors	**$ 369,417**	$ 359,775
Self-pay	**9,055**	9,340
Total all payors	**$ 378,472**	$ 369,115

Deductibles and copayments under third-party payment programs within the third-party payor amounts above are the patients' responsibility and the Hospital considers these amounts in its determination of the provision for bad debts based on collection experience.

Accounts receivable are also reduced by an allowance for doubtful accounts. The amount of the allowance for doubtful accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in health care coverage, and other collection indicators. Additions to the allowance for doubtful accounts result from the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts

2. Summary of Significant Accounting Policies (continued)

and a provision for bad debts, if necessary (for example, for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients, which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill, the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between discounted rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Hospital's allowance for doubtful accounts totaled approximately $22.6 million and $18.1 million at December 31, 2014 and 2013. The allowance for doubtful accounts for self-pay patients was approximately 82% and 83% of self-pay accounts receivable as of December 31, 2014 and 2013, respectively. Overall, the total of self-pay discounts and write-offs did not change significantly for the year ended December 31, 2014. The Hospital has not changed its charity care policy for the years ended December 31, 2014 and 2013.

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

Medicare Payments: Hospitals are paid for most Medicare inpatient and outpatient services under the national prospective payment system and other methodologies of the Medicare program for certain other services. Federal regulations provide for certain adjustments to current and prior years' payment rates, based on industry-wide and hospital-specific data. At December 31, 2014, Medicare cost reports of the Hospital have been settled for years through 2010.

Non-Medicare Reimbursement: In New York State, hospitals and all non-Medicare payors, except Medicaid, workers' compensation and no-fault insurance programs, negotiate hospitals' payment rates. If negotiated rates are not established, payors are billed at hospitals' established charges. Medicaid, workers' compensation and no-fault payers pay hospital rates promulgated by the New York State Department of Health. Effective December 1, 2009, the New York State payment methodology was updated such that payments to hospitals for Medicaid, workers' compensation and no-fault inpatient services are based on a statewide prospective payment system, with retroactive adjustments; prior to December 1, 2009, the

2. Summary of Significant Accounting Policies (continued)

payment system provided for retroactive adjustments to payment rates, using a prospective payment formula. Outpatient services also are paid based on a statewide prospective system that was effective December 1, 2008. Medicaid rate methodologies are subject to approval at the Federal level by the Centers for Medicare and Medicaid Services ("CMS"), which may routinely request information about such methodologies prior to approval. Revenue related to specific rate components that have not been approved by CMS is not recognized until the Hospital is reasonably assured that such amounts are realizable. Adjustments to the current and prior years' payment rates for those payors will continue to be made in future years.

Other Third-Party Payors: The Hospital also has entered into payment agreements with certain commercial insurance carriers and health maintenance organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge or days of hospitalization and discounts from established charges.

Additionally, the Healthfirst Programs compensate and share risk with the Hospital in accordance with the terms of health care services agreements. The agreements provide for an allocation to the Hospital's risk-sharing pool based on a percentage of the premium revenue received by the Healthfirst Programs under capitated payment arrangements for enrolled participants assigned to the Hospital based on the primary care physician selected by the participant. In the event health care service costs incurred by the Hospital, as determined in accordance with specified contractual payment methodologies, are in excess of the risk-sharing pool allocation, the Hospital shares the risk for costs up to stop-loss reinsurance thresholds. Revenue earned under the Healthfirst Programs was approximately 15% and 14% of the Hospital's net patient service revenue for the years ended December 31, 2014 and 2013, respectively.

In March 2014, CMS settled a series of lawsuits that challenged the calculation involving the use of the rural floor provision of the Balanced Budget Act of 1997. As a result, the Hospital received a cash settlement of approximately $2.5 million related to 2007 through 2011. Additionally, net patient service revenue for 2013 was increased by approximately $1.6 million for other net adjustments and settlements relating to prior years. For the year ended December 31, 2014, net adjustments and settlements related to prior years were not significant.

The Hospital has appealed certain items in audited cost reports. The outcome of these appeals is uncertain and, therefore, potential revenue associated with these appeals is not included within the accompanying consolidated statements of operations.

2. Summary of Significant Accounting Policies (continued)

Revenue from the Medicare and Medicaid programs accounted for approximately 79% and 78% of the Hospital's net patient service revenue for the years ended December 31, 2014 and 2013, respectively.

There are various proposals at the federal and state levels that could, among other things, significantly reduce payment rates or modify payment methods. The ultimate outcome of these proposals and other market changes, including the potential effects of health care reform that has been enacted by the federal and state governments, cannot presently be determined. Future changes in the Medicare and Medicaid programs and any reduction of funding could have an adverse impact on the Hospital.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that could have a material adverse effect on the accompanying consolidated financial statements. Noncompliance with such laws and regulations could result in fines, penalties, and exclusion from such programs.

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

Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time frame or purpose. Temporarily restricted net assets at December 31, 2014 and 2013, are available for capital improvements, research, education, and other health care related services. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions in the accompanying consolidated statements of operations and consolidated statements of changes in net assets.

2. Summary of Significant Accounting Policies (continued)

Permanently restricted net assets have been restricted by donors to be maintained by the Hospital in perpetuity. The Hospital follows the requirements of the New York Prudent Management of Institutional Funds Act ("NYPMIFA") as they relate to its permanently restricted contributions and net assets, effective upon New York State's enactment of the legislation in September 2010. Previously, the Hospital followed the requirements of the Uniform Management of Institutional Funds Act of 1972, although this change did not affect significantly the Hospital's policies related to permanently restricted endowments.

The Hospital has interpreted NYPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund, absent explicit donor stipulations to the contrary. The Hospital classifies as permanently restricted net assets the original value of the gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowment. Accumulated earnings of the permanent endowment are used in accordance with the direction of the applicable donor gift.

The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until the amounts are appropriated for expenditure in accordance with a standard of prudence prescribed by NYPMIFA.

The Hospital considers several factors in making a determination to appropriate or accumulate donor-restricted endowment funds, including but not limited to the following: the duration and preservation of the fund; the purposes of the Hospital and the donor-restricted endowment fund; general economic conditions; the possible effects of inflation and deflation; and the investment and spending policies of the Hospital.

2. Summary of Significant Accounting Policies (continued)

Changes in endowment net assets for the years ended December 31, 2014 and 2013, are summarized in the following table (in thousands):

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at January 1, 2013	$ 1,242	$ 3,079	$ 4,321
Investment return:			
Investment income	82	–	82
Net appreciation (realized and unrealized)	568	–	568
Total investment return	650	–	650
Endowment net assets at December 31, 2013	1,892	3,079	4,971
Investment return:			
Investment income	**84**	**–**	**84**
Net appreciation (realized and unrealized)	**234**	**–**	**234**
Total investment return	**318**	**–**	**318**
Endowment net assets at December 31, 2014	**$ 2,210**	**$ 3,079**	**$ 5,289**

Property, Buildings, and Equipment: Property, buildings, and equipment are recorded at cost or, if donated, at appraised or fair value at time of donation. Assets acquired under capitalized leases are recorded at the present value of the lease payments at the inception of the lease. Depreciation and amortization are determined by use of the straight-line method over the estimated useful lives of the assets or the lesser of the estimated useful life of the asset or lease term (ranging from 2 to 40 years). Such amortization is included in depreciation and amortization in the accompanying consolidated financial statements. Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. The carrying amount of assets and the related accumulated depreciation and amortization are removed from the accounts when such assets are disposed of, and any resulting gain or loss is included in operations.

Inventory: Inventory, included in other current assets, is stated at the lower of cost (first-in, first-out method) or market. Inventory is used in the provision of patient care and is not held for sale.

Deferred Financing Costs: Deferred financing costs are included in other noncurrent assets and are amortized using the effective interest method over the term of the related debt (accumulated amortization of approximately $0.7 million and $0.4 million at December 31, 2014 and 2013, respectively).

2. Summary of Significant Accounting Policies (continued)

Performance Indicator: The consolidated statements of operations include excess of revenue over expenses as the performance indicator. Transactions deemed by management to be ongoing, major or central to the provision of health care services are reported within income from operations.

Discontinued Operations: During September 2013, the Board of Trustees approved the sale of the Hospital's home health service division. The sale was approved by the NYSDOH and finalized in July 2014. A gain from sale of approximately $3.9 million is reported in the accompanying consolidated statements of operations. This transaction met the criteria to be reported as a discontinued operation initially in 2013. The Hospital reported losses from the operations of the discontinued home health service division of approximately $1.3 million and $2.6 million for the years ended December 31, 2014 and 2013, respectively, in the accompanying consolidated statements of operations.

Program Services: The Hospital's program services consist of providing health care and related services, including graduate medical education. For the years ended December 31, 2014 and 2013, expenses related to providing these services are as follows (in thousands):

	2014	2013
Health care and related services	**$ 323,299**	$ 302,425
Program support and general services	**71,646**	70,157
	$ 394,945	$ 372,582

Tax Status: The Hospital, the Foundation and the PCs, excluding inactive PCs, are Section 501(c)(3) organizations exempt from Federal income taxes under Section 501(a) of the Internal Revenue Code (the "Code"). The organizations are also exempt from New York State and City income taxes. Ashland was formed as a NYS not-for-profit. The provision for federal and state income taxes is immaterial to the consolidated financial statements as it has historically operated at a loss. Metropolis is not subject to taxes on income or gains in the Cayman Islands. Currently there are no direct taxes imposed on income in the Cayman Islands, and additionally Metropolis has received a tax exemption certificate for the next 30 years, in the event that taxes are imposed in the Cayman Islands at a future date.

2. Summary of Significant Accounting Policies (continued)

Reclassifications: Certain reclassifications have been made to 2013 balances previously reported in order to conform with the 2014 presentation. The reclassifications had no impact on the Hospital's net assets or changes in net assets.

Recent Accounting Pronouncement: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers*. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance in ASU 2014-09 supersedes the FASB's current revenue recognition requirements in Accounting Standards Codification Topic 605, *Revenue Recognition*, and most industry-specific guidance. The provisions of ASU 2014-09 are effective for the Hospital for annual reporting periods beginning after December 15, 2016. Early application is not permitted. The Hospital has not completed the process of evaluating the impact of ASU 2014-09 on its consolidated financial statements.

3. Concentrations of Credit Risk

At December 31, 2014 and 2013, the Hospital has substantially all of its cash deposited in one financial institution and amounts deposited exceed federal depository insurance limits. Investments in money market funds are not guaranteed by the U.S. government.

The Hospital is located in Brooklyn, New York. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Concentrations of gross accounts receivable from patients and third-party payors were as follows:

	December 31	
	2014	**2013**
Medicare	**13%**	14%
Medicaid	**11**	11
Managed care – governmental payors	**46**	41
Commercial and managed care insurers	**24**	24
All others	**6**	10
	100%	100%

4. Assets Limited as to Use

Assets limited as to use are required to be maintained for the following purposes (in thousands):

	December 31	
	2014	**2013**
Assets under debt agreement with third parties:		
Mortgage reserve fund *(Note 7)*	**$ 6,065**	$ 6,009
Debt service funds	**400**	407
	6,465	6,416
Temporarily restricted – accumulated endowment earnings *(Note 2)*	**2,210**	1,892
Permanently restricted *(Note 2)*	**3,079**	3,079
Designated for self-insurance *(Note 12)*	**24,914**	26,748
Designated and held by Metropolis *(Note 12)*	**2,465**	–
	39,133	38,135
Less current portion of assets limited as to use	**6,408**	8,520
	$ 32,725	$ 29,615

The required balance of the mortgage reserve fund for each year through the maturity of the related outstanding debt is as follows (in thousands):

2015–2023	$ 5,954
2024	4,875
2025	1,970

Investment return included in other revenue in the consolidated statements of operations for the years ended December 31, 2014 and 2013, consists of the following (in thousands):

	2014	**2013**
Interest and dividend income	**$ 616**	$ 527
Net realized gains and losses	**100**	203
Change in net unrealized gains and losses on investments	**235**	(579)
Total investment return	**$ 951**	$ 151

4. Assets Limited as to Use (continued)

Investment return related to temporarily restricted net assets totaled approximately $0.3 million and $0.7 million in 2014 and 2013, respectively.

5. Property, Buildings, and Equipment

A summary of property, buildings, and equipment and accumulated depreciation and amortization is as follows (in thousands):

	December 31	
	2014	**2013**
Land	**$ 895**	$ 895
Buildings and improvements	**129,852**	127,160
Fixed equipment	**72,155**	67,475
Movable equipment	**162,613**	145,354
	365,515	340,884
Less accumulated depreciation and amortization	**272,610**	259,174
	92,905	81,710
Construction-in-progress	**7,898**	10,720
	$ 100,803	$ 92,430

Substantially all property, buildings, and equipment have been pledged as collateral under various debt agreements (see Note 7).

Property, buildings, and equipment includes capitalized leases aggregating approximately $19.0 million and $14.9 million at December 31, 2014 and 2013, respectively, having accumulated amortization of approximately $6.2 million and $10.7 million at December 31, 2014 and 2013, respectively.

6. Short-Term Borrowings

On October 31, 2012, the Hospital refinanced a previous revolving line of credit agreement in connection with other debt restructuring activities (see Note 7(b)). Interest on the line of credit is currently payable at LIBOR plus 2.75% (3.0% and 3.49% at December 31, 2014 and 2013, respectively) or can be converted to the Prime rate plus 1.0%. The outstanding balance of advances under the line of credit is approximately $14.7 million and $15.2 million at December 31, 2014 and 2013, respectively. The line is collateralized by a security interest in a portion of the Hospital's accounts receivable balance, with a collection account for associated cash receipts.

The Hospital maintains a stand-by letter of credit totaling approximately $1.1 million. At December 31, 2014, no draw-downs had been made under the letter of credit agreement.

7. Long-Term Debt

A summary of long-term debt and obligations under capital leases is as follows (in thousands):

	December 31	
	2014	**2013**
FHA Section 241 insured mortgage note[a]	**$ 30,936**	$ 33,265
Term loans[b]	**11,000**	18,000
Capitalized leases payable at varying amounts of interest and principal through 2018, secured by the financed equipment	**12,794**	4,213
	54,730	55,478
Less current portion	**8,495**	5,994
Noncurrent portion	**$ 46,235**	$ 49,484

(a) On March 25, 1999, the Dormitory Authority of the State of New York ("DASNY") issued Federal Housing Administration ("FHA") Insured Mortgage Hospital Revenue Bonds, Series 1999 in the amount of approximately $73.8 million. Simultaneously, the Hospital executed a mortgage approximating $51.5 million, payable in monthly installments of approximately $0.3 million, representing principal and interest, at 5.29% scheduled through August 1, 2026. The mortgage is secured by certain of the Hospital's property and equipment. The FHA mortgage was final-endorsed by the FHA on May 17, 2012.

7. Long-Term Debt (continued)

In December 2012, the DASNY bonds were defeased and refinanced through the issuance of Government National Mortgage Association securities by a commercial lender. In connection therewith, DASNY assigned the Hospital's mortgage to the commercial lender. The mortgage continues to be insured under FHA. This transaction resulted in a reduction in the interest rate of the mortgage loan, effective December 18, 2012, to a fixed rate of 2.01% over the remaining term. All other material terms of the mortgage remained the same.

Pursuant to the mortgage agreement and related documents, the Hospital is required to maintain certain debt service funds, including a mortgage reserve fund (see Note 4). In addition, the Hospital is required to maintain certain financial ratios and financial conditions. In the event these ratios or conditions are not met, the Hospital may be required to obtain approval to engage in certain transactions. At December 31, 2014 and 2013, the Hospital was in compliance with the financial covenants.

(b) Effective October 31, 2012, the Hospital refinanced an existing revolving line of credit agreement (see Note 6) and term loan. The refinanced agreement resulted in the extinguishment of the prior term loan and the issuance of a $20.0 million term loan (the "Term Loan"). The Term Loan was scheduled to be due October 31, 2017, with principal and interest payable at LIBOR plus 3.25% (3.49% at December 31, 2013).

Effective October 31, 2014, the Hospital amended the Term Loan. The amended agreement included a principal repayment of $6.0 million on October 31, 2014, and quarterly payments of $375,000 commencing January 1, 2015 through October 1, 2016, quarterly payments of $500,000 commencing January 1, 2017 through October 1, 2019, and a final payment due upon maturity of $2.0 million. The amended loan matures October 31, 2019, and has interest payable at LIBOR plus 2.75% (2.9% at December 31, 2014).

The amended Term Loan and revolving line of credit are cross-collateralized by substantially all of the Hospital's property and accounts receivable. Under the credit agreement, the Hospital is required to maintain certain financial ratios and financial and other conditions and to obtain approval to incur additional debt above specified levels. At December 31, 2014 and 2013, the Hospital was in compliance with the financial covenants under the amended Term Loan.

7. Long-Term Debt (continued)

Required principal payments applicable to long-term debt and capital leases (excluding interest) for each of the next five years subsequent to December 31, 2014, are as follows (in thousands):

2015	$	8,495
2016		7,623
2017		8,057
2018		5,626
2019		4,576

The Hospital capitalized interest of approximately $0.2 million in each of 2014 and 2013.

8. Operating Leases

The Hospital has operating leases primarily for certain information systems, medical facilities, and office space. Rent expense under such leases was approximately $4.4 million and $4.8 million for the years ended December 31, 2014 and 2013, respectively.

Future minimum lease commitments under noncancelable operating leases with initial or remaining noncancelable terms in excess of one year as of December 31, 2014, are as follows (in thousands):

Year ending December 31:		
2015	$	2,991
2016		2,353
2017		1,940
2018		1,803
2019		1,803
Thereafter		9,365
	$	20,255

9. Related Party Transactions

Amounts due to affiliate at December 31, 2013, consisted of amounts payable to The New York and Presbyterian Hospital, an affiliate of the Network, and were related to allocated costs for shared services, accrued interest, and other payables. As described in Note 1, the Hospital is no

9. Related Party Transactions (continued)

longer affiliated with the Network. As part of the disaffiliation agreement with the Network, the Hospital received a $12.5 million transition payment from the Network (see Note 13). Additionally, amounts due from the Hospital to the Network and its affiliates aggregating approximately $1.4 million were forgiven. The Hospital and the Network also entered into a transition services agreement to allow for an orderly process for the disaffiliation.

10. Retirement Benefits

For employees not covered by multiemployer union plans, the Hospital maintains a defined contribution pension plan. The defined contribution plan offers base and matching contributions paid by the Hospital for eligible employees meeting certain criteria. Base contributions for eligible employees are at the discretion of the Hospital, determined annually. Matching contributions are computed at 1% of base salary if the employee voluntarily contributes at least 2% of the employee's salary to the plan. Expense under the Hospital's defined contribution plan totaled approximately $0.9 million and $0.3 million in 2014 and 2013, respectively.

The Hospital participates in two noncontributory defined benefit multiemployer pension plans that cover substantially all union employees. The Hospital's contributions to such plans are based upon rates required under the respective union contracts. Information at December 31, 2014, regarding the Hospital's share of accumulated plan benefits and plan net assets for these multiemployer union plans is not presently available. Total pension expense under these plans amounted to approximately $10.1 million and $9.8 million for the years ended December 31, 2014 and 2013, respectively.

In relation to the two multiemployer defined benefit pension plans that cover the Hospital's union-represented employees, the risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:

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

10. Retirement Benefits (continued)

The Hospital's participation in these plans for the years ended December 31, 2014 and 2013, is outlined in the table below. The information included in this table is as follows:

- The "EIN/Pension Plan Number" column provides the Employee Identification Number ("EIN") and the three-digit plan numbers.
- The Pension Plan Protection Act of 2006 ("PPA") zone status is based on information that the Hospital received from the plans and is certified by the plans' actuaries. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. Unless otherwise noted, the most recent PPA zone status available in 2014 and 2013 is for the plan's year-end at December 31, 2013 and 2012, respectively.
- The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan ("FIP") or a rehabilitation plan ("RP") is either pending or has been implemented.
- The column "Surcharge Imposed" indicates whether the Hospital was required to pay a surcharge to the plan.
- The last column lists the expiration dates of the collective-bargaining agreements to which the plans are subject.

The number of employees covered by the Hospital's multiemployer plans did not change significantly from 2013 to 2014. Contribution rates required to be paid to the plans have increased from 2013 to 2014. The Hospital was not identified in its plans' 2013 Forms 5500 as providing more than 5% of total plan contributions.

10. Retirement Benefits (continued)

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status 2014	Pension Protection Act Zone Status 2013	FIP/RP Status Pending Implemented	Contributions of the Hospital 2014	Contributions of the Hospital 2013	Surcharge Imposed	Expiration Date of Collective-Bargaining Agreement
					(In Thousands)			
The New York State Nurses Association Pension Plan	EIN 13-6604799 Plan 001	**Green**	Green	No	**$ 4,300**	$ 4,000	No	*
1199 SEIU Health Care Employees Pension Fund	EIN 13-3604862 Plan 001	**Green**	Green	No	**5,800**	5,700	No	9/30/2018

*The collective bargaining agreement with The New York State Nurses Association Pension Plan is being re-negotiated by the Hospital.

11. Commitments and Contingencies

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

At December 31, 2014, approximately 74% of the Hospital's employees are covered by collective bargaining agreements. Collective bargaining agreements covering such employees are set to expire at various dates through September 2018.

12. Professional Insurance Liabilities

All of the Hospital's outstanding malpractice exposures as of September 30, 2005, were settled as part of a bankruptcy plan of reorganization which became effective in October 2007. Effective October 1, 2005, the Hospital is self-insured for professional liability exposures and maintains a self-insurance trust for funding such exposures accruing on or after that date. The total estimated undiscounted professional liabilities for exposure since October 1, 2005, including amounts for asserted claims and for incidents that have been incurred but not yet reported, as of December 31, 2014 and 2013, aggregated approximately $41.2 million and $39.7 million, respectively. The actuarially determined present value of the professional liabilities for this period is approximately $36.2 million at December 31, 2014 and 2013, based on a discount rate

12. Professional Insurance Liabilities (continued)

of 3.0% and 3.5% at December 31, 2014 and 2013, respectively. Professional liabilities are discounted based on the expected timing of the actuarially estimated future payments under the program using an interest rate expected to be earned on related invested assets during such future periods. These estimates are reviewed and updated on an annual basis. As of December 31, 2014 and 2013, the self-insurance trust fund applicable to the self-insured period had a balance of approximately $24.9 million and $26.7 million, respectively. Beginning in April 2008, the Hospital has maintained excess coverage from a commercial carrier. Estimated excess professional liability insurance recovery receivables and related insurance claims liability totaled approximately $16.7 million and $15.0 million at December 31, 2014 and 2013, respectively, and are recorded within other noncurrent assets and liabilities in the accompanying consolidated statements of financial position. In addition, the Hospital maintains a commercial comprehensive general liability policy.

Metropolis began operations effective January 1, 2014, and provides professional liability coverage to certain of the Hospital's employed physicians. Metropolis provides coverage on an occurrence basis and purchases reinsurance at a specified attachment point. At December 31, 2014, the undiscounted liability totaled approximately $1.7 million and is reported in the accompanying 2014 statement of financial position at the actuarially determined present value of approximately $1.5 million, based on a discount rate of 3.5%. As of December 31, 2014, the investments held by Metropolis had a balance of approximately $2.5 million.

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

Professional liability claims have been asserted against the Hospital by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. There are known incidents that have occurred through December 31, 2014, that may result in the assertion of additional claims, and other claims may be asserted arising from services provided to patients since October 1, 2005. It is the opinion of the Hospital's management, based on prior experience and the advice of legal counsel and consulting actuaries, that any loss which may arise from these claims will not have a material adverse effect on its consolidated financial position or results of operations.

13. Other Revenue

Other revenue consists of the following for the years ended December 31, 2014 and 2013 (in thousands):

	2014	2013
Grant revenue	**$ 11,704**	$ 6,685
Rental income	**2,422**	2,432
Investment return *(Note 4)*	**951**	151
Undergraduate medical education income	**5,701**	5,731
Equity income in LLC	**60**	4,879
Cafeteria sales	**1,076**	985
Contributions	**1,528**	466
Electronic health records incentive payments	**727**	2,995
Net assets released from restrictions	**2,282**	1,584
Disaffiliation payment, net of disaffiliation costs	**12,350**	–
Other	**1,209**	685
	$ 40,010	$ 26,593

The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act ("HITECH"). The provisions were designed to increase the use of electronic health record ("EHR") technology and establish the requirements for a Medicare and Medicaid incentive payment program beginning in 2011 for eligible providers that adopt and meaningfully use certified EHR technology. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. Initial Medicaid incentive payments are available to providers that adopt, implement or upgrade certified EHR technology. In subsequent years, providers must demonstrate meaningful use of such technology to qualify for additional Medicaid incentive payments. Hospitals that do not successfully demonstrate meaningful use of EHR technology are subject to payment penalties or downward adjustments to their Medicare payments beginning in federal fiscal year 2015.

The Hospital uses a grant accounting model to recognize revenue for the Medicare and Medicaid EHR incentive payments. Under this accounting policy, EHR incentive payment revenue is recognized when the Hospital is reasonably assured that the EHR meaningful use criteria for the

13. Other Revenue (continued)

required period of time were met and that the grant revenue will be received. EHR incentive payment revenue totaling approximately $0.7 million and $3.0 million (Medicare: $0.5 million and $1.2 million; Medicaid: $0.2 million and $1.8 million for 2014 and 2013, respectively) for the years ended December 31, 2014 and 2013, respectively, is included in other revenue. Income from Medicare incentive payments is subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were calculated. Additionally, the Hospital's attestation of compliance with the meaningful use criteria is subject to audit by the federal government.

14. Charity Care, Other Uncompensated Services, and Community Service

The Hospital maintains documentation to identify and monitor the level of charity care it provides. This documentation includes, but is not limited to, the amount of charges forgone for services furnished to individuals with limited resources, either fully or in part, which may be discounted under certain sliding fee schedule arrangements, or deemed ultimately uncollectible. In addition, the Hospital provides outpatient clinic and emergency services to other indigent patients under the Medicaid program, which pays hospitals at levels less than the costs of the services provided.

Since the collection of amounts determined to qualify as charity care is not pursued, such services are not reported as patient revenue. The estimated cost of charity care includes the direct and indirect cost of providing such services and is estimated utilizing the Hospital's ratio of cost to gross charges, which is then multiplied by the gross uncompensated charges associated with providing care to charity patients. The estimated cost of charity care and other uncompensated care provided approximated $32.8 million and $33.0 million for the years ended December 31, 2014 and 2013, respectively.

The NYSDOH Hospital Indigent Care Pool (the "Pool") was established to help hospitals subsidize the cost of uncompensated care and is funded, in part, by a 1% assessment on hospital net inpatient service revenue. During each of the years ended December 31, 2014 and 2013, the Hospital recorded approximately $10.6 million in Pool distributions and paid approximately $1.8 million for the 1% assessment.

15. Fair Value Measurements

The Hospital utilizes various methods of calculating fair value of its financial assets and liabilities, when applicable. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are applied based on the unit of account from the Hospital's perspective. The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated).

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

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

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

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

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

15. Fair Value Measurements (continued)

The following table presents the financial instruments carried at fair value as of December 31, 2014 and 2013, by caption on the consolidated statements of financial position based upon the fair value hierarchy defined above:

	Level 1	Level 2	Level 3	Total
December 31, 2014				
Cash and cash equivalents	$ 22,294	$ –	$ –	$ 22,294
Investments:				
Cash and cash equivalents	63	–	–	63
Equity mutual funds	1,148	–	–	1,148
Fixed income mutual funds	685	–	–	685
Total investments	1,896	–	–	1,896
Assets limited as to use:				
Cash and cash equivalents	7,230	–	–	7,230
U.S. Treasury securities	11,416	–	–	11,416
U.S. governmental agencies securities	–	6,865	–	6,865
Corporate bonds	–	6,548	–	6,548
Equities:				
Equity mutual funds	3,593	–	–	3,593
Fixed income mutual funds	3,481	–	–	3,481
Total assets limited as to use	25,720	13,413	–	39,133
Total assets at fair value	$ 49,910	$ 13,413	$ –	$ 63,323

15. Fair Value Measurements (continued)

	Level 1	Level 2	Level 3	Total
December 31, 2013				
Cash and cash equivalents	$ 17,582	$ –	$ –	$ 17,582
Investments:				
Cash and cash equivalents	90	–	–	90
Equity mutual funds	1,043	–	–	1,043
Fixed income mutual funds	606	–	–	606
Total investments	1,739	–	–	1,739
Assets limited as to use:				
Cash and cash equivalents	7,548	–	–	7,548
U.S. Treasury securities	13,572	–	–	13,572
U.S. governmental agencies securities	–	4,973	–	4,973
Corporate bonds	–	7,213	–	7,213
Equities:				
Equity mutual funds	3,058	–	–	3,058
Fixed income mutual funds	1,771	–	–	1,771
Total assets limited as to use	25,949	12,186	–	38,135
Total assets at fair value	$ 45,270	$ 12,186	$ –	$ 57,456

Fair value for Level 1 assets is based upon quoted market prices. Level 2 assets consist of certain fixed income securities for which the fair value at each year end is estimated based on quoted prices and other valuation considerations (e.g., credit quality and prevailing interest rates).

The Hospital's long-term debt obligations, excluding capital leases, are reported in the accompanying consolidated statements of financial position at carrying value which totaled approximately $41.9 million and $51.3 million at December 31, 2014 and 2013, respectively. The fair value of these obligations at December 31, 2014 and 2013, as estimated based on quoted market prices for related securities, other valuation considerations and estimates such as discounted cash flows totaled approximately $40.7 million and $49.2 million, respectively. The fair value of the long-term debt obligations is classified as Level 2 in the fair value hierarchy.

16. Joint Venture

The Hospital is a participant in a joint venture, initially formed in October 2014, with a for-profit partner to operate urgent care physician practices. Operations of the practices are expected to commence later in 2015.

17. Subsequent Events

Subsequent events have been evaluated through April 20, 2015, which is the date the consolidated financial statements were issued. No subsequent events have occurred that require disclosure in or adjustment to the consolidated financial statements.

Supplementary Information and Audit Reports and Schedules Related to Office of Management and Budget Circular A-133

The Brooklyn Hospital Center and Subsidiaries

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2014

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	CFDA Number	Other Identifying Number(s)	Federal Expenditures
U.S. Department of Health and Human Services			
Direct program:			
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	6H76HA00172	$ 1,115,811
Pass-through programs from:			
The City of New York Department of Health and Mental Hygiene:			
Immunization Cooperative Agreements: Vaccines for Children Program *(Note 2)*	93.268		846,917
Pass-through program from Public Health Solutions/Pass-through program from New York-Presbyterian Healthcare System, Inc.:			
National Bioterrorism Hospital Preparedness Program	93.889	12-NYPHS-01/13-NYPHS-01	45,000
Subtotal pass-through programs from The City of New York Department of Health and Mental Hygiene			891,917
State of New York Department of Health:			
Maternal and Child Health Services Block Grant to the States	93.994	C-023841	50,163
The Research Foundation of State University of New York:			
Special Projects of National Significance	93.928	5H97HA15155 0500	23,962
The Trustees of Boston University:			
AIDS Education and Training Centers	93.145	U69HA23262-01-00/02	80,849
Subtotal pass-through programs			1,046,891
Total U.S. Department of Health and Human Services			2,162,702

The Brooklyn Hospital Center and Subsidiaries

Schedule of Expenditures of Federal Awards (continued)

Year Ended December 31, 2014

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	CFDA Number	Other Identifying Number(s)	Federal Expenditures
U.S. Department of Agriculture			
Pass-through program from:			
State of New York Department of Health:			
Special Supplemental Nutrition Program for Women, Infants and Children *(Note 3)*	10.557	C-025727	$ 27,562,123
U.S. Department of Housing and Urban Development			
Supplemental Loan Insurance: Federal Housing Administration Section 241 Insured Mortgage *(Note 4)*	14.151		*
Total expenditures of federal awards			$ 29,724,825

* Refer to Note 4 for amounts pertaining to loan program.

See accompanying notes.

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of The Brooklyn Hospital Center and Subsidiaries (the “Hospital”) and is presented on the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.*

Pass-through programs received by the Hospital may include, in addition to federal funds, support from other sources. The Schedule reflects only those expenditures that have been supported by federal funds. For such programs, determinations as to the level of federal funding have been made based on communications of funding levels provided by the pass-through agencies. In certain circumstances, the funding levels communicated are estimated and subject to finalization upon the completion of the budget period for the applicable program.

2. Vaccines for Children Program

During the year ended December 31, 2014, the Hospital participated in the City of New York Department of Health and Mental Hygiene – Vaccines for Children Program through the provision of vaccinations. The U.S. Department of Health and Human Services, the federal agency that sponsors this program under CFDA number 93.268, has determined that the vaccines administered are considered “property in lieu of money” and, therefore, should be reported as federal awards received by the Hospital for purposes of presentation in the accompanying Schedule.

3. Food and Nutritional Awards

During the year ended December 31, 2014, the Hospital participated in the State of New York Department of Health – Special Supplemental Nutrition Program for Women, Infants and Children (“WIC”) through the provision of nutritional counseling and the receipt and distribution of food vouchers. The U.S. Department of Agriculture, the federal agency that sponsors the WIC program, has determined that WIC food vouchers are considered “property in lieu of money” and, therefore, should be reported as federal awards received by the Hospital for the purposes of presentation in the Schedule. The amount reported in the accompanying Schedule for the WIC program under CFDA number 10.557 represents the federally funded value of food vouchers issued ($24,454,876) plus administrative costs ($3,107,247) for the year ended December 31, 2014. In addition to the federal funds received for the WIC program, in 2014 approximately $648,188 of the WIC program’s total administrative and nutritional counseling costs were funded by the State of New York Department of Health. Such amounts are excluded from the Schedule.

4. U.S. Department of Housing and Urban Development Mortgage Insurance Program

The Hospital has a mortgage loan insured under the provisions of the U.S. Department of Housing and Urban Development – Federal Housing Administration ("FHA") Section 241 mortgage insurance program. The U.S. Department of Housing and Urban Development ("HUD") has determined that the mortgage insurance program is to be considered a federal award (CFDA number 14.151) for purposes of compliance with U.S. Office of Management and Budget Circular A-133. At December 31, 2014 and 2013, the outstanding balance of the loan was $30,935,515 and $33,265,138, respectively.

Pursuant to the FHA mortgage agreement and related documents, the Hospital is required to maintain certain debt service funds, including a mortgage reserve fund. In addition, the Hospital is required to maintain certain financial ratios and financial conditions. In the event these ratios or conditions are not met, the Hospital may be required to obtain approval to engage in certain transactions. As described in Note 7 to the Hospital's consolidated financial statements, the Hospital was in compliance with the debt agreement provisions through December 31, 2014. The mortgage is collateralized by substantially all of the Hospital's property, buildings, and equipment and gross receipts derived from operations.

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

The Board of Trustees
The Brooklyn Hospital Center

We have audited, in accordance with auditing standards generally accepted in the United States 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 Brooklyn Hospital Center and Subsidiaries (the "Hospital"), which comprise the consolidated statement of financial position as of December 31, 2014, and the related consolidated statements of operations, changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 20, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital'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 Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

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

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of 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 result of that testing, and not to provide an opinion on 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.

Ernst & Young LLP

April 20, 2015

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Report of Independent Auditors on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133

The Board of Trustees
The Brooklyn Hospital Center

Report on Compliance for Each Major Federal Program

We have audited The Brooklyn Hospital Center and Subsidiaries' (the "Hospital") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Hospital's major federal programs for the year ended December 31, 2014. The Hospital'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 Hospital'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; 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 Hospital'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 Hospital's compliance.

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Opinion on Each Major Federal Program

In our opinion, the Hospital 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, 2014.

Report on Internal Control Over Compliance

Management of the Hospital 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 Hospital'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 Hospital'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.

Ernst + Young LLP

September 30, 2015

The Brooklyn Hospital Center and Subsidiaries

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2014

Section I – Summary of Auditor's Results

Financial Statements Section

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

Federal Awards Section

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

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

Identification of major federal programs:

CFDA Number(s)	Name of Federal Program
10.557	Special Supplemental Nutrition Program for Women, Infants and Children
14.151	Supplemental Loan Insurance: Federal Housing Administration Section 241 Insured Mortgage

Dollar threshold used to distinguish between Type A and Type B programs: $1,819,810

Auditee qualified as low-risk auditee? X yes _____ no

Section II – Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, fraud, noncompliance with provisions of laws, regulations, contracts and grant agreements, and abuse related to the consolidated financial statements for which *Government Auditing Standards* require reporting in a Circular A-133 audit.

There are no matters that are required to be reported.

Section III – Federal Award Findings and Questioned Costs

This section identifies the audit findings required to be reported by Circular A-133 section .510(a) (for example, material weaknesses, significant deficiencies and material instances of noncompliance, including questioned costs), as well as any abuse findings involving federal awards that are material to a major program.

There are no matters that are required to be reported.

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