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

The New York and Presbyterian Hospital
EIN: #13-3957095
Year Ended December 31, 2012
With Report of Independent Auditors

Ernst & Young LLP

The New York and Presbyterian Hospital

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

Year Ended December 31, 2012

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I. Financial Statements Section

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Report of Independent Auditors

The Board of Trustees
The New York and Presbyterian Hospital

Report on the Financial Statements

We have audited the accompanying financial statements of The New York and Presbyterian Hospital (the "Hospital"), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Ernst & Young

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The New York and Presbyterian Hospital at December 31, 2012 and 2011, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Change in Presentation of the Provision for Bad Debts

As discussed in Note 1 to the accompanying financial statements, in 2012 the Hospital adopted the provisions of Accounting Standards Update No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*, which resulted in a change to the presentation of the provision for bad debts on the statements of operations effective January 1, 2011. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Expenditures of Federal Awards for the year ended December 31, 2012, as required by US 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 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 audits 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. In our opinion, the information is fairly stated, in all material respects, in relation to the 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 30, 2013 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 30, 2013, except for the schedule of
expenditures of federal awards for which the
date is September 26, 2013

The New York and Presbyterian Hospital

Statements of Financial Position

	December 31	
	2012	**2011**
	(In Thousands)	
Assets		
Current assets:		
Cash, cash equivalents and short-term investments *(Note 13):*		
Cash and cash equivalents	**$ 173,938**	$ 226,882
Short-term investments	**770,773**	517,666
Total cash, cash equivalents and short-term investments	**944,711**	744,548
Patient accounts receivable, less allowance for uncollectibles (2012 – $210,835; 2011 – $215,668)	**443,941**	394,840
Other current assets	**61,062**	57,003
Assets limited as to use – current portion *(Notes 3, 5 and 13)*	**21,816**	22,075
Due from related organizations – net *(Note 10)*	**4,658**	–
Professional liabilities insurance recoveries receivable – current portion *(Note 8)*	**53,729**	48,393
Beneficial interest in net assets held by related organizations – current portion *(Note 7)*	**61,615**	59,089
Total current assets	**1,591,532**	1,325,948
Assets limited as to use – noncurrent *(Notes 3, 5 and 13):*		
Funded depreciation	**710,604**	597,012
Capital acquisition under lease agreements	**142**	438
Mortgage reserve funds under loan agreements	**134,377**	138,892
Total assets limited as to use – noncurrent	**845,123**	736,342
Property, buildings and equipment – net *(Note 4)*	**1,800,619**	1,794,501
Other noncurrent assets – net	**31,338**	81,444
Professional liabilities insurance recoveries receivable – noncurrent *(Note 8)*	**153,692**	150,133
Beneficial interest in net assets held by related organizations – noncurrent *(Note 7)*	**1,401,209**	1,270,558
Total assets	**$ 5,823,513**	$ 5,358,926

	December 31 2012	2011
	(In Thousands)	
Liabilities and net assets		
Current liabilities:		
Long-term debt – current portion *(Note 5)*	**$ 91,760**	$ 84,113
Accounts payable and accrued expenses	**289,977**	253,636
Accrued salaries and related liabilities	**202,380**	186,439
Due to related organizations – net *(Note 10)*	**–**	2,247
Pension and postretirement benefit liabilities – current portion *(Note 9)*	**11,384**	11,822
Professional liabilities – current portion *(Note 8)*	**53,729**	48,393
Other current liabilities *(Note 2)*	**101,165**	119,641
Total current liabilities	**750,395**	706,291
Long-term debt *(Note 5)*	**619,277**	696,303
Professional liabilities *(Note 8)*	**286,028**	282,847
Pension liability *(Note 9)*	**201,419**	253,459
Postretirement benefit liability *(Note 9)*	**27,901**	30,963
Deferred revenue *(Note 5)*	**4,813**	6,094
Other noncurrent liabilities *(Note 2)*	**244,280**	155,190
Total liabilities	**2,134,113**	2,131,147
Commitments and contingencies *(Notes 2, 5, 6, 8, 9, 10, 12 and 14)*		
Net assets:		
Unrestricted	**2,226,576**	1,898,132
Temporarily restricted – held by related organizations	**1,234,020**	1,116,955
Permanently restricted – held by related organizations	**228,804**	212,692
Total net assets	**3,689,400**	3,227,779
Total liabilities and net assets	**$ 5,823,513**	$ 5,358,926

See accompanying notes.

The New York and Presbyterian Hospital

Statements of Operations

	Year Ended December 31 2012	Year Ended December 31 2011
	(In Thousands)	
Operating revenues		
Net patient service revenue	**$ 3,670,801**	$ 3,452,618
Provision for bad debts *(Note 2)*	**(43,635)**	(41,635)
Net patient service revenue, less provision for bad debts	**3,627,166**	3,410,983
Other revenue *(Note 11)*	**220,459**	226,202
Total operating revenues	**3,847,625**	3,637,185
Operating expenses		
Salaries and wages	**1,756,107**	1,668,635
Employee benefits	**487,031**	448,031
Supplies and other expenses	**1,119,106**	1,062,860
Interest and amortization of deferred financing fees, including loss on extinguishment of debt *(Note 5)*	**55,949**	50,099
Depreciation and amortization	**234,808**	227,510
Total operating expenses	**3,653,001**	3,457,135
Operating income	**194,624**	180,050
Investment return *(Note 3)*	**99,394**	(11,850)
Excess of revenues over expenses before net medical resident tax refund and prior year reimbursement settlement	**294,018**	168,200
Net medical resident tax refund *(Note 14)*	**4,180**	540
Prior year reimbursement settlement *(Note 2)*	**27,714**	–
Excess of revenues over expenses	**325,912**	168,740
Other changes in unrestricted net assets:		
Distributions from New York-Presbyterian Fund, Inc. for the purchase of fixed assets *(Note 10)*	**47,280**	53,582
Change in pension and postretirement benefit liabilities to be recognized in future periods *(Note 9)*	**(44,748)**	(118,281)
Change in unrestricted net assets	**$ 328,444**	$ 104,041

See accompanying notes.

The New York and Presbyterian Hospital

Statements of Changes in Net Assets

		Temporarily Restricted –	Beneficial Interest in Temporarily and Permanently Restricted Net Assets Held by Related Organizations					
	Unrestricted	**Building and Equipment Replacement**	**Plant Replacement**	**Specific Purpose**	**Endowment Earnings**	**Total Temporarily Restricted**	**Permanently Restricted**	**Total Net Assets**
				(In Thousands)				
Net assets at January 1, 2011	$ 1,794,091	$ 1,023	$ 481,228	$ 426,233	$ 215,848	$ 1,123,309	$ 214,628	$ 3,133,051
Change in unrestricted net assets	104,041	–	–	–	–	–	–	104,041
Changes in beneficial interest in net assets held by related organizations *(Note 7)*	–	–	19,005	(3,021)	(22,338)	(6,354)	(1,936)	(8,290)
Net assets released from restrictions for operations	–	(1,023)	–	–	–	–	–	(1,023)
Change in net assets	104,041	(1,023)	19,005	(3,021)	(22,338)	(6,354)	(1,936)	94,728
Net assets at December 31, 2011	1,898,132	–	500,233	423,212	193,510	1,116,955	212,692	3,227,779
Change in unrestricted net assets	**328,444**	**–**	**–**	**–**	**–**	**–**	**–**	**328,444**
Changes in beneficial interest in net assets held by related organizations *(Note 7)*	**–**	**–**	**74,004**	**39,364**	**3,697**	**117,065**	**16,112**	**133,177**
Change in net assets	**328,444**	**–**	**74,004**	**39,364**	**3,697**	**117,065**	**16,112**	**461,621**
Net assets at December 31, 2012	**$ 2,226,576**	**$ –**	**$ 574,237**	**$ 462,576**	**$ 197,207**	**$ 1,234,020**	**$ 228,804**	**$ 3,689,400**

See accompanying notes.

The New York and Presbyterian Hospital

Statements of Cash Flows

	Year Ended December 31	
	2012	**2011**
	(In Thousands)	
Operating activities		
Change in net assets	**$ 461,621**	$ 94,728
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**234,808**	227,510
Amortization of deferred financing costs and mortgage discount, including loss on extinguishment of debt	**18,644**	5,605
Distributions from New York-Presbyterian Fund, Inc. for the purchase of fixed assets	**(47,280)**	(53,582)
Equity in earnings of common collective/commingled trusts and alternative investments	**(45,961)**	5,522
Net realized gains on sales of investments	**(9,227)**	(17,023)
Change in unrealized gains and losses	**(24,385)**	39,380
Changes in operating assets and liabilities:		
Patient accounts receivable	**(49,101)**	(287)
Other assets	**32,904**	(4,484)
Beneficial interest in net assets held by related organizations	**(133,177)**	8,290
Accounts payable and accrued expenses	**36,341**	22,857
Accrued salaries and related liabilities	**15,941**	17,421
Due to related organizations – net	**(6,905)**	3,943
Other liabilities	**70,614**	51,111
Professional liabilities and related insurance recoveries receivable	**(378)**	(10,503)
Pension and postretirement benefit liabilities	**(55,540)**	115,069
Deferred revenue	**(1,281)**	(1,673)
Net cash provided by operating activities	**497,638**	503,884
Investing activities		
Net purchases of short-term investments	**(253,107)**	(230,318)
Acquisitions of property, buildings and equipment, net	**(229,025)**	(228,775)
Net (purchases) sales of assets limited as to use	**(28,949)**	13,625
Net cash used in investing activities	**(511,081)**	(445,468)
Financing activities		
Repayments of long-term debt	**(85,410)**	(81,063)
Repayment related to refinancing of long-term debt	**(262,955)**	–
Proceeds related to refinancing of long-term debt	**262,955**	–
Payment of deferred financing costs	**(1,371)**	–
Distributions from New York-Presbyterian Fund, Inc. for the purchase of fixed assets	**47,280**	53,582
Net cash used in financing activities	**(39,501)**	(27,481)
Net (decrease) increase in cash and cash equivalents	**(52,944)**	30,935
Cash and cash equivalents at beginning of year	**226,882**	195,947
Cash and cash equivalents at end of year	**$ 173,938**	$ 226,882
Supplemental disclosure of non-cash investing and financing activities		
Assets acquired under capitalized lease obligations	**$ 11,901**	$ 32,125

See accompanying notes.

1. Organization and Significant Accounting Policies

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

The following is a summary of significant accounting policies:

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

Cash and Cash Equivalents and Short-term Investments: The Hospital classifies as cash equivalents all highly liquid investments with a maturity of three months or less when purchased which are not assets limited as to use. Investments that are readily marketable and that are not classified as assets limited as to use are considered short-term investments and are classified as current assets. Short-term investments are used for cash management purposes and consist of investments classified as cash and cash equivalents, fixed income and equity securities.

Receivables for Patient Care: Patient accounts receivable for which the Hospital receives payment under cost reimbursement, prospective payment formulae or negotiated rates, which cover the majority of patient services, are stated at the estimated net amounts receivable from payors, which are generally less than the established billing rates of the Hospital.

1. Organization and Significant Accounting Policies (continued)

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

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

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

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

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

1. Organization and Significant Accounting Policies (continued)

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

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

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

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

Assets Limited as to Use: Assets so classified represent investments whose use is restricted for specific purposes under internal designation or terms of agreements. Assets designated as mortgage reserve funds under loan agreements consist of U.S. government and mortgage and asset backed securities. Assets limited as to use which are internally designated for funded depreciation represent amounts that will be expended in future periods for acquisitions of property, buildings and equipment. Assets limited as to use required to meet current liabilities are reported as current assets.

1. Organization and Significant Accounting Policies (continued)

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

Financial Instruments: At December 31, 2012 and 2011, the Hospital's cash and cash equivalents include money market funds and interest bearing accounts that are not fully insured by the U.S. government.

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

Deferred Financing Costs: Deferred financing costs are included in other noncurrent assets and are amortized using the effective interest method over the term that the related debt is expected to be outstanding (see Note 5).

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

1. Organization and Significant Accounting Policies (continued)

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

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

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

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

Program Services: The Hospital's program services consist of providing health care and related services, including graduate medical education. For the years ended December 31, 2012 and 2011, expenses related to providing these services are summarized as follows (in thousands):

	2012	**2011**
Health care and related services	**$ 2,995,461**	$ 2,834,851
Program support, and general services	**657,540**	622,284
	$ 3,653,001	$ 3,457,135

1. Organization and Significant Accounting Policies (continued)

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

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

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

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

Change in Accounting Principle: In July 2011, the Financial Accounting Standards Board ("FASB") issued an accounting standard update related to the presentation and disclosure of patient service revenue, provision for bad debts, and the allowance for doubtful accounts. In accordance with this update, the Hospital is required to change the presentation of its statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue, similar to contractual allowances and discounts. Additionally, the Hospital is required to provide enhanced disclosure about its policies for recognizing revenue and assessing bad debts, as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. The Hospital adopted this accounting standard update as of January 1, 2012, and retrospectively applied the presentation of the provision for bad debt in the statement of operations to all periods presented. The enhanced disclosure requirements are required in the period of adoption and subsequent reporting periods (see Note 2). The Hospital's adoption of this update has no effect on the previously reported excess of revenue over expenses or on net assets.

2. Net Patient Service Revenue

Net Patient Service Revenue and Accounts Receivable

The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual or formula-driven rates for the services rendered (see description of third-party payor payment programs below). For uninsured and under-insured patients who do not qualify for charity care, the Hospital recognizes revenue on the basis of charges. Under the charity care policy, a patient who has no insurance or is under-insured and is ineligible for any government assistance program has his or her bill reduced to (1) the lesser of charges or the Medicaid diagnostic-related group for inpatient and (2) a discount from rates of the highest volume commercial payor for outpatient. The effect of this policy on the financial statements is lower net patient service revenue, as the discount is considered an allowance. Patient service revenue for the year ended December 31, 2012, net of contractual allowances and discounts (but before the provision for bad debts), recognized from these major payor sources based on primary insurance designation, is as follows (in thousands):

	Third-Party	Self-Pay	Total All Payors
Patient service revenue (net of contractual allowances and discounts)	$ 3,607,941	$ 62,860	$ 3,670,801

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

The allowance for doubtful accounts for self-pay patients was approximately 76% of self-pay accounts receivable as of December 31, 2012. The Hospital did not experience significant changes in its charity care policy in 2012.

2. Net Patient Service Revenue (continued)

Third-Party Payment Programs

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

> *Medicare Reimbursement*: Hospitals are paid for most Medicare patient services under national prospective payment systems and other methodologies of the Medicare program for certain other services. Federal regulations provide for adjustments to current and prior years' payment rates, based on industry-wide and Hospital-specific data.
>
> *Non-Medicare Reimbursement*: In New York State, hospitals and all non-Medicare payors (including Medicare and Medicaid managed care plans), except Medicaid, workers' compensation and no-fault insurance programs, negotiate hospitals' payment rates. If negotiated rates are not established, payors are billed at hospitals' established charges. Medicaid, workers' compensation and no-fault payors pay hospital rates promulgated by the New York State Department of Health. Payments to hospitals for Medicaid, workers' compensation and no-fault inpatient services are based on a statewide prospective payment system, with retroactive adjustments. Outpatient services also are paid based on a statewide prospective system. Medicaid rate methodologies are subject to approval at the Federal level by the Centers for Medicare and Medicaid Services ("CMS"), which may routinely request information about such methodologies prior to approval. Revenue related to specific rate components that have not been approved by CMS is not recognized until the Hospital is reasonably assured that such amounts are realizable. Adjustments to the current and prior years' payment rates for those payors will continue to be made in future years.

The Hospital has established estimates, based on information presently available, of amounts due to or from Medicare and non-Medicare payors for adjustments to current and prior years' payment rates, based on industry-wide and Hospital-specific data. Medicare cost reports, which serve as the basis for final settlement with the Medicare program, have been audited by the Medicare fiscal intermediary and settled through 2001. Other years and various issues remain open for audit and settlement as are numerous issues related to the New York State Medicaid program for prior years. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount when open years are settled, audits are completed and additional information is obtained. The current Medicaid, Medicare and other third-party

2. Net Patient Service Revenue (continued)

payor programs are based upon extremely complex laws and regulations that are subject to interpretation. Non-compliance with such laws and regulations could result in fines, penalties and exclusion from such programs. The Hospital is not aware of any allegations of non-compliance that could have a material adverse effect on its financial statements and believes that it is in compliance with all applicable laws and regulations.

During 2012 and 2011, the Hospital revised estimates made in prior years to reflect the passage of time and the availability of more recent information, such as settlement activity, associated with the related payment items. For the years ended December 31, 2012 and 2011, the net effect of the Hospital's revisions to prior year estimates resulted in net patient service revenue increasing by approximately $39.9 million and $32.5 million, respectively. The 2012 amount includes approximately $27.7 million related to the Medicare rural floor budget neutrality settlement which is reported in the accompanying 2012 statement of operations as a prior year reimbursement settlement.

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

The Hospital grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. Significant concentrations of patient accounts receivable at December 31, 2012 and 2011 are as follows:

	2012	2011
Medicare	**21%**	23%
Medicaid	**15**	18
Commercial carriers and health maintenance organizations	**58**	55
Self-pay patients	**6**	4
	100%	100%

For the years ended December 31, 2012 and 2011, revenue from the Medicare and Medicaid programs accounted for approximately 48% of the Hospital's net patient service revenue.

2. Net Patient Service Revenue (continued)

Uncompensated Care and Community Benefit Expense

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

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

The Hospital believes it is important to quantify comprehensively the benefits it provides to the community, which is an area of emphasis for not-for-profit health care providers. The costs of uncompensated care and community benefit activities are derived from various Hospital records. Amounts for activities as reported below are based on estimated and actual data, subject to changes in estimates upon the finalization of the Hospital's cost report and other government filings. The amounts reported below are calculated in accordance with guidelines prescribed by the Internal Revenue Service ("IRS"); 2011 estimates have been updated to reflect actual amounts. The net cost of charity care includes the direct and indirect cost of providing charity care services, offset by revenues received from indigent care pools and other subsidies. The cost is estimated by utilizing a ratio of cost to gross charges applied to the gross uncompensated charges associated with providing charity care. Funds received to offset bad debt and charity services totaled approximately $48.4 million and $48.3 million for the years ended December 31, 2012 and 2011, respectively, including approximately $47.2 million for each year from the indigent care pool under the New York State Medicaid program. The charity care component of the indigent care pool payments (approximately 65% and 69% for 2012 and 2011, respectively)

2. Net Patient Service Revenue (continued)

is estimated utilizing a ratio of charity care charges to total charity care and bad debt charges applied to the indigent care pool reimbursement.

Costs related to uncompensated care and community benefit activities are summarized for the years ended December 31, 2012 and 2011 as follows (in thousands):

	2012	2011
Charity care, net[a]	**$ 32,678**	$ 40,156
Means-tested programs[b]	**165,250**	158,147
Other community benefits[c] [d]	**307,015**	293,819
Total charity care and other community benefits	**$ 504,943**	$ 492,122

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

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

The Hospital makes available free care programs for qualifying patients under its charity care and financial aid policy. During the registration, billing and collection process, a patient's eligibility for free care funds is determined. For patients who do not receive free care and who are determined to be eligible for charity care in the form of discounted medical services under the Hospital's charity care and financial aid policy, care given but not paid for is classified as charity care. For patients who were determined by the Hospital to have the ability to pay but did not, the uncollected amounts are classified as provision for bad debt ($43.6 million in 2012 and $41.6 million in 2011). Distinguishing between bad debt and charity care is difficult in part because services are often rendered prior to full evaluation of a patient's ability to pay.

Annually, the Hospital accrues for potential losses related to its uncollectible accounts and the amounts that meet the definition of charity care (including free and discounted medical care) allowances.

2. Net Patient Service Revenue (continued)

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

Other community benefits include the following:

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

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

[d]*Health Professions Education:* Helping to prepare future health care professionals is a distinguishing characteristic of major academic not-for-profit teaching hospitals and constitutes a significant community benefit. The Hospital has a world renowned residency program and trains approximately 1,700 residents each year in all clinical programs (the programs are in two medical schools and cover 134 accredited graduate medical education programs). The Hospital is committed to offering quality graduate medical education programs as part of its education mission.

3. Investments

The composition and reported value of assets limited as to use, excluding assets held by related organizations (see Note 7), at December 31, 2012 and 2011 consist of the following (in thousands):

	2012	2011
Marketable securities, carried at fair value (see Note 13)	**$ 354,407**	$ 346,273
Investments accounted for using the equity method:		
Equities and bonds held in common collective/commingled trusts:		
U.S. equities	**88,601**	50,390
Corporate bonds	**15,794**	–
Non-U.S. equities	**100,952**	85,738
Non-U.S. government bonds	**11,961**	–
Total equities and bonds held in common collective/commingled trusts	**217,308**	136,128
Hedge funds	**142,809**	176,399
Private equity	**105,620**	66,678
Private real assets	**46,795**	32,939
Total investments accounted for using the equity method	**512,532**	412,144
Total assets limited as to use	**866,939**	758,417
Less current portion	**21,816**	22,075
Assets limited as to use – noncurrent	**$ 845,123**	$ 736,342

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

Investment return for the years ended December 31, 2012 and 2011 consisted of the following (in thousands):

	2012	2011
Interest and dividend income	**$ 19,821**	$ 16,029
Net realized gains on sales of investments	**9,227**	17,023
Equity in earnings of common collective/commingled trusts and alternative investment companies	**45,961**	(5,522)
Net change in unrealized gains and losses	**24,385**	(39,380)
	$ 99,394	$ (11,850)

4. Property, Buildings and Equipment

A summary of property, buildings and equipment at December 31, 2012 and 2011 follows (in thousands):

	2012	2011
Land and land improvements	**$ 41,082**	$ 40,799
Buildings, building improvements and fixed equipment	**3,267,909**	3,134,487
Movable equipment	**1,131,036**	1,103,434
Leasehold improvements	**10,110**	10,822
	4,450,137	4,289,542
Less accumulated depreciation and amortization	**2,770,806**	2,616,674
	1,679,331	1,672,868
Construction-in-progress	**121,288**	121,633
	$ 1,800,619	$ 1,794,501

The Hospital wrote off approximately $80.7 million of fully depreciated assets in 2012 (approximately $72.3 million of moveable equipment, $7.2 million of buildings, building improvements and fixed equipment and $1.2 million of leasehold improvements).

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

At December 31, 2012 and 2011, assets recorded in connection with capital leases aggregated approximately $141.2 million and $133.1 million, respectively, with accumulated amortization aggregating approximately $106.3 million and $94.7 million, respectively.

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

5. Long-Term Debt

A summary of long-term debt at December 31, 2012 and 2011 follows (in thousands):

	2012	2011
FHA Section 242 insured mortgage loan – 1998 – Downtown Campus[a]	**$ 299,658**	$ 326,439
FHA Section 242 insured mortgage loans – 2004 – Uptown Campus[b]	**95,893**	132,143
FHA Section 241 insured mortgage loan – 2007[c]	**263,162**	269,531
Capital leases[d]	**52,324**	56,433
	711,037	784,546
Less current portion	**91,760**	84,113
Less unamortized mortgage discount[c]	**–**	4,130
Long-term portion	**$ 619,277**	$ 696,303

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

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

In August 2009, the Hospital completed the final endorsement of the FHA Section 242 Insured Mortgage Loan – 1998. The remaining amortization schedule was finalized with principal and interest payments due through July 1, 2025. The terms of the mortgage were amended and, effective September 1, 2009, interest was to be paid at a fixed annual rate of 5.99% of the unpaid balance until the loan was fully paid. As a result of the final endorsement, DASNY released to the Hospital an additional $40.8 million of unused proceeds from the initial mortgage loan and the Hospital received approximately $2.9 million from the IRS related to prior years' bond proceeds arbitrage, all used for certain capital projects and as additional equity for the December 2010 transaction (see below). Additionally, the final endorsement resulted in the Hospital's debt escrow fund (approximately $12.5 million at final endorsement) being released for partial payment

5. Long-Term Debt (continued)

of the debt obligation at various future intervals. The Hospital includes the amount in other noncurrent assets, to be amortized over the remaining life of the mortgage using the effective interest method.

In December 2010, DASNY assigned the Hospital's mortgage to Prudential Huntoon Paige Associates, Ltd. ("Prudential"). In connection therewith, DASNY bonds were defeased and Prudential issued new Government National Mortgage Association bonds to fund the mortgage loan. This transaction resulted in a reduction in the interest rate of the mortgage loan, effective December 15, 2010, to a fixed rate of 4.22% over the remaining term and required the Hospital to make an equity contribution of $23.8 million ($15.1 million of the equity contribution was made with the remaining balance of amounts held in assets limited as to use as part of the final endorsement). The equity contribution is being amortized over the remaining life of the mortgage using the effective interest method and has a balance in noncurrent assets, net of accumulated amortization, of approximately $17.5 million and $20.5 million at December 31, 2012 and 2011, respectively. All other material terms of the mortgage remained the same.

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

(c) *FHA Section 241 Insured Mortgage Loan – 2007:* In September 2007, DASNY issued $296.1 million of The New York and Presbyterian Hospital FHA-Insured Mortgage Hospital Revenue Bonds, Series 2007. A portion of the proceeds of the bonds was used to fund a mortgage loan from DASNY to the Hospital. The maximum principal amount of $278.5 million, which incorporated a discount of $5.4 million, was used for the following: (i) constructing and equipping a cardiovascular center, (ii) constructing and equipping an advanced therapeutic services center, (iii) constructing and equipping an expansion of existing facilities to house approximately 48 medical surgical beds and (iv) constructing and equipping a combined heat and power facility. The mortgage is insured

5. Long-Term Debt (continued)

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

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

Estimated principal payments under the 1998, 2004 and 2007 FHA-insured mortgages (reflective of amounts obligated to date) for the next five years and thereafter consist of the following (in thousands):

2013	$ 74,888
2014	80,065
2015	48,015
2016	28,232
2017	29,304
Thereafter	398,209

5. Long-Term Debt (continued)

Pursuant to the mortgage agreements and related documents, the Hospital is required to maintain certain debt service funds, including mortgage reserve funds. In addition, the Hospital is required to maintain certain working capital, debt service coverage and other financial ratios and financial conditions, and to obtain approval to incur additional debt above specified levels if certain covenant requirements are not met. Through December 31, 2012 and 2011, the Hospital was in compliance with the financial covenants. The mortgages are collateralized by substantially all of the Hospital's property, buildings and equipment and gross receipts derived from operations.

(d) *Capital Leases:* Certain equipment leases are the equivalent of an installment purchase for purposes of financial statement reporting. The lenders hold a first security interest in the financed equipment. The Hospital has entered into several capital lease financing agreements with commercial lenders in conjunction with DASNY's tax-exempt lease program. The total amount outstanding related to the tax-exempt lease program is $21.6 million and $29.7 million at December 31, 2012 and 2011, respectively. Remaining funds available to be spent under these lease agreements are reported as assets limited as to use at December 31, 2012 (approximately $0.1 million). The Hospital entered into several other capital leases in 2012 totaling approximately $11.9 million. Interest rates related to the Hospital's outstanding capital lease obligations range from 1.7% to 6.6%.

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

2013	$ 18,236
2014	15,158
2015	9,545
2016	7,012
2017	4,116
Thereafter	1,199
	55,266
Less imputed interest	2,942
	$ 52,324

5. Long-Term Debt (continued)

Interest paid under all borrowings for the years ended December 31, 2012 and 2011 aggregated approximately $42.2 million and $49.3 million, respectively.

The Hospital has a $100.0 million unsecured line of credit agreement with a bank which expires on June 30, 2013. No amounts have been drawn on this credit facility.

6. Operating Leases

Total rental expense for the years ended December 31, 2012 and 2011 aggregated approximately $50.3 million and $55.4 million, respectively. Sublease income and contingent rentals were not significant. The Hospital leases certain properties owned by related entities (see Note 10).

Future minimum lease payments under non-cancellable operating leases with initial or remaining terms of one year or more at December 31, 2012 consisted of the following (in thousands):

2013	$ 40,692
2014	36,652
2015	34,588
2016	30,718
2017	29,055
Thereafter	71,543

7. Beneficial Interest in Net Assets Held by Related Organizations

The Hospital recognizes its accumulated interest in net assets held by Fund, Inc. and WCMC Fund, which were as follows at December 31, 2012 and 2011 (in thousands):

	2012	2011
Temporarily restricted:		
Fund, Inc.:		
Building and equipment replacement	**$ 574,237**	$ 500,233
Specific purpose health care services	**462,576**	423,212
Endowment earnings restricted for specific-purpose health care services	**197,207**	193,510
	1,234,020	1,116,955
Permanently restricted:		
Fund, Inc. – Investments to be held in perpetuity	**197,109**	182,619
WCMC Fund – Investments held in perpetual trust	**31,695**	30,073
	228,804	212,692
Total beneficial interest in net assets held by related organizations	**1,462,824**	1,329,647
Less current portion	**61,615**	59,089
	$ 1,401,209	$ 1,270,558

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

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

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

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

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

Assets held by Fund, Inc. and WCMC Fund for the benefit of the Hospital consist of pledges and investments (at fair value) that represent allocated amounts from Fund, Inc.'s pooled investments portfolio and WCMC Fund's interest in a perpetual trust. These assets are comprised of the following at December 31, 2012 and 2011 (in thousands):

	2012	2011
Marketable securities:		
Cash and cash equivalents	**$ 38,352**	$ 42,798
Fixed income:		
U.S. Government	**121,367**	118,354
Non-U.S. Government	**28,112**	5,678
Corporate	**29,377**	7,512
Mortgage and asset backed	**9,996**	26,049
Other	**2,138**	5,390
Equities:		
U.S. equities	**190,145**	149,660
Non-U.S. equities	**193,711**	179,620
Real assets	**25,670**	25,249
Total marketable securities	**638,868**	560,310
Hedge funds	**209,985**	215,758
Private equity	**160,550**	156,506
Private real assets	**61,742**	44,762
Total investments	**1,071,145**	977,336
Pledges receivable, net	**359,984**	322,238
	1,431,129	1,299,574
WCMC Fund:		
Investment held in perpetual trusts	**31,695**	30,073
Total beneficial interests in net assets held by related organizations	**1,462,824**	1,329,647
Less current portion	**61,615**	59,089
	$ 1,401,209	$ 1,270,558

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

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

At December 31, 2012, pledges receivable, net of present value discount of approximately $82.7 million based on a discount and valuation factor of 7.35%, are to be paid as follows (in thousands):

2013	$ 95,571
2014	68,481
2015	45,072
2016	24,819
2017	15,786
Thereafter	110,255
	$ 359,984

The discount and valuation allowance reflects the time value of money and credit risk.

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

Changes in the net assets held by Fund, Inc. and WCMC Fund on the Hospital's behalf are recognized in the Hospital's statements of changes in net assets for the years ended December 31, 2012 and 2011 and are summarized as follows (in thousands):

	Temporarily Restricted					
	Plant Replacement	Specific Purpose	Endowment Earnings	Total Temporarily Restricted	Permanently Restricted	Total Interest in Net Assets
Year ended December 31, 2012						
Gifts, bequests and similar items	**$ 85,301**	**$ 77,548**	**$ –**	**$ 162,849**	**$ 11,559**	**$ 174,408**
Net investment income and realized and unrealized gains and losses	**39,077**	**31,699**	**8,929**	**79,705**	**4,553**	**84,258**
Net assets released from restrictions for administrative and fund raising costs	**(6,090)**	**(5,152)**	**(4,579)**	**(15,821)**	**–**	**(15,821)**
Net assets released from restrictions for program expenditures	**(559)**	**(60,459)**	**(597)**	**(61,615)**	**–**	**(61,615)**
Net assets released from restrictions for distribution to the Hospital for the purchase of fixed assets	**(43,725)**	**(4,272)**	**(56)**	**(48,053)**	**–**	**(48,053)**
Changes in net assets	**$ 74,004**	**$ 39,364**	**$ 3,697**	**$ 117,065**	**$ 16,112**	**$ 133,177**
Year ended December 31, 2011						
Gifts, bequests and similar items	$ 70,541	$ 58,164	$ –	$ 128,705	$ 777	$ 129,482
Net investment income and realized and unrealized gains and losses	(1,171)	6,548	(17,469)	(12,092)	(2,713)	(14,805)
Net assets released from restrictions for administrative and fund raising costs	(5,816)	(5,158)	(4,837)	(15,811)	–	(15,811)
Net assets released from restrictions for program expenditures	(825)	(58,262)	(2)	(59,089)	–	(59,089)
Net assets released from restrictions for distribution to the Hospital for the purchase of fixed assets	(43,724)	(4,313)	(30)	(48,067)	–	(48,067)
Changes in net assets	$ 19,005	$ (3,021)	$ (22,338)	$ (6,354)	$ (1,936)	$ (8,290)

8. Insurance

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

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

The undiscounted estimate for modified claims-made professional liabilities and the estimate for incidents that have been incurred but not reported aggregated approximately $371.0 million and $362.0 million at December 31, 2012 and 2011, respectively, and is included in professional liabilities in the accompanying statements of financial position at the actuarially determined present value of approximately $330.7 million and $320.9 million, respectively, based on a discount rate of 3.0% for each of the years ended December 31, 2012 and 2011. The Hospital has recorded related insurance recoveries receivable of approximately $207.4 million and $198.5 million at December 31, 2012 and 2011, respectively, in consideration of the expected insurance recoveries for the total discounted modified claims-made insurance. The current portion of professional liabilities and the related insurance receivable represents an estimate of expected settlements and insurance recoveries over the next 12 months.

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

Workers' Compensation Insurance: Prior to April 1, 1999, the Hospital was self-insured for workers' compensation claims. Since April 1, 1999, the Hospital has purchased insurance through the New York State Insurance Fund in a program that effectively transfers risk from the Hospital. At December 31, 2012 and 2011, the estimate for self-insured workers' compensation

8. Insurance (continued)

claims and incurred but not reported liabilities prior to April 1, 1999 aggregated approximately $9.0 million and $10.4 million, respectively, and is included in professional liabilities in the accompanying statements of financial position.

In connection with the workers' compensation self-insurance programs, the Hospital maintains a letter of credit through a bank in the amount of approximately $11.9 million, which satisfies the collateral deposit requirement.

9. Pension and Similar Benefit Plans

Retirement Benefits: The Hospital provides pension and similar benefits to its employees through several plans, including various multiemployer plans for union employees (see Note 15), a qualified noncontributory defined benefit plan primarily for eligible non-union employees of the Hospital and a nonqualified defined benefit plan for certain executives (the non-union plans collectively referred to as the "Pension Plans"). Through December 31, 2008, the Hospital also provided pension and similar benefits to certain employees through a defined contribution plan. The employees who participated in the defined contribution plan became participants of the qualified defined benefit plan effective December 31, 2008, in a change that responded to certain regulatory requirements. The Hospital funds the noncontributory defined benefit plans in accordance with the minimum funding requirement of the Employee Retirement Income Security Act of 1974 ("ERISA"), plus additional amounts that the Hospital may deem appropriate from time to time. Amounts contributed to the Pension Plans are based on actuarial valuations.

The benefits for participants or their beneficiaries in the Pension Plans sponsored by the Hospital are based on the highest average compensation for five consecutive years during the last ten years of credited service, subject to ERISA limitations.

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

9. Pension and Similar Benefit Plans (continued)

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

The reconciliation of the beginning and ending balances of the benefit obligation and the fair value of the plans' assets for the years ended December 31, 2012 and 2011 is as follows (in thousands):

	Pension Plans		Postretirement Benefits	
	2012	**2011**	**2012**	**2011**
Benefit obligation				
Benefit obligation at beginning of year	**$ 878,043**	$ 760,085	**$ 34,547**	$ 33,578
Service cost	**48,653**	41,003	**267**	231
Interest cost	**41,188**	40,973	**1,236**	1,632
Actuarial losses (gains)	**71,615**	70,605	**(2,422)**	2,564
Effect of curtailment and settlement	**(887)**	(1,641)	**–**	–
Medicare Part D subsidy	–	–	**351**	272
Plan participant contributions	–	–	**235**	332
Benefits paid	**(36,428)**	(32,982)	**(3,328)**	(4,062)
Benefit obligation at end of year	**1,002,184**	878,043	**30,886**	34,547
Fair value of plan assets				
Fair value of plan assets at beginning of year	**616,346**	612,488	–	–
Actual return on plan assets	**58,849**	(4,262)	–	–
Hospital contributions	**154,486**	42,743	**3,093**	3,730
Plan participant contributions	**–**	–	**235**	332
Effect of settlement	**(887)**	(1,641)	**–**	–
Benefits paid	**(36,428)**	(32,982)	**(3,328)**	(4,062)
Fair value of plan assets at end of year	**792,366**	616,346	**–**	–
Funded status	**$ (209,818)**	$ (261,697)	**$ (30,886)**	$ (34,547)

9. Pension and Similar Benefit Plans (continued)

At December 31, 2012 and 2011, the funded status of the pension and postretirement benefits plans are reported in the accompanying statements of financial position as follows (in thousands):

	Pension Plans		Postretirement Benefits		Total	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Current liability	**$ 8,399**	$ 8,238	**$ 2,985**	$ 3,584	**$ 11,384**	$ 11,822
Noncurrent liability	**201,419**	253,459	**27,901**	30,963	**229,320**	284,422
	$ 209,818	$ 261,697	**$ 30,886**	$ 34,547	**$ 240,704**	$ 296,244

Included in other changes in unrestricted net assets for the years ended December 31, 2012 and 2011 are the following amounts that have not yet been recognized in net periodic pension and postretirement cost (in thousands):

	Pension Plans		Postretirement Benefits		Total	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Unrecognized prior service cost	**$ 2,369**	$ 3,009	**$ 232**	$ 322	**$ 2,601**	$ 3,331
Unrecognized actuarial loss	**367,465**	319,216	**7,463**	10,234	**374,928**	329,450
	$ 369,834	$ 322,225	**$ 7,695**	$ 10,556	**$ 377,529**	$ 332,781

The change in net assets from pension and postretirement benefit liabilities to be recognized in future periods as reported in the accompanying statements of operations is a decrease of approximately $44.7 million and $118.3 million for 2012 and 2011, respectively, and represents the combined change in the amounts for pension and postretirement benefits plans in the table above.

The prior service cost and actuarial loss included in changes in unrestricted net assets at December 31, 2012 that are expected to be recognized in net periodic pension and postretirement cost during the year ending December 31, 2013 are as follows (in thousands):

	Pension Plans	Postretirement Benefits
Unrecognized prior service cost	$ 610	$ 90
Unrecognized actuarial loss	27,566	463

9. Pension and Similar Benefit Plans (continued)

The accumulated benefit obligation for the Hospital's qualified and nonqualified pension plans totaled approximately $984.2 million and $860.4 million at December 31, 2012 and 2011, respectively. As of December 31, 2012 and 2011, the accumulated benefit obligation and the underfunded status of the nonqualified plan are as follows (in thousands):

	2012	2011
Accumulated benefit obligation	**$ 26,324**	$ 22,717
Underfunded status	**36,081**	30,314

Weighted-average assumptions used in determining the pension and postretirement benefits obligations as of December 31, 2012 and 2011 were as follows:

	Pension Plans		Postretirement Benefits	
	2012	2011	2012	2011
Discount rate	**4.00%**	4.75%	**3.50%**	4.25%
Rate of compensation increase	**3.50**	3.50	–	–

Net periodic pension cost and postretirement benefits cost for the years ended December 31, 2012 and 2011 consist of the following (in thousands):

	Pension Plans		Postretirement Benefits	
	2012	2011	2012	2011
Service cost	**$ 48,653**	$ 41,003	**$ 267**	$ 231
Interest cost	**41,188**	40,973	**1,236**	1,632
Expected return on plan assets	**(55,447)**	(52,581)	–	–
Net amortization of prior service cost	**640**	677	**90**	90
Recognized actuarial loss	**19,874**	9,819	**349**	600
Recognized actuarial loss due to settlement	**90**	544	–	–
Net periodic pension cost and postretirement benefits cost	**$ 54,998**	$ 40,435	**$ 1,942**	$ 2,553

9. Pension and Similar Benefit Plans (continued)

Weighted-average assumptions used in determining the net periodic pension and postretirement benefits cost for the years ended December 31, 2012 and 2011 were as follows:

	Pension Plans		Postretirement Benefits	
	2012	**2011**	**2012**	**2011**
Discount rate	**4.75%**	5.50%	**4.25%**	5.00%
Expected rate of return on plan assets	**7.75**	8.00	**–**	–
Rate of compensation increase	**3.50**	3.50	**–**	–

The overall expected long-term rate of return on plan assets is based on the historical returns of each asset class weighted by the target asset allocation. The target asset allocation has been selected consistent with the Hospital's desired risk and return characteristics. The Hospital reviews the expected long-term rate periodically, and based on the building block approach, updates the rate for changes in the marketplace. The market conditions in 2012 and 2011 and changes in the pension asset allocations were considered in the Hospital's evaluation of the expected long-term rate of return assumption.

In relation to postretirement benefits plans, the weighted-average annual assumed rate of increase per capita cost of covered benefits (i.e., health care cost trend rate) is assumed to start at 7.45% and decrease to 4.50% by 2023. The health care cost trend rate assumption may have an effect on the amounts reported. A one percent change in the assumed health care cost trend rate would have the following effects (in thousands):

	1% Increase	1% Decrease
Effect on total of service and interest cost components in health care cost trend rate	$ 47	$ (41)
Effect on postretirement benefit obligation as of as of December 31, 2012	1,407	(1,248)

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

9. Pension and Similar Benefit Plans (continued)

The overall objective of the investment policy of the defined benefit pension plan is to produce an asset allocation that will generate return annually in order to meet the expense and income needs and provide for sufficient annual asset growth. Funds are invested with a long-term (five years or greater) return objective. The defined benefit pension plan's investment policy includes the following asset allocation guidelines:

Asset Category	Strategic Asset Allocation Policy Target
Equities	33%
Alternative assets	46
Fixed income	21

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

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

The composition and reported value of the defined benefit pension plan assets at December 31, 2012 and 2011 are disclosed in Note 13.

The Hospital expects to contribute approximately $85 million to its defined benefit pension plans and $4 million to its other postretirement benefits plans in 2013.

9. Pension and Similar Benefit Plans (continued)

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

	Pension Plans	Post-Retirement Benefits	Medicare Part D Subsidies
Year:			
2013	$ 56,388	$ 3,265	$ 229
2014	56,767	3,253	224
2015	61,966	3,116	218
2016	71,705	3,003	210
2017	72,557	2,892	201
2018 to 2022	388,654	12,317	843

10. Related Organizations

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

10. Related Organizations (continued)

Amounts received by the Hospital from or amounts contributed by the Hospital to related support organizations, reflected in other revenue in the accompanying statements of operations for the years ended December 31, 2012 and 2011 are as follows (see Note 11) (in thousands):

	2012	2011
Distributions from (payments to) according to organization's bylaws:		
RCP, Inc.	**$ 14,388**	$ 14,270
RCP-East	**33,486**	29,684
RCP-West	**(92)**	(26)
	$ 47,782	$ 43,928

Fund, Inc. also pays certain program related costs on behalf of the Hospital (see Note 7). Fund, Inc. paid approximately $8.2 million and $7.9 million in 2012 and 2011, respectively, related to malpractice and postretirement costs incurred by the Hospital. Other distributions made by Fund, Inc. to the Hospital include approximately $47.3 million and $53.6 million in 2012 and 2011, respectively, for the purchase of fixed assets.

Services provided to the Hospital by related entities for the years ended December 31, 2012 and 2011 are as follows (in thousands):

	2012	2011
Fund, Inc. – insurance *(Note 8)*	**$ 65,974**	$ 64,404
RCP, Inc. – rentals	**1,648**	1,567
RCP-East – rentals	**11,419**	11,646
RCP-West – rentals	**309**	295
	$ 79,350	$ 77,912

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

10. Related Organizations (continued)

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

The Hospital received distributions of $5 million in each of 2012 and 2011 from Weill Cornell Imaging at New York-Presbyterian, a radiology and imaging joint venture affiliated with the Hospital and Weill Cornell Medical College.

The Hospital provides employee and other services to related entities for which the Hospital receives reimbursement and the costs of providing such services are recorded directly by those entities. Accordingly, such amounts are not included in the accompanying financial statements of the Hospital. Charges for such services are based on the approximate cost to provide the services and totaled approximately $47.3 million and $45.9 million for the years ended December 31, 2012 and 2011, respectively. The services consist of patient accounting, financial planning, information systems and telecommunications, general accounting, medical supplies, biomedical engineering services, house staff, ambulance services, institutional billings, engineering and other services.

10. Related Organizations (continued)

The following balances are due (to) from related organizations at December 31, 2012 and 2011 (in thousands):

	2012	2011
Fund, Inc.	**$ (2,296)**	$ (6,199)
RCP, Inc.	**2,279**	154
RCP-East	**2,765**	1,836
RCP-West	**183**	380
Network Recovery Services, Inc.	**(313)**	131
Silvercrest Extended Care Facility	**72**	79
The Brooklyn Hospital Center	**671**	402
The Hospital for Special Surgery	**606**	399
The New York Community Hospital of Brooklyn, Inc.	**93**	87
The New York Gracie Square Hospital, Inc.	**51**	141
The New York Hospital Medical Center of Queens	**4,625**	3,327
The New York Methodist Hospital	**741**	778
The New York-Presbyterian Community Health Plan, Inc.	**–**	(8)
New York-Presbyterian Healthcare System, Inc.	**(3,979)**	(4,023)
The New York Westchester Square Medical Center ("Westchester Square")	**3,065**	2,894
The Rogosin Institute	**168**	349
Nyack Hospital	**72**	59
	8,803	786
Less noncurrent portion included in other noncurrent assets, before valuation allowance	**(4,145)**	(3,033)
Due from (to) related organizations – net	**$ 4,658**	$ (2,247)

The Hospital periodically assesses the collectibility of amounts due from related organizations. The amounts included in other noncurrent assets are adjusted to state the receivables at their estimated net realizable value. Westchester Square filed for bankruptcy protection in December 2006. The balances due from certain related organizations are provided for through a valuation allowance.

11. Other Revenue

Other revenue consisted of the following for the years ended December 31, 2012 and 2011, (in thousands):

	2012	2011
Grants and contracts	**$ 29,561**	$ 19,888
Amounts received from related organizations, net (*Note 10*)	**52,783**	48,928
Rental of space	**35,025**	33,639
Cafeteria and vending	**10,440**	10,211
Net assets released from restrictions, including $61,615 and $59,089 in 2012 and 2011, respectively, included in changes in beneficial interest in net assets held by related organizations (*Note 7*)	**61,615**	60,112
Affiliation agreements	**5,791**	5,637
Other	**25,244**	47,787
	$ 220,459	$ 226,202

Electronic Health Records Incentive Payments

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

11. Other Revenue (continued)

The Hospital uses a grant accounting model to recognize EHR incentive revenues and, therefore, records EHR incentive revenue ratably throughout the incentive reporting period if reasonably assured it will meet the meaningful use objective for the required reporting period and that the grants will be received. The EHR reporting period for hospitals is based on the FFY, which runs from October 1 through September 30. The Hospital is reasonably assured that it has met the meaningful use objectives for the 2012 FFY and will continue to meet the objectives for 2013 FFY. In 2012, the Hospital recorded EHR incentive revenue of approximately $10.0 million (Medicare $6.0 million; Medicaid $4.0 million). EHR incentive revenues are included in other revenues in the accompanying statement of operations. EHR incentive receivables from Medicare and Medicaid, which are included in other current assets, were approximately $4.2 million (Medicare $0.4 million; Medicaid $3.8 million) at December 31, 2012. Income from incentive payments is subject to retrospective adjustment as the incentive payments are calculated using Medicare cost report data that is subject to audit. Additionally, the Hospital's compliance with the meaningful use criteria is subject to audit by the Federal government.

12. Commitments and Contingencies

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

At December 31, 2012, approximately 37% of the Hospital's employees were covered by collective bargaining agreements. Collective bargaining agreements covering all such employees are set to expire at various dates through 2015.

Effective January 1, 2009, the IRS issued final regulations for purposes of determining common control for qualified retirement plans sponsored by tax-exempt organizations. In general, tax-exempt entities that are under common control are treated as one entity for certain of the requirements of qualified plans. The regulations determine control based on facts and

12. Commitments and Contingencies (continued)

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

13. Fair Value Measurements

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

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

> *Level 1:* Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
>
> *Level 2:* Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.
>
> *Level 3:* Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

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

13. Fair Value Measurements (continued)

The following table presents financial instruments carried at fair value, excluding assets invested in the Hospital's defined benefit pension plan, as of December 31, 2012 and 2011 (in thousands):

	December 31, 2012			
	Total	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	**$ 269,008**	**$ 269,008**	**$ –**	**$ –**
Fixed income:				
U.S. government	**340,094**	**340,094**	**–**	**–**
Non-U.S. government	**13,127**	**13,127**	**–**	**–**
Corporate	**221,289**	**25,111**	**196,178**	**–**
Mortgage and asset backed	**152,207**	**5,126**	**147,081**	**–**
Other	**6,413**	**1,262**	**5,151**	**–**
Equities:				
U.S. equities	**152,568**	**152,568**	**–**	**–**
Non-U.S. equities	**106,194**	**106,194**	**–**	**–**
Real assets	**16,402**	**16,402**	**–**	**–**
Mutual funds	**21,816**	**21,816**	**–**	**–**
	$ 1,299,118	**$ 950,708**	**$ 348,410**	**$** –

	December 31, 2011			
	Total	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	$ 313,755	$ 313,755	$ –	$ –
Fixed income:				
U.S. government	286,707	286,707	–	–
Non-U.S. government	4,418	4,418	–	–
Corporate	106,507	3,534	102,973	–
Mortgage and asset backed	100,149	1,791	98,358	–
Other	4,119	706	3,413	–
Equities:				
U.S. equities	130,247	130,247	–	–
Non-U.S. equities	106,811	106,811	–	–
Real assets	16,032	16,032	–	–
Mutual funds	22,075	22,075	–	–
	$ 1,090,820	$ 886,076	$ 204,744	$ –

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

13. Fair Value Measurements (continued)

Financial instruments invested in the Hospital's defined benefit pension plan at fair value are classified in the table below in one of the three categories described above as of December 31, 2012 and 2011 (in thousands):

	December 31, 2012			
	Total	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	**$ 24,018**	**$ 24,018**	**$ –**	**$ –**
Fixed income:				
U.S. government	**95,874**	**95,874**	**–**	**–**
Non-U.S. government	**19,956**	**6,001**	**13,955**	**–**
Corporate bonds	**25,473**	**7,705**	**17,768**	**–**
Mortgage and asset backed	**17,914**	**17,914**	**–**	**–**
Other	**3,719**	**3,719**	**–**	**–**
Equities:				
U.S. equities[a]	**145,934**	**37,149**	**108,785**	**–**
Non-U.S. equities[b]	**143,131**	**11,256**	**131,875**	**–**
Real assets	**19,380**	**19,380**	**–**	**–**
Hedge funds[c]	**120,106**	**–**	**106,590**	**13,516**
Private equity[d]	**132,622**	**–**	**–**	**132,622**
Private real assets[e]	**44,239**	**–**	**7,023**	**37,216**
	$ 792,366	**$ 223,016**	**$ 385,996**	**$ 183,354**

	December 31, 2011			
	Total	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	$ 19,344	$ 19,344	$ –	$ –
Fixed income:				
U.S. government	70,134	70,134	–	–
Non-U.S. government	3,605	3,605	–	–
Corporate bonds	4,915	4,915	–	–
Mortgage and asset backed	16,718	14,088	2,630	–
Other	3,538	3,538	–	–
Equities:				
U.S. equities[a]	86,566	44,637	41,929	–
Non-U.S. equities[b]	116,506	22,394	94,112	–
Real assets	16,033	16,033	–	–
Hedge funds[c]	128,337	–	109,364	18,973
Private equity[d]	119,902	–	–	119,902
Private real assets[e]	30,748	–	8,092	22,656
	$ 616,346	$ 198,688	$ 256,127	$ 161,531

13. Fair Value Measurements (continued)

[a] Equity portfolios and common collective/commingled trusts invested in common stock of corporations primarily domiciled in the United States.

[b] Equity portfolios and common collective/commingled trusts invested in common stock of corporations primarily domiciled outside the United States, including Emerging Market countries.

[c] Hedge funds include long and short equity, multi-strategy, event driven and relative value funds invested with managers who invest with different strategies and typically employ some leverage. In long and short equity, fund managers create a portfolio of long positions in stocks expected to appreciate over time and short positions in stocks expected to depreciate. Event-driven managers create a portfolio designed to profit from corporate events such as mergers, spin-offs, defaults and bankruptcy. Relative value managers invest in long and short positions but typically have a more neutral net market position than long and short. Multi-strategy is a fund employing a variety of hedge fund strategies.

[d] Private equity investments include limited partnership investments in funds pursuing strategies in corporate buyouts, venture capital, growth equity, distressed and turnaround investments.

[e] Real estate and natural resources investments.

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

13. Fair Value Measurements (continued)

Following is a rollforward of the statement of financial position amounts for financial instruments classified by the Hospital in Level 3 of the fair value hierarchy defined above for the years ended December 31, 2012 and 2011 (in thousands):

	2012	2011
Balance, beginning of year	**$ 161,531**	$ 151,945
Total realized and unrealized gains or losses	**16,983**	11,377
Purchases	**53,153**	30,573
Transfers out	**(48,313)**	(32,364)
Balance, end of year	**$ 183,354**	$ 161,531
Change in unrealized gains related to financial instruments held at the reporting date	**$ 14,432**	$ 2,345

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

The following is a summary of investments (by major class) that have restrictions on the Hospital's ability to redeem its investments at the measurement date, any unfunded capital commitments and investments strategies of the investees as of December 31, 2012 (including investments accounted for using the equity method) (in thousands):

Description of Investment	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Hedge funds	$ 262,915	$ –	Monthly to tri-annually	45 to 180 days
Private equity	238,242	147,989	*	*
Private real assets	91,034	140,284	*	*
	$ 592,191	$ 288,273		

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

13. Fair Value Measurements (continued)

The carrying values of receivables, accounts payable and accrued expenses, other current assets and liabilities are reasonable estimates of fair value due to the short-term nature of these financial instruments. Carrying value approximates fair value for other noncurrent financial instruments, excluding long-term debt obligations and financial instruments included in the fair value tables. At December 31, 2012 and 2011, the fair value of long-term debt obligations totaled approximately $704.4 million and $765.6 million at December 31, 2012 and 2011, respectively, excluding capital leases and unamortized discount (see carrying value of long-term debt at Note 5). The fair value of long-term debt is classified as Level 2 in the fair value hierarchy, using techniques consistent with the market approach. Valuations for long-term debt are based on quoted market prices for related bonds.

14. Medical Resident Tax Refund

In March 2010, the IRS announced that, for periods ending before April 1, 2005, medical residents would be eligible for the student exception of Federal Insurance Contributions Act ("FICA") taxes. Under the student exception, FICA taxes do not apply to wages for services performed by students employed by a school, college or university where the student is pursuing a course of study. As a result, the IRS will allow refunds for institutions that file timely FICA refund claims and provide certain information to meet the requirements of perfection, established by the IRS, for their claims applicable to periods prior to April 1, 2005. Institutions are potentially eligible for medical resident FICA refunds for both the employer and employee portions of FICA taxes paid, plus statutory interest.

For the years ended December 31, 2012 and 2011, the Hospital has recorded estimated net revenue of approximately $4.2 million and $0.5 million, respectively, related to FICA medical resident refund claims that are expected to meet the IRS requirements to be eligible for refunds or for which refunds have been received in excess of receivables recorded previously. At December 31, 2012 and 2011, the Hospital has a receivable of approximately $2.1 million and $39.1 million, respectively, included in other noncurrent assets, and a liability of approximately $27.9 million and $23.7 million, respectively, included in other noncurrent liabilities, related to the portion of the refunds collected or to be collected on behalf of, and, therefore, to be remitted to the medical residents and related entities. The Hospital has established these estimates based on information presently available; the estimates are subject to change as the IRS adjudicates the claims.

15. Multiemployer Pension Plans

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

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

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

The Hospital's participation in these plans for the annual period ended December 31, 2012 is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employee Identification Number ("EIN") and the three-digit plan number, if applicable. Unless otherwise noted, the most recent Pension Protection Act ("PPA") zone status available in 2012 and 2011 is for the plan's year-end at December 31, 2011 and December 31, 2010, respectively. The zone status is based on information that the Hospital received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded and plans in the green zone are at least 80% funded. The "FIP/RP Status" column indicates plans for which a financial improvement plan ("FIP") or a rehabilitation plan ("RP") is either pending or has been implemented. The last column lists the expiration dates of the collective bargaining agreements to which the plans are subject.

15. Multiemployer Pension Plans (continued)

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status 2012	Pension Protection Act Zone Status 2011	FIP/RP Status	Contributions by the Hospital 2012	Contributions by the Hospital 2011	Surcharge Imposed	Expiration Date of Collective Bargaining Agreement
					(In Thousands)			
NYSNA	13-6604799/ Plan No. 001	**Green**	Green	No	**$ 19,835**	$ 19,159	No	12/31/2014
1199 SEIU	13-3604862/ Plan No. 001	**Green**	Green	No	**22,966**	20,301	No	4/30/2015
					$ 42,801	$ 39,460		

The Hospital was listed in the NYSNA plan's Forms 5500 as providing more than 5% of the total contributions during each of the plans 2011 and 2010 plan years. Forms 5500 are not yet available for the plan years ended in 2012.

16. Events Subsequent to December 31, 2012

Subsequent events have been evaluated through April 30, 2013, which is the date the financial statements were issued. No subsequent events have occurred that require disclosure in or adjustment to the financial statements.

II. Supplementary Information and Accompanying Reports and Schedules Related to OMB Circular A-133

The New York and Presbyterian Hospital

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2012

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 programs:				
Extramural Research Programs in the Neurosciences and Neurological Disorders – Research and Development Cluster	93.853	5U10NS05962-05	$ 216,125	(b)
Coordinated Services and Access to Research for Women, Infants, Children, and Youth: Children with AIDS Grants:				
Ryan White Care Act Title IV Adolescent Initiative	93.153	H12HA23059	251,346	
Ryan White Title IV Women, Infants, Children, Youth and Affected Family Members AIDS Healthcare	93.153	H12HA24850	99,541	
Subtotal CFDA Program Number 93.153			350,887	(a)
Special Projects of National Significance	93.928	H97HA08483	194,250	
Nurse Education, Practice Quality and Retention Grants	93.359	D11HP19246	288,337	
Child Health and Human Development Extramural Research	93.865	5U13HD063194-02	28,335	
Maternal and Child Health Federal Consolidated Programs:				
Children's Oral Healthcare Access Program	93.110	H47MC23168	16,195	
Healthy Tomorrows Partnership for Children Program	93.110	H17MC23550	9,996	
Subtotal CFDA Program Number 93.110			26,191	
Subtotal direct programs			1,104,125	
Pass-through programs from:				
Public Health Solutions:				
HIV Emergency Relief Project Grants:				
Medical Case Management	93.914	09-MCM-670	846,255	
Mental Health Services	93.914	07-MSV-670	429,711	
Subtotal CFDA program number 93.914			1,275,966	
HIV Prevention Activities – Health Department Based	93.940	11-HTR-670	323,671	
Subtotal pass-through programs from Public Health Solutions			1,599,637	
State of New York Department of Health:				
Injury Prevention and Control Research and State and Community Based Programs: Rape Crisis and Sexual Violence Prevention Program	93.136	C-026622	29,420	
Family Planning Services: Family Planning	93.217	C-027033	426,966	
Preventative Health and Health Services Block Grant:	93.991	C-026622	3,135	
Maternal and Child Health Services Block Grant to the States:				
Family Planning	93.994	C-027033	203,317	
School Based Health Clinics	93.994	C-022467	76,010	
Comprehensive Adolescent Pregnancy Prevention	93.994	C-026983	27,844	
Subtotal CFDA program number 93.994			307,171	

The New York and Presbyterian Hospital

Schedule of Expenditures of Federal Awards (continued)

Year Ended December 31, 2012

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 (continued)				
Pass-through programs from (continued):				
State of New York Department of Health:				
Medical Assistance Program:				
Comprehensive Adolescent Pregnancy Prevention	93.778	C-026983	$ 100,112	
Perinatal/Columbia	93.778	C-023913	29,248	
Perinatal/Cornell	93.778	C-023913	20,172	
Subtotal CFDA program number 93.778			149,532	
Subtotal pass-through programs from State of New York Department of Health			916,224	
New York City Department of Health and Mental Hygiene:				
Immunization Cooperative Agreements: Vaccines for Children Program	93.268		3,399,415	
Pass-through program from Fund for Public Health in New York, Inc./ Pass-through program from New York-Presbyterian Healthcare System, Inc.: National Bioterrorism Hospital Preparedness Program	93.889	1210NEWYO-012	236,405	
Subtotal pass-through programs from New York City Department of Health and Mental Hygiene			3,635,820	
State of New York Office of Alcoholism and Substance Abuse Services:				
Block Grants for Prevention and Treatment of Substance Abuse:				
Methadone Program	93.959	T001109	223,647	
Subtotal pass-through program from State of New York Office of Alcoholism and Substance Abuse Services			223,647	
The University of Texas Health Science Center at San Antonio:				
Cancer Centers Support Grants: Latin Cancer Network	93.397	5U54CA153511	79,908	
Subtotal pass-through program from The University of Texas Health Science Center at San Antonio			79,908	
St. Luke's Roosevelt Institute for Health Sciences:				
Coordinated Services and Access to Research for Women, Infants, Children, and Youth (Uptown Cares)	93.153	H12HA22704	177,363	(a)
Subtotal pass-through program from St. Luke's Roosevelt Institute for Health Sciences			177,363	

PRELIMINARY AND TENTATIVE FOR DISCUSSION ONLY

The New York and Presbyterian Hospital

Schedule of Expenditures of Federal Awards (continued)

Year Ended December 31, 2012

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 (continued)			
Pass-through programs from (continued):			
Health Research Inc.:			
Research on Healthcare Costs, Quality and Outcomes: Patient Safety Demonstration Project	93.226	4252-01	$ 19,910
Subtotal pass-through programs from Health Research Inc.			19,910
Subtotal pass-through programs			6,652,509
Total U.S. Department of Health and Human Services			7,756,634
U.S. Department of Education			
Pass-through program from:			
State of New York Education Department:			
Special Education Preschool Grants: Vocational and Educational Services for Individuals with Disabilities	84.173	C-010593	216,165
Total U.S. Department of Education			216,165
U.S. Department of Justice			
Pass-through programs from:			
State of New York Crime Victims Board:			
Crime Victim Assistance:			
Miscellaneous Crime Victims (DOVE) – Columbia	16.575	C-501096/C-501097	191,444
Miscellaneous Crime Victims (DOVE) – Cornell	16.575	C-501096/C-501097	105,828
Subtotal CFDA Program Number 16.575			297,272
Violence Against Women Formula Grants	16.588	C-564340	72,675
Total U.S. Department of Justice			369,947
U.S. Department of Housing and Urban Development			
Direct programs:			
Mortgage Insurance-Hospitals: Federal Housing Administration Section 242 Insured Mortgages *(Note 3)*	14.128		*
Supplemental Loan Insurance: Federal Housing Administration Section 241 Insured Mortgage *(Note 3)*	14.151		*
U.S. Department of Agriculture Food and Nutrition Service			
Pass-through program from:			
State of New York Department of Health:			
Special Supplemental Nutrition Program for Women, Infants, and Children *(Note 2)*	10.557	C-025768	14,977,808
Total U.S. Department of Agriculture Food and Nutrition Service			14,977,808

The New York and Presbyterian Hospital

Schedule of Expenditures of Federal Awards (continued)

Year Ended December 31, 2012

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	CFDA Number	Other Identifying Number(s)	Federal Expenditures	
U.S. Department of Homeland Security				
Direct program:				
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	01-UXNUL-30	$ 381,573	
Pass-through program from:				
Federal Emergency Management Agency:				
Assistance to Firefighters Grant	97.044	EMW-2010-FP-01777	332,848	
Total U.S. Department of Homeland Security			714,421	
U.S. Department of Defense				
Pass-through program from:				
U.S. Army Medical Research Acquisition Activity:				
Military Medical Research and Development – Research and Development Cluster	12.420	W81XWH-11-1-0423	190,822	(b)
Total U.S. Department of Defense			190,822	
Total expenditures of federal awards			$ 24,225,797	

(a) Expenditures for CFDA Program Number 93.153 total $528,250.
(b) Research and Development Cluster total $406,947.
* Refer to Note 3 for amounts pertaining to the insured loan program.

See accompanying notes.

The New York and Presbyterian Hospital

Notes to Schedule of Expenditures of Federal Awards

Year Ended December 31, 2012

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of The New York and Presbyterian Hospital (the "Hospital") and is presented on the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Awards for reimbursable expenditures involving the US Department of Homeland Security-Federal Emergency Management Agency ("FEMA") are reported by the Hospital on the Schedule in the year that FEMA approves the applicable Award Worksheet, pursuant to guidance issued by the US Department of Homeland Security.

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. 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 program.

2. Food and Nutritional Awards

During the year ended December 31, 2012, 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 United States Department of Agriculture, the federal agency that sponsors the WIC program under Catalog of Federal Domestic Assistance ("CFDA") Number 10.557, 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 purpose of presentation in the Schedule. The amount reported in the Schedule for the WIC program under CFDA Number 10.557 represents the federally funded value of food vouchers issued ($12,722,170) plus administrative costs ($2,255,638) for the year ended December 31, 2012. In addition to the federal funds received for the WIC program, in 2012, 16.1% of the WIC program's total administrative and nutritional counseling costs and none of the food voucher costs were funded by the State of New York Department of Health. Such amounts are excluded from the Schedule. The Hospital also receives funding for certain administrative and counseling costs associated with the WIC program from other federal sources as indicated on the Schedule.

3. U.S. Department of Housing and Urban Development Mortgage Insurance Programs

The Hospital has mortgage loans insured under the provisions of the US Department of Housing and Urban Development – Federal Housing Administration ("FHA") Section 242 and 241 mortgage insurance programs. The US Department of Housing and Urban Development ("HUD") has determined that the mortgage insurance programs are to be considered federal awards for purposes of compliance with US Office of Management and Budget Circular A-133. At December 31, 2012 and 2011, the outstanding balances of the loans were as follows:

	2012	2011
FHA Section 242 insured mortgage loan – 14.128	**$ 395,550,799**	$ 458,581,930
FHA Section 241 insured mortgage loan – 14.151	**263,161,960**	269,531,652
	$ 658,712,759	$ 728,113,582

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

4. Federal Emergency Management Agency Program

The Hospital incurred certain costs in 2011 and 2012 which are or may be reimbursable by FEMA under CFDA Number 97.036. Costs totaling $381,573 incurred in 2011 were approved by FEMA in 2012 and are included on the Schedule for the year ended December 31, 2012. The Company also incurred certain costs in 2012 which may be reimbursable by FEMA; however, no awards for such costs were approved by FEMA in 2012 and, accordingly, no expenditures are included on the Schedule for the year ended December 31, 2012.

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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 the Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Trustees
The New York and Presbyterian Hospital

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 New York and Presbyterian Hospital (the "Hospital"), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated April 30, 2013.

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.

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 30, 2013

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

The Board of Trustees
The New York and Presbyterian Hospital

Report on Compliance for Each Major Federal Program

We have audited The New York and Presbyterian Hospital's (the "Hospital") compliance with the types of compliance requirements described in the US 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, 2012. 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.

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, 2012.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with OMB Circular A-133, and which are described in the accompanying schedule of findings and questioned costs as item 2012-01, related to major program CFDA #93.268: Compliance Requirement N. Special Tests and Provisions. Our opinion on each major federal program is not modified with respect to these matters.

The Hospital's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Hospital's response was not subjected to auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Hospital is responsible for establishing and maintaining effective internal control over compliance with the 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 a 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2012-01 related to major program CFDA #93.268: Compliance Requirement N. Special Tests and Provisions, that we consider to be a significant deficiency.

The Hospital's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Hospital's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 26, 2013

The New York and Presbyterian Hospital

Schedule of Findings and Questioned Costs

Year Ended December 31, 2012

Part I – Summary of Auditor's Results

Financial Statements Section

Type of auditor's report issued:	Unmodified, with an explanatory paragraph related to a change in accounting principle

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?	X	Yes		None reported
Type of auditor's report issued on compliance for major programs:	Unmodified			
Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133?	X	Yes		No

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

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
14.128	U.S. Department of Housing and Urban Development: Mortgage Insurance-Hospitals – Federal Housing Administration Section 242 Insured Mortgages
14.151	U.S. Department of Housing and Urban Development: Supplemental Loan Insurance – Federal Housing Administration Section 241 Insured Mortgage
93.268	U.S. Department of Health and Human Services: Immunization Grants
93.778	U.S. Department of Health and Human Services: Medical Assistance Program
93.914	U.S. Department of Health and Human Services: HIV Emergency Relief Project Grants

Dollar threshold used to distinguish between Type A and Type B programs: $ 726,774

Auditee qualified as low-risk auditee? __X__ Yes ______ No

Part II – Financial Statement Findings Section

There were no findings noted related to the financial statements that are required to be reported under *Government Auditing Standards*.

Part III – Federal Award Findings and Questioned Costs Section

Finding Reference Number:	2012-01
Federal program information:	93.268 – U.S. Department of Health and Human Services: Immunization Grants
Criteria or specific requirement (including statutory, regulatory or other citation):	N. Special Tests and Provisions
Condition:	Under CFDA #93.268, the Hospital receives vaccines from the Vaccines for Children Program (the "Program"). The Program requires that adequate safeguards be established to prevent the risk of loss of vaccines from theft, expiration and improper storage temperature in the refrigerators and freezers. The Hospital has policies and procedures requiring that the temperature in the refrigerators and freezers be checked and recorded twice daily with corrective action to be taken when the recorded temperature is outside of the acceptable range. Corrective action includes rechecking the temperature within the next hour to verify that the temperature is back within range, During 2012, we noted that, in certain instances, the Hospital did not perform and/or have appropriate documentation to evidence the temperature in the refrigerators and freezers being rechecked if the temperature was outside the range.
Questioned costs:	None.

Part III – Federal Award Findings and Questioned Costs Section (continued)

Context:	In performing tests of internal control over compliance, we noted 11 out of a sample of 24 monthly temperature logs that had days with temperatures 1^o to 3^o outside of the acceptable range and no corrective action being performed and/or documented. In performing tests of compliance, we noted 12 out of a sample of 24 monthly temperature logs that had days with temperatures 1^o to 3^o outside of the acceptable range and no corrective action being performed and/or documented.
Effect:	Due to the lack of corrective action being taken for instances when the recorded temperature was outside of the acceptable range, the Hospital was not in compliance with the storage requirements of the Program (Compliance Requirement N. Special Tests and Provisions).
Cause:	In the exceptions noted, the Hospital personnel did not adhere to the policies and procedures established to recheck the temperature of the refrigerator and freezers within an hour if the temperature is outside the acceptable range.
Recommendation:	We recommend that the Hospital reinforce its policies and procedures related to proper storage of vaccines by providing additional training to those responsible for monitoring the refrigerator and freezer temperatures. Additionally, the Hospital should implement a policy for a more formal review process over the temperature logs to help ensure that appropriate procedures are performed in accordance with the grant agreement.

Part III – Federal Award Findings and Questioned Costs Section (continued)

Views of Responsible Officials and Planned Corrective Actions:	The Hospital will strongly reinforce the R150-Refrigerator/ Freezer Temperature Monitoring and Maintenance Policy. There will be a special focus on re-checking the temperatures when they are out of range and the appropriate process for follow-up. There will be immediate re-training of all appropriate staff as well as routine monitoring of the process. Disciplinary action of staff will be taken when they do not comply with the policy.
Conclusion:	Adherence to policies and procedures related to the vaccine storage should help mitigate the risk of noncompliance with the Program's special tests and provision requirements. The overall effect on the program was not material.

The New York and Presbyterian Hospital

Summary Schedule of Prior Audit Findings

Year Ended December 31, 2012

Finding Reference Number:	2011-01
Federal program information:	93.268 – U.S. Department of Health and Human Services: Immunization Grants
Condition:	Under CFDA #93.268, the Hospital receives vaccines from the Vaccines for Children Program (the "Program"). The Hospital is responsible for administering free vaccines to children meeting certain eligibility criteria of the Program. During 2011, certain vaccines were administered to patients who did not meet the eligibility criteria.
Status:	New policies and procedures were put in place after the Hospital became aware of this matter. No findings were reported in 2012 related to the eligibility criteria.

Finding Reference Number:	2010-01
Federal program information:	93.IC – Immunization Cluster 93.268 – U.S. Department of Health and Human Services: Immunization Grants 93.712 – U.S. Department of Health and Human Services; ARRA – Immunization
Condition:	Under the immunization cluster, the Hospital receives vaccines from the Vaccines for Children Program (the "Program"). The Hospital is responsible for administering free vaccines to children meeting certain eligibility criteria of the Program. During 2010, certain vaccines were administered to patients who did not meet the eligibility criteria.
Status:	New policies and procedures were put in place after the Hospital became aware of this matter; however, a similar finding was reported in 2011. No findings were reported in 2012 related to the eligibility criteria.

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