Consolidated Financial Statements and Supplementary Information and Audit Reports Related to OMB Circular A-133

St. Luke's-Roosevelt Hospital Center and Affiliates
Years Ended December 31, 2014
With Report of Independent Auditors

Ernst & Young LLP

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St. Luke's-Roosevelt Hospital Center and Affiliates

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Years Ended December 31, 2014

Contents

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Report of Independent Auditors

The Board of Trustees
Mount Sinai Health System, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of St. Luke's-Roosevelt Hospital Center and Affiliates (SLR), which comprise the consolidated statement of financial position as of December 31, 2014, and the related consolidated statements of operations, changes in net assets (deficit), and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of St. Luke's-Roosevelt Hospital Center and Affiliates as of December 31, 2014, and the consolidated results of their operations, changes in their net assets (deficit), and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Report of Other Auditors on December 31, 2013 Financial Statements

The consolidated financial statements of SLR for the year ended December 31, 2013 were audited by other auditors who expressed an unmodified opinion on those statements on March 28, 2014.

Supplementary Information

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

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we also have issued our report dated April 22, 2015, on our consideration of SLR'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 SLR's internal control over financial reporting and compliance.

Ernst & Young LLP

April 22, 2015, except for the schedule of
expenditures of federal awards for which the
date is October 30, 2015

St. Luke's-Roosevelt Hospital Center and Affiliates

Consolidated Statements of Financial Position

	December 31	
	2014	2013
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 72,973**	$ 59,930
Receivables for patient care, less allowance for doubtful accounts of $152,271 in 2014 and $133,683 in 2013	**107,485**	139,574
Grants, contracts, and other receivables	**4,561**	6,042
Inventories	**12,133**	12,133
Prepaid expenses and other current assets	**2,046**	3,336
Due from third-party payors	**8,063**	–
Current portion of assets limited as to use	**39,441**	32,976
Total current assets	**246,702**	253,991
Assets limited as to use	**48,437**	60,414
Pooled investments	**28,260**	–
Long-term investments	**7,561**	34,560
Investments in and held by captive insurance companies and insurance recoveries receivable	**182,404**	192,385
Property, plant, and equipment, net	**334,161**	334,641
Other assets	**39,459**	42,568
Total assets	**$ 886,984**	$ 918,559
Liabilities and net deficit		
Current liabilities:		
Accounts payable and accrued expenses	**$ 93,045**	$ 83,170
Accrued salaries and related liabilities	**78,655**	90,475
Current portion of long-term debt and capitalized leases	**17,796**	15,990
Due to third-party payors	**–**	14,996
Other current liabilities	**12,293**	15,933
Due to related organizations	**6,824**	4,136
Total current liabilities	**208,613**	224,700
Due to related organizations, net of current portion	**1,809**	3,111
Long-term debt and capitalized leases	**383,346**	400,894
Accrued pension and other postretirement medical benefits	**69,532**	45,140
Other noncurrent and insured liabilities	**414,927**	393,517
Total liabilities	**1,078,227**	1,067,362
Commitments and contingencies		
Net assets (deficit):		
Unrestricted	**(274,549)**	(232,927)
Temporarily restricted	**23,495**	24,322
Permanently restricted	**59,811**	59,802
Total net deficit	**(191,243)**	(148,803)
Total liabilities and net deficit	**$ 886,984**	$ 918,559

See accompanying notes.

St. Luke's-Roosevelt Hospital Center and Affiliates

Consolidated Statements of Operations

	Year Ended December 31	
	2014	**2013**
	(In Thousands)	
Operating revenue		
Net patient service revenue	**$ 893,065**	$ 908,233
Provision for bad debts	**(42,837)**	(43,903)
Net patient service revenue, less provision for bad debts	**850,228**	864,330
Faculty practice revenue	**139,996**	143,562
Net assets released from restrictions	**1,163**	1,414
Investment income	**7,404**	886
Other revenue	**150,104**	155,587
Total operating revenue	**1,148,895**	1,165,779
Operating expenses		
Salaries and wages	**579,069**	588,366
Employee benefits	**156,009**	161,405
Supplies, insurance, and other expenses	**362,082**	380,995
Depreciation and amortization	**45,545**	48,130
Amortization of deferred financing fees	**4,746**	1,023
Interest	**21,934**	25,768
Total operating expenses	**1,169,385**	1,205,687
Deficiency of operating revenue over operating expenses before other items	**(20,490)**	(39,908)
Other items		
Restructuring charges	**(2,098)**	(4,515)
Unrestricted contributions	**4,689**	6,454
Deficiency of revenue over expenses	**(17,899)**	(37,969)
Other changes in unrestricted net assets		
Change in fair value of interest rate swap	**3,879**	6,898
Change in pension and postretirement benefits liabilities to be recognized in future periods	**(27,602)**	17,742
Total other changes in unrestricted net assets	**(23,723)**	24,640
Net decrease in unrestricted net assets	**$ (41,622)**	$ (13,329)

See accompanying notes.

St. Luke's-Roosevelt Hospital Center and Affiliates

Consolidated Statements of Changes in Net Assets (Deficit)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(In Thousands)			
Net assets (deficit) at January 1, 2013	$ (219,598)	$ 19,458	$ 59,789	$ (140,351)
Change in net assets (deficit):				
Deficiency of revenue over expenses	(37,969)	–	–	(37,969)
Change in fair value of interest rate swap	6,898	–	–	6,898
Change in pension and postretirement benefits liabilities to be recognized in future periods	17,742	–	–	17,742
Contributions, bequests and other	–	6,278	13	6,291
Net assets released from restrictions	–	(1,414)	–	(1,414)
Total change in net assets (deficit)	(13,329)	4,864	13	(8,452)
Net assets (deficit) at December 31, 2013	(232,927)	24,322	59,802	(148,803)
Change in net assets (deficit):				
Deficiency of revenue over expenses	**(17,899)**	**–**	**–**	**(17,899)**
Change in fair value of interest rate swap	**3,879**	**–**	**–**	**3,879**
Change in pension and postretirement benefits liabilities to be recognized in future periods	**(27,602)**	**–**	**–**	**(27,602)**
Contributions, bequests and other	**–**	**336**	**9**	**345**
Net assets released from restrictions	**–**	**(1,163)**	**–**	**(1,163)**
Total change in net assets (deficit)	**(41,622)**	**(827)**	**9**	**(42,440)**
Net assets (deficit) at December 31, 2014	**$ (274,549)**	**$ 23,495**	**$ 59,811**	**$ (191,243)**

See accompanying notes.

St. Luke's-Roosevelt Hospital Center and Affiliates

Consolidated Statements of Cash Flows

	Year Ended December 31 2014	2013
	(In Thousands)	
Operating activities		
Change in net assets	**$ (42,440)**	$ (8,452)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**45,545**	48,130
Amortization of deferred financing fees	**4,746**	1,023
Change in fair value of interest rate swap	**(3,879)**	(6,898)
Change in pension and postretirement benefits liabilities to be recognized in future periods	**27,602**	(17,742)
Provision for bad debts	**42,837**	43,903
Net unrealized and realized gains from investments and assets limited as to use	**(3,671)**	(2,845)
Equity loss from investments in captive insurance companies under the equity method	**7,781**	2,258
Net donor-restricted contributions	**(345)**	(6,291)
Increase (decrease) in cash resulting from a change in:		
Receivables for patient care, net	**(10,748)**	(19,324)
Accounts payable and accrued expenses	**9,875**	1,331
Accrued salaries and related liabilities and other current liabilities	**(15,460)**	(8,253)
Net effect of increases and decreases in other operating assets and liabilities	**4,025**	(6,759)
Net cash provided by operating activities	**65,868**	20,081
Investing activities		
Acquisitions of property, plant, and equipment	**(45,065)**	(28,305)
Decrease in assets limited as to use	**6,143**	9,004
Purchases of long-term investments	**(11,838)**	(952)
Sales of long-term investments	**13,617**	574
Net cash used in investing activities	**(37,143)**	(19,679)
Financing activities		
Repayments of long-term debt	**(15,742)**	(21,032)
Proceeds from (payments to) related parties	**1,386**	(1,381)
Payment of deferred financing fees	**(1,671)**	–
Net donor-restricted contributions	**345**	6,291
Net cash used in financing activities	**(15,682)**	(16,122)
Net increase (decrease) in cash and cash equivalents	**13,043**	(15,720)
Cash and cash equivalents at beginning of year	**59,930**	75,650
Cash and cash equivalents at end of year	**$ 72,973**	$ 59,930
Supplemental disclosures of cash flow information		
Cash paid for interest	**$ 22,889**	$ 26,195

See accompanying notes.

1. Organization and Summary of Significant Accounting Policies

Organization

St. Luke's-Roosevelt Hospital Center, d/b/a Mount Sinai Roosevelt and Mount Sinai St. Luke's (collectively, SLR), is a not-for-profit tertiary care teaching hospital that provides inpatient, ambulatory, clinical, referred outpatient and emergency care to the community. SLR operates at two main locations in New York City; St. Luke's Hospital which has 478 certified beds and is located at 114th Street and Amsterdam Avenue, and Roosevelt Hospital which has 514 certified beds and operates at 1000 10th Avenue. Operating revenue includes that generated from direct patient care, investment income, reimbursement of research and educational activities, and revenue related to the operation of SLR's facilities. SLR is the sole member of two other not-for-profit corporations: St. Luke's-Roosevelt Institute for Health Sciences, a research organization; and Augustus & James Corporation (A&J), which owns and operates two residential buildings. SLR is the sole member and shareholder of two for-profit corporations: 425 West 59th Street Condominium, LLC (the 59th Street Condominium), which owns and operates medical office space for hospital physicians; and Manhattan Management Services, Inc. (MMS), a physician practice management organization.

Prior to September 30, 2013, Continuum Health Partners, Inc. (CHP) was the sole corporate member of SLR, Beth Israel Medical Center (BIMC), and New York Eye and Ear Infirmary (NYEE).

On September 30, 2013, BIMC, SLR, and NYEE (together, the CHP Entities) consummated a transaction pursuant to which the CHP Entities and The Mount Sinai Hospital (MSH), the Icahn School of Medicine at Mount Sinai (ISMMS), and The Mount Sinai Medical Center, Inc. (MSMC) came together to create the Mount Sinai Health System, an integrated health care system and academic medical center (the Transaction). Pursuant to the Transaction, two new not-for-profit entities were formed: Mount Sinai Health System, Inc. (MSHS) and Mount Sinai Hospitals Group, Inc. (MSHG). MSHG was formed to be the member of MSH, BIMC, SLR and NYEE. MSHS was formed to be the sole member of MSHG, ISMMS and MSMC.

Principles of Consolidation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting and include the accounts of SLR and its owned or controlled affiliates. All significant intercompany accounts and transactions have been eliminated in consolidation.

1. Organization and Summary of Significant Accounting Policies (continued)

Related Organizations

Transactions among SLR and related organizations relate principally to the sharing of certain services, facilities, equipment, and personnel and are accounted for on the basis of allocated cost, as agreed among the parties. Amounts due from or to related organizations for these activities are currently receivable or payable and do not bear interest. The nature of SLR's transactions with various related organizations is described more fully in Note 9.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. The most significant estimates relate to patient accounts receivable allowances, amounts due from (to) third party payors, malpractice liabilities, and estimated employee benefit costs. Actual results may differ from those estimates.

Cash and Cash Equivalents

SLR considers highly liquid financial instruments purchased with a maturity of three months or less, excluding assets whose use is limited and pooled/long-term investments, to be cash equivalents. Substantially all of SLR's cash and cash equivalents are deposited with three financial institutions at December 31, 2014 and 2013. Included in cash and cash equivalents are amounts in excess of Federal depository insurance limits. Management does not believe the credit risk related to those deposits to be significant.

Patient Accounts Receivable/Allowance for Doubtful Accounts

Patient accounts receivable result from the health care services provided by SLR. Additions to the allowance for doubtful accounts result from the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance for doubtful accounts.

The amount of the allowance for doubtful accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid health coverage, and other collection indicators. See Note 2 for additional information relative to third-party payor programs.

1. Organization and Summary of Significant Accounting Policies (continued)

Grants, Contracts, and Other Receivables

Grants, contracts, and other receivables include amounts due from Federal, State and other sponsor agencies for other than patient care receivables. The amounts shown are at net realizable value and include allowances for uncollectible amounts. Grants and contracts are recorded as unrestricted revenues as the related expenditures are incurred.

Inventories

SLR values its inventories, principally drugs and medical supplies, at the lower of cost or market, determined using the first-in, first-out method.

Investments

In 2014, custody of a substantial portion of SLR's investments was transferred to MSMC, and MSMC was named as the owner of record of each of the investments. These investments are pooled for management purposes with those held by related entities. Consequently, MSMC records all of the pooled investments in its financial statements, with a corresponding liability due to each of the participants in the investment pool for their respective share of the pooled investments; the pool participants report their respective share of the investment pool as "pooled investments." Investment earnings on the pooled investments are recorded by the pool participants, based on their pro rata share of the pool's investment returns.

Investments, both pooled and nonpooled, consist of cash and cash equivalents, U.S. government and corporate bonds, money market funds, equity securities, and interests in alternative investments. Debt securities and equity securities with readily determinable values are carried at fair value based on independent published sources (quoted market prices).

1. Organization and Summary of Significant Accounting Policies (continued)

Alternative investments (nontraditional, not readily marketable securities) may consist of equity, debt, and derivatives both within and outside the U.S. in multi-strategy hedge funds, event-driven strategies, global investment mandates, distressed securities, and private funds. Alternative investment interests generally are structured such that the investment pool holds a limited partnership interest or an interest in an investment management company. The investment pool's ownership structure does not provide for control over the related investees and the investment pool's financial risk is limited to the carrying amount reported for each investee, in addition to any unfunded capital commitment. Future funding commitments by members of the investment pool for alternative investments aggregated approximately $74.4 million at December 31, 2014.

Individual investment holdings within the alternative investments include nonmarketable and market-traded debt and equity securities and interests in other alternative investments. SLR 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 pooled investment capital may be divested only at specified times. The liquidity restrictions range from several months to ten years for certain private equity investments. Liquidity restrictions may apply to all or portions of a particular invested amount.

Alternative investments, both pooled and nonpooled, are stated in the accompanying consolidated statements of financial position based upon net asset values derived from the application of the equity method of accounting. Financial information used by SLR to evaluate its alternative investments is provided by the respective 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 SLR's annual financial statement reporting.

There is uncertainty in determining values of 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, the estimated fair values might differ from the values that would have been used had a ready market for the alternative investment interests existed, and there is at least a reasonable possibility that estimates will change.

1. Organization and Summary of Significant Accounting Policies (continued)

Investment Income

Investment income from the investment pool is allocated to investment pool participants using the market-value unit method. The annual spending rate for pooled funds is approved by the Board of Trustees annually (see Note 3). Realized gains and losses from the sale of securities are computed using the average cost method.

In the absence of donor restrictions, investment income, including realized and unrealized gains and losses, is reflected in the accompanying consolidated statements of operations as operating revenue.

Assets Limited as to Use

Assets limited as to use primarily includes assets held by trustees under indenture agreements and assets whose use is restricted for specific purposes. Amounts required to meet SLR's current liabilities have been classified as current assets in the consolidated statements of financial position at December 31, 2014 and 2013. Fair value of assets limited as to use is determined in accordance with fair value measurement and disclosure authoritative guidance, as further discussed in Note 3.

Investments in and Held by Captive Insurance Companies and Insurance Recoveries Receivable

SLR's investments in and held by captive insurance companies mainly consist of assets recorded by the captive insurance companies at fair value based on quoted market prices or other means and capital contributions for certain captive insurance entities carried at cost (see Note 7). SLR reports an allocation of the pooled investments in its consolidated statements of financial position.

Insurance recoveries receivable represent amounts due from commercial insurance companies for medical malpractice liabilities. SLR's insurance recoveries receivable are due from commercial carriers. A corresponding liability is recorded in other noncurrent liabilities on the consolidated statements of financial position as of December 31, 2014 and 2013.

1. Organization and Summary of Significant Accounting Policies (continued)

SLR presents anticipated insurance recoveries separately from estimated insurance liabilities for medical malpractice claims and similar contingent liabilities in the accompanying consolidated statements of financial position. The insurance recoveries receivable and related insurance claims liability, which are included within investments in and held by captive insurance companies and insurance recoveries receivable, and other noncurrent and insured liabilities on the consolidated statements of financial position, totaled approximately $17.1 million and $19.3 million as of December 31, 2014 and 2013, respectively.

Property, Plant, and Equipment

Property, plant, and equipment are carried at cost and those acquired by gifts and bequests are carried at fair value established at the date of contribution. Depreciation expense is computed utilizing the straight-line method over the estimated useful lives of the assets which range from 3 to 40 years. In accordance with SLR's policy, one-half year's depreciation is recorded in the year of asset acquisition, and a half year's depreciation is recorded in the final year of the asset's useful life. Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized, net of any interest earned, as a component of the cost of acquiring those assets.

Equipment acquired through capital leases is recorded at the present value of the minimum lease payments at the inception of the leases and is amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. The amortization of assets recorded under capital leases is included in depreciation and amortization expense in the accompanying consolidated statements of operations. When assets are retired or otherwise disposed of, the cost and the related depreciation are reversed from the accounts, and any gain or loss is reflected in current operations. Repairs and maintenance expenditures are expensed as incurred.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If such assets are deemed to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. There were no long-lived asset impairment losses for the years ended December 31, 2014 and 2013.

1. Organization and Summary of Significant Accounting Policies (continued)

Conditional Asset Retirement Obligations

Asset retirement obligations, reported in other noncurrent liabilities, are legal obligations associated with the retirement of long-lived assets. These liabilities are initially recorded at fair value and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, SLR records changes in the liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. SLR reduces its liabilities when the related obligations are settled.

Other Assets

Other assets consist principally of rental properties held primarily for investment, and deferred financing costs. Deferred financing costs represent costs incurred to obtain financing for various construction and renovation projects at SLR. During 2014, SLR wrote off approximately $4.0 million of unamortized deferred financing costs and capitalized approximately $1.7 million in costs associated with the refinancing transaction described in Note 5. Amortization of these costs extends over the term of the applicable indebtedness and approximates the interest method. Gross deferred financing costs at December 31, 2014 and 2013 were approximately $10.6 million and $15.2 million, respectively. Total accumulated amortization at December 31, 2014 and 2013 was approximately $4.6 million and $6.1 million, respectively.

Interest Rate Swap

SLR utilizes an interest rate swap, also known as a risk management or derivative instrument, to effectively create a fixed rate of interest on a mortgage loan. SLR designates at inception whether the swap agreement is considered hedging or nonhedging for accounting purposes in accordance with derivatives and hedging authoritative guidance. Interest rate swaps are recorded on the consolidated statements of financial position at fair value. Hedge ineffectiveness, if any, is recorded in deficiency of revenue over expenses.

Other Noncurrent and Insured Liabilities

Other noncurrent and insured liabilities in the accompanying consolidated statements of financial position consist primarily of the long-term portion of estimated payables to third-party payors, swap interest rate liabilities, and reserves for professional liability claims.

1. Organization and Summary of Significant Accounting Policies (continued)

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by SLR has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by SLR in perpetuity. See Note 6 for additional information relative to temporarily and permanently restricted net assets.

Faculty Practice Revenue

SLR has a faculty practice plan (FPP) which consists of employed multispecialty physicians. In accordance with the employment agreements, revenue generated from patient care services provided by the FPP is allocated to pay for physicians' salaries, practice operations, overhead and to fund education and other expenses of a specific department.

As a result of the Transaction, during 2014, the FPP began the process of transitioning to ISMMS. As a result of this transition, certain revenues and expenses associated with these practices will move to ISMMS. Under the new model, it is anticipated that ISMMS will coordinate the provision of needed clinical services to SLR, while effectuating improved financial performance.

Contributions

Contributions, including unconditional promises to give cash and other assets (pledges), are reported at fair value on the date received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected in temporarily restricted net assets and net assets released from restrictions in the accompanying consolidated financial statements.

1. Organization and Summary of Significant Accounting Policies (continued)

Performance Indicator

The consolidated statements of operations include deficiency of revenue over expenses as the performance indicator. Changes in unrestricted net assets, which are excluded from deficiency of revenue over expenses, include effective portions of changes in fair value of interest rate swap designated as a cash flow hedge, and changes in pension and postretirement benefits liabilities to be recognized in future periods.

SLR differentiates its operating activities through the use of deficiency of operating revenues over operating expenses as an intermediate measure of operations. For the purposes of display, items which management does not consider components of SLR's operating activities are excluded from this measure and reported as other items in the consolidated statements of operations. These include restructuring charges and unrestricted contributions.

Restructuring Charges

In conjunction with organizational changes that occurred during fiscal years 2014 and 2013, SLR recorded approximately $2.1 million and $4.5 million, respectively, of severance expenses in connection with the termination of personnel, which was recorded as restructuring charges within the consolidated statements of operations.

Tax Status

SLR and its consolidated not-for-profit affiliate organizations are tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code. They are also exempt from New York State and New York City income taxes.

New Accounting Pronouncement

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. (ASU) 2014-09, *Revenue from Contracts with Customers*. The core principles of ASU 2014-09 are that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance in ASU 2014-09 supersedes the FASB's current revenue recognition requirements and most industry-specific guidance.

1. Organization and Summary of Significant Accounting Policies (continued)

The provisions of ASU 2014-09 are effective for SLR for annual reporting periods beginning after December 15, 2016. Early application is not permitted. SLR has not completed the process of evaluating the impact of ASU 2014-09 on its consolidated financial statements.

Reclassifications

Certain reclassifications have been made to the 2013 consolidated financial statements to conform to the presentation in the 2014 consolidated financial statements.

2. Net Patient Service Revenue, Receivables for Patient Care, and Allowance for Doubtful Accounts

SLR has agreements with third-party payors that provide for payments at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. 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 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 provided and adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

SLR recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual and formula-driven rates for the services rendered (see description of third-party payor payment programs below).

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

	Third-Party	Self-Pay	Total All Payors
2014	**$ 865,274**	**$ 27,791**	**$ 893,065**
2013	876,554	31,679	908,233

2. Net Patient Service Revenue, Receivables for Patient Care, and Allowance for Doubtful Accounts (continued)

Deductibles and copayments under third-party payment programs within the third-party payor amounts above are the patient's responsibility and SLR considers these amounts in its determination of the provision for bad debts based on collection experience. Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, SLR 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.

SLR's allowance for doubtful accounts totaled approximately $152.3 million and $133.7 million at December 31, 2014 and 2013, respectively. The allowance for doubtful accounts for self-pay patients was approximately 81.3% and 78.8% of self-pay accounts receivable as of December 31, 2014 and 2013, respectively. Overall, the total of self-pay discounts and write-offs did not change significantly in 2014. SLR did not experience significant changes in write-off trends and did not change its charity care policy in 2014.

Non-Medicare Payment

In New York State, hospitals and all non-Medicare payors, except Medicaid, workers' compensation, and no-fault insurance programs, negotiate hospitals' payment rates. If negotiated rates are not established, payors are billed at the 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, without retroactive adjustments except for the capital component of the rate. Outpatient services also are paid based on a statewide prospective payment 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 SLR 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.

2. Net Patient Service Revenue, Receivables for Patient Care, and Allowance for Doubtful Accounts (continued)

Medicare Payment

Hospitals are paid for most Medicare inpatient and outpatient services under the national prospective payment system and other methodologies of the Medicare program for certain other services. Federal regulations provide for certain adjustments to current and prior years' payment rates based on industry-wide and hospital-specific data.

SLR 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. In the accompanying consolidated financial statements, such estimates are included in other current and noncurrent assets and liabilities. The current Medicaid, Medicare, and other third-party payor programs are based upon extremely complex laws and regulations that are subject to interpretation. Medicare cost reports, which serve as the basis for final settlement with the Medicare program, have been audited by the Medicare fiscal intermediary through 2002 and final settlements have been made through 2000. Other years remain open for audit and settlement as are New York State Medicaid cost reports 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 and additional information is obtained. Additionally, noncompliance with such laws and regulations could result in fines, penalties, and exclusion from such programs. SLR is not aware of any allegations of noncompliance that could have a material adverse effect on the consolidated financial statements and believes that it is in compliance, in all material respects, with all applicable laws and regulations.

There are various proposals at the Federal and State levels, including health care reform enacted at the Federal level, that could, among other things, significantly reduce payment rates or modify payment methods. The ultimate outcome of these proposals and other market changes cannot presently be determined. Future changes in the Medicare and Medicaid programs and any reduction of funding could have an adverse impact on SLR.

2. Net Patient Service Revenue, Receivables for Patient Care, and Allowance for Doubtful Accounts (continued)

SLR grants credit without collateral to its patients, most of whom are insured under third-party agreements. SLR grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor arrangements. The mix of net receivables (net of contractual allowances and allowances for doubtful accounts) from patients and third-party payors was as follows:

	December 31	
	2014	**2013**
Medicare	**28%**	28%
Medicaid	**27**	27
Blue cross	**12**	9
Managed care and other	**28**	28
Self-pay	**5**	8
	100%	100%

In 2014, approximately 34% and 23% of SLR's net patient service revenue was from Medicare and Medicaid programs, respectively (approximately 33% and 23%, respectively, in 2013).

Uncompensated Care

As a matter of policy, SLR provides significant amounts of partially or totally uncompensated patient care. For accounting purposes, such uncompensated care is treated either as charity care or provision for bad debts. SLR's charity care policy ensures the provision of quality health care to the community served, while carefully considering the ability of the patient to pay. The policy has sliding fee schedules for inpatient, ambulatory, and emergency services provided to the uninsured and under-insured patients who qualify. Patients are eligible for the charity care fee schedule if they meet certain income tests. Furthermore, as part of its charity care and financial aid policy, SLR obtains and uses additional financial information for uninsured or underinsured patients who have not supplied the requisite information to qualify for charity care. The additional information obtained is used by SLR to determine whether to qualify patients for charity care and/or financial aid in accordance with SLR's policies. For accounting and disclosure purposes, charity care is considered to be the difference between SLR's customary charges and the sliding charity care fee schedule rates. Since payment of this difference is not sought, charity care allowances are not reported as revenue.

2. Net Patient Service Revenue, Receivables for Patient Care, and Allowance for Doubtful Accounts (continued)

SLR's estimated costs for charity care were $24.2 million for 2014 and $30.2 million for 2013. The cost of charity includes the direct and indirect cost of providing charity care services. 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 from the New York State Indigent Care Pool to offset charity services provided totaled approximately $17.5 million and $24.0 million for the years ended December 31, 2014 and 2013, respectively. The charity care component of the indigent care pool payments is estimated utilizing a ratio of charity care charges to total charity care and bad debt charges applied to the indigent care pool reimbursement and excludes amounts designated for teaching programs.

Additionally, patients who do not qualify for sliding-scale fees and all uninsured inpatients who do not qualify for Medicaid assistance are billed at SLR's rates. Uncollected balances for these patients are categorized as bad debts. Uncompensated care as a result of bad debts for all patient services approximated $42.8 million in 2014 and $43.9 million in 2013.

3. Investments and Assets Limited as to Use

During 2014, SLR began to transfer its long-term investments to the MSMC investment pool. At December 31, 2014, 79% of SLR endowment assets (classified as long-term investments) had been transferred to the pool and the remainder is expected to be transferred during 2015.

Investments and assets limited as to use are maintained as follows at December 31 (in thousands):

	2014	2013
Pooled investments	**$ 28,260**	$ –
Non-pooled investments:		
Assets limited as to use	**87,878**	93,390
Long-term investments	**7,561**	34,560
	95,439	127,950
	$ 123,699	$ 127,950

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

The following table summarizes the composition of the total investment pool at carrying value; SLR's interest in the pooled investment components is proportionate based on the ratio of its pooled investment balance to the total of the pool (in thousands).

	December 31, 2014
Cash and cash equivalents	$ 54,166
Fixed income:	
Mutual funds	29,562
Equities:	
U.S. equities	102,272
Global equities	40,249
Non-U.S. equities	97,076
Alternative investments:	
Hedge funds:	
Long-only equity	160,584
Hedged equity [a]	208,936
Long/short credit [b]	45,909
Multi-strategy [c]	165,938
Open mandate [d]	300,245
Macro [e]	114,973
Private equity:	
Equity [f]	32,735
Credit/distressed [g]	123,673
Real assets [h]	33,515
Total	$ 1,509,833

[a] Investments consisting primarily of publicly traded equity holdings with both long and short positions.

[b] Investments consisting primarily of publicly traded credit holdings with both long and short positions.

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

(c) Investments with lower correlations to stock and bond markets with a balanced mix of assets and strategies. Underlying exposures primarily include publicly traded equity and credit positions in event-driven, relative value, and various arbitrage strategies.

(d) Investments with lower correlations to stock and bond markets. Underlying exposures primarily include publicly traded equity and credit positions with a fundamental value bias. Portfolios may reflect a tilt towards equity or credit positions, involve portfolio level-hedging, and hold large cash positions if value opportunities are not found.

(e) Investments focused on global macro dislocations rather than micro driven opportunities. Holdings are both long and short in equity, fixed income, currency, and futures markets.

(f) Investments targeting buyout and growth equity opportunities that require time to reach realization.

(g) Investments in structured credit, claims, or distressed positions of either a minority or controlling interest that require time to reach realization.

(h) Real estate and natural resources investments that require time to reach realization.

The following is a summary of investments (by major category) with restrictions on the investment pool's ability to redeem its investments at the measurement date, any unfunded capital commitments, and investment strategies of the investees as of December 31, 2014 (in thousands):

Description of Investment	Carrying Value	Unfunded Commitments	Redemption Frequency	Notice Period	Funds Availability
Hedge funds:					
Long-only equity	$ 160,584	$ –	Monthly/annually	30 to 90 days	3 to 30 days
Hedged equity	208,936	–	Quarterly/rolling three years	45 to 60 days	30 days
Long/short credit	45,909	–	Annually	90 days	30 days
Multi-strategy	165,938	–	Quarterly/annually	45 to 90 days	30 days
Open mandate	300,245	–	Monthly/annually	60 to 180 days	15 to 30 days
Macro	114,973	–	Monthly/quarterly	30 to 90 days	30 days
Private investments:					
Equity	32,735	19,467	N/A	N/A	N/A
Credit/distressed	123,673	12,966	Monthly and N/A	30 days and N/A	180 days and N/A
Real assets	33,515	42,002	N/A	N/A	N/A
	$ 1,186,508	$ 74,435			

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

The total return on the total pooled investments comprises the following for the year ended December 31, 2014 (in thousands):

Interest and dividend income	$ 5,368
Net realized gains on sales of securities	31,115
Change in net unrealized gains and losses and change in value of alternative investments	35,696
Fees and other expenses	(4,614)
Total	$ 67,565

SLR was allocated a total investment return from the pool based on agreements among the pool participants and donor stipulations of approximately $326,000 in 2014.

Long-term investments consist of the following at December 31 (in thousands):

	2014	2013
Cash	$ 3	$ 316
U.S. government and fixed income	–	2,933
Marketable equity investments	–	7,730
Limited marketability investments under the equity method	7,558	23,581
Total long-term investments	$ 7,561	$ 34,560

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

Assets limited as to use consist of the following at December 31 (in thousands):

	2014	2013
Held under indenture agreements:		
Mortgage reserve fund (see Note 5)	**$ 35,215**	$ 47,273
Escrow funds	**6,527**	6,452
	41,742	53,725
Other externally designated funds:		
Real estate escrow[a]	**6,695**	6,689
Specific purpose funds	**21,810**	15,345
	28,505	22,034
Internally designated funds	**17,631**	17,631
	87,878	93,390
Less current portion	**39,441**	32,976
	$ 48,437	$ 60,414

[a] At December 31, 2014 and 2013, approximately $6.7 million was held in a real estate escrow in connection with the terms of a sale agreement of one of the rental properties sold by SLR in 2002. Once the remaining terms have been satisfied, SLR can request the release of these funds from the U.S. Department of Housing and Urban Development.

The current portion of assets limited as to use consists of specific purpose funds and internally designated funds.

Investment income, income from equity investments, and net realized and unrealized gains on long-term investments, assets limited as to use, pooled investments, and cash and cash equivalents consist of the following at December 31 (in thousands):

	2014	2013
Interest and dividends	**$ 3,733**	$ 2,279
Unrealized gain (loss)	**1,224**	(968)
Realized gain (loss)	**2,447**	(425)
Total investment income	**$ 7,404**	$ 886

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

Temporarily restricted investment return was a loss of approximately $3.5 million for the year ended December 31, 2014 and a gain of approximately $2.0 million for the year ended December 31, 2013.

4. Property, Plant, and Equipment

A summary of property, plant, and equipment is as follows at December 31 (in thousands):

	2014	2013
Land and land improvements	**$ 6,330**	$ 6,330
Buildings and building improvements	**865,423**	872,283
Equipment, including held under capital leases	**472,239**	428,677
	1,343,992	1,307,290
Less: accumulated depreciation and amortization	**1,030,980**	986,790
	313,012	320,500
Construction in progress	**21,149**	14,141
	$ 334,161	$ 334,641

Depreciation and amortization expense was approximately $45.5 million and $48.1 million December 31, 2014 and 2013, respectively.

Accumulated amortization associated with equipment held under capital leases was approximately $17.1 million and $15.4 million at December 31, 2014 and 2013, respectively. Substantially all property, plant, and equipment has been pledged as collateral under various debt agreements. During 2014 and 2013, SLR capitalized interest expense of approximately $519,000 and $369,000, respectively, related to various construction projects.

5. Long-Term Debt and Capitalized Leases

A summary of long-term debt and capitalized leases is as follows at December 31 (in thousands):

	2014	2013
Insured mortgage loans[(a)]	**$ 246,599**	$ 256,341
Capital leases with interest rates ranging from 3.5% to 8.6%	**2,669**	4,616
A&J[(b)]	**113,643**	115,355
59th Street Condominium[(c)]	**37,300**	38,578
Other	**931**	1,994
	401,142	416,884
Less: current portion	**17,796**	15,990
	$ 383,346	$ 400,894

(a) In 1989, SLR received final approval from the NYSDOH for its facilities improvement plan (the Master Plan) under which SLR's two primary sites have been either restored or rebuilt. The Master Plan, with a total cost of approximately $466.8 million was financed through a mortgage loan of approximately $381.8 million and $85.0 million of funds provided by SLR. The mortgage loan was entered into during January 1990 with the Dormitory Authority of the State of New York (DASNY) and was insured pursuant to Section 241 of the National Housing Act (the FHA 241 Loan).

DASNY issued its 1989 Series B St. Luke's-Roosevelt SLR FHA-Insured Mortgage Revenue Bonds to provide for initial funding of the FHA 241 Loan. In July 1993, DASNY issued 1993 Series A St. Luke's-Roosevelt SLR FHA-Insured Mortgage Revenue Bonds (the Series 1993A Bonds), the proceeds of which were placed in escrow and used to advance refund the 1989 Series B Bonds in 2000. As a result, SLR's interest rate on the mortgage loan was reduced to 7.26%. In November 2000, DASNY issued its St. Luke's-Roosevelt SLR, FHA insured Mortgage Hospital Revenue Bonds, Series 2000B (the Series 2000B Bonds), which are collateralized on parity with the Series 1993A Bonds by the FHA 241 Loan. In November 2005, SLR refinanced the FHA 241 Loan with an FHA 223 Loan. DASNY issued St. Luke's Roosevelt SLR FHA insured Mortgage Hospital Revenue Bonds, Series 2005, the proceeds of which were used to refund the 1993 Series A Bonds, refund the Series 2000B Bonds, make the required deposit to the Debt Service Reserve Fund and pay

5. Long-Term Debt and Capitalized Leases (continued)

the costs of issuance of the Series 2005 Bonds. As a result, SLR's interest rate on the FHA 223 Loan was 5.39% (reduced from 7.26% on the FHA 241 Loan) and the repayment period was extended 121 months from April 2020 to May 2030.

In July 2014, Prudential Huntoon Paige Associates, Ltd. (Prudential) issued Government National Mortgage Association (GNMA) securities, the proceeds of which were combined with the proceeds of the liquidated assets of the Debt Service Reserve Fund, to establish a defeasance account which will be used to refund the DASNY 2005 series bonds underlying the FHA 223 insured mortgage and pay all GMNA issuance costs, as well as the costs associated with the assignment of the mortgage from DASNY to Prudential. The DASNY 2005 series bonds will be called on August 15, 2015. This transaction resulted in a reduction in the interest rate of the FHA 223 mortgage loan, effective July 10, 2014, to a fixed rate of 3.56% over the remaining term and a decrease in the SLR mortgage reserve fund requirement of approximately $5.5 million. Monthly payments for the loan are approximately $1.7 million, consisting of principal and interest. SLR recorded a write off of deferred financing fees of approximately $4.0 million in connection with this refinancing. At December 31, 2014 and 2013, the FHA 223 Loan balance was approximately $246.6 million and $256.3 million, respectively.

At December 31, 2014, $269.8 million of the defeased DASNY 2005 series bonds remain outstanding. Management believes the amount in escrow is sufficient to meet the obligations when they become due.

As a condition to insuring the FHA 223 Loan, the Federal Housing Administration (FHA) requires that SLR maintain a Mortgage Reserve Fund (MRF) whose balance is fully funded at the agreed-upon two full years debt service on the FHA 223 Loan. During 2014, in addition to the reduced requirement relating to the advance refunding, SLR received HUD approval to use MRF assets to acquire needed capital projects. At December 31, 2014, the required MRF balance was approximately $41.6 million per SLR's agreement with HUD. However, during 2014, SLR received approval from its mortgagor and HUD to borrow up to $12.0 million from the MRF in order to fund essential capital projects. At December 31, 2014, the total amount borrowed is approximately $6.4 million. At December 31, 2014, approximately $43.1 million is on deposit in the fund as compared to the required balance of $35.2 million. The $12.0 million approved borrowing is to be repaid to the MRF account in six equal installments of $2 million beginning in 2015.

5. Long-Term Debt and Capitalized Leases (continued)

Pursuant to these borrowings, SLR is required to maintain certain financial and nonfinancial covenants, the most restrictive of which are meeting minimum requirements under Long Term Debt Service Coverage Ratio and Days Cash on Hand calculations, as well as the filing of unaudited semi-annual and audited annual financial statements within specified time frames. For the year ended December 31, 2014, SLR was in compliance with all covenants. For the year ended December 31, 2013, SLR did not meet certain ratio requirements; however, non-compliance with the ratio requirements was not considered an event of default or a debt acceleration event.

(b) In May 2005, A&J entered into a $48.0 million Real Estate Term Loan Note due November 1, 2007 with a commercial bank, the proceeds of which were used to repay existing debts, including a prepayment penalty of approximately $5.9 million, fund a mold remediation project on the Millicent Hearst Building, and provide working capital funds for SLR. In September 2006, A&J borrowed an additional $14.0 million from the same commercial bank under the Real Estate Term Loan Note, the proceeds of which were used to fund the defined benefit pension plan of SLR. The note was collateralized by a first mortgage on the Millicent Hearst Building. On November 1, 2007, A&J entered into a mortgage loan with a commercial bank for $120.0 million, the proceeds of which was used to repay the Real Estate Term Note, the New York State Health Facilities Association (NYSHFA) mortgage and provide working capital funds to SLR. The mortgage has a 10-year term, with interest only payments for the first three years. The collateral for this loan is also the Millicent Hearst Building.

Amortization of the principal began in the fourth year, using a 30-year amortization. The mortgage is a variable interest rate loan on which the interest rate is set monthly at the LIBOR rate plus 1.1%. A&J entered into an Interest Rate Swap Agreement with the commercial bank to effectively fix the interest rate at a rate of 6.15% for 10 years. The interest payments for the loan agreement, including interest paid under the interest rate swap agreement, were approximately $7.1 million and $7.2 million for the years ended December 31, 2014 and 2013, respectively, and have been included in interest expense in the consolidated statements of operations. During the term of the interest rate swap agreement, A&J can terminate the agreement at any time upon payment of a pre-penalty fee. The commercial bank can terminate the interest rate swap agreement if specified adverse events occur.

5. Long-Term Debt and Capitalized Leases (continued)

The estimated fair value of the interest rate swap was a liability (included within other noncurrent liabilities in the consolidated statements of financial position) of approximately $13.0 million and $16.9 million at December 31, 2014 and 2013, respectively. The change in fair value for the years ended December 31, 2014 and 2013 of approximately $3.9 million and $6.9 million, respectively, is recorded as an increase in unrestricted net assets in the consolidated statements of operations as other changes in unrestricted net assets, since management concluded that the swap qualified as an effective hedge. The change in the fair value of the interest rate swap from December 31, 2013 to December 31, 2014 arose from differences between the floating rate under the mortgage loan and the fixed rate under the Interest Rate Swap Agreement and a credit value adjustment, determined by considering changes in credit risk of the counterparties to the Interest Rate Swap Agreement. In the event of default, the lender can only seek repayment from the A&J collateral and not from any other assets of SLR.

In accordance with this mortgage, A&J is required to comply with various covenants, the most restrictive of which are the filing of annual financial statements within 150 days and maintaining a debt service coverage ratio of at least 1.25:1. For the years ended December 31, 2014 and 2013, A&J was in compliance with all covenants.

(c) In April 2008, SLR exercised its option to purchase commercial space condominiums from a local developer. The commercial space is located across from the Roosevelt Hospital campus and was rented from the developer for hospital operations. SLR created a specific purpose entity, the 59th St. Condominium, to purchase and operate the condominiums. The 59th St. Condominium entered into a $44.5 million mortgage with an investment house to purchase the condominiums, as well as to provide funds for SLR for capital improvements. The mortgage has a 20-year term and bears interest at 6.22% per annum. Payment of principal and interest are due monthly. The mortgage is collateralized by the condominiums. In the event of default, the lender can only seek repayment from the 59th St. Condominium collateral and not from any other assets of SLR.

5. Long-Term Debt and Capitalized Leases (continued)

Pursuant to the debt agreement, the 59th St. Condominium is required to maintain certain covenants, the most restrictive include the submission of annual financial statements within 120 days and maintaining a debt service coverage ratio (DSCR) of at least 1.05:1. If the 59th St. Condominium fails to meet the 1.05 DSCR, it will be required to submit annual financial statements within 120 days after the close of each fiscal year and post a letter of credit in an amount, which when added to annualized net operating income, will produce a DSCR of 1.25:1. The letter of credit will be cancelled when net operating income produces a DSCR of 1.15 or greater. For the years ended December 31, 2014 and 2013, the 59th St. Condominium was in compliance with all covenants.

Scheduled principal payments and payments on capital lease obligations are as follows (in thousands):

	Long-Term Debt	Capital Lease Obligations
2015	$ 16,341	$ 1,547
2016	16,036	817
2017	124,571	438
2018	15,242	–
2019	15,839	–
Thereafter	210,444	–
	$ 398,473	2,802
Less: amount representing interest under capital lease obligations		133
		$ 2,669

6. Temporarily and Permanently Restricted Net Assets

Permanently restricted net assets represent endowments that have been restricted by donors to be maintained in perpetuity and invested by SLR. SLR 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.

6. Temporarily and Permanently Restricted Net Assets (continued)

SLR 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. As a result of this interpretation, SLR 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 manner consistent with the standard of prudence prescribed by NYPMIFA. In accordance with NYPMIFA, SLR considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of SLR and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) 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 institution; (6) the expected total return from income and the appreciation of investments; (7) other resources of SLR; and (8) the investment and spending policies of SLR. SLR's policies provide the guidelines for setting the annual spending rate (5%) and the treatment of any investment returns in excess of the annual spending rate. The endowment spend rate is calculated on the average three-year rolling market value of each endowed fund. Any excess investment returns beyond the spending rate, to the extent available, are added to the endowed fund and classified as temporarily restricted net assets, unless also appropriated for expenditure.

SLR has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment. Endowment assets are invested in a manner to provide that sufficient assets are available as a source of liquidity for the intended use of the funds, achieve the optimal return possible within the specified risk parameters, prudently invest assets in a high-quality diversified manner, and adhere to the established guidelines.

6. Temporarily and Permanently Restricted Net Assets (continued)

To satisfy its long-term rate-of-return objectives, SLR 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). SLR targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Temporarily restricted net assets are available to support program activities as stipulated by donors. Permanently restricted net assets are restricted to investment in perpetuity with the income expendable to support program activities as stipulated by donors. Temporarily restricted net assets are restricted as follows at December 31 (in thousands):

	2014	**2013**
Education	**$ 1,932**	$ 1,784
Equipment and construction	**5,937**	5,887
Research	**1,585**	1,478
Program improvement	**7,054**	6,410
Other	**6,987**	8,763
	$ 23,495	$ 24,322

Permanently restricted net assets are restricted as follows at December 31 (in thousands):

	2014	**2013**
Investments to be held in perpetuity, the income from which is unrestricted	**$ 38,874**	$ 38,874
Investments to be held in perpetuity, the income from which is temporarily restricted for:		
Research	**5,132**	5,132
Education	**3,368**	3,359
Equipment	**3,541**	3,541
Program improvements	**8,896**	8,896
	$ 59,811	$ 59,802

For the years ended December 31, 2014 and 2013, net assets were released from restrictions by incurring expenses and satisfying the restricted purposes of health education and program improvement and research in the amount of approximately $1.2 million and $1.4 million, respectively.

7. Professional and General Liability Insurance Program

Prior to 2004, SLR, together with several other not-for-profit institutions, obtained primary and excess professional and general liability insurance, on an occurrence basis, through a jointly owned captive insurance company, which provided coverage through a combination of shared captive limits and commercial carrier policies. SLR's interest in the captive insurance company as of December 31, 2014 and 2013 was 20%. This interest is accounted for using the equity method. Premiums were based on the experience of SLR and the other institutions. During the five-year period from July 1999 through June 2004, the combined losses of the captive members were expected to exceed the level of available insurance. The captive members entered into an agreement to provide additional contributions to fund a trust and additional insurance policies to assure adequate resources were available to cover all claims, including those in excess of captive insurance limits. During 2013, as a result of favorable claims development and regulatory changes related to the five-year period from July 1999 through June 2004, the captive insurance company commutated the additional insurance policies and distributed excess funds from those policies and the trust to the captive members. All claims for this five-year period that exceed the remaining commercial carrier limits have been recorded as a liability of SLR. As of June 30, 2004, the jointly owned captive insurance company went into run off and no longer writes premiums.

Effective July 1, 2004, SLR joined with other unrelated not-for-profit institutions to form a segregated cell captive structure through CCC Insurance Company (CCCI). CCCI formed CCC Insurance Company SCC and implemented a "cell captive" structure which replaced the previous coverage structure. Under the cell captive program, primary coverage for individual claims for each participating hospital is provided through a commercial insurance carrier on an occurrence basis. The first layer of excess coverage under the program utilizes individual cells for each participating hospital, under which invested assets and insurance related liabilities are segregated for each participant and there is no shared risk among the entities. Through June 30, 2009, premiums paid by SLR under the cell captive insurance program were determined annually based on actuarial calculations that utilized the actual and estimated experience of SLR, subject to retrospective adjustments in future periods. Effective July 1, 2009, payments to the cell captive for funding purposes are made based on actuarial calculations. SLR's accounting for its professional liability insurance obligations and expenses were not affected by this change in funding.

The estimated undiscounted professional liabilities for asserted claims of the cell captive insurance program (SLR's cell) and for incidents that have been incurred but not yet reported as of December 31, 2014 and 2013, aggregated approximately $163.1 million and $171.3 million,

7. Professional and General Liability Insurance Program (continued)

respectively, and are reported with the caption, other noncurrent and insured liabilities in the accompanying consolidated statements of financial position. Such estimates are reviewed and updated annually.

In addition to coverage for the participating hospitals' professional liability, the program also includes captive cells for coverage of physicians' professional liability. In 2008, a second captive cell was established for the policy year beginning July 1, 2008. Premiums for these physician captive cells are to be paid by the participating physicians; however, the participating hospitals are responsible for funding a portion of the cells' initial capital and surplus requirements and could be subject to additional capital contributions in the future if the equity of these cells falls below certain levels. Coverage within the physician cells is pooled; however, there is no shared risk with the hospital-liability cell captives. In 2009, SLR entered into an agreement to fund additional capital of approximately $10.5 million for the first physician captive cell. This amount was subject to future revisions to determine changes in the equity of the cell, and the agreement called for 24 equal quarterly payments, beginning July 1, 2009. Positive investment and underwriting activities resulted in suspension of and ultimate rescission of the physician cell funding agreement. In 2014, $8.5 million of the amounts previously contributed to the physician cells was distributed back to SLR and is included as a component of other revenue.

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

At December 31, investments in and held by captive insurance companies were as follows (in thousands):

	2014	2013
Investments held by CCC Insurance Company SCC (cell captive)	**$ 163,063**	$ 171,261

7. Professional and General Liability Insurance Program (continued)

Malpractice claims in excess of insurance coverage have been asserted against SLR by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. SLR's management and counsel are unable to conclude about the ultimate outcome of these actions. There are known incidents occurring through December 31, 2014 that may result in the assertion of additional claims and other claims may be asserted arising from services provided to patients in the past. It is the opinion of SLR's management, based on prior experience, that adequate provision has been made to cover all estimable professional liability losses.

Additionally, insured liabilities representing the amount of SLR's medical malpractice liabilities that are reinsured from commercial and captive insurance companies, are included in other noncurrent and insured liabilities on the consolidated statements of financial position. Such liabilities amounted to approximately $17.1 million and $19.3 million at December 31, 2014 and 2013, respectively. The corresponding amounts due from the commercial and captive insurance companies are reported under investments in and held by captive insurance companies and insurance recoveries receivable on the consolidated statements of financial position as of December 31, 2014 and 2013.

Effective January 1, 2015, the SLR segregated cell went into run off and no longer writes premiums. As of this date, SLR purchased professional liability insurance from Hospital Insurance Company, a NYS admitted carrier.

8. Retirement and Postretirement Benefit Plans

Retirement Benefits

SLR provides pension and similar benefits to its nonunion employees through a solely sponsored defined benefit plan (the Nonunion Plan). On May 12, 2007, SLR froze the Nonunion Plan and converted these nonunion employees on a go forward basis to a defined contribution plan. Contributions to nonunion defined contribution plans approximated $8.4 million and $9.4 million for the years ended December 31, 2014 and 2013, respectively.

SLR also provides pension and similar benefits to its union employees through various multi-employer defined benefit plans. Approximately 71% of SLR's employees are covered by union plans. The total cost relating to multi-employer defined pension plans amounted to approximately $24.0 million and $25.1 million for the years ended December 31, 2014 and 2013, respectively.

8. Retirement and Postretirement Benefit Plans (continued)

SLR's contributions to the multi-employer defined benefit union plans and nonunion defined contribution plans are generally based on gross salaries. It is SLR's policy to fund accrued costs under these plans on a current basis.

	SLR Contributions	
	2014	**2013**
	(In Thousands)	
Pension fund		
1199 SEIU Health Care Employees Pension Fund (1199)[a]	**$ 12,566**	$ 13,919
New York State Nurses Association Pension Fund (NYSNA)[b]	**10,470**	10,189
1199 SEIU Health Care Employees Health & Welfare Fund[c]	**31,219**	32,115
New York State Nurses Association Health & Welfare Fund[c]	**17,820**	19,113
Other pension funds[d]	**971**	995
	$ 73,046	$ 76,331

[a] Represents less than 5% of total plan contributions, based on available Form 5500.

[b] Represents greater than 5% of total plan contributions, based on available Form 5500.

[c] This Benefit Fund provides medical benefits (health, dental, prescription, vision) for active employees and retirees. Eligibility for benefit coverage level and type is dependent upon their status as an active employee or retiree.

[d] Consists of four pension funds in which the SLR's participation is individually and in the aggregate insignificant.

8. Retirement and Postretirement Benefit Plans (continued)

The following table includes additional disclosure information related to the 1199 SEIU Health Care Employees Pension Fund and NYSNA Pension Fund.

EIN/Pension Plan Number	Pension Protection Act Zone Status[f] 2014	Pension Protection Act Zone Status[f] 2013	FIP/RP[e] Status Pending	Surcharge Imposed	Expiration Date of Collective-Bargaining Agreement
13-3604862/001 (1199)	**Green as of 1/1/2014**	Green as of 1/1/2013	No	No	9/30/18
13-6604799/001 (NYSNA)	**Green as of 1/1/2014**	Green as of 1/1/2013	No	No	1/1/15

[e] Funding improvement plan (FIP) or rehabilitation plan (RP).

[f] A zone status rating of green indicates the plan is at least 80% funded.

Postretirement Medical Benefits

SLR provides certain non-union retirees and their spouses with hospital and medical insurance which supplements health coverage provided through the Medicare program for Medicare covered retirees and provides primary coverage for retirees younger than 65 years of age. Employees are generally eligible for this benefit if they commenced employment prior to 1988, and if the total of their age and years of service at the time of their retirement equals or exceeds 70. Retirees qualifying for the plan also receive $5,000 in life insurance benefits. SLR also provides benefits to certain current NYSNA retirees and NYSNA employees entitled to future benefits.

SLR uses a measurement date of December 31 for its retirement and postretirement health care benefit plans.

8. Retirement and Postretirement Benefit Plans (continued)

The following table sets forth the funded status of the nonunion plans as of December 31 (in thousands):

	Retirement Benefits		Health Retirement Benefits	
	2014	**2013**	**2014**	**2013**
Change in benefit obligation				
Benefit obligation at beginning of year	**$ 181,349**	$ 201,744	**$ 19,834**	$ 21,360
Service cost	**–**	–	**175**	194
Interest cost	**8,661**	7,878	**795**	727
Plan participant contributions	**–**	–	**429**	443
Actuarial loss (gain)	**41,987**	(20,457)	**(2,013)**	(1,527)
Benefits paid	**(8,373)**	(7,816)	**(1,131)**	(1,489)
Medicare Part D subsidy	**–**	–	**114**	126
Benefit obligation at end of year	**223,624**	181,349	**18,203**	19,834

	Retirement Benefits		Health Retirement Benefits	
	2014	**2013**	**2014**	**2013**
Change in plan assets				
Fair value of plan assets at beginning of year	**$ 154,300**	$ 154,080	**$ –**	$ –
Actual return on plan assets	**21,887**	2,036	**–**	–
Employer contribution	**3,000**	6,000	**–**	–
Benefits paid	**(8,373)**	(7,816)	**–**	–
Fair value of plan assets at end of year	**170,814**	154,300	**–**	–
Underfunded status of the plans	**$ (52,810)**	$ (27,049)	**$ (18,203)**	$ (19,834)
Accrued benefits obligation	**$ (52,810)**	$ (27,049)	**$ (18,203)**	$ (19,834)
Less: current liability	**–**	–	**(1,481)**	(1,743)
Long-term liability	**$ (52,810)**	$ (27,049)	**$ (16,722)**	$ (18,091)

8. Retirement and Postretirement Benefit Plans (continued)

Weighted-average assumptions used to determine benefit obligations are as follows:

	Retirement Benefits		Health Retirement Benefits	
	2014	**2013**	**2014**	**2013**
Discount rate	**4.00%**	4.85%	**3.55%**	4.15%
Expected long-term rate of return on plan assets	**6.0**	6.25	**N/A**	N/A

Effective September 30, 2012, the Beth Israel Medical Center King's Highway Division Employee's Pension Plan was merged with and into the St. Luke's-Roosevelt Hospital Center Employees' Pension Plan.

The accumulated benefit obligation for the retirement plan was approximately $223.6 million and $181.3 million at December 31, 2014 and 2013, respectively.

SLR's funding policy is to contribute amounts to the plan sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974, plus such additional amounts as SLR may determine to be appropriate from time to time. SLR contributed approximately $3.0 million and $6.0 million to the Plan in 2014 and 2013, respectively. The required minimum funding for 2015 is $0.

8. Retirement and Postretirement Benefit Plans (continued)

The actuarial loss in 2014 primarily relates to changes in the discount rate and mortality table and improvement scale to measure the benefit obligation. The mortality table was updated to the RP-2014 base table without collar adjustments and full MP-2014 generational improvement scale. The actuarial gain in 2013 primarily relates to changes in the discount rate used to measure the benefit obligation.

The following table sets forth the components of net periodic benefit cost for the years ended December 31 (in thousands):

	Retirement Benefits		Health Retirement Benefits	
	2014	**2013**	**2014**	**2013**
Service cost	**$ –**	$ –	**$ 175**	$ 194
Interest cost	**8,661**	7,878	**795**	727
Expected return on plan assets	**(9,454)**	(9,584)	**–**	–
Amortization of actuarial loss (gain)	**1,799**	2,225	**(1,841)**	1,087
Benefit cost recognized in operating activities	**$ 1,006**	$ 519	**$ (871)**	$ 2,008

	Retirement Benefits		Health Retirement Benefits		Total	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Other changes recognized in unrestricted net assets						
Actuarial loss (gain)	**$ 29,553**	$(12,909)	**$ (1,993)**	$ (1,521)	**$ 27,560**	$(14,430)
Amortization of actuarial (loss) gain	**(1,799)**	(2,225)	**1,841**	(1,087)	**42**	(3,312)
Total recognized in unrestricted net assets	**$ 27,754**	$(15,134)	**$ (152)**	$ (2,608)	**$ 27,602**	$(17,742)

8. Retirement and Postretirement Benefit Plans (continued)

	Retirement Benefits		Health Retirement Benefits	
	2014	**2013**	**2014**	**2013**
Amount recognized in unrestricted net assets				
Actuarial loss (gain)	**$ 91,447**	$ 63,693	**$ (2,011)**	$ (1,859)
	$ 91,447	$ 63,693	**$ (2,011)**	$ (1,859)
Amounts in unrestricted net assets expected to be recognized in net periodic pension cost in fiscal 2015				
Actuarial loss (gain)	**$ 2,418**	$ 1,738	**$ (2,011)**	$ (1,859)
	$ 2,418	$ 1,738	**$ (2,011)**	$ (1,859)

Weighted-average assumptions used in determining the net periodic pension cost are as follows:

	Retirement Benefits		Health Retirement Benefits	
	2014	**2013**	**2014**	**2013**
Discount rate	**4.85%**	3.95%	**4.15%**	3.45%
Expected long-term rate of return on plan assets	**6.25%**	6.25%	**N/A**	N/A
Initial health care trend	**N/A**	N/A	**7.00%**	7.50%
Ultimate health care trend	**N/A**	N/A	**5.00%**	5.00%
Year in which ultimate care trend is reached	**N/A**	N/A	**2018**	2018

8. Retirement and Postretirement Benefit Plans (continued)

The assumed health care cost trend rate has a significant effect on the amounts reported for other postretirement benefits. A one-percentage-point change in the assumed health care cost trend rate would have the following effects (in thousands):

	2014		**2013**	
	1% Increase	**1% Decrease**	**1% Increase**	**1% Decrease**
Effect on total of service and interest cost components	**$ 46**	**$ (41)**	$ 47	$ (42)
Effect on postretirement benefit obligation	**1,135**	**(1,005)**	1,155	(1,032)

The expected long-term rate of return on plan assets assumption was based on expected rates of return, plus inflation, less anticipated expense paid from the plan assets. The expected return rate selected was consistent with historical returns and target percentages for various asset classes and with the Nonunion Plan's desired investment return objectives (in the context of a long-term inflation rate of 1.9%). The investment objective for the Nonunion Plan is to achieve a targeted long-term rate of investment return that is approximately 5.35% greater than inflation. SLR's target asset allocations are 25% in equity securities (which includes equities, mutual funds, and multi-strategy hedge funds), and 75% in debt securities (which includes fixed income and cash equivalents).

Expected benefit payments by year as of December 31, 2014, follows (in thousands):

	Retirement Benefits Fund	**Other Retirement Benefits, Medicare Part D Subsidy**	**Other Retirement Benefits, Net of Medicare Part D Subsidy**
2015	$ 9,532	$ 114	$ 1,507
2016	9,784	114	1,544
2017	10,316	112	1,608
2018	10,705	108	1,646
2019	11,119	104	1,615
2020–2024	60,199	454	6,840

9. Related Organizations

SLR has various transactions with other affiliated organizations of MSHS. The following table summarizes amounts due to related organizations at December 31 (in thousands):

	2014	2013
Amounts due to related organizations		
BIMC, net intercompany transaction	**$ (198)**	$ (2,308)
BIMC loans	**(3,104)**	(4,392)
MSH	**(5,549)**	(547)
ISMMS	**218**	–
Due to affiliated organizations, net	**(8,633)**	(7,247)
Less: current portion	**(6,824)**	(4,136)
Due to affiliated organizations, net, noncurrent portion	**$ (1,809)**	$ (3,111)

Amounts due to related organizations are classified as current or noncurrent in the accompanying consolidated statements of financial position based on when payment is expected. In September 2004, SLR entered into a $12.0 million loan agreement with BIMC in order to meet certain pension funding requirements. Interest only was due for the first two years of the loan at LIBOR plus 1.0%, established annually on September 15. Beginning on September 15, 2006, SLR paid principal and interest payments amortized over a ten-year period with interest set annually on September 15 at LIBOR plus 1%. At December 31, 2014, the balance remaining on the loan amounted to approximately $2.1 million.

In April 2011, SLR entered into a $1.6 million loan agreement with BIMC to finance capital improvements. The loan has a ten-year term and bears interest at 5.0% per annum. Principal and interest payments are due monthly. At December 31, 2014, the balance remaining on the loan amounted to approximately $1.1 million.

During 2014 and 2013, SLR was charged by BIMC for the use of a clinical management system (Prism). The assets related to the purchase and implementation of Prism were recorded by BIMC and paid in full on a monthly basis. Total amounts charged by BIMC and recorded in other operating expenses in the consolidated statements of operations were approximately $273,000 for the years ended December 31, 2014 and 2013. Prism rent payments are included in future minimum non-cancelable operating lease payments in Note 10.

10. Commitments and Contingencies

Litigation

SLR is a defendant in various legal actions arising out of the normal course of its operations. The ultimate outcome of these cases cannot be predicted at this time. Management does not believe that the ultimate outcome of these matters will have a material adverse effect on SLR's consolidated financial position.

Collective Bargaining Agreements

Approximately 71% of SLR's employees are union employees who are covered under the terms of various collective bargaining agreements. The League of Voluntary Hospitals and Homes of New York, which negotiates the 1199 contract on behalf of SLR or 1199SEIU, can elect to terminate this contract on or after July 15, 2014; otherwise, the contract will expire on September 30, 2018. SLR's contract with NYSNA expired on January 1, 2015, and SLR is currently negotiating a new contract.

Other

SLR is self-insured, based on individual employees' elections, for medical, dental, and pharmaceutical benefits. SLR also is self-insured for unemployment benefits. Liabilities have been accrued at December 31, 2014 and 2013, based on expected future payments pertaining to such years (included in accrued salaries and related liabilities).

Operating Leases

SLR leases various equipment and facilities under operating leases expiring at various dates through 2019 and thereafter.

Total rental expense charged to operations approximated \$10.9 million and \$13.2 million in 2014 and 2013, respectively. Sublease income and contingent rentals during those years and to be received in the future are not significant.

10. Commitments and Contingencies (continued)

Future minimum payments under non-cancelable operating leases with initial or remaining terms of one year or more consisted of the following at December 31, 2014 (in thousands):

2015	$	9,283
2016		8,419
2017		7,829
2018		7,965
2019		8,037
Thereafter		52,045

11. Other Revenue

Other revenue for the years ended December 31 follows (in thousands):

		2014		2013
Outreach laboratory	**$**	**14,796**	$	20,183
Rental income		**17,974**		16,748
Grants and contracts		**30,745**		38,887
Outreach pharmacy activities		**40,454**		40,027
Captive distributions		**11,917**		–
HMO incentives		**4,455**		11,075
Rebates		**1,628**		2,861
Joint ventures		**1,622**		1,577
Other		**26,513**		24,229
	$	**150,104**	$	155,587

12. Functional Expenses

SLR provides general health care services to residents within its geographic location. Expenses, including restructuring charges related to providing these services for the years ended December 31, are as follows (in thousands):

	2014	2013
Program services	**$ 1,076,747**	$ 1,114,440
Management/administrative	**72,433**	74,059
Research	**22,303**	21,703
	$ 1,171,483	$ 1,210,202

13. Fair Values of Financial Instruments

For assets and liabilities requiring fair value measurement, SLR measures fair value based on 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. SLR follows a fair value hierarchy 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, SLR uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, as well as considers nonperformance risk in its assessment of fair value.

13. Fair Values of Financial Instruments (continued)

Financial assets carried at fair value by SLR as of December 31 are classified in the tables below in one of the three categories described above (in thousands):

	2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	**$ 120,638**	**$ –**	**$ –**	**$ 120,638**
U.S. government and fixed income	**40,216**	**–**	**–**	**40,216**
Pooled investments	**–**	**28,260**	**–**	**28,260**
	$ 160,854	**$ 28,260**	**$ –**	**$ 189,114**

	2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	$ 107,857	$ –	$ –	$ 107,857
U.S. government and fixed income	48,712	–	–	48,712
Marketable equity investments	7,730	–	–	7,730
	$ 164,299	$ –	$ –	$ 164,299

The tables above exclude investments reported using the equity method of accounting.

The fair value of the interest rate swap was approximately $13.0 million and $16.9 million at December 31, 2014 and 2013, respectively, and is classified as Level 2 within the fair value hierarchy.

13. Fair Values of Financial Instruments (continued)

Defined Benefit Plan Assets

The fair values of plan assets and fair value hierarchy at December 31 are as follows (in thousands):

	2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Asset category				
Cash equivalents	**$ 5,149**	$ –	**$ –**	**$ 5,149**
Equities	**2,146**	–	**–**	**2,146**
Fixed income	**27,908**	**104,656**	**–**	**132,564**
Mutual funds	**–**	**14,853**	**–**	**14,853**
Multi-strategy hedge fund	**–**	**–**	**16,102**	**16,102**
	$ 35,203	**$ 119,509**	**$ 16,102**	**$ 170,814**

	2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Asset category				
Cash equivalents	$ 8,209	$ –	$ –	$ 8,209
Equities	2,086	–	–	2,086
Fixed income	25,574	83,305	–	108,879
Mutual funds	–	18,116	–	18,116
Multi-strategy hedge fund	–	–	17,010	17,010
	$ 35,869	$ 101,421	$ 17,010	$ 154,300

The fair value measurement of plan assets using significant unobservable inputs (Level 3) changed as follows (in thousands):

	Multi-Strategy Hedge Fund
Balances at December 31, 2012	$ 16,836
Realized gains	301
Unrealized gain	1,690
Sales and settlements	(1,817)
Balances at December 31, 2013	17,010
Realized gains	**436**
Unrealized gain	**456**
Sales and settlements	**(1,800)**
Balances at December 31, 2014	**$ 16,102**

13. Fair Values of Financial Instruments (continued)

The carrying values and fair values of SLR's financial instruments that are not required to be carried at fair value at December 31 are as follows (in thousands):

	2014		2013	
	Fair Value	**Carrying Value**	**Fair Value**	**Carrying Value**
Long-term debt	**$ 409,155**	**$ 401,142**	$ 416,884	$ 416,884

As the fair values are based on unobservable market data, they are classified as Level 2 within the fair value hierarchy.

14. Subsequent Events

For purposes of the accompanying consolidated financial statements, SLR has considered for accounting and disclosure events that occurred through April 22, 2015, the date the consolidated financial statements were issued. There were no subsequent events transactions that either resulted in recognition in the accompanying consolidated financial statements or required additional disclosure.

Supplementary Information and Audit Reports
Related to OMB Circular A-133

St. Luke's-Roosevelt Hospital Center and Affiliates

Schedule of Expenditures of Federal Awards

Year ended December 31, 2014

Federal Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Grantor	Pass-through ID Number/Contract Number	R&D Cluster	Federal Expenditures
Department of Health and Human Services (DHHS)					
Direct programs:					
National Institute of Health (NIH):					
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847			$ 4,128,422	$ 4,128,422
Drug Abuse and Addiction Research Programs	93.279			1,534,901	1,534,901
Vision Research	93.867			781,654	781,654
Lung Diseases Research	93.838			394,797	394,797
Allergy and Infectious Diseases Research	93.855			228,645	228,645
Aging Research	93.866			187,141	187,141
Mental Health Research Grants	93.242			186,716	186,716
Total NIH direct programs				7,442,276	7,442,276
Health Resources and Services Administration (HRSA):					
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918			–	1,326,350
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153			–	777,246
Ryan White HIV/AIDS Dental Reimbursement and Community Based Dental Partnership Grants	93.924			–	496,312
Affordable Care Act (ACA) Grants for School-Based Health Center Capital Expenditures	93.501			–	126,944
Total HRSA direct programs				–	2,726,852
Centers for Disease Control and Prevention:					
Assistance Programs for Chronic Disease Prevention and Control	93.945			411,621	411,621
Substance Abuse and Mental Health Services Administration:					
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243			–	524,652
Office of the Secretary:					
Health Improvement for Re-entering Ex-offenders Initiative (HIRE) HIV/AIDS	93.452			–	221,237
Total DHHS direct programs				7,853,897	11,326,638

Federal Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Grantor	Pass-through ID Number/Contract Number	R&D Cluster	Federal Expenditures
Department of Health and Human Services (DHHS) (continued)					
Pass-through programs:					
Drug Abuse and Addiction Research Programs	93.279	Research Foundation for Mental Hygiene	5U10 DA013035-12	$ 20,308	$ 20,308
Drug Abuse and Addiction Research Programs	93.279	Research Foundation for Mental Hygiene	U10DA013035-11S3	110,958	110,958
Drug Abuse and Addiction Research Programs	93.279	Research Foundation for Mental Hygiene	R01DA24606-4	29,841	29,841
Drug Abuse and Addiction Research Programs	93.279	New York University	R34 DA031636-01A1	28,297	28,297
Total pass-through programs CFDA 93.279				189,404	189,404
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	Columbia University	P30DK063608-12	90,546	90,546
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	George Washington University	5U01DK098246-03	461,054	461,054
Total pass-through programs CFDA 93.847				551,600	551,600
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	University of Cincinnati	5U01 NS069763-03	128,185	128,185
Alcohol Research Programs	93.273	Research Foundation of the City University of New York	1R25 AA0200480-01	130,514	130,514
National Center for Advancing Translational Sciences	93.350	Columbia University	8UL1 TR000040-07	268,017	268,017
Allergy and Infectious Diseases Research	93.855	Columbia University	5R01 AI065200-08	46,566	46,566
Lung Diseases Research	93.838	Vanderbilt University Medical Center	VUMC41597	47,985	47,985
Cancer Cause and Prevention Research	93.393	Icahn School of Medicine at Mount Sinai	1R01 CA171558-01	16,912	16,912
Aging Research	93.866	University of Alabama	R01 AG033682-01A1	11,365	11,365
National Institute of Drug Abuse	93	Thomas Jefferson University	HHSN2712011001	2,338	2,338
Social Services Block Grant	93.667	New York City Administration for Children's Services	068-20120000463	–	692,224
Social Services Block Grant	93.667	New York City Administration for Children's Services	20111427497	–	628,289
Total pass-through programs CFDA 93.667				–	1,320,513
Maternal and Child Health Services Block Grant to the States	93.994	New York State Department of Health via Columbia University	C-022478	–	1,042,031
Maternal and Child Health Services Block Grant to the States	93.994	New York State Department of Health via Columbia University	C-023850	–	60,251
Total pass-through programs CFDA 93.994				–	1,102,282

St. Luke's-Roosevelt Hospital Center and Affiliates

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Grantor	Pass-through ID Number/Contract Number	R&D Cluster	Federal Expenditures
Department of Health and Human Services (DHHS) (continued)					
Pass-through programs (continued):					
HIV Emergency Relief Project Grants	93.914	Public Health Solutions (MHRA)	09-MCM-175	$ –	$ 1,391,876
HIV Emergency Relief Project Grants	93.914	Public Health Solutions (MHRA)	11-FNS-175	–	177,943
Total pass-through programs CFDA 93.914				–	1,569,819
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	Beth Israel Medical Center	5479SM059569-04	–	103,634
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	Beth Israel Medical Center	U79 SM061254	–	30
Total pass-through programs CFDA 93.243				–	103,664
National Bioterrorism Hospital Preparedness Program	93.889	Fund for Public Health	12907500	–	4,092
National Bioterrorism Hospital Preparedness Program	93.889	Fund for Public Health	32907500	–	138
National Bioterrorism Hospital Preparedness Program	93.889	New York State Department of Health	09 CORE 12807500	–	9,282
Total pass-through programs CFDA 93.889				–	13,512
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.074	Fund for Public Health	12-SLRHSLD-01	–	305,576
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.074	Fund for Public Health	13-SLRHC-01/76602	–	96,038
Total pass-through programs CFDA 93.074				–	401,614
Injury Prevention and Control Research and State and Community Based Programs	93.136	New York State Department of Health	C-026635	–	146,306
AIDS Education and Training Centers	93.145	Columbia University	6(Acct#S-39396)	–	93,481
Health Care Innovation Awards (HCIA)	93.610	San Francisco Community College	1290927-B4-B	–	268,640
HIV Prevention Activities - Health Department Based	93.940	Public Health Solutions	11-HTR-175	–	195,262
Medical Assistance Program	93.778	New York State Department of Health	SLR	–	2,146,992
Agency for Healthcare Research and Quality	93	John Hopkins University	HHSA290200600025c	189,552	189,552
Agency for Healthcare Research and Quality	93	John Hopkins University	FWA00003834	17,636	17,636
Total DHHS pass-through programs				1,600,074	8,962,159

St. Luke's-Roosevelt Hospital Center and Affiliates

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Grantor	Pass-through ID Number/Contract Number	R&D Cluster	Federal Expenditures
Total DHHS programs				**9,453,971**	**20,288,797**
Department of Justice					
Pass-through programs:					
Crime Victim Assistance	16.575	New York State Department of Health	C-501156	$ –	$ 467,800
Crime Victim Assistance	16.575	New York State Department of Health	C-501157	–	219,958
Total pass-through programs CFDA 16.575				–	687,758
Sexual Assault Services Formula Program	16.017	New York State Department of Health	C-652044	–	15,408
ARRA: Violence Against Women Formula Grants	16.588	New York State Department of Health	C-548846	–	54,124
Total Department of Justice programs				**–**	**757,290**
Department of Agriculture					
Pass-through programs:					
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	New York State Department of Health WIC Program	C-O25798	–	15,635
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	New York State Department of Health WIC Program	C-O25798	–	638,274
Total Department of Agriculture programs				**–**	**653,909**
Department of Housing and Urban Development					
Federal Housing Administration Section 223 Mortgage Insurance Program – Direct/Mortgage Insurance – Hospitals	14.128			–	246,599,129
Total expenditures of federal awards				**$ 9,453,971**	**$ 268,299,125**

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the St. Luke's-Roosevelt Hospital Center and Affiliates (SLR) and is presented on the accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of the U.S. Office of Management and Budget (OMB) Circular A-133*, Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements of SLR. For purposes of the Schedule, federal awards include any assistance provided by a federal agency directly or indirectly in the form of grants, contracts, cooperative agreements, loan and loan guarantees, or other non-cash assistance.

Direct and indirect costs are charged to awards in accordance with cost principles contained in the Department of Health and Human Services, U.S. Office of the Assistant Secretary Comptroller (OASC), OASC-3 *A Guide for Hospitals*. Under these cost principles, certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect costs are recovered at rates specified under the various grants and contracts or SLR's approved indirect cost rate, whichever is lower.

2. Subrecipients

Of the federal expenditures presented in the Schedule, SLR provided the following to subrecipients:

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
Research and Development Cluster	Various	$ 1,113,923

3. U.S. Department of Housing and Urban development Mortgage Insurance Program

SLR has a mortgage insured under the provisions of the U.S. Department of Housing and Urban Development–Federal Housing Administration Section 223 Mortgage Insurance Program pursuant to Section 242 of the National Housing Act. At December 31, 2014 and 2013, the outstanding balance of the loan totaled approximately $246,599,000 and $256,341,000, respectively. The U.S. Department of Housing and Urban Development (HUD) has determined that the mortgage insurance program is to be considered a federal award for purposes of compliance with U.S. Office of Management and Budget Circular A-133.

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

The Board of Trustees
Mount Sinai Health System, Inc.

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 St. Luke's-Roosevelt Hospital Center and Affiliates (SLR), which comprise the consolidated statement of financial position as of December 31, 2014, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 22, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered SLR'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 SLR's internal control. Accordingly, we do not express an opinion on the effectiveness of SLR'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 SLR'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2014-01.

St. Luke's-Roosevelt Hospital Center and Affiliates Response to Findings

SLR's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. SLR's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on it.

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 22, 2015

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

The Board of Trustees
Mount Sinai Health System, Inc.

Report on Compliance for Each Major Federal Program

We have audited St. Luke's-Roosevelt Hospital Center and Affiliates' (SLR) 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 SLR's major federal programs for the year ended December 31, 2014. SLR'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 SLR'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 SLR'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 SLR's compliance.

Opinion on Each Major Federal Program

In our opinion, SLR complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

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 2014-01. Our opinion on each major federal program is not modified with respect to these matters.

SLR's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. SLR's response was not subjected to the 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 SLR is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered SLR'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 SLR's internal control over compliance.

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

Building a better working world

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

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

Ernst & Young LLP

October 30, 2015

St. Luke's-Roosevelt Hospital Center and Affiliates

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2014

Section I – Summary of Auditors' Results

Financial statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	____ Yes	X No
Significant deficiency(ies) identified?	____ Yes	X None reported
Noncompliance material to financial statements noted?	____ Yes	X No

Federal Awards Section

Internal control over financial reporting:

Material weakness(es) identified?	____ Yes	X No
Significant deficiency(ies) identified?	____ Yes	X None reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133? X Yes ____ No

Identification of major federal programs:

CFDA Numbers	**Name of Federal Program or Cluster**
93.847, 93.279, 93.867, 93.838, 93.855, 93.866, 93.242, 93.279, 93.847, 93.945, 93.853, 93.273, 93.350, 93.393, 93	Research and Development Cluster
14.128	FHA Section 223 Mortgage Insurance Program – Direct/Mortgage Insurance - Hospitals
93.778	Medical Assistance Program
93.153	Coordinated Services and Access to Research for Women, Infants, Children, and Youth
16.575	Crime Victim Assistance
93.994	Maternal and Child Health Services Block Grant to the States
93.914	HIV Emergency Relief Project Grants

Dollar threshold used to distinguish between Type A and Type B programs: $ 651,000*

Auditee qualified as low-risk auditee? X Yes ____ No

* Threshold calculation excludes the FHA Section 223 Mortgage Insurance Program- Direct/Mortgage Insurance-Hospitals.

Section II – Financial Statement Findings

None noted.

Section III – Federal Award Findings and Questioned Costs

Finding Reference Number: 2014-01

Federal Program Information

U.S. Department of Health and Human Services

Research and Development Cluster (CFDA numbers: 93.279 Drug Abuse and Addiction Research Programs; 93.838 Lung Diseases Research; 93.847 Diabetes, Digestive, and Kidney Diseases Extramural Research; 93.866 Aging Research; 93.242 Mental Health Research Grants; 93.855 Allergy and Infectious Diseases Research; 93.350 National Center for Advancing Translational Sciences; 93.853 Extramural Research Programs in the Neurosciences and Neurological Disorders; 93.393 Cancer Cause and Prevention Research; 93.273 Alcohol Research Programs; 93 Agency for Healthcare Research and Quality)

Criteria or specific requirement

OMB Circular A-133 Compliance Supplement Part 3 states, "Indirect cost rate proposals (ICRPs) prepared by non-profit organizations are based on the most current financial data, supported by the organization's accounting system and audited financial statements. These ICRPs can be used to either establish predetermined rates, fixed rates with carry-forward provision, provisional, or final rates."

Condition

St. Luke's-Roosevelt Hospital Center's (SLR or the Hospital) contracts for the programs noted in the Federal Program Information section above contain a Negotiated Indirect Cost Rate Agreement (NICRA) provision whereby indirect program expenditures are charged to the grantor by SLR. The NICRA is calculated based upon Institutional Cost Report (ICR) software provided by the New York State Department of Health (NYSDOH). SLR has identified an error in the ICR software utilized as the basis for the NICRA and as a result, concluded that the Hospital was overpaid for indirect costs incurred for the year ended December, 31 2014.

Questioned Costs

$351,827

Context

This matter was identified by management prior to the commencement of our audit testing. We tested the amount of the overpayment calculated by management. We obtained the revised ICR used as the basis for calculating the NICRA and recalculated the amount of overpayment. We reviewed the related grant contract for the identified programs noting the inclusion of NICRA provision. To assess the completeness of the error, we reviewed all grant contracts ensuring no other program contracts contained the same NICRA provision. The results of our testing indicated the questioned cost identified by management is reasonably stated.

Effect

The Hospital was not in compliance with allowable cost provisions under the Research and Development Cluster.

Cause

ICR software utilized in the NICRA calculation contained an error.

Recommendation

We recommend the Hospital ensure the NICRA calculation is accurate by manually re-calculating rates provided by the NYSDOH's ICR software.

Views of Responsible Officials and Planned Corrective Actions

In the course of a standard Internal Audit review, it was determined that there was a system error in the ICR software provided by the NYSDOH which resulted in the doubling of certain expenses on the ICR. As a result of this software issue, the Hospital costs were overstated in the 2011 submission to Department of Health and Human Services (DHHS) which served as the basis for the NICRA. At the time, the Hospital's NICRA was set at an indirect cost rate of 63.9%; utilizing the revised and corrected ICR results in an indirect cost rate of 54.5%.

The Hospital self-disclosed the software error to DHHS and has submitted a revised proposal in support of the 54.5% indirect cost rate and a request that a revised NICRA be issued for fiscal years ending December 31, 2015 and 2016. The Hospital developed and submitted a cost impact statement which provides on a grant-by-grant basis, the over-recovery for fiscal years ended December 31, 2013 and 2014, and for the period January 1, 2015 to October 9, 2015. The analysis indicates that the Hospital over-recovered a total of $716,339 for the periods noted.

The Hospital's proposal is subject to DHHS acceptance. Upon acceptance of the agreement and receipt of repayment instructions, the Hospital will repay the over-recovered funds.

St. Luke's-Roosevelt Hospital Center and Affiliates

Summary Schedule of Prior Audit Findings

Year Ended December 31, 2014

Fiscal Year	Finding Number	Finding	Federal Program Information	Questioned Cost	Status
2013	01	Of the 18 instances of reimbursement DHHS Payment Management System drawdowns tested, one award was charged in excess of $49,058 due to a duplicate payment made to a subcontracted vendor. Management had identified the duplicate payment and was in the process of correcting for it however the award had not been credited for the duplicate payment at the yearend date.	Applies to CFDA 93.867 within the Research and Development Cluster	None	SLR has implemented additional controls to ensure compliance with this requirement. This finding did not recur in 2014.
2013	02	SLR did not meet certain debt covenant ratio requirements at December 31, 2013.	Applies to CFDA 14.128, Department of Housing and Urban Development (HUD)/FHA Insured Mortgages	None	Per discussion with HUD, not meeting the ratio requirements was not deemed a finding.
2012	01	SLR policy and procedure requires monthly effort certifications and evidence of review and approval of time charges to grants by the Principal Investigator and supervisory official. Of the 40 effort certification tested, two effort certifications were not obtained or retained on file.	Research and Development Cluster	None	SLR has implemented additional controls to ensure compliance with this requirement. This finding did not recur in 2013 or 2014.

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