ALBANY MEDICAL CENTER AND RELATED ENTITIES

Reports Required by OMB Circular A-133

December 31, 2014

ALBANY MEDICAL CENTER AND RELATED ENTITIES

Reports Required by OMB Circular A-133

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KPMG LLP
515 Broadway
Albany, NY 12207-2974

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

The Board of Directors
Albany Medical Center and Related Entities:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the combined financial statements of Albany Medical Center and Related Entities (the Center), which comprise the combined balance sheet as of December 31, 2014, and the related combined statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated April 30, 2015.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's combined financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

KPMG LLP

Albany, New York
April 30, 2015

KPMG LLP
515 Broadway
Albany, NY 12207-2974

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

The Board of Directors
Albany Medical Center and Related Entities:

Report on Compliance for Each Major Federal Program

We have audited Albany Medical Center and Related Entities' (the Center) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the year ended December 31, 2014. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

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

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

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

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

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

We have audited the combined financial statements of the Center as of and for the year ended December 31, 2014, and have issued our report thereon dated April 30, 2015, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying schedule of expenditures of federal awards for the year ended December 31, 2014 is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the combined financial statements as a whole.

KPMG LLP

Albany, New York
September 28, 2015

ALBANY MEDICAL CENTER AND RELATED ENTITIES

Schedule of Expenditures of Federal Awards

Year ended December 31, 2014

Federal grantor/pass-through grantor/program title	Federal CFDA number	Pass-through	Direct	Total
Student financial assistance cluster:				
U.S. Department of Education – Direct Programs:				
Federal Work-Study Program	84.033	$ —	303,939	303,939
Federal Direct Student Loans	84.268	—	26,868,873	26,868,873
Federal Perkins Loan Program	84.038	—	6,511,044	6,511,044
Health Professions Student and Primary Care Loan Programs	93.342	—	701,960	701,960
Loans for Disadvantaged Students Program	93.342	—	567,950	567,950
Total U.S. Department of Education		—	34,953,766	34,953,766
Total student financial assistance cluster		—	34,953,766	34,953,766
Research and development cluster:				
U.S. Department of Health & Human Services:				
National Institute of Allergy & Infectious Diseases:				
Allergy, Immunology and Transplantation Research	93.855	45,276	4,252,183	4,297,459
National Institute of Arthritis & Musculoskeletal & Skin Disease:				
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	16,264	343,689	359,953
National Cancer Institute:				
Cancer Cause and Prevention Research	93.393	28,895	—	28,895
Cancer Detection and Diagnosis Research	93.394	—	32,667	32,667
Cancer Biology Research	93.396	—	70,127	70,127
Cancer Research Manpower	93.398	37,970	26,985	64,955
National Institute on Drug Abuse:				
Drug Abuse and Addiction Research Programs	93.279	—	237,864	237,864
National Institute on Deafness & Other Communication Disorders:				
Research Related to Deafness and Communication Disorders	93.173	—	546,606	546,606
National of Diabetes, Digestive & Kidney Diseases:				
Diabetes, Digestive and Kidney Diseases Extramural Research	93.847	—	33,907	33,907
National Institute of General Medical Sciences:				
Biomedical Research and Research Training	93.859	—	536,061	536,061
National Heart, Lung & Blood Institute:				
Heart and Vascular Diseases Research	93.837	—	925,553	925,553
Lung Diseases Research	93.838	—	1,261,957	1,261,957
National Institute of Mental Health:				
Mental Health Research Grants	93.242	—	16,535	16,535
National Institute of Neurological Disorders & Strokes:				
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	—	562,930	562,930
U.S. Department of the Army:				
Military Medical Research and Development	12.420	—	273,434	273,434
Basic Scientific Research	12.431	—	286,505	286,505
Total research and development cluster		128,405	9,407,003	9,535,408
Other federal awards:				
U.S. Department of Health & Human Services:				
Substance Abuse and Mental Health Services Projects of Regional National Significance	93.243	—	65,422	65,422
Aging Research	93.866	11,327	—	11,327
Allergy, Immunology and Transplantation Research	93.855	—	113,201	113,201
Research and Training in Complementary and Alternative Medicine	93.213	25,152	—	25,152
Cancer Treatment Research	93.395	95,856	—	95,856
Cancer Detention and Diagnosis Research	93.394	9,845	—	9,845
Vision Research	93.867	1,510	—	1,510

(Continued)

ALBANY MEDICAL CENTER AND RELATED ENTITIES

Schedule of Expenditures of Federal Awards

Year ended December 31, 2014

Federal grantor/pass-through grantor/program title	Federal CFDA number	Pass-through	Direct	Total
HIV Formula Care Grants	93.917	$ 87,970	—	87,970
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	—	1,125,032	1,125,032
Coordinated Services & Access to Research for Women, Infants, Children and Youth	93.153	—	614,993	614,993
AIDS Education & Training Centers	93.145	446,105	—	446,105
Cardiovascular Diseases Research	93.837	21,630	—	21,630
National Bioterrorism Hospital Preparedness Program	93.889	138,088	—	138,088
Center for Disease Control and Prevention – Disabilities Prevention	93.184	10,871	—	10,871
Center for Disease Control and Prevention – Disabilities Prevention	93.065	3,230	—	3,230
Diabetes, Digestive, and Kidney Extramural Research	93.847	—	138,162	138,162
Maternal and Child Health Federal Consolidated Programs	93.110	45,880	—	45,880
Extramural Research Programs in the Neurosciences ad Neurological Disorders	93.853	35,027	—	35,027
Maternal & Child Health Services Block Grant to the States	93.994	127,047	—	127,047
Electricity Delivery and Energy Reliability, Research, Development & Analysis	81.122	4,026	—	4,026
Medical Assistance Program	93.778	63,391	—	63,391
Hospital Prepared Program (HPP) and Public Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.074	30,541	—	30,541
HIV Prevention Activities – Health Department Based	93.940	124,206	—	124,206
Total U.S. Department of Health & Human Services		1,281,702	2,056,810	3,338,512
U.S. Department of Justice:				
Violence Against Women Formula Grants	16.588	40,605	—	40,605
		40,605	—	40,605
U.S. National Highway Traffic & Safety Administration:				
Occupant Protection	20.602	11,324	—	11,324
		11,324	—	11,324
U.S. Department of Agriculture:				
Special Supplemental Nutrition Program for Women, Infants & Children	10.557	1,846,926	—	1,846,926
Child & Adult Care Food Program	10.558	39,633	—	39,633
		1,886,559	—	1,886,559
Department of Housing and Urban Development:				
Mortgage Insurance Hospitals-Mortgage Note	14.128	—	35,671,468	35,671,468
Mortgage Insurance Hospitals-Refinance Loan	14.128	—	8,525,137	8,525,137
Mortgage Insurance Hospitals-Construction Loan	14.128	—	261,636,000	261,636,000
		—	305,832,605	305,832,605
Total other federal awards		3,220,190	307,889,415	311,109,605
Total federal awards		$ 3,348,595	352,250,184	355,598,779

See accompanying notes to schedule of expenditures of federal awards.

ALBANY MEDICAL CENTER AND RELATED ENTITIES

Notes to Schedule of Expenditures of Federal Awards

Year ended December 31, 2014

(1) Basis of Presentation

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

(2) Federal Expenditures

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

(3) Indirect Costs

Indirect costs are charged to federal grants and contracts at a federally approved predetermined rate. The predetermined rates for the period January 1, 2014 through December 31, 2014 were 58% and 26% for on-campus programs and off-campus programs, respectively. Indirect costs are included in the reported federal expenditures.

(4) Administrative Cost Allowance

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

(5) Guaranteed Student Loan Programs

As part of the Center, the College offers student financial assistance through the Federal Direct Student Loan Program under the U.S. Department of Education, which is a guaranteed student loan program. The College is only responsible for the performance of certain administrative duties relating to this program. The loans processed and guaranteed under this program during the year ended December 31, 2014 and included in the federal expenditures presented in the Schedule are as follows:

Program title	CFDA number		Value of loans guaranteed during year ended December 31, 2014
Federal Direct Student Loans	84.268	$	26,868,873

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

The federal student loan programs listed below are administered directly by the Center, and balances and transactions relating to these programs are included in the Center's combined financial statements. Loans

ALBANY MEDICAL CENTER AND RELATED ENTITIES

Notes to Schedule of Expenditures of Federal Awards

Year ended December 31, 2014

outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule.

For the year ended December 31, 2014, the College made loans totaling $1,616,170 in the Federal Perkins Loan Program (CFDA number 84.038) and incurred administrative costs of $80,403. This entire amount was funded with principal and interest repaid to the College related to previous loans. The outstanding balance of loans under the Federal Perkins Loan Program was $5,609,425 at December 31, 2014.

For the year ended December 31, 2014, the College made loans totaling $140,000 in the Health Professions Student and Primary Care Loan Programs (CFDA number 93.342). The outstanding balance of loans under the Health Professions Student and Primary Care Loan Programs was $639,166 at December 31, 2014.

For the year ended December 31, 2014, the College made loans totaling $213,799 in the Loans for Disadvantaged Students Program (CFDA number 93.342). The outstanding balance of loans under the Loans for Disadvantaged Students Program was $480,196 at December 31, 2014.

(7) Mortgage Insurance

The Hospital has the following long-term debt obligations outstanding as of December 31, 2014, which is insured by the U.S. Department of Housing and Urban Development:

Program title	CFDA number	Original insured loan amount	Loan balance at December 31, 2014
Mortgage Insurance Hospitals-Mortgage Note	14.128	$ 106,203,443	26,404,382
Mortgage Insurance Hospitals-Refinance Loan	14.128	9,584,200	8,137,981
Mortgage Insurance Hospitals-Construction Loan	14.128	311,856,000	257,110,732

In December 2010, the Center entered into a $321,440,000 mortgage loan, comprised of a Construction Loan of $311,856,000 and a Refinance Loan of $9,584,200, both of which are insured under the FHA-241 mortgage insurance program. The Construction Loan was used to finance the Hospital’s expansion project (The Project), which is a six-story patient tower, to house 96 new beds, 20 new operating rooms and a co-generation plant. Construction was substantially complete in November 2013. Final endorsement occurred in September 2014 in the amount of $261,636,000 at an interest rate of 6.2%. The permanent mortgage has a maturity date of July 2038 with monthly principal and interest payments of approximately $1,731,000. The Refinance Loan was used to retire the Center’s Series 1999 Bonds. The Refinance Loan’s interest rate is 4.66%, with an amortization period through May 1, 2029. The Mortgage Note matures in 2017, and accrues interest at 3.6%.

Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule.

(Continued)

ALBANY MEDICAL CENTER AND RELATED ENTITIES

Notes to Schedule of Expenditures of Federal Awards

Year ended December 31, 2014

(8) Pass-Through Funds

During the year ended December 31, 2014, the Center received pass-through funds for research and development and other federal awards, which are included in the schedule of expenditures of federal awards, from the following primary recipients:

Program title	Federal CFDA number	Agency or pass-through number		Federal expenditures
Research and development:				
University of North Dakota	93.855	AI101644	$	14,171
University of Colorado	93.855	AI099346		31,105
Emroy University	93.846	T191799		16,264
Health Research, Inc.	93.393	15-0689		28,895
Purdue University	93.398	CA174665		37,970
Other federal awards:				
University of California	93.866	AG024904		11,327
Massachusetts General Hospital	93.213	AT000613		25,152
St. Baldrick’s Foundation	93.395	CA98543		52,314
The Children’s Hospital of Philadelphia	93.395	CA180886		1,002
The Children’s Hospital of Philadelphia	93.395	HHSN261200800001E		8,807
The Children’s Hospital of Philadelphia	93.395	CA98543		33,733
The Children’s Hospital of Philadelphia	93.867	G-ROP-1		1,510
Worcester Polytechnic Institute	93.394	CA166379		9,845
Health Research, Inc.	93.917	15-3357		87,970
Health Research, Inc.	93.889	2057		110,070
Health Research, Inc.	93.889	2423		28,018
Health Research, Inc.	93.065	14-0950		3,230
Health Research, Inc.	93.074	4868-01		28,387
Health Research, Inc.	93.074	2423-11		2,154
Health Research, Inc.	93.940	4738-01		48,789
Health Research, Inc.	93.940	4816-01		75,417
Health Research, Inc.	93.110	4594		25,797
New York University School of Medicine	93.837	HL105907		20,862
Brigham And Women’s Hospital Inc	93.837	HL101422		768
Columbia University	93.145	HA00071		446,105
Mount Sinia School of Medicine of New York Univ.	93.184	DD000862		10,871
Mount Sinia School of Medicine of New York Univ.	93.110	MC24048		20,083
New York State Department of Health	10.557	C025720		1,846,926
New York State Department of Health	93.994	C023836		69,386
New York State Department of Health	93.994	C029413		57,661
New York State Department of Health	10.558	2086		39,633

(Continued)

ALBANY MEDICAL CENTER AND RELATED ENTITIES

Notes to Schedule of Expenditures of Federal Awards

Year ended December 31, 2014

Program title	Federal CFDA number	Agency or pass-through number		Federal expenditures
New York State Department of Health	93.778	C023938	$	47,116
New York State Department of Health	93.778	C023906		16,275
New York State Governor's Traffic Safety Committee	20.602	C001723		11,324
NYS Dept. of Criminal Justice	16.588	T554446		5,474
NYS Dept. of Criminal Justice	16.588	T554447		35,131
Yale University	93.853	NS044876		2,687
Massachusetts General Hospital	93.853	NS052592		6,646
Albany Research Institute, Inc	93.853	NS069454		24,978
Northwestern University	93.853	NS080818		716
Battele Memorial Institute	81.122	C114380		4,026
Total pass-through funds			$	3,348,595

(9) Noncash Assistance

Included in the Special Supplemental Nutrition Program for Women, Infants, and Children (CFDA number 10.557) is $1,538,890 of noncash assistance, which is the value of checks redeemed during the fiscal year.

(10) Subrecipients

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

Program title	Federal CFDA number	Subrecipient		Amount
Research and development:				
National Institute of Allergy & Infectious Diseases	93.855	New York Medical College	$	62,535
National Institute of Allergy & Infectious Diseases	93.855	East Carolina University, Brody School of Medicine		18,284
National Institute of Allergy & Infectious Diseases	93.855	Trudeau Institute Inc.		235,102
National Institute of Allergy & Infectious Diseases	93.855	University of Pittsburgh		8,286
National Cancer Institute	93.394	Rensselaer Polytechnic Institute		32,223
National Institute of Drug Abuse	93.279	Research Foundation of SUNY		2,445
National Institute of Drug Abuse	93.279	Health Research, Inc.		20,891

(Continued)

ALBANY MEDICAL CENTER AND RELATED ENTITIES

Notes to Schedule of Expenditures of Federal Awards

Year ended December 31, 2014

Program title	Federal CFDA number	Subrecipient		Amount
National Institute of Deafness & other communication Disorders	93.173	Michigan State University	$	265,298
National Institute of Neurological Disorders & Stroke	93.853	Health Research, Inc.		128,181
U.S. Department of the Army	12.431	The University of Texas at El Paso		4,377
U.S. Department of the Army	12.431	Rensselaer Polytechnic Institute		64,853
U.S. Department of the Army	12.431	University of Florida		49,906
Total research and development				892,381
Other federal awards:				
Health resources & services administration:				
AIDS Education & Training Centers	93.145	University of Rochester		20,000
AIDS Education & Training Centers	93.145	Erie County Medical Center Corp.		10,000
HIV Formula Care Grants	93.917	Aids Council Northeastern NY		19,515
Grants for Coordinated HIV Services & Access to Research for Children, Youth, Women & Families	93.153	Aids Council Northeastern NY		18,693
Grants for Coordinated HIV Services & Access to Research for Children, Youth, Women & Families	93.153	Hudson Valley Community Services Inc. (Aids Related Community Services)		4,527
Grants for Coordinated HIV Services & Access to Research for Children Youth, Women & Families	93.153	Albany Damien Center		15,505
Grants for Coordinated HIV Services & Access to Research for Children, Youth, Women & Families	93.153	Pride Center of the Capital Region		14,224
Grants for Coordinated HIV Services & Access to Research for Children, Youth, Women & Families	93.153	Hudson River Health Center		41,621
Grants for Coordinated HIV Services & Access to Research for Children, Youth, Women & Families	93.153	Whitney Health Center		28,829
Total other federal awards				172,914
Grand total			$	1,065,295

ALBANY MEDICAL CENTER AND RELATED ENTITIES

Schedule of Findings and Questioned Costs

Year ended December 31, 2014

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

• Deficiency(ies) identified?	____	yes	X	no
• Material weakness(es) identified?	____	yes	X	no
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	____	yes	X	none reported
Noncompliance material to the financial statements noted?	____	yes	X	no

Federal Awards

Internal control over major programs:

• Material weakness(es) identified?	____	yes	X	no
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	____	yes	X	none reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	____	yes	X	no

Identification of Major Programs

Name of federal program or cluster	CFDA number(s)
Mortgage Insurance Hospitals	14.128
Special Supplemental Nutrition Programs for Women, Infants & Children	10.557
Student Financial Assistance Cluster	Various

Dollar threshold used to distinguish between type A and type B programs: $1,492,985

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

(Continued)

ALBANY MEDICAL CENTER AND RELATED ENTITIES

Schedule of Findings and Questioned Costs

Year ended December 31, 2014

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

ALBANY MEDICAL CENTER
AND RELATED ENTITIES

Combined Financial Statements
and Supplementary Information

December 31, 2014 and 2013

(With Independent Auditors' Report Thereon)

ALBANY MEDICAL CENTER
AND RELATED ENTITIES

Combined Financial Statements
and Supplementary Information

December 31, 2014 and 2013

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KPMG LLP
515 Broadway
Albany, NY 12207-2974

Independent Auditors' Report

The Board of Directors
Albany Medical Center and Related Entities:

Report on the Financial Statements

We have audited the accompanying combined financial statements of Albany Medical Center and Related Entities (the Center), which comprise the combined balance sheets as of December 31, 2014 and 2013, and the related combined statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Albany Medical Center and Related Entities as of December 31, 2014 and 2013, and the results of their operations and changes in net assets, and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combining information included on pages 45 through 52 is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audits of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2015 on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

KPMG LLP

Albany, New York
April 30, 2015

ALBANY MEDICAL CENTER
AND RELATED ENTITIES

Combined Balance Sheets

December 31, 2014 and 2013

(Dollars in thousands)

Assets	2014	2013
Current assets:		
Cash and cash equivalents	$ 113,838	117,405
Receivables, net:		
Patient service	122,023	107,348
Contributions	3,452	3,706
Other	23,539	16,576
	149,014	127,630
Inventories	14,983	14,304
Prepaid expenses and other current assets	13,264	10,666
Total current assets	291,099	270,005
Assets whose use is limited:		
Under bond indenture agreements	10,775	18,126
Self-insurance funds	78,370	74,006
Other investments	508	1,365
	89,653	93,497
Property and equipment, at cost, net of accumulated depreciation and amortization	647,931	621,712
Long-term investments	215,628	188,203
Other assets:		
Student loan receivables	7,061	6,269
Deferred compensation agreements	18,075	15,370
Contributions receivable, noncurrent	5,153	5,741
Assets held in charitable trusts	3,873	4,047
Accrued pension asset	5,016	30,212
Other assets	27,593	13,599
	66,771	75,238
Total assets	$ 1,311,082	1,248,655

See accompanying notes to combined financial statements.

Liabilities and Net Assets		2014	2013
Current liabilities:			
Current maturities of long-term debt	$	26,244	25,394
Accounts payable		70,925	57,110
Accrued expenses:			
Salaries and related items		39,998	35,520
Compensated absences		35,544	35,065
Deferred revenue		17,534	17,209
Other liabilities		15,204	15,812
Total current liabilities		205,449	186,110
Long-term debt, net of current maturities		424,723	410,052
Federal loan programs		6,243	6,262
Other liabilities, long-term		74,982	70,472
Professional liability self-insurance reserve		87,153	76,971
Total liabilities		798,550	749,867
Commitments and contingencies (notes 3, 8, 10, and 13)			
Net assets:			
Unrestricted		364,338	354,558
Temporarily restricted		80,233	79,532
Permanently restricted		67,961	64,698
		512,532	498,788
Total liabilities and net assets	$	1,311,082	1,248,655

ALBANY MEDICAL CENTER
AND RELATED ENTITIES

Combined Statements of Operations and Changes in Net Assets

Years ended December 31, 2014 and 2013

(Dollars in thousands)

		2014	2013
Operating revenue:			
Patient service revenue, net	$	1,012,213	896,697
Net provision for uncollectible accounts		(16,310)	(18,397)
Patient service revenue, less provision for uncollectible accounts		995,903	878,300
Tuition and fees		37,528	36,887
Federal, state, and local grants and contracts		15,276	15,274
Private gifts, grants, and contracts		6,559	7,504
Interest and dividend income		4,788	4,234
Other revenue		26,675	25,882
Net assets released from restrictions used for operations		15,476	12,564
Total operating revenue		1,102,205	980,645
Operating expenses:			
Salaries		516,991	471,288
Employee benefits		77,224	79,776
Supplies		226,924	212,570
Purchased services		139,626	123,723
Depreciation and amortization		66,868	55,813
Interest		22,511	10,674
Other expenses		17,357	16,649
Total operating expenses		1,067,501	970,493
Operating margin		34,704	10,152
Nonoperating gains:			
Net realized gains on sales of investments		4,395	2,499
Other, net		1,307	436
Total nonoperating gains, net		5,702	2,935
Excess of revenue over expenses		40,406	13,087

(Continued)

ALBANY MEDICAL CENTER
AND RELATED ENTITIES

Combined Statements of Operations and Changes in Net Assets

Years ended December 31, 2014 and 2013

(Dollars in thousands)

		2014	2013
Unrestricted net assets:			
Excess of revenue over expenses	$	40,406	13,087
Changes in net unrealized gains and losses on investments		3,091	17,954
Net assets released from restrictions used for purchase of property and equipment		5,323	10,593
Change in fair value of interest rate swaps		(3,864)	4,484
Pension related changes other than net periodic pension costs		(35,176)	51,004
Increase in unrestricted net assets		9,780	97,122
Temporarily restricted net assets:			
Private gifts, grants, contracts and other		11,555	10,935
Investment interest, dividends, and net realized gains, net		5,994	4,704
Net assets released from restrictions for operations		(15,476)	(12,564)
Changes in net unrealized gains and losses on investments		(1,409)	10,974
Contributions for property and equipment		5,360	10,352
Net assets released from restrictions used for purchase of property and equipment		(5,323)	(10,593)
Increase in temporarily restricted net assets		701	13,808
Permanently restricted net assets:			
Private gifts		3,263	4,155
Increase in permanently restricted net assets		3,263	4,155
Change in net assets		13,744	115,085
Net assets, beginning of year		498,788	383,703
Net assets, end of year	$	512,532	498,788

See accompanying notes to combined financial statements.

ALBANY MEDICAL CENTER
AND RELATED ENTITIES

Combined Statements of Cash Flows

Years ended December 31, 2014 and 2013

(Dollars in thousands)

		2014	2013
Cash flows from operating activities:			
Change in net assets	$	13,744	115,085
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Restricted gifts and income		(8,623)	(14,507)
Impaired losses on investments		2,484	1,094
Net realized and change in net unrealized gains and losses on investments		(12,946)	(35,700)
Pension related changes other than net periodic pension costs		35,176	(51,004)
Change in fair value of interest rate swaps		3,864	(4,484)
Depreciation and amortization		66,868	55,813
Loss on disposal of property and equipment		24	309
Changes in operating assets and liabilities:			
Receivables, net		(20,188)	(12,211)
Inventories		(637)	(381)
Prepaid expenses and other assets		(1,684)	4,632
Professional liability self-insurance reserve		10,182	6,052
Accounts payable		13,815	1,702
Accrued expenses and other liabilities		5,301	(7,278)
Accrued pension asset		(9,980)	(7,836)
Net cash provided by operating activities		97,400	51,286
Cash flows from investing activities:			
Additions to property and equipment		(91,774)	(166,187)
Change in bond indenture agreements		13	(7,418)
Investment purchases		(111,665)	(44,700)
Proceeds from investment maturities and sales		96,002	43,862
Investment in partnership venture		(1,657)	(2,225)
Acquisition of physician practice groups		(12,898)	—
Net cash used in investing activities		(121,979)	(176,668)
Cash flows from financing activities:			
Principal payments on long-term debt		(24,629)	(20,661)
Refinancing of debt		(37,463)	—
Restricted gifts and income		8,623	14,507
Issuance of long term debt		77,613	126,077
Cash paid for financing costs		(3,132)	(103)
Net cash provided by financing activities		21,012	119,820
Net decrease in cash and cash equivalents		(3,567)	(5,562)
Cash and cash equivalents, beginning of year		117,405	122,967
Cash and cash equivalents, end of year	$	113,838	117,405
Supplemental disclosures of cash flow information:			
Cash paid during the year for interest	$	22,475	8,405

See accompanying notes to combined financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

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

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

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

(b) Mission

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

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

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

(c) Basis of Presentation

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

Unrestricted net assets – Net assets that are not subject to donor-imposed restrictions. Items that affect this net asset category include revenues and expenses related to the core activities of the combined entities. In addition, changes in this category of net assets include certain types of

(Continued)

unrestricted gifts as well as restricted gifts whose donor imposed restrictions are for current or developing programs and were satisfied during the fiscal year.

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

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

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

The Center considers events or transactions that occur after the combined balance sheet date, but before the combined financial statements are issued, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. These combined financial statements were issued on April 30, 2015, and subsequent events have been evaluated through that date.

(d) Use of Estimates

The preparation of the accompanying combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions about future events. These estimates and underlying assumptions affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant areas affected by the use of estimates include the allowance for uncollectible accounts, third-party settlements, defined benefit pension assumptions, self-insurance reserves, and the valuation of certain investments and interest rate swaps. These estimates and assumptions are based on management's best estimate and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including current economic environment. Management adjusts such estimates and assumptions when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ from these estimates.

(e) Cash and Cash Equivalents

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

(f) Provision for Uncollectible Patient Accounts Receivable

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

(g) Inventories

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

(h) Investments and Investment Income

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

Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in excess of revenue over expenses unless the income or loss is restricted by donor or law. For available for sale securities, unrealized gains and losses on investments are excluded from excess of revenue over expenses. A decline in the market value of an investment security below its cost that is designated to be other than temporary is recognized through an impairment charge. The impairment charge is included in the excess of revenue over expenses in the combined statements of operations as a component of net nonoperating gains and a new cost basis is established. To determine whether an impairment is other-than-temporary, the Center considers whether it has the ability and intent to hold the investment until a market price recovery will occur and whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. For the years ended December 31, 2014 and 2013, the charge for other-than-temporary impairment was $2,484 and $1,094, respectively and is included in net realized gains on sales of investments in the accompanying combined statements of operations and changes in net assets.

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

(i) Fair Value Measurement of Financial Instruments

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

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

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

In addition, for investments that do not have a readily determinable fair value, the Center calculates a net asset value per share (or its equivalent) that estimates the fair value of investments based on the investment's net asset value (NAV) per share or its equivalent as a practical expedient, subject to the Center's ability to redeem its investment.

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

(j) Deferred Compensation Agreements

The Center sponsors a deferred compensation plan consistent with IRC §457(b)(6). Each eligible employee (participant) may elect to defer a portion of their compensation as an employee contribution. The employer contribution is 3% or 4% of excess compensation depending on the employee's employment date with the Center. Excess compensation represents the portion of an employee's gross compensation in excess of earnings as defined under the defined benefit pension plan of the Center. The employer contribution for a plan year will be made if the employee remains in employment for 60 days after that calendar year-end to which the contribution relates. The obligation of the Center will not exceed the actual amount or value of the participant accounts. The value of the participant accounts is included in other liabilities, long-term at December 31, 2014 and 2013. The deferred compensation amounts are invested in mutual and common funds, for which fair value is based on Level 1 and Level 2 measurements, respectively.

(k) Property and Equipment

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

(l) Goodwill and Intangible Assets

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Indefinite-lived intangible assets are assets that are not amortized as there is no foreseeable limit to cash flows generated from them.

Goodwill is assessed for impairment at least annually in accordance with ASU 2011-08, *Testing Goodwill for Impairment* (ASU 2011-08). ASU 2011-08 provides an entity the option to perform qualitative assessment to determine whether it is more-likely than-not that the fair value of a reporting unit is less than its carrying amount prior to performing a goodwill impairment test. If it is more-likely than-not that the fair value of a reporting unit is greater than its carrying amount, a quantitative goodwill impairment test is not required. If determined to be necessary, the quantitative goodwill impairment test includes a two-step assessment, in which the fair value of a reporting unit that holds goodwill is compared with the carrying value of that reporting unit. If the fair value of the reporting unit is less than its carrying amount, an indication of goodwill impairment exists and an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. For 2014, the Center performed its annual impairment review of goodwill at December 31, 2014, and qualitatively determined there was no impairment of goodwill recorded (see note 14).

(m) Student Loan Receivables

Student loan receivables are comprised principally of federally sponsored student loans with U.S. government mandated interest rates and repayment terms subject to significant restrictions as to their transfer and disposition. The fair value approximates the recorded value at December 31, 2014 and 2013.

(n) Deferred Revenue

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

(o) Excess of Revenue over Expenses

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

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

(Continued)

(p) Charity and Uncompensated Care

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

(q) Estimated Self-Insurance Costs

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

(r) Donor Restricted Gifts

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

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

(s) Income Taxes

With the exception of Madison Avenue Services Corporation, all entities comprising the Albany Medical Center and Related Entities are not-for-profit corporations under Section 501(c)(3) of the Internal Revenue Code and are exempt from federal income taxes pursuant to Section 501(a) of the Code. The Center recognizes income tax positions when it is more-likely than-not that the position will be sustainable based on the merits of the position. Management has concluded that there are no uncertain tax positions that need to be recorded at December 31, 2014 and 2013.

(t) Derivative Instruments and Hedging Activities

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

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

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

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

(u) Asset Retirement Obligations

The Center recognizes a liability for the fair value of asset retirement obligations if the fair value of the liability can be reasonably estimated. At December 31, 2014 and 2013, included as a component of other long-term liabilities, the Center has recorded $2,636 and $2,494, respectively, for asset retirement obligations.

(v) Endowment Funds

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

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

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

(w) Other Assets

Other assets consist of equity investments and joint ventures, deferred financing costs, recoverable reinsurance amounts related to workers compensation and professional liability claims, and goodwill recognized in connection with physician practice acquisitions.

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

The Health Information Technology for Economic and Clinical Health (HITECH) Act included in the American Recovery and Reinvestment Act (ARRA) provides incentives for the adoption and use of health information technology by Medicare and Medicaid providers and eligible professionals through 2016. To receive such incentives, providers are required to establish an electronic medical record system and maintain its meaningful use status for a required continuous period of time based on the Hospital's and College's stage in the program. The Hospital and College recognize revenue related to this program when management is reasonably assured that the Hospital and College have complied with the terms of the program and the incentive monies have been received. During the year ended December 31, 2014 and 2013, the Hospital and College certified to Centers for Medicare and Medicaid Services (CMS) and Medicaid that it met the required elements for year one of the electronic health record meaningful use and therefore qualified to receive approximately \$3,670 and \$3,400, respectively, of incentive funds under the HITECH Act for Medicare and Medicaid. The amount received from CMS and Medicaid is reflected as other operating revenue in the combined statements of operations for the years ended December 31, 2014 and 2013.

(y) Reclassifications

Certain amounts in the 2013 combined financial statements have been reclassified to conform to 2014 presentation.

(Continued)

(Dollars in thousands)

(2) Community Benefit, Charity Care and Uncompensated Care

(a) Community Benefit

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

(b) Charity and Uncompensated Care

The Center's net cost of charity care, including payments to and receipts from the statewide pool for 2014 and 2013, was as follows:

		Year ended December 31	
		2014	2013
Charity care at cost	$	8,812	9,696
Payments to statewide pool		5,988	5,244
Receipts from statewide pool		(5,579)	(3,689)
Cost of charity care, net	$	9,221	11,251

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

The Center also subsidizes services to Medicaid patients which are paid at reimbursement levels below the Center's cost of rendering the related services. In addition, during 2014 and 2013, the Center incurred approximately $16,300 and $18,400 in provisions for uncollectable accounts, respectively.

(3) Patient Service Revenue and Related Receivables and Liabilities

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

A significant portion of the Center's patient service revenue is derived through arrangements with third-party payors, including government payors (61% in 2014 and 63% in 2013) and commercial payors (38% in 2014 and 35% in 2013), and private and other payors (1% in 2014 and 2% in 2013).

The Hospital and College have agreements with third-party payors that provide for payments at amounts different from its established rates. Inpatient acute care services rendered are paid at prospectively

(Continued)

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

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

The Hospital is required to prepare and file various reports of actual and allowable costs annually. Provisions have been made in the combined financial statements for prior and current years' estimated final settlements. The difference between the amount provided and the actual final settlement is recorded as an adjustment to net patient service revenue in the year the final settlement is determined. During 2014 and 2013, the Hospital recorded adjustments for estimated settlements with third-party payors which resulted in an increase to net patient service revenue of approximately $5,099 and $4,930, respectively. The laws and regulations governing the reimbursement for health care services are complex and subject to interpretation. Third-party payors retain the right to review and propose adjustments to amounts requested and recorded by the Hospital and College. In the opinion of management, retroactive adjustments, if any, would not be material to the financial position or results of operations of the Center and Related Entities.

Cost reports supporting third party service revenue have been audited and finalized through December 31, 2011 by the designated intermediaries. Cost reports through 2013 have been filed. The 2012 and 2013 Medicare cost reports have not been audited. The 2014 cost report has not yet been filed. A provision for the estimated settlements for all open years has been recorded at December 31, 2014. In the opinion of management, no material adjustments are expected to result from the audit of 2012 and 2013 cost reports. The Center has classified a portion of the accrual for estimated third-party payor settlements as other long-term liabilities because such amounts, by their nature or by virtue of regulations or legislation, will not be paid within one year.

(Dollars in thousands)

At December 31, 2014 and 2013, significant concentrations of patient accounts receivable are as follows:

	2014	2013
Medicare	18%	18%
Medicaid	14	16
Health maintenance organizations	32	32
Blue Cross and Blue Shield	13	13
Commercial carriers	11	9
No-fault and worker's compensation	6	5
Private pay	2	3
Other third party payors	4	4
	100%	100%

Net patient service revenue receivables are presented net of allowances for estimated uncollectible accounts of approximately $12,610 and $13,662 in 2014 and 2013, respectively, which primarily relates to uncollectible amounts due from private (self) payors. Additions to the allowance for uncollectible accounts are made by means of reserve provisions. Accounts written off to bad debt as uncollectible are deducted from the allowance and subsequent recoveries are added.

(Dollars in thousands)

(4) Investments

(a) Assets Whose Use is Limited

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

		2014	2013
Under bond indenture agreements (note 8):			
Cash and cash equivalents	$	1,907	676
U.S. government and agency obligations		8,868	17,450
	$	10,775	18,126
Self-insurance funds (note 10):			
Cash and cash equivalents	$	2,055	4,704
Equity securities		48,521	47,222
Fixed income securities		27,794	21,974
Real estate limited partnerships		—	106
	$	78,370	74,006
Other:			
Cash and cash equivalents	$	508	1,365
	$	508	1,365

(b) Long-Term Investments

Long-term investments represent endowed funds (note 11) and other funds. Other funds include those specifically set aside for long-term planning purposes, which approximates $72.3 million and $52.5 million as of December 31, 2014 and 2013. The composition of long-term investments at December 31 is set forth in the following table.

		2014	2013
Equity securities	$	132,873	123,763
Fixed income securities		50,835	37,241
Real estate limited partnerships		10,869	9,100
Directive hedge funds		21,051	18,099
	$	215,628	188,203

(Dollars in thousands)

(c) Assets Held in Charitable Trusts

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

		2014	2013
Cash and cash equivalents	$	316	161
Equity securities		2,633	2,986
Fixed income securities		924	900
	$	3,873	4,047

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

		2014	2013
Income (unrestricted and restricted):			
Interest and dividend income, net of investment fees	$	6,397	5,771
Impairment charge related to other-than-temporary declines in value of investment securities		(2,484)	(1,094)
Net realized gains on sales of securities		11,264	6,772
	$	15,177	11,449

Information regarding unrestricted investments with unrealized losses at December 31, 2014 and 2013 is presented below, segregated between those that have been in a continuous unrealized loss position for less than twelve months and those that have been in a continuous unrealized loss position for twelve or more months.

		December 31, 2014			
		Less than twelve months		More than twelve months	
Description of security		Fair value	Unrealized losses	Fair value	Unrealized losses
Equity securities	$	—	—	1,567	(146)
Fixed income securities		—	—	24,007	(556)
Total	$	—	—	25,574	(702)

(Dollars in thousands)

	December 31, 2013				
	Less than twelve months		More than twelve months		
Description of security		**Fair value**	**Unrealized losses**	**Fair value**	**Unrealized losses**
Equity securities	$	803	(36)	—	—
Fixed income securities		13,880	(129)	7,857	(466)
Total	$	14,683	(165)	7,857	(466)

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

(5) Fair Value Measurements

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

Cash equivalents: Cash equivalents are valued at $1.00 per unit, as reported by the financial institution.

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

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

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

(Dollars in thousands)

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

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

The following tables present the Center's assets and liabilities that are measured at fair value as of December 31, 2014 and 2013, on a recurring basis. Financial instruments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement:

	2014				
	Total	**Level 1**	**Level 2**	**Redemption or liquidation**	**Days notice**
Assets:					
Cash and cash equivalents	$ 4,786	4,786	—	Daily	1
Equity securities:					
Domestic	122,680	122,680	—	Daily – monthly	1–30
International	61,347	36,339	25,008	Daily – monthly	1–30
Fixed income securities:					
U.S. government and agency obligations	8,868	—	8,868	Daily	1
Domestic	20,858	20,858	—	Daily	1
International	58,695	58,695	—	Daily	1
Limited partnerships:					
Real estate	10,869	—	10,869	Quarterly	15
Directive hedge funds	21,051	—	21,051	Quarterly	45–65
Total	$ 309,154	243,358	65,796		
Liabilities:					
Interest rate swaps	$ 9,259	—	9,259		
Total	$ 9,259	—	9,259		

(Dollars in thousands)

	2013				
	Total	**Level 1**	**Level 2**	**Redemption or liquidation**	**Days notice**
Assets:					
Cash and cash equivalents	$ 6,906	6,906	—	Daily	1
Equity securities:					
Domestic	113,046	113,046	—	Daily – monthly	1–30
International	60,925	35,296	25,629	Daily – monthly	1–30
Fixed income securities:					
U.S. government and agency obligations	17,450	—	17,450	Daily	1
Domestic	14,444	14,444	—	Daily	1
International	45,671	45,671	—	Daily	1
Limited partnerships:					
Real estate	9,206	—	9,206	Quarterly	15
Directive hedge funds	18,099	—	18,099	Quarterly	45–65
Total	$ 285,747	215,363	70,384		
Liabilities:					
Interest rate swaps	$ 5,395	—	5,395		
Total	$ 5,395	—	5,395		

As of December 31, 2014, the Center is able to redeem or sell its investments at fair value in accordance with the following terms: daily ($238,000), monthly ($39,300), quarterly ($31,900).

As of December 31, 2013, the Center is able to redeem or sell its investments at fair value in accordance with the following terms: daily ($220,000), monthly ($38,400), quarterly ($27,300).

The Center had no financial instruments that are classified as Level 3 measurements as of December 31, 2014 and 2013. There were no significant transfers between Level 1 and Level 2 fair value measurements due to changes in valuation methodologies during the years ended December 31, 2014 and 2013.

(Continued)

(Dollars in thousands)

(6) Contributions Receivable

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

		2014	2013
Redevelopment	$	5,740	7,431
Research, education, and other		5,528	4,666
Unconditional promises to give before unamortized discount and allowance for uncollectibles		11,268	12,097
Less unamortized discount, and allowance for uncollectibles		2,663	2,650
Net unconditional promises to give	$	8,605	9,447
Amounts due in:			
Less than one year	$	3,452	3,706
One to five years		6,711	7,484
More than five years		1,105	907
	$	11,268	12,097

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

(Dollars in thousands)

(7) Property and Equipment

Property and equipment at December 31 consisted of:

		2014	2013
Land and land improvements	$	19,684	18,188
Buildings and fixed equipment		787,368	776,557
Moveable equipment		520,382	446,004
Projects in progress		30,198	13,928
		1,357,632	1,254,677
Property held under capital leases		55,595	95,366
		1,413,227	1,350,043
Less accumulated depreciation and amortization		765,296	728,331
	$	647,931	621,712

During 2014, the Hospital completed construction of a new six-story patient tower (note 8). Within projects in progress are the construction and renovation projects and information system improvements anticipated to be operational in 2015 and beyond (see notes 8 and 13).

The net book value of moveable equipment applicable to capital leases is approximately $21,376 and $32,000 at December 31, 2014 and 2013, respectively.

(8) Long-Term Debt

Long-term debt at December 31 consisted of:

		2014	2013
Mortgage Note Payable (a)	$	26,404	35,671
Mortgage Loan (b)		302,705	269,122
Industrial Development Agency (IDA) bonds payable (c)		64,645	81,923
Bonds Payable (d)		17,188	—
Capital Lease obligations (e)		33,725	41,983
Term Loans (f)		6,300	6,747
		450,967	435,446
Less current maturities of long-term debt		26,244	25,394
	$	424,723	410,052

(Continued)

(Dollars in thousands)

(a) Mortgage Note Payable

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

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

Year ending December 31:		
2015	$	9,606
2016		9,958
2017		6,840
Total	$	26,404

(b) Mortgage Loan

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

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

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

The Construction Loan was used to finance the Hospital's expansion project (The Project), which is a six-story patient tower, to house 96 new beds, 20 new operating rooms and a co-generation plant. Construction was substantially completed in November 2013. Final endorsement occurred in September 2014 in the amount of $261,636 at an interest rate of 6.2%. The permanent mortgage has a maturity date of July 2038 with monthly principal and interest payments of approximately $1,731.

(Dollars in thousands)

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

Years ending December 31:		
2015	$	5,377
2016		5,714
2017		6,071
2018		6,451
2019		6,856
Thereafter		234,780
Total	$	265,249

On February 26, 2014, the Center transferred ownership of the parking garage to the Hospital and the ground lease with the VA was assigned to the Hospital. In connection with the transfer, the Hospital refinanced the outstanding debt from the Series 2009 and Series 2010 City of Albany IDA Bonds. At December 21, 2013 the outstanding debt was $37,463. The new mortgage loan (Garage Loan) was issued by FHA in the amount of $38,425 and is secured by a first lien of the leasehold interest in the land and the parking garage. The interest rate is fixed at 3.86% with a maturity date of May 2034.

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

Years ending December 31:		
2015	$	1,338
2016		1,371
2017		1,426
2018		1,483
2019		1,542
Thereafter		30,296
Total	$	37,456

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

(c) IDA Bonds Payable

Series 2005 Bonds

In June 2005, the Hospital issued Series 2005A and Series 2005B City of Albany Industrial Development Civic Facility Revenue Variable Rate Demand Bonds in the amount of $10,000 and $3,000, respectively. The proceeds of the bonds were being utilized to fund an addition to Hospital "Building A." The bonds are secured by separate irrevocable direct pay letters of credit, one for each series. The letters of credit are secured by the same security agreement associated with the line of credit described in note 12 and mature in June 2017. The letters of credit require the Hospital to measure and report on certain financial benchmarks on a quarterly basis. In the event of default, the Hospital must submit a corrective action plan within 30 days of notice of default.

(Dollars in thousands)

The bonds bear interest at a variable rate established by the remarketing agent on a weekly basis (0.10% and .20% at December 31, 2014 for Series 2005A and 2005B, respectively, 0.13% and 0.20% at December 31, 2013 for Series 2005A and 2005B, respectively). The Hospital entered into an interest rate swap agreement with respect to the Series A bonds, as described in note 13. Interest payments are due each year on July 1 through 2035. Principal payments, ranging from $205 to $845, began on July 1, 2008 and will end on July 1, 2035.

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

Year ending December 31:		
2015	$	305
2016		320
2017		340
2018		360
2019		360
Thereafter		9,195
Total	$	10,880

Series 2006 Bonds

In May 2006, the Center issued Series 2006A and 2006B City of Albany Industrial Development Civic Facility Revenue Variable Rate Demand Bonds in the amount of $4,800 and $4,470, respectively. Also in May 2006, the Hospital issued Series 2006A and 2006B City of Albany Industrial Development Civic Facility Revenue Variable Rate Demand Bonds in the amount of $5,855 and $1,000, respectively. The bonds are secured by four separate irrevocable direct pay letters of credit, one for each series. The proceeds of the bonds were used for purchases of real estate, refinancing of existing mortgages and bank notes, and to support the construction of a parking garage and other renovation projects. The letters of credit are secured by the related real estate and mature in May 2016. The letters of credit require the Center and Hospital to measure and report on certain financial benchmarks on an annual basis. In the event of default, the Hospital must submit a corrective action plan within 30 days of notice of default.

The bonds bear interest at a variable rate established by the remarketing agent on a weekly basis (.25% for the Series A and .98% and 2.38% for the Center and Hospital Series B bonds, respectively, at December 31, 2014). The Center and Hospital entered into interest rate swap agreements with respect to all four series, as described in note 13. Interest payments are due monthly. Principal payments began on May 1, 2007 and range as follows through May 1, 2035:

(Dollars in thousands)

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

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

Year ending December 31:		
2015	$	570
2016		550
2017		590
2018		620
2019		650
Thereafter		8,775
Total	$	11,755

Series 2007 Bonds

In June 2007, the Center issued Series 2007A and 2007B City of Albany Industrial Development Civic Facility Revenue Variable Rate Demand Bonds in the amount of $3,020 and $535, respectively. Also in June 2007, the Hospital issued Series 2007A and 2007B City of Albany Industrial Development Civic Facility Revenue Variable Rate Demand Bonds in the amount of $6,645 and $2,335, respectively. The bonds are secured by four separate irrevocable direct pay letters of credit, one for each series and mature in 2018. The proceeds of the bonds were utilized for the acquisition of certain properties and the renovation of certain portions of the existing facilities. The letters of credit require the Center and Hospital to measure and report on certain financial benchmarks on an annual basis. In the event of default, the Center and Hospital must submit a corrective action plan within 30 days of notice of default.

In November 2007, the Hospital issued Series 2007C and 2007D City of Albany Industrial Development Civic Facility Revenue Variable Rate Demand Bonds in the amount of $13,160 and $1,465, respectively. The bonds are secured by separate irrevocable direct pay letters of credit, one for each series. The proceeds of the bonds were utilized for the construction of an addition to the existing facility and other renovation projects. The letters of credit require the Hospital to measure and report on certain financial benchmarks on an annual basis and mature in 2018.

(Dollars in thousands)

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

	2014	2013
Hospital Series A	0.07%	0.14%
Hospital Series B	0.25	0.37
Hospital Series C	0.07	0.14
Hospital Series D	0.77	0.84
Center Series A	0.07	0.14
Center Series B	1.00	1.00

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

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

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

Year ending December 31:		
2015	$	1,185
2016		1,210
2017		1,270
2018		1,330
2019		1,395
Thereafter		13,620
Total	$	20,010

Series 2014 Bonds

On September 10, 2014, the Hospital issued Series 2014A City of Albany Industrial Development Civic Facility Revenue Variable Rate Demand Bonds in the amount of $22,000. The proceeds of the bonds were utilized for the reconstruction and renovation of certain portions of the existing facility and the acquisition of certain machinery and equipment for these existing facilities. The bonds mature on September 10, 2039. In the event of default, the Hospital must submit a corrective action plan within 30 days of notice of default. The 2014 bonds were issued at an interest rate of 3.54%.

(Dollars in thousands)

Future principal amounts are set forth in the table below:

Year ending December 31:		
2015	$	—
2016		431
2017		599
2018		623
2019		648
Thereafter		19,699
Total	$	22,000

(d) Bonds Payable

On December 4, 2014, the Center closed on Series 2014A and Series 2014B bonds with the City of Albany Capital Resource Corporation to be used to construct a parking garage and medical office building on property adjacent to the Hospital.

The Parking Garage Series 2014A and 2014B Bonds (Parking Garage Bonds) were issued in the amounts of $20,000 and $5,000, respectively. The Medical Office Building Series 2014A and 2014B Bonds (Medical Office Building Bonds) were issued in the amounts of $8,400 and $19,600, respectively. The Parking Garage Bonds and Medical Office Building Bonds are both considered construction loans with an anticipated completion date of August 2016. As of December 31, 2014, $13,645 was drawn on the Parking Garage and $3,543 was drawn on the Medical Office Building.

The Parking Garage Series 2014A bond and the Medical Office Building Series 2014A and 2014 B bonds each bear interest of .70 of 1 month LIBOR and is payable monthly with principal on a 30 year amortization schedule. The Parking Garage Series 2014B bond has an interest rate of 5.5%. The bonds are mandatorily redeemable in July 2026.

(e) Capital Lease Obligations

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

Subsequent to year end the Hospital entered into an additional TELP lease. See note 15.

(Dollars in thousands)

Future minimum lease payments for the next five years under TELP and other capital lease obligations at December 31, 2014 are as follows:

Year ending December 31:		
2015	$	7,997
2016		7,997
2017		7,997
2018		5,368
2019		3,907
Thereafter		2,038
Total minimum lease payments		35,304
Less amounts representing imputed interest (rates ranging from 1.6% to 4.4%)		1,579
Present value of net minimum lease payments		33,725
Less current installments		7,378
Long-term present value of net minimum lease payments	$	26,347

(f) Term Loan Agreements

In November 2008, the Hospital and Center each entered into 5 year revolving loan agreements in the amount of $4,000 and $4,500, respectively. In November 2013, the Hospital and Center extended the terms on these loans for an additional 5 years. The Hospital and Center had the option of converting the revolving loan agreements into a term loan agreement within 30 days of maturity. The loan proceeds were to be utilized for various renovations and equipment expenditures. The Hospital and the Center are the guarantors of each other's loans. The rates on the term loans are based on the 1 month LIBOR plus 115 basis points. As of December 31, 2014 and 2013, the revolving loans were converted into term loans and have an interest rate of 1.415%.

Future principal payments are set forth in the following table:

Year ending December 31:		
2015	$	485
2016		447
2017		447
2018		447
2019		447
Thereafter		4,027
Total	$	6,300

(Dollars in thousands)

(g) Other

In July 2010, the Hospital entered into a 7 year term note for $7,500. The interest during the draw period accrues against the outstanding principal at LIBOR plus 3%. On and after the conversion period, the rate is fixed at the Federal Home Loan Bank (FHLB) rate plus 3%. The Hospital had not drawn against this term loan as of December 31, 2014.

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

		2014	2013
Depreciation reserve fund	$	5,257	6,519
TELP escrow		3,611	10,930
IDA bonds payable		1,907	677
	$	10,775	18,126

The fair value of the Center’s debt, exclusive of capital lease obligations, approximates $395,989 and $382,220 at December 31, 2014 and 2013, respectively, which is estimated based on the quoted market prices for the same or similar issues or on the current rates available to the Center for debt with similar characteristics, which represents a Level 2 fair value measurement.

(9) Pension Plan

Defined Benefit Plan – The Center and Related Entities participate in a defined benefit pension plan for substantially all full-time employees. The projected unit credit method is used in determining employees’ benefits. Pension costs are funded to the minimum levels established by the Employee Retirement Income Security Act (ERISA) of 1974. The defined benefit plan is a qualified plan under Section 401(a) of the Internal Revenue Code and has been determined by the Internal Revenue Service to be exempt from federal income taxes. In December 2011, the Center approved amending the plan to freeze average monthly earnings for grandfathered participants, effective April 1, 2012.

(Dollars in thousands)

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

		2014	**2013**
Change in projected benefit obligation:			
Benefit obligations at beginning of year	$	287,125	300,608
Service cost		14,202	15,903
Interest cost		13,844	11,794
Actuarial loss (gain)		39,203	(28,671)
Benefits paid and expected expenses		(15,798)	(12,509)
Benefit obligations at end of year	$	338,576	287,125
Change in plan assets:			
Fair value of plan at beginning of year	$	317,337	271,980
Actual return on plan assets		27,348	41,276
Employer contributions		14,202	16,340
Benefits paid and actual expenses		(15,295)	(12,259)
Fair value of plan assets at end of year	$	343,592	317,337

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

		2014	**2013**
Funded status, end of year:			
Fair value of plan assets	$	343,592	317,337
Projected benefit obligation		338,576	287,125
Accrued pension asset	$	5,016	30,212

Amounts recorded in unrestricted net assets, end of year:

		2014	**2013**
Unrecognized net actuarial loss	$	35,706	2,186
Unrecognized prior service credit		(15,890)	(17,546)
	$	19,816	(15,360)

(Dollars in thousands)

The estimated prior service credit for the plan that will be amortized from unrestricted net assets into net periodic pension cost in 2014 is approximately $1,700.

The accumulated benefit obligations at the Plan's measurement date for 2014 and 2013 was approximately $334,139 and $283,400, respectively.

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

		2014	2013
Service cost	$	14,202	15,903
Interest cost		13,844	11,794
Expected return on plan assets		(22,167)	(19,784)
Amortization of prior service credit		(1,655)	(1,655)
Amortization of actuarial loss		—	2,246
Net periodic pension cost	$	4,224	8,504

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

	2014	2013
Weighted average discount rate for net periodic pension cost	4.96%	3.98%
Weighted average discount rate for benefit obligations	3.89	4.96
Expected long-term return on plan assets	7.00	7.25
Rate of compensation increase:		
Below age 45	4.00	4.00
Age 45 and up	3.50	3.50

The Center measured benefit obligations using the RP-2000 mortality tables with full generational projection using Scale BB in selecting mortality assumptions as of December 31, 2014. For its December 31, 2013 measurement date, the Center used the RP-2000 mortality tables with full generated projection using Scale AA.

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

(Continued)

(Dollars in thousands)

Investment Policy – The Plan's investment policy provides for a diversified portfolio to minimize risk to the extent possible. The portfolio mix policy as of December 31, 2014 and 2013 is as follows:

	2014	
	Policy	**Range**
Domestic equities	49.0%	35.0%–55.0%
International equities	14.0	7.0%–17.0%
Domestic fixed income	26.0	21.0%–36.0%
Real estate	9.0	7.0%–12.0%
Cash	2.0	0.0%–10.0%

	2013	
	Policy	**Range**
Domestic equities	32.0%	22.0%–31.0%
International equities	14.0	6.0%14.0%
Domestic fixed income	49.0	40.0%–60.0%
Real estate	4.0	2.5%–7.5%
Cash	1.0	0.0%–10.0%

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

(Dollars in thousands)

The following tables present the Center's defined benefit pension plan's assets at December 31, 2014 and 2013 that are measured at fair value on a recurring basis. The hierarchy and inputs to valuation techniques to measure fair value of the plan's assets are the same as outlined in the note 5.

	2014				
	Total	**Level 1**	**Level 2**	**Redemption or liquidation**	**Days notice**
Investments:					
Cash and cash equivalents	$ 272	272	—	Daily	1
Fixed income securities:					
Domestic	123,002		123,002	Daily – monthly	1–30
Equities securities:					
Domestic	83,427	83,427	—	Daily – monthly	1–30
International	56,124	20,694	35,430	Daily – monthly	1–30
Limited partnerships:					
Hedge	64,239	—	64,239	Monthly – quarterly	45–90
Private equity	16,528	—	16,528	Quarterly	15
	$ 343,592	104,393	239,199		

	2013				
	Total	**Level 1**	**Level 2**	**Redemption or liquidation**	**Days notice**
Investments:					
Cash and cash equivalents	$ 862	862	—	Daily	1
Fixed income securities:					
Domestic	93,552	93,552	—	Daily – monthly	1–30
Equities securities:					
Domestic	84,549	84,549	—	Daily – monthly	1–30
International	62,273	22,493	39,780	Daily – monthly	1–30
Limited partnerships:					
Hedge	61,364	—	61,364	Monthly – quarterly	45–90
Private equity	14,737	—	14,737	Quarterly	15
	$ 317,337	201,456	115,881		

The Center had no financial instruments that are classified as Level 3 measurements as of December 31, 2014 and 2013. There were no significant transfers between Level 1 and Level 2 measurements due to changes in valuation methodologies during the years ended December 31, 2014 and 2013.

Contributions – The Center is expected to contribute approximately $17,030 to the Plan in 2015.

(Dollars in thousands)

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

Year		Pension benefits
2015	$	19,062
2016		20,644
2017		21,728
2018		22,549
2019		23,503
2020–2024		126,494

(10) Professional Liability Insurance and Workers' Compensation Program

The Center has a self-insurance program for professional and general liability insurance which involves the combination of purchased excess coverage and the establishment of funded reserves. The purchased coverage includes an excess policy retroactive to January 1, 1990. The Center and Related Entities maintain a risk management department to monitor and estimate professional liability exposure. Management accrues for professional and general liability reserves and the corresponding charge to operating expenses based on estimates of asserted and currently identifiable unasserted claims, if any, and a provision for unknown incidents. Independent actuaries have been retained to assist the Center. Professional and general liability reserves are recorded at their estimated undiscounted value at December 31, 2014 and 2013.

Management maintains a balance in a trusteed account for purposes of paying claims (self-insured funds). The trusteed funded reserves are held in the name of the Center, however, such balances are allocated to and recorded on the books of the Hospital, College, and other related entities based on the source of the funds contributed (note 4).

The Center has a self-insurance program for workers' compensation insurance, which involves the combination of purchased excess coverage and the establishment of reserves. Management accrues reserves and the corresponding charges to operating expenses based on estimates of asserted and currently identifiable unasserted claims, if any, and a provision for unknown incidents. Independent actuaries have been retained to assist the Center. Workers' compensation reserves are recorded at their estimated discounted value using a discount rate of 1.75% at December 31, 2014 and 2013. The Hospital, College, and Center (inclusive of SCC) are guarantors on a letter of credit, which collateralizes approximately $4,600 of the self-insurance workers' compensation liability. The total liability is included in other liabilities and was approximately $12,510 and $12,680 at December 31, 2014 and 2013, respectively.

(Continued)

(Dollars in thousands)

(11) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

		2014	2013
Purchase of equipment/construction projects	$	14,594	14,609
Fellowships		608	599
Scholarships, prizes, and awards		15,398	15,274
Chairs and professorships		14,345	14,435
Research		9,639	8,792
Department/division support		8,883	8,625
Health education		3,554	10,698
Lectureships and other		13,212	6,500
	$	80,233	79,532

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

		2014	2013
Chairs and professorships	$	27,904	26,469
Research and education		4,903	4,931
Scholarships, prizes, and awards		23,039	22,138
Department/division support		6,958	5,947
Fellowships		416	416
Lectureships and other		473	557
General purposes		4,268	4,240
	$	67,961	64,698

(Continued)

(Dollars in thousands)

During 2014 and 2013, net assets were released from donor restrictions by satisfying the restricted purpose as follows:

		2014	2013
Construction projects purchase of property and equipment	$	5,323	10,593
Department/division support		3,305	3,279
Scholarship, prizes, and awards		1,486	1,520
Fellowships		66	44
Lectureships and other		6,137	5,166
Chairs and professorships		1,366	1,427
Research		3,116	1,128
	$	20,799	23,157

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

Changes in the donor restricted and board designated endowment net assets for the year ended December 31, 2014 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted
Endowment net assets, beginning of year	$	2,966	49,220	64,698
Investment return:				
Interest and dividend income		274	6,645	10
Net appreciation		(99)	(1,409)	—
Contributions		—	110	3,253
Appropriation of endowment assets for expenditures		(227)	(5,300)	—
Endowment net assets, end of year	$	2,914	49,266	67,961

(Dollars in thousands)

Changes in the donor restricted and board designated endowment net assets for the year ended December 31, 2013 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted
Endowment net assets, beginning of year	$ 2,525	37,760	60,543
Investment return:			
Interest and dividend income	224	5,268	—
Net appreciation	440	10,974	—
Contributions	—	111	4,155
Appropriation of endowment assets for expenditures	(223)	(4,893)	—
Endowment net assets, end of year	$ 2,966	49,220	64,698

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

(12) Expenses by Function

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

	2014	2013
Patient service	$ 878,556	803,207
Research	12,570	12,311
Education	16,869	16,563
Program expense	105,698	103,405
Public service	12,414	11,169
Fund raising efforts	2,858	3,162
Student services	1,551	1,357
Academic support	3,209	3,118
Scholarships and fellowships	1,464	1,418
Special event activities	1,302	1,245
Institutional support	947	681
	1,037,438	957,636
Management and general	225,375	205,574
	1,262,813	1,163,210
Less interinstitutional eliminations	195,312	192,717
	$ 1,067,501	970,493

(Continued)

(Dollars in thousands)

(13) Commitments and Contingencies

(a) HUD Depreciation Reserve Fund

During 1999, the Department of Housing and Urban Development (HUD) allowed the Hospital to borrow up to $18,000 of assets whose use is limited under the bond indenture agreements (depreciation reserve fund). Of this amount, $10,399 is required to be re-deposited by October 21, 2016 and is secured by a line of credit with Bank of America in the amount of $10,399.

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

(b) Interest Rate Swaps

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

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

Bond series		Notional amount	Fixed rate swap	Hedge instrument
Hospital Series 2005A	$	10,000	3.995%	100% SIFMA
Center Series 2006A		4,800	3.947	70% LIBOR
Center Series 2006B		4,470	5.545	100% LIBOR
Hospital Series 2006A		5,855	3.959	70% LIBOR
Hospital Series 2006B		1,000	5.560	100% LIBOR
Center Series 2007A		3,020	4.260	100% SIFMA
Hospital Series 2007A		6,645	4.260	100% SIFMA
Hospital Series 2007C		13,160	3.745	100% SIFMA
Center Series 2014A		19,827	2.490	70% LIBOR
Center Series 2014B1		8,327	2.490	70% LIBOR
Center Series 2014B2		19,476	3.560	100% LIBOR

(Dollars in thousands)

At December 31, 2014 and 2013, the Center recorded other long term liabilities for the fair value of the interest rate swaps as follows:

Bond series	Maturity		2014	2013
Hospital Series 2005 A	July 1, 2035	$	2,223	1,094
Hospital Series 2006 A	May 1, 2026		1,028	799
Hospital Series 2006 B	May 1, 2026		256	196
Hospital Series 2007 A	May 1, 2027		862	710
Hospital Series 2007 C	May 1, 2027		1,366	1,040
Center Series 2006 A	May 1, 2026		630	522
Center Series 2006 B	May 1, 2026		875	711
Center Series 2007 A	May 1, 2027		392	323
Center Series 2014 A	July 1, 2046		586	—
Center Series 2014 B1	July 1, 2046		246	—
Center Series 2014 B2	July 1, 2046		795	—
		$	9,259	5,395

The portion of the change in fair value of the interest rate swaps that is considered highly effective is reflected in unrestricted net assets in the combined statements of operations and changes in net assets for the years ended December 31, 2014 and 2013. The ineffective portion of the change in fair value of the interest rate swaps was not material to the combined statements of operations and changes in net assets for the years ended December 31, 2014 and 2013.

(c) Line of Credit

The Hospital, College and Center are co-borrowers on a line of credit with Key Bank which has an available limit of $12,700. There was no outstanding balance at December 31, 2014 and 2013. The maturity date of the line is June 30, 2014. The line bears interest at thirty day LIBOR plus 225 basis points. The Hospital and the College have executed a security agreement associated with this line of credit which grants Key Bank a first security interest in their gross receipts. This line of credit requires the Center to measure and report on certain financial benchmarks on a quarterly basis.

(Dollars in thousands)

(d) Lease Commitments

The Hospital, College and Center have operating lease commitments expiring at various dates, principally for equipment and office space. Future minimum lease payments under noncancelable operating leases having initial terms in excess of one year at December 31, 2014, approximate the following for the next five years:

Year ending December 31:		
2015	$	7,050
2016		5,774
2017		5,391
2018		4,901
2019		4,429
	$	27,545

Total expense under all rental agreements amounted to approximately $13,000 and $12,700 for the years ended December 31, 2014 and 2013, respectively.

(14) Physician Practice Acquisitions

During 2014, the Center acquired three physician practice groups, including EmUrgent Care Medicine (acquired on January 1, 2014), PLLC, Endocrine Group, LLP (acquired on April 1, 2014), and Neurology Group, LLP (acquired on April 1, 2014), for total cash consideration of $12.9 million. Subject to the satisfaction of certain future condition, addition consideration of $2.0 million may be payable in the future. The acquired tangible assets of these physician practice groups included net patient accounts receivable and property and equipment with a total fair value of approximately $2.4 million, and no material liabilities were assumed. Goodwill totaling $10.5 million was recognized in conjunction with these transactions. The results of these physician practice groups' operations have been included in the combined financial statements since the respective acquisition dates.

(15) Subsequent Events

In February 2015, the Center entered into approximately $21.1 million of Dormitory Authority TELP lease obligations to finance the acquisition of medical equipment. The term of the lease obligation is seven years, at an interest rate of 1.5812%.

ALBANY MEDICAL CENTER
AND RELATED ENTITIES

Combining Balance Sheet

December 31, 2014

(Dollars in thousands)

Assets	Combined total	2014 Combining information				
		Eliminations	Center	Hospital	College	Foundation
Current assets:						
Cash and cash equivalents	$ 113,838	—	36,963	50,083	19,010	7,782
Receivables, net:						
Patient service	122,023	—	—	104,536	17,487	—
Contributions	3,452	—	—	—	—	3,452
Interinstitutional receivables	—	(44,907)	701	40,888	3,318	—
Other	23,539	—	766	10,117	12,594	62
	149,014	(44,907)	1,467	155,541	33,399	3,514
Inventories	14,983	—	—	13,925	1,058	—
Prepaid expenses and other current assets	13,264	—	3,541	5,231	4,387	105
Total current assets	291,099	(44,907)	41,971	224,780	57,854	11,401
Assets whose use is limited:						
Under bond indenture agreements	10,775	—	667	10,108	—	—
Self-insurance funds	78,370	—	—	49,181	29,189	
Other investments	508	—	—	—	508	—
	89,653	—	667	59,289	29,697	—
Property and equipment, at cost, net of accumulated depreciation and amortization	647,931	—	80,256	506,977	60,678	20
Long-term investments	215,628	—	1	87,260	128,273	94
Other assets:						
Student loan receivables	7,061	—	—	—	7,061	—
Deferred compensation agreements	18,075	—	18,075	—	—	—
Contributions receivable, noncurrent	5,153	—	—	—	—	5,153
Assets held in charitable trusts	3,873	—	—	—	—	3,873
Accrued pension asset	5,016	—	341	421	4,254	—
Other assets	27,593	—	1,767	13,149	10,907	1,770
Interinstitutional receivables, noncurrent	—	(166,621)	66,261	95,113	5,247	—
Total other assets	66,771	(166,621)	86,444	108,683	27,469	10,796
Total assets	$ 1,311,082	(211,528)	209,339	986,989	303,971	22,311

(Continued)

ALBANY MEDICAL CENTER
AND RELATED ENTITIES

Combining Balance Sheet

December 31, 2014

(Dollars in thousands)

Liabilities and Net Assets	Combined total	2014 Combining information: Eliminations	Center	Hospital	College	Foundation
Current liabilities:						
Current maturities of long-term debt	$ 26,244	—	801	25,443	—	—
Payables:						
Accounts payable	70,925	—	8,946	56,500	5,327	152
Interinstitutional payables	—	(38,064)	36,241	652	1,122	49
Accrued expenses:						
Salaries and related items	39,998	—	4,149	21,583	14,266	—
Compensated absences	35,544	—	4,282	18,393	12,869	—
Deferred revenue	17,534	—	182	—	17,352	—
Other liabilities	15,204	—	4,149	7,470	3,429	156
Total current liabilities	205,449	(38,064)	58,750	130,041	54,365	357
Long-term debt, net of current maturities	424,723	—	28,897	395,826	—	—
Federal loan programs	6,243	—	—	—	6,243	—
Interinstitutional payables, noncurrent	—	(158,519)	89,462	—	64,856	4,201
Other liabilities, long-term	74,982	—	22,563	48,134	2,331	1,954
Professional liability self-insurance reserve	87,153	—	—	57,369	29,784	—
Total liabilities	798,550	(196,583)	199,672	631,370	157,579	6,512
Net assets (deficit):						
Unrestricted	364,338	—	9,659	330,364	26,024	(1,709)
Temporarily restricted	80,233	(10,275)	8	23,050	54,928	12,522
Permanently restricted	67,961	(4,670)	—	2,205	65,440	4,986
	512,532	(14,945)	9,667	355,619	146,392	15,799
Total liabilities and net assets	$ 1,311,082	(211,528)	209,339	986,989	303,971	22,311

See accompanying independent auditors' report.

ALBANY MEDICAL CENTER
AND RELATED ENTITIES

Combining Balance Sheet

December 31, 2013

(Dollars in thousands)

Assets	Combined total	2013 Combining information: Eliminations	Center	Hospital	College	Foundation
Current assets:						
Cash and cash equivalents	$ 117,405	—	28,844	61,536	16,189	10,836
Receivables, net:						
Patient service	107,348	—	—	92,774	14,574	—
Contributions	3,706	—	—	—	—	3,706
Interinstitutional receivables	—	(37,920)	702	33,373	3,845	—
Other	16,576	—	226	3,265	12,934	151
	127,630	(37,920)	928	129,412	31,353	3,857
Inventories	14,304	—	—	13,686	618	—
Prepaid expenses and other current assets	10,666	—	3,074	3,524	3,915	153
Total current assets	270,005	(37,920)	32,846	208,158	52,075	14,846
Assets whose use is limited:						
Under bond indenture agreements	18,126	—	661	17,465	—	—
Self-insurance funds	74,006	—	—	42,467	31,539	—
Other investments	1,365	—	—	—	1,365	—
	93,497	—	661	59,932	32,904	—
Property and equipment, at cost, net of accumulated depreciation and amortization	621,712	—	93,228	467,891	60,565	28
Long-term investments	188,203	—	1	66,600	121,515	87
Other assets:						
Student loan receivables	6,269	—	—	—	6,269	—
Deferred compensation agreements	15,370	—	15,370	—	—	—
Contributions receivable, noncurrent	5,741	—	—	—	—	5,741
Assets held in charitable trusts	4,047	—	—	—	—	4,047
Accrued pension asset	30,212	—	2,887	15,480	11,845	—
Other assets	13,599	—	321	8,464	3,174	1,640
Interinstitutional receivables, noncurrent	—	(124,909)	48,566	71,519	4,824	—
Total other assets	75,238	(124,909)	67,144	95,463	26,112	11,428
Total assets	$ 1,248,655	(162,829)	193,880	898,044	293,171	26,389

(Continued)

ALBANY MEDICAL CENTER
AND RELATED ENTITIES

Combining Balance Sheet

December 31, 2013

(Dollars in thousands)

Liabilities and Net Assets	Combined total	2013 Combining information: Eliminations	Center	Hospital	College	Foundation
Current liabilities:						
Current maturities of long-term debt	$ 25,394	—	1,407	23,987	—	—
Payables:						
Accounts payable	57,110	—	7,497	43,727	5,821	65
Interinstitutional payables	—	(30,355)	28,598	655	1,057	45
Accrued expenses:						
Salaries and related items	35,520	—	3,834	19,644	12,042	—
Compensated absences	35,065	—	4,089	18,946	12,030	—
Deferred revenue	17,209	—	187	—	17,022	—
Other liabilities	15,812	—	3,728	7,556	4,227	301
Total current liabilities	186,110	(30,355)	49,340	114,515	52,199	411
Long-term debt, net of current maturities	410,052	—	49,273	360,779	—	—
Federal loan programs	6,262	—	—	—	6,262	—
Interinstitutional payables, noncurrent	—	(115,778)	63,080	—	45,932	6,766
Other liabilities, long-term	70,472	—	17,991	45,586	4,823	2,072
Professional liability self-insurance reserve	76,971	—	—	46,456	30,515	—
Total liabilities	749,867	(146,133)	179,684	567,336	139,731	9,249
Net assets (deficit):						
Unrestricted	354,558	—	14,183	303,411	37,485	(521)
Temporarily restricted	79,532	(11,479)	13	25,118	53,752	12,128
Permanently restricted	64,698	(5,217)	—	2,179	62,203	5,533
	498,788	(16,696)	14,196	330,708	153,440	17,140
Total liabilities and net assets	$ 1,248,655	(162,829)	193,880	898,044	293,171	26,389

See accompanying independent auditors' report.

ALBANY MEDICAL CENTER
AND RELATED ENTITIES

Combining Statement of Operations and Changes in Net Assets

Year ended December 31, 2014

(Dollars in thousands)

	Combined total	2014 Combining information Eliminations	Center	Hospital	College	Foundation
Operating revenue:						
Patient service revenue, net	$ 1,012,213	—	—	823,629	188,584	—
Net provision for uncollectible accounts	(16,310)	—	—	(11,555)	(4,755)	—
Patient service revenue, less provision for uncollectible accounts	995,903	—	—	812,074	183,829	—
Tuition and fees	37,528	—	1,820	—	35,708	—
Federal, state, and local grants and contracts	15,276	—	39	—	15,237	—
Private gifts, grants, and contracts	6,559	—	—	—	5,537	1,022
Interest and dividend income	4,788	(19)	(67)	3,352	1,521	1
Interinstitutional revenue	—	(195,293)	130,504	8,445	55,694	650
Other revenue	26,675	—	6,215	18,410	2,050	—
Net assets released from restrictions used for operations	15,476	—	1	3,882	10,287	1,306
Total operating revenue	1,102,205	(195,312)	138,512	846,163	309,863	2,979
Operating expenses:						
Salaries	516,991	—	67,366	258,518	189,506	1,601
Employee benefits	77,224	—	10,451	41,219	25,237	317
Supplies	226,924	—	17,228	185,417	24,153	126
Purchased services	139,626	—	28,500	77,336	32,340	1,450
Interinstitutional expense	—	(195,293)	1,362	160,863	32,721	347
Depreciation and amortization	66,868	—	11,454	47,983	7,421	10
Interest	22,511	(19)	886	21,601	41	2
Other expenses	17,357	—	598	4,743	11,708	308
Total operating expenses	1,067,501	(195,312)	137,845	797,680	323,127	4,161
Operating margin (loss)	34,704	—	667	48,483	(13,264)	(1,182)
Nonoperating gains (losses):						
Net realized gains (losses) on sales of investments	4,395	—	—	2,553	1,846	(4)
Other, net	1,307	—	334	418	555	—
Total nonoperating gains (losses), net	5,702	—	334	2,971	2,401	(4)
Excess (deficiency) of revenue over expenses	40,406	—	1,001	51,454	(10,863)	(1,186)

(Continued)

ALBANY MEDICAL CENTER
AND RELATED ENTITIES

Combining Statement of Operations and Changes in Net Assets

Year ended December 31, 2014

(Dollars in thousands)

	Combined total	Eliminations	Center	Hospital	College	Foundation
		2014 Combining information				
Unrestricted net assets:						
Excess (deficiency) of revenue over expenses	$ 40,406	—	1,001	51,454	(10,863)	(1,186)
Changes in net unrealized gains and losses on investments	3,091	—	—	3,732	(639)	(2)
Net assets released from restrictions used for purchase of property and equipment	5,323	—	4	4,626	693	—
Change in fair value of interest rate swaps	(3,864)	—	(1,968)	(1,896)	—	—
Pension related changes other than net periodic pension costs	(35,176)	—	(3,561)	(20,963)	(10,652)	—
Net change resulting in reduction of interinstitutional receivable	—	—	—	(10,000)	10,000	—
Increase (decrease) in unrestricted net assets	9,780	—	(4,524)	26,953	(11,461)	(1,188)
Temporarily restricted net assets:						
Private gifts, grants, contracts and other	11,555	(6,295)	(4)	1,611	7,044	9,199
Investment interest, dividends and net realized gains (losses), net	5,994	(82)	—	342	5,652	82
Gift distributions	—	7,687	—	—	—	(7,687)
Net assets released from restrictions for operations	(15,476)	—	(1)	(3,882)	(10,287)	(1,306)
Net provision for uncollectible accounts	—	(73)	—	—	—	73
Changes in net unrealized gains and losses on investments	(1,409)	(21)	—	(176)	(1,233)	21
Contributions for property and equipment	5,360	—	4	4,663	693	—
Net assets released from restrictions used for purchase of property and equipment	(5,323)	—	(4)	(4,626)	(693)	—
Nonoperating revenue	—	(12)	—	—	—	12
Increase (decrease) in temporarily restricted net assets	701	1,204	(5)	(2,068)	1,176	394
Permanently restricted net assets:						
Private gifts	3,263	(3,505)	—	26	3,237	3,505
Net investment income	—	(188)	—	—	—	188
Gift distributions	—	3,853	—	—	—	(3,853)
Net provision for uncollectible accounts	—	238	—	—	—	(238)
Changes in net unrealized gains and losses in investments	—	149	—	—	—	(149)
Increase (decrease) in permanently restricted net assets	3,263	547	—	26	3,237	(547)
Change in net assets	13,744	1,751	(4,529)	24,911	(7,048)	(1,341)
Net assets (deficit), beginning of year	498,788	(16,696)	14,196	330,708	153,440	17,140
Net assets (deficit), end of year	$ 512,532	(14,945)	9,667	355,619	146,392	15,799

See accompanying independent auditors' report.

ALBANY MEDICAL CENTER
AND RELATED ENTITIES

Combining Statement of Operations and Changes in Net Assets

Year ended December 31, 2013

(Dollars in thousands)

	Combined total	2013 Combining information				
		Eliminations	Center	Hospital	College	Foundation
Operating revenue:						
Patient service revenue, net	$ 896,697	—	—	734,807	161,890	—
Net provision for uncollectible accounts	(18,397)	—	—	(13,949)	(4,448)	—
Patient service revenue, less provision for uncollectible accounts	878,300	—	—	720,858	157,442	—
Tuition and fees	36,887	—	1,763	—	35,124	—
Federal, state, and local grants and contracts	15,274	—	41	—	15,233	—
Private gifts, grants, and contracts	7,504	—	—	—	5,619	1,885
Interest and dividend income	4,234	(28)	(66)	2,887	1,437	4
Interinstitutional revenue	—	(192,689)	130,223	8,801	53,015	650
Other revenue	25,882	—	6,548	17,251	2,083	—
Net assets released from restrictions used for operations	12,564	—	—	3,024	8,290	1,250
Total operating revenue	980,645	(192,717)	138,509	752,821	278,243	3,789
Operating expenses:						
Salaries	471,288	—	62,581	242,983	164,003	1,721
Employee benefits	79,776	—	11,600	44,638	23,187	351
Supplies	212,570	—	15,267	173,658	23,532	113
Purchased services	123,723	—	28,493	67,026	26,581	1,623
Interinstitutional expense	—	(192,689)	1,566	158,171	32,579	373
Depreciation and amortization	55,813	—	14,636	34,452	6,714	11
Interest	10,674	(28)	2,556	8,089	53	4
Other expenses	16,649	—	942	3,989	11,507	211
Total operating expenses	970,493	(192,717)	137,641	733,006	288,156	4,407
Operating margin (loss)	10,152	—	868	19,815	(9,913)	(618)
Nonoperating gains (losses):						
Net realized gains (losses) on sales of investments	2,499	—	—	1,418	1,087	(6)
Other, net	436	—	(110)	355	191	—
Total nonoperating gains (losses), net	2,935	—	(110)	1,773	1,278	(6)
Excess (deficiency) of revenue over expenses	13,087	—	758	21,588	(8,635)	(624)

(Continued)

ALBANY MEDICAL CENTER
AND RELATED ENTITIES

Combining Statement of Operations and Changes in Net Assets

Year ended December 31, 2013

(Dollars in thousands)

	Combined total	2013 Combining information: Eliminations	Center	Hospital	College	Foundation
Unrestricted net assets:						
Excess (deficiency) of revenue over expenses	$ 13,087	—	758	21,588	(8,635)	(624)
Changes in net unrealized gains and losses on investments	17,954	—	—	11,447	6,502	5
Net assets released from restrictions used for purchase of property and equipment	10,593	—	—	3,795	6,798	—
Change in fair value of interest rate swaps	4,484	—	1,014	3,470	—	—
Pension related changes other than net periodic pension costs	51,004	—	5,194	30,960	14,850	—
Net change resulting in reduction of interinstitutional receivable	—	—	—	(10,000)	10,000	—
Increase (decrease) in unrestricted net assets	97,122	—	6,966	61,260	29,515	(619)
Temporarily restricted net assets:						
Private gifts, grants, contracts and other	10,935	(9,644)	—	3,749	5,783	11,047
Investment interest, dividends and net realized gains (losses), net	4,704	38	—	216	4,488	(38)
Gift distributions	—	8,743	—	—	—	(8,743)
Net assets released from restrictions for operations	(12,564)	—	—	(3,024)	(8,290)	(1,250)
Net provision for uncollectible accounts	—	133	—	—	—	(133)
Changes in net unrealized gains and losses on investments	10,974	(109)	—	1,140	9,834	109
Contributions for property and equipment	10,352	—	—	3,554	6,798	—
Net assets released from restrictions used for purchase of property and equipment	(10,593)	—	—	(3,795)	(6,798)	—
Nonoperating revenue	—	(18)	—	—	—	18
Increase (decrease) in temporarily restricted net assets	13,808	(857)	—	1,840	11,815	1,010
Permanently restricted net assets:						
Private gifts	4,143	(3,602)	—	207	3,936	3,602
Net investment income	12	(253)	—	—	12	253
Gift distributions	—	4,530	—	—	—	(4,530)
Net provision for uncollectible accounts	—	18	—	—	—	(18)
Changes in net unrealized gains and losses in investments	—	(338)	—	—	—	338
Increase (decrease) in permanently restricted net assets	4,155	355	—	207	3,948	(355)
Change in net assets	115,085	(502)	6,966	63,307	45,278	36
Net assets (deficit), beginning of year	383,703	(16,194)	7,230	267,401	108,162	17,104
Net assets (deficit), end of year	$ 498,788	(16,696)	14,196	330,708	153,440	17,140

See accompanying independent auditors' report.

Appendix B

ALBANY MEDICAL CENTER AND RELATED ENTITIES

Schedule of Expenditures of State Awards

Year ended December 31, 2014

ALBANY MEDICAL CENTER AND RELATED ENTITIES

Schedule of Expenditures of State Awards

Year ended December 31, 2014

(Unaudited)

Program title	Contract #	Federal CFDA number	Distributions/expenditures Pass-through	Direct	Total
New York State Department of Health:					
Maternal & Child Health Services Block Grant	C023836	93.994	$ 69,386	25,664	95,050
Maternal & Child Health Services Block Grant	C029413	93.994	57,661	21,326	78,987
Special Supplemental Nutrition Program for Women, Infants & Children	C025720	10.557	1,846,926	133,426	1,980,352
Clinical Education Initiative	C023553	—	—	237,277	237,277
Service Delivery Models for Treatment Adherence to Combination Antiretroviral Therapy	C023869	—	—	93,589	93,589
Community-Based HIV Primary Care Services	C026250	—	—	195,700	195,700
Comprehensive Care Centers for Eating Disorders	C026735	—	—	79,825	79,825
Regional Perinatal Centers	C023906	93.778	16,275	83,117	99,392
Regional Perinatal Centers	C028938	93.778	47,116	217,339	264,455
Child & Adult Care Food Program	2086	10.558	39,633	—	39,633
Empire Clinical Research Investigator Program		—	—	75,360	75,360
Adolescent/Young Adult Specialized HIV Care	C027230	—	—	277,746	277,746
Family Focused HIV Health Care for Women	C027221	—	—	160,879	160,879
Doctors across New York Ambulatory Care Training Program	C027961	—	—	243,763	243,763
Alzheimer’s Disease Assistance Centers	C026944	—	—	120,214	120,214
Partnership Plan Medicaid Section 1115 Demonstration	11-W-001142/2	—	—	998,174	998,174
DSRIP Design Grant Award		—	—	614,712	614,712
Linkage, Retention and Treatment Adherence Services	T029633	—	—	4,253	4,253
New York State Education Department Coordinated Collection Development Aid	0315200004	—	—	4,758	4,758
New York Office of Mental Retardation & Development Disabilities:					
Family Support Services	C023692	—	—	103,635	103,635
New York State Governor’s Traffic Safety Committee:					
Child Passenger Safety	C001723	20.602	11,324	—	11,324
New York Department of Criminal Justice:					
NYS Dept. of Criminal Justice	T554446	16.588	5,474	—	5,474
NYS Dept. of Criminal Justice	T554447	16.588	35,131	—	35,131
New York State Urban Development Corp d/b/a Empire State Development:					
NYCAP Research Alliance	X804	—	—	25,968	25,968
New York State Energy Research & Development Authority:					
NYSERDA-ERDAI-0000023480	21555	—	—	600,000	600,000
NYSERDA-ERDAI-0000028460	1620	—	—	23,540	23,540
NYSERDA-NCP-98583	23423	—	—	343,233	343,233
Total State Funding			$ 2,128,926	4,683,498	6,812,424

See accompanying independent auditors’ report.