Mount Sinai Medical Center of Florida, Inc. and Subsidiaries

Consolidated Financial Statements as of and
for the Years Ended December 31, 2014 and 2013,
Supplemental Divisional Information as of and
for the Year Ended December 31, 2014, and
Independent Auditors' Report

MOUNT SINAI MEDICAL CENTER OF FLORIDA, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

Deloitte & Touche LLP
Certified Public Accountants
333 Southeast Second Avenue
Suite 3600
Miami, FL 33131
USA

Tel: +1 305 372 3100
Fax: +1 305 372 3160
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Mount Sinai Medical Center of Florida, Inc.
Miami Beach, Florida

We have audited the accompanying consolidated financial statements of Mount Sinai Medical Center of Florida, Inc. and subsidiaries (the "Medical Center"), which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Medical Center as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Divisional Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary divisional information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. This supplementary information is the responsibility of the Medical Center's management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such supplementary divisional information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Deloitte & Touche LLP

March 27, 2015

MOUNT SINAI MEDICAL CENTER OF FLORIDA, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2014 AND 2013
(Amounts in thousands)

	2014	2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$138,417	$ 92,817
Temporary investments	130,610	153,439
Patient accounts receivable—net of allowances for uncollectible accounts of approximately $42 million in 2014 and $45 million in 2013	69,542	67,732
Other receivables	2,650	1,333
Inventories	7,831	7,830
Prepaid and other assets	11,281	4,018
Total current assets	360,331	327,169
ASSETS WHOSE USE IS LIMITED:		
Funds held by trustee	122,744	22,122
Self-insurance trust fund	2,700	2,651
Other investments	4,881	4,885
Total assets whose use is limited	130,325	29,658
BENEFICIAL INTEREST IN THE NET ASSETS OF MOUNT SINAI MEDICAL CENTER FOUNDATION, INC.	138,872	121,364
PROPERTY AND EQUIPMENT—Net	161,857	162,559
RECEIVABLE FOR INSURED CLAIMS	16,931	19,318
OTHER ASSETS	5,587	6,027
TOTAL	$813,903	$666,095
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 36,878	$ 27,683
Accrued wages, salaries, and benefits	30,335	26,786
Indigent care assessment—current portion	4,568	4,375
Other current liabilities	37,417	10,623
Due to third-party payors	18,021	17,478
Current portion of long-term debt	12,335	15,979
Total current liabilities	139,554	102,924
LONG-TERM DEBT—Net of current portion	316,409	224,096
INDIGENT CARE ASSESSMENT—Net of current portion	3,033	3,030
OTHER LONG-TERM LIABILITIES	268	978
LIABILITY FOR SELF-INSURED CLAIMS	64,909	83,799
Total liabilities	524,173	414,827
COMMITMENTS AND CONTINGENCIES (Notes 6, 7, and 18)		
NET ASSETS:		
Unrestricted	150,858	129,904
Temporarily restricted	133,582	116,074
Permanently restricted	5,290	5,290
Total net assets	289,730	251,268
TOTAL	$813,903	$666,095

See notes to consolidated financial statements.

MOUNT SINAI MEDICAL CENTER OF FLORIDA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(Amounts in thousands)

	2014	2013
UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT:		
Patient service revenue net of contractual allowances and discounts	$ 572,641	$ 555,360
Provision for doubtful accounts	71,954	66,250
Net patient service revenue	500,687	489,110
Other revenue	25,792	27,668
Net assets released from temporary restrictions by the Foundation	666	649
Net assets released from temporary restrictions for research, grants, and other	2,081	2,224
Total unrestricted revenues, gains, and other support	529,226	519,651
EXPENSES:		
Wages, salaries, and benefits	258,672	242,420
Supplies	104,555	100,495
Administrative and general	71,568	67,995
Malpractice and other insurance—net of recoveries	30,403	23,413
Depreciation	26,049	26,629
Interest	11,423	11,103
Indigent care assessment	5,585	5,562
Management fees	-	359
Loss on extinguishment of debt	4,500	-
Total expenses	512,755	477,976
EXCESS OF REVENUES OVER EXPENSES	16,471	41,675

(Continued)

MOUNT SINAI MEDICAL CENTER OF FLORIDA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(Amounts in thousands)

	2014	2013
UNRESTRICTED NET ASSETS:		
Excess of revenues over expenses	$ 16,471	$ 41,675
Contributions from Mount Sinai Medical Center Foundation, Inc. for capital expenditures	13	-
Net assets released from restrictions used for capital purposes	4,470	612
Increase in unrestricted net assets	20,954	42,287
TEMPORARILY RESTRICTED NET ASSETS:		
Temporarily restricted grants and contributions	7,217	3,485
Net assets released from restrictions	(7,217)	(3,485)
Change in the beneficial interest in the net assets of Mount Sinai Medical Center Foundation, Inc.	17,508	15,042
Increase in temporarily restricted net assets	17,508	15,042
PERMANENTLY RESTRICTED NET ASSETS—Change in the beneficial interest in the net assets of Mount Sinai Medical Center Foundation, Inc.	-	(380)
CHANGE IN NET ASSETS	38,462	56,949
NET ASSETS—Beginning of year	251,268	194,319
NET ASSETS—End of year	$ 289,730	$ 251,268

See notes to consolidated financial statements.

(Concluded)

MOUNT SINAI MEDICAL CENTER OF FLORIDA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(Amounts in thousands)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 38,462	$ 56,949
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	26,375	27,031
Bond premium amortization—net	(1,009)	(923)
Provision for doubtful accounts	71,954	66,250
Loss on extinguishment of debt	4,500	-
Noncash purchase discount	(1,940)	364
(Gain)/loss on disposal of property, plant, and equipment	(2)	72
Changes in the beneficial interest in the net assets of Mount Sinai Medical Center Foundation, Inc.	(17,508)	(14,662)
Realized loss on sale of securities and change in net unrealized losses on investments	375	825
Changes in operating assets and liabilities:		
Increase in patient accounts receivable	(73,764)	(73,937)
(Increase) decrease in other receivables	(1,317)	1,336
Increase in due to third-party payors	543	8,908
(Increase) decrease in inventories	(1)	522
(Increase) in prepaid and other current assets	(7,263)	(150)
Decrease (increase) in other noncurrent assets	2,445	(598)
Decrease (increase) in receivable for insured claims	2,387	(2,179)
Increase (decrease) in accounts payable and accrued expenses	5,013	(4,885)
Increase in accrued wages, salaries, and benefits	3,549	2,044
Increase in indigent care assessment	196	251
Increase in other current liabilities	26,794	2,874
(Decrease) increase in other long-term liabilities	(710)	659
(Decrease) increase in liability for self-insured claims	(18,890)	11,337
Net cash provided by operating activities	60,189	82,088

(Continued)

MOUNT SINAI MEDICAL CENTER OF FLORIDA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(Amounts in thousands)

	2014	2013
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	$ (21,211)	$ (14,255)
Proceeds from the sale of property and equipment	48	67
Purchases of investments	(65,075)	(127,280)
Proceeds from sales and maturities of investments	87,451	132,374
Assets whose use is limited:		
Purchases of investments	(152,866)	(29,151)
Proceeds from sales of investments	52,277	26,659
Net cash used in investing activities	(99,376)	(11,586)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Debt financing costs	(3,430)	-
Proceeds from issuance of debt	181,734	6,944
Repayment of long-term debt	(87,202)	(10,218)
Repayment of notes payable/capital lease	(6,315)	(10,485)
Net cash provided by (used in) financing activities	84,787	(13,759)
NET INCREASE IN CASH AND CASH EQUIVALENTS	45,600	56,743
CASH AND CASH EQUIVALENTS—Beginning of year	92,817	36,074
CASH AND CASH EQUIVALENTS—End of year	$ 138,417	$ 92,817
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION—Cash paid for interest net of amounts capitalized of $299 and $228 in 2014 and 2013, respectively	$ 12,993	$ 12,346
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Acquisition of equipment through note payable and capital lease	$ -	$ 4,315
Acquisition of equipment through accounts payable and accrued expenses	$ 6,243	$ 2,061

See notes to consolidated financial statements. (Concluded)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization—Mount Sinai Medical Center of Florida, Inc. and subsidiaries (the "Medical Center") is a Florida not-for-profit corporation incorporated in 1946. The consolidated financial statements of the Medical Center include the accounts of Mount Sinai Medical Center and its wholly owned and controlled subsidiaries. The Medical Center, located in Miami Beach, Florida, is an acute care teaching and research facility, which operates two campuses, several satellite sites, and various physician practices.

Financial Statement Presentation—The consolidated financial statements of the Medical Center include the accounts of the Medical Center and its wholly owned subsidiaries, Mount Sinai Medical Center Auxiliary, Mount Sinai Medical Center of Florida Guarantee Corporation, and various corporations that operate physician practices. All intercompany transactions are eliminated in consolidation. The Medical Center includes all of the net assets of the Mount Sinai Medical Center Foundation, Inc. (the "Foundation"), as discussed in Note 2.

Use of Estimates—The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The Medical Center considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of its consolidated financial statements, including the following: recognition of net patient service revenues; valuation of patient accounts receivables, including contractual allowances and allowances for uncollectible accounts; provisions for losses and expenses related to health care, professional and general liabilities; estimated third-party settlements; the allocation of purchase price to acquired assets; and litigation and regulatory liabilities. Management relies on historical experience and on other assumptions believed to be reasonable under the circumstances in making its judgments and estimates. Actual results can differ from those estimates.

Subsequent Events—In preparing these consolidated financial statements and in accordance with Accounting Standards Codification ("ASC") 855, *Subsequent Events*, the Medical Center has evaluated events and transactions for potential recognition or disclosure through March 27, 2015, the date the consolidated financial statements were issued.

Cash and Cash Equivalents—Cash and cash equivalents include cash on hand, cash in depository accounts, certificates of deposit, and investments in highly liquid debt instruments with original maturities of three months or less at the time of purchase.

Valuation of Patient Accounts Receivable—The Medical Center reports its patient accounts receivable at their net realizable value. The Medical Center determines the net realizable value of its receivables based on established agreements with third-party payors that provide for payments to the Medical Center at amounts that typically differ from its established rates. For services provided to Medicare and Medicaid beneficiaries, estimated receivables are determined based on the programs' guidelines for reimbursement of services that are either paid at prospectively determined rates per diagnosis or retrospectively determined costs. Receivables from other third-party payors are based primarily on contractual agreements that determine reimbursement for services rendered to beneficiaries of their plans based on predetermined rates per diagnosis, per diem rates, or discounted fee for service rates. As changes in contract terms and the regulatory environment can significantly affect the valuation of its receivables, the Medical Center closely monitors these items along with historical collection rates to ensure the appropriateness of its receivable valuations.

Investments and Assets Whose use is Limited—Investments and assets whose use is limited include cash and short-term investments, equity securities, and debt securities. Short-term investments are comprised of money market instruments and commercial paper. Investments in equity securities with readily determinable fair values and all debt securities are stated at fair value in the consolidated balance sheet. Investment income or losses (including realized and unrealized gains and losses on investments, interest and dividends) are included in other revenue, unless the income or loss is restricted by donor or law.

Inventories—Inventories consist primarily of pharmaceutical, medical, and surgical supplies and are priced at the lower of cost (determined by the first-in, first-out method) or market.

Property and Equipment—Property and equipment are stated at cost less accumulated depreciation. Donated property and equipment are recorded at fair market value on the date of donation. Depreciation is computed on the straight-line method using estimated useful lives ranging from 3 to 40 years. Expenditures that materially increase values, change capacities, or extend useful lives are capitalized, as are interest costs until the assets are ready for their intended use. Gains and losses on dispositions are recorded in income from operations in the year of disposal.

Gifts of long-lived assets, such as land, buildings, or equipment, are reported as unrestricted support and are excluded from excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service. Property and equipment are more fully described in Note 6 to the consolidated financial statements.

The Medical Center evaluates its long-lived assets for impairment whenever events or changes indicate that their carrying amount may not be recoverable. If circumstances suggest that long-lived assets may be impaired, an assessment of recoverability is performed prior to any write-down of assets. An impairment charge is recorded on those assets for which the estimated fair value is below its carrying amount.

Bond Issue Costs—Unamortized bond issue costs of approximately $3.7 and $3.6 million as of December 31, 2014 and 2013, respectively, are included in other assets in the accompanying consolidated balance sheets. Bond issue costs incurred in obtaining long-term debt are being amortized by a method approximating the interest method over the life of the related debt. Amortization of the bond issue costs is included in interest expense in the accompanying consolidated statements of operations and changes in net assets.

Patient Service Revenue Net of Contractual Allowances and Discounts—Patient service revenue net of contractual allowances and discounts is reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Patient service revenue net of contractual allowances and discounts is described in Note 3 to the consolidated financial statements.

Charity Care—The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported in patient service revenue net of contractual allowances and discounts. Charity care is described in Note 4 to the consolidated financial statements.

Donor-Restricted Grants and Contributions—Contributions receivable, including unconditional promises to give cash and other assets, is recognized as revenues when the donor's commitment is received. Unconditional promises are recognized at the estimated present value of the future cash flows, net of estimated write-offs. Promises made and collected in the same reporting period are recorded when received in the appropriate net asset category. Promises of noncash assets are recorded at their estimated fair value. Conditional promises are recorded at the estimated fair value when donor stipulations are substantially met and the likelihood of not meeting the remaining conditions is remote.

Grants and pledges received with donor restrictions that limit the use of the donated assets are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from temporary restrictions.

As the Foundation was established to raise funds for the benefit of the Medical Center, it is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). The Foundation holds contributed assets that have restrictions by donors stipulating that these assets be spent for designated purposes at the Medical Center.

During 2014 and 2013, the Foundation contributed approximately $678,000 and $649,000, respectively, to the Medical Center for reimbursement of expenditures incurred specifically related to temporarily restricted purposes. Of such amounts, approximately $666,000 and $649,000, respectively, represent reimbursement for operating expenditures and $13,000 and $0, respectively, represent reimbursement for capital expenditures.

Excess of Revenues over Expenses—The consolidated statements of operations and changes in net assets include excess of revenues over expenses. Changes in unrestricted net assets, which are excluded from excess of revenues over expenses, consistent with industry practice, include permanent transfers of assets to and from affiliates for items other than goods and services and contributions of long-lived assets (including assets acquired using donor-restricted contributions, where the donor restriction was specific and directed the purposes of acquiring such assets).

Self-Insurance Programs—The Medical Center is self-insured and retains a portion of the risk for certain employee health claims, workers' compensation claims, and professional liability claims. The provision for estimated self-insured claims is included in insurance expense and includes estimates of the ultimate costs for both asserted and unasserted claims. Self-insurance program costs related to workers' compensation and professional liability are more fully described in Notes 8 and 9, respectively, to the consolidated financial statements. Management classifies all health claims as current liabilities. Workers' compensation claims and professional liability claims are current and noncurrent liabilities of the Medical Center. Approximately $24 million is included in other current liabilities, and approximately $65 million is included in liability for self-insured claims in the accompanying consolidated balance sheets.

Income Taxes—The Medical Center is a not-for-profit corporation and has been recognized as tax exempt pursuant to Section 501(c)(3) of the IRC. The IRC provides for taxation of unrelated business income under certain circumstances. Management has concluded that the Medical Center has no material unrelated business income.

The Medical Center follows the provisions of ASC 740-15-2, *Income Taxes*, and has determined that as of December 31, 2014 and 2013, the Medical Center had no material unrecognized tax benefits. The Medical Center does not expect that unrecognized tax benefits will materially increase within the next 12 months.

In the event the Medical Center were to recognize interest and penalties related to uncertain tax positions, it would be recognized in the consolidated financial statements as income tax expense. Tax years from 2009 through 2013 are subject to examination by the federal and state taxing authorities. There are no income tax examinations currently in process.

Electronic Health Records Incentive Payment—The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act (HITECH). These provisions were designed to increase the use of Electronic Health Records (EHR) technology and establish the requirements for a Medicare and Medicaid incentive payments program beginning in 2011 for eligible hospitals and providers that adopt and meaningfully use certified EHR technology. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. Initial Medicaid incentive payments are available to providers that adopt, implement, or upgrade certified EHR technology, but providers must demonstrate meaningful use of such technology in subsequent years to qualify for additional incentive payments. Medicaid EHR incentive payments are fully funded by the federal government and administered by the states; however, the states are not required to offer EHR incentive payments to providers.

During the years ended December 31, 2014 and 2013, the Medical Center recognized HITECH incentives related to having demonstrated meaningful use of, and completed attestations as to their adoption or implementation of, certified EHR technology. The Medicare and Medicaid incentives recognized during the year ended December 31, 2014, were \$3.4 million and \$0.3 million, respectively. The Medicare and Medicaid incentives recognized during the year ended December 31, 2013, were \$3.5 million and \$1.1 million, respectively. These incentive reimbursements are included in other revenue in the consolidated statements of operations and changes in net assets. The Medical Center accounts for EHR incentive payments using the gain contingency model. Pursuant to the gain contingency model, the Medical Center recognizes EHR revenue when the specified meaningful use criteria have been satisfied, as all contingencies in estimating the amount of the incentive payments to be received are resolved. Medicare meaningful use attestations are subject to audit by the federal government or its designee.

New Accounting Pronouncements—On April 10, 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (ASU) No. 2014-08, “Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity” (ASU 2014-08). ASU 2014-08 changes the requirements for reporting discontinued operations in FASB Accounting Standards Codification Subtopic 205-20, such that a disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has, or will have, a major effect on an entity’s operations and financial results. ASU 2014-08 requires an entity to present, for each comparative period, the assets and liabilities of a disposal group that includes a discontinued operation separately in the asset and liability sections, respectively, of the statement of financial position, as well as additional disclosures about discontinued operations. Additionally, ASU 2014-08 requires disclosures about a disposal of an individually significant component of an entity that does not qualify for discontinued operations presentation in the financial statements and expands the disclosures about an entity's significant continuing involvement with a discontinued operation. The ASU is effective prospectively for all disposals or components initially classified as held for sale in periods beginning on or after December 15, 2014. The Medical Center has not determined the potential impact to its consolidated financial statements from the adoption of this standard.

On May 28, 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)" (ASU 2014-09). ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The core principle of the guidance in ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU is effective for annual reporting periods beginning after December 15, 2016, including interim periods with that reporting period. The Medical Center has not determined the potential impact to its consolidated financial statements from the adoption of this standard.

2. BENEFICIAL INTEREST IN THE NET ASSETS OF MOUNT SINAI MEDICAL CENTER FOUNDATION, INC.

The Medical Center accounts for its interests in the Foundation in accordance with ASC 958, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*. Pursuant to ASC 958, the Medical Center and the Foundation are financially interrelated organizations. Accordingly, the Medical Center is required to recognize its interest in the net assets of the Foundation and adjust that interest for its share of the change in net assets of the Foundation. As of December 31, 2014 and 2013, all of the net assets held by the Foundation were recorded as a noncurrent asset in the consolidated balance sheets of the Medical Center as a beneficial interest in the net assets of the Foundation.

The Foundation was established to solicit contributions from the general public solely for the funding of operations and capital acquisitions by the Medical Center. Funds are distributed to the Medical Center as determined by the Foundation's Board of Trustees. The Medical Center periodically requests funds from the Foundation for capital or other needs. Such requests are received by the Foundation and, if approved, funds are transferred to the Medical Center. Such transfers of funds are reported in the accompanying consolidated financial statements as contributions from the Foundation. The Medical Center's beneficial interest in the unrestricted and temporarily restricted net assets of the Foundation and its share of the change in those net assets are reported in the accompanying consolidated financial statements in temporarily restricted net assets. The Medical Center's beneficial interest in permanently restricted net assets of the Foundation and its share of changes therein are reported in the accompanying consolidated financial statements in permanently restricted net assets.

The Foundation considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of its consolidated financial statements, including the following: recognition of contributions; valuation of accounts receivables, including pledges and receivables under contribution agreements; and valuation of investments. Management relies on historical experience and other assumptions believed to be reasonable under the circumstances in making its judgments and estimates. Actual results can differ from those estimates.

A summary of the Foundation's assets, liabilities, net assets, results of operations, and changes in net assets as of December 31, 2014 and 2013, is as follows (amounts in thousands):

	2014	2013
Assets:		
Cash and cash equivalents	$ 9,350	$ 5,545
Pledges receivable—net	42,565	37,252
Receivables under contribution agreements—net	23,551	19,499
Investments	58,516	54,395
Endowment investment	5,290	5,290
Prepaid expenses and other assets	14	10
Due from the Medical Center	120	-
Total assets	$ 139,406	$ 121,991
Due to the Medical Center	$ -	$ 30
Other liabilities	534	597
Total liabilities	534	627
Net assets:		
Unrestricted	37,339	29,132
Temporarily restricted	96,243	86,942
Permanently restricted	5,290	5,290
Total net assets	138,872	121,364
Total liabilities and net assets	$ 139,406	$ 121,991
Total revenues—amounts raised	$ 22,612	$ 16,539
Interest, dividends, and other—net [A]	1,337	2,949
Operating expenses	(5,763)	(4,177)
Transfers to the Medical Center	(678)	(649)
Increase in net assets	17,508	14,662
Net assets—January 1	121,364	106,702
Net assets—December 31	$ 138,872	$ 121,364

[A] Interest, dividends, and other—net, includes realized and unrealized (losses)/gains of ($800,000) and $1 million for the years ended December 31, 2014 and 2013, respectively.

As of December 31, 2014, the Foundation's investments and endowment investments consisted of approximately $1.3 million, $56.4 million, and $6.1 million, of Level 1, Level 2, and Level 3 investments, respectively. At December 31, 2013, the Foundation's investments and endowment investments consisted of approximately $0.6 million, $53.1 million, and $5.9 million of Level 1, Level 2, and Level 3 investments, respectively.

The Foundation's Level 3 investments consist of approximately $6.1 and $5.9 million of financial instruments as of December 31, 2014 and 2013, respectively, which are accounted for at their estimated fair value. The fair value of the financial instruments, which is mainly composed of an investment in a donated life insurance policy, was determined using a valuation model based on the present value of the face amount of the policy less the present value of the Foundation's expected future premium payments. The present value model utilized the face value, risk-free rate, and life expectancy of the insured to determine the value of the policy.

The Foundation's endowment consists of approximately 46 individual funds established for a variety of purposes. The endowment consists of donor-restricted funds that have been limited by donors to a specific time period or purpose. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The endowment net asset composition by fund type as of December 31, 2014, is composed of the following (in thousands):

	Endowment Net Asset Composition by Fund Type	
	Temporarily Restricted	Permanently Restricted
Alzheimer's program	$ 7,013	$ -
Melanoma research	3,440	-
Cancer lifeline	1,630	-
Cancer research	2,289	-
Other programs	17,060	5,290
Total funds	$ 31,432	$ 5,290

The endowment net asset composition by fund type as of December 31, 2013, is composed of the following (in thousands):

	Endowment Net Asset Composition by Fund Type	
	Temporarily Restricted	Permanently Restricted
Alzheimer's program	$ 7,379	$ -
Melanoma research	3,945	-
Cancer lifeline	1,591	-
Cancer research	2,310	-
Other programs	12,175	5,290
Total funds	$ 27,400	$ 5,290

3. NET PATIENT SERVICE REVENUE

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. A summary of the payment arrangements with major third-party payors is as follows:

Medicare—As of October 1, 2007, Medicare changed its reimbursement methodology from Diagnostic Related Groups (DRG) to Medicare Severity Diagnostic Related Groups (MS-DRGs), thus, expanding the number of DRGs available for coding patient accounts. Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge based on MS-DRGs. MS-DRG rates vary based on clinical diagnostic and other factors. Outpatient services rendered to Medicare beneficiaries are paid on a fee schedule under a Prospective Payment System based upon Ambulatory Patient Classification (APC). Under this system, each outpatient encounter could result in the assignment of multiple APC payments.

Rehabilitation services rendered to Medicare beneficiaries are paid under prospectively determined rates per discharge based upon assignment to a Case Mix Group (CMG). CMG rates vary based on clinical, diagnostic, and other factors. Management believes that the Medical Center's inpatient rehabilitation facility complies with the Centers for the Medicare and Medicaid Services (CMS) "60% rule," whereby 60% of its patient population has one of the 13 conditions as designated by CMS.

Inpatient psychiatric services are paid using a prospectively determined per diem rate based on a MS-DRG assignment adjusted by patient-specific factors, such as comorbidity, age, length of stay, and other hospital-specific factors.

The Medical Center is still reimbursed for cost reimbursable items, such as direct and indirect medical education, disproportionate share, and bad debts. These are paid at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicare fiscal intermediary.

During 2014 and 2013, the Medical Center recorded an increase to Medicare net patient service revenue of approximately $2 million and $4.5 million to reflect changes in prior-year reimbursement estimates related to the settlement of outstanding cost reports, settlements related to audits conducted under the Recovery Audit Contractor Program, and the impact of revaluations on open cost report years. The Medical Center recorded a $0.5 million increase to Medicare net patient service revenue principally related to changes in Indirect Graduate Medical Education (IME) and disproportionate share payment qualification levels. The Medical Center recorded a $0.3 million increase to Medicare net patient service revenue as a result of a settlement received related to audits conducted under the Recovery Audit Contractor Program. An additional $1.2 million increase was related to a change in estimate for the 2013 Medicare cost report. The principal components of the change in estimate associated with the projected cost report settlement include increased disproportionate share payment qualification levels and an increase in Medicare bad debts previously recorded. During 2014, there were no cost report settlements.

All Medicare cost report years subsequent to fiscal year 2006 remain open and subject to audit. Due to the uncertainty and significant estimates surrounding the ultimate acceptance of such matters by the fiscal intermediaries, management relies on historical experience and other assumptions believed to be reasonable under the circumstances in making its judgments and estimates of third-party balances at year-end. As the Medical Center receives additional information, or as facts and circumstances change with respect to the unsettled cost reporting years, changes in estimates could significantly affect the results of operations of the Medical Center and is recorded in the period that such determinations are made. In 2014 and 2013, approximately 26% and 29%, respectively, of the Medical Center's patient service revenue, net of contractual allowances and discounts but before the provision for bad debts, was for services to Medicare beneficiaries.

Medicaid—Approximately 5% of the Medical Center's patient service revenue, net of contractual allowances and discounts but before the provision for bad debts, for both 2014 and 2013, was derived from the Medicaid program. As of July 1, 2013, Medicaid changed its reimbursement methodology for inpatient services from a cost-based fee-for-service model to a prospective payment methodology utilizing All Patient Refined Diagnosis Related Groups (APR-DRGs). Outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology subject to certain cost and regional limits.

Changes to policy and regulation in the Medicare and Medicaid programs could have an adverse or positive impact on the Medical Center's operations. Final determination of amounts earned pursuant to the Medicare and Medicaid programs is subject to review by appropriate governmental authorities or their agent.

Other Third-Party Payors—The Medical Center has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Medical Center under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

In 2014 and 2013, approximately 49% and 45% of the Medical Center's patient service revenue, net of contractual allowances and discounts but before the provision for bad debts, was for services to nongovernmental third-party payors, respectively.

Uninsured Patients—The Medical Center recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). Historically, a significant portion of the Medical Center's uninsured patients will be unable to pay for the services provided. As such, the Medical Center records a significant provision for bad debts related to uninsured patients in the period the services are provided.

Patient accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility of patient accounts receivable the Medical Center analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For all payor types, when the Medical Center can no longer reasonably estimate collectibility of an account based on the aging of the balance due and the volatility and unpredictable nature of the amount, the Medical Center reserves substantially all amounts due.

Patient service revenue, net of contractual allowances and discounts but before the provision for bad debts, recognized for the years ended December 31, 2014 and 2013, consisted of the following (amounts in thousands):

	2014	2013
Gross patient service revenue:		
Medicare	$ 705,717	$ 733,553
Managed care	1,110,783	1,015,272
Medicaid	114,370	157,493
Self-pay and other	192,290	191,690
Physician revenues	137,828	137,399
Total	2,260,988	2,235,407
Less discounts and allowances	(1,688,347)	(1,680,047)
Net patient service revenue	$ 572,641	$ 555,360

Gross patient service revenue is recorded on the accrual basis in the period in which services are provided at established rates. Contractual adjustments are recorded as deductions from gross patient service revenue to determine net patient service revenue.

The payor mix for the physician revenues for the years ended December 31, 2014 and 2013, is similar to that of the remaining gross patient service revenue in the table above.

The activity in the Medical Center's allowance for doubtful accounts for the years ended December 31, 2014 and 2013, is summarized as follows:

	2014	2013
Balance, beginning of year	$ 44,971	$ 43,503
Provision, during the year	71,954	66,250
Accounts written-off (net of recoveries)	(74,666)	(64,782)
Balance, end of year	$ 42,259	$ 44,971

4. CHARITY CARE

The Medical Center maintains records to identify and monitor the level of charity care it provides. The Medical Center does not pursue collection of amounts determined to qualify as charity care and does not report such amount as revenue. Uninsured patients treated at the Medical Center who have income at or below 400% of the federal poverty level are eligible for charity or discounts on charges. The federal poverty level is established by the federal government and is based on income and family size. The amounts of gross charges foregone for services identified as charity care were approximately $64.2 million and $64.1 million in 2014 and 2013, respectively. Such services represented approximately 2.8% and 2.9% of the gross charges of the Medical Center in 2014 and 2013, respectively.

The Medical Center's estimated costs for caring for charity care patients for 2014 and 2013 were approximately $14.7 million and $16.6 million, respectively. These estimated costs of providing charity services are based on the Medical Center's cost accounting system.

The Medical Center receives disproportionate share hospital (DSH) payments, which are intended to mitigate the cost of uncompensated care provided to indigent patients. Revenues attributable to DSH payments were approximately $21.9 million and $20.4 million for 2014 and 2013, respectively, and are reflected in net patient service revenue. The total cost to provide uncompensated care, including those patients that qualified for charity care, was approximately $26.1 million and $27.2 million for 2014 and 2013, respectively. The total cost to provide uncompensated care is measured as the estimated cost for caring for charity care patients, uninsured patients, and uninsured patients who have applied to the Medicaid program. These estimated costs are based on the Medical Center's cost accounting system.

5. TEMPORARY INVESTMENTS AND ASSETS WHOSE USE IS LIMITED

Temporary investments and assets whose use is limited at December 31, 2014, are stated at fair value as follows:

Temporary Investments and Assets Whose Use Is Limited	Temporary Investments	Assets Whose Use Is Limited	Total
Cash and short-term investments	$ -	$ 118,974	$ 118,974
Long-term certificate of deposits	35,685	5	35,690
U.S. Treasury obligations	51,754	11,265	63,019
U.S. Agency obligations	3,288	-	3,288
Municipal bonds	566	-	566
Corporate bonds	14,259	-	14,259
Agency-backed securities	1,602	-	1,602
Agency mortgaged-backed securities	9,590	-	9,590
Hedge funds	757	-	757
Mutual funds	7,971	-	7,971
U.S. fixed income	2,875	-	2,875
Equity securities	2,077	-	2,077
Interest receivable	186	81	267
Total	$ 130,610	$ 130,325	$ 260,935

Temporary investments and assets whose use is limited at December 31, 2013, are stated at fair value as follows:

Temporary Investments and Assets Whose Use Is Limited	**Temporary Investments**	**Assets Whose Use Is Limited**	**Total**
Cash and short-term investments	$ -	$ 29,648	$ 29,648
Long-term certificate of deposits	34,977	10	34,987
U.S. Treasury obligations	86,700	-	86,700
U.S. Agency obligations	2,044	-	2,044
Municipal bonds	952	-	952
Corporate bonds	12,485	-	12,485
Agency-backed securities	2,168	-	2,168
Agency mortgaged-backed securities	8,150	-	8,150
Hedge funds	805	-	805
Mutual funds	3,872	-	3,872
U.S. fixed income	1,104	-	1,104
Interest receivable	182	-	182
Total	$ 153,439	$ 29,658	$ 183,097

Funds held by trustee of approximately $122.7 million and $22.1 million as of December 31, 2014 and 2013, are presented as a component of assets whose use is limited in the consolidated balance sheets, respectively. Funds held by the trustee primarily relate to assets held in the construction and bond reserve accounts pursuant to the bond indenture agreement. See Note 7 of the consolidated financial statements.

Investment income, including gains and losses for assets whose use is limited, cash and cash equivalents, and temporary investments, is included as a component of other revenue in the consolidated statements of operations and changes in net assets. The components of investment income for the years ended December 31, 2014 and 2013, are composed of the following (amounts in thousands):

	2014	**2013**
Investment income:		
Interest and dividend income	$ 1,748	$ 1,387
Net realized losses on sales of securities	(339)	(174)
Net unrealized losses on investments	(42)	(651)
Total	$ 1,367	$ 562

6. PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2014 and 2013, are summarized as follows (amounts in thousands):

	2014	2013
Land and land improvements	$ 4,601	$ 4,597
Buildings and improvements	239,765	233,947
Equipment and software	152,133	142,892
Equipment under capital lease	11,188	19,101
Total	407,687	400,537
Less accumulated depreciation	(261,521)	(242,953)
Total	146,166	157,584
Construction in progress	15,691	4,975
Property and equipment—net	$ 161,857	$ 162,559

Depreciation expense for the years ended December 31, 2014 and 2013, amounted to approximately $26.0 million and $26.6 million, respectively. The estimated cost to complete construction in progress for 2014 and 2013 is approximately $294.1 million and $10.9 million, respectively. Accumulated depreciation for equipment under capital lease obligation was approximately $4.0 million and $6.0 million as of December 31, 2014 and 2013, respectively. Interest capitalized during fiscal years 2014 and 2013 was approximately $299,000 and $220,000, respectively.

The Medical Center performs an ongoing assessment of property and equipment, which was fully depreciated but still in service. In connection with this assessment, the Medical Center wrote off approximately $7.1 million and $8.9 million of fully depreciated fixed assets and the related accumulated depreciation for the years ended December 31, 2014 and 2013, respectively.

During 2014 and 2013, the Medical Center incurred approximately $4.5 million and $612,000, respectively, for capital expenditures related to the hurricane preparedness programs, Lowenstein Workforce program, and other grants that are expected to be reimbursed by grantors. Such amounts have been recorded as an increase in unrestricted net assets in the accompanying consolidated statements of operations and changes in net assets for the years ended December 31, 2014 and 2013.

During April 2010, the Medical Center became fully obligated under an agreement with Epic Systems Corporation (EPIC). EPIC is a leading provider of software solutions for hospitals and physicians. In 2014, the Medical Center completed the implementation of the EPIC software suite to provide the clinicians and physicians with electronic access to patient information. Also in 2014, the Medical Center began its implementation of EPIC's Revenue Cycle Management (RCM) suite. The Medical Center expects to realize benefits of an integrated clinical and financial system. The total estimated cost to complete the RCM software implementation is approximately $16 million and the estimated date of completion is 2016. As of December 31, 2014, the Medical Center recorded $1 million as construction in process related to the RCM software implementation and $41.6 million as equipment and software for the portion of the software implementation that is currently being used by the Medical Center.

7. LONG-TERM DEBT

Long-term debt and notes payable as of December 31, 2014 and 2013, consisted of the following (amounts in thousands):

	2014	2013
Hospital Revenue Refunding Bonds, Series 2014—inclusive of net unamortized premium of $10,270 at December 31, 2014	$ 180,959	$ -
Hospital Revenue Refunding Bonds, Series 2012—inclusive of net unamortized premium of $6,687 and $7,636 at December 31, 2014 and 2013, respectively	125,957	132,596
Hospital Revenue Refunding Bonds, Series 2004—inclusive of unamortized discount of $0 and $1,527 at December 31, 2014 and 2013, respectively	-	78,108
EPIC License Agreement—3.234% imputed interest rate refinanced in July 2013 through Banc of America at an imputed interest rate of 2.125%	3,083	4,576
EPIC Implementation Agreement—5.726% imputed interest rate, note matured in February 2014	-	2,394
Capital leases with interest rates between 2.10% and 6.0%, with maturities from April 2014 through May 2018, collateralized by equipment	5,859	8,288
Promissory Notes with interest rate of 2.61% and 2.62% at December 31, 2014 and 2013, respectively, and maturities in June 2017	12,886	14,113
Total long-term debt	328,744	240,075
Less current portion	12,335	15,979
Long-term debt-net of current portion	$ 316,409	$ 224,096

On September 4, 2014, the Mount Sinai Medical Center Obligated Group issued, through the City of Miami Beach Health Facilities Authority (the “Authority”), $170,895,000 of its Hospital Revenue Refunding Bonds, Series 2014 (the “Series 2014 Bonds”). The Series 2014 Bonds were issued as fully registered bonds and bear interest at rates ranging from 1.5% to 5.0%, payable semiannually on May 15 and November 15, commencing November 15, 2014. The proceeds from the sale of the Series 2014 Bonds will be used, together with other available funds, to (i) finance or reimburse the Medical Center for the costs of new capital improvements and capital expenditures on its Main Campus, (ii) refund and redeem all of the outstanding principal amount of the Hospital Revenue Bonds, Series 2004 Bonds (the “Series 2004 Bonds”) and (iii) fund certain expenses incurred in connection with the issuance of the Series 2014 Bonds and the refunding of the Series 2004 Bonds. The transaction resulted in a loss on extinguishment of debt of $4.5 million. The loss is comprised of unamortized bond issue costs and unamortized bond discounts that were written off as of the September 4, 2014. The Series 2014 Bonds are made up of serial bonds, which mature each year on November 15 commencing 2014 through 2030, and term bonds, which mature on November 15, 2034, 2039 and 2044.

On September 11, 2012, the Mount Sinai Medical Center Obligated Group issued, through the City of Miami Beach Health Facilities Authority $132,285,000 of its Hospital Revenue Refunding Bonds, Series 2012 (the “Series 2012 Bonds”). The Series 2012 Bonds were issued as fully registered bonds and bear interest at rates ranging from 2% to 5%, payable semiannually on May 15 and November 15, commencing November 15, 2012. The Series 2012 Bonds were issued with the purpose of providing funds, together with other available funds, to (i) refund and redeem all of the Authority's outstanding Hospital Revenue Bonds, Series 1998 (the "Series 1998 Bonds"), (ii) refund and redeem all of the Authority's outstanding Hospital Revenue Bonds, Series 2001A (the "Series 2001A Bonds"), (iii) fund the Bond Reserve Account established under the Bond Indenture, and (iv) pay certain expenses in connection with the issuance of the Series 2012 Bonds and the refunding of the Series 1998 and Series 2001A Bonds. The transaction resulted in a loss on extinguishment of debt of $4.8 million. The Series 2012 Bonds are made up of serial bonds, which mature each year on November 15 commencing 2012 through 2023, and term bonds, which mature on November 15, 2025 and 2029.

On April 28, 2004, the Mount Sinai Medical Center Obligated Group issued, through the Authority, $107,075,000 of its Series 2004 Bonds. The Series 2004 Bonds were issued as fully registered bonds and bear interest annually at 5.5%, 5.75%, 6%, and 6.125% for each of the four terms, which make up the Series 2004 obligations. Interest is payable semiannually on May 15 and November 15, commencing November 15, 2004. The Series 2004 Bonds were issued with the purpose of providing funds, together with other available funds, to (i) refund $24,745,000 of outstanding principal due under the Medical Center's Hospital Revenue Bonds Series 2001 B (the "Series 2001B Bonds") and $69,940,000 of outstanding principal due under the Medical Center's Hospital Revenue Bonds Taxable Series 2001C (the "Series 2001C Bonds"), (ii) fund a deposit to a bond reserve account, and (iii) pay certain expenses in connection with the issuance of the Series 2004 Bonds. The Series 2004 Bonds were refunded and repaid in 2014.

All outstanding bonds (Series 2012 and Series 2014 Bonds) have been unconditionally guaranteed by the Foundation pursuant to the restated and amended guarantee agreement dated April 1, 2004, between the Foundation and the bond trustee (the "Guaranty Agreement") and are collateralized by a first mortgage of all of the Medical Center's property, rights to certain leases, and all monies, proceeds, and other properties received or owned by the Medical Center.

As disclosed in Note 6, during April 2010, the Medical Center became fully obligated under an agreement with EPIC whereby the Medical Center was committed to purchase a software license and implementation services from EPIC in the amount of $8.2 million and $5.3 million, respectively. The Medical Center financed the implementation services over 72 months and is required to make monthly installments in the amount of $87,000. In addition, the Medical Center financed the software license over 84 months. The Medical Center made an initial down payment of $300,000 related to the software license fee with annual lump-sum payments due in years two and three in the amount of $400,000 and $500,000, respectively, with monthly installments of approximately $172,000 for the remaining 48 months. In July 2013, the Medical Center refinanced the software license fee through Banc of America over 42 months and is required to make monthly installments in the amount of $131,000.

On June 6, 2012, the Medical Center entered into a Term Loan Facility (the "Facility") available in multiple principal draws with City National Bank of Florida with a total borrowing capacity of $20 million. The promissory notes borrowed under the Facility were used to finance payments made to Aptium pursuant to the purchase of the Comprehensive Cancer Centers, Inc. (CCC). Additional borrowings under the Facility shall be used to support the Medical Center's future capital project(s) and for general corporate purposes. The interest rate on amounts drawn is based on the 30-day London InterBank Offered Rate, plus 2.45% and is subject to change based on the Medical Center's long-term Moody's rating.

As of December 31, 2014, the scheduled principal repayments on long-term debt, notes payable, and capital lease obligations for the next five years and thereafter are as follows (amounts in thousands):

Years Ending December 31	Revenue Bonds	Notes Payable	Capital Lease Obligations	Total
2015	$ 6,920	$ 3,205	$ 2,210	$ 12,335
2016	7,110	3,238	2,133	12,481
2017	7,335	9,526	1,329	18,190
2018	7,630	-	187	7,817
2019	7,935	-	-	7,935
Thereafter	253,030	-	-	253,030
Total	289,960	15,969	5,859	311,788
Unamortized bond premium	16,956	-	-	16,956
Total	$ 306,916	$ 15,969	$ 5,859	$ 328,744

The Medical Center, exclusive of certain subsidiaries and inclusive of the Foundation (collectively, the "Obligated Group") is subject to certain covenants under Sections 3.06 and 3.07 of Article III, Particular Covenants of the Obligated Group, of the Amended and Restated Master Trust Indenture dated as of December 1, 1998, and Section 12(a), measured only as of December 31, 2013, and the year then ended, inclusive, of the Supplemental Master Trust Indenture for Obligation No. 9 dated September 1, 2012, and Section 11(a), measured only as of December 31, 2014, and the year then ended, inclusive, of the Supplemental Master Trust Indenture for Obligation No. 10 dated September 1, 2014 between the Medical Center and U.S. Bank National Association (formerly SunTrust Bank and SunTrust Bank, Central Florida, National Association) as Trustee and Master Trustee insofar as they relate to financial and accounting matters. The Obligated Group has maintained compliance with these covenants for the year ended December 31, 2014.

8. WORKERS' COMPENSATION

The Medical Center is self-insured for workers' compensation claims. The costs of such claims are paid by the Medical Center; however, the Medical Center has commercial insurance coverage on a per occurrence basis in excess of $500,000 with no aggregate limit. The Medical Center has a restricted fixed deposit investment of $347,000 as collateral for its workers' compensation claims. The Medical Center has accrued a discounted liability of approximately $5.4 million and $4.8 million as of December 31, 2014 and 2013, respectively, for the future payment of known workers' compensation claims, as well as an estimate for incurred but not yet reported claims. The undiscounted liability was $5.7 million and $5.1 million at December 31, 2014 and 2013, respectively. The estimated liability for self-insured claims has been discounted over the expected payout period using a discount rate of 2% in 2014 and 2013. Workers' compensation losses and loss adjustment expenses in the consolidated statements of operations and changes in net assets for 2014 and 2013 were approximately $2.2 million and $1.2 million, respectively, and are included in malpractice and other insurance—net of recoveries. Recoveries in 2014 and 2013 were not material to the consolidated financial statements.

9. PROFESSIONAL LIABILITY PROGRAM

The Medical Center maintains a risk management program to proactively monitor and identify known professional and general liability claims during the year and a related performance improvement program to improve process in selected areas, which is designed to lessen risk. Comprehensive general liability is covered under the Medical Center's professional and general liability policies.

The Medical Center has a professional liability policy, which provides coverage for all medical malpractice claims reported to the insurance carrier during the policy term. In February 2004, the Medical Center created a wholly owned captive, Mount Sinai Medical Center of Florida Guarantee Corporation, a Cayman-based company, to gain direct access to the reinsurance markets for the Medical Center's professional liability program. The Medical Center's program fixes the Medical Center's self-insurance retention for professional and general liability at $5 million per incident, with no aggregate limit per year. The Medical Center is also responsible for any claim in excess of $65 million, with no aggregate limit per year.

The 2013 insurance program had a retrospective-rated premium, which provided for a reduction or increase to historical premiums based upon actual experience during the respective policy period. Future adjustments that may require additional premiums or provide the Medical Center with a return of premiums is limited to 25% of the annual premiums paid to the reinsurance carrier. As of December 31, 2014 and 2013, management determined that no provision for future premium adjustments was necessary based upon a review of the claims experience for the most recent three-year policy period ending January 31, 2013. This program ended effective February 1, 2014. Management continues to monitor its outstanding professional liability claims inventory in order to evaluate whether or not a portion of its current premiums might be subject to retrospective adjustments.

Management estimates the liabilities associated with professional liability risks. As a component of this process, management obtains an opinion from an independent actuary as to the estimated liability for both asserted and unasserted claims not covered by insurance. The actuary estimates the liability using a mix of industry experience and the actual malpractice loss experience of the Medical Center as reported under the Medical Center's risk management system. The estimated liability for self-insured claims has been discounted over the expected payout period using a discount rate of 2% for 2014 and 2013. The Medical Center recorded professional liability reserves in the amount of $83 million and $79 million and a corresponding receivable related to expected reinsurance recoveries in the amount of $23.7 million and $19.3 million as of December 31, 2014 and 2013, respectively.

The Medical Center has established a separate revocable trust to fund the actuarially computed liability for the anticipated losses under this program, which has been funded in accordance with the actuary's recommendations. The Medical Center's contribution to the trust was approximately $23.5 million and $9.2 million in 2014 and 2013, respectively.

10. CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Medical Center to concentrations of credit risk consist principally of cash and cash equivalents, investments, assets whose use is limited, and patient accounts receivable.

The Medical Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of gross receivables from patients and third-party payors as of December 31, 2014 and 2013, was as follows:

	2014	2013
Medicare	26.0 %	24.0 %
Medicaid	4	7
Managed care	44	39
Other third-party payors	1	1
Self-pay	25	29
Total	100 %	100 %

11. PENSION PLAN

During 2000, the Medical Center established a defined contribution plan with employer matching based on each employee's contributions and years of service. Employees are eligible for participation upon their employment. Vesting in the plan is based upon years of service. Total employer expense for the years ended December 31, 2014 and 2013, amounted to approximately $3.2 million and $2.9 million, respectively.

12. INDIGENT CARE ASSESSMENT

The Health Care Consumer Protection and Awareness Act of 1984 (the "Act") created a fund to provide for the treatment of indigent patients. Hospitals in the state of Florida are required to deposit into the fund an amount equal to 1.5% of net inpatient and 1% of net outpatient revenue. The Act specifies that payments will be due in quarterly installments beginning approximately six months after the Medical Center's year-end. As of December 31, 2014 and 2013, the Medical Center had accrued indigent care assessment liabilities of approximately $7.6 million and $7.4 million, respectively. This liability relates to the estimated current reporting period plus any unpaid amounts from the preceding fiscal year(s).

13. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are those whose use by the Medical Center has been limited by donors to a specific time period or purpose. Temporarily restricted net assets are principally held by the Foundation and have been donated for multiple programs and initiatives at the Medical Center principally related to furthering the advancement of patient care.

Temporarily restricted net assets as of December 31, 2014 and 2013, are available for the following purposes (amounts in thousands):

	2014	2013
Beneficial interest in unrestricted Foundation net assets	$ 37,339	$ 29,132
Beneficial interest in temporarily restricted Foundation net assets:		
Pledges receivable and receivables under contribution agreements	64,811	59,542
All other program grants	31,432	27,400
	$ 133,582	$ 116,074

14. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are primarily held by the Foundation, are reported at fair value, and are restricted to investment and reinvestment in perpetuity, the income from which is expendable to support various programs sponsored by the Medical Center in the areas of oncology and medical education. Permanently restricted net assets totaled approximately $5.3 million as of December 31, 2014 and 2013, respectively.

15. FUNCTIONAL EXPENSES

The Medical Center provides general health care services to residents within its geographic location. The Medical Center also provides support for the improvement of health care delivery through clinical investigation and research programs.

Expenses related to providing these services for the years ended December 31, 2014 and 2013, are as follows (amounts in thousands):

	2014	2013
Health care services	$ 299,730	$ 288,415
Research	5,155	4,327
General and administrative	203,370	185,234
Loss on extinguishment of debt	4,500	-
Total expenses	$ 512,755	$ 477,976

16. JOINT VENTURE INVESTMENT

During 2006, the Medical Center finalized its joint venture agreement with Landmark Healthcare Facilities, LLC ("Landmark") to develop and construct a 100,000 square foot medical office building and 500 stall parking garage (the "Project") on the Medical Center's campus. The building is owned and operated by Mount Sinai Medical Center Complex, LLC (the "LLC"), a Florida limited liability company in which Landmark and the Medical Center own membership interests of 75% and 25%, respectively. Profits and losses are shared among the members in accordance with their percentage ownership.

The Medical Center paid approximately $2.3 million for its initial membership interest and has accounted for its interest in the joint venture under the equity method of accounting. As of December 31, 2014 and 2013, the Medical Center's investment in the joint venture is reflected in the consolidated financial statements at $0.

In 2006, a ground lease was entered into between the LLC and the Medical Center to lease the land on which the Project was developed for 50 years. Under the terms of the agreement, the LLC began to remit an annual ground lease payment of $100,000, paid in monthly installments, to the Medical Center, which will increase by 3% on an annual basis commencing on the anniversary date of the initial lease payment. The Medical Center has an option to acquire the remaining membership interests in the Project after the first 10 years of operations at the then fair market value of tenant improvements less the related mortgage balances outstanding. Currently, the Medical Center does not intend to exercise this option. Management of the Medical Center has concluded that the fair market value of this option is not material to the consolidated financial statements and has not recorded any value for the option as of December 31, 2014 and 2013.

17. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Medical Center in estimating the fair value of its financial instruments:

Cash and Cash Equivalents—The carrying amount reported in the consolidated balance sheets for cash and cash equivalents approximates its fair value.

Investments and Assets Whose use is Limited—The Medical Center has elected the fair value option for all investments in debt and equity securities. The Medical Center classifies investments according to a hierarchy of techniques used to determine fair value based on the types of inputs.

Level 1 inputs are unadjusted quoted market prices in active markets for identical assets or liabilities that are available as of the measuring date.

Level 2 inputs are quoted prices in markets that are not active or inputs that are observable either directly or indirectly. Level 2 inputs include quoted prices for similar assets other than quoted prices in Level 1 or other inputs that are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 inputs are unobservable inputs that are significant to the overall fair value measurement. Level 3 assets and liabilities include financial instruments for which fair values are determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Transfers between levels occur when there are changes in the determination of whether inputs are observable or not, as well as due to changes in market activity. At December 31, 2014, there were no changes to the level classifications for securities held at December 31, 2013.

The disclosure of fair value measurements as of December 31, 2014, is as follows (amounts in thousands):

	Fair Value Measurement at Reporting Date			
Description	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Cash and short-term investments	$ 9,377	$ 109,597	$ -	$ 118,974
Long-term certificate of deposits	-	35,690	-	35,690
U.S. Treasury obligations	-	63,019	-	63,019
U.S. Agency obligations	-	3,288	-	3,288
Municipal bonds	-	566	-	566
Corporate bonds	-	14,259	-	14,259
Agency-backed securities	-	1,602	-	1,602
Agency mortgaged-backed securities	-	9,590	-	9,590
Hedge funds	-	757	-	757
Mutual funds	7,971	-	-	7,971
U.S. fixed income	-	2,875	-	2,875
Equity securities	2,077	-	-	2,077
Interest receivable	267	-	-	267
Total	$ 19,692	$ 241,243	$ -	$ 260,935

The disclosure of fair value measurements as of December 31, 2013, is as follows (amounts in thousands):

	Fair Value Measurement at Reporting Date			
Description	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Cash and short-term investments	$ 29,648	$ -	$ -	$ 29,648
Long-term certificate of deposits	-	34,987	-	34,987
U.S. Treasury obligations	-	86,700	-	86,700
U.S. Agency obligations	-	2,044	-	2,044
Municipal bonds	-	952	-	952
Corporate bonds	-	12,485	-	12,485
Agency-backed securities	-	2,168	-	2,168
Agency mortgaged-backed securities	-	8,150	-	8,150
Hedge funds	-	805	-	805
Mutual funds	3,872	-	-	3,872
U.S. fixed income	-	1,104	-	1,104
Interest receivable	182	-	-	182
Total	$ 33,702	$ 149,395	$ -	$ 183,097

Patient Accounts Receivable and Other Receivables—The carrying amount reported in the consolidated balance sheets for patient accounts receivable and other receivables, net of estimated allowances for contractual allowances and bad debts, approximates fair value.

Accounts Payable, Accrued Expenses, and Other Liabilities—The carrying amounts reported in the consolidated balance sheets for accounts payable, accrued expenses, and other liabilities approximate their fair value because of their short-term duration.

Long-Term Debt—The fair values of the Medical Center's long-term debt is estimated based on the quoted market price for the same or similar bond issues or on the Medical Center's current incremental borrowing dates for similar types of borrowing arrangements. As of December 31, 2014, the Medical Center's long-term debt was classified as Level 2.

The carrying amounts and estimated fair values of the Medical Center's long-term debt as of December 31, 2014 and 2013, were as follows (amounts in thousands):

	2014		2013	
	Fair Value	**Carrying Amount**	**Fair Value**	**Carrying Amount**
Long-term debt (including current portion)	$ 340,189	$ 328,744	$ 240,393	$ 240,075

18. COMMITMENTS AND CONTINGENCIES

Operating Leases—The Medical Center's operating leases are primarily related to a land lease, office rental costs, copy machines, and miscellaneous medical equipment. The Medical Center leases office space under agreements that provide for terms of 3 to 10 years, subject to negotiated renewals at the end of each lease. Rents are adjusted annually for changes in the Consumer Price Index. Miscellaneous equipment leases, such as copy machines, are subject to automatic renewal at the end of their respective lease terms for successive one-year periods under renegotiated terms and conditions. Total rental expenses charged to operations for the years ended December 31, 2014 and 2013, amounted to $6.1 million and $5.8 million, respectively.

The schedule of approximate minimum future rental payments on noncancelable leases in effect for each of the five succeeding fiscal years is as follows (amounts in thousands):

Years Ending December 31	
2015	$ 1,087
2016	436
2017	178
2018	118
2019 and thereafter	152
Total	$ 1,971

Research Grants—The Medical Center receives funding to conduct basic and clinical medical research from its sponsors, which include the federal government, industry, and the Foundation. Principal areas of ongoing research include studies in cardiovascular, oncology, neuroscience, and pulmonary disciplines. In accordance with most of the funding contracts, the Medical Center is subject to independent verification of expenditures and research results under the contract terms. It is management's opinion that any potential retroactive adjustments to grant revenues for compliance-related matters would not have a material effect on the consolidated financial statements of the Medical Center.

In October 2009, the Medical Center entered into an agreement with the State of Florida under its Community Workforce Housing Innovation Pilot program (CWHIP) to assist the Medical Center in covering the construction costs of the renovation of the Lowenstein building. The CWHIP program was created to provide affordable rental and home ownership community workforce housing for essential services personnel affected by the high cost of housing using regulatory incentives and state and local funds to promote local public-private partnerships and leverage government and private resources. Under the program, the Medical Center entered into a forgivable loan agreement with the Florida Housing Finance Corporation to provide a construction loan with a principal amount of $3.3 million, which upon compliance with the terms of the land use restriction would be completely forgiven. At December 31, 2014, management believes that it is fully compliant with terms of the agreement.

Litigation—The Medical Center is involved in litigation, regulatory reviews, and government investigations arising in the normal course of business. The analysis of several of these matters is ongoing, and management is unable to predict the timing and outcome of these investigations at this time.

Kyphon, Inc., settled a government claim that it wrongfully induced physicians to perform Kyphoplasty procedures as inpatient procedures rather than outpatient procedures. Subsequent to Kyphon, Inc.'s, settlement, the United States Attorney for the Western District of New York ("U.S. Attorney") began a nationwide review of hospital billings for Kyphoplasty procedures that focused on short inpatient stays for patients who had Kyphoplasty procedures. The Medical Center cooperated with the government's review of short inpatient stays for Kyphoplasty procedures, and as a result entered into a settlement agreement in June 2013 concerning billing issues related to the Kyphoplasty inpatient days. The Medical Center paid approximately $1.8 million to the government, but was not required to enter into a Corporate Integrity Agreement.

On March 12, 2010, the Medical Center received a civil investigative demand from the Department of Justice. The demand requests documents and information regarding the Medical Center's implantation of cardiac defibrillators (implantable cardioverter-defibrillators or ICDs) pursuant to the False Claims Act. The Medical Center is fully cooperating with the government's inquiry. After consultation with external and in-house legal counsel, management has recorded liabilities of approximately $7.1 million as of December 31, 2014 and 2013. Management believes adequate provisions have been made to the consolidated financial statements for this matter.

Other Industry Risks—The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenue from patient services. Management believes that the Medical Center has an effective compliance program in place to assist management in complying with current laws and regulations.

In March 2010, the Patient Protection and Affordability Care Act (the "Affordable Care Act"), a comprehensive health care reform bill, was signed into law. The legislation is complex and will be phased in over several years, with the most significant parts having begun to take effect in 2014. The Medical Center continues to assess the potential impact of this reform on its operations, but does not have enough information or data to predict the effects with certainty. However, it is possible that the Affordable Care Act could have an adverse impact on the operations, financial results, or cash flows of the Medical Center.

In accordance with the mandate issued by the Department of Health and Human Services (HHS), effective October 1, 2015, all health care entities must transition from the use of the World Health Organization's International Classification of Diseases, Ninth Revision (ICD-9) coding system to the tenth revision (ICD-10). This transition will require greater specificity regarding patients' clinical conditions and the services provided to them. Accommodating improvements in technologies and procedures is anticipated to produce improved data to better the quality of care, contain costs and enhance health policy decisions. This transition will require an extensive modification of current practices and procedures and a significant investment in resources, including technology and training. The Medical Center is currently in the process of preparing for the transition to the ICD-10 environment and implementing remediation strategies where necessary to lessen the potential of any adverse impact the transition may have on the operations of the Medical Center.

* * * * * *

SUPPLEMENTAL DIVISIONAL INFORMATION

MOUNT SINAI MEDICAL CENTER OF FLORIDA, INC. AND SUBSIDIARIES

SUPPLEMENTAL DIVISIONAL BALANCE SHEET INFORMATION
AS OF DECEMBER 31, 2014

ASSETS	Hospital (Core)	Other Health Care Services Division	Total
CURRENT ASSETS:			
Cash and cash equivalents	$ 138,417	$ -	$ 138,417
Temporary investments	130,610	-	130,610
Patient accounts receivable—net of allowance for uncollectible accounts	66,278	3,264	69,542
Other receivables	1,533	1,117	2,650
Inventories	7,831	-	7,831
Prepaid and other assets	11,281	-	11,281
Total current assets	355,950	4,381	360,331
ASSETS WHOSE USE IS LIMITED:			
Funds held by trustee	122,744	-	122,744
Self-insurance trust fund	2,700	-	2,700
Other investments	4,881	-	4,881
Total assets whose use is limited	130,325	-	130,325
BENEFICIAL INTEREST IN THE NET ASSETS OF MOUNT SINAI MEDICAL CENTER FOUNDATION, INC.	138,872	-	138,872
RECEIVABLE FOR INSURED CLAIMS	16,931	-	16,931
OTHER ASSETS	5,587	-	5,587
PROPERTY, PLANT AND EQUIPMENT—Net	146,178	15,679	161,857
TOTAL ASSETS	$ 793,843	$ 20,060	$ 813,903

(Continued)

MOUNT SINAI MEDICAL CENTER OF FLORIDA, INC. AND SUBSIDIARIES

SUPPLEMENTAL DIVISIONAL BALANCE SHEET INFORMATION
AS OF DECEMBER 31, 2014

LIABILITIES AND NET ASSETS	Hospital (Core)	Other Health Care Services Division	Total
CURRENT LIABILITIES:			
Accounts payable and accrued expenses	$ 36,777	$ 101	$ 36,878
Accrued wages, salaries and benefits	30,335	-	30,335
Indigent care assessment, current portion	4,568		4,568
Other current liabilities	31,019	6,398	37,417
Due to third party payors	18,021	-	18,021
Current portion of long-term debt	12,335	-	12,335
Total current liabilities	133,055	6,499	139,554
LONG TERM DEBT—Net of current portion	316,409	-	316,409
INDIGENT CARE ASSESSMENT—Net of current portion	3,033	-	3,033
OTHER LONG-TERM LIABILITIES	268	-	268
LIABILITY FOR SELF-INSURED CLAIMS	64,909	-	64,909
Total liabilities	517,674	6,499	524,173
NET ASSETS:			
Unrestricted	137,297	13,561	150,858
Temporarily restricted	133,582	-	133,582
Permanently restricted	5,290	-	5,290
Total net assets	276,169	13,561	289,730
TOTAL LIABILITIES AND NET ASSETS	$ 793,843	$ 20,060	$ 813,903

(Concluded)

MOUNT SINAI MEDICAL CENTER OF FLORIDA, INC. AND SUBSIDIARIES

SUPPLEMENTAL DIVISIONAL STATEMENT OF OPERATIONS INFORMATION
YEAR ENDED DECEMBER 31, 2014

	Hospital Division	Other Health Care Services Division	Total
UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT:			
Patient service revenue net of contractual allowances and discounts	$ 531,155	$ 41,486	$ 572,641
Provision for doubtful accounts	(66,840)	(5,114)	(71,954)
Net patient services revenue	464,315	36,372	500,687
Other revenue	6,909	18,883	25,792
Net assets released from temporary restrictions by the Foundation	-	666	666
Net assets released from temporary restrictions for research, grants, and other	-	2,081	2,081
Total unrestricted revenues, gains, and other support	471,224	58,002	529,226
EXPENSES:			
Wages, salaries, and benefits	207,862	50,810	258,672
Supplies	100,058	4,497	104,555
Malpractice and other insurance—net of recoveries	26,947	3,456	30,403
Administrative and general	61,434	10,134	71,568
Depreciation	26,049	-	26,049
Interest	11,423	-	11,423
Indigent care assessment	5,585	-	5,585
Loss on extinguishment of debt	4,500	-	4,500
Total expenses	443,858	68,897	512,755
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	$ 27,366	$ (10,895)	$ 16,471