

# EXHIBIT 4

**DOWNSTATE AT LICH HOLDING COMPANY, INC.**

Financial Statements

June 30, 2014 and 2013



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Downstate at LICH Holding Company, Inc.:

We have audited the accompanying financial statements of Downstate at LICH Holding Company, Inc. (whose sole member is the State University of New York, or SUNY), which comprise the balance sheets as of June 30, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in 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 financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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

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

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



The Board of Directors  
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### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Downstate at LICH Holding Company, Inc. as of June 30, 2014 and 2013, and its statements of activities and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*Fust Charles Chambers LLP*

December 5, 2014

**DOWNSTATE AT LICH HOLDING COMPANY, INC.**

Balance Sheets

June 30, 2014 and 2013

<u>Assets</u>	<u>2014</u>	<u>2013</u>
Current assets:		
Cash	\$ 759,113	1,884,124
Assets limited as to use (note 1(a))	24,000,000	-
Rent receivable	945,882	856,378
Prepaid expenses and other assets	918,872	433,291
Current portion of net investment in direct financing lease	187,630	181,654
Total current assets	<u>26,811,497</u>	<u>3,355,447</u>
Leased property to SUNY Health Science Center at Brooklyn	131,094,878	131,094,878
Payments received from SUNY Health Science Center at Brooklyn	<u>(130,836,119)</u>	<u>(130,700,935)</u>
Net investment in direct financing lease	<u>258,759</u>	<u>393,943</u>
Total assets	<u>\$ 27,070,256</u>	<u>3,749,390</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Current portion of long-term debt	187,630	181,654
Accounts payable and accrued expenses	1,029,847	6,853
Advance on sale of property	24,000,000	-
Due to Health Science Center at Brooklyn	1,594,020	3,166,940
Total current liabilities	<u>26,811,497</u>	<u>3,355,447</u>
Long-term debt, net of current portion	<u>258,759</u>	<u>393,943</u>
Total liabilities	<u>27,070,256</u>	<u>3,749,390</u>
Unrestricted net assets	<u>-</u>	<u>-</u>
Total liabilities and net assets	<u>\$ 27,070,256</u>	<u>3,749,390</u>

See accompanying notes to financial statements.

**DOWNSTATE AT LICH HOLDING COMPANY, INC.**

Statements of Activities

Year ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating revenues:		
Rental revenue	\$ <u>2,485,917</u>	<u>4,588,546</u>
Total operating revenues	<u>2,485,917</u>	<u>4,588,546</u>
Expenses:		
Supplies and other	2,439,793	1,270,965
Interest	<u>46,124</u>	<u>3,317,581</u>
Total expenses	<u>2,485,917</u>	<u>4,588,546</u>
Operating income	<u>-</u>	<u>-</u>
Net assets at beginning of period	<u>-</u>	<u>-</u>
Net assets at end of period	\$ <u><u>-</u></u>	<u><u>-</u></u>

See accompanying notes to financial statements.

**DOWNSTATE AT LICH HOLDING COMPANY, INC.**

Statements of Cash Flows

Year ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Operating income	\$ -	-
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Change in operating assets and liabilities:		
Rent receivable	(89,504)	(66,792)
Prepaid expenses and other assets	(485,581)	(203,089)
Accounts payable and accrued expenses	1,022,994	(161,499)
Net cash provided by (used in) operating activities	<u>447,909</u>	<u>(431,380)</u>
Cash flows from investing activities:		
Payments received under direct financing lease	129,208	121,662,681
Repayments to Health Science Center at Brooklyn	(1,572,920)	(8,099,901)
Advance on sale of property	24,000,000	-
Change in assets limited as to use	<u>(24,000,000)</u>	<u>10,109,693</u>
Net cash provided by (used in) investing activities	<u>(1,443,712)</u>	<u>123,672,473</u>
Cash flows from financing activities:		
Payments on long-term debt	<u>(129,208)</u>	<u>(121,662,681)</u>
Net cash used in financing activities	<u>(129,208)</u>	<u>(121,662,681)</u>
Net increase (decrease) in cash	(1,125,011)	1,578,412
Cash at beginning of year	<u>1,884,124</u>	<u>305,712</u>
Cash at end of year	<u><u>\$ 759,113</u></u>	<u><u>1,884,124</u></u>

See accompanying notes to financial statements.

**DOWNSTATE AT LICH HOLDING COMPANY, INC.**

## Notes to Financial Statements

June 30, 2014 and 2013

(1) Description of Organization and Summary of Significant Accounting Policies(a) Description of Organization

Downstate at LICH Holding Company, Inc. (the Company) is a 501(c)(3) not-for-profit corporation that was formed for the purpose of acquiring, developing, holding, maintaining and supporting healthcare and educational facilities and related properties for the use by and for the benefit of the State University of New York (SUNY), a governmental entity of the State of New York constituting an educational corporation organized and existing under the laws of the State of New York and, in particular, SUNY's Health Science Center at Brooklyn (HSCB). The public or quasi-public objective of the Company is to support the operation of health care facilities by SUNY (and particularly HSCB) and to support SUNY (and particularly HSCB) in carrying out its governmental purposes of health care education and research, and to lessen the burdens of government. All assets, income and net earnings of the Company shall inure solely to the benefit of SUNY, and in particular HSCB. The sole member of the Company is SUNY.

Effective May 29, 2011, the Company entered into an asset purchase agreement (APA) with Long Island College Hospital (LICH), Continuum Health Partners, Inc. and SUNY. In connection with the APA, the Company acquired the real property, furniture and equipment of LICH and assumed the related indebtedness. The Company entered into a lease agreement with SUNY (HSCB) on May 29, 2011 (see note 2).

On February 25, 2014, the State University of New York entered into a Stipulation and Order pursuant to which (i) SUNY and the Company issued a new request for proposal (RFP) for the provision of healthcare services at the LICH campus and for the purchase of the LICH property and (ii) the University Hospital of Brooklyn (Hospital), owned and operated by HSCB was permitted to cease all operations at the LICH campus on May 22, 2014. The RFP was issued on February 26, 2014. A closure plan for the LICH campus was initially approved by the Department of Health on April 21, 2014.

Subsequently, the Hospital elected to continue emergency department operations after May 22, 2014 in order to permit continuity of services with the successful offeror under the RFP. On June 30, 2014, Downstate at LICH Holding Company entered into a Purchase and Sale Agreement with the successful offeror and \$24 million was advanced to the Company (see note 5).

## DOWNSTATE AT LICH HOLDING COMPANY, INC.

### Notes to Financial Statements

(1) Description of Organization and Summary of Significant Accounting Policies, Continued

(b) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(c) Concentration of Credit Risk

At June 30, 2014 and 2013, the Company has cash in a major financial institution which exceeds Federal Deposit Insurance Corporation limits. This financial institution has a strong credit rating, and management believes that credit risk related to these deposits is minimal.

(d) Property Insurance

The Company has prepaid property insurance as of June 30, 2014, which is included within prepaid expenses and other assets in the accompanying balance sheets. In conjunction with the prepayment, the Company entered into a short term financing agreement that bears an interest rate of 4.0% and is payable over nine months through March of 2015 for approximately \$560,000, which is included within accounts payable and accrued expenses in the accompanying balance sheets.

(e) Due to Health Science Center at Brooklyn

Amounts due to Health Science Center at Brooklyn primarily consist of working capital advances at June 30, 2014 and 2013.

(f) Rental Revenue and Related Receivables

Rental revenue and the related receivables are reported at the estimated net realizable amounts from residential and commercial tenants.

Rental revenue is comprised of the following for the years ended June 30:

	<u>2014</u>	<u>2013</u>
Rental revenue from HSCB	\$ 1,348,739	2,160,188
Rental revenue from Staffco (related party)	375,118	437,286
Rental revenue from others	<u>762,060</u>	<u>1,991,072</u>
	<u>\$ 2,485,917</u>	<u>4,588,546</u>

## DOWNSTATE AT LICH HOLDING COMPANY, INC.

### Notes to Financial Statements

(1) Description of Organization and Summary of Significant Accounting Policies, Continued

(f) Rental Revenue and Related Receivables, Continued

Rent receivable is comprised of the following as of June 30:

	<u>2014</u>	<u>2013</u>
Rent receivable from Staffco (related party)	\$ 925,000	635,826
Rent receivable from others	<u>20,882</u>	<u>220,552</u>
	<u>\$ 945,882</u>	<u>856,378</u>

The allowance for doubtful accounts receivable is evaluated on a regular basis by management and is based upon management's periodic reviews of the collectibility of accounts receivable considering historical experience and prevailing economic conditions. There is no allowance for doubtful accounts at June 30, 2014 or 2013.

(g) Income Taxes

The Company has been granted tax exempt status pursuant to Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

As of June 30, 2014, the Company did not have any unrecognized tax benefits or any related accrued interest or penalties. The tax years open to examination by federal and New York State taxing authorities are 2011 through 2014. The Company does not anticipate that the total unrecognized tax benefits will change in the next twelve months.

(2) Net Investment in Direct Financing Lease

The Company has leased to HSCB certain property and equipment recorded as a direct financing capital lease. The capital lease receivable is recorded at the gross receipts to be received less the unearned interest income from the Company through the capital lease agreement. The gross receipts receivable is discounted at the interest rates paid by the Company on the mortgages. The lease provides for HSCB to make payments equal to the amount necessary to satisfy the Company's mortgage obligations plus other amounts necessary to cover insurances and to fund certain debt and other requirements stipulated under the HUD-insured mortgage obligation. The Company recorded a lease receivable amounting to approximately \$131 million at the inception of the lease. The term of the lease is for thirty years, renewable for one year thereafter, with final payment originally due in 2041. Pursuant to the lease agreement, HSCB has the option at any time during the lease term to purchase title to the leased property at a price equal to an amount sufficient to satisfy all outstanding mortgage balances.

## DOWNSTATE AT LICH HOLDING COMPANY, INC.

### Notes to Financial Statements

#### (2) Net Investment in Direct Financing Lease, Continued

During 2013, HSCB made additional lease payments that were used by the Company to pay off the Dormitory Authority of the State of New York FHA-Insured Mortgage Revenue Bonds, Series 2004A and 2004B (see note 3). The Company's remaining direct financing lease investment at June 30, 2014 relates to certain property financed with a note to the Health Science Center at Brooklyn Foundation, Inc.

Minimum lease payments to be received under the lease as of June 30, 2014 for each of the next three years are as follows:

2015		\$ 224,312
2016		168,494
2017		<u>113,599</u>
		506,405
Less imputed interest on lease		<u>(60,016)</u>
		446,389
Current portion		<u>(187,630)</u>
		<u>\$ 258,759</u>

#### (3) Long-Term Debt

Rollforward of the Company's long-term debt is as follows in 2014:

<u>Issue</u>	<u>Due</u>	<u>Interest rate</u>	<u>Balance June 30, 2013</u>	<u>Payments</u>	<u>Balance June 30, 2014</u>
Due to Health Science Center at Brooklyn Foundation	February 2017	10.00%	\$ 575,597	(129,208)	446,389
Less current portion of long-term debt			<u>(181,654)</u>		<u>(187,630)</u>
Long-term debt, net of current portion			<u>\$ 393,943</u>		<u>\$ 258,759</u>

## DOWNSTATE AT LICH HOLDING COMPANY, INC.

### Notes to Financial Statements

#### (3) Long-Term Debt, Continued

Rollforward of the Company's long-term debt is as follows in 2013:

<u>Issue</u>	<u>Due</u>	<u>Interest rate</u>	<u>Balance June 30, 2012</u>	<u>Payments</u>	<u>Balance June 30, 2013</u>
Mortgage note payable, Dormitory Authority of the State of New York (a)(c)	July 2021	9.10%	\$ 68,937,277	(68,937,277)	-
Mortgage note payable, Dormitory Authority of the State of New York (b)(c)	July 2028	6.875%	51,806,579	(51,806,579)	-
Loan with Dormitory Authority of the State of New York (c)	December 2012	1.00%	709,527	(709,527)	-
Due to Health Science Center at Brooklyn Foundation	February 2017	10.00%	<u>784,895</u>	<u>(209,298)</u>	<u>575,597</u>
Total long-term debt			122,238,278	(121,662,681)	575,597
Less current portion of long-term debt			<u>(7,922,435)</u>		<u>(181,654)</u>
Long-term debt, net of current portion			<u>\$ 114,315,843</u>		<u>\$ 393,943</u>

(a) The mortgage note payable represents borrowings pursuant to the issuance of \$124,535,000 of Dormitory Authority of the State of New York FHA-Insured Mortgage Revenue Bonds, Series 2004A.

(b) The mortgage note payable represents borrowings pursuant to the issuance of \$69,715,000 of Dormitory Authority of the State of New York FHA-Insured Mortgage Revenue Bonds, Series 2004B.

## DOWNSTATE AT LICH HOLDING COMPANY, INC.

### Notes to Financial Statements

#### (3) Long-Term Debt, Continued

- (c) On October 18, 2012, the Dormitory Authority of the State of New York (DASNY) issued bonds on behalf of SUNY which were used to satisfy HSCB's obligations under the capital lease. The Company used the proceeds from early payment to refund DASNY FHA-Insured Mortgage Revenue Bonds, Series 2004A and 2004B. The transaction resulted in no gain or loss for the Company. The Company retained title to all of its assets.

Future maturities of long-term debt are as follows:

2015	\$ 187,630
2016	149,340
2017	<u>109,419</u>
	<u>\$ 446,389</u>

#### (4) Statements of Cash Flows - Supplemental Disclosures

	<u>2014</u>	<u>2013</u>
Cash paid for interest for the years ended June 30, 2014 and 2013	\$ <u>46,124</u>	<u>3,317,581</u>

#### (5) Subsequent Events

The Purchase and Sale Agreement was amended and restated, adding a healthcare provider as a party. The amended and restated agreement was approved by the New York State Office of Attorney General and New York Office of State Comptroller on October 28, 2014. The healthcare provider assumed operations of the emergency department on October 31, 2014. Under the agreement, the real estate, improvements and related personal property will be sold to an affiliate of the successful offeror, and the healthcare provider will provide healthcare services, including an off-campus emergency department at the LICH campus. It is anticipated that the transaction will close in stages over the course of the next four years. The agreement also provides that the successful offeror will reimburse the Hospital for operating deficits incurred in connection with the operation of the emergency department between May 23, 2014 and August 31, 2014, subject to a credit.

Subsequent events have been evaluated through December 5, 2014, the date which the financial statements were issued.