

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

South Nassau Communities Hospital and Subsidiaries
Years Ended December 31, 2017 and 2016
With Report of Independent Auditors

Ernst & Young LLP



South Nassau Communities Hospital
and Subsidiaries

Consolidated Financial Statements and Supplementary Information

Years Ended December 31, 2017 and 2016

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Report of Independent Auditors

The Board of Directors
South Nassau Communities Hospital

We have audited the accompanying consolidated financial statements of South Nassau Communities Hospital and Subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities, 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 Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of South Nassau Communities Hospital and Subsidiaries at December 31, 2017 and 2016, and the consolidated results of their operations, changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating statement of financial position as of December 31, 2017, and consolidating statement of activities for the year ended December 31, 2017, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the 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. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Ernst & Young LLP

March 16, 2018

South Nassau Communities Hospital
and Subsidiaries

Consolidated Statements of Financial Position

	December 31	
	2017	2016
Assets		
Current assets:		
Cash and cash equivalents <i>(Note 13)</i>	\$ 20,104,751	\$ 9,779,507
Investments <i>(Notes 3 and 13)</i>	160,930,067	139,135,491
Current portion of assets whose use is limited <i>(Notes 4, 8, 10, 13, and 15)</i>	27,967,950	20,609,650
Patient receivables, less allowance for uncollectibles of \$40,132,000 in 2017 and \$36,147,000 in 2016 <i>(Notes 2 and 12)</i>	70,674,716	61,139,584
Other current assets	14,455,899	12,009,870
Total current assets	294,133,383	242,674,102
Assets whose use is limited <i>(Notes 4, 8, 10, 13, and 15)</i>	58,737,990	99,542,213
Long-term investments <i>(Notes 3 and 13)</i>	6,119,775	3,815,354
Other long-term assets	1,135,531	1,135,531
Insurance claims receivable	1,820,816	1,435,605
Property, plant, and equipment, net <i>(Note 6)</i>	336,397,140	309,303,729
Total assets	\$ 698,344,635	\$ 657,906,534

	December 31	
	2017	2016
Liabilities and net assets		
Current liabilities:		
Amounts due under lines of credit <i>(Note 7)</i>	\$ 47,000,000	\$ 25,000,000
Accounts payable	21,350,305	21,072,408
Accrued expenses	45,804,305	38,997,470
Accrued payroll and vacation	30,571,041	27,114,757
Current portion of long-term debt and capital lease obligations <i>(Notes 8 and 13)</i>	4,599,758	3,906,871
Current portion of accrued postretirement benefits other than pension <i>(Note 9)</i>	208,000	166,000
Current portion of estimated professional and general liabilities <i>(Note 10)</i>	10,460,000	11,980,000
Deferred grant revenue <i>(Note 15)</i>	15,708,550	6,739,000
Estimated third-party payor liabilities <i>(Note 2)</i>	6,230,000	7,750,000
Total current liabilities	181,931,959	142,726,506
Long-term debt and capital lease obligations, net of current portion <i>(Notes 8 and 13)</i>	84,370,700	86,964,900
Accrued pension payable <i>(Note 9)</i>	69,423,784	56,902,515
Accrued postretirement benefits other than pension, net of current portion <i>(Note 9)</i>	3,175,000	2,995,000
Estimated professional and general liabilities, net of current portion <i>(Note 10)</i>	30,070,000	34,820,030
Deferred grant revenue, net of current portion <i>(Note 15)</i>	52,454,501	64,722,183
Insurance claims payable	1,820,816	1,435,605
Other liabilities	2,232,406	2,412,685
Total liabilities	425,479,166	392,979,424
Commitments and contingencies		
Net assets:		
Unrestricted	266,745,693	261,111,756
Temporarily restricted <i>(Note 11)</i>	5,091,700	2,787,278
Permanently restricted <i>(Note 11)</i>	1,028,076	1,028,076
Total net assets	272,865,469	264,927,110
Total liabilities and net assets	\$ 698,344,635	\$ 657,906,534

See accompanying notes.

South Nassau Communities Hospital
and Subsidiaries

Consolidated Statements of Activities

	Year Ended December 31	
	2017	2016
Operating revenue:		
Net patient service revenue, net of contractual allowances and other discounts <i>(Note 2)</i>	\$ 522,422,432	\$ 500,861,944
Provision for bad debts <i>(Note 2)</i>	(17,944,338)	(12,662,626)
Net patient service revenue, less provision for bad debts	504,478,094	488,199,318
Other revenue <i>(Notes 5 and 16)</i>	16,507,050	17,573,294
Total operating revenue	520,985,144	505,772,612
Operating expenses:		
Salaries and wages	259,737,887	244,082,802
Employee benefits	56,593,182	50,864,056
Supplies and other expenses	175,347,261	170,997,427
Interest expense	3,526,555	3,626,886
Provision for depreciation and amortization	28,365,233	29,106,312
Total operating expenses	523,570,118	498,677,483
Operating (loss) income	(2,584,974)	7,095,129
Nonoperating gains and losses:		
Net nonoperating investment gains <i>(Note 5)</i>	18,173,127	6,139,363
Unrestricted contributions, net of fund raising expenses of \$552,185 in 2017 and \$362,339 in 2016	96,733	4,917
Gain on sale of property <i>(Note 6)</i>	–	2,607,941
Gain related to Long Beach Medical Center transactions <i>(Note 15)</i>	–	2,216,258
Other nonoperating losses	(1,395,502)	(1,274,506)
Excess of revenue and gains over expenses	14,289,384	16,789,102
Net assets released from restrictions for capital asset acquisitions	4,613,983	5,662,463
Pension and postretirement liability adjustments <i>(Note 9)</i>	(13,269,430)	(5,253,183)
Increase in unrestricted net assets	\$ 5,633,937	\$ 17,198,382

See accompanying notes.

South Nassau Communities Hospital
and Subsidiaries

Consolidated Statements of Changes in Net Assets

Years Ended December 31, 2017 and 2016

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
Balance, January 1, 2016	\$ 243,913,374	\$ 746,621	\$ 1,028,076	\$ 245,688,071
Excess of revenue and gains over expenses	16,789,102	-	-	16,789,102
FEMA capital grant funds earned	-	5,577,482	-	5,577,482
Restricted contributions, net of fund raising expenses	-	2,161,697	-	2,161,697
Net assets released from restrictions for operations	-	(36,059)	-	(36,059)
Net assets released from restrictions for capital asset acquisitions	5,662,463	(5,662,463)	-	-
Pension and postretirement liability adjustments	(5,253,183)	-	-	(5,253,183)
Total changes in net assets	17,198,382	2,040,657	-	19,239,039
Balance, December 31, 2016	261,111,756	2,787,278	1,028,076	264,927,110
Excess of revenue and gains over expenses	14,289,384	-	-	14,289,384
FEMA capital grant funds earned	-	3,298,132	-	3,298,132
Restricted contributions, net of fund raising expenses	-	3,832,665	-	3,832,665
Net assets released from restrictions for operations	-	(212,392)	-	(212,392)
Net assets released from restrictions for capital asset acquisitions	4,613,983	(4,613,983)	-	-
Pension and postretirement liability adjustments	(13,269,430)	-	-	(13,269,430)
Total changes in net assets	5,633,937	2,304,422	-	7,938,359
Balance, December 31, 2017	\$ 266,745,693	\$ 5,091,700	\$ 1,028,076	\$ 272,865,469

See accompanying notes.

South Nassau Communities Hospital
and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2017	2016
Operating activities		
Changes in net assets	\$ 7,938,359	\$ 19,239,039
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Amortization of deferred financing fees, bond premium, and discount	(598,296)	(626,786)
Provision for depreciation	28,252,609	28,839,984
Loss on disposal of assets and abandoned projects	662,194	266,328
Nonoperating net investment gain	(18,173,127)	(6,139,363)
Gain on sale of property	–	(2,607,941)
FEMA capital grant funds earned	(3,298,132)	(5,577,482)
Restricted contributions, net of fund raising expenses	(3,832,665)	(2,161,697)
Changes in operating assets and liabilities:		
Accounts receivable	(9,535,132)	(8,427,811)
Other assets (current and long-term)	(2,446,029)	4,034,791
Accounts payable and accrued expenses	7,084,732	9,489,901
Accrued payroll and vacation	3,456,284	2,617,337
Estimated third-party payor liabilities	(1,520,000)	(30,000)
Estimated professional and general liabilities	(6,270,030)	2,650,030
Accrued pension and postretirement benefits payable	12,743,269	1,057,708
Other liabilities	(180,279)	(381,914)
Net cash provided by operating activities	<u>14,283,757</u>	<u>42,242,124</u>
Investing activities		
Purchases of property, plant, and equipment	(53,225,955)	(52,773,080)
Proceeds from sale of property	–	6,323,784
Deposits in investments	(3,621,449)	(3,649,491)
Deposits in long-term investments	(3,404,239)	(2,957,019)
Withdrawals from long-term investments	1,099,818	916,362
Deposits in assets whose use is limited	(10,788,394)	(84,060,360)
Withdrawals and transfers from assets whose use is limited	44,234,317	11,391,037
Net cash used in investing activities	<u>(25,705,902)</u>	<u>(124,808,767)</u>

South Nassau Communities Hospital
and Subsidiaries

Consolidated Statements of Cash Flows (continued)

	Year Ended December 31	
	2017	2016
Financing activities		
Proceeds from line of credit	\$ 32,000,000	\$ 20,000,000
Payments on line of credit	(10,000,000)	(15,000,000)
Proceeds from issuance of long-term debt	–	8,480,000
Principal payments on long-term debt	(4,085,276)	(3,505,000)
Proceeds from FEMA capital grant	–	77,038,665
Proceeds from restricted contributions, net of fund raising expenses	3,832,665	2,161,697
Net cash provided by financing activities	21,747,389	89,175,362
Net increase in cash and cash equivalents	10,325,244	6,608,719
Cash and cash equivalents at beginning of year	9,779,507	3,170,788
Cash and cash equivalents at end of year	\$ 20,104,751	\$ 9,779,507
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 4,829,704	\$ 4,321,108
Assets acquired under capital lease obligations	\$ 2,782,259	\$ –

See accompanying notes.

South Nassau Communities Hospital and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2017

1. Organization and Summary of Significant Accounting Policies

Organization

South Nassau Communities Hospital (the Hospital) is a not-for-profit acute care teaching hospital that provides inpatient, ambulatory, home health, restorative, preventive and emergency medical care to the community.

The Hospital is the sole member of SN Services Corporation (SN Services). SN Services owns 100% of the outstanding shares of South Nassau Healthcare Services, Inc. (SN Healthcare).

Winthrop-South Nassau University Health System, Inc. (WSNUHS) is the sole corporate member of the Hospital. WSNUHS is a New York not-for-profit corporation recognized by the Internal Revenue Service as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Prior to April 2017, WSNUHS also served as the sole corporate member of Winthrop University Hospital (Winthrop). Effective as of April 1, 2017, Winthrop ceased to be controlled by WSNUHS and became affiliated with the NYU Langone Health System. As of the same date, all Winthrop-affiliated directors resigned from the board of WSNUHS. WSNUHS continues to be the sole member of the Hospital, with no representation from Winthrop. The Hospital is currently seeking regulatory approval to change the name of WSNUHS to South Nassau University Health System, Inc.

In February 2018, Mount Sinai Hospitals Group, Inc. (Mount Sinai) and the Hospital executed a definitive agreement (the Mount Sinai Agreement), pursuant to which Mount Sinai will become the sole corporate member of the Hospital and “active parent” of the Hospital under New York Law. The parties expect the transaction to become effective in mid-2018, subject to the receipt of regulatory approvals and satisfaction of all closing conditions. Pursuant to the Mount Sinai Agreement, Mount Sinai has agreed to contribute \$20 million upon closing of the transaction and approximately \$20 million per year over the next five years, for a total of \$120 million, to be used in support of certain Hospital capital projects.

South Nassau Communities Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Hospital and the following entities for which it is the sole member or controls through other means: SN Services; SN Healthcare; Oceanside Counseling Center; New York Medical Partners ACO, LLC; SIBS Place Inc.; 203 Merrick Road Holding Corp.; and 14 physician practice professional corporations. All intercompany accounts and transactions have been eliminated in consolidation.

Tax Status

The Hospital, SN Services, Oceanside Counseling Center, SIBS Place, Inc., 203 Merrick Road Holding Corp., South Nassau Neonatal Services P.C., South Nassau Oncology P.C., South Nassau Physician Practice P.C., South Nassau Primary Medical Care P.C., SN Radiological Practice P.C., South Nassau Family Medicine P.C., South Nassau Medical Group P.C., South Nassau Obstetrics and Gynecology P.C., Radiological Associates of Long Island P.C., South Nassau Oncology Practice P.C., South Nassau Physicians P.C., South Nassau Physician Group P.C., South Nassau Urology P.C., and South Nassau Cardiovascular Practice, P.C. are Section 501(c)(3) organizations exempt from income taxes under Internal Revenue Code Section 501(a) and their income is generally not subject to Federal or New York State income taxes. SN Healthcare and New York Medical Partners ACO, LLC are taxable entities. The effects of income taxes are not material to the accompanying consolidated financial statements.

As a result of the recent federal income tax reform enacted into law under the Tax Cuts and Jobs Act of 2017, certain provisions will impact tax-exempt organizations, including revisions to taxes on unrelated business activities, excise taxes on compensation of certain employees, and various other provisions. The regulations necessary to implement the law are expected to be promulgated throughout 2018 and the ultimate outcome of these regulations and the impact to the Hospital are not expected to be significant to the Hospital's consolidated financial statements.

South Nassau Communities Hospital
and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, including estimated uncollectibles for accounts receivable for services to patients, and liabilities, including estimated payables to third-party payors, estimated pension and postretirement benefits and professional malpractice insurance liabilities, at the date of the consolidated financial statements. Estimates also affect the amounts of revenue and expenses reported during the period. There is at least a reasonable possibility that certain estimates will change by material amounts in the near term. Actual results could differ from those estimates. During 2017 and 2016, the Hospital recorded changes in estimates to third-party payor liabilities as described in Note 2.

Reclassifications

For purposes of comparison, certain reclassifications have been made to the accompanying 2016 consolidated financial statements to conform to the 2017 presentation. These reclassifications have no effect on net assets previously reported.

Functional Expenses

The Hospital provides general health care services to residents within its geographic location. Expenses incurred related to providing these services for the years ended December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Health care and related services	\$ 475,255,445	\$ 449,212,731
Administrative and general	48,314,673	49,464,752
	<u>\$ 523,570,118</u>	<u>\$ 498,677,483</u>

South Nassau Communities Hospital
and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. (ASU) 2014-09, *Revenue from Contracts with Customers*. The core principle of 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 guidance in ASU 2014-09 supersedes the FASB's current revenue recognition requirements in Accounting Standards Codification Topic 605, *Revenue Recognition*, and most industry-specific guidance. The FASB subsequently issued ASU 2015-14, *Revenue from Contracts with Customers*, which deferred the effective dates of ASU 2014-09. Based on ASU 2015-14, the provisions of ASU 2014-09 are effective for the Hospital for fiscal years beginning after December 15, 2017, and interim periods within that fiscal year. Management will adopt ASU 2014-09 following the modified retrospective method of application. Subsequent to adoption, certain patient activity where collection is uncertain which was previously reported as net patient service revenue and provision for bad debts in the Hospital's consolidated statements of activities will no longer meet the criteria for revenue recognition and, accordingly, the provision for bad debts after the adoption date will be significantly reduced, with a corresponding reduction to net patient service revenue. Additionally, the provision for bad debts will be presented as an expense item rather than a reduction of net patient service revenue. The Hospital's adoption of ASU 2014-09 will have other impacts to net patient service revenue, which include judgments regarding collection analyses and estimates of variable consideration and the addition of certain qualitative and quantitative disclosures. The impact of the adoption of ASU 2014-09 in relation to other applicable revenue activity is still being evaluated by the Hospital.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which will require lessees to report most leases on their balance sheets, but recognize expenses on their income statements in a manner similar to current accounting. The guidance also eliminates current real estate-specific provisions. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. The provisions of ASU 2016-02 are effective for the Hospital for annual periods beginning after December 15, 2018, and interim periods the following year. Early adoption is permitted. The Hospital has begun the process of evaluating the impact of ASU 2016-02 on its consolidated financial statements.

South Nassau Communities Hospital
and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Financial Statement Presentation*, which eliminates the requirement for not-for profits (NFPs) to classify net assets as unrestricted, temporarily restricted and permanently restricted. Instead, NFPs will be required to classify net assets as net assets with donor restrictions or without donor restrictions. Entities that use the direct method of presenting operating cash flows will no longer be required to provide a reconciliation of the change in net assets to operating cash flows. The guidance also modifies required disclosures and reporting related to net assets, investment expenses and qualitative information regarding liquidity. NFPs will also be required to report all expenses by both functional and natural classification in one location. The provisions of ASU 2016-14 are effective for the Hospital for annual periods beginning after December 15, 2017, and interim periods thereafter. Early adoption is permitted. The Hospital has begun the process of evaluating the impact of ASU 2016-14 on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments*, which addresses the following eight specific cash flow issues in order to limit diversity in practice: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The provisions of ASU 2016-15 are effective for the Hospital for annual periods beginning after December 15, 2018 and interim periods thereafter. Early adoption is permitted. The Hospital has not completed the process of evaluating the impact of ASU 2016-15 on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows – Restricted Cash*, which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The provisions of ASU 2016-18 are effective for the Hospital for annual periods beginning after December 15, 2018 and interim periods thereafter. Early adoption is permitted. The Hospital has not completed the process of evaluating the impact of ASU 2016-18 on its consolidated financial statements.

South Nassau Communities Hospital
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Notes to Consolidated Financial Statements (continued)

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

In January 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. ASU 2017-07 addresses how employers that sponsor defined benefit pension and/or other postretirement benefit plans present the net periodic benefit cost in the income statement. Employers will be required to present the service cost component of net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period. Employers will present the other components of the net periodic benefit cost separately from the line item that includes the service cost and outside of any subtotal of operating income, if one is presented. The standard is effective for the Hospital for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early adoption is permitted. Adoption of ASU 2017-07 will require the Hospital to include the service cost component of net periodic benefit cost related to its defined benefit plan and other postretirement benefit plans (aggregate of approximately \$0.1 million for 2017) within salaries and wages on the consolidated statement of activities and to present all other components (aggregate of approximately \$1.0 million for 2017) as a separate line item excluded from the subtotal for operating income. Net periodic benefit cost is reported currently within employee benefits expense on the consolidated statements of activities.

Cash and Cash Equivalents

Cash and cash equivalents consist of financial instruments with original maturity dates of three months or less from the date purchased, which are not classified as assets whose use is limited or held in the investment portfolio. The Hospital does not hold any money market funds with significant liquidity restrictions that would be required to be excluded from cash equivalents.

Investments and Investment Gains, Losses and Income

Marketable securities are primarily invested in debt and equity securities and mutual funds and are carried at fair value (quoted market prices). Gains and losses on investments are reported as unrestricted, temporarily restricted or permanently restricted, where appropriate. The Hospital classifies marketable securities as trading securities.

South Nassau Communities Hospital
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Notes to Consolidated Financial Statements (continued)

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

The Hospital and the Hospital's retirement plan have invested in commodities, international, emerging markets and hedge funds. The direct investments in these funds are not readily marketable; however, individual investment holdings of the various funds include market-traded securities. The financial statements of the various funds are audited annually by independent auditors, although the timing for reporting the results of such audits does not coincide with the Hospital's annual consolidated financial statement reporting. The Hospital's investments in these funds are reported based upon net asset values derived from the application of the equity method of accounting. The equity method reflects the Hospital's share of the net asset value of the funds. Investments held by the retirement plan are stated at fair value based upon, as a practical expedient, net asset values derived from the application of the equity method of accounting.

General investment gains, if any, are reported in other revenue to the extent of interest expense. Self-insurance trust fund net investment gains, if any, are reported in other revenue to the extent there is malpractice insurance expense related to the Hospital. All other investment gains and losses are included in nonoperating gains and losses.

Assets Whose Use is Limited

Assets whose use is limited include funds controlled under bond indenture, funds held by a trustee to pay malpractice claims and cash advances related to the Long Beach construction project received from the Federal Emergency Management Agency (FEMA). Amounts required to meet current liabilities are reported as current assets at December 31, 2017 and 2016.

Inventory

Inventory, included in other current assets, is stated at the lower of cost (first-in, first-out method) or net realizable value.

Patient Receivables

Amounts due for patient services for which the Hospital receives payment under various formulae are stated at their estimated net realizable values from each payor, which are generally less than the established charges of the Hospital. Patient receivables are reduced by an allowance for doubtful accounts. Additions to the allowance for doubtful accounts result from the provision for bad debts. The amount of the allowance for doubtful accounts is estimated based upon

South Nassau Communities Hospital
and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

management's assessment of historical and expected net collections, business and economic conditions, trends in third-party payors and other collection indicators. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. Accounts written off as uncollectible and recoveries of such accounts are deducted from the allowance for doubtful accounts. See Note 2 for additional information relative to patient receivables and third-party payor programs.

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost or, in the case of donated items, fair value at the time of donation. Depreciation has been provided in the consolidated financial statements on the straight-line method for property, plant, and equipment. In accordance with the Hospital's policy, no depreciation is recorded in the year of asset acquisition, while a full year's provision will be recorded in the year of disposition, except that significant additions are depreciated from the first month that they are put into service. The depreciation recorded is based upon the assets' estimated useful lives as recommended by the American Hospital Association.

Equipment under capital lease obligations is amortized using the straight-line method over the lesser of the estimated useful life of the asset or the lease term. Such amortization is included in depreciation and amortization in the accompanying consolidated statements of activities.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use has been limited by donors and grantors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity.

South Nassau Communities Hospital
and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

Donor Restricted Gifts

Gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor or grantor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying consolidated financial statements. The restricted asset is included in long-term investments until the restriction has expired.

Deferred FEMA Revenue

Amounts received from FEMA for capital projects for which expenditures have not been incurred by the Hospital are recognized as deferred grant revenue until earned. Once earned, these grant amounts are recognized as an increase to temporarily restricted net assets and subsequently as net assets released from restrictions for capital asset acquisitions.

Excess of Revenue and Gains over Expenses

The consolidated statements of activities include excess of revenue and gains over expenses as the performance indicator. Changes in unrestricted net assets which are excluded from the performance indicator include capital assets acquired using contributions or grants which by a donor restriction were to be used for the purposes of acquiring such assets and pension and postretirement liability adjustments.

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

Asset Retirement Obligation

The Hospital recorded an asset retirement obligation liability related to the estimated future costs to remediate asbestos. At December 31, 2017 and 2016, this liability was approximately \$1,912,000 and \$1,933,000, respectively, and is included in other liabilities in the consolidated statements of financial position.

South Nassau Communities Hospital
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Notes to Consolidated Financial Statements (continued)

2. Accounts Receivable for Services to Patients and Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payors and others for services rendered, including estimated retroactive adjustments due to ongoing and future audits, reviews and investigations. The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payor coverage based on the established contractual rates for services rendered. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue based on established rates for services provided. Retroactive adjustments are considered in recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources based on primary insurance designation for the years ended December 31, 2017 and 2016, is as follows:

	2017	2016
Third-party payors	\$ 521,240,187	\$ 497,821,973
Self-pay	1,182,245	3,039,971
	\$ 522,422,432	\$ 500,861,944

Deductibles and copayments under third-party payment programs within the third-party payors amount above are the patient's responsibility and the Hospital considers these amounts in its determination of the provision for bad debts based on collection experience.

The majority of net patient service revenue is derived from agreements with Medicare, Medicaid, managed care and other programs. The majority of payments under these agreements and programs are based on specific amounts per case, defined as the cost of rendering service to program beneficiaries or contracted prices.

South Nassau Communities Hospital
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Notes to Consolidated Financial Statements (continued)

**2. Accounts Receivable for Services to Patients and Net Patient Service Revenue
(continued)**

Non-Medicare and Medicare Payments

Non-Medicare: In New York State, hospitals and all non-Medicare payors, except Medicaid, workers' compensation and no-fault insurance programs, negotiate hospitals' payment rates. If negotiated rates are not established, payors are billed at hospitals' established charges. Medicaid, workers' compensation and no-fault payors pay hospital rates promulgated by the New York State Department of Health. Effective December 1, 2009, the New York State payment methodology was updated such that payments to hospitals for Medicaid, workers' compensation, and no-fault inpatient services are based on a statewide prospective payment system, with retroactive adjustments; prior to December 1, 2009, the payment system provided for retroactive adjustments to payment rates, using a prospective payment formula.

Outpatient services also are paid based on a statewide prospective system that became effective December 1, 2008. Medicaid rate methodologies are subject to approval at the Federal level by the Centers for Medicare and Medicaid Services (CMS), which may routinely request information about such methodologies prior to approval. Revenue related to specific rate components that have not been approved by CMS is not recognized until the Hospital is reasonably assured that such amounts are realizable. Adjustments to the current and prior years' payment rates for those payors will continue to be made in future years.

Medicare: Hospitals are paid for most Medicare inpatient and outpatient services under the national prospective payment system and other methodologies of the Medicare program for certain other services. Federal regulations provide for certain adjustments to current and prior years' payment rates, based on industry-wide and hospital-specific data. The Hospital is paid for services rendered to Medicare beneficiaries on a claim basis paid at a prospectively determined rate plus certain add-ons and other reimbursable items that are tentatively settled after submission of an annual cost report by the Hospital and final settlement determination after audits thereof by the Medicare Administrative Contractor of the submitted cost report. The classification of patients of the Hospital under the Medicare program and the appropriateness of their admission are subject to an independent review by a quality review organization.

South Nassau Communities Hospital
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Notes to Consolidated Financial Statements (continued)

**2. Accounts Receivable for Services to Patients and Net Patient Service Revenue
(continued)**

The Hospital has established estimates, based on information presently available, of amounts due to or from Medicare and non-Medicare payors for adjustments to current and prior years' payment rates, based on industry-wide and Hospital-specific data. Such amounts are included in the accompanying consolidated statements of financial position. For the years ended December 31, 2017 and 2016, net patient service revenue was increased by \$2,530,000 and \$3,290,000, respectively, for changes in estimates to reflect more recent information. At December 31, 2017 and 2016, estimated net third-party liabilities approximated \$6,230,000 and \$7,750,000, respectively.

The current Medicaid, Medicare and other third-party payor programs are based upon extremely complex laws and regulations that are subject to interpretation. Medicare cost reports, which serve as the basis for final settlement with the Medicare program, have been audited by the Medicare fiscal intermediary through 2014 and settled through 2014, although revisions to final settlements or other retroactive changes could be made. Other years remain open for audit and settlement as are numerous issues related to the New York State Medicaid program for prior years. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount when open years are settled and additional information is obtained. Additionally, noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs. The Hospital is not aware of any allegations of noncompliance that could have a material adverse effect on the accompanying consolidated financial statements and believes that it is in compliance with all applicable laws and regulations.

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

South Nassau Communities Hospital
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Notes to Consolidated Financial Statements (continued)

**2. Accounts Receivable for Services to Patients and Net Patient Service Revenue
(continued)**

Charity Care

Distinguishing the provision for bad debt from charity care requires judgment; together, they represent uncompensated care. The Hospital's policy regarding charity care is to provide a significant amount of care without regard to the patients' ability to pay for services rendered; this includes free care and a sliding fee scale, based on the patients' ability to pay which is defined as up to 300% of the federal poverty level. The Hospital utilizes a credit verification firm to assist in determining if uninsured patients meet the Hospital's charity care criteria. This process identifies uninsured patients that were under the poverty level but did not apply for charity care.

The net cost of charity care includes the direct and indirect cost of providing charity care services, offset by revenues received from indigent care pools and other subsidies. The cost of charity care is estimated by utilizing a ratio of cost to gross charges applied to the gross charity care charges. The total amount, reported at cost, of charity care provided under the Hospital's policy for the years ended December 31, 2017 and 2016 was approximately \$3,300,000 and \$3,000,000, respectively.

For the years ended December 31, 2017 and 2016, the Hospital received funds to offset charity care in the amount of \$1,069,130 and \$1,391,927, respectively, from the Indigent Care Pool under the New York State Medicaid program. The charity care component of the Indigent Care Pool payments is estimated utilizing a ratio of charity care charges to total charity care and bad debt charges applied to the Indigent Care Pool payment.

South Nassau Communities Hospital
and Subsidiaries

Notes to Consolidated Financial Statements (continued)

3. Investments

Below is a summary of the investments held by the Hospital at December 31:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 1,263,991	\$ 8,932,208
Marketable equity securities	50,467,444	56,704,725
Mutual funds	48,112,888	22,180,186
Corporate bonds	–	20,883,918
Government obligations	–	6,643,261
Commodities fund	–	957,072
Emerging markets fund	–	8,197,368
International equity funds	21,450,964	14,636,753
Fixed income funds	30,050,880	–
Real estate fund	2,446,600	–
U.S. equity fund	7,137,300	–
Total investments	<u>\$ 160,930,067</u>	<u>\$ 139,135,491</u>

Long-Term Investments

Below is a summary of the long-term investments held by the Hospital at December 31:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 6,119,775	\$ 3,815,354

South Nassau Communities Hospital
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Notes to Consolidated Financial Statements (continued)

4. Assets Whose Use is Limited

Below is a summary of assets whose use is limited relating to the FEMA claim, bond indenture restricted funds and professional and general liabilities at December 31:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 70,070,418	\$ 91,947,132
Marketable equity securities	5,472,200	6,286,604
Mutual funds	3,580,541	6,970,184
Corporate bonds	956,936	2,628,510
Government obligations	399,848	2,106,660
Commodities fund	448,728	430,032
Emerging markets fund	1,593,599	2,061,080
International equity fund	4,175,059	3,277,418
Hedge fund	–	4,414,103
Accrued interest	8,611	30,140
Total assets whose use is limited	<u>86,705,940</u>	120,151,863
Less current portion	<u>27,967,950</u>	20,609,650
Assets whose use is limited – long term	<u>\$ 58,737,990</u>	<u>\$ 99,542,213</u>

South Nassau Communities Hospital
and Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. Investment Income

The composition of investment income in the consolidated statements of activities for the years ended December 31 is as follows:

	<u>2017</u>	<u>2016</u>
Investment income:		
Interest income	\$ 3,819,247	\$ 2,059,318
Net realized gains and losses	6,294,931	1,371,539
Change in net unrealized gains and losses on investments	6,728,842	5,242,369
Change in value of equity method investments	8,305,005	3,208,019
Total investment income	<u>\$ 25,148,025</u>	<u>\$ 11,881,245</u>

Investment income is reported in the statements of activities as follows:

Investment income from general investments included in other revenue	\$ 3,526,555	\$ 3,626,886
Investment income from self-insurance fund included in other revenue	3,448,343	2,114,996
Included in operating income	<u>6,974,898</u>	<u>5,741,882</u>
Net nonoperating investment gains	<u>18,173,127</u>	<u>6,139,363</u>
Total investment income	<u>\$ 25,148,025</u>	<u>\$ 11,881,245</u>

South Nassau Communities Hospital
and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Property, Plant, and Equipment

A summary of property, plant, and equipment and the related accumulated depreciation follows:

	Range of Estimated Useful Lives	December 31	
		2017	2016
Land	—	\$ 32,149,311	\$ 32,149,311
Land improvements	3–50 years	11,754,496	11,701,220
Buildings and building service equipment	3–70 years	365,203,116	333,588,477
Fixed and major movable equipment	3–20 years	203,400,930	193,323,204
		<u>612,507,853</u>	570,762,212
Accumulated depreciation		<u>(328,260,042)</u>	<u>(305,290,106)</u>
		284,247,811	265,472,106
Construction in progress		52,149,329	43,831,623
		<u>\$ 336,397,140</u>	<u>\$ 309,303,729</u>

Net interest capitalized for the years ended December 31, 2017 and 2016 was approximately \$651,000 and \$126,000, respectively.

In May 2016, the Hospital closed on the sale of a property for a purchase price of approximately \$6,500,000. The net book value of the land and buildings at the time of the sale were approximately \$3,700,000, resulting in a gain on sale of property which is recognized, net of closing costs, in the consolidated statement of activities for the year ended December 31, 2016.

7. Lines of Credit

The Hospital maintains a revolving line of credit with a commercial bank with an available amount of \$40,000,000. The balance due at December 31, 2017 and 2016 is \$40,000,000 and \$25,000,000, respectively. The drawdowns in 2017 and 2016 were used to pay for various construction projects. The interest rate on any unpaid principal amount is based on the prime rate or 1.00% plus LIBOR, calculated separately for each drawdown. The fee on the average daily unused line of credit is 0.20%. The current line of credit is set to expire July 30, 2018.

South Nassau Communities Hospital
and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Lines of Credit (continued)

The Hospital maintains a second revolving line of credit with another commercial bank with an available amount of \$10,000,000. The balance due at December 31, 2017 is \$7,000,000. There was no balance due under the line of credit at December 31, 2016. The interest rate on any unpaid principal amount is based on the prime rate or 1.65% plus LIBOR, never to be less than 2.75%, calculated separately for each drawdown. There is no fee on the unused line of credit. The current line of credit is set to expire October 1, 2018.

In February 2018, the Hospital's lines of credit were paid in full with proceeds from the Series 2018 Bonds (Note 8).

8. Long-Term Debt and Capital Lease Obligations

A summary of long-term debt is as follows at December 31:

	2017	2016
Series 2012 bonds payable	\$ 73,305,000	\$ 76,955,000
Mortgage loan note	8,223,129	8,480,000
Capital lease obligations	2,603,854	–
	84,131,983	85,435,000
Add net unamortized Series 2012 bond premium	5,809,188	6,527,518
Less deferred financing fees, net	(970,713)	(1,090,747)
Less current portion of long-term debt	(4,599,758)	(3,906,871)
	\$ 84,370,700	\$ 86,964,900

In October 2012, the Hospital issued, through the Nassau County Local Economic Assistance Corporation, \$90,770,000 of Series 2012 Revenue Bonds (Series 2012 Bonds) at a premium of \$10,162,698. The Series 2012 Bonds were issued to refund previously outstanding Series 2001B and Series 2003B bonds (issued through the Dormitory Authority of the State of New York on behalf of the Winthrop South Nassau University Health System Obligated Group) and to fund capital additions and capital improvements. The Series 2012 Bonds are payable on July 1 of every year through July 1, 2037, at varying interest rates (3.00% to 5.00%).

In December 2016, the Hospital entered into a mortgage loan note with TD Bank (TD Note) in the amount of \$8,480,000 to partially fund the acquisition of property at 2020 Wantagh Avenue. The note bears an interest rate of 4.03% and is payable in monthly installments of \$51,778 until the agreement expires in January 2027.

South Nassau Communities Hospital
and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Long-Term Debt and Capital Lease Obligations (continued)

During 2017, the Hospital entered into capital lease agreements with GE Healthcare to finance certain medical equipment. Under the terms of the lease agreements, fixed principal and interest payments are to be made in equal installments through 2022.

In February 2018, the Hospital issued \$90,000,000 of Series 2018 taxable bonds (Series 2018 Bonds) at a discount of \$579,915. The Series 2018 Bonds were issued to repay outstanding lines of credit draws, fund capital additions and capital improvements of the Hospital and to pay costs of issuance of the Series 2018 Bonds. The principal of \$90,000,000 is due on the maturity date of August 1, 2048. Interest payments are due on February 1 and August 1 of each year, commencing August 1, 2018 at a fixed rate of 4.65%.

The Series 2012 Bonds and the Series 2018 Bonds were issued pursuant to a Master Trust Indenture. In conjunction with the Master Trust Indenture, various security agreements were executed. The agreements included pledging, as collateral, property, plant, and equipment, gross receipts and limitations on the use of certain assets. The Master Trust Indenture debt agreements and the TD Note include the maintenance of financial ratios, including a debt service coverage ratio and days cash on hand ratio. At December 31, 2017 and 2016, the Hospital was in compliance with the financial covenants.

The Hospital's principal payments for long-term debt and capital lease obligations at December 31, 2017 are as follows:

2018	\$ 4,599,758
2019	4,879,340
2020	5,122,931
2021	5,362,977
2022	5,352,933
Thereafter	58,814,044
Total	<u>\$ 84,131,983</u>

South Nassau Communities Hospital
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Notes to Consolidated Financial Statements (continued)

9. Retirement Plan and Postretirement Benefits

The Hospital has a noncontributory defined benefit pension plan. The benefits are based on years of service and the employees' compensation during the highest five consecutive years of the last ten years of employment. The Hospital's funding policy is to contribute amounts sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act (ERISA) of 1974. There was no ERISA minimum contribution required for the 2017 plan year. However, the Hospital made a contribution of \$1.5 million in 2017 and expects to contribute approximately \$2.5 million in 2018.

In addition to the defined benefit pension plan, the Hospital sponsors a defined benefit postretirement benefit plan that provides life insurance and medical benefits to full-time employees who have worked 15 years and attained age 55 while in service with the Hospital. All retirees are provided \$1,000 of life insurance benefits on a noncontributory basis.

On January 1, 2013, the Hospital amended the defined benefit pension plan to suspend benefit accruals for the 2013 plan year. Effective December 31, 2013, the accrued benefit for all Plan participants was frozen. Under the terms of the Plan freeze, no compensation earned or service performed after December 31, 2013 shall be considered in determining a participant's accrued benefit; however, service performed after December 31, 2013 shall continue to be considered for vesting purposes under the Plan.

Effective January 1, 2014, the Hospital established a defined contribution pension plan (the DC Plan). The DC Plan includes an employer basic contribution equal to a percentage of the participant's compensation based on the participant's years of service and an employer matching contribution equal to 100% of voluntary employee deferrals up to 2% of the participant's eligible compensation. For the years ended December 31, 2017 and 2016, the Hospital contributed \$10,734,560 and \$9,330,554, respectively, to the DC Plan and has related pension expense of \$11,115,884 and \$10,332,341, respectively.

On January 1, 2007, the Hospital revised the medical portion of the defined benefit postretirement benefit plan. The revision entitles certain retirees to be "grandfathered" into the previous plan's benefits which include medical benefits on a noncontributory basis for retirees post-age 65 and on a contributory basis for pre-age 65 retirees. The other non-"grandfathered" pre-age 65 eligible retirees will receive medical benefits on a contributory basis at a higher rate than the previous plan provided. In addition, eligible employees who provide advance notice of their retirement will receive noncontributory "health reimbursement accounts" which the employee can use to pay medical expenses. The Hospital recognizes a liability for the obligation to provide postretirement

South Nassau Communities Hospital
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Notes to Consolidated Financial Statements (continued)

9. Retirement Plan and Postretirement Benefits (continued)

health care and welfare benefits during the years in which employees provide service rather than on a cash basis. The Hospital made benefit payments of approximately \$221,000 and \$90,000 in 2017 and 2016, respectively.

The Hospital recognizes the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its defined benefit plans in its consolidated statements of financial position. Net unrecognized actuarial losses and the net unrecognized prior service costs at the reporting date will be subsequently recognized in the future as net periodic benefit cost pursuant to the Hospital's accounting policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic benefit cost in the same periods will be recognized as a component of unrestricted net assets.

Included in unrestricted net assets at December 31, 2017 are the following amounts that have not yet been recognized in net periodic pension cost:

	Retirement Plan	Postretirement Plan	Total
Unrecognized actuarial (loss) gain	\$ (76,969,611)	\$ 6,449,294	\$ (70,520,317)

Included in unrestricted net assets at December 31, 2016 are the following amounts that have not yet been recognized in net periodic pension cost:

	Retirement Plan	Postretirement Plan	Total
Unrecognized actuarial (loss) gain	\$ (64,377,181)	\$ 7,126,294	\$ (57,250,887)

The unrecognized actuarial net (loss) gain included in unrestricted net assets expected to be recognized in net periodic pension cost during the year ending December 31, 2018 is as follows:

	Retirement Plan	Postretirement Plan	Total
Unrecognized actuarial (loss) gain	\$ (5,575,079)	\$ 446,000	\$ (5,129,079)

South Nassau Communities Hospital
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Notes to Consolidated Financial Statements (continued)

9. Retirement Plan and Postretirement Benefits (continued)

The following table sets forth the changes in benefit obligation, change in plan assets and the unfunded status of the plans (in thousands) as of December 31 (the measurement dates):

	Retirement Plan		Postretirement Plan	
	2017	2016	2017	2016
Changes in benefit obligation				
Benefit obligation at January 1	\$ 204,870	\$ 196,611	\$ 3,161	\$ 3,354
Service cost	–	–	71	72
Interest cost	7,888	7,877	100	108
Actuarial loss (gain)	30,815	7,892	272	(283)
Benefit and fee payments, net	(7,969)	(7,510)	(221)	(90)
Benefit obligation at December 31	<u>235,604</u>	<u>204,870</u>	<u>3,383</u>	<u>3,161</u>
Change in plan assets				
Fair value of plan assets at January 1	147,968	140,959	–	–
Actual return on plan assets	24,681	9,519	–	–
Employer contributions	1,500	5,000	221	90
Benefit and fee payments, net	(7,969)	(7,510)	(221)	(90)
Fair value of plan assets at December 31	<u>166,180</u>	<u>147,968</u>	<u>–</u>	<u>–</u>
Unfunded status	<u>\$ 69,424</u>	<u>\$ 56,902</u>	<u>\$ 3,383</u>	<u>\$ 3,161</u>

The actuarial losses in 2017 and 2016 are due to decreases in the discount rate and the adoption of updated mortality tables.

The Hospital's calculation of the benefit obligation uses estimates of the service cost and interest cost components of net periodic benefit cost for pension and postretirement benefits. This estimation approach discounts the individual expected cash flows underlying the service cost and interest cost using the applicable spot rates derived from the yield curve which is used to discount the cash flows used to measure the benefit obligation.

Except for estimated postretirement benefit payments for the following year, at December 31, 2017 and 2016, the funded status of the retirement and postretirement plans are reported in the consolidated statements of financial position as noncurrent liabilities.

South Nassau Communities Hospital
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Notes to Consolidated Financial Statements (continued)

9. Retirement Plan and Postretirement Benefits (continued)

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the retirement plan are as follows (in thousands):

	December 31	
	2017	2016
Projected benefit obligation	\$ 235,604	\$ 204,870
Accumulated benefit obligation	235,604	204,870
Fair value of plan assets	166,180	147,968

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

	Retirement Plan		Postretirement Plans	
	2017	2016	2017	2016
Service cost	\$ —	\$ —	\$ 71	\$ 72
Interest cost on projected benefit obligation	7,888	7,877	100	108
Expected return on plan assets	(10,852)	(10,447)	—	—
Amortization of net loss (gain)	4,393	3,759	(495)	(474)
Net periodic benefit cost (income)	\$ 1,429	\$ 1,189	\$ (324)	\$ (294)

Assumptions

Assumptions used in developing the plans' unfunded status at December 31 were as follows:

	Retirement Plan		Postretirement Plans	
	2017	2016	2017	2016
Discount rate	3.65%	4.24%	3.41%	3.86%

South Nassau Communities Hospital
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Notes to Consolidated Financial Statements (continued)

9. Retirement Plan and Postretirement Benefits (continued)

Assumptions used in developing the net periodic benefit cost (income) for the years ended December 31 were as follows:

	Retirement Plan		Postretirement Plans	
	2017	2016	2017	2016
Discount rate	4.24%	4.46%	3.86%	4.04%
Expected long-term rate of return on plan assets	7.50	7.50	–	–

Basis Used to Determine the Expected Long-Term Rate of Return on Assets

The overall expected long-term rate of return on assets assumption is based upon a building-block method, whereby the expected rate of return on each asset class is broken down into three components: (1) inflation, (2) the real risk-free rate of return (i.e., the long-term estimate of future returns on default-free United States government securities), and (3) the risk premium for each asset class (i.e., the expected return in excess of the risk-free rate).

All three components are based primarily on historical data, with modest adjustments to take into account additional relevant information that is currently available. For the inflation and risk-free return components, the most significant additional information is that provided by the market for nominal and inflation-indexed United States Treasury securities. That market provides implied forecasts of both the inflation rate and risk-free rate for the period over which currently available securities mature. The historical data on risk premiums for each asset class is adjusted to reflect any systemic changes that have occurred in the relevant markets, i.e., the higher current valuations for equities, as a multiple of earnings, relative to the longer-term average for such valuations.

While the precise expected return derived using the above approach will fluctuate somewhat from year to year, the Hospital's policy is to hold this long-term assumption constant as long as it remains within a reasonable tolerance from the derived rate.

South Nassau Communities Hospital
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Notes to Consolidated Financial Statements (continued)

9. Retirement Plan and Postretirement Benefits (continued)

Assumed Health Care Cost Trends

The assumed health care cost trend rates used in measuring the accumulated postretirement benefit obligations for 2017 and 2016 are as follows:

	2017	2016
Health care cost trend rate assumed for next year	7.75%	7.75%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.75%	4.75%
Year that the rate reaches the ultimate trend rate	2024	2023

Plan Assets

The overall objective of the retirement plan is to produce an asset allocation that will generate 7.5% total return annually to meet expense and income needs and provide for sufficient annual asset growth.

The target allocations for plan assets are 45% equity securities, 15% hedge funds, and 40% fixed income and general insurance contracts. Equity securities, which include mutual funds, primarily include investments in large-cap and small/mid-cap companies, real estate investment trusts, natural resources and commodities. Fixed income securities, which include mutual funds, include corporate bonds, mortgage-backed securities, and United States Treasuries.

Performance is reviewed monthly based on performance results, and benchmarks are compiled independently by Cambridge Associates, investment consultants, and reviewed by the Hospital.

South Nassau Communities Hospital
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Notes to Consolidated Financial Statements (continued)

9. Retirement Plan and Postretirement Benefits (continued)

The fair values of the Hospital's retirement plan assets at December 31, 2017, by asset category, for assets which are accounted for at fair value are as follows:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash and cash equivalents	\$ 2,640,075	\$ —	\$ —	\$ 2,640,075
Mutual funds:				
U.S. equity	4,518,686	—	—	4,518,686
Emerging markets	2,608,030	—	—	2,608,030
Exchange traded fund	302,933	—	—	302,933
Marketable equity securities:				
Large cap	11,291,967	—	—	11,291,967
	<u>\$ 21,361,691</u>	<u>\$ —</u>	<u>\$ —</u>	<u>21,361,691</u>
Investments measured at net asset value:				
U.S. equity fund				13,290,451
International equity funds				37,075,578
Fixed income funds				63,481,334
Emerging market funds				4,571,307
Hedge funds				22,764,273
				<u>\$ 162,544,634</u>

South Nassau Communities Hospital
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Notes to Consolidated Financial Statements (continued)

9. Retirement Plan and Postretirement Benefits (continued)

The fair values of the Hospital's retirement plan assets at December 31, 2016, by asset category, for assets which are accounted for at fair value are as follows:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash and cash equivalents	\$ 1,602,706	\$ —	\$ —	\$ 1,602,706
Mutual funds:				
U.S. equity	4,449,713	—	—	4,449,713
Exchange traded fund	620,652	—	—	620,652
Marketable equity securities:				
Large cap	11,192,678	—	—	11,192,678
	<u>\$ 17,865,749</u>	<u>\$ —</u>	<u>\$ —</u>	<u>17,865,749</u>
Investments measured at net asset value:				
U.S. equity fund				10,663,236
International equity funds				34,501,727
Fixed income funds				55,063,707
Emerging market funds				4,847,308
Hedge funds				21,491,795
				<u>\$ 144,433,522</u>

The Hospital's retirement plan investment in a deposit administration contract is reported at contract value and, therefore, is not included in the tables above. At December 31, 2017 and 2016, this investment totaled \$3,635,105 and \$3,534,116, respectively.

South Nassau Communities Hospital
and Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Retirement Plan and Postretirement Benefits (continued)

The following is a summary of investments in the Hospital's retirement plan with restrictions to redeem the investments at the measurement date. There are no unfunded commitments for any of the investments at December 31, 2017.

<u>Investment Category</u>	<u>Fair Value</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
U.S. equity fund	\$ 13,290,451	Monthly	30 days
International equity fund	5,352,203	Daily	5 days
International equity fund	7,920,022	Semi-monthly	10 days
International equity funds	23,803,353	Monthly	6-30 days
Fixed income funds	63,481,334	Semi-monthly	5 days
Emerging markets funds	4,571,307	Quarterly	10-60 days
Hedge fund	1,529,081	Daily	2 days
Hedge funds	2,109,666	Monthly	10-14 days
Hedge funds	13,556,512	Quarterly	45-95 days
Hedge funds	3,807,691	Annually	65-90 days
Hedge fund	1,761,323	Every 2 years	60 days
	<u>\$ 141,182,943</u>		

Estimated Future Benefit Payments

The Hospital expects to pay the following retirement benefit payments, which reflect expected future service, as appropriate:

2018	\$ 10,650,000
2019	12,493,000
2020	12,148,000
2021	13,375,000
2022	14,371,000
2023 to 2027	68,882,000

South Nassau Communities Hospital
and Subsidiaries

Notes to Consolidated Financial Statements (continued)

10. Self-Insurance (Professional and General Liability)

The Hospital is self-insured for professional and general liabilities. Effective August 1, 2013, the Hospital purchased claims-made, excess professional liability and general liability insurance. The professional policy has coverage limits of \$3.0 million per occurrence/\$11.0 million in aggregate, with an aggregate policy limit of \$10.0 million. The general liability policy has coverage limits of \$1.0 million per occurrence/\$1.5 million in aggregate. Effective June 24, 2015, the professional policy has coverage limits of \$3.0 million per occurrence/\$11.0 million in aggregate, with an aggregate policy limit of \$20.0 million.

Professional and general liability claims have been asserted against the Hospital by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. Counsel is unable to conclude as to the ultimate outcome of the actions. There are known incidents reported that may result in the assertion of additional claims, and other claims may be asserted arising from services provided to patients in the past.

The Hospital employs the services of an actuary to estimate the ultimate cost of the settlement of such potential claims (asserted and unasserted) and related legal expenses. The Hospital's undiscounted estimated professional and general liabilities for claims and expenses are approximately \$40,530,000 and \$46,800,000 at December 31, 2017 and 2016, respectively. The Hospital maintains a trust with a trustee, included in assets whose use is limited (see Note 4), to satisfy estimated professional and general liabilities claims and expenses.

11. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets related to health care programs and education are \$5,091,700 and \$2,787,278 at December 31, 2017 and 2016, respectively. In 2017 and 2016, restricted contributions are reported net of fund raising expenses of approximately \$1,100,000 and \$795,000, respectively.

Permanently restricted net assets represent funds whose principal is to be held in perpetuity. The Hospital follows the requirements of the New York Prudent Management of Institutional Funds Act (NYPMIFA) as they relate to its permanently restricted contributions and net assets, effective upon New York State's enactment of the legislation in September 2010. The Hospital expends the income distributed from the related assets according to donor stipulations.

South Nassau Communities Hospital
and Subsidiaries

Notes to Consolidated Financial Statements (continued)

12. Concentration of Credit Risk

The Hospital provides health care services through its inpatient and outpatient care facilities located in Oceanside, New York and elsewhere in Nassau County. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under various third-party payor agreements. The mix of receivables from patients and third-party payors is as follows:

	December 31	
	2017	2016
Medicare	20%	19%
Blue Cross	17	21
Other – managed care	49	45
Self-pay	3	2
Medicaid	6	8
Other	5	5
	100%	100%

At December 31, 2017 and 2016, the Hospital has cash balances in financial institutions that exceed federal depository insurance limits. Management believes that credit risk related to these deposits is minimal.

13. Fair Value of Financial Instruments

For assets and liabilities required to be measured at fair value, the Hospital measures fair value based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are applied based on the unit of account from the Hospital's perspective. The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated) for purposes of applying other accounting pronouncements.

South Nassau Communities Hospital
and Subsidiaries

Notes to Consolidated Financial Statements (continued)

13. Fair Value of Financial Instruments (continued)

The Hospital follows a valuation hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2: Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available.

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

A financial instrument's categorization within the three levels of the valuation hierarchy is not indicative of the investment risk associated with the underlying assets.

South Nassau Communities Hospital
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Notes to Consolidated Financial Statements (continued)

13. Fair Value of Financial Instruments (continued)

Financial assets carried at fair value as of December 31, 2017 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 97,558,935	\$ —	\$ —	\$ 97,558,935
Mutual funds:				
Large cap growth	621,554	—	—	621,554
Natural resources	5,835,721	—	—	5,835,721
SMID fund	7,649,742	—	—	7,649,742
International	16,252,134	—	—	16,252,134
Fixed income	10,965,253	—	—	10,965,253
Emerging markets	10,369,025	—	—	10,369,025
Corporate bonds	—	956,936	—	956,936
Government obligations	—	399,848	—	399,848
Marketable equity securities:				
Small cap	11,851,577	—	—	11,851,577
Mid cap	851,122	—	—	851,122
Large cap	42,831,069	—	—	42,831,069
International	405,876	—	—	405,876
Accrued interest	8,611	—	—	8,611
	<u>\$ 205,200,619</u>	<u>\$ 1,356,784</u>	<u>\$ —</u>	<u>\$ 206,557,403</u>

South Nassau Communities Hospital
and Subsidiaries

Notes to Consolidated Financial Statements (continued)

13. Fair Value of Financial Instruments (continued)

Financial assets carried at fair value as of December 31, 2016 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 114,474,201	–	\$ –	\$ 114,474,201
Mutual funds:				
Large cap growth fund	2,342,956	–	–	2,342,956
Natural resources	2,625,220	–	–	2,625,220
Real estate investment trusts	2,832,704	–	–	2,832,704
SMID fund	7,609,129	–	–	7,609,129
International	13,740,361	–	–	13,740,361
Corporate bonds	–	23,344,347	–	23,344,347
Government obligations	–	8,749,921	–	8,749,921
Marketable equity securities:				
Small cap	12,764,078	–	–	12,764,078
Mid cap	2,187,739	–	–	2,187,739
Large cap	45,993,060	–	–	45,993,060
International	2,046,452	–	–	2,046,452
Accrued interest	198,221	–	–	198,221
	<u>\$ 206,814,121</u>	<u>\$ 32,094,268</u>	<u>\$ –</u>	<u>\$ 238,908,389</u>

The Hospital's investments reported using the equity method of accounting, in the amount of \$67,303,130 and \$33,973,826 as of December 31, 2017 and 2016, respectively, are not included in the tables above (see Note 1).

The carrying values and fair values of the Hospital's financial instruments that are not required to be carried at fair value are as follows at December 31, 2017 and 2016 (in thousands):

	2017		2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt	\$ 81,528	\$ 88,228	\$ 91,963	\$ 98,074

The fair value of the Hospital's bonds payable is based on quoted market prices for the related bonds and are classified as Level 2 in the context of the fair value hierarchy. Carrying amount approximates fair value for the TD note.

South Nassau Communities Hospital
and Subsidiaries

Notes to Consolidated Financial Statements (continued)

14. Related-Party Transactions

Long Island Health Network (LIHN)

The Hospital and a number of other health care providers on Long Island entered into a joint agreement in 1998, which operates as LIHN. LIHN works to improve the quality of care, facilitate clinical integration, benchmark best practices, reduce length of stay and costs, and negotiate managed care contracts on behalf of its members. For the year ended December 31, 2016, LIHN allocated certain network-related expenses to the Hospital totaling approximately \$1,009,000. Such expenses are included in supplies and other expenses in the accompanying consolidated statement of activities. No expenses were allocated to the Hospital for the year ended December 31, 2017.

On November 17, 2017, the Hospital gave notice to LIHN of its decision to withdraw as a member of LIHN effective as of November 29, 2017. Under the terms of the Hospital's managed care contracts executed by LIHN on behalf of the Hospital prior to the Hospital's notice of withdrawal, those managed care agreements will remain in effect through their respective termination dates. Management anticipates that if the proposed transaction with Mount Sinai is completed as planned, the Hospital will enter into managed care contracts through Mount Sinai's contracting process. In the event the Mount Sinai transaction does not close as expected, management plans to continue to negotiate expiring contracts on behalf of the Hospital.

15. Long Beach Medical Center

The Hospital has been working to develop a health care service delivery model that will replace Long Beach Medical Center (LBMC). In 2014, the Hospital entered into an asset purchase agreement with LBMC and Long Beach Memorial Nursing Home (LBMNH) to acquire all or substantially all of their assets. Ultimately, the Hospital acquired the assets of LBMC in 2014 for approximately \$11,800,000, but did not acquire the assets of LBMNH, as the sale of its assets went to an unrelated party.

The Hospital, as part of the transaction, provided a loan of \$1,500,000 in several installments, beginning in December 2012 through January 2013, to LBMNH. The loan was fully reserved by the Hospital due to uncertainty surrounding the payback of these amounts. In October 2016, as a result of the closing of the sale of LBMNH to a third party, the loan was repaid in the amount of \$2,216,258, representing the principal amount due under the loan plus interest and termination fees. The receipt of these funds is included as a gain in the accompanying consolidated statement of activities for the year ended December 31, 2016.

South Nassau Communities Hospital
and Subsidiaries

Notes to Consolidated Financial Statements (continued)

15. Long Beach Medical Center (continued)

In 2015, the U.S. Department of Homeland Security, FEMA approved (or “obligated” under FEMA regulations) a project worksheet for the Hospital’s capped FEMA Public Assistance program (PA Grants) of approximately \$171,000,000 (90% funded by FEMA for a total award of approximately \$154,000,000) to allow for the Hospital to either demolish, repair or restore the LBMC facilities damaged by Super Storm Sandy, or implement an alternative procedure pilot project. In September 2016, FEMA approved the Hospital’s request for an alternative project. Rather than use the grant to repair and restore LBMC’s main hospital to its pre-disaster function and capacity, the Hospital proposed to instead construct a new medical pavilion to provide emergency services only, and use the remaining grant funds to expand and renovate the Hospital’s Oceanside campus.

In 2016, the Hospital and the New York State Division of Homeland Security and Emergency Services (NYSDHSES) entered into a Disaster Relief Funding Agreement, pursuant to which NYSDHSES disbursed to the Hospital in December 2016 approximately \$74,000,000, representing approximately 50% of the total FEMA grant described above, less previously provided payments. When the Hospital has depleted 90% of the amount originally advanced, the Hospital expects to be eligible for another advance from NYSDHSES, representing approximately 50% of the remaining outstanding eligible balance. For the years ended December 31, 2017 and 2016, approximately \$3,298,000 and \$5,577,000, respectively, has been expended by the Hospital and recognized and released from temporarily restricted net assets. The unspent balance is included as deferred grant revenue and assets whose use is limited in the accompanying consolidated statements of financial position.

16. Other Revenue

Other revenue consists of the following for the years ended December 31, 2017 and 2016:

	2017	2016
Investment income – operating income (<i>Note 5</i>)	\$ 6,974,898	\$ 5,741,882
Net assets released from restrictions used for operations	212,392	36,059
Grant revenue	743,967	3,584,173
Rental income	462,779	488,285
Coffee and gift shop income	1,001,337	1,046,638
Cafeteria income	1,130,392	1,143,455
Rebates and cash discounts	1,049,672	1,111,232
Miscellaneous income	4,931,613	4,421,570
	\$ 16,507,050	\$ 17,573,294

South Nassau Communities Hospital
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Notes to Consolidated Financial Statements (continued)

17. Operating Leases

The Hospital leases various equipment and facilities under operating leases, expiring at various dates through 2033. Total rental expense charged to operations was \$2,629,904 and \$2,109,867 for the years ended December 31, 2017 and 2016, respectively.

Future minimum payments required under non-cancellable operating leases with initial or remaining terms of one year or more consisted of the following at December 31, 2017:

2018	\$ 2,774,047
2019	2,274,506
2020	1,753,647
2021	1,532,443
2022	1,316,403
Thereafter	9,309,841
	<u>\$ 18,960,887</u>

18. Subsequent Events

Subsequent events have been evaluated through March 16, 2018, the date the consolidated financial statements were issued. No subsequent events have occurred that require disclosure in or adjustment to the consolidated financial statements, except as described in Notes 1 and 8.

Supplementary Information

South Nassau Communities Hospital
and Subsidiaries

Consolidating Statement of Financial Position

December 31, 2017

	South Nassau Communities Hospital	Other Entities	Eliminations	Consolidated
Assets				
Current assets:				
Cash and cash equivalents	\$ 19,062,283	\$ 1,042,468	\$ –	\$ 20,104,751
Investments	160,930,067	–	–	160,930,067
Current portion of assets whose use is limited	27,967,950	–	–	27,967,950
Patient receivables, less allowance for uncollectibles	64,984,981	5,689,735	–	70,674,716
Other current assets	12,684,437	1,771,462	–	14,455,899
Total current assets	285,629,718	8,503,665	–	294,133,383
Assets whose use is limited	58,737,990	–	–	58,737,990
Long-term investments	6,098,500	21,275	–	6,119,775
Due from affiliates	23,670,461	489,012	(24,159,473)	–
Other long-term assets	215,581	919,950	–	1,135,531
Insurance claims receivable	1,820,816	–	–	1,820,816
Property, plant, and equipment, net	317,404,251	18,992,889	–	336,397,140
Total assets	\$ 693,577,317	\$ 28,926,791	\$ (24,159,473)	\$ 698,344,635
Liabilities and net assets (deficit)				
Current liabilities:				
Amounts due under lines of credit	\$ 47,000,000	\$ –	\$ –	\$ 47,000,000
Accounts payable	21,350,305	–	–	21,350,305
Accrued expenses	44,520,475	1,283,830	–	45,804,305
Accrued payroll and vacation	27,226,495	3,344,546	–	30,571,041
Current portion of long-term debt and capital lease obligations	4,599,758	–	–	4,599,758
Current portion of accrued postretirement benefits other than pension	208,000	–	–	208,000
Current portion of estimated professional and general liabilities	10,460,000	–	–	10,460,000
Deferred grant revenue	15,708,550	–	–	15,708,550
Estimated third-party payor liabilities	6,230,000	–	–	6,230,000
Total current liabilities	177,303,583	4,628,376	–	181,931,959
Long-term debt and capital lease obligations, net of current portion	84,370,700	–	–	84,370,700
Accrued pension payable	69,423,784	–	–	69,423,784
Due to affiliates	–	24,159,473	(24,159,473)	–
Accrued postretirement benefits other than pension, net of current portion	3,175,000	–	–	3,175,000
Estimated professional and general liabilities, net of current portion	30,070,000	–	–	30,070,000
Deferred grant revenue, net of current portion	52,454,501	–	–	52,454,501
Insurance claims payable	1,820,816	–	–	1,820,816
Other liabilities	1,973,634	258,772	–	2,232,406
Total liabilities	420,592,018	29,046,621	(24,159,473)	425,479,166
Net assets (deficit):				
Unrestricted	266,866,798	(121,105)	–	266,745,693
Temporarily restricted	5,090,425	1,275	–	5,091,700
Permanently restricted	1,028,076	–	–	1,028,076
Total net assets (deficit)	272,985,299	(119,830)	–	272,865,469
Total liabilities and net assets (deficit)	\$ 693,577,317	\$ 28,926,791	\$ (24,159,473)	\$ 698,344,635

South Nassau Communities Hospital
and Subsidiaries

Consolidating Statement of Activities

Year Ended December 31, 2017

	South Nassau Communities			Consolidated
	Hospital	Other Entities	Eliminations	
Operating revenue:				
Net patient service revenue, net of contractual allowances and other discounts	\$ 480,379,158	\$ 42,043,274	\$ –	\$ 522,422,432
Provision for bad debts	(17,944,338)	–	–	(17,944,338)
Net patient service revenue, less provision for bad debts	462,434,820	42,043,274	–	504,478,094
Other revenue	16,767,569	1,578,807	(1,839,326)	16,507,050
Total operating revenue	479,202,389	43,622,081	(1,839,326)	520,985,144
Operating expenses:				
Salaries and wages	226,698,669	33,206,450	(167,232)	259,737,887
Employee benefits	49,297,219	7,295,963	–	56,593,182
Supplies and other expenses	153,826,017	23,193,338	(1,672,094)	175,347,261
Interest expense	3,501,355	25,200	–	3,526,555
Provision for depreciation and amortization	27,090,336	1,274,897	–	28,365,233
Total operating expenses	460,413,596	64,995,848	(1,839,326)	523,570,118
Operating income (loss)	18,788,793	(21,373,767)	–	(2,584,974)
Nonoperating gains and losses:				
Net nonoperating investment gains	18,173,127	–	–	18,173,127
Unrestricted contributions, net of fund raising expenses	95,358	1,375	–	96,733
Other nonoperating losses	(1,395,502)	–	–	(1,395,502)
Excess (deficiency) of revenue and gains over expenses	35,661,776	(21,372,392)	–	14,289,384
Equity transfer (to) from related entities	(21,280,032)	21,280,032	–	–
Net assets released from restrictions for capital asset acquisitions	4,613,983	–	–	4,613,983
Pension and postretirement liability adjustments	(13,269,430)	–	–	(13,269,430)
Increase (decrease) in unrestricted net assets	\$ 5,726,297	\$ (92,360)	\$ –	\$ 5,633,937

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