Consolidated Financial Statements and Supplementary Information

South Nassau Communities Hospital and Subsidiaries
Years Ended December 31, 2018 and 2017
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

South Nassau Communities Hospital
and Subsidiaries

Consolidated Financial Statements and Supplementary Information

Years Ended December 31, 2018 and 2017

Contents

Ernst & Young LLP
5 Times Square
New York, NY 10036-6530

Tel: +1 212 773 3000
Fax: +1 212 773 6350
ey.com

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, 2018 and 2017, 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, 2018 and 2017, 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.

Adoption of ASU No. 2014-09, *Revenue from Contracts with Customers* and ASU No. 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities*

As discussed in Note 1 to the consolidated financial statements, South Nassau Communities Hospital and Subsidiaries changed their method of revenue recognition as a result of the adoption of the amendments to the FASB Accounting Standards Codification resulting from Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers*, effective January 1, 2018 and adopted the amendments to the FASB Accounting Standards Codification resulting from Accounting Standards Update No. 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities*, effective December 31, 2018. Our opinion is not modified with respect to these matters.

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, 2018, and consolidating statement of activities for the year ended December 31, 2018, 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

April 12, 2019

South Nassau Communities Hospital
and Subsidiaries

Consolidated Statements of Financial Position

	December 31 2018	December 31 2017
Assets		
Current assets:		
Cash and cash equivalents *(Note 13)*	**$ 9,525,373**	$ 20,104,751
Investments *(Notes 3 and 13)*	**142,323,347**	160,930,067
Current portion of assets whose use is limited *(Notes 4, 8, 10, 13, and 15)*	**74,260,743**	27,967,950
Patient receivables, net *(Notes 2 and 12)*	**72,278,737**	70,674,716
Other current assets	**18,737,655**	14,455,899
Total current assets	**317,125,855**	294,133,383
Assets whose use is limited, net of current portion *(Notes 4, 8, 10, 13, and 15)*	**39,323,276**	58,737,990
Long-term investments *(Notes 3 and 13)*	**7,272,376**	6,119,775
Other long-term assets	**1,135,531**	1,135,531
Insurance claims receivable	**2,366,002**	1,820,816
Property, plant, and equipment, net *(Note 6)*	**348,202,806**	336,397,140
Total assets	**$ 715,425,846**	$ 698,344,635

	December 31	
	2018	**2017**
Liabilities and net assets		
Current liabilities:		
Amounts due under lines of credit *(Note 7)*	**$ –**	$ 47,000,000
Accounts payable	**20,828,359**	21,350,305
Accrued expenses	**43,148,818**	45,804,305
Accrued payroll and vacation	**32,382,328**	30,571,041
Due to related party, net	**1,002,267**	–
Current portion of long-term debt and capital lease obligations *(Notes 8 and 13)*	**5,105,806**	4,599,758
Current portion of accrued postretirement benefits other than pension *(Note 9)*	**199,000**	208,000
Current portion of estimated professional and general liabilities *(Note 10)*	**8,690,000**	10,460,000
Deferred grant revenue *(Note 15)*	**25,401,033**	15,708,550
Estimated third-party payor liabilities *(Note 2)*	**6,070,000**	6,230,000
Total current liabilities	**142,827,611**	181,931,959
Long-term debt and capital lease obligations, net of current portion (*Notes 8 and 13*)	**168,218,850**	84,370,700
Accrued pension payable *(Note 9)*	**59,643,227**	69,423,784
Accrued postretirement benefits other than pension, net of current portion *(Note 9)*	**2,708,000**	3,175,000
Estimated professional and general liabilities, net of current portion *(Note 10)*	**30,630,000**	30,070,000
Deferred grant revenue, net of current portion *(Note 15)*	**30,490,944**	52,454,501
Insurance claims payable	**2,366,002**	1,820,816
Other liabilities	**2,422,152**	2,232,406
Total liabilities	**439,306,786**	425,479,166
Commitments and contingencies		
Net assets:		
Net assets without donor restrictions *(Note 11)*	**268,846,684**	266,745,693
Net assets with donor restrictions *(Note 11)*	**7,272,376**	6,119,776
Total net assets	**276,119,060**	272,865,469
Total liabilities and net assets	**$ 715,425,846**	$ 698,344,635

See accompanying notes.

South Nassau Communities Hospital
and Subsidiaries

Consolidated Statements of Activities

	Year Ended December 31 2018	2017
Operating revenue:		
Net patient service revenue *(Note 2)*	**$ 524,861,640**	$ 522,422,432
Provision for bad debts *(Note 2)*	**–**	(17,944,338)
Net patient service revenue, less provision for bad debts	**524,861,640**	504,478,094
Investment income *(Note 5)*	**6,488,727**	10,114,178
Other revenue *(Note 15)*	**19,941,887**	9,532,152
Total operating revenue	**551,292,254**	524,124,424
Operating expenses:		
Salaries and wages	**280,204,232**	259,808,887
Employee benefits	**61,434,123**	55,488,343
Supplies and other expenses	**190,842,003**	175,347,261
Interest expense	**4,367,086**	3,526,555
Provision for depreciation and amortization	**32,606,082**	28,365,233
Total operating expenses	**569,453,526**	522,536,279
Operating (loss) income	**(18,161,272)**	1,588,145
Nonoperating gains and losses:		
Change in net unrealized gains and losses on investments and change in value of equity method investments *(Note 5)*	**(20,960,506)**	15,033,847
Contributions without donor restrictions, net of fund raising expenses of $715,909 in 2018 and $552,185 in 2017	**37,545**	96,733
Net periodic pension and postretirement benefit costs (non-service related) *(Note 9)*	**(4,674,135)**	(1,033,839)
Other nonoperating losses	**(2,377,334)**	(1,395,502)
(Deficiency) excess of revenue and gains over expenses	**(46,135,702)**	14,289,384
Net assets released from restrictions for capital asset acquisitions	**14,837,001**	4,613,983
Pension and postretirement liability adjustments *(Note 9)*	**13,399,692**	(13,269,430)
Transfer from related party	**20,000,000**	–
Increase in net assets without donor restrictions	**$ 2,100,991**	$ 5,633,937

See accompanying notes.

South Nassau Communities Hospital
and Subsidiaries

Consolidated Statements of Changes in Net Assets

Years Ended December 31, 2018 and 2017

	Net Assets without Donor Restrictions	**Net Assets with Donor Restrictions**	**Total Net Assets**
Balance, January 1, 2017	$ 261,111,756	$ 3,815,354	$ 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	6,119,776	272,865,469
Deficiency of revenue and gains over expenses	**(46,135,702)**	**–**	**(46,135,702)**
FEMA capital grant funds earned	**–**	**12,271,075**	**12,271,075**
Restricted contributions, net of fund raising expenses	**–**	**4,082,515**	**4,082,515**
Net assets released from restrictions for operations	**–**	**(363,989)**	**(363,989)**
Net assets released from restrictions for capital asset acquisitions	**14,837,001**	**(14,837,001)**	**–**
Pension and postretirement liability adjustments	**13,399,692**	**–**	**13,399,692**
Transfer from related party	**20,000,000**	**–**	**20,000,000**
Total changes in net assets	**2,100,991**	**1,152,600**	**3,253,591**
Balance, December 31, 2018	**$ 268,846,684**	**$ 7,272,376**	**$ 276,119,060**

See accompanying notes.

South Nassau Communities Hospital
and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2018	**2017**
Operating activities		
Changes in net assets	**$ 3,253,591**	$ 7,938,359
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Amortization of deferred financing fees, bond premium, and bond discount	**(528,571)**	(598,296)
Provision for depreciation	**32,547,224**	28,252,609
Loss on disposal of assets and abandoned projects	**814,112**	662,194
Realized gains on investments	**(3,446,034)**	(6,294,931)
Change in net unrealized gains and losses on investments and change in value of equity method investments	**20,960,506**	(15,033,847)
FEMA capital grant funds earned	**(12,271,075)**	(3,298,132)
Restricted contributions, net of fund raising expenses	**(4,082,515)**	(3,832,665)
Transfer from related party	**(20,000,000)**	–
Changes in operating assets and liabilities:		
Patient receivables, net	**(1,604,021)**	(9,535,132)
Other assets	**(4,281,756)**	(2,446,029)
Accounts payable and accrued expenses	**(3,177,433)**	7,084,732
Accrued payroll and vacation	**1,811,287**	3,456,284
Due to related party, net	**1,002,267**	–
Estimated third-party payor liabilities	**(160,000)**	(1,520,000)
Estimated professional and general liabilities	**(1,210,000)**	(6,270,030)
Accrued pension and postretirement benefits payable	**(10,256,557)**	12,743,269
Other liabilities	**189,746**	(180,279)
Net cash (used in) provided by operating activities	**(439,229)**	11,128,106
Investing activities		
Purchases of property, plant, and equipment	**(44,469,872)**	(53,225,955)
(Purchases) sales of investments, long-term investments and assets whose use is limited, net	**(26,938,432)**	30,675,704
Net cash used in investing activities	**(71,408,304)**	(22,550,251)

South Nassau Communities Hospital
and Subsidiaries

Consolidated Statements of Cash Flows (continued)

	Year Ended December 31	
	2018	**2017**
Financing activities		
Proceeds from line of credit	**$ 3,000,000**	$ 32,000,000
Payments on line of credit	**(50,000,000)**	(10,000,000)
Proceeds from issuance of long-term debt	**89,420,085**	–
Payment of debt issuance costs	**(753,263)**	–
Principal payments on long-term debt	**(4,481,182)**	(4,085,276)
Proceeds from related party transfer	**20,000,000**	–
Proceeds from restricted contributions, net of fund raising expenses	**4,082,515**	3,832,665
Net cash provided by financing activities	**61,268,155**	21,747,389
Net (decrease) increase in cash and cash equivalents	**(10,579,378)**	10,325,244
Cash and cash equivalents at beginning of year	**20,104,751**	9,779,507
Cash and cash equivalents at end of year	**$ 9,525,373**	$ 20,104,751
Supplemental disclosure of cash flow information		
Cash paid for interest	**$ 6,248,673**	$ 4,829,704
Assets acquired under capital lease obligations	**$ 697,130**	$ 2,782,259

See accompanying notes.

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).

Prior to October 2018, South Nassau University Health System, Inc. (formerly Winthrop-South Nassau University Health System, Inc.) served as the sole corporate member of the Hospital. Effective in October 2018, concurrent with the execution and approval of an Affiliation Agreement and a change to the Hospital's bylaws, Mount Sinai Hospitals Group, Inc. (Mount Sinai) became the sole corporate member and active parent of the Hospital. Mount Sinai 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. As a result of the transaction, Mount Sinai has agreed to contribute $120 million to the Hospital over five years to assist in the development of capital projects. For the year ended December 31, 2018, $20 million was contributed by The Mount Sinai Hospital and recorded as a transfer from related party in the accompanying consolidated statement of activities. Additional transactions between the Hospital and Mount Sinai relate principally to the sharing of certain services and personnel and are accounted for on the bases of allocated cost as agreed among the parties. Net amounts due to The Mount Sinai Hospital at December 31, 2018 are approximately $1 million and included in the accompanying 2018 consolidated balance sheet.

The Hospital has elected not to apply pushdown accounting, the use of the acquirer's basis of accounting in the preparation of the acquiree's separate financial statements, consistent with the Financial Accounting Standards Board (FASB) Accounting Standards Update No. (ASU) 2014-17, *Business Combinations (Topic 805): Pushdown Accounting, a consensus of the FASB Emerging Issues Task Force*. Accordingly, the accompanying consolidated financial statements present the Hospital's assets, liabilities and net assets at carrying value without adjustment to fair value.

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., South Nassau Cardiovascular Practice, P.C., and South Nassau 195 North Village RVC, LLC are Section 501(c)(3) organizations exempt from income taxes on related income 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 Tax Cuts and Jobs Act (TCJA) was enacted on December 22, 2017. For tax-exempt entities, TCJA requires organizations to categorize certain fringe benefit expenses as a source of unrelated business income subject to tax, pay an excise tax on compensation above certain thresholds, and record income or losses for tax determination purposes from unrelated business activities on an activity-by-activity basis, among other provisions. Regulations necessary to implement certain aspects of TCJA are expected to be promulgated by the Internal Revenue Service (IRS) in 2019. The effects of income taxes are not material to the accompanying consolidated financial statements.

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 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 2018 and 2017, the Hospital recorded changes in estimates to third-party payor liabilities as described in Note 2.

Recently Adopted Accounting Pronouncements

In May 2014, the FASB issued 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 606, *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. The Hospital adopted ASU 2014-09 on January 1, 2018 following the modified retrospective method of application and, as such, the prior period consolidated financial statements have not been adjusted for the adoption of ASU 2014-09. As a result of implementing ASU 2014-09, certain patient activity where collection is uncertain, previously reported as net patient service revenue and provision for bad debts in the Hospital's consolidated statements of activities, no longer meets the criteria for revenue recognition and, accordingly, the provision for bad debt after the adoption date is significantly reduced, with a corresponding reduction to net patient service revenue. For the year ended December 31, 2018, the Hospital recorded approximately $24.6 million of implicit price concessions as a direct reduction to net patient service revenue that would have been recorded as provision for bad debt prior to the

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

adoption of ASU 2014-09. Additionally, provision for bad debt for the year ended December 31, 2018 is now presented as an expense item (included as a component of supplies and other expenses), rather than a reduction to net patient service revenue. Other aspects of the Hospital's implementation of ASU 2014-09 impacting net patient service revenue, which include judgments regarding collection analyses and estimates of variable consideration and the addition of certain qualitative and quantitative disclosures, are reflected within Note 2. The adoption of ASU 2014-09 did not have a material impact in relation to other applicable revenue activity.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 requires entities to classify gains and losses from certain equity investments within its performance indicator. As the Hospital accounts for its equity investments as trading securities, this change does not have an impact on the recognition of income related to the Hospital's equity investments. ASU 2016-01 contains an additional provision that eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for the Hospital. The amendments of this ASU are applicable for fiscal years beginning after December 31, 2018; however, early adoption is permitted for the provision relating to the elimination of the requirement to disclose the fair value of financial instruments measured at amortized cost. As such, management has elected to early adopt this provision and will no longer disclose the fair value of debt within its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Financial Statement Presentation*, which changes the presentation and disclosure requirements for not-for-profit entities (NFPs). The standard changes the requirement for NFPs to classify net assets as unrestricted, temporarily restricted and permanently restricted. Instead, NFPs are required to classify net assets as net assets with donor restrictions or without donor restrictions. The guidance also modifies required disclosures and reporting related to net assets, investment expenses and information regarding liquidity. NFPs are also required to report all expenses by both functional and natural classification in one location. The Hospital adopted ASU 2016-14 on December 31, 2018 retrospectively. With the exception of certain presentation items, the adoption of ASU 2016-14 did not have a significant impact on the consolidated financial statements.

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*. Under ASU 2017-07, employers are 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. The other components of the net periodic benefit cost are presented separately from the line item that includes the service cost and outside of any subtotal of operating income, if one is presented. The Hospital retrospectively adopted ASU 2017-07 effective December 31, 2018 and includes 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 2018 and 2017) within employee benefits on the consolidated statements of activities and presents all other components (aggregate of approximately $4.7 million and $1.0 million for 2018 and 2017, respectively) as a separate line item included in nonoperating gains and losses.

Recent Accounting Pronouncements Not Yet Adopted

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 beginning January 1, 2019 and will be applied using a modified retrospective approach. The primary effect of the new standard will be to record right-of-use assets and obligations for current operating leases which will have a material impact on the consolidated statement of financial position and significant incremental disclosures in the consolidated financial statement footnotes. The transition adjustment is not expected to have a material impact on the consolidated statement of activities.

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;

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

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.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958); Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies existing guidance in order to address diversity in practice in classifying grants (including governmental grants) and contracts received by not-for-profit entities, and requires entities to evaluate whether the resource provider receives commensurate value. In addition, the standard clarifies the guidance on how entities determine when a contribution is conditional, including whether the agreement includes a barrier (or barriers) that must be overcome for the recipient to be entitled to the transferred assets and a right of return of the transferred assets (or a right of release of the promisor's obligation to transfer the assets). The standard should be applied on a modified prospective basis to agreements that are not completed as of the effective date and to agreements entered into after the effective date. Retrospective application is permitted. ASU 2018-08 applies to all entities that make or receive contributions and is effective for the Hospital for fiscal years beginning after June 15, 2018, including interim periods within those years. Early adoption is permitted. The Hospital is in the process of evaluating the impact of ASU 2018-08 on its consolidated financial statements.

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

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*. The standard aligns the requirement for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this standard. The standard requires the customer in a hosting arrangement that is a service contract to follow the guidance in ASC Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense by determining which project stage an implementation activity relates to and the nature of the costs. The standard also requires the customer to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. ASU 2018-15 is effective for the Hospital for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early adoption is permitted, including adoption in any interim period. Either retrospective or prospective adoption is permitted. The Hospital is in the process of evaluating the impact of ASU 2018-15 on its consolidated financial statements.

The FASB has amended certain guidance related to various disclosures in ASU 2018-09, *Codification Improvements*, ASU 2018-13, *Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10)—Recognition and Measurement of Financial Assets and Financial Liabilities*, and ASU 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20)—Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans*. Among various provisions, ASU 2018-09 may result in additional assets included in an entity's fair value disclosure table if, among other criteria, net asset value has public visibility. ASU 2018-13 includes several disclosure changes involving transfers between the fair value levels and other updates related to fair value Level 3 investments. ASU 2018-13 also requires entities that use the practical expedient to measure the fair value of certain investments at their net asset values to disclose (1) the timing of liquidation of an investee's assets and (2) the date when redemption restrictions will lapse, but only if the investee has communicated this information to the entity or announced it publicly. The guidance in ASU 2018-14 requires all sponsors of defined benefit plans to provide certain new disclosures: the weighted-average interest crediting rate for cash balance plans and other plans with promised interest crediting rates and an explanation of the reasons for significant gains and losses related to changes in the benefit

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

obligation for the period. Among other changes, ASU 2018-14 eliminates the required disclosure for all sponsors of defined benefit plans to disclose the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year. The updates noted above have effective dates as follows with early adoption permitted: ASU 2018-09: fiscal years beginning after December 15, 2018; ASU 2018-13: fiscal years beginning after December 15, 2019; and ASU 2018-14: fiscal years ending after December 15, 2021. The Hospital has not completed the process of evaluating the impact of ASU 2018-09, ASU 2018-13 and ASU 2018-14 on its consolidated financial statements.

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). The Hospital classifies marketable securities as trading securities.

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.

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

Investment income (including realized gains and losses on investments, interest, and dividends) is included in operating (loss) income, unless the income is restricted by donor or law. Realized gains and losses on sales of marketable and other securities are based on the average cost method. The change in net unrealized gains and losses on investments and change in value of equity method investments is included in nonoperating gains and losses in the accompanying consolidated statements of operations.

Assets Whose Use is Limited

Assets whose use is limited include funds controlled under bond indenture, internally designated bond proceeds for use on capital projects, funds held by a trustee to pay malpractice claims, amounts contributed from The Mount Sinai Hospital 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, 2018 and 2017.

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

Effective January 1, 2018, upon the adoption of ASU 2014-09, net patient service revenue is reported at the amount that reflects the consideration to which the Hospital expects to be entitled in exchange for providing patient care (see Note 2).

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.

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.

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

Net Assets without Donor Restrictions

Net assets without donor restrictions represent net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Hospital. These net assets may be used at the discretion of the Hospital's management and Board of Directors.

Net Assets with Donor Restrictions

Net assets with donor restrictions are subject to stipulations imposed by donors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Hospital, or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases to net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the consolidated statements of activities. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as contributions without donor restrictions in the accompanying consolidated financial statements. The restricted asset is included in long-term investments until the restriction has expired.

Deferred FEMA Grant 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 net assets with donor restrictions and subsequently as net assets released from restrictions for capital asset acquisitions.

(Deficiency) Excess of Revenue and Gains over Expenses

The consolidated statements of activities include the (deficiency) excess of revenue and gains over expenses as the performance indicator. Changes in net assets without donor restrictions 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, transfers from related parties and pension and postretirement liability adjustments.

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

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 the Hospital's operating loss (income). Peripheral transactions or transactions of an infrequent nature are excluded from the Hospital's operating (loss) income.

Reclassifications

Certain reclassifications have been made to the 2017 amounts previously reported in order to conform with the current year presentation. These reclassifications have no impact on the net assets, changes in net assets or excess of revenue and gains over expenses previously reported.

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

For Periods Commencing January 1, 2018

Effective January 1, 2018, upon the adoption of ASU 2014-09, net patient service revenue is reported at the amount that reflects the consideration to which the Hospital expects to be entitled in exchange for providing patient care.

The Hospital uses a portfolio approach to account for categories of patient contracts as a collective group rather than recognizing revenue on an individual contract basis. The portfolios consist of major payor classes for inpatient revenue and major payor classes and types of services provided for outpatient revenue. Based on historical collection trends and other analyses, the Hospital believes that revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach were used.

The Hospital's initial estimate of the transaction price for services provided to patients subject to revenue recognition is determined by reducing the total standard charges related to the patient services provided by various elements of variable consideration, including contractual adjustments, discounts, implicit price concessions, and other reductions to the Hospital's standard charges. The Hospital determines the transaction price associated with services provided to patients who have third-party payor coverage on the basis of contractual or formula-driven rates for the services rendered (see description of third-party payor payment programs below). The estimates for contractual allowances and discounts are based on contractual agreements, the Hospital's discount policies and historical experience. For uninsured and under-insured patients

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

who do not qualify for charity care, the Hospital determines the transaction price associated with services on the basis of charges reduced by implicit price concessions. Implicit price concessions included in the estimate of the transaction price are based on the Hospital's historical collection experience for applicable patient portfolios.

Generally, the Hospital bills patients and third-party payors several days after the services are performed and/or the patient is discharged. Net patient service revenue is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by the Hospital. Net patient service revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total charges. The Hospital believes that this method provides a reasonable depiction of the transfer of services over the term of the performance obligation based on the services needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving inpatient acute care services or patients receiving services in the Hospital's outpatient and ambulatory care centers or in their homes (home care). The Hospital measures the performance obligation from admission into the Hospital or the commencement of an outpatient service to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or the completion of the outpatient visit.

As substantially all of its performance obligations relate to contracts with a duration of less than one year, the Hospital has elected to apply the optional exemption provided in ASU 2014-09 and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period for patients who remain admitted at that time (in-house patients). The performance obligations for in-house patients are generally completed when the patients are discharged, which for the majority of the Hospital's in-house patients occurs within days or weeks after the end of the reporting period.

Subsequent changes to the estimate of the transaction price (determined on a portfolio basis when applicable) are generally recorded as adjustments to patient service revenue in the period of the change. Portfolio collection estimates are updated based on collection trends. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay (determined on a portfolio basis when applicable) are recorded as bad debt expense. Bad debt expense for the year ended December 31, 2018 was not significant.

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

The Hospital has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the following factors: payors, lines of business and timing of when revenue is recognized. Tables providing details of these factors are presented below.

Net patient service revenue for the year ended December 31, 2018, by payor, is as follows:

Medicare, including managed Medicare	$ 237,574,555
Medicaid, including managed Medicaid and Medicaid pending	64,622,990
Managed care and commercial	218,583,335
All other	4,080,760
	$ 524,861,640

Deductibles, copayments and coinsurance under third-party payment programs which are the patient's responsibility are included within the third-party payors amounts or self-pay category above.

Net patient service revenue for the year ended December 31, 2018, by line of business, is as follows:

Inpatient services	$ 292,479,468
Outpatient services, including emergency department	169,396,623
Physician services	62,985,549
	$ 524,861,640

The Hospital has elected the practical expedient allowed under ASU 2014-09 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Hospital's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, the Hospital does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

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

At December 31, 2018, patient receivables, net is comprised of the following components:

Patient receivables	$ 68,243,323
Contract assets	4,035,414
	$ 72,278,737

Contract assets are related to in-house patients who were provided services during the reporting period but were not discharged as of the reporting date and for which the Hospital does not have the right to bill.

The allowance for doubtful accounts was not significant at December 31, 2018. The allowance for doubtful accounts was approximately $40.1 million at December 31, 2017.

Settlements with third-party payors (see description of third-party payor payment programs below) for cost report filings and retroactive adjustments due to ongoing and future audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Hospital's historical settlement activity (for example, cost report final settlements or repayments related to recovery audits), including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Such estimates are determined through either a probability-weighted estimate or an estimate of the most likely amount, depending on the circumstances related to a given estimated settlement item. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations.

For Periods Through December 31, 2017

Prior to the adoption of ASU 2014-09, the Hospital recognized patient service revenue at the estimated net realizable amounts associated with services provided to patients who have third-party payor coverage on the basis of contractual or formula-driven rates for the services rendered (see description of third-party payor payment programs below) and included estimated retroactive revenue adjustments due to ongoing and future audits, reviews and investigations. For uninsured

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

and under-insured patients who did not qualify for charity care, the Hospital recognized revenue on the basis of charges. Under the charity care policy, a patient who had no insurance or was under-insured and was ineligible for any government assistance program had his or her bill reduced to the lesser of total charges or the Medicare fee-for-service rates.

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

Third-party payors	$ 521,240,187
Self-pay	1,182,245
	$ 522,422,432

Deductibles, copayments and coinsurance under third-party payment programs within the third-party payors amounts 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.

Accounts receivable is recorded at its expected net realizable value. In evaluating the collectability of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowances and provision for bad debts.

Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

Third-Party Payment Programs

The Hospital has agreements with third-party payors that provide for payment for services rendered at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

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

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 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.

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. Payments to hospitals for Medicaid, workers' compensation, and no-fault inpatient services are based on a statewide prospective payment system, with retroactive adjustments.

Outpatient services also are paid based on a statewide prospective system. Medicaid rate methodologies are subject to approval at the Federal level by the Centers for Medicare and Medicaid Services (CMS), which may routinely request information about such methodologies prior to approval. Revenue related to specific rate components that have not been approved by CMS is not recognized until 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.

Other Third-Party Payors: The Hospital also has entered into payment agreements with certain commercial insurance carriers and health maintenance organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge or days of hospitalization and discounts from established charges.

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, 2018 and 2017, net patient service revenue was increased by $4,589,000 and $2,530,000, respectively, for changes in estimates to reflect more recent information. At December 31, 2018 and 2017, estimated net third-party liabilities approximated $6,070,000 and $6,230,000, respectively.

Medicare cost reports, which serve as the basis for final settlement with the Medicare program, have been audited by the Medicare fiscal intermediary and settled through 2015, although revisions to final settlements or other retroactive changes could be made. Other years and various issues 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, audits are completed and additional information is obtained.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Hospital's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Hospital. The Hospital is not aware of any allegations of non-compliance 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. In addition, certain contracts the Hospital has with commercial payors also provide for retroactive audit and review of claims.

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

There are various proposals at the federal and state levels that could, among other things, significantly change 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 or will be enacted by the federal and state governments, cannot be determined presently. 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 could be realized.

Uncompensated Care and Community Benefit Expense

Distinguishing the implicit price concessions and/or 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.

For patients who are deemed eligible for charity care and patients who apply and qualify for financial aid under the Hospital's financial aid policy, care given but not paid for is classified as charity care. For the years ended December 31, 2018 and 2017, the estimated cost of charity care was approximately \$2.0 million and \$3.3 million, respectively. The estimated cost of charity care includes the direct and indirect cost of providing charity care services and is estimated by utilizing a ratio of cost to gross charges applied to the gross uncompensated charges associated with providing charity care.

For the year ended December 31, 2018, the Hospital recorded approximately \$24.6 million of implicit price concessions as a direct reduction of net patient service revenue that would have been recorded as provision for bad debts prior to adoption of ASU 2014-09. For patient services provided prior to December 31, 2017, uncollected amounts for patients who were determined by the Hospital to have the ability to pay but did not, were classified as provision for bad debt (\$17.9 million in 2017). For the years ended December 31, 2018 and 2017, the Hospital received

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

funds to offset charity care in the amount of $694,390 and $1,069,130, 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.

3. Investments

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

	2018	2017
Cash and cash equivalents	**$ 1,331,407**	$ 1,263,991
Marketable equity securities	**45,067,534**	50,467,444
Mutual funds	**39,509,331**	48,112,888
International equity funds	**18,443,742**	21,450,964
Fixed income funds	**30,185,167**	30,050,880
Real estate fund	**2,344,843**	2,446,600
U.S. equity fund	**5,441,323**	7,137,300
Total investments	**$ 142,323,347**	$ 160,930,067

Long-Term Investments

Long-term investments held by the Hospital at December 31, 2018 and 2017 are $7,272,376 and $6,119,775, respectively, and are made up entirely of cash and cash equivalents.

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, internally designated bond funds, proceeds from Mount Sinai and professional and general liabilities at December 31:

	2018	2017
Cash and cash equivalents	**$ 102,865,715**	$ 70,070,418
Marketable equity securities	**3,772,315**	5,472,200
Mutual funds	**3,175,316**	3,580,541
Corporate bonds	**439,541**	956,936
Government obligations	**83,999**	399,848
Commodities fund	**185,076**	448,728
Emerging markets fund	**791,475**	1,593,599
International equity fund	**2,262,274**	4,175,059
Accrued interest	**8,308**	8,611
Total assets whose use is limited	**113,584,019**	86,705,940
Less current portion	**74,260,743**	27,967,950
Assets whose use is limited – long term	**$ 39,323,276**	$ 58,737,990

5. Investment (Loss) Income

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

	2018	2017
Investment (loss) income:		
Interest and dividend income	**$ 3,042,693**	$ 3,819,247
Net realized gains and losses	**3,446,034**	6,294,931
Change in net unrealized gains and losses on investments	**(16,147,295)**	6,728,842
Change in value of equity method investments	**(4,813,211)**	8,305,005
Total investment (loss) income	**$(14,471,779)**	$ 25,148,025

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 2018	2017
Land	–	**$ 32,149,311**	$ 32,149,311
Land improvements	3–50 years	**11,759,366**	11,754,496
Buildings and building service equipment	3–70 years	**379,398,593**	365,203,116
Fixed and major movable equipment	3–20 years	**221,696,948**	203,400,930
		645,004,218	612,507,853
Accumulated depreciation		**(356,390,143)**	(328,260,042)
		288,614,075	284,247,811
Construction in progress		**59,588,731**	52,149,329
		$ 348,202,806	$ 336,397,140

Net interest capitalized for the years ended December 31, 2018 and 2017 was approximately $3,593,000 and $651,000, respectively.

7. Lines of Credit

The Hospital maintains a revolving line of credit with a commercial bank with an available amount of $40,000,000. There is no balance due under the line of credit at December 31, 2018. The balance due at December 31, 2017 was $40,000,000. Drawdowns in 2018 and prior years were used to pay for various construction projects and such amounts were repaid in 2018 with proceeds from the issuance of long-term debt (see Note 8). 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 28, 2019.

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. There is no balance due under the line of credit at December 31, 2018. The balance due at December 31, 2017 was $7,000,000 and was also repaid in 2018. 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, 2019.

8. Long-Term Debt and Capital Lease Obligations

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

	2018	2017
Series 2012 bonds payable [a]	**$ 69,480,000**	$ 73,305,000
Series 2018 bonds payable [b]	**90,000,000**	–
Mortgage loan note [c]	**7,932,362**	8,223,129
Capital lease obligations	**2,935,568**	2,603,854
	170,347,930	84,131,983
Add net unamortized Series 2012 bond premium	**5,126,597**	5,809,188
Less net unamortized Series 2018 bond discount	**(562,534)**	–
Less deferred financing fees, net	**(1,587,337)**	(970,713)
Less current portion of long-term debt	**(5,105,806)**	(4,599,758)
	$ 168,218,850	$ 84,370,700

[a] 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 bonds 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%).

[b] 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 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%.

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

(c) 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.

The Hospital has entered into capital lease agreements 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 2023.

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, 2018 and 2017, 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, 2018 are as follows:

2019	$ 5,105,806
2020	5,356,869
2021	5,604,648
2022	5,371,354
2023	5,336,645
Thereafter	143,572,608
	$170,347,930

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 2018 plan year. However, the Hospital made contributions of $1.5 million in both 2018 and 2017 and expects to contribute approximately $3.6 million in 2019.

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 eligible 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, 2018 and 2017, the Hospital contributed $11,444,315 and $10,734,560, respectively, to the DC Plan and has related pension expense of $11,748,210 and $11,115,884, respectively.

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, 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

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 $116,000 and $221,000 in 2018 and 2017, 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 net assets without donor restrictions.

Included in net assets without donor restrictions at December 31, 2018 and 2017 are the following amounts that have not yet been recognized in net periodic pension cost:

	December 31, 2018		
	Retirement Plan	**Postretirement Plan**	**Total**
Unrecognized actuarial (loss) gain	**$ (63,569,919)**	**$ 6,471,000**	**$ (57,098,919)**

	December 31, 2017		
	Retirement Plan	**Postretirement Plan**	**Total**
Unrecognized actuarial (loss) gain	$ (76,969,611)	$ 6,449,294	$ (70,520,317)

The unrecognized actuarial (loss) gain included in net assets without donor restrictions expected to be recognized in net periodic pension cost during the year ending December 31, 2019 is as follows:

	Retirement Plan	**Postretirement Plan**	**Total**
Unrecognized actuarial (loss) gain	$ (4,592,402)	$ 451,000	$ (4,141,402)

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 date):

	Retirement Plan		Postretirement Plan	
	2018	**2017**	**2018**	**2017**
Changes in benefit obligation				
Benefit obligation at January 1	**$ 235,604**	$ 204,870	**$ 3,383**	$ 3,161
Service cost	**–**	–	**85**	71
Interest cost	**7,942**	7,888	**99**	100
Actuarial (gain) loss	**(25,803)**	30,815	**(544)**	272
Benefit and fee payments, net	**(1,739)**	(7,969)	**(116)**	(221)
Settlements	**(11,991)**	–	**–**	–
Benefit obligation at December 31	**204,013**	235,604	**2,907**	3,383
Change in plan assets				
Fair value of plan assets at January 1	**166,180**	147,968	**–**	–
Actual return on plan assets	**(9,580)**	24,681	**–**	–
Employer contributions	**1,500**	1,500	**116**	221
Benefit and fee payments, net	**(1,739)**	(7,969)	**(116)**	(221)
Settlements	**(11,991)**	–	**–**	–
Fair value of plan assets at December 31	**144,370**	166,180	**–**	–
Unfunded status	**$ 59,643**	$ 69,424	**$ 2,907**	$ 3,383

The actuarial gains in 2018 are primarily due to increases in the discount rates. The actuarial losses in 2017 are due to decreases in the discount rates and the adoption of updated mortality tables.

During 2018, the cost of all settlements (lump sum payments of approximately $12.0 million) for the pension plan exceeded the sum of the interest cost and service cost components of net periodic pension cost which triggered settlement accounting. The total effect of settlement accounting was an additional loss of approximately $3.7 million and is recognized within net periodic pension cost for the year ended December 31, 2018.

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.

9. Retirement Plan and Postretirement Benefits (continued)

Except for estimated postretirement benefit payments for the following year, at December 31, 2018 and 2017, the funded status of the retirement and postretirement plans are reported in the consolidated statements of financial position as noncurrent liabilities.

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

	December 31	
	2018	**2017**
Projected benefit obligation	**$ 204,013**	$ 235,604
Accumulated benefit obligation	**204,013**	235,604
Fair value of plan assets	**144,370**	166,180

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	
	2018	**2017**	**2018**	**2017**
Service cost	**$ –**	$ –	**$ 85**	$ 71
Interest cost on projected benefit obligation	**7,942**	7,888	**99**	100
Expected return on plan assets	**(12,134)**	(10,852)	**–**	–
Amortization of net loss (gain)	**5,575**	4,393	**(446)**	(495)
Settlement accounting	**3,736**	–	**–**	–
Net periodic benefit cost (income)	**$ 5,119**	$ 1,429	**$ (262)**	$ (324)

Assumptions

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

	Retirement Plan		Postretirement Plans	
	2018	**2017**	**2018**	**2017**
Discount rate	**4.29%**	3.65%	**4.08%**	3.41%

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	
	2018	**2017**	**2018**	**2017**
Discount rate	**3.65%**	4.24%	**3.41%**	3.86%
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.

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 2018 and 2017 are as follows:

	2018	2017
Health care cost trend rate assumed for next year	**7.50%**	7.75%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	**4.50%**	4.75%
Year that the rate reaches the ultimate trend rate	**2025**	2024

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.

9. Retirement Plan and Postretirement Benefits (continued)

The fair values of the Hospital's retirement plan assets at December 31, 2018, 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	$ 1,474,751	$ –	$ –	$ 1,474,751
Mutual funds:				
U.S. equity	7,833,345	–	–	7,833,345
Emerging markets	2,753,878	–	–	2,753,878
Exchange traded fund	852,864	–	–	852,864
Marketable equity securities:				
Large cap	3,865,656	–	–	3,865,656
	$ 16,780,494	$ –	$ –	16,780,494
Investments measured at net asset value:				
U.S. equity fund				12,955,032
International equity funds				30,204,874
Fixed income funds				57,885,082
Emerging market funds				2,845,703
Hedge funds				19,967,844
				$ 140,639,029

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
	$ 21,361,691	$ –	$ –	21,361,691
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
				$ 162,544,634

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, 2018 and 2017, this investment totaled $3,731,131 and $3,635,105, respectively.

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, 2018.

Investment Category	Fair Value	Redemption Frequency	Redemption Notice Period
U.S. equity fund	$ 12,955,032	Monthly	30 days
International equity fund	7,205,468	Daily	5 days
International equity fund	6,827,151	Semi-monthly	10 days
International equity funds	16,172,255	Monthly	6-30 days
Fixed income funds	13,385,888	Semi-monthly	5 days
Fixed income funds	44,499,194	Daily	2-5 days
Emerging markets funds	2,845,703	Quarterly	10-60 days
Hedge fund	1,462,908	Daily	2 days
Hedge funds	1,975,921	Monthly	10-14 days
Hedge funds	11,627,005	Quarterly	45-95 days
Hedge funds	3,011,641	Annually	65-90 days
Hedge fund	1,890,369	Every 2 years	60 days
	$ 123,858,535		

Estimated Future Benefit Payments

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

2019	$ 11,287,000
2020	11,163,000
2021	12,340,000
2022	13,437,000
2023	12,174,000
2024 to 2028	65,510,000

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 $39,320,000 and $40,530,000 at December 31, 2018 and 2017, 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. Net Assets with Donor Restrictions

Net assets with donor restrictions at December 31, 2018 and 2017, are as follows:

	2018	2017
Health and program services	**$ 2,534,831**	$ 2,800,971
Equipment and construction	**4,737,545**	3,318,805
	$ 7,272,376	$ 6,119,776

The Hospital follows the requirements of the New York Prudent Management Institutional Funds Act (NYPMIFA) as they relate to permanent endowments, 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.

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	
	2018	**2017**
Medicare	**22%**	20%
Blue Cross	**20**	17
Other – managed care	**44**	49
Self-pay	**3**	3
Medicaid	**6**	6
Other	**5**	5
	100%	100%

At December 31, 2018 and 2017, 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.

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.

13. Fair Value of Financial Instruments (continued)

Financial assets carried at fair value as of December 31, 2018 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	$ 120,994,871	$ –	$ –	$ 120,994,871
Mutual funds:				
Large cap growth	594,034	–	–	594,034
Natural resources	4,141,273	–	–	4,141,273
SMID fund	5,985,166	–	–	5,985,166
International	12,484,632	–	–	12,484,632
Fixed income	11,026,486	–	–	11,026,486
Emerging markets	8,453,056	–	–	8,453,056
Corporate bonds	–	439,541	–	439,541
Government obligations	–	83,999	–	83,999
Marketable equity securities:				
Small cap	9,884,081	–	–	9,884,081
Mid cap	610,424	–	–	610,424
Large cap	38,001,934	–	–	38,001,934
International	343,410	–	–	343,410
Accrued interest	8,308	–	–	8,308
	$ 212,527,675	$ 523,540	$ –	$ 213,051,215

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
	$ 205,200,619	$ 1,356,784	$ –	$ 206,557,403

The Hospital's investments reported using the equity method of accounting, in the amount of $59,653,900 and $67,303,130 as of December 31, 2018 and 2017, respectively, are not included in the tables above (see Note 1).

14. 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.

In 2015, the Federal Emergency Management Agency (FEMA) (a division of the U.S. Department of Homeland Security), 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 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 instead, proposed to construct a new Medical Arts Pavilion to provide applicable health care services to the residents of the Long Beach Community and by extension the barrier island, while allocating 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 40% of the amount originally advanced, the Hospital is eligible for another advance from NYSDHSES, representing approximately 25% of the remaining outstanding eligible balance. For the years ended December 31, 2018 and 2017, approximately $12,271,000 and $3,298,000, respectively, was expended by the Hospital and recognized and released from net assets with donor restrictions. The unspent balance is included as deferred grant revenue and assets whose use is limited in the accompanying consolidated statements of financial position.

The original FEMA approved date for the project to be completed and funds spent was January 15, 2019. On October 22, 2018, the Hospital submitted to NYSDHSES and FEMA a Time Extension request to highlight major project milestones and a new projected completion date. The requested date in the Time Extension is December 31, 2025. The Hospital is currently awaiting determination of the Time Extension request.

15. Other Revenue

Other revenue consists of the following for the years ended December 31, 2018 and 2017:

	2018	2017
MLMIC demutualization	**$ 11,914,019**	$ –
Net assets released from restrictions used for operations	**363,989**	212,392
Grant revenue	**456,712**	743,967
Rental income	**357,903**	462,779
Coffee and gift shop income	**1,021,482**	1,001,337
Cafeteria income	**1,118,505**	1,130,392
Rebates and cash discounts	**1,101,694**	1,049,672
Miscellaneous income	**3,607,583**	4,931,613
	$ 19,941,887	$ 9,532,152

In October 2018, the Hospital recognized $11.9 million within other revenue related to the demutualization of Medical Liability Mutual Insurance Company (MLMIC). In the last quarter of 2018, MLMIC was acquired by National Indemnity Company, a subsidiary of Berkshire Hathaway Inc. As a result of the acquisition, MLMIC's legal structure converted from a mutual to a joint-stock insurance company. The cash consideration resulting from the conversion was paid out to eligible policyholders (policyholders with policies in effect from July 15, 2013 through July 14, 2016 (or their designees)). Approximately $9.1 million of the amount the Hospital is entitled to was received in 2018. The remaining $2.8 million is included within other current assets as of December 31, 2018 on the accompanying consolidated balance sheet.

16. 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 $3,554,746 and $2,629,904 for the years ended December 31, 2018 and 2017, respectively.

16. Operating Leases (continued)

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, 2018:

2019	$ 3,658,862
2020	3,755,196
2021	3,599,509
2022	3,368,795
2023	3,092,990
Thereafter	61,187,001
	$ 78,662,353

17. Functional Classification of Expenses

The Hospital provides general health care services to residents within its geographic area. Expenses related to providing these services, as well as various management expenses at December 31, 2018 and 2017 are as follows (in thousands):

	December 31, 2018			
	Hospital Patient Care	**Physician Practices**	**Administrative and General**	**Total**
Salaries and wages	**$ 212,169**	**$ 39,253**	**$ 28,782**	**$ 280,204**
Employee benefits	**52,511**	**8,670**	**253**	**61,434**
Supplies and other expenses	**143,090**	**23,136**	**24,616**	**190,842**
Interest	**4,350**	**17**	**–**	**4,367**
Depreciation and amortization	**32,606**	**–**	**–**	**32,606**
	$ 444,726	**$ 71,076**	**$ 53,651**	**$ 569,453**

	December 31, 2017			
	Hospital Patient Care	**Physician Practices**	**Administrative and General**	**Total**
Salaries and wages	$ 198,245	$ 32,130	$ 29,434	$ 259,809
Employee benefits	48,085	7,194	209	55,488
Supplies and other expenses	135,019	21,447	18,881	175,347
Interest	3,502	25	–	3,527
Depreciation and amortization	28,365	–	–	28,365
	$ 413,216	$ 60,796	$ 48,524	$ 522,536

18. Liquidity and Availability

The table below represents financial assets available for general expenditures within one year at December 31:

	2018	**2017**
Financial assets at year-end:		
Cash and cash equivalents	**$ 9,525,373**	$ 20,104,751
Investments	**149,595,723**	167,049,842
Assets limited or restricted as to use	**113,584,019**	86,705,940
Patient receivables, net	**72,278,737**	70,674,716
Total financial assets	**344,983,852**	344,535,249
Less amounts not available to be used within one year:		
Assets limited or restricted as to use	**88,675,109**	86,705,940
Long-term investments	**7,272,376**	6,119,775
Financial assets not available to be used within one year	**95,947,485**	92,825,715
Financial assets available to meet general expenditures within one year	**$ 249,036,367**	$ 251,709,534

The Hospital has certain assets limited or restricted as to use which are available for general expenditures within one year in the normal course of operations. Accordingly, these assets have been included in the table above for financial assets to meet general expenditures within one year. The Hospital has other assets limited or restricted as to use which are primarily for donor restricted purposes, professional liabilities and debt service. Those assets, which are described further in Note 1, are not available for general expenditure within the next year.

Resources available to the Hospital to fund general expenditures, such as operating expenses, interest and principal payments on debt, and internally funded capital construction, have seasonal variations related to the timing of patient billings and remittances from insurance companies. The Hospital actively manages its liquidity by developing and adopting annual operating and capital budgets that provide sufficient funds for general expenditures. Regular, monthly actual-to-budget comparison reporting at the departmental level occur. In addition, actual prior year to actual current year comparisons are performed for the consolidated financial accounts. To help manage unanticipated liquidity needs, the Hospital has committed lines of credit which total $50,000,000 which it can draw upon.

19. Subsequent Events

Subsequent events have been evaluated through April 12, 2019, the date the consolidated financial statements were issued. No subsequent events have occurred that require disclosure in or adjustment to the consolidated financial statements.

Supplementary Information

South Nassau Communities Hospital and Subsidiaries

Consolidating Statement of Financial Position

December 31, 2018

	South Nassau Communities Hospital	Other Entities	Eliminations	Consolidated
Assets				
Current assets:				
Cash and cash equivalents	$ 8,677,462	$ 847,911	$ –	$ 9,525,373
Investments	142,323,347	–	–	142,323,347
Current portion of assets whose use is limited	74,260,743	–	–	74,260,743
Patient receivables, net	66,213,576	6,065,161	–	72,278,737
Other current assets	17,082,042	1,655,613	–	18,737,655
Total current assets	308,557,170	8,568,685	–	317,125,855
Assets whose use is limited, net of current portion	39,323,276	–	–	39,323,276
Long-term investments	7,258,245	14,131	–	7,272,376
Due from affiliates	25,326,827	891,065	(26,217,892)	–
Other long-term assets	215,581	919,950	–	1,135,531
Insurance claims receivable	2,366,002	–	–	2,366,002
Property, plant, and equipment, net	325,996,807	22,205,999	–	348,202,806
Total assets	$ 709,043,908	$ 32,599,830	$ (26,217,892)	$ 715,425,846
Liabilities and net assets (deficit)				
Current liabilities:				
Accounts payable	$ 20,828,359	$ –	$ –	$ 20,828,359
Accrued expenses	40,780,367	2,368,451	–	43,148,818
Accrued payroll and vacation	28,194,454	4,187,874	–	32,382,328
Due to related party, net	1,002,267	–	–	1,002,267
Current portion of long-term debt and capital lease obligations	5,105,806	–	–	5,105,806
Current portion of accrued postretirement benefits other than pension	199,000	–	–	199,000
Current portion of estimated professional and general liabilities	8,690,000	–	–	8,690,000
Deferred grant revenue	25,401,033	–	–	25,401,033
Estimated third-party payor liabilities	6,070,000	–	–	6,070,000
Total current liabilities	136,271,286	6,556,325	–	142,827,611
Long-term debt and capital lease obligations, net of current portion	168,218,850	–	–	168,218,850
Accrued pension payable	59,643,227	–	–	59,643,227
Due to affiliates	–	26,217,892	(26,217,892)	–
Accrued postretirement benefits other than pension, net of current portion	2,708,000	–	–	2,708,000
Estimated professional and general liabilities, net of current portion	30,630,000	–	–	30,630,000
Deferred grant revenue, net of current portion	30,490,944	–	–	30,490,944
Insurance claims payable	2,366,002	–	–	2,366,002
Other liabilities	2,388,139	34,013	–	2,422,152
Total liabilities	432,716,448	32,808,230	(26,217,892)	439,306,786
Net assets (deficit):				
Net assets without donor restrictions	269,062,083	(215,399)	–	268,846,684
Net assets with donor restrictions	7,265,377	6,999	–	7,272,376
Total net assets (deficit)	276,327,460	(208,400)	–	276,119,060
Total liabilities and net assets (deficit)	$ 709,043,908	$ 32,599,830	$ (26,217,892)	$ 715,425,846

South Nassau Communities Hospital and Subsidiaries

Consolidating Statement of Activities

Year Ended December 31, 2018

	South Nassau Communities Hospital	Other Entities	Eliminations	Consolidated
Operating revenue:				
Net patient service revenue	$ 474,128,070	$ 50,733,570	$ –	$ 524,861,640
Investment income	6,488,727	–	–	6,488,727
Other revenue	20,067,257	1,878,524	(2,003,894)	19,941,887
Total operating revenue	500,684,054	52,612,094	(2,003,894)	551,292,254
Operating expenses:				
Salaries and wages	239,731,360	40,643,944	(171,072)	280,204,232
Employee benefits	52,603,614	8,830,509	–	61,434,123
Supplies and other expenses	167,454,404	25,220,421	(1,832,822)	190,842,003
Interest expense	4,350,286	16,800	–	4,367,086
Provision for depreciation and amortization	31,325,543	1,280,539	–	32,606,082
Total operating expenses	495,465,207	75,992,213	(2,003,894)	569,453,526
Operating income (loss)	5,218,847	(23,380,119)	–	(18,161,272)
Nonoperating gains and losses:				
Change in net unrealized gains and losses on investments and change in value of equity method investments	(20,960,506)	–	–	(20,960,506)
Contributions without donor restrictions, net of fund raising expenses	(143,150)	180,695	–	37,545
Net periodic pension and postretirement benefit costs (non-service related)	(4,674,135)	–	–	(4,674,135)
Other nonoperating losses	(2,377,334)	–	–	(2,377,334)
Deficiency of revenue and gains over expenses	(22,936,278)	(23,199,424)	–	(46,135,702)
Equity transfer (to) from related entities	(23,105,130)	23,105,130	–	–
Net assets released from restrictions for capital asset acquisitions	14,837,001	–	–	14,837,001
Pension and postretirement liability adjustments	13,399,692	–	–	13,399,692
Transfer from related party	20,000,000	–	–	20,000,000
Increase (decrease) in net assets without donor restrictions	$ 2,195,285	$ (94,294)	$ –	$ 2,100,991

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