

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

South Nassau Communities Hospital and Subsidiaries
(d/b/a Mount Sinai South Nassau)
Years Ended December 31, 2019 and 2018
With Report of Independent Auditors

Ernst & Young LLP



South Nassau Communities Hospital and Subsidiaries
(d/b/a Mount Sinai South Nassau)

Consolidated Financial Statements and Supplementary Information

Years Ended December 31, 2019 and 2018

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Report of Independent Auditors

The Board of Directors
South Nassau Communities Hospital

We have audited the accompanying consolidated financial statements of South Nassau Communities Hospital and Subsidiaries (d/b/a Mount Sinai South Nassau), which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, 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 (d/b/a Mount Sinai South Nassau) at December 31, 2019 and 2018, 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. 2016-02, *Leases*

As discussed in Note 1 to the consolidated financial statements, South Nassau Communities Hospital and Subsidiaries (d/b/a Mount Sinai South Nassau) changed their method of accounting for leases as a result of the adoption of the amendments to the FASB Accounting Standards Codification resulting from Accounting Standards Update No. 2016-02, *Leases*, effective January 1, 2019. Our opinion is not modified with respect to this matter.

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, 2019, and consolidating statement of activities for the year ended December 31, 2019, 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 8, 2020

South Nassau Communities Hospital and Subsidiaries
(d/b/a Mount Sinai South Nassau)

Consolidated Statements of Financial Position

	December 31	
	2019	2018
Assets		
Current assets:		
Cash and cash equivalents <i>(Note 13)</i>	\$ 21,249,230	\$ 9,525,373
Investments <i>(Notes 3 and 13)</i>	168,878,006	142,323,347
Current portion of assets whose use is limited <i>(Notes 4, 8, 10, 13, and 14)</i>	81,400,351	74,260,743
Patient receivables, net <i>(Notes 2 and 12)</i>	80,270,293	72,278,737
Other current assets	16,242,210	18,737,655
Total current assets	368,040,090	317,125,855
Assets whose use is limited, net of current portion <i>(Notes 4, 8, 10, 13, and 14)</i>	25,537,468	39,323,276
Long-term investments <i>(Notes 3 and 13)</i>	9,835,440	7,272,376
Other long-term assets	1,135,531	1,135,531
Right-of-use assets <i>(Note 17)</i>	29,759,533	–
Insurance claims receivable	3,047,000	2,366,002
Property, plant, and equipment, net <i>(Note 6)</i>	362,266,876	348,202,806
Total assets	\$ 799,621,938	\$ 715,425,846

	December 31	
	2019	2018
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 19,668,223	\$ 20,828,359
Accrued expenses	50,714,601	43,148,818
Accrued payroll and vacation	36,259,611	32,382,328
Due to related parties, net (Note 15)	1,062,923	1,002,267
Current portion of long-term debt and finance lease obligations (Notes 8 and 17)	5,766,447	5,105,806
Current portion of operating lease liabilities (Note 17)	1,743,775	–
Current portion of accrued postretirement benefits other than pension (Note 9)	214,000	199,000
Current portion of estimated professional and general liabilities (Note 10)	8,700,000	8,690,000
Deferred grant revenue (Note 14)	43,959,499	25,401,033
Estimated third-party payor liabilities (Note 2)	5,749,000	6,070,000
Total current liabilities	173,838,079	142,827,611
Long-term debt and finance lease obligations, net of current portion (Notes 8 and 17)	164,226,049	168,218,850
Operating lease liabilities, net of current portion (Note 17)	28,445,393	–
Accrued pension payable (Note 9)	71,024,394	59,643,227
Accrued postretirement benefits other than pension, net of current portion (Note 9)	2,555,000	2,708,000
Estimated professional and general liabilities, net of current portion (Note 10)	31,940,000	30,630,000
Deferred grant revenue, net of current portion (Note 14)	13,654,439	30,490,944
Insurance claims payable	3,047,000	2,366,002
Other liabilities	2,905,124	2,422,152
Total liabilities	491,635,478	439,306,786
Commitments and contingencies		
Net assets:		
Net assets without donor restrictions (Note 11)	298,151,641	268,846,684
Net assets with donor restrictions (Note 11)	9,834,819	7,272,376
Total net assets	307,986,460	276,119,060
Total liabilities and net assets	\$ 799,621,938	\$ 715,425,846

See accompanying notes.

South Nassau Communities Hospital and Subsidiaries
(d/b/a Mount Sinai South Nassau)

Consolidated Statements of Activities

	Year Ended December 31	
	2019	2018
Operating revenue:		
Net patient service revenue <i>(Note 2)</i>	\$ 561,682,515	\$ 524,861,640
Investment income <i>(Note 5)</i>	5,895,060	6,488,727
Other revenue <i>(Note 16)</i>	58,340,835	19,941,887
Total operating revenue	625,918,410	551,292,254
Operating expenses:		
Salaries and wages	291,364,687	280,204,232
Employee benefits	65,151,503	61,434,123
Supplies and other expenses	212,562,990	190,842,003
Interest expense	4,146,729	4,367,086
Provision for depreciation and amortization	34,321,583	32,606,082
Total operating expenses	607,547,492	569,453,526
Operating income (loss)	18,370,918	(18,161,272)
Nonoperating gains and losses:		
Change in net unrealized gains and losses on investments and change in value of equity method investments <i>(Note 5)</i>	23,015,867	(20,960,506)
Contributions without donor restrictions, net of fundraising expenses	(366,490)	37,545
Net periodic pension and postretirement benefit costs (non-service related) <i>(Note 9)</i>	(2,481,283)	(4,674,135)
Other nonoperating losses	(968,260)	(2,377,334)
Excess (deficiency) of revenue and gains over expenses	37,570,752	(46,135,702)
Net assets released from restrictions for capital asset acquisitions	6,113,522	14,837,001
Pension and postretirement liability adjustments <i>(Note 9)</i>	(12,399,884)	13,399,692
Transfer from The Mount Sinai Hospital <i>(Note 15)</i>	20,000,000	20,000,000
Transfer to Icahn School of Medicine at Mount Sinai <i>(Note 15)</i>	(21,979,433)	—
Increase in net assets without donor restrictions	\$ 29,304,957	\$ 2,100,991

See accompanying notes.

South Nassau Communities Hospital and Subsidiaries
(d/b/a Mount Sinai South Nassau)

Consolidated Statements of Changes in Net Assets

Years Ended December 31, 2019 and 2018

	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total Net Assets
Balance, January 1, 2018	\$ 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 fundraising 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 The Mount Sinai Hospital	20,000,000	–	20,000,000
Total changes in net assets	<u>2,100,991</u>	<u>1,152,600</u>	<u>3,253,591</u>
Balance, December 31, 2018	268,846,684	7,272,376	276,119,060
Excess of revenue and gains over expenses	37,570,752	–	37,570,752
FEMA capital grant funds earned	–	2,950,736	2,950,736
Restricted contributions, net of fundraising expenses	–	5,761,946	5,761,946
Net assets released from restrictions for operations	–	(36,717)	(36,717)
Net assets released from restrictions for capital asset acquisitions	6,113,522	(6,113,522)	–
Pension and postretirement liability adjustments	(12,399,884)	–	(12,399,884)
Transfer from The Mount Sinai Hospital	20,000,000	–	20,000,000
Transfer to Icahn School of Medicine at Mount Sinai	(21,979,433)	–	(21,979,433)
Total changes in net assets	<u>29,304,957</u>	<u>2,562,443</u>	<u>31,867,400</u>
Balance, December 31, 2019	<u>\$ 298,151,641</u>	<u>\$ 9,834,819</u>	<u>\$ 307,986,460</u>

See accompanying notes.

South Nassau Communities Hospital and Subsidiaries
(d/b/a Mount Sinai South Nassau)

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2019	2018
Operating activities		
Changes in net assets	\$ 31,867,400	\$ 3,253,591
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Amortization of deferred financing fees, bond premium, and bond discount	(493,724)	(528,571)
Provision for depreciation and amortization	34,634,626	32,547,224
Loss on disposal of assets	67,494	814,112
Realized gains on investments	(4,116,970)	(3,446,034)
Change in net unrealized gains and losses on investments and change in value of equity method investments	(23,015,867)	20,960,506
FEMA capital grant funds earned	(2,950,736)	(12,271,075)
Restricted contributions, net of fundraising expenses	(5,761,946)	(4,082,515)
Transfer from The Mount Sinai Hospital	(20,000,000)	(20,000,000)
Transfer to Icahn School of Medicine at Mount Sinai	21,979,433	–
Changes in operating assets and liabilities:		
Patient receivables, net	(7,991,556)	(1,604,021)
Right-of-use assets	429,635	–
Other assets	2,495,445	(4,281,756)
Accounts payable and accrued expenses	6,405,647	(3,177,433)
Accrued payroll and vacation	3,877,283	1,811,287
Due to related parties, net	60,656	1,002,267
Estimated third-party payor liabilities	(321,000)	(160,000)
Estimated professional and general liabilities	1,320,000	(1,210,000)
Accrued pension and postretirement benefits payable	11,243,167	(10,256,557)
Deferred grant revenue	4,672,697	–
Other liabilities	482,972	189,746
Net cash provided by (used in) operating activities	<u>54,884,656</u>	<u>(439,229)</u>
Investing activities		
Purchases of property, plant, and equipment	(46,804,559)	(44,469,872)
Sales of investments, long-term investments and assets whose use is limited, net	2,408,394	7,076,882
Net cash used in investing activities	<u>(44,396,165)</u>	<u>(37,392,990)</u>

South Nassau Communities Hospital and Subsidiaries
(d/b/a Mount Sinai South Nassau)

Consolidated Statements of Cash Flows (continued)

	Year Ended December 31	
	2019	2018
Financing activities		
Proceeds from line of credit	\$ —	\$ 3,000,000
Payments on line of credit	—	(50,000,000)
Proceeds from issuance of long-term debt	—	89,420,085
Payment of debt issuance costs	—	(753,263)
Principal payments on long-term debt and finance leases	(4,800,067)	(4,481,182)
Transfer to Icahn School of Medicine at Mount Sinai	(21,979,433)	—
Transfer from The Mount Sinai Hospital	20,000,000	20,000,000
Proceeds from restricted contributions, net of fundraising expenses	5,761,946	4,082,515
Net cash (used in) provided by financing activities	(1,017,554)	61,268,155
Net increase in cash, cash equivalents and restricted cash	9,470,937	23,435,936
Cash, cash equivalents and restricted cash at beginning of year	120,994,871	97,558,935
Cash, cash equivalents and restricted cash at end of year	\$ 130,465,808	\$ 120,994,871
Reconciliation of cash, cash equivalents and restricted cash at the end of the year to the consolidated statements of financial position:		
Cash and cash equivalents	\$ 21,249,230	\$ 9,525,373
Investments: restricted cash and cash equivalents	966,460	1,331,407
Assets whose use is limited: restricted cash and cash equivalents	98,414,678	102,865,715
Long-term investments: restricted cash and cash equivalents	9,835,440	7,272,376
Total cash, cash equivalents and restricted cash	\$ 130,465,808	\$ 120,994,871
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 7,991,230	\$ 6,248,673
Assets acquired under finance lease obligations	\$ 1,961,631	\$ 697,130

See accompanying notes.

South Nassau Communities Hospital and Subsidiaries
(d/b/a Mount Sinai South Nassau)

Notes to Consolidated Financial Statements

December 31, 2019

1. Organization and Summary of Significant Accounting Policies

Organization

South Nassau Communities Hospital (d/b/a Mount Sinai South Nassau) (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. Effective September 2019, the Hospital is doing business as (d/b/a) Mount Sinai South Nassau.

In October 2019, the Hospital 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 without any adjustment to fair value resulting from the 2018 Affiliation Agreement.

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.; NYMP MSO, LLC (the MSO); and 14 physician practice professional corporations. The MSO was incorporated in 2019 for the purpose of providing certain management and administrative services for the nonclinical operation of physician practices and other ambulatory care sites. All intercompany accounts and transactions have been eliminated in consolidation.

South Nassau Communities Hospital and Subsidiaries
(d/b/a Mount Sinai South Nassau)

Notes to Consolidated Financial Statements (continued)

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

Tax Status

The Hospital and most of its subsidiaries are 501(c)(3) organizations exempt from Federal income tax on related income under Section 501(a) of the Internal Revenue Code and are also exempt from New York State and local income taxes pursuant to the corresponding state exemption provisions. Certain subsidiaries of the Hospital are for-profit entities. Taxable operations and the potential for income taxes from these entities and from unrelated business activities of the tax-exempt entities are not significant to the accompanying consolidated financial statements.

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 2019 and 2018, the Hospital recorded changes in estimates to third-party payor liabilities as described in Note 2.

Recently Adopted Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which requires the rights and obligations arising from lease contracts, including existing and new arrangements, to be recognized as assets and liabilities on the statements of financial position, including both finance leases (formerly referred to as capital leases) and operating leases. ASU 2016-02 requires expanded disclosure related to lease agreements to help the financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. The recognition, measurement and presentation of expenses and cash flows arising from a lease primarily depends on its classification as a finance or operating lease.

South Nassau Communities Hospital and Subsidiaries
(d/b/a Mount Sinai South Nassau)

Notes to Consolidated Financial Statements (continued)

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

The Hospital adopted ASU 2016-02 effective January 1, 2019, following the modified retrospective method of application. As such, 2018 consolidated financial statement amounts and disclosures have not been adjusted to reflect the provisions of the new standard. There was no cumulative-effect impact to the 2018 consolidated net assets as a result of the adoption. The Hospital has made the transition-specific election to apply the package of practical expedients which allows for the carryforward of historical assessments of (1) whether contracts are or contain leases, (2) lease classification and (3) initial direct costs. Additionally, for operating leases entered into prior to January 1, 2019, the Hospital has elected to utilize the operating leases' initial lease term to determine the discount rate used to initially measure the liability. Certain other accounting policy elections and quantitative and qualitative information pertaining to the Hospital's adoption of ASU 2016-02 are described in Note 17.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments*, which addresses the following eight specific cash flow issues in order to limit diversity in practice: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The adoption of ASU 2016-15 did not have a material impact on the Hospital's 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. The Hospital adopted ASU 2016-18 effective December 31, 2019. Therefore, amounts generally described as restricted cash and restricted cash equivalents are 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 Hospital adopted ASU 2016-18 using a retrospective transition method.

South Nassau Communities Hospital and Subsidiaries
(d/b/a Mount Sinai South Nassau)

Notes to Consolidated Financial Statements (continued)

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

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 (or a right of release of the promisor's obligation to transfer the assets). The Hospital adopted ASU 2018-08 effective January 1, 2019. The standard was applied on a modified prospective basis to agreements that were not completed as of the effective date and to agreements entered into after the effective date. The adoption of ASU 2018-08 did not have a material impact to the Hospital's consolidated financial statements.

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*, which aligns the requirements 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 the standard. ASU 2018-15 requires an entity (customer) in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. ASU 2018-15 also requires the entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement, among other provisions. The amendments in ASU 2018-15 are effective for annual reporting periods beginning after December 15, 2020, and interim periods thereafter. Early adoption is permitted. The amendments should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The Hospital early adopted ASU 2018-15 effective January 1, 2019 on a prospective basis. The adoption of ASU 2018-15 did not have a material impact on the consolidated financial statements.

South Nassau Communities Hospital and Subsidiaries
(d/b/a Mount Sinai South Nassau)

Notes to Consolidated Financial Statements (continued)

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

Other Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The new credit losses standard changes the impairment model for most financial assets and certain other instruments. For trade and other receivables, contract assets recognized as a result of applying ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, loans and certain other instruments, entities will be required to use a new forward looking “expected loss” model that generally will result in earlier recognition of credit losses than under today’s incurred loss model. The ASU is effective for annual periods beginning after December 15, 2022. The Hospital has not completed the process of evaluating the impact of ASU 2016-13 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. The Hospital does not hold any money market funds with significant liquidity restrictions that would be required to be excluded from cash equivalents.

Amounts within restricted cash include cash and cash equivalents held within investments, long-term investments and assets whose use is limited and represent funds set aside based on management’s policy or contractual arrangements.

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.

South Nassau Communities Hospital and Subsidiaries
(d/b/a Mount Sinai South Nassau)

Notes to Consolidated Financial Statements (continued)

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 income (loss), 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 activities.

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 (MSH) and cash advances related to both the Long Beach construction project received from the Federal Emergency Management Agency (FEMA) and unspent grant funds awarded under the State of New York Vital Access Program (VAP). Amounts required to meet current liabilities are reported as current assets at December 31, 2019 and 2018.

Inventory

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

Net Patient Service Revenue

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. In accordance with Hospital policy, one-half year's depreciation is recorded in the year of asset acquisition, and a half year's depreciation is recorded in the final year of the asset's useful life. Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized, net of any interest earned, as a component of the cost of acquiring those assets.

South Nassau Communities Hospital and Subsidiaries
(d/b/a Mount Sinai South Nassau)

Notes to Consolidated Financial Statements (continued)

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

When assets are retired or otherwise disposed of, the cost and the related depreciation are removed from the accounts, and any gain or loss is reflected in operations. Repairs and maintenance expenditures are expensed as incurred.

Assets held under finance lease obligations are 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.

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 donor 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.

For grants received subsequent to the adoption of ASU 2018-08, the Hospital also recognizes governmental grants where commensurate value is not exchanged as contributions when conditions and restrictions are satisfied and reports such amounts within other revenue (see Note 16).

South Nassau Communities Hospital and Subsidiaries
(d/b/a Mount Sinai South Nassau)

Notes to Consolidated Financial Statements (continued)

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

Deferred 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.

Amounts received under the VAP program for which expenditures have not been incurred by the Hospital are recognized as deferred grant revenue until earned. When conditions and restrictions are satisfied, these grant amounts are recognized within other revenue in the accompanying consolidated statements of activities.

Excess (Deficiency) of Revenue and Gains over Expenses

The consolidated statements of activities include the excess (deficiency) 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 (to) from related parties and pension and postretirement liability adjustments.

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

Reclassifications

Certain reclassifications have been made to 2018 amounts previously disclosed in order to conform with the current year presentation. These reclassifications have no impact on the net assets, changes in net assets or excess (deficiency) of revenue and gains over expenses previously reported.

2. Patient Receivables, Net and Net Patient Service Revenue

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.

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

2. Patient Receivables, Net and Net Patient Service Revenue (continued)

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 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.

South Nassau Communities Hospital and Subsidiaries
(d/b/a Mount Sinai South Nassau)

Notes to Consolidated Financial Statements (continued)

2. Patient Receivables, Net and Net Patient Service Revenue (continued)

As substantially all of its performance obligations relate to contracts with a duration of less than one year, the Hospital 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 years ended December 31, 2019 and 2018 was not significant.

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 disaggregated by payor comprises the following for the years ended December 31:

	<u>2019</u>	<u>2018</u>
Medicare, including managed Medicare	\$ 209,754,278	\$ 220,716,986
Medicaid, including managed Medicaid and Medicaid pending	60,875,460	62,100,332
Managed care and commercial	269,208,368	222,254,608
All other	21,844,409	19,789,714
	<u>\$ 561,682,515</u>	<u>\$ 524,861,640</u>

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

2. Patient Receivables, Net and Net Patient Service Revenue (continued)

Net patient service revenue disaggregated by lines of service comprises the following for the years ended December 31:

	<u>2019</u>	<u>2018</u>
Inpatient services	\$ 326,529,015	\$ 292,479,468
Outpatient services, including emergency department	191,679,028	169,396,623
Physician services	43,474,472	62,985,549
	<u>\$ 561,682,515</u>	<u>\$ 524,861,640</u>

At December 31, 2019, patient receivables, net is comprised of the following components:

	<u>2019</u>	<u>2018</u>
Patient receivables	\$ 76,413,869	\$ 68,243,323
Contract assets	3,856,424	4,035,414
	<u>\$ 80,270,293</u>	<u>\$ 72,278,737</u>

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 may not have the right to bill.

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:

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.

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

2. Patient Receivables, Net and Net Patient Service Revenue (continued)

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 and/or prospective 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.

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, 2019 and 2018, net patient service revenue was increased by approximately \$700,000 and \$4.6 million, respectively, for changes in estimates to reflect more recent information. At December 31, 2019 and 2018, estimated net third-party liabilities approximated \$5.7 million and \$6.1 million 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 2016, 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.

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

2. Patient Receivables, Net and Net Patient Service Revenue (continued)

Settlements with third-party payors 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.

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.

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.

South Nassau Communities Hospital and Subsidiaries
(d/b/a Mount Sinai South Nassau)

Notes to Consolidated Financial Statements (continued)

2. Patient Receivables, Net and Net Patient Service Revenue (continued)

Uncompensated Care and Community Benefit Expense

Distinguishing implicit price concessions 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, 2019 and 2018, the estimated cost of charity care was approximately \$2.3 million and \$2.0 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 standard charges applied to the standard uncompensated charges associated with providing charity care.

For the years ended December 31, 2019 and 2018, the Hospital received funds to offset charity care in the amount of approximately \$800,000 and \$700,000, 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:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 966,460	\$ 1,331,407
Marketable equity securities	43,949,814	45,067,534
Mutual funds	53,753,482	39,509,331
International equity funds	22,131,510	18,443,742
Fixed income funds	38,037,420	30,185,167
Real estate fund	2,862,065	2,344,843
U.S. equity fund	7,177,255	5,441,323
Total investments	<u>\$ 168,878,006</u>	<u>\$ 142,323,347</u>

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

3. Investments (continued)

Long-term investments held by the Hospital at December 31, 2019 and 2018 are \$9.8 million and \$7.3 million, 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 at December 31:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 98,414,678	\$ 102,865,715
Marketable equity securities	41,284	3,772,315
Mutual funds	–	3,175,316
Corporate bonds	754	439,541
Government obligations	5,440,638	83,999
Commodities fund	200,302	185,076
Emerging markets fund	–	791,475
International equity fund	2,810,324	2,262,274
Accrued interest	29,839	8,308
Total assets whose use is limited	<u>106,937,819</u>	113,584,019
Less current portion	81,400,351	74,260,743
Assets whose use is limited – long term	<u>\$ 25,537,468</u>	<u>\$ 39,323,276</u>

5. Investment Return

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

	<u>2019</u>	<u>2018</u>
Investment return:		
Interest and dividend income	\$ 1,778,090	\$ 3,042,693
Net realized gains and losses	4,116,970	3,446,034
Total investment income	5,895,060	6,488,727
Change in net unrealized gains and losses on investments	11,753,367	(16,147,295)
Change in value of equity method investments	11,262,500	(4,813,211)
Total investment return	<u>\$ 28,910,927</u>	<u>\$(14,471,779)</u>

South Nassau Communities Hospital and Subsidiaries
(d/b/a Mount Sinai South Nassau)

Notes to Consolidated Financial Statements (continued)

6. Property, Plant, and Equipment

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

	Range of Useful Lives	December 31	
		2019	2018
Land	–	\$ 35,716,175	\$ 32,149,311
Land improvements	3–50 years	11,858,702	11,759,366
Buildings and building service equipment	3–70 years	386,778,781	379,398,593
Fixed and major movable equipment	3–20 years	246,014,227	221,696,948
		680,367,885	645,004,218
Accumulated depreciation		(389,406,917)	(356,390,143)
		290,960,968	288,614,075
Construction in progress		71,305,908	59,588,731
		\$ 362,266,876	\$ 348,202,806

Finance lease assets of approximately \$4.4 million and \$2.5 million at December 31, 2019 and 2018, respectively, are included within fixed and major movable equipment in the table above. Net interest capitalized for the years ended December 31, 2019 and 2018 was approximately \$3.2 million and \$3.6 million, respectively.

7. Lines of Credit

The Hospital maintains a revolving line of credit with a commercial bank with an available amount of \$40.0 million. There is no balance due under the line of credit at December 31, 2019 and 2018. 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 27, 2020.

The Hospital maintains a second revolving line of credit with another commercial bank with an available amount of \$10.0 million. There is no balance due under the line of credit at December 31, 2019 and 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 on October 1, 2020.

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

8. Long-Term Debt and Finance Lease Obligations

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

	2019	2018
Series 2012 bonds payable ^(a)	\$ 65,465,000	\$ 69,480,000
Series 2018 bonds payable ^(b)	90,000,000	90,000,000
Mortgage loan note ^(c)	7,629,490	7,932,362
Finance lease obligations <i>(Note 17)</i>	4,415,004	2,935,568
	167,509,494	170,347,930
Add net unamortized Series 2012 bond premium	4,481,481	5,126,597
Less net unamortized Series 2018 bond discount	(543,572)	(562,534)
Less deferred financing fees, net	(1,454,907)	(1,587,337)
Less current portion of long-term debt	(5,766,447)	(5,105,806)
	\$ 164,226,049	\$ 168,218,850

- (a) In October 2012, the Hospital issued, through the Nassau County Local Economic Assistance Corporation, \$90.8 million of Series 2012 Revenue Bonds (Series 2012 Bonds) at a premium of \$10.2 million. 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 \$90.0 million of Series 2018 taxable bonds (Series 2018 Bonds) at a discount of \$580,000. 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 \$90.0 million 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%.
- (c) In December 2016, the Hospital entered into a mortgage loan note with TD Bank (TD Note) in the amount of \$8.5 million 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 approximately \$52,000 until the agreement expires in January 2027.

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

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

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, 2019 and 2018, the Hospital was in compliance with the financial covenants.

The Hospital's principal payments for long-term debt, excluding finance lease obligations, at December 31, 2019 are as follows:

2020	\$ 4,529,607
2021	4,758,580
2022	4,992,260
2023	5,241,509
2024	5,490,633
Thereafter	<u>138,081,901</u>
	<u>\$ 163,094,490</u>

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 2019 plan year. However, the Hospital made contributions of \$1.5 million in 2018, \$3.6 million in 2019 and expects to contribute approximately \$2.7 million in 2020.

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.

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

9. Retirement Plan and Postretirement Benefits (continued)

In addition to the defined benefit pension plan, the Hospital sponsors a defined benefit postretirement benefit plan that provides life insurance and various medical benefits to full-time employees who have worked 15 years and attained age 55 while in service with the Hospital. Effective June 1, 2019, new retirees are only eligible for the health retirement account offered under the postretirement benefit plan, all other benefits have been eliminated. The Hospital recognizes a liability for the obligation to provide postretirement health care and welfare benefits during the years in which employees provide service rather than on a cash basis.

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, 2019 and 2018, the Hospital contributed approximately \$11.7 million and \$11.4 million, respectively, to the DC Plan and has related pension expense of approximately \$12.0 million and \$11.8 million, 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.

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

9. Retirement Plan and Postretirement Benefits (continued)

Included in net assets without donor restrictions at December 31, 2019 and 2018 are the following amounts that have not yet been recognized in net periodic pension cost:

	December 31, 2019		
	Retirement Plan	Postretirement Plan	Total
Unrecognized actuarial (loss) gain	\$ (75,724,803)	\$ 5,891,000	\$ (69,833,803)
Prior service credit	–	335,000	335,000
	\$ (75,724,803)	\$ 6,226,000	\$ (69,498,803)

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

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, 2020 is as follows:

	Retirement Plan	Postretirement Plan	Total
Unrecognized actuarial (loss) gain	\$ (5,539,909)	\$ 411,000	\$ (5,128,909)
Amortization of prior service credit	–	49,000	49,000
	\$ (5,539,909)	\$ 460,000	\$ (5,079,909)

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

9. Retirement Plan and Postretirement Benefits (continued)

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

	Retirement Plan		Postretirement Plan	
	2019	2018	2019	2018
Changes in benefit obligation				
Benefit obligation at January 1	\$ 204,013	\$ 235,604	\$ 2,907	\$ 3,383
Service cost	–	–	78	85
Interest cost	8,147	7,942	106	99
Plan amendments	–	–	(335)	–
Actuarial loss (gain)	37,201	(25,803)	129	(544)
Benefit and fee payments	(7,879)	(1,739)	(116)	(116)
Settlements	–	(11,991)	–	–
Benefit obligation at December 31	<u>241,482</u>	<u>204,013</u>	<u>2,769</u>	<u>2,907</u>
Change in plan assets				
Fair value of plan assets at January 1	144,370	166,180	–	–
Actual return on plan assets	30,367	(9,580)	–	–
Employer contributions	3,600	1,500	116	116
Benefit and fee payments	(7,879)	(1,739)	(116)	(116)
Settlements	–	(11,991)	–	–
Fair value of plan assets at December 31	<u>170,458</u>	<u>144,370</u>	<u>–</u>	<u>–</u>
Unfunded status	<u>\$ 71,024</u>	<u>\$ 59,643</u>	<u>\$ 2,769</u>	<u>\$ 2,907</u>

The actuarial losses in 2019 are primarily due to decreases in the discount rates. The actuarial gains in 2018 are due primarily due to increases in the discount rates.

During 2018, the cost of 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.

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

9. Retirement Plan and Postretirement Benefits (continued)

Except for estimated postretirement benefit payments for the following year, at December 31, 2019 and 2018, 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 at December 31 (in thousands):

	December 31	
	2019	2018
Projected benefit obligation	\$ 241,482	\$ 204,013
Accumulated benefit obligation	241,482	204,013
Fair value of plan assets	170,458	144,370

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	
	2019	2018	2019	2018
Service cost	\$ -	\$ -	\$ 78	\$ 85
Interest cost on projected benefit obligation	8,147	7,942	106	99
Expected return on plan assets	(9,913)	(12,134)	-	-
Amortization of net loss (gain)	4,592	5,575	(451)	(446)
Settlement accounting	-	3,736	-	-
Net periodic benefit cost (income)	\$ 2,826	\$ 5,119	\$ (267)	\$ (262)

Assumptions

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

	Retirement Plan		Postretirement Plans	
	2019	2018	2019	2018
Discount rate	3.32%	4.29%	2.91%	4.08%

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

9. Retirement Plan and Postretirement Benefits (continued)

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

	Retirement Plan		Postretirement Plans	
	2019	2018	2019	2018
Discount rate	4.29%	3.65%	4.08%	3.41%
Expected long-term rate of return on plan assets	7.00	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.

Plan Assets

The overall objective of the retirement plan is to produce an asset allocation that will generate a total return 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 investment consultants and reviewed by the Hospital.

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

9. Retirement Plan and Postretirement Benefits (continued)

The fair values of the Hospital's retirement plan assets at December 31, 2019, 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	\$ 2,224,760	\$ —	\$ —	\$ 2,224,760
Mutual funds:				
U.S. equity	11,455,663	—	—	11,455,663
Emerging markets	3,277,162	—	—	3,277,162
Exchange traded funds	1,215,155	—	—	1,215,155
Marketable equity securities:				
Large cap	5,446,565	—	—	5,446,565
	<u>\$ 23,619,305</u>	<u>\$ —</u>	<u>\$ —</u>	<u>23,619,305</u>
Investments measured at net asset value:				
U.S. equity fund				15,185,462
International equity funds				37,882,364
Fixed income funds				63,320,382
Emerging market funds				2,310,978
Hedge funds				24,293,882
				<u>\$ 166,612,373</u>

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

9. Retirement Plan and Postretirement Benefits (continued)

The fair values of the Hospital's retirement plan assets at December 31, 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
	<u>\$ 16,780,494</u>	<u>\$ —</u>	<u>\$ —</u>	<u>16,780,494</u>
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
				<u>\$ 140,639,029</u>

The Hospital's retirement plan investment in a deposit administration contract is reported at contract value and, therefore, is not included in the tables above. At December 31, 2019 and 2018, this investment totaled \$3,845,627 and \$3,731,131, respectively.

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

9. Retirement Plan and Postretirement Benefits (continued)

The following is a summary of investments in the Hospital's retirement plan with restrictions to redeem the investments at the measurement date. There are no unfunded commitments for any of the investments at December 31, 2019.

<u>Investment Category</u>	<u>Fair Value</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
U.S. equity fund	\$ 15,185,462	Monthly	30 days
International equity fund	12,366,181	Daily	5 days
International equity fund	6,238,173	Semi-monthly	10 days
International equity funds	19,278,010	Monthly	6-30 days
Fixed income funds	47	Semi-monthly	5 days
Fixed income funds	63,320,335	Daily	2-5 days
Emerging markets funds	2,310,978	Quarterly	10-60 days
Hedge fund	2,004,003	Daily	2 days
Hedge funds	2,363,759	Monthly	10-14 days
Hedge funds	14,389,485	Quarterly	45-95 days
Hedge funds	3,264,673	Annually	65-90 days
Hedge fund	2,271,962	Every 2 years	60 days
	<u>\$ 142,993,068</u>		

Estimated Future Benefit Payments

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

2020	\$ 12,211,000
2021	13,375,000
2022	14,837,000
2023	13,118,000
2024	12,643,000
2025 to 2029	70,451,000

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

10. Self-Insurance (Professional and General Liability)

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

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

The Hospital employs the services of an actuary to estimate the ultimate cost of the settlement of such potential claims (asserted and unasserted) and related legal expenses. The Hospital's undiscounted estimated professional and general liabilities for claims and expenses are approximately \$40.6 million and \$39.3 million at December 31, 2019 and 2018, 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, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Health and program services	\$ 2,941,329	\$ 2,534,831
Equipment and construction	6,893,490	4,737,545
	<u>\$ 9,834,819</u>	<u>\$ 7,272,376</u>

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.

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

12. Concentration of Credit Risk

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

	December 31	
	2019	2018
Medicare	21%	22%
Blue Cross	19	20
Other – managed care	49	44
Self-pay	2	3
Medicaid	6	6
Other	3	5
	100%	100%

At December 31, 2019 and 2018, the Hospital has cash balances in financial institutions that exceed federal depository insurance limits. Management believes that credit risk related to these deposits is minimal.

13. Fair Value of Financial Instruments

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

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

13. Fair Value of Financial Instruments (continued)

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

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

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

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

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, the Hospital uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers nonperformance risk in its assessment of fair value. A financial instrument's categorization within the three levels of the valuation hierarchy is not indicative of the investment risk associated with the underlying assets.

Financial assets carried at fair value as of December 31, 2019 are classified in the table below in one of the three categories described above:

I thought "Presbyterian Healthcare Services (NM)" (FY-2015 Pages 35, and 36) taught us that "financial assets" were really LIABILITIES...?

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 130,465,808	\$ —	\$ —	\$ 130,465,808
Mutual funds:				
Large cap growth	10,885,440	—	—	10,885,440
Natural resources	4,150,492	—	—	4,150,492
SMID fund	6,047,969	—	—	6,047,969
International	14,808,213	—	—	14,808,213
Fixed income	8,390,987	—	—	8,390,987
Emerging markets	9,470,381	—	—	9,470,381
Corporate bonds	—	754	—	754
Government obligations	—	5,440,638	—	5,440,638
Marketable equity securities:				
Small cap	12,346,769	—	—	12,346,769
Large cap	31,644,329	—	—	31,644,329
Accrued interest	29,839	—	—	29,839
	\$ 228,240,227	\$ 5,441,392	\$ —	\$ 233,681,619

...or... maybe these assets were purchased with that 169,992,496 worth of debt (L/T + S/T), which makes them "financial" or "debt related" assets...?

Maybe these big, fancy pants words have different meanings to different offices of the same CPA firm (that was E&Y Phoenix, and this is E&Y New York).

Yeah, that's probably it.

I sure hope that this entity makes more % on their assets than they pay % on their debt...

Finance = Debt

Financial = Debt Related

Financing = Debt Related Activity

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

13. Fair Value of Financial Instruments (continued)

Financial assets carried at fair value as of December 31, 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
	<u>\$ 212,527,675</u>	<u>\$ 523,540</u>	<u>\$ —</u>	<u>\$ 213,051,215</u>

The Hospital's investments reported using the equity method of accounting, in the amount of \$73,218,876 and \$59,653,900 as of December 31, 2019 and 2018, respectively, are not included in the tables above (see Note 1).

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

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. 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 \$171.0 million (90% funded by FEMA for a total award of approximately \$154.0 million) 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 \$74.0 million, 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, 2019 and 2018, approximately \$3.0 million and \$12.3 million, 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, which was approved on January 15, 2019. Additionally, on March 4, 2019, the Hospital submitted to NYSDHSES and FEMA a Statement of Work (SOW) change based on alternate design for disaster repairs at its Oceanside and Long Beach facilities, including mitigation measures to both. The SOW was fully approved, as requested, by FEMA on March 12, 2020.

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

15. Related Organizations

As a result of the transaction discussed in Note 1, Mount Sinai has agreed to contribute \$120.0 million to the Hospital over five years to assist in the development of capital projects. \$20.0 million was contributed for each of the years ended December 31, 2019 and 2018 and is included within transfers from MSH in the accompanying consolidated statements of activities.

During 2019, the Hospital began migrating physician providers from the Hospital's existing physician practice corporations to a multi-specialty provider group, South Nassau Medical Group, P.C. (SNMG PC). Also during 2019, SNMG PC entered into a Provider Services Agreement (PSA) with the Icahn School of Medicine at Mount Sinai (the School) to lease SNMG PC providers to the School to provide professional medical and medico-administrative services to School patients on Long Island. As a result, the revenue generated by these providers (approximately \$27.7 million for the year ended December 31, 2019) is included in the financial statements of the School and is no longer included in the Hospital's net patient service revenue. Transactions charged (at cost) to the School for services rendered under the PSA totaled approximately \$26.9 million for the year ended December 31, 2019. PSA services revenue is included in other revenue in the accompanying 2019 consolidated statement of activities.

During 2019, the MSO entered into a Management Services Agreement (MSA) with the School to provide practice management, support, and administrative services for certain office-based physicians' practices at which the School will render professional medical services to its patients. Transactions charged (at cost) to the School for these services totaled approximately \$22.8 million for the year ended December 31, 2019. MSO services revenue is included in other revenue in the accompanying consolidated statement of activities.

As a result of the transactions described above, the Hospital transferred approximately \$22.0 million to the School in 2019 in relation to the deficit incurred by the School for the net of revenue and expenses related to the PSA and MSA.

Net amounts due to MSH at December 31, 2019 and 2018 are approximately \$1.1 million and \$1 million, respectively, and are included in the accompanying consolidated statements of financial position. Transactions charged (at cost) by MSH to the Hospital, totaling approximately \$5.4 million in 2019, include payroll and benefits charges (59%) and various other shared services (41%). Included in the benefits charges are certain employee health plan claims and premiums, which are paid by MSH and, subsequently, charged to the Hospital.

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

16. Other Revenue

Other revenue consists of the following for the years ended December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
MLMIC demutualization	\$ —	\$ 11,914,019
PSA and MSA services	49,656,227	—
Net assets released from restrictions used for operations	36,717	363,989
Grant revenue	1,835,189	456,712
Rental income	400,918	357,903
Coffee and gift shop income	1,049,121	1,021,482
Cafeteria income	1,049,789	1,118,505
Rebates and cash discounts	1,225,387	1,101,694
Miscellaneous income	3,087,487	3,607,583
	<u>\$ 58,340,835</u>	<u>\$ 19,941,887</u>

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 fourth 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 was received in 2019.

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Notes to Consolidated Financial Statements (continued)

17. Leases

As described in Note 1, the Hospital adopted ASU 2016-02 effective January 1, 2019. The Hospital leases certain property and equipment under finance and operating leases, the classification of which is based on the underlying terms of the agreement and certain criteria, such as lease term relative to useful life and total lease payments compared to fair value, among others. Finance leases result in an accounting treatment similar to an acquisition of the asset.

For leases with initial terms greater than one year (or initially, greater than one year remaining under the lease at the date of adoption of ASU 2016-02), the Hospital records the related right-of-use assets and liabilities at the present value of the lease payments to be paid over the life of the related lease. The Hospital's leases may include variable lease payments and renewal options. Variable lease payments are excluded from the amounts used to determine the right-of-use assets and liabilities, unless the variable lease payments depend on an index or rate or are in substance fixed payments. Lease payments related to periods subject to renewal options are also excluded from the amounts used to determine the right-of-use assets and liabilities, unless the Hospital is reasonably certain to exercise the option to extend the lease. The present value of lease payments is calculated by utilizing the discount rate stated in the lease, when readily determinable. For leases for which this rate is not readily available, the Hospital has elected to use a risk-free discount rate determined using a period comparable with that of the lease term. The Hospital has made an accounting policy election not to separate lease components from non-lease components in contracts when determining its lease payments, as permitted by ASU 2016-02. As such, the Hospital accounts for the applicable non-lease components together with the related lease components when determining the right-of-use assets and liabilities. The Hospital has made an accounting policy election not to record leases with an initial term of less than one year as right-of-use assets and liabilities.

Upon the adoption of ASU 2016-02, operating leases with a present value of approximately \$41.3 million were recorded as right of use assets and liabilities.

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

17. Leases (continued)

The following schedule summarizes information related to the lease assets and liabilities as of and for the year ended December 31, 2019 (in thousands):

Right-of-use assets	
Right-of-use assets – finance leases	\$ 5,453,524
Right-of-use assets – operating leases	<u>29,759,533</u>
	<u>\$ 35,213,057</u>
Right-of-use liabilities	
Right-of-use liabilities – finance leases	\$ 4,415,004
Right-of-use liabilities – operating leases	<u>30,189,168</u>
	<u>\$ 34,604,172</u>
Other information	
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from finance leases	\$ 89,945
Operating cash flows from operating leases	2,783,067
Financing cash flows from finance leases	1,038,576
Weighted-average remaining lease term – finance leases	3.88
Weighted-average remaining lease term – operating leases	20.64
Weighted-average discount rate – finance leases	3.29%
Weighted-average discount rate – operating leases	2.82%

For finance leases, right-of-use assets are recorded in property, plant, and equipment, net; and lease liabilities are recorded in long-term debt and finance lease obligations, current and non-current in the accompanying consolidated statements of financial position. For operating leases, right-of-use assets are recorded in right-of-use assets, and lease liabilities are recorded in operating lease liabilities, current and non-current, in the accompanying consolidated statements of financial position.

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

17. Leases (continued)

The following table reconciles the undiscounted lease payments to the lease liabilities recorded on the accompanying consolidated statement of financial position at December 31, 2019 (in thousands):

	Finance Leases	Operating Leases
2020	\$ 1,361,487	\$ 2,560,670
2021	1,392,860	2,505,112
2022	872,317	2,405,043
2023	515,203	2,263,550
2024	383,537	2,154,942
Thereafter	209,625	29,375,161
Total lease payments	4,735,029	41,264,478
Less: imputed interest	(320,025)	(11,075,310)
Total lease obligations	4,415,004	30,189,168
Less: current portion	(1,236,839)	(1,743,775)
Long-term portion	\$ 3,178,165	\$ 28,445,393

Total rental expense for the years ended December 31, 2019 and 2018 aggregated approximately \$4.7 million and \$4.3 million, respectively.

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Notes to Consolidated Financial Statements (continued)

18. 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, 2019 and 2018 are as follows (in thousands):

	December 31, 2019			
	Hospital Patient Care	Physician Practices	Administrative and General	Total
Salaries and wages	\$ 215,370	\$ 44,413	\$ 31,581	\$ 291,364
Employee benefits	48,378	9,711	7,062	65,151
Supplies and other expenses	137,190	35,478	39,895	212,563
Interest	–	8	4,139	4,147
Depreciation and amortization	–	1,331	32,991	34,322
	\$ 400,938	\$ 90,941	\$ 115,668	\$ 607,547

	December 31, 2018			
	Hospital Patient Care	Physician Practices	Administrative and General	Total
Salaries and wages	\$ 207,692	\$ 40,644	\$ 31,868	\$ 280,204
Employee benefits	45,616	8,831	6,987	61,434
Supplies and other expenses	125,032	25,220	40,590	190,842
Interest	–	17	4,350	4,367
Depreciation and amortization	–	1,281	31,325	32,606
	\$ 378,340	\$ 75,993	\$ 115,120	\$ 569,453

The consolidated financial statements report certain expense categories that are attributable to more than one health care service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function are allocated to a function based on a units of service basis or are otherwise allocated based on revenue.

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Notes to Consolidated Financial Statements (continued)

19. Liquidity and Availability

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

	2019	2018
Financial assets at year-end:		
Cash and cash equivalents	\$ 21,249,230	\$ 9,525,373
Investments	178,713,446	149,595,723
Assets whose use is limited	106,937,819	113,584,019
Patient receivables, net	80,270,293	72,278,737
Total financial assets	387,170,788	344,983,852
Less amounts not available to be used within one year:		
Assets whose use is limited	74,548,617	88,675,109
Long-term investments	9,835,440	7,272,376
Financial assets not available to be used within one year	84,384,057	95,947,485
Financial assets available to meet general expenditures within one year	\$ 302,786,731	\$ 249,036,367

The Hospital has certain assets whose use is limited 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 whose use is limited which are primarily for donor restricted purposes, restricted capital spend, 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 (no outstanding draws at December 31, 2019 and 2018).

South Nassau Communities Hospital and Subsidiaries
(d/b/a Mount Sinai South Nassau)

Notes to Consolidated Financial Statements (continued)

20. Subsequent Events

Subsequent events have been evaluated through April 8, 2020, the date the consolidated financial statements were issued. Except as disclosed in Note 14 and below, no subsequent events have occurred that require disclosure in or adjustment to the consolidated financial statements.

Due to the global viral outbreak caused by Coronavirus Disease 2019 (COVID-19) in 2020, there have been resulting effects which could negatively impact the Hospital's consolidated financial condition. The ultimate impact of these matters to the Hospital and its consolidated financial condition is presently unknown. The accompanying consolidated financial statements do not reflect the effects of these subsequent events.

Supplementary Information

South Nassau Communities Hospital and Subsidiaries
(d/b/a Mount Sinai South Nassau)

Consolidating Statement of Financial Position

December 31, 2019

	South Nassau Communities Hospital	Other Entities	Eliminations	Consolidated
Assets				
Current assets:				
Cash and cash equivalents	\$ 16,415,543	\$ 4,833,687	\$ –	\$ 21,249,230
Investments	168,878,006	–	–	168,878,006
Current portion of assets whose use is limited	81,400,351	–	–	81,400,351
Patient receivables, net	72,749,048	7,521,245	–	80,270,293
Other current assets	14,840,085	1,402,125	–	16,242,210
Total current assets	354,283,033	13,757,057	–	368,040,090
Assets whose use is limited, net of current portion	25,537,468	–	–	25,537,468
Long-term investments	9,819,485	15,955	–	9,835,440
Due from affiliates	30,731,450	665,061	(31,396,511)	–
Other long-term assets	215,581	919,950	–	1,135,531
Right-of-use assets	29,759,533	–	–	29,759,533
Insurance claims receivable	3,047,000	–	–	3,047,000
Property, plant, and equipment, net	340,990,379	21,276,497	–	362,266,876
Total assets	\$ 794,383,929	\$ 36,634,520	\$ (31,396,511)	\$ 799,621,938
Liabilities and net assets (deficit)				
Current liabilities:				
Accounts payable	\$ 19,668,223	\$ –	\$ –	\$ 19,668,223
Accrued expenses	49,264,842	1,449,759	–	50,714,601
Accrued payroll and vacation	33,290,548	2,969,063	–	36,259,611
Due to related parties, net	(78,981)	1,141,904	–	1,062,923
Current portion of long-term debt and finance lease obligations	5,766,447	–	–	5,766,447
Current portion of operating lease liabilities	1,743,775	–	–	1,743,775
Current portion of accrued postretirement benefits other than pension	214,000	–	–	214,000
Current portion of estimated professional and general liabilities	8,700,000	–	–	8,700,000
Deferred grant revenue	43,959,499	–	–	43,959,499
Estimated third-party payor liabilities	5,749,000	–	–	5,749,000
Total current liabilities	168,277,353	5,560,726	–	173,838,079
Long-term debt and finance lease obligations, net of current portion	164,226,049	–	–	164,226,049
Operating lease liabilities, net of current portion	28,445,393	–	–	28,445,393
Accrued pension payable	71,024,394	–	–	71,024,394
Due to affiliates	–	31,396,511	(31,396,511)	–
Accrued postretirement benefits other than pension, net of current portion	2,555,000	–	–	2,555,000
Estimated professional and general liabilities, net of current portion	31,940,000	–	–	31,940,000
Deferred grant revenue, net of current portion	13,654,439	–	–	13,654,439
Insurance claims payable	3,047,000	–	–	3,047,000
Other liabilities	2,905,124	–	–	2,905,124
Total liabilities	486,074,752	36,957,237	(31,396,511)	491,635,478
Net assets (deficit):				
Net assets (deficit) without donor restrictions	298,488,428	(336,787)	–	298,151,641
Net assets with donor restrictions	9,820,749	14,070	–	9,834,819
Total net assets (deficit)	308,309,177	(322,717)	–	307,986,460
Total liabilities and net assets (deficit)	\$ 794,383,929	\$ 36,634,520	\$ (31,396,511)	\$ 799,621,938

South Nassau Communities Hospital and Subsidiaries
(d/b/a Mount Sinai South Nassau)

Consolidating Statement of Activities

Year Ended December 31, 2019

	South Nassau Communities			Consolidated
	Hospital	Other Entities	Eliminations	
Operating revenue:				
Net patient service revenue	\$ 524,425,366	\$ 37,257,149	\$ -	\$ 561,682,515
Investment income	5,895,060	-	-	5,895,060
Other revenue	15,674,787	44,722,820	(2,056,772)	58,340,835
Total operating revenue	<u>545,995,213</u>	<u>81,979,969</u>	<u>(2,056,772)</u>	<u>625,918,410</u>
Operating expenses:				
Salaries and wages	247,125,424	44,413,287	(174,024)	291,364,687
Employee benefits	55,440,040	9,711,463	-	65,151,503
Supplies and other expenses	178,969,310	35,476,428	(1,882,748)	212,562,990
Interest expense	4,138,329	8,400	-	4,146,729
Provision for depreciation and amortization	32,990,403	1,331,180	-	34,321,583
Total operating expenses	<u>518,663,506</u>	<u>90,940,758</u>	<u>(2,056,772)</u>	<u>607,547,492</u>
Operating income (loss)	27,331,707	(8,960,789)	-	18,370,918
Nonoperating gains and losses:				
Change in net unrealized gains and losses on investments and change in value of equity method investments	23,015,867	-	-	23,015,867
Contributions without donor restrictions, net of fundraising expenses	(366,490)	-	-	(366,490)
Net periodic pension and postretirement benefit costs (non-service related)	(2,481,283)	-	-	(2,481,283)
Other nonoperating losses	(968,260)	-	-	(968,260)
Excess (deficiency) of revenue and gains over expenses	<u>46,531,541</u>	<u>(8,960,789)</u>	<u>-</u>	<u>37,570,752</u>
Equity transfer (to) from related parties	(8,873,957)	8,873,957	-	-
Net assets released from restrictions for capital asset acquisitions	6,113,522	-	-	6,113,522
Pension and postretirement liability adjustments	(12,399,884)	-	-	(12,399,884)
Transfer from The Mount Sinai Hospital	20,000,000	-	-	20,000,000
Transfer to Icahn School of Medicine at Mount Sinai	(21,979,433)	-	-	(21,979,433)
Increase (decrease) in net assets without donor restrictions	<u>\$ 29,391,789</u>	<u>\$ (86,832)</u>	<u>\$ -</u>	<u>\$ 29,304,957</u>

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