Consolidated Financial Statements and Supplementary Information

South Nassau Communities Hospital and Subsidiaries
Years Ended December 31, 2013 and 2012
With Report of Independent Auditors

Ernst & Young LLP

Building a better
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South Nassau Communities Hospital
and Subsidiaries

Consolidated Financial Statements and Supplementary Information

Years Ended December 31, 2013 and 2012

Contents

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Report of Independent Auditors

The Board of Directors
South Nassau Communities Hospital

We have audited the accompanying consolidated financial statements of South Nassau Communities Hospital and Subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2013 and 2012, 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of South Nassau Communities Hospital and Subsidiaries at December 31, 2013 and 2012, and the consolidated results of their operations, changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating statement of financial position as of December 31, 2013, and consolidating statement of activities for the year ended December 31, 2013, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Ernst & Young LLP

March 6, 2014

South Nassau Communities Hospital
and Subsidiaries

Consolidated Statements of Financial Position

	December 31	
	2013	**2012**
Assets		
Current assets:		
Cash and cash equivalents *(Note 13)*	**$ 27,088,891**	$ 18,863,724
Investments *(Notes 3 and 13)*	**126,180,303**	109,132,080
Current portion of assets whose use is limited *(Notes 4, 8, 10, 13 and 16)*	**26,093,184**	8,500,000
Patient receivables, less allowance for uncollectibles of $35,373,000 in 2013 and $28,149,000 in 2012 *(Notes 2 and 12)*	**52,352,681**	50,613,768
Other current assets	**12,504,286**	11,358,401
Total current assets	**244,219,345**	198,467,973
Assets whose use is limited *(Notes 4, 8, 10, 13 and 16)*	**30,365,034**	50,445,090
Long-term investments *(Notes 3 and 13)*	**1,627,563**	1,506,045
Other long-term assets	**1,699,516**	1,956,850
Property, plant and equipment, net *(Note 6)*	**238,176,682**	237,771,163
Total assets	**$ 516,088,140**	$ 490,147,121

	December 31	
	2013	**2012**
Liabilities and net assets		
Current liabilities:		
Amounts due under lines of credit *(Note 7)*	**$ 21,000,000**	$ –
Accounts payable	**15,204,996**	18,109,824
Accrued expenses	**29,238,848**	22,855,722
Accrued payroll and vacation	**20,037,644**	16,785,707
Current portion of long-term debt *(Notes 8 and 13)*	**2,835,000**	11,288,507
Current portion of accrued postretirement benefits other than pension *(Note 9)*	**216,000**	258,000
Current portion of estimated professional and general liabilities *(Note 10)*	**7,880,000**	8,500,000
Loan payable *(Note 16)*	**1,500,000**	–
Other current liabilities *(Note 2)*	**19,060,000**	12,420,000
Total current liabilities	**116,972,488**	90,217,760
Long-term debt, net of current portion *(Notes 8 and 13)*	**92,710,523**	120,309,436
Accrued pension payable *(Note 9)*	**23,193,045**	105,274,730
Accrued postretirement benefits other than pension, net of current portion *(Note 9)*	**3,741,000**	4,580,000
Estimated professional and general liabilities, net of current portion *(Note 10)*	**29,840,000**	31,525,000
Other liabilities	**2,145,317**	2,440,446
Total liabilities	**268,602,373**	354,347,372
Commitments and contingencies		
Net assets:		
Unrestricted	**245,858,204**	134,293,704
Temporarily restricted *(Note 11)*	**599,487**	477,969
Permanently restricted *(Note 11)*	**1,028,076**	1,028,076
Total net assets	**247,485,767**	135,799,749
Total liabilities and net assets	**$ 516,088,140**	$ 490,147,121

See accompanying notes.

South Nassau Communities Hospital
and Subsidiaries

Consolidated Statements of Activities

	Year Ended December 31	
	2013	**2012**
Operating revenue		
Net patient service revenue, net of contractual allowances and other discounts *(Note 2)*	**$ 417,483,760**	$ 391,739,673
Provision for bad debts *(Note 2)*	**(13,636,000)**	(9,514,000)
Net patient service revenue, less provision for bad debts	**403,847,760**	382,225,673
Other revenue *(Notes 5 and 17)*	**17,992,350**	18,518,081
Total operating revenue	**421,840,110**	400,743,754
Operating expenses		
Nursing services	**139,709,426**	131,194,027
Other professional services	**127,100,878**	118,853,016
Facilities services	**24,080,686**	22,988,598
Administrative and general services	**41,137,165**	37,830,070
Employee benefits	**36,061,351**	52,535,570
Insurance	**8,203,556**	5,074,346
Interest expense	**3,770,338**	5,099,441
Provision for depreciation and amortization	**25,987,890**	23,145,868
Total operating expenses	**406,051,290**	396,720,936
Operating income	**15,788,820**	4,022,818
Nonoperating gains and losses		
Net nonoperating investment gain *(Note 5)*	**13,207,901**	7,568,884
Unrestricted contributions and bequests (less fund raising expenses of $923,013 in 2013 and $874,986 in 2012)	**675,048**	821,329
Estimated loss related to storm *(Note 15)*	**(573,969)**	(1,498,327)
Insurance recoveries related to storm *(Note 15)*	**2,000,000**	1,500,000
Gain on New Island Hospital settlement *(Note 14)*	**1,502,486**	–
Gain on sale of property	**117,138**	–
Loss related to Long Beach Medical Center transactions *(Note 16)*	**(1,638,514)**	–
Loss on capital project abandonment *(Note 6)*	**–**	(3,678,480)
Loss on refinancing and refunding of long-term debt *(Note 8)*	**(743,769)**	(3,716,996)
Excess of revenue and gains over expenses	**30,335,141**	5,019,228
Net assets released from restrictions for capital asset acquisitions	**544,645**	383,462
Pension and postretirement liability adjustments *(Note 9)*	**80,684,714**	(8,980,176)
Increase (decrease) in unrestricted net assets	**$ 111,564,500**	$ (3,577,486)

See accompanying notes.

South Nassau Communities Hospital
and Subsidiaries

Consolidated Statements of Changes in Net Assets

Years Ended December 31, 2013 and 2012

	Unrestricted Net Assets	**Temporarily Restricted Net Assets**	**Permanently Restricted Net Assets**	**Total Net Assets**
Balance, January 1, 2012	$ 137,871,190	$ 2,025,970	$ 1,028,076	$ 140,925,236
Excess of revenue and gains over expenses	5,019,228	–	–	5,019,228
Restricted contributions, bequests, and capital grants	–	709,949	–	709,949
Net assets released from restrictions for operations	–	(1,874,488)	–	(1,874,488)
Net assets released from restrictions for capital asset acquisitions	383,462	(383,462)	–	–
Pension and postretirement liability adjustments	(8,980,176)	–	–	(8,980,176)
Total changes in net assets	(3,577,486)	(1,548,001)	–	(5,125,487)
Balance, December 31, 2012	134,293,704	477,969	1,028,076	135,799,749
Excess of revenue and gains over expenses	**30,335,141**	–	–	**30,335,141**
Restricted contributions, bequests, and capital grants	–	**1,838,970**	–	**1,838,970**
Net assets released from restrictions for operations	–	**(1,172,807)**	–	**(1,172,807)**
Net assets released from restrictions for capital asset acquisitions	**544,645**	**(544,645)**	–	–
Pension and postretirement liability adjustments	**80,684,714**	–	–	**80,684,714**
Total changes in net assets	**111,564,500**	**121,518**	–	**111,686,018**
Balance, December 31, 2013	**$ 245,858,204**	**$ 599,487**	**$ 1,028,076**	**$ 247,485,767**

See accompanying notes.

South Nassau Communities Hospital
and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2013	**2012**
Operating activities		
Changes in net assets	**$ 111,686,018**	$ (5,125,487)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Amortization of deferred financing fees, bond premium and discount	**(682,007)**	56,614
Gain on sale of property	**(117,138)**	–
Provision for depreciation	**25,713,730**	23,102,574
Loss on disposal of assets	**274,160**	43,294
Loss on capital project abandonment	**–**	3,678,480
Loss on refinancing and refunding of long-term debt	**743,769**	3,716,996
Gain on New Island Hospital settlement	**(1,502,486)**	–
Nonoperating net investment gain	**(13,207,901)**	(7,568,884)
Restricted contributions, bequests, and capital grants	**(1,838,970)**	(709,949)
Changes in operating assets and liabilities:		
Accounts receivable	**(1,738,913)**	(3,346,780)
Other assets (current and long-term)	**(1,145,892)**	887,451
Accounts payable and accrued expenses	**3,478,298**	(5,449,806)
Accrued payroll and vacation	**3,251,937**	1,766,071
Other current liabilities	**6,640,000**	(1,250,000)
Estimated professional and general liabilities	**(2,305,000)**	5,000
Accrued pension and postretirement benefits payable	**(82,962,685)**	12,312,064
Other liabilities	**(295,129)**	(473,685)
Net cash provided by operating activities	**45,991,791**	21,643,953
Investing activities		
Purchases of property, plant, and equipment	**(26,623,171)**	(27,023,587)
Proceeds from sale of property	**346,900**	–
Insurance proceeds for property, plant and equipment replacement, related to storm	**–**	1,040,669
Deposits in investments	**(3,840,582)**	(5,154,736)
Deposits in long-term investments	**(1,294,325)**	(326,486)
Withdrawals from long-term investments	**1,172,807**	1,874,487
Deposits in assets whose use is limited	**(15,138,806)**	(45,157,248)
Withdrawals from assets whose use is limited	**17,625,939**	39,270,132
Net cash used in investing activities	**(27,751,238)**	(35,476,769)

South Nassau Communities Hospital
and Subsidiaries

Consolidated Statements of Cash Flows (continued)

	Year Ended December 31	
	2013	**2012**
Financing activities		
Proceeds from Series 2012 bond financing	**$ –**	$ 100,932,698
Proceeds from line of credit	**26,000,000**	–
Payments on line of credit	**(5,000,000)**	–
Payments on refinanced and refunded long-term debt	**(24,666,751)**	(79,874,486)
Payment of issuance costs for 2012 Series bond financing	**–**	(1,698,188)
Proceeds from DASNY loan	**1,500,000**	–
Proceeds from New Island Hospital settlement	**1,502,486**	–
Principal payments on long-term debt	**(11,190,091)**	(9,150,750)
Proceeds from restricted contributions, bequests, and capital grants	**1,838,970**	709,949
Net cash (used in) provided by financing activities	**(10,015,386)**	10,919,223
Net increase (decrease) in cash and cash equivalents	**8,225,167**	(2,913,593)
Cash and cash equivalents at beginning of year	**18,863,724**	21,777,317
Cash and cash equivalents at end of year	**$ 27,088,891**	$ 18,863,724
Supplemental disclosure of cash flow information		
Cash paid for interest	**$ 3,097,736**	$ 5,112,261
Supplemental disclosure of noncash investing and financing activities		
Capital leases incurred	**$ –**	$ 10,000,215

See accompanying notes.

1. Organization and Summary of Significant Accounting Policies

Organization

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

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

Winthrop University Hospital (Winthrop) and the Hospital are members of the Winthrop South Nassau University Health System (the System). Winthrop South Nassau University Health System, Inc. (WSNUHS) is the sole member of the Hospital and Winthrop, and WSNUHS wholly owns Homecare Alliance, Inc. (inactive) and the Winthrop South Nassau Management Services Organization, Inc. (inactive) which, therefore, are related parties.

In November 2008, the Hospital and Winthrop entered into a nonbinding Statement of Principles and Intent (the Statement of Principles) pursuant to which the two hospitals agreed to explore the termination of the corporate relationship between them and ways of restructuring the indebtedness of Winthrop South Nassau University Health System Obligated Group (the Obligated Group Debt). In June 2012, the Hospital, Winthrop and WSNUHS System executed a Collaboration and Standstill Agreement (the Agreement) pursuant to which the parties agreed to (i) terminate the Statement of Principles, (ii) terminate the Obligated Group Debt as soon as possible, and (iii) cooperate and collaborate with each other during a Standstill Period running through June 30, 2015 in an effort to reach a consensus on a shared philosophy, vision and strategic plan for the Hospital, Winthrop and the System. The Hospital and Winthrop have agreed that during the Standstill Period they shall not voluntarily disaffiliate from the System or unilaterally take any action related to their participation in the Long Island Health Network (LIHN). In August 2013, the Hospital and Winthrop reaffirmed their commitment to the terms set forth in the Agreement and recognized that regulatory and market developments require the need to independently assess individual business plans and strategies on an ongoing basis. In order to permit the Hospital and Winthrop to explore all opportunities, they agreed that each may engage independently, or collectively, in discussions with third-party hospitals or health care systems regarding potential corporate, governance or other affiliations at any time prior to, on, or after June 30, 2015. In October 2012, the parties refinanced and refunded the Obligated Group Debt, resulting in the dissolution of the Obligated Group (see Note 8).

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

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Hospital and the following entities for which it is the sole member or controls through other means: SN Healthcare; South Nassau SN, LLC; South Nassau Neonatal Services P.C.; South Nassau Physician Practice P.C.; Oceanside Counseling Center; SN Services; South Nassau Primary Medical Care P.C.; South Nassau Oncology P.C.; SN Radiological Practice P.C.; South Nassau Cardiovascular P.C.; South Nassau Family Medicine P.C.; South Nassau Medical Group P.C.; South Nassau Obstetrics and Gynecology P.C.; Radiological Associates of Long Island P.C. and 203 Merrick Road Holding Corp. All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, including estimated uncollectibles for accounts receivable for services to patients, and liabilities, including estimated payables to third-party payors, estimated pension and postretirement benefits and professional malpractice insurance liabilities, at the date of the consolidated financial statements. Estimates also affect the amounts of revenue and expenses reported during the period. There is at least a reasonable possibility that certain estimates will change by material amounts in the near term. Actual results could differ from those estimates. During 2013 and 2012, the Hospital recorded changes in estimates to third-party payor liabilities as described in Note 2.

Cash and Cash Equivalents

Cash and cash equivalents consist of financial instruments with original maturity dates of three months or less from the date purchased, which are not classified as assets whose use is limited or held in the investment portfolio.

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

Investments and Investment Gains, Losses and Income

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

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 hedge fund includes a three year lockup provision which expires in March 2014. The Hospital's investments in these funds are reported based upon net asset values derived from the application of the equity method of accounting. The equity method reflects the Hospital's share of the net asset value of the funds. Investments held by the retirement plan are stated at fair value based upon, as a practical expedient, net asset values derived from the application of the equity method of accounting.

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

Assets Whose Use is Limited

Assets whose use is limited include funds controlled under bond indenture and trustee controlled funds under malpractice funding requirements. Amounts required to meet current liabilities are reported as current assets at December 31, 2013 and 2012.

Inventories

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

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

Deferred Compensation

Certain Hospital employees participate in deferred compensation plans. In connection with these plans, the Hospital deposits amounts with trustees on behalf of the participating employees and records liabilities based on its contractual commitments. The assets are restricted for payments under the plans, but may revert to the Hospital under certain specified circumstances. At December 31, 2013 and 2012, amounts on deposit with trustees (at fair value determined using Level 1 quoted prices) are included in other current assets and were equal to liabilities under the deferred compensation plans, included in accrued expenses, and aggregated approximately $830,000 and $649,000, respectively.

Patient Receivables

Amounts due for patient services for which the Hospital receives payment under various formulae are stated at their estimated net realizable values from each payor, which are generally less than the established charges of the Hospital. Patient receivables are reduced by an allowance for doubtful accounts. Additions to the allowance for doubtful accounts result from the provision for bad debts. The amount of the allowance for doubtful accounts is estimated based upon management's assessment of historical and expected net collections, business and economic conditions, trends in third party payors and other collection indicators. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third party coverage exists for part of the bill), the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. Accounts written off as uncollectible and recoveries of such accounts are deducted from the allowance for doubtful accounts. See Note 2 for additional information relative to patient receivables and third-party payor programs.

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

Property, Plant and Equipment

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

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

Temporarily and Permanently Restricted Net Assets

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

Deferred Financing Costs

Deferred financing costs are amortized using the effective interest method over the term of the related debt. Deferred financing costs, net of accumulated amortization, are $1,483,933 and $1,741,267 at December 31, 2013 and 2012, respectively, and are included in other long-term assets in the accompanying consolidated financial statements.

In October 2012, the Hospital refinanced and refunded certain outstanding debt. In connection with this transaction, $2,125,393 of unamortized deferred financing costs was written off and is included within the loss on refinancing and refunding of long-term debt in the accompanying consolidated statement of activities. Financing costs related to the issuance of the Series 2012 bond financing totaling $1,698,188 were paid in 2012.

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

Tax Status

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

Donor Restricted Gifts

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

Excess of Revenue and Gains over Expenses

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

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

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

Asset Retirement Obligation

The Hospital recorded an asset retirement obligation liability related to the estimated future costs to remediate asbestos. At December 31, 2013 and 2012, this liability was approximately $2,145,000 and $2,440,000, respectively, and is included in other liabilities in the consolidated statements of financial position.

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

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

Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources based on primary insurance designation for the years ended December 31, 2013 and 2012, is as follows:

	2013	2012
Third-party payor	**$ 412,206,412**	$ 386,075,804
Self-pay	**5,277,348**	5,663,869
	$ 417,483,760	$ 391,739,673

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

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

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

Non-Medicare and Medicare Payments

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

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

Medicare Reimbursement: 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.

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

The Hospital has established estimates, based on information presently available, of amounts due to or from Medicare and non-Medicare payors for adjustments to current and prior years' payment rates, based on industry-wide and Hospital-specific data. Such amounts are included in the accompanying consolidated statements of financial position. For the years ended December 31, 2013 and 2012, net patient service revenue was increased by $1,540,000 and $2,610,000, respectively, for changes in estimates to reflect more recent information. At December 31, 2013 and 2012, estimated net third-party liabilities approximated $19,100,000 and $12,400,000, respectively.

In addition, in April 2012, CMS settled a series of lawsuits filed in 2007 that challenged the calculation involving the use of the rural floor provision of the Balanced Budget Act of 1997. The Hospital participated in this lawsuit and as a result received a cash settlement of approximately $4,400,000 from Medicare for fiscal years 2005 through 2011, which increased net patient service revenue for the year ended December 31, 2012. Fees associated with participating in this lawsuit were approximately $1,100,000 and increased administrative and other general services for the year ended December 31, 2012.

The current Medicaid, Medicare and other third-party payor programs are based upon extremely complex laws and regulations that are subject to interpretation. Medicare cost reports, which serve as the basis for final settlement with the Medicare program, have been audited by the Medicare fiscal intermediary through 2010 and settled through 2009, although revisions to final settlements could be made. Other years remain open for audit and settlement as are numerous issues related to the New York State Medicaid program for prior years. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount when open years are settled and additional information is obtained. Additionally, noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs. The Hospital is not aware of any allegations of noncompliance that could have a material adverse effect on the consolidated financial statements and believes that it is in compliance with all applicable laws and regulations.

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

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

Charity Care

Distinguishing the provision for bad debt from charity care requires judgment; together, they represent uncompensated care. The Hospital's policy regarding charity care is to provide a significant amount of care without regard to the patients' ability to pay for services rendered; this includes free care and a sliding fee scale, based on the patients' ability to pay which is defined as up to 500% of the federal poverty level. The Hospital utilizes a credit verification firm to assist in determining if uninsured patients meet the Hospital's charity care criteria. This process identifies uninsured patients that were under the poverty level but did not apply for charity care.

The net cost of charity care includes the direct and indirect cost of providing charity care services, offset by revenues received from indigent care pools and other subsidies. The cost of charity care is estimated by utilizing a ratio of cost to gross charges applied to the gross charity care charges. The total amount, reported at cost, of charity care provided under the Hospital's policy for the years ended December 31, 2013 and 2012 was $8,971,436 and $7,034,048, respectively.

For the years ended December 31, 2013 and 2012, the Hospital received funds to offset charity care in the amount of $2,348,508 and $2,544,540, 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:

	2013	2012
Cash and cash equivalents	**$ 5,754,611**	$ 4,813,390
Marketable equity securities	**50,833,710**	41,481,871
Corporate bonds	**12,102,534**	12,351,522
Mutual funds	**17,580,114**	14,734,854
International mutual fund	**11,609,755**	8,100,417
Government obligations	**8,509,042**	9,276,168
Commodities fund	**1,417,654**	1,538,782
Emerging markets fund	**5,111,712**	5,406,498
International fund	**13,117,817**	11,267,557
Accrued interest	**143,354**	161,021
Total investments	**$ 126,180,303**	$ 109,132,080

Long-Term Investments

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

	2013	2012
Cash and cash equivalents	**$ 1,627,563**	$ 1,506,045

4. Assets Whose Use is Limited

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

	Bond Indenture and Other Restricted Funds		Professional and General Liabilities		Totals	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Cash and cash equivalents	**$ 18,738,218**	$ 18,920,090	**$ 2,922,422**	$ 3,674,660	**$ 21,660,640**	$ 22,594,750
Marketable equity securities	–	–	**8,174,344**	6,690,178	**8,174,344**	6,690,178
Corporate bonds	–	–	**2,272,592**	3,311,809	**2,272,592**	3,311,809
Mutual funds	–	–	**8,216,035**	9,503,206	**8,216,035**	9,503,206
International mutual fund	–	–	**3,814,163**	2,626,809	**3,814,163**	2,626,809
Commodities fund	–	–	**636,981**	691,406	**636,981**	691,406
Emerging markets fund	–	–	**2,194,398**	2,320,943	**2,194,398**	2,320,943
International fund	–	–	**3,399,828**	4,223,875	**3,399,828**	4,223,875
Hedge fund	–	–	**4,206,401**	3,677,535	**4,206,401**	3,677,535
Government obligations	–	–	**1,639,273**	3,237,813	**1,639,273**	3,237,813
Accrued interest	–	–	**243,563**	66,766	**243,563**	66,766
Total assets whose use is limited	**18,738,218**	18,920,090	**37,720,000**	40,025,000	**56,458,218**	58,945,090
Less current portion	**18,213,184**	–	**7,880,000**	8,500,000	**26,093,184**	8,500,000
Assets whose use is limited – long-term	**$ 525,034**	$ 18,920,090	**$ 29,840,000**	$ 31,525,000	**$ 30,365,034**	$ 50,445,090

5. Investment Income

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

	2013	2012
Investment income:		
Interest income	**$ 3,867,580**	$ 3,095,644
Net realized gains	**5,560,446**	3,723,169
Change in net unrealized gains and losses on investments	**10,938,193**	12,742,573
Change in value of equity method investments	**2,458,197**	(3,856,133)
Total investment income	**$ 22,824,416**	$ 15,705,253
Investment income is reported in the statements of activities as follows:		
Investment income from general investments included in other revenue	**$ 3,770,340**	$ 5,099,441
Investment income from self-insurance fund included in other revenue	**5,846,166**	3,030,848
Investment income from bond indenture funds offset against interest expense	**9**	6,080
Included in operating income	**9,616,515**	8,136,369
Nonoperating investment gains	**13,207,901**	7,568,884
Total investment income	**$ 22,824,416**	$ 15,705,253

6. Property, Plant, and Equipment

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

	Range of Estimated Useful Lives	December 31 2013	2012
Land	–	**$ 16,102,773**	$ 14,729,048
Land improvements	3–50 years	**11,654,353**	11,328,971
Buildings and building service equipment	3–70 years	**281,209,932**	278,858,414
Fixed and major movable equipment	3–20 years	**157,828,634**	142,626,089
		466,795,692	447,542,522
Accumulated depreciation		**(238,130,524)**	(216,088,433)
		228,665,168	231,454,089
Construction in progress		**9,511,514**	6,317,074
		$ 238,176,682	$ 237,771,163

Property, plant, and equipment include capitalized leased assets having an original cost of $26,766,308 and accumulated amortization of $3,175,063 at December 31, 2012. In December 2013, all capital leases were paid in full (see Note 8).

Net interest capitalized for the years ended December 31, 2013 and 2012 was approximately $788,000 and $149,000, respectively.

In 2012, the Hospital recorded a loss of $3,678,480 due to the abandonment of various capital projects.

7. Lines of Credit

The Hospital maintains a revolving line of credit with a commercial bank in the amount of $25,000,000. The balance due at December 31, 2013 is $21,000,000 and no balance was due at December 31, 2012. The drawdown in 2013 was used to retire the Hospital's outstanding bank leases in December 2013 (see Note 16). 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 June 27, 2014.

7. Lines of Credit (continued)

The Hospital maintains a second revolving line of credit with another commercial bank in the amount of $10,000,000 at December 31, 2013 and 2012. There is no balance due at December 31, 2013 and 2012. The interest rate on any unpaid principal amount is based on the prime rate or 1.65% plus LIBOR, never to be less than 2.75%, calculated separately for each drawdown. There is no fee on the unused line of credit. The current line of credit is set to expire October 1, 2014.

8. Long-Term Debt

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

	2013	2012
Series 2005 bonds payable (a)	**$ –**	$ 3,845,000
Series 2012 bonds payable (b)	**86,665,000**	90,770,000
TELP long-term debt (c)	**–**	4,205,083
Leases payable (c)	**–**	23,049,095
Total long-term debt	**86,665,000**	121,869,178
Current portion of long-term debt	**(2,835,000)**	(11,288,507)
Net unamortized Series 2012 bond premium	**8,880,523**	9,728,765
	$ 92,710,523	$ 120,309,436

(a) In 2005, SN Services issued, through the Town of Hempstead Industrial Development Agency, $4,995,000 of Series 2005 Revenue Bonds (Series 2005) to construct and equip two multifamily residences, 22 apartments and support services, with an aggregate of approximately 26,000 square feet. The residences are used to house nurses and other health care professionals employed by the Hospital. The principal amount of the Series 2005 bonds was payable on December 1 of every year through December 2025. The Series 2005 bonds carried an interest rate of 4.60%. The Series 2005 bonds were fully refunded in December 2013, which resulted in a loss on debt extinguishment of approximately $99,000.

8. Long-Term Debt (continued)

(b) In October 2012, the Hospital issued, through the Nassau County Local Economic Assistance Corporation, $90,770,000 of Series 2012 Revenue Bonds (Series 2012) at a premium of $10,162,698. The Series 2012 bonds were issued to refund previously outstanding Series 2001B and Series 2003B bonds (issued through the Dormitory Authority of the State of New York on behalf of the Obligated Group) and to fund capital additions and capital improvements. The Series 2012 bonds are payable on July 1 of every year through July 1, 2037, at varying interest rates (3.00% to 5.00%). The refinancing and refunding of long-term debt resulted in a loss on debt extinguishment of $3,716,996.

In conjunction with the Master Trust Indenture Agreement, 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 Series 2012 debt agreements include the maintenance of financial ratios, including a debt service coverage ratio and days cash on hand ratio. At December 31, 2013 and 2012, the Hospital was in compliance with the financial covenants.

(c) In 2010, the Hospital entered into an agreement under the New York State tax-exempt leasing program (TELP) in the amount of $8,061,234 for the acquisition of certain equipment (interest at 3.47%). In 2011, the Hospital entered into two lease agreements with commercial banks in the aggregated amount of $16,766,094 to finance the acquisition of certain equipment and a portion of the Hospital's electronic medical records costs (interest at 2.15% and 3.83% under the leases). In December 2012, the Hospital entered into a lease agreement with a commercial bank in the amount of $10,000,215 to finance an additional portion of the Hospital's electronic medical records costs (interest at 3.09%). In December 2013, the Hospital paid off all outstanding amounts under these lease agreements. A loss on extinguishment resulting from early termination fees of approximately $645,000 was incurred (see Note 16).

8. Long-Term Debt (continued)

The Hospital's principal payments for long-term debt at December 31, 2013 are as follows:

2014	$ 2,835,000
2015	3,370,000
2016	3,505,000
2017	3,650,000
2018	3,825,000
Thereafter	69,480,000
Total	$ 86,665,000

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 2013 plan year. The Hospital expects to contribute approximately $2.0 million in 2014. In addition to the defined benefit pension plan, the Hospital sponsors two defined benefit postretirement benefit plans for full-time employees who have worked 15 years and attained age 55 while in service with the Hospital: one plan provides life insurance benefits and the other plan provides medical benefits. All retirees are provided $1,000 of life insurance benefits on a noncontributory basis.

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

Effective January 1, 2014, the Hospital established a defined contribution pension plan. The Plan includes an employer basic contribution equal to a percentage of the participant's compensation based on the participant's years of service and an employer matching contribution equal to 100% of voluntary employee deferrals up to 2% of the participant's eligible compensation.

9. Retirement Plan and Postretirement Benefits (continued)

On January 1, 2007, the Hospital revised the medical portion of the two defined benefit postretirement benefit plans. The revision entitles certain retirees to be "grandfathered" into the previous plans' benefits which include medical benefits on a noncontributory basis for retirees post-age 65 and on a contributory basis for pre-age 65 retirees. The other non-"grandfathered" pre-age 65 eligible retirees will receive medical benefits on a contributory basis at a higher rate than the previous plan provided. In addition, eligible employees who provide advance notice of their retirement will receive noncontributory "health reimbursement accounts" which the employee can use to pay medical expenses. The Hospital recognizes a liability for the obligation to provide postretirement health care and welfare benefits during the years in which employees provide service rather than on a cash basis. The Hospital made benefit payments of approximately $252,000 and $247,000 in 2013 and 2012, respectively.

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

Included in unrestricted net assets at December 31, 2013 are the following amounts that have not yet been recognized in net periodic pension cost:

	Retirement Plan	Postretirement Plans	Total
Unrecognized actuarial (loss) gain	**$ (18,009,177)**	**$ 7,338,000**	**$ (10,671,177)**
Unrecognized prior service credit	**–**	**651,000**	**651,000**
	$ (18,009,177)	**$ 7,989,000**	**$ (10,020,177)**

9. Retirement Plan and Postretirement Benefits (continued)

Included in unrestricted net assets at December 31, 2012 are the following amounts that have not yet been recognized in net periodic pension cost:

	Retirement Plan	Postretirement Plans	Total
Unrecognized actuarial (loss) gain	$ (98,787,384)	$ 6,875,000	$ (91,912,384)
Unrecognized prior service (cost) credit	(80,507)	1,288,000	1,207,493
	$ (98,867,891)	$ 8,163,000	$ (90,704,891)

The prior service cost (credit) and net loss (gain) included in unrestricted net assets expected to be recognized in net periodic pension cost during the year ending December 31, 2014 are as follows:

	Retirement Plan	Postretirement Plans	Total
Prior service cost (credit)	$ –	$ (637,000)	$ (637,000)
Net loss (gain)	172,611	(458,000)	(285,389)
	$ 172,611	$ (1,095,000)	$ (922,389)

9. Retirement Plan and Postretirement Benefits (continued)

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

	Retirement Plan		Postretirement Plans	
	2013	**2012**	**2013**	**2012**
Changes in benefit obligation				
Benefit obligation at January 1	**$ 232,040**	$ 200,626	**$ 4,838**	$ 5,306
Service cost	–	15,586	**83**	68
Interest cost	**9,266**	9,425	**174**	191
Actuarial (gain) loss	**(27,570)**	19,342	**(886)**	(480)
Benefit and fee payments, net	**(13,599)**	(12,939)	**(252)**	(247)
Curtailment	**(38,635)**	–	**–**	–
Benefit obligation at December 31	**161,502**	232,040	**3,957**	4,838
Change in plan assets				
Fair value of plan assets at January 1	**126,765**	108,131	**–**	–
Actual return on plan assets	**17,843**	12,928	**–**	–
Employer contributions	**7,300**	18,645	**252**	247
Benefit and fee payments, net	**(13,599)**	(12,939)	**(252)**	(247)
Fair value of plan assets at December 31	**138,309**	126,765	**–**	–
Unfunded status	**$ 23,193**	$ 105,275	**$ 3,957**	$ 4,838

The actuarial (gain) loss in 2013 and 2012 is primarily attributed to the change in the discount rate. The curtailment is due to the Plan freeze.

9. Retirement Plan and Postretirement Benefits (continued)

Except for estimated postretirement benefit payments for the following year, at December 31, 2013 and 2012, the funded status of the retirement and postretirement plans are reported in the consolidated statements of financial position as noncurrent liabilities.

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

	December 31	
	2013	**2012**
Projected benefit obligation	**$ 161,502**	$ 232,040
Accumulated benefit obligation	**161,502**	184,951
Fair value of plan assets	**138,309**	126,765

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

	Retirement Plan		Postretirement Plans	
	2013	**2012**	**2013**	**2012**
Service cost	**$ –**	$ 15,586	**$ 83**	$ 68
Interest cost on projected benefit obligation	**9,266**	9,425	**174**	191
Expected return on plan assets	**(10,038)**	(8,806)	**–**	–
Amortization of prior service cost (credit)	**28**	63	**(637)**	(637)
Amortization of net loss (gain)	**5,251**	6,818	**(423)**	(484)
Curtailment	**1,570**	–	**–**	–
Net periodic benefit cost (income)	**$ 6,077**	$ 23,086	**$ (803)**	$ (862)

9. Retirement Plan and Postretirement Benefits (continued)

Assumptions

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

	Retirement Plan		Postretirement Plans	
	2013	**2012**	**2013**	**2012**
Discount rate	**5.08%**	4.25%	**4.53%**	3.70%

The rate of compensation increase used in developing the Retirement Plan's unfunded status at December 31, 2013 and 2012 was a graded table (4.00% to age 40, 3.50% for ages 40 to 55 and 3.00% for over age 55).

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

	Retirement Plan		Postretirement Plans	
	2013	**2012**	**2013**	**2012**
Discount rate	**4.25%**	4.75%	**3.70%**	4.50%
Expected long-term rate of return on plan assets	**8.00**	8.00	–	–

The rate of compensation increase used in developing the Retirement Plan's net periodic benefit cost for the years ended December 31, 2013 and 2012 was a graded table (4.00% to age 40, 3.50% for ages 40 to 55 and 3.00% for over age 55).

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 U.S. government securities) and (3) the risk premium for each asset class (i.e., the expected return in excess of the risk-free rate).

9. Retirement Plan and Postretirement Benefits (continued)

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 U.S. Treasury securities. That market provides implied forecasts of both the inflation rate and risk-free rate for the period over which currently available securities mature. The historical data on risk premiums for each asset class is adjusted to reflect any systemic changes that have occurred in the relevant markets, i.e., the higher current valuations for equities, as a multiple of earnings, relative to the longer-term average for such valuations.

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

Assumed Health Care Cost Trends

The assumed health care cost trend rates used in measuring the accumulated postretirement benefit obligations for 2013 and 2012 are as follows:

	2013	2012
Health care cost trend rate assumed for next year	**10%**	9%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	**5%**	6%
Year that the rate reaches the ultimate trend rate	**2023**	2015

9. Retirement Plan and Postretirement Benefits (continued)

The health care cost trend rate assumption has a significant effect on the amounts reported. A 1% change in assumed health care cost trend rates would have the following effects (in thousands):

	2013		2012	
	1% Increase	**1% Decrease**	**1% Increase**	**1% Decrease**
Effect on total of service and interest cost components of net periodic postretirement health care benefit cost	**$ 16**	**$ (13)**	$ 15	$ (14)
Effect on the health care component of the accumulated postretirement benefit obligation	**312**	**(269)**	397	(337)

Plan Assets

The overall objective of the retirement plan is to produce an asset allocation that will generate 8.0% total return annually to meet expense and income needs and provide for sufficient annual asset growth.

The target allocations for plan assets are 65% equity securities, 10% hedge funds, and 25% 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 U.S. Treasuries.

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

9. Retirement Plan and Postretirement Benefits (continued)

The fair values of the Hospital's retirement plan assets at December 31, 2013, by asset category, for assets which are accounted for at fair value, are as follows:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 2,522,968	$ 2,522,968	$ –	$ –
Mutual funds:				
Bond fund	20,818,428	20,818,428	–	–
Natural resources	2,510,676	2,510,676	–	–
Real estate investment trusts	6,065,944	6,065,944	–	–
SMID fund	10,253,802	10,253,802	–	–
International fund	11,599,635	11,599,635	–	–
Corporate bonds	134,882	–	134,882	–
Common collective trust	14,729,452	–	14,729,452	–
Commodities fund	1,966,336	–	1,966,336	–
Emerging markets	5,848,777	–	5,848,777	–
Hedge fund	13,041,490	–	13,041,490	–
Common stocks:				
Small cap	16,056,091	16,056,091	–	–
Large cap	29,356,455	29,356,455	–	–
Total	$ 134,904,936	$ 99,183,999	$ 35,720,937	$ –

9. Retirement Plan and Postretirement Benefits (continued)

The fair values of the Hospital's retirement plan assets at December 31, 2012, by asset category, for assets which are accounted for at fair value, are as follows:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 4,798,663	$ 4,798,663	$ –	$ –
Mutual funds:				
Bond fund	19,997,558	19,997,558	–	–
Natural resources	2,259,357	2,259,357	–	–
Real estate investment trusts	5,546,933	5,546,933	–	–
SMID fund	7,807,490	7,807,490	–	–
International fund	7,848,353	7,848,353	–	–
Corporate bonds	131,138	–	131,138	–
Government obligations	274,992	274,992	–	–
Common collective trust	12,615,650	–	12,615,650	–
Commodities fund	2,134,346	–	2,134,346	–
Emerging markets	6,178,676	–	6,178,676	–
Hedge fund	11,551,697	–	–	11,551,697
Convertible preferred stocks	44,130	44,130	–	–
Common stocks:				
Small cap	11,942,238	11,942,238	–	–
Large cap	25,599,436	25,599,436	–	–
Total	$ 118,730,657	$ 86,119,150	$ 21,059,810	$ 11,551,697

The Hospital's investment in a deposit administration contract is reported at contract value and, therefore, is not included in the tables above. At December 31, 2013 and 2012, this investment was $3,403,605 and $8,034,469, respectively. Contract value of the unallocated insurance contract approximates its fair value.

9. Retirement Plan and Postretirement Benefits (continued)

The following table sets forth a summary of changes in the fair value of the Hospital's retirement plan's Level 3 assets for the years ended December 31, 2013 and 2012:

	2013	2012
Fair value, beginning of year	**$ 11,551,697**	$ 10,479,468
Net realized and unrealized gains and losses	**1,489,793**	1,072,229
Transfers out of Level 3	**(13,041,490)**	–
Fair value, end of year	**$ –**	$ 11,551,697

Transfers out are recognized once the underlying investment is determined to be redeemable in the near term.

Estimated Future Benefit Payments

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

	Retirement Plan
2014	$ 6,218
2015	9,774
2016	9,516
2017	12,601
2018	11,143
2019 to 2023	61,352

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. The general liability policy has coverage limits of $1.0 million per occurrence/ $1.5 million in aggregate.

10. Self-Insurance (Professional and General Liability) (continued)

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 $37,720,000 and $40,025,000 at December 31, 2013 and 2012, respectively. The Hospital maintains a revocable trust with a trustee, included in assets whose use is limited, to satisfy estimated professional and general liabilities claims and expenses which totals $37,720,000 and $40,025,000 at December 31, 2013 and 2012, respectively.

11. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets related to heath care programs and education are $599,487 and $477,969 at December 31, 2013 and 2012, respectively.

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

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	
	2013	**2012**
Medicare	**19%**	23%
Blue Cross	**18**	17
Other – managed care	**49**	46
Self-pay	**5**	5
Medicaid	**3**	3
Other	**6**	6
	100%	100%

At December 31, 2013 and 2012, 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 Measurements

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

13. Fair Value of Financial Instruments (continued)

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

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

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

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

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

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

13. Fair Value of Financial Instruments (continued)

Financial assets carried at fair value as of December 31, 2013 are classified in the table below in one of the three categories described above:

	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 56,131,705	$ 56,131,705	$ –	$ –
Mutual funds:				
Large cap growth fund	4,202,902	4,202,902	–	–
Natural resources	3,379,526	3,379,526	–	–
Real estate investment trusts	6,066,507	6,066,507	–	–
SMID fund	12,147,214	12,147,214	–	–
International mutual fund	15,423,918	15,423,918	–	–
Corporate bonds	14,375,126	9,547,983	4,827,143	–
Government obligations	10,148,315	5,247,422	4,900,893	–
Marketable equity securities:				
Small cap	9,926,957	9,926,957	–	–
Mid cap	1,269,920	1,269,920	–	–
Large cap	46,364,665	46,364,665	–	–
International developed	1,446,512	1,446,512	–	–
Accrued interest	386,917	386,917	–	–
Total	$181,270,184	$ 171,542,148	$ 9,728,036	$ –

13. Fair Value of Financial Instruments (continued)

Financial assets carried at fair value as of December 31, 2012, are classified in the table below in one of the three categories described above:

	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 47,777,909	$ 47,777,909	$ –	$ –
Mutual funds:				
Large cap growth fund	4,851,812	4,851,812	–	–
Natural resources	2,989,416	2,989,416	–	–
Real estate investment trusts	6,760,713	6,760,713	–	–
SMID fund	9,636,119	9,636,119	–	–
International mutual fund	10,727,226	10,727,226	–	–
Corporate bonds	15,663,331	143,750	15,519,581	–
Government obligations	12,513,981	5,161,506	7,352,475	–
Marketable equity securities:				
Small cap	7,152,251	7,152,251	–	–
Mid cap	1,522,263	1,522,263	–	–
Large cap	38,629,962	38,629,962	–	–
International developed	867,573	867,573	–	–
Accrued interest	227,787	227,787	–	–
Total	$ 159,320,343	$ 136,448,287	$ 22,872,056	$ –

The Hospital's investments reported using the equity method of accounting are not included in the tables above (see Note 1).

The carrying values and fair values of the Hospital's financial instruments that are not required to be carried at fair value are as follows at December 31, 2013 and 2012 (in thousands):

	2013		**2012**	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Long-term debt	**$ 95,546**	**$ 89,595**	$ 131,598	$ 131,865

13. Fair Value of Financial Instruments (continued)

The fair value of the Hospital's bonds payable is based on quoted market prices for the related bonds. The fair value of other debt (outstanding at December 31, 2012) is based upon discounted cash flow analyses. Fair value of bonds payable is classified as Level 1, while fair value of other debt is classified as Level 2.

14. Related-Party Transactions

Expenses

For the years ended December 31, 2013 and 2012, WSNUHS allocated certain network-related expenses to the Hospital totaling approximately $313,000 and $253,000, respectively. Such expenses are included in administrative and general services in the accompanying consolidated statements of activities. At December 31, 2013 and 2012, the Hospital had a receivable due from WSNUHS of approximately $151,100 and $58,500, respectively, for overpayment of network-related expenses.

Long Island Health Network

WSNUHS and a number of other health care providers on Long Island have entered into a joint agreement, which operates as LIHN. LIHN is working to improve the quality of care, facilitate clinical integration, benchmark best practices, reduce length of stay and costs, and negotiate managed care contracts on behalf of its members.

For the years ended December 31, 2013 and 2012, LIHN allocated certain network-related expenses to the Hospital totaling approximately $952,000 and $985,000, respectively. Such expenses are included in administrative and general services in the accompanying consolidated statements of activities.

LIHN was created in 1998 after review by the Attorney General of the State of New York and approval by the Antitrust Division of the U.S. Department of Justice. The New York State Attorney General's Office has periodically requested information and documents from LIHN regarding the operation of its clinical integration program and related activities, in 2000, 2002, and most recently in November, 2013, this time through the issuance of a civil subpoena. LIHN is responding to the subpoena and continues to cooperate with the Attorney General. These informational requests do not constitute or contain a claim or allegation that there has been any violation of law.

14. Related-Party Transactions (continued)

Note Receivable

As part of a 2006 transaction to defease revenue bonds of New Island Hospital, which were guaranteed by the Hospital, Winthrop and Catholic Health Services of Long Island, Inc., the Hospital received a 25% interest in a subordinate promissory note from New Island Hospital. The Hospital's receivable on this note totaled approximately $1,332,000, plus accrued interest of approximately $170,000. During 2010, New Island Hospital was acquired by Catholic Health Services of Long Island, Inc. and renamed St. Joseph Hospital. Due to St. Joseph Hospital's financial condition, the Hospital had fully reserved the note receivable and the related accrued interest. However, in June 2013, the note was paid in full and the repayment is included in the gain on New Island settlement in the accompanying consolidated statement of activities.

15. Estimated Loss Related to Storm

As a result of the storm that occurred in October 2012, the Hospital's outpatient dialysis center and various other locations were damaged. Insurance proceeds of $2,000,000 and $1,500,000 have been received during the years ended December 31, 2013 and 2012, respectively, in relation to the damage. The estimated loss of $1,498,327 for the year ended December 31, 2012 represents the write-down in the net book value of the damaged building and the non-capitalizable portion of remediation costs incurred to repair the storm damage and file the insurance claims. The estimated loss of $573,969 for the year ended December 31, 2013 represents remediation costs and other miscellaneous expenses incurred in 2013. Any additional insurance proceeds to be received in the future cannot presently be determined. Other storm-related costs were incurred; however, such amounts were not quantified and are not recoverable through insurance. The Hospital is currently filing business interruption claims for lost revenues incurred in 2013 and 2012; such claims have not been paid as of December 31, 2013.

16. Long Beach Medical Center

The Hospital has been working with the New York State Department of Health (NYSDOH) and the Dormitory Authority of the State of New York (DASNY) to develop a health care service delivery model that will replace Long Beach Medical Center (LBMC), which was closed as a result of extensive damage sustained from the storm in October 2012. In August 2013, the Hospital entered into a memorandum of understanding with LBMC and Long Beach Memorial Nursing Home, Inc. (LBMNH) which set forth their intent based upon discussions among them regarding the conveyance of certain assets and/or the restructuring of interests and indebtedness of LBMC and LBMNH.

The Hospital executed a short-term loan and security agreement with DASNY in December 2013 in the amount of $1,500,000 which then will be loaned by the Hospital to LBMC and LBMNH. Interest on the outstanding principal amount of the DASNY loan is set at 1.0%. As of December 31, 2013, the Hospital has loaned $964,275 to LBMC and LBMNH, which was fully reserved and included in the loss related to Long Beach Medical Center transactions in the accompanying consolidated financial statements. As of December 31, 2013, the remaining funds of approximately $535,725 are included in the current portion of assets whose use is limited in the accompanying 2013 consolidated statement of financial position.

In December 2013, the Hospital received notification of a Health Care Efficiency and Affordability Law for New Yorkers (HEAL NY) grant award in the amount of $21,962,357 (the HEAL Grant) which is to be used to assist the Hospital with the retirement of debt associated with outstanding bank leases and fund legal and other expenses incurred related to the LBMC transaction. Early retirement of the outstanding bank leases will reduce the Hospital's debt service obligation by approximately $21,000,000 through 2017. The economic benefit from the debt service reduction will allow the Hospital to commit to NYSDOH and DASNY that it will reinvest an amount at least equivalent to the amount of the HEAL Grant into the development of a health care service delivery model to best serve the Long Beach and surrounding communities.

In December 2013, the Hospital paid off its outstanding bank leases which totaled $21,028,191. The remaining $934,166 of the HEAL Grant will be used to reimburse the Hospital for legal and other expenses related to the LBMC transaction. Included in the loss related to Long Beach Medical Center transactions in the accompanying 2013 consolidated statement of activities is $674,239 of these legal and other expenses. The HEAL Grant is expected to be received in 2014, after the finalization of certain pending matters with NYSDOH and DASNY and will be reported as revenue once the Hospital has met the criteria set forth in the agreement.

16. Long Beach Medical Center (continued)

On February 18, 2014, the Hospital entered into an asset purchase agreement with LBMC and LBMNH to acquire certain assets and assume certain liabilities for approximately $21,000,000.

17. Other Revenue

Other revenue consists of the following for the years ending December 31, 2013 and 2012:

	2013	2012
Investment income – operating income	**$ 9,616,506**	$ 8,130,289
Electronic Health Records incentive revenue	**2,513,874**	5,276,069
Net assets released from restrictions used for operations	**1,172,807**	1,874,488
Grants	**892,204**	60,165
Rental income	**823,942**	931,767
Miscellaneous income	**2,973,017**	2,245,303
	$ 17,992,350	$ 18,518,081

Included in other revenue for the year ended December 31, 2013 is Electronic Health Records (EHR) incentive payments (EHR Revenue) of approximately $1,980,000 and $534,000 for Medicare and Medicaid, respectively (for the year ended December 31, 2012, approximately $4,420,000 and $856,000 for Medicare and Medicaid, respectively). EHR Revenue is attributable to the Health Information Technology for Economic and Clinical Health Act (the HITECH Act) which was enacted into law on February 17, 2009, as part of the American Recovery and Reinvestment Act of 2009 (ARRA). The HITECH Act includes provisions designed to increase the use of EHR by both physicians and hospitals. Beginning with federal fiscal year 2011, and extending through federal fiscal year 2016, eligible hospitals and critical access hospitals (CAH) participating in the Medicare and Medicaid programs are eligible for incentives based on successfully demonstrating meaningful use of their certified EHR technology. Conversely, those hospitals that do not successfully demonstrate meaningful use of EHR technology are subject to payment penalties or downward adjustments to their Medicare payments beginning in fiscal year 2015.

17. Other Revenue (continued)

The Hospital accounts for EHR Revenue under a grant accounting model. Under this grant accounting model, the Hospital ratably recognizes income over a compliance period once management is reasonably assured of meaningful use compliance for the entire compliance period. At December 31, 2012, the Hospital accrued the estimated Medicare EHR Revenue for the three months ended December 31, 2012 of approximately $694,000. No amount was accrued at December 31, 2013.

The Hospital's attestation of compliance with the meaningful use criteria is subject to audit by the federal government or its designee. Additionally, Medicare EHR incentive payments received are subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were calculated.

18. Subsequent Events

Subsequent events have been evaluated through March 6, 2014, the date the consolidated financial statements were issued, except as disclosed in Notes 9 and 16, no subsequent events have occurred that require disclosure in or adjustment to the consolidated financial statements.

Supplementary Information

South Nassau Communities Hospital
and Subsidiaries

Consolidating Statement of Financial Position

December 31, 2013

	South Nassau Communities Hospital	Other Entities	Eliminations	Consolidated
Assets				
Current assets:				
Cash and cash equivalents	$ 26,045,122	$ 1,043,769	$ –	$ 27,088,891
Investments	126,180,303	–	–	126,180,303
Current portion of assets whose use is limited	26,093,184	–	–	26,093,184
Patient receivables, less allowance for uncollectibles	50,981,960	1,370,721	–	52,352,681
Due from affiliates	293,162	84,921	(378,083)	–
Other current assets	12,132,912	371,374	–	12,504,286
Total current assets	241,726,643	2,870,785	(378,083)	244,219,345
Assets whose use is limited	30,365,034	–	–	30,365,034
Long-term investments	1,627,563	–	–	1,627,563
Due from affiliates, net of current portion	30,073,481	–	(30,073,481)	–
Other long-term assets	1,699,516	–	–	1,699,516
Property, plant and equipment, net	209,142,023	29,034,659	–	238,176,682
Total assets	$ 514,634,260	$ 31,905,444	$ (30,451,564)	$ 516,088,140
Liabilities and net assets				
Current liabilities:				
Amounts due under lines of credit	$ 21,000,000	$ –	$ –	$ 21,000,000
Accounts payable	15,171,882	33,114	–	15,204,996
Accrued expenses	28,844,546	394,302	–	29,238,848
Accrued payroll and vacation	19,290,119	747,525	–	20,037,644
Due to affiliates	–	378,083	(378,083)	–
Current portion of long-term debt	2,835,000	–	–	2,835,000
Current portion of accrued postretirement benefits other than pension	216,000	–	–	216,000
Current portion of estimated professional and general liabilities	7,880,000	–	–	7,880,000
Loan payable	1,500,000	–	–	1,500,000
Other current liabilities	19,060,000	–	–	19,060,000
Total current liabilities	115,797,547	1,553,024	(378,083)	116,972,488
Long-term debt, net of current portion	92,710,523	–	–	92,710,523
Accrued pension payable	23,193,045	–	–	23,193,045
Due to affiliates, net of current portion	–	30,073,481	(30,073,481)	–
Accrued postretirement benefits other than pension, net of current portion	3,741,000	–	–	3,741,000
Estimated professional and general liabilities, net of current portion	29,840,000	–	–	29,840,000
Other liabilities	2,145,317	–	–	2,145,317
Total liabilities	267,427,432	31,626,505	(30,451,564)	268,602,373
Net assets:				
Unrestricted	245,579,265	278,939	–	245,858,204
Temporarily restricted	599,487	–	–	599,487
Permanently restricted	1,028,076	–	–	1,028,076
Total net assets	247,206,828	278,939	–	247,485,767
Total liabilities and net assets	$ 514,634,260	$ 31,905,444	$ (30,451,564)	$ 516,088,140

South Nassau Communities Hospital
and Subsidiaries

Consolidating Statement of Activities

Year Ended December 31, 2013

	South Nassau Communities Hospital	Other Entities	Eliminations	Consolidated
Operating revenue:				
Net patient service revenue, net of contractual allowances and other discounts	$ 403,883,886	$ 13,599,874	$ –	$ 417,483,760
Provision for bad debts	(13,636,000)	–	–	(13,636,000)
Net patient service revenue, less provision for bad debts	390,247,886	13,599,874	–	403,847,760
Other revenue	16,682,525	1,309,825	–	17,992,350
Total operating revenue	406,930,411	14,909,699	–	421,840,110
Operating expenses:				
Nursing services	139,709,426	–	–	139,709,426
Other professional services	110,257,782	16,843,096	–	127,100,878
Facilities services	23,113,259	967,427	–	24,080,686
Administrative and general services	41,137,165	–	–	41,137,165
Employee benefits	33,455,103	2,606,248	–	36,061,351
Insurance	7,192,909	1,010,647	–	8,203,556
Interest expense	3,594,313	176,025	–	3,770,338
Provision for depreciation and amortization	24,741,727	1,246,163	–	25,987,890
Total operating expenses	383,201,684	22,849,606	–	406,051,290
Operating income (loss)	23,728,727	(7,939,907)	–	15,788,820
Nonoperating gains and losses:				
Net nonoperating investment gain	13,207,901	–	–	13,207,901
Unrestricted contributions and bequests, less fund raising expenses	675,048	–	–	675,048
Estimated loss related to storm	(573,969)	–	–	(573,969)
Insurance recoveries related to storm	2,000,000	–	–	2,000,000
Gain on New Island Hospital settlement	1,502,486	–	–	1,502,486
Gain on sale of property	–	117,138	–	117,138
Loss on Long Beach Medical Center transactions	(1,638,514)	–	–	(1,638,514)
Loss on refinancing and refunding of long-term debt	(645,187)	(98,582)	–	(743,769)
Excess (deficiency) of revenue and gains over expenses	38,256,492	(7,921,351)	–	30,335,141
Equity transfer (to) from related party	(7,868,540)	7,868,540	–	–
Net assets released from restrictions for capital asset acquisitions	544,645	–	–	544,645
Pension and postretirement liability adjustments	80,684,714	–	–	80,684,714
Increase (decrease) in unrestricted net assets	$ 111,617,311	$ (52,811)	$ –	$ 111,564,500

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