



**South Nassau Communities Hospital
and Subsidiaries**

Unaudited Interim Financial Statements

December 31, 2015

**South Nassau Communities Hospital
and Subsidiaries**

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This document is dated as of February 29, 2016

SPECIAL NOTE CONCERNING FORWARD-LOOKING STATEMENTS. Certain of the discussions included in the following document may include certain “forward-looking statements” which involve known and unknown risks and uncertainties inherent in the operation of healthcare facilities. Actual actions or results may differ materially from those discussed below. Specific factors that might cause such differences include competition from other healthcare facilities in the service area, federal and state regulation of healthcare providers, and reimbursement policies of the state and federal governments and managed care organizations. In particular, statements preceded by, followed by or that include the words “believes”, “estimates”, “expects”, “anticipates”, “plans”, “intends”, “scheduled” or other similar expressions are or may constitute forward-looking statements. South Nassau Communities Hospital and Subsidiaries are not required to update any of the statement in light of new information or future events, except to the extent required by applicable law.

MANAGEMENT’S DISCUSSION AND ANALYSIS

UNAUDITED QUARTERLY REPORT

**FOURTH QUARTER ENDING
DECEMBER 31, 2015**

**The information in this report
has been provided by**

Mark Bogen, Chief Financial Officer

The financial information furnished herein is unaudited and thus is subject to change; however, in the opinion of management, the information reflects all adjustments that are necessary to fairly state the consolidated financial position of South Nassau Communities Hospital and Subsidiaries (the "Hospital"), and the results of its operations and changes in its unrestricted net assets for the interim periods indicated.

The Hospital presumes that users of this interim financial information have read or have access to the Hospital's audited financial statements and that the adequacy of additional disclosure needed for a fair presentation may be determined in that context. The financial statements of the Hospital for the fiscal years ended December 31, 2014, and 2013 is on file at www.emma.msrb.org. Accordingly, footnotes and other disclosures that would substantially duplicate the disclosures contained in the Hospital's most recent audited financial statements have been omitted.

Patient volumes and net operating revenues are subject to seasonal variations caused by a number of factors, including, but not necessarily limited to, seasonal cycles of illness, climate and weather conditions, vacation patterns of both hospital patients and admitting physicians and other factors relating to the timing of elective hospital procedures. Quarterly operating results are not necessarily representative of operations for a full year for various reasons, including levels of occupancy and other patient volumes, interest rates, unusual or non-recurring items and other seasonal fluctuations. These same considerations apply to all year-to-year comparisons.

Management's Discussion and Analysis
Fourth Quarter Ending December 31, 2015

Financial Results

For the twelve months ended December 31, 2015 and 2014, South Nassau Communities Hospital and subsidiaries recorded income from operations, of \$145,000 and \$4.1 million, respectively. Including investment activity the Hospital recorded a deficiency of revenue and gains over expenses of \$3.8 million for the twelve months ended December 31, 2015 and an excess of revenue and gains over expenses of \$13.1 million for the twelve months ended December 31, 2014.

The largest contributing factor to the 2015 results were investment losses which were below a prior year gain by \$7.7 million (a loss of \$4.1 million for 2015 compared to a gain \$3.6 million gain for 2014).

Patient revenue, gross of uncompensated care, increased by \$43.1 million as compared to 2014 due to increases in volume, rates, case mix, the new healthcare services in Long Beach (an Urgent Care Center that was converted into a Freestanding Emergency Department), and patient revenue associated with investments in and acquisitions of physician practices. In addition, the Hospital recorded approximately \$8.5 million in positive third party settlements in 2015 as compared to \$1.7 million in 2014.

Uncompensated care increased by \$2.6 million as compared to 2014, primarily due to an increase in bad debt expense as a result of the Health Republic receivable being fully reserved at December 31, 2015 due to the uncertainty of future collections. This accounts for \$2.4 million of the increase in bad debt expense.

Total operating expenses increased by \$44.0 million as compared to 2014. The components of the expense and the explanations for the variances are included below:

<i>(\$ in millions)</i>	2015	2014
Salaries and benefits	\$ 277.6	\$ 252.6
Other than salary expenses	153.5	136.6
Insurance	11.2	11.7
Interest expense	3.5	2.9
Provision for depreciation and amortization	26.9	24.9
Total operating expenses	\$ 472.7	\$ 428.7

For the twelve months ended December 31, 2015, salaries and benefits increased by \$25.0 million as compared to 2014. The net increase is due to salaries increasing by \$15.7 million primarily due to (i) investments in strategic physician practice acquisitions;(ii) the opening of an Urgent Care Center location in Long Beach in July 2014 and the subsequent conversion to a Free Standing Emergency Department in August 2015; (iii) the acquisition of a Family Practice office in Long Beach in March 2014; and (iv) an annual increase provided to employees.

Employee benefits increased by \$9.3 million primarily due to (i) an increase in medical benefits expense due to an increase in utilization and an increase in high cost claims; (ii) an increase in FICA expense due to an increase in salaries; (iii) an increase in Pension expense due to the impact of the new mortality table, decrease in discount rate, less than expected investment returns

on pension assets and an increase in the Pension Benefit Guaranty Corporation premium due to an increase in their rates.

Other than salary expenses increased by \$16.9 million as compared to 2014 primarily due to non-personnel costs of acquiring a large physician practice in October 2014, increases in the cost of supplies and services and costs associated with acquiring the Long Beach Hospital campus and the opening of a Freestanding Emergency Department in Long Beach in August 2015.

Included in non-operating gains and losses for the twelve months ended December 31, 2014, is a loss and offsetting insurance recoveries associated with damage sustained to the Hospital and other costs related to Superstorm Sandy. Insurance proceeds of \$1.7 million were received in June 2014 as final settlement of the Hospital's Superstorm Sandy insurance claim (\$2.0 million and \$1.5 million were received in 2013 and 2012, respectively). A loss of \$0.8 million related to Long Beach Medical Center transactions was recorded for the twelve months ended December 31, 2014. The asset purchase of Long Beach was completed in the fourth quarter of 2014 and therefore there are no non-operating losses recorded for the twelve months ended 2015 (see note 5).

Utilization

Discharges for the twelve months ended December 31, 2015 increased by 477 (2.2%) as compared to 2014 primarily due to a worse flu season in 2015. Patient days increased by 3,261 days (2.9%) due to an increase in medical cases in 2015. In November 2014, the Hospital opened a transitional care unit. Discharges from the transitional care unit for the twelve months ended December 31, 2015 increased by 482 due to a full year of operations in 2015.

Emergency Room volume increased by 5.6% as compared to 2014. Management attributes this increase to the Hospital's status as the only Level II Trauma Center on the South Shore of Long Island, the establishment of a Freestanding Emergency Room in Long Beach and an increase in flu related cases for the first quarter of 2015. Clinic visits increased by 12.2%, Ambulatory Surgery visits decreased by 1.4% and Other Outpatient visits decreased by 2.9% as compared to 2014. Management attributes the increase in Clinic visits to the Hospital's assumption of the operations of the Long Beach Family Medicine Clinic in March 2014 and an increase in volume at the Mental Health Clinic in 2015 as compared to 2014. The decrease in Ambulatory Surgery is due to shifts in physician practice patterns and service mix. The decrease in the Other Outpatient visits is primarily due to a decrease in radiology volume in 2015 and the termination of the Long Term Home Care program in May 2014.

Other Information

On February 29, 2016, the Hospital and Winthrop University Hospital Association ("Winthrop") received notice from Catholic Health Services of Long Island ("CHS") that CHS intends to withdraw from Long Island Health Network ("LIHN"), the clinically integrated network in which the Hospital, Winthrop, and several hospitals affiliated with CHS participate. Management is in the process of analyzing the effect of the withdrawal of CHS from LIHN. A firm time line for CHS's withdrawal has not been established. There can be no assurance of the outcome of this matter.

**South Nassau Communities Hospital
and Subsidiaries
Unaudited
Consolidated Statements of Financial Position**

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 3,170,788	\$ 24,016,976
Investments	129,346,637	132,683,631
Current portion of assets whose use is limited	13,622,540	14,212,862
Patient receivables, less allowance for uncollectibles of \$38,977,000 in 2015 and \$33,211,000 in 2014	52,711,773	54,203,777
Other current assets	<u>16,964,610</u>	<u>11,197,682</u>
Total current assets	215,816,348	236,314,928
Assets whose use is limited		
Long-term investments	33,860,000	32,520,000
Other long-term assets	1,774,697	2,010,535
Property and equipment, at cost, net of depreciation	1,432,078	1,563,316
	<u>289,352,804</u>	<u>269,408,695</u>
Total Assets	<u>\$ 542,235,927</u>	<u>\$ 541,817,474</u>
<u>Liabilities and Net Assets</u>		
Current liabilities		
Amounts due under line of credit	\$ 20,000,000	\$ 13,000,000
Accounts payable	18,281,064	15,021,896
Accrued expenses	33,780,415	36,977,763
Accrued payroll and vacation	23,015,918	20,161,771
Current portion of long-term debt	3,505,000	3,370,000
Current portion of accrued postretirement benefits other than pension	188,000	194,000
Current portion of estimated professional and general liabilities	10,290,000	8,030,000
Deferred grant revenue	-	8,584,028
Estimated retroactive net payable to third parties	7,780,000	17,550,000
Total current liabilities	<u>116,840,397</u>	<u>122,889,458</u>
Long-term debt, net of current portion	84,235,053	88,525,459
Accrued pension payable	55,651,807	67,731,189
Accrued postretirement benefits other than pension, net of current portion	3,166,000	3,829,000
Estimated professional and general liabilities, net of current portion	33,860,000	32,520,000
Other liabilities	2,794,599	3,712,966
Total liabilities	<u>296,547,856</u>	<u>319,208,072</u>
Net assets		
Unrestricted	243,913,374	220,598,867
Temporarily restricted	746,621	982,459
Permanently restricted	1,028,076	1,028,076
Total net assets	<u>245,688,071</u>	<u>222,609,402</u>
Total Liabilities and Net Assets	<u>\$ 542,235,927</u>	<u>\$ 541,817,474</u>

**South Nassau Communities Hospital
and Subsidiaries
Unaudited
Consolidated Statements of Activities**

	<u>For the Twelve Months Ended</u>	
	<u>December 31, 2014</u>	<u>December 31, 2015</u>
Operating revenue:		
Net patient service revenue, net of contractual allowances and other discounts	\$ 433,154,833	\$ 479,329,323
Provision for bad debts	(11,106,574)	(16,853,097)
Net patient service revenue, net of provision for uncompensated care	422,048,259	462,476,226
Other revenue	14,686,379	10,332,782
Total operating revenue	<u>436,734,638</u>	<u>472,809,008</u>
Operating expenses:		
Nursing services	135,087,377	143,301,621
Other professional services	119,040,608	124,688,512
Hospital and Community based physician practices	23,863,928	36,210,746
Facilities services	27,178,688	28,433,866
Administrative and general services	40,840,956	45,891,719
Employee benefits	43,267,366	52,519,727
Insurance	11,711,298	11,201,885
Interest Expense	2,879,992	3,539,033
Provision for depreciation and amortization	24,862,849	26,877,055
Total operating expenses	<u>428,733,062</u>	<u>472,664,164</u>
Operating income (loss)	8,001,576	144,844
<u>Non-operating gains (losses):</u>		
Net interest/dividend income (loss)	1,169,136	3,645,120
Realized gains on investments	3,715,709	5,955,186
Unrealized gains on investments	(1,307,606)	(13,694,363)
Total investment income	3,577,239	(4,094,057)
Unrestricted contributions, net of expense	642,570	99,905
Loss related to storm	(69,450)	-
Insurance recoveries related to storm	1,683,325	-
Loss on Long Beach Medical Center transactions	(778,901)	-
Total non-operating gains (losses)	<u>5,054,783</u>	<u>(3,994,152)</u>
Excess (deficiency) of revenue and gains over expenses	<u>13,056,359</u>	<u>(3,849,308)</u>
Net assets released from restrictions for capital acquisitions	13,814,268	16,394,571
Pension and other postretirement liability adjustments	(52,129,964)	10,152,437
Transfer from Related Entities	-	616,807
Change in unrestricted net assets	<u>\$ (25,259,337)</u>	<u>\$ 23,314,507</u>

**South Nassau Communities Hospital
and Subsidiaries
Unaudited
Consolidated Statements of Changes in Net Assets
For the twelve months ended December 31, 2015 and the year ended December 31, 2014**

	Unrestricted Net Assets	Temporarily Restricted Net Assets		Permanently Restricted Net Assets	Total Net Assets
		General	Capital Campaign		
Balance, January 1, 2014	\$ 245,858,204	\$ 599,487	\$ -	\$ 1,028,076	\$ 247,485,767
Excess of revenue over expenses	13,056,359	-	-	-	13,056,359
Restricted contributions and bequests	-	348,839	569,263	-	918,102
Net assets released from restrictions	13,814,268	(524,880)	(10,250)	-	13,279,138
Pension and other post retirement liability adjustments	(52,129,964)	-	-	-	(52,129,964)
Total changes in net assets	(25,259,337)	(176,041)	559,013	-	(24,876,365)
Balance, December 31, 2014	220,598,867	423,446	559,013	1,028,076	222,609,402
Deficiency of revenue over expenses	(3,849,308)	-	-	-	(3,849,308)
Restricted contributions and bequests	-	381,458	810,932	-	1,192,390
Net assets released from restrictions	16,394,571	(58,283)	(1,369,945)	-	14,966,343
Transfer from related entities	616,807	-	-	-	616,807
Pension and other post retirement liability adjustments	10,152,437	-	-	-	10,152,437
Total changes in net assets	23,314,507	323,175	(559,013)	-	23,078,669
Balance, December 31, 2015	\$ 243,913,374	\$ 746,621	\$ -	\$ 1,028,076	\$ 245,688,071

**South Nassau Communities Hospital
and Subsidiaries
Unaudited
Consolidated Statements of Cash Flows**

	<u>For the Twelve Months ended</u>	
	<u>December 31, 2014</u>	<u>December 31, 2015</u>
Cash flows from operating activities		
Change in net assets	\$ (24,876,365)	\$ 23,078,669
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Amortization of bond premium	(815,064)	(785,406)
Amortization of deferred financing fees and bond discount	136,200	131,238
Loss on disposal of assets	274,882	116,883
Provision for depreciation and loss on disposal	24,587,967	26,760,172
Net investment activity	(3,577,235)	4,094,058
HEAL grant fund released, Capital	(13,012,385)	(7,815,734)
Restricted contributions	(918,102)	(1,192,390)
Changes in operating assets and liabilities:		
Accounts receivable	(1,851,096)	1,492,004
Other assets (current and long-term)	1,306,604	(5,766,928)
Accounts payable and accrued expenses	7,555,815	61,820
Accrued payroll and vacation	124,127	2,854,147
Accrued pension	44,538,144	(12,079,382)
Asset retirement obligation	(124,489)	(72,298)
Estimated retroactive net payable to third parties	(1,510,000)	(9,770,000)
Estimated professional and general liabilities	2,830,000	3,600,000
Other liabilities	1,692,138	(846,069)
HEAL grant funds, operations	(365,944)	(768,294)
Accrued postretirement benefits other than pension	66,000	(669,000)
Net cash provided by (used in) operating activities	<u>36,061,197</u>	<u>22,423,490</u>
Cash flows from investing activities		
Purchases of property, plant and equipment	(56,094,862)	(46,828,430)
Cash received on sale of equipment	-	7,266
Transfers to Long Beach Medical Center	5,035,725	-
Deposit in assets whose use is limited (DASNY loan)	(4,500,000)	-
Net (deposits in) withdrawal from investments	(2,926,093)	(45,500)
Withdrawal from (deposits in) contributions to long-term investments	(382,972)	235,838
Net (deposits in) withdrawal from self insurance fund	(2,830,000)	(4,311,564)
Withdrawal from (deposits in) the Series 2001 & 2003 debt service funds (interest payable)	581,734	-
Withdrawal from (deposits in) the Series 2012 bond fund	-	7,426,300
Deposits in Series 2012 bond fund	-	(7,358,900)
Withdrawal from Series 2012 construction fund	11,437,434	2,782,922
Withdrawal from (deposits in) the Series 2005 IDA bond funds	463	-
Net cash (used in) provided by investing activities	<u>(49,678,571)</u>	<u>(48,092,068)</u>
Cash flows from financing activities		
Proceeds (repayment) on line of credit	13,000,000	7,000,000
Payments on line of credit	(21,000,000)	-
Proceeds from DASNY loan	4,500,000	-
Payments on DASNY loan	(6,000,000)	-
Principal payments on long-term debt	(2,835,000)	(3,370,000)
Proceeds from HEAL Grant	21,962,357	-
Restricted contributions	918,102	1,192,390
Net cash used in financing activities	<u>10,545,459</u>	<u>4,822,390</u>
Net (decrease) increase in cash and cash equivalents	(3,071,915)	(20,846,188)
Cash and cash equivalents, beginning of period	\$ 27,088,891	\$ 24,016,976
Cash and cash equivalents, end of period	<u>\$ 24,016,976</u>	<u>\$ 3,170,788</u>
Supplemental disclosures		
Cash paid for interest	<u>\$ 4,229,175</u>	<u>\$ 4,260,316</u>

**South Nassau Communities Hospital and Subsidiaries
Utilization Statistics and Payor Mix**

Utilization

	For the Twelve Months Ended	
	December 31, 2014	December 31, 2015
Hospital		
Admissions	21,597	22,116
Discharges	21,641	22,118
Patient Days	111,418	114,679
Average length of stay	5.15	5.18
Percentage of Occupancy (based on available beds)	85.27%	82.46%
Emergency Room Visits	66,303	70,017
Clinic Visits	52,125	58,498
Ambulatory Surgery Visits	13,983	13,792
Outpatient Visits	212,859	206,728
Certified Beds	435	435
Average Beds Available	358	381
Medicare Case Mix Index	1.53	1.58
Transitional Care Unit		
Admissions	61	524
Discharges	42	524
Patient Days	670	6,449
Average length of stay	15.95	12.31
Percentage of Occupancy (based on available beds)	64.42%	88.34%
Certified Beds	20	20
Average Beds Available	20	20

Payor Mix

Percent of Net Patient Service Revenue by Payor

	For the Twelve Months Ended	
	December 31, 2014	December 31, 2015
Medicare and Medicare Managed Care	41.82%	43.78%
Medicaid and Medicaid Managed Care	9.70%	10.04%
Blue Cross	18.34%	18.24%
All Other Commercial/ Managed Care	27.74%	26.52%
Self-Pay/ Other	2.40%	1.42%
Total	100.00%	100.00%

South Nassau Communities Hospital and Subsidiaries
Consolidated Statements of Revenue and Expense

	For the Twelve Months Ended	
	December 31, 2014	December 31, 2015
Net patient service revenue	422,048,259	\$ 462,476,226
Other revenue	14,686,379	10,332,782
Total operating revenue	436,734,638	472,809,008
Operating Expenses before interest, depreciation, and amortization	400,990,221	442,248,076
Excess of operating revenue over expenses before interest, depreciation and amortization	35,744,417	30,560,932
Interest expense	2,879,992	3,539,033
Provision for depreciation and amortization	24,862,849	26,877,055
Operating income	8,001,576	144,844
Non-operating gains:		
Net investment gain (loss)	3,577,239	(4,094,057)
Unrestricted contributions and bequests	642,570	99,905
Loss related to storm	(69,450)	-
Insurance recoveries related to storm	1,683,325	-
Loss on Long Beach Medical Center transactions	(778,901)	-
Excess (deficiency) of revenue and gains over expenses	13,056,359	(3,849,308)
Transfers from related party	-	616,807
Net assets released from restriction for capital asset acquisitions	13,814,268	16,394,571
Pension and postretirement liability adjustments	(52,129,964)	10,152,437
(Decrease) increase in unrestricted net assets	\$ (25,259,337)	\$ 23,314,507

Detail of Operating Revenue (Items Included in "Other revenue")

	For the Twelve Months Ended	
	December 31, 2014	December 31, 2015
Investment income	\$ 3,863,070	\$ -
Other operating revenue	10,823,309	10,332,782
Total other revenue	\$ 14,686,379	\$ 10,332,782

South Nassau Communities Hospital
For the twelve months ended December 31, 2014 and 2015

Days Cash on Hand

	<u>Twelve Months Ended</u>	
	<u>December 31, 2014</u>	<u>December 31, 2015</u>
Cash and cash equivalents	\$ 23,273,519	\$ 2,439,051
Investments	<u>132,683,631</u>	<u>129,346,637</u>
Total cash and investments	<u><u>155,957,150</u></u>	<u><u>131,785,688</u></u>
Total operating expenses	<u>395,200,771</u>	<u>425,408,748</u>
Depreciation and amortization	<u>23,374,944</u>	<u>25,351,099</u>
Adjusted operating expenses	<u><u>371,825,827</u></u>	<u><u>400,057,649</u></u>
Days cash on hand	<u><u>153.1</u></u>	<u><u>120.2</u></u>

* In accordance with the terms of the Master Indenture, the Days Cash on Hand information presented above relates to South Nassau Communities Hospital only, and does not include any of its subsidiaries.

South Nassau Communities Hospital and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

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.

Principles of Consolidation

The unaudited 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., South Nassau Oncology Practice P.C., South Nassau Physicians P.C., South Nassau Physician Group P.C., South Nassau Urology P.C. and 203 Merrick Road Holding Corp. All intercompany accounts and transactions have been eliminated in consolidation.

South Nassau Communities Hospital
and Subsidiaries

Notes to Unaudited Consolidated Financial Statements (continued)

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 Hospital's investments in these funds are reported based upon net asset values derived from the application of the equity method of accounting. The equity method reflects the Hospital's share of the net asset value of the funds. Investments held by the retirement plan are stated at fair value based upon, as a practical expedient, net asset values derived from the application of the equity method of accounting.

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

Reclassifications

For purposes of comparison, certain reclassifications have been made to the accompanying 2014 unaudited consolidated financial statements to conform to the 2015 presentation. These reclassifications have no effect on net assets previously reported.

South Nassau Communities Hospital
and Subsidiaries

Notes to Unaudited Consolidated Financial Statements (continued)

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

Use of Estimates

The preparation of the unaudited consolidated financial statements in conformity with United States of America 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 unaudited 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.

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., South Nassau Oncology Practice P.C., South Nassau Physicians P.C., South Nassau Physician Group P.C., South Nassau Urology 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 unaudited consolidated financial statements.

2. Contingencies

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.

South Nassau Communities Hospital
and Subsidiaries

Notes to Unaudited Consolidated Financial Statements (continued)

3. Retirement Plans

Effective January 1, 2014, the Hospital established a defined contribution pension plan (the 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.

For the years ended December 31, 2015 and 2014, the Hospital contributed \$9,385,443 and \$8,176,288, respectively, to the Plan and has related pension expense of \$9,665,785 and \$8,530,691, respectively.

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.

For the years ended December 31, 2015 and 2014, the Hospital contributed \$5,000,000 to the Defined Benefit Retirement Plan and has related pension expense (income) of \$2,740,000 and (\$1,587,000), respectively.

4. 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. The property damage claims were final settled and the Hospital received \$1,683,325 of insurance recoveries in June 2014. Insurance recoveries 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. In June 2014, the Hospital received \$1,972,340 for business interruption claims that were filed for lost revenues incurred in 2013 and 2012. Other storm-related costs were incurred; however, such amounts were not quantified and are not recoverable through insurance.

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

5. 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), which was closed as a result of extensive damage sustained from Super Storm Sandy in October 2012. On February 18, 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 (the "Asset Purchase Agreement") for approximately \$21,000,000. On February 19, 2014, LBMC and LBMNH each filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code, and also filed a motion seeking Bankruptcy Court approval of the sale, subject to higher or better offers. The closing of the sale for certain LBMC assets occurred on October 16, 2014. However, the sale of LBMNH's assets was approved to a third party. In 2014, the Hospital entered into some temporary financing arrangements in connection with acquiring LBMC assets which were drawn on and repaid in 2014.

In December 2013, the Hospital received notification of a Health Care Efficiency and Affordability Law for New Yorkers grant award in the amount of \$21,962,357 (the HEAL Grant), 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. The HEAL Grant was received in March 2014. \$21,028,191 of the HEAL Grant was used to reimburse the Hospital for its having paid off its outstanding bank leases in that amount in December 2013. The remaining \$934,166 of the HEAL Grant was used to reimburse the Hospital for legal and other expense related to the LBMC transaction.

In 2014, the Hospital recorded \$13,378,329 of grants related to the purchase of LBMC, with \$365,944 reported in operating income and \$13,012,385 reported as an increase to temporarily restricted net assets. Amounts received for which the Hospital had not yet met the criteria set forth in the HEAL grant were recorded as deferred grant revenue in the accompanying 2014 consolidated statement of financial position. In 2015, the Hospital recorded \$8,584,028 of grants related to the purchase of LBMC, reported as an increase to temporarily restricted net assets, upon having met the necessary criteria.

In January 2015, the U.S. Department of Homeland Security, Federal Emergency Management Agency (FEMA) approved (or "obligated" under FEMA regulations) a project worksheet for the Hospital's capped FEMA Public Assistance program (PA Grants) of approximately \$171,000,000 to allow for the Hospital to either demolish, repair or restore the LBMC facilities damaged by Super Storm Sandy, or implement an alternative procedure pilot project.

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

5. Long Beach Medical Center (continued)

In August 2015, the Hospital opened a free-standing emergency room in Long Beach. In November 2015, the Hospital submitted a request for a progress payment to FEMA in the amount of \$3,010,000. Such funds were received in January 2016. The Hospital is continuing to work on a health care needs assessment for the Long Beach and surrounding communities.