KPMG

ST. JOHN'S RIVERSIDE HOSPITAL AND SUBSIDIARIES

Consolidated Financial Statements and Supplementary
Information on Federal Awards Programs

December 31, 2014

(With Independent Auditors' Report and
Reports on Internal Control and Compliance Thereon)

ST. JOHN'S RIVERSIDE HOSPITAL AND SUBSIDIARIES

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KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Independent Auditors' Report

The Board of Trustees
St. John's Riverside Hospital and Subsidiaries:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of St. John's Riverside Hospital and Subsidiaries (the Hospital), which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations, changes in net assets (deficit), 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 consolidated financial statements in accordance 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of St. John's Riverside Hospital and Subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 2015 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

KPMG LLP

May 29, 2014

ST. JOHN'S RIVERSIDE HOSPITAL AND SUBSIDIARY

Consolidated Balance Sheets

December 31, 2014 and 2013

(Dollars in thousands)

Assets		**2014**	**2013**
Current assets:			
Cash and cash equivalents	$	6,865	10,533
Investments		18,843	19,294
Patients' accounts receivable, net of allowance for doubtful accounts of $5,948 in 2014 and $9,260 in 2013		22,164	23,809
Assets limited or restricted as to use		997	7,703
Due from affiliates		6,101	8,917
Due from third-party payors		9,288	3,928
Other current assets		11,515	9,968
Total current assets		75,773	84,152
Assets limited or restricted as to use, net of current portion		9,271	10,270
Property, plant, and equipment, net		54,492	55,289
Other noncurrent assets, net		8,586	8,176
Total assets	$	148,122	157,887
Liabilities and Net Assets (Deficit)			
Current liabilities:			
Current portion of long-term debt	$	1,631	2,172
Accounts payable and accrued expenses		21,564	19,478
Accrued salaries and wages payable		11,372	11,054
Accrued benefit costs		403	635
Due to affiliate – captive		679	519
Due to third-party payors		3,686	5,385
Current portion of other liabilities		5,979	6,148
Refundable advance		—	6,704
Total current liabilities		45,314	52,095
Long-term debt, net of current portion		25,090	25,220
Accrued benefit costs, net of current portion		85,398	53,646
Other liabilities		19,396	18,156
Total liabilities		175,198	149,117
Commitments and contingencies			
Net assets (deficit):			
Unrestricted		(31,782)	3,886
Temporarily restricted		2,576	2,754
Permanently restricted		2,130	2,130
Total net assets (deficit)		(27,076)	8,770
Total liabilities and net assets (deficit)	$	148,122	157,887

See accompanying notes to consolidated financial statements.

ST. JOHN'S RIVERSIDE HOSPITAL AND SUBSIDIARY

Consolidated Statements of Operations

Years ended December 31, 2014 and 2013

(Dollars in thousands)

		2014	2013
Unrestricted revenue, gains, and other support:			
Net patient service revenue before provision for bad debts	$	239,405	246,304
Provision for bad debts, net		(15,326)	(16,108)
Net patient service revenue		224,079	230,196
Other revenue		16,817	17,331
Investment income		1,537	2,588
Net assets released from restrictions for operations		817	641
Total revenue, gains, and other support		243,250	250,756
Expenses:			
Salaries and wages		111,669	111,056
Employee benefits		43,890	47,724
Supplies and other expenses		76,453	74,883
Interest		2,260	2,094
Depreciation and amortization		10,110	9,300
Total expenses		244,382	245,057
(Deficit) excess of revenue, gains, and other support over expenses		(1,132)	5,699
Other changes in unrestricted net (deficit) assets:			
Net assets released from restrictions used for purchases of property, plant, and equipment		114	732
Pension-related changes other than net periodic benefit cost		(32,790)	33,794
Transfer to affiliate – captive		(1,860)	(2,311)
Change in unrestricted net (deficit) assets	$	(35,668)	37,914

See accompanying notes to consolidated financial statements.

ST. JOHN'S RIVERSIDE HOSPITAL AND SUBSIDIARY

Consolidated Statements of Changes in Net Assets (Deficit)

Years ended December 31, 2014 and 2013

(Dollars in thousands)

	Net assets			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Balances at December 31, 2012	$ (34,028)	3,707	2,130	(28,191)
Excess of revenue, gains, and other support over expenses	5,699	—	—	5,699
Gifts, grants, bequests, and contributions	—	997	—	997
Net assets released from restrictions used for operations	—	(641)	—	(641)
Net assets released from restrictions used for purchases of property, plant, and equipment	732	(732)	—	—
Write-off of pledges receivable	—	(577)	—	(577)
Pension-related changes other than net periodic benefit cost	33,794	—	—	33,794
Transfer to affiliate – captive	(2,311)	—	—	(2,311)
Total changes in net assets (deficit)	37,914	(953)	—	36,961
Balances at December 31, 2013	3,886	2,754	2,130	8,770
(Deficit) excess of revenue, gains, and other support over expenses	(1,132)	—	—	(1,132)
Gifts, grants, bequests, and contributions	—	788	—	788
Net assets released from restrictions used for operations	—	(817)	—	(817)
Net assets released from restrictions used for purchases of property, plant, and equipment	114	(114)	—	—
Write-off of pledges receivable	—	(35)	—	(35)
Pension-related changes other than net periodic benefit cost	(32,790)	—	—	(32,790)
Transfer to affiliate – captive	(1,860)	—	—	(1,860)
Total changes in net (deficit) assets	(35,668)	(178)	—	(35,846)
Balances at December 31, 2014	$ (31,782)	2,576	2,130	(27,076)

See accompanying notes to consolidated financial statements.

ST. JOHN'S RIVERSIDE HOSPITAL AND SUBSIDIARY

Consolidated Statements of Cash Flows

Years ended December 31, 2014 and 2013

(Dollars in thousands)

	2014	2013
Cash flows from operating activities:		
Change in net (deficit) assets	$ (35,846)	36,961
Adjustments to reconcile change in net (deficit) assets to net cash provided by operating activities:		
Provision for bad debts, net	15,326	16,108
Depreciation and amortization	10,110	9,300
Amortization of deferred financing costs	38	39
Accretion of assets retirement obligation	26	15
Net realized and unrealized gains on investments	(983)	(2,087)
Pension-related changes other than net periodic benefit cost	32,790	(33,794)
Transfer to affiliate – captive	1,860	2,311
Restricted contributions for capital expenditures	(11)	(428)
Write-off of pledges receivable	35	577
Changes in assets and liabilities:		
Patients' accounts receivable	(13,681)	(19,313)
Other current and noncurrent assets, net	(2,048)	(3,039)
Accounts payable and accrued expenses	2,086	(2,282)
Accrued salaries, wages payable, and accrued benefit costs	(952)	5,797
Due to third-party payors, net	(7,059)	(742)
Other current and noncurrent liabilities	1,045	3,500
Net cash provided by operating activities	2,736	12,923
Cash flows from investing activities:		
Acquisitions of property, plant, and equipment, net	(8,672)	(8,776)
Purchases of assets limited or restricted as to use and investments	(3,095)	(10,447)
Sales of assets limited or restricted as to use and investments	12,234	7,012
(Decrease) increase in refundable advance	(6,704)	279
Net cash used in investing activities	(6,237)	(11,932)
Cash flows from financing activities:		
Proceeds from pledges	18	314
Due from affiliates	2,816	(959)
Due to affiliate – captive	160	519
Proceeds from restricted contributions for capital expenditures	11	428
Proceeds from new debt	1,000	800
Repayment of long-term debt	(2,312)	(2,676)
Transfer to affiliate – captive	(1,860)	(2,311)
Net cash used in financing activities	(167)	(3,885)
Net decrease in cash and cash equivalents	(3,668)	(2,894)
Cash and cash equivalents at beginning of year	10,533	13,427
Cash and cash equivalents at end of year	$ 6,865	10,533
Supplemental information:		
Interest paid	$ 2,188	2,247
Capital lease obligations incurred	641	571

See accompanying notes to consolidated financial statements.

(1) Organization

St. John's Riverside Hospital (the Hospital), located in Yonkers, New York, is a membership corporation organized under the not-for-profit corporation laws of the State of New York. The sole member of the Hospital is Riverside Health Care System, Inc. (RHCS), a State of New York not-for-profit corporation. The Hospital operates three campuses: Andrus Pavilion, which provides general acute care with a full range of inpatient and outpatient services; Dobbs Ferry Pavilion, which operates an emergency room, 12 inpatient beds, five operating rooms and breast cancer center services; and ParkCare Pavilion, which serves an inner-city population providing alcohol and substance abuse services.

The Hospital and RHCS are exempt from federal, state, and local income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code).

SJR Medical P.C. is a for-profit organization that provides medical services. SJR Medical P.C. is controlled by the Hospital and, therefore, is included in the consolidated financial statements.

RHCS is the sole member of the Michael Malotz Skilled Nursing Pavilion (Nursing Home). The Nursing Home is not controlled by the Hospital and, therefore, is not included in the consolidated financial statements (note 13). The Nursing Home is exempt from federal, state, and local income taxes under Section 501(c)(3) of the Code.

RHCS is the sole member of River Management Co., Inc. (RMC), which is the sole shareholder of Riverside Management Services Organization, Inc. (RMSO). RMSO is not controlled by the Hospital and, therefore, is not included in the consolidated financial statements. These entities were incorporated under the New York Corporation Laws.

RHCS is the sole member of RHCS Bermuda Ltd. (the Captive), an affiliated captive insurance company incorporated under the laws of Bermuda. The Captive is not controlled by the Hospital and, therefore, is not included in the consolidated financial statements.

(2) Summary of Significant Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements include the financial statements of the Hospital and SJR Medical P.C., which have been prepared on the accrual basis and are in conformity with U.S. generally accepted accounting principles. All significant intercompany balances and transactions have been eliminated in preparation of the consolidated financial statements.

(b) Use of Estimates

The preparation of 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 and liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions.

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(c) Cash and Cash Equivalents

Cash and cash equivalents include certain liquid investments with original maturities of three months or less (note 15).

(d) Fair Value Measurement

ASC 820, Fair Value measurement established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Hospital has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

(e) Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities classified as trading are measured at fair value in the accompanying consolidated balance sheets (note 4).

(f) Investment Income

Investment income (including realized gains, dividends, interest income, and unrealized gains on investments) is reflected within the caption “investment income” in the accompanying consolidated statements of operations unless the income or loss is restricted by donor or law.

(g) Assets Limited or Restricted as to Use

Assets limited or restricted as to use consist of funds externally restricted under mortgage agreements and letters of credit, funds whose use has been limited by donors to a specific period or purpose, or donor stipulations that assets be maintained in perpetuity, and funds temporarily transferred to the Hospital (notes 4 and 17).

(h) Inventories

Inventories are stated at the lower of cost, determined on a first-in, first-out basis, or market, and are included in other current assets.

(Dollars in thousands)

(i) Property, Plant, and Equipment

Property, plant, and equipment are recorded at cost (or, if acquired by gift, at fair market value at the date of the gift), net of accumulated depreciation. Depreciation of plant and equipment is computed under the straight-line method over each class of depreciable assets' estimated useful service lives (ranging from 3 to 40 years). Equipment under capital leases is amortized utilizing the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment.

Leases are classified as capital leases or operating leases, in accordance with the terms of the underlying lease agreements. Equipment under capital leases is recorded as assets and the related obligations as liabilities at the lower of fair market value or present value of future minimum lease payments. Lease payments under operating leases are charged departmentally to rental expense.

Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. Interest earned on the investment of related tax-exempt borrowings is offset against the interest costs capitalized.

(j) Contributions

Contributions, which include unconditional promises to give (pledges), are recognized as revenue in the period received. Unconditional promises to give that are expected to be collected within one year are reported at face value. Unconditional promises to give that are expected to be collected in future years are recorded at the net present value of their estimated cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are expected to be received. Amortization of the discounts is included in temporarily restricted net assets.

(k) Patients' Accounts Receivable

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The percentages of patient accounts receivables (before allowance for doubtful accounts) from patients and third-party payors were as follows:

	December 31	
	2014	**2013**
Medicare	26%	28%
Medicaid	32	22
Managed care and other insurers	22	21
Uninsured patients	18	27
Other	2	2
	100%	100%

The Hospital has agreements with third-party payors that provide for payment at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Management regularly reviews accounts and contracts and provides appropriate contractual allowances and discounts that are netted

(Continued)

(Dollars in thousands)

against patient accounts receivable in the consolidated balance sheets. Patient accounts receivable are further reduced by an allowance for doubtful accounts.

The Hospital regularly reviews its past collection history and payment trends for each of its major payor sources of patient service revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. For patient accounts receivable associated with self-pay patients, which includes those patients without insurance coverage and patients with deductibles and copayment balances for which third-party coverage exists for a portion of the bill, the Hospital records a significant provision for bad debts for patients that are unable or unwilling to pay for the portion of the bill representing their financial responsibility. Account balances are charged off against the allowance for doubtful accounts after all means of collection have been exhausted.

The following table sets forth the components of the change in the allowance for doubtful accounts for the years ended December 31:

Year	Balance at beginning of year	Provision for bad debts	Write-offs, net of recoveries	Balance at end of year
2014	$ 9,260	15,326	(18,638)	5,948
2013	11,760	16,108	(18,608)	9,260

(l) Patient Service Revenue

Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated settlements under payment agreements with third-party payors. Settlements with third-party payors are accrued on an estimated basis in the period in which the related services are rendered and adjusted in future periods as final settlements are determined.

The estimated percentages of patient service revenue by inpatient and outpatient services, net of the provision for bad debts, for the years ended December 31 are as follows:

	2014	2013
Inpatient services	64%	68%
Outpatient services	36	32

(Dollars in thousands)

The following table reflects the estimated percentages of patient service revenue, net of provision for bad debts, for the years ended December 31:

	2014	2013
Medicare	39%	39%
Medicaid	27	26
Managed care and other insurers	31	32
Uninsured patients	2	2
Other	1	1
	100%	100%

(m) *Charity Care and Uncompensated Care*

The Hospital, in keeping with its mission and philosophy to extend quality care and compassionate service, recognizes that some patients are unable to compensate the Hospital for their treatment through either third-party coverage or their own resources. Accordingly, the Hospital extends charity or free care to those patients who do not have the ability to meet their obligations. The Hospital provides free care or sliding-fee scales based on federal poverty income guidelines or when it is determined that the patients are unable to fulfill their obligations to the Hospital. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of uncompensated care, at estimated cost, provided to the indigent and broader community for the years ended December 31 is as follows:

		2014	2013
Cost of charity care and uncompensated care:			
Cost of charity care provided	$	1,423	1,836
Provision for bad debts at estimated cost		5,045	5,643

The Hospital utilizes a cost to charge ratio methodology to convert charity care to estimated cost. The cost to charge ratio is calculated utilizing the methodology employed on the Medicare cost report.

New York State regulations provide for the distribution of funds from an indigent care pool, which is intended to partially offset the cost of services provided to the uninsured. The funds are distributed to the Hospital based on their level of bad debt, charity care, and uninsured units of service in relation to all other New York State hospitals. For the years ended December 31, 2014 and 2013, the Hospital received distributions of $5,671 and $6,980, respectively, from the indigent care pool while contributing $2,827 in 2014 and $3,069 in 2013.

(n) *Classification of Net Assets (Deficit)*

The net assets (deficit) of the Hospital and changes therein are classified as follows:

Unrestricted net assets (deficit) – All funds not restricted by a donor or grantor.

Temporarily restricted and permanently restricted net assets – Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Hospital in perpetuity. Contributions with donor-imposed restrictions that are met in the same year as received are reported as other revenue in the accompanying consolidated financial statements.

(o) Consolidated Statements of Operations

The consolidated statements of operations include the (deficit) excess of revenue, gains, and other support over expenses, which represents the net gain attributed to all transactions deemed by management to be ongoing, major, or central to the provision of healthcare services. Changes in unrestricted net assets (deficit), which are excluded from the (deficit) excess of revenue, gains, and other support over expenses, consistent with industry practice, includes net assets released from restrictions used for purchases of property, plant, and equipment, pension-related changes other than net periodic benefit cost, and a transfer of funds to an affiliate.

(p) Impairment of Long-Lived Assets

Management reviews long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held-for-sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheet.

(q) Deferred Financing Costs

Deferred financing costs of approximately $966, reported as other noncurrent assets, net in the accompanying consolidated balance sheets, represent costs incurred in connection with the issuance of long-term debt and are amortized on the effective-interest method, over the term of the related obligations. Accumulated amortization of deferred financing costs amounted to $574 and $536 at December 31, 2014 and 2013, respectively.

(r) Conditional Asset Retirement Obligation

The Hospital recognizes a liability when a legal obligation exists to perform an asset retirement obligation (ARO) in which the timing or method of settlement are conditional on a future event that may or may not be under the control of the entity. The New York State Department of Labor Industrial Code Rule 56 requires the controlled removal or encapsulation of asbestos by a licensed contractor in commercial and public buildings including renovation and partial or complete demolition activities.

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The ARO liability is accreted through periodic charges to depreciation expense. The initially capitalized ARO long-lived asset cost is depreciated over the useful life of the related long-lived asset.

(s) Accounting for Uncertainty in Income Taxes

The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Code, and is exempt from federal and state income taxes pursuant to Section 501(a) of the Code. There are certain transactions that could be deemed "Unrelated Business Income" and would result in a tax liability. Management reviews transactions to estimate potential tax liabilities using a threshold of more likely than not of being sustained. It is management's estimation that there are no material tax liabilities that need to be recorded.

(t) Reclassifications

Certain reclassifications have been made to the 2013 consolidated financial statements in order to conform to the 2014 presentation.

(3) Reimbursement Contingencies

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

(a) Medicare

Under the Medicare program, the Hospital receives reimbursement under a prospective payment system (PPS) for inpatient and outpatient services. Under the hospital inpatient PPS, fixed payment amounts per inpatient discharge are established based on the patient's assigned diagnosis-related group (DRG). When the estimated cost of treatment for certain patients is higher than the average, providers typically will receive additional "outlier" payments. Under the outpatient PPS, services are paid based on service groups called ambulatory payment classifications.

(b) Medicaid and Other Third-Party Payors

The New York Health Care Reform Act of 1996 (the Act), as amended, governs payments to hospitals in New York State, and Medicaid, workers' compensation, and no-fault payors rates are promulgated by the New York State Department of Health. Reimbursement for services to Medicaid program beneficiaries includes prospectively determined rates per discharge and per visit amounts. All other third-party payors, principally, Blue Cross, other private insurance companies, Health Maintenance Organizations, Preferred Provider Organizations, and other managed care plans, negotiate payment rates directly with hospitals. Such arrangements vary from DRG-based payment systems, per diems, case rates, and percentage of billed charges. If such rates are not negotiated, then the payors are billed at the Hospital's established charges.

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Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is a possibility that recorded estimates could change by a material amount. The Hospital has established estimates based on information presently available of the amounts due to or from Medicare, Medicaid, workers’ compensation, and no-fault payors, and amounts due from the indigent care pool for such adjustments. Net patient service revenue for the years ended December 31, 2014 and 2013 increased by approximately $4,942 and $2,328 for settlements related to prior years and changes in estimates to reflect the most recent information available.

On July 13, 2010, CMS issued rules implementing the Medicare and Medicaid electronic health record (EHR) incentive program established under the Health Information Technology for Economic and Clinical Health Act (HITECH Act). Certain hospitals and eligible healthcare professionals that demonstrate “meaningful use” of certified EHR technology can qualify for Medicare EHR Incentive payments. During the years ended December 31, 2014 and 2013, the Hospital recognized $1,742 and $4,080, respectively, of revenue for HITECH incentives from the Medicare and Medicaid programs that is related to the Hospital meeting the requirements of the meaningful use incentive program. The Hospital elected to recognize the revenue associated with the EHR incentive payment under the cliff recognition model and included such amounts in other revenue in the accompanying consolidated statements of operations. The cliff recognition model recognizes the incentive at the conclusion of the measurement period.

Revenue from the Medicare and Medicaid programs accounted for approximately 66% and 65% of the Hospital’s net patient service revenue in 2014 and 2013, respectively. Future changes in the Medicare and Medicaid programs, such as the Health Care Reform Law, and any reduction of funding could adversely impact the Hospital’s operations. There can be no assurance that payments under governmental and private third-party payor programs will be timely, will remain at levels comparable to present levels, or will, in the future, be sufficient to cover the costs allocable to patients eligible for reimbursement pursuant to such programs. The Hospital’s financial condition and results of operations may be materially and adversely affected by the reimbursement process, which in the healthcare industry is complex and can involve lengthy delays between the time that revenue is recognized and the time that reimbursement amounts are settled. In addition, under the Medicare program, if the federal government makes a formal demand for repayment of an amount previously reimbursed, even related to contested items, payment must be made for those items before the provider is given opportunity to appeal and resolve the matter.

The federal government and many states have aggressively increased enforcement under Medicare and Medicaid antifraud and abuse legislation. Recent federal initiatives have prompted a national review of federally funded healthcare programs. The Hospital has a compliance program to monitor conformance with applicable laws and regulations, but the possibility of future government review and interpretation exists. The Hospital is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to future government review and interpretation. Noncompliance with such laws and regulations could result in repayments of amounts improperly reimbursed, substantial monetary fines, civil and criminal penalties, and exclusion from the Medicare and Medicaid programs.

(Continued)

(Dollars in thousands)

The Hospital and others in the healthcare industry are subject to certain inherent risks, including the following:

- Substantial dependence on revenue derived from reimbursement by the Federal Medicare and Medicaid programs that have been reduced in recent years and which entail exposure to various healthcare fraud statutes;
- Government regulations, government budgetary constraints, and proposed legislative and regulatory changes; and
- Current economic environment increases collection risk of self-pay accounts receivable balances.

Such inherent risks require the use of certain management estimates in the preparation of the Hospital's consolidated financial statements and it is reasonably possible that a change in such estimates may occur. The Hospital believes that adequate provision has been made in the consolidated financial statements for the matters discussed above and their ultimate resolution will not have a material effect on the consolidated financial statements.

(4) Investments and Assets Limited or Restricted as to Use

The composition of investments and assets limited or restricted as to use consists of the following at December 31 at fair value:

	2014	2013
By type of investments:		
Money market funds	$ 7,452	12,020
Corporate bonds	976	5,783
U.S. government and agencies securities	739	673
Equity securities	12,772	13,296
Fixed-income commingled funds	2,627	4,081
Certificate of deposit	4,388	1,339
Mortgage- and asset-backed securities	157	75
	$ 29,111	37,267
By type of limitation or restriction:		
Unrestricted	$ 18,843	19,294
Limited as to use by debt agreements	6,620	6,799
Other restricted investments (note 17)	—	6,704
Board-designated	58	756
Temporarily restricted	1,460	1,584
Permanently restricted	2,130	2,130
	$ 29,111	37,267

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ST. JOHN'S RIVERSIDE HOSPITAL AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(Dollars in thousands)

Investment income and gains from investments, assets limited or restricted as to use, cash equivalents, and other investments included in investment income comprise the following for the years ended December 31:

	2014	2013
Investment income:		
Interest and dividend income	$ 554	501
Net realized gains	79	583
Net unrealized gains	904	1,504
	$ 1,537	2,588

Maturities of U.S. government and corporate bonds and notes are classified as follows at December 31, 2014:

	Amortized cost	Fair value
Due in less than five years	$ 1,292	1,294
Due after five years	415	421
	$ 1,707	1,715

Maturities of U.S. government and corporate bonds and notes are classified as follows at December 31, 2013:

	Amortized cost	Fair value
Due in less than five years	$ 6,047	6,029
Due after five years	426	427
	$ 6,473	6,456

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The following table presents the Hospital's fair value hierarchy for assets measured at fair value on a recurring basis as of December 31, 2014. At December 31, 2014, there were no Level 3 assets in the Hospital's investment portfolio.

	Fair value	Fair value measurements using Level 1	Level 2
By type of investment:			
Money market funds	$ 7,452	7,452	—
Corporate bonds	976	—	976
U.S. government and agencies securities	739	— 739	— —
Equity securities – domestic	12,772	11,350	1,422
Fixed-income commingled funds	2,627	2,627	—
Certificate of deposit	4,388	4,388	—
Mortgage- and asset-backed securities	157	—	157
Total	$ 29,111	26,556	2,555

The following table presents the Hospital's fair value hierarchy for assets measured at fair value on a recurring basis as of December 31, 2013. At December 31, 2013, there were no Level 3 assets in the Hospital's investment portfolio.

	Fair value	Fair value measurements using Level 1	Level 2
By type of investment:			
Money market funds	$ 12,020	12,020	—
Corporate bonds	5,783	—	5,783
U.S. government and agencies securities	673	673	—
Equity securities – domestic	13,296	12,023	1,273
Fixed-income commingled funds	4,081	4,081	—
Certificate of deposit	1,339	1,339	—
Mortgage- and asset-backed securities	75	—	75
Total	$ 37,267	30,136	7,131

There were no significant transfers between Level 1 and Level 2 and no Level 3 transactions during the years ended December 31, 2014 and 2013.

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(5) Property, Plant, and Equipment

A summary of property, plant, and equipment and accumulated depreciation and amortization at December 31 is as follows:

	2014	2013	Useful lives
Land and leasehold improvements	$ 8,421	8,415	Life of the lease
Building and building improvements	109,877	105,986	10 – 40 years
Fixed equipment	28,817	28,547	3 – 15 years
Moveable equipment	107,347	101,677	3 – 15 years
	254,462	244,625	
Accumulated depreciation and amortization	(200,946)	(191,259)	
	53,516	53,366	
Construction in progress	976	1,923	
Property, plant, and equipment, net	$ 54,492	55,289	

Construction in progress consists of various renovations and upgrades being performed throughout the Hospital with estimated cost to complete of approximately $1.4 million. During 2014 and 2013, the Hospital disposed of approximately $0.4 million of fully depreciated property, plant, and equipment.

Equipment under capitalized lease obligations as of December 31 is as follows:

	2014	2013
Equipment	$ 15,315	14,756
Less accumulated depreciation	(10,814)	(9,603)
	$ 4,501	5,153

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(6) Long-Term Debt

A summary of long-term debt and capital lease obligations at December 31 is as follows:

		2014	2013
6.80% mortgage loan – IDA Series 2001 A and 2001 B Bonds, monthly principal installments varying in amounts from \$52 in 2014 to \$166 in 2031, maturing July 31, 2031 (a)	$	20,655	21,280
7.25% mortgage loan, monthly installments of \$23 including interest, beginning March 27, 2008 until February 27, 2018 collateralized by certain of the Hospital's property and plant (b)		3,053	3,106
7.00% mortgage loan, monthly installments of \$3 including interest, until November 29, 2021, collateralized by property (c)		211	233
4.75% term loan, monthly installments of \$14, including interest, until August 2015, collateralized by equipment (d)		108	264
4.05% term loan, monthly installments of \$15, including interest, until August 2018, collateralized by equipment (e)		602	752
4.13% term loan, monthly installments of \$18, including interest, until May 2019, collateralized by equipment (f)		894	—
Capital lease obligations, interest rates varying from 3.28% to 7.89% (note 8)		1,198	1,757
		26,721	27,392
Less current portion		1,631	2,172
	$	25,090	25,220

(a) During 2001, the City of Yonkers Industrial Development Agency Civic Facility Revenue Bonds, Series 2001 A and Series 2001 B (St. John's Riverside Hospital Project) (Series 2001) were issued to raise moneys necessary to refund the outstanding obligation of the FHA Mortgage and fund certain other obligations and costs. The original principal amount of the Series 2001 bonds was \$26,295. The bonds are secured by a mortgage on the Hospital's property and plant, as well as the gross receipts of the Hospital. Among other requirements, the mortgage agreement requires the Hospital to make deposits to escrow accounts to meet interest and amortization payments. Such escrow accounts contain certain withdrawal restrictions. In connection with the mortgage agreement, the Hospital is required to maintain a specified long-term debt service coverage ratio. At December 31, 2014 and 2013, the Hospital was in compliance with the specified long term debt service coverage ratio.

(b) In March 2008, the Hospital entered into a commercial mortgage loan with Hudson Valley Bank in the amount of \$3,350 to be used to refinance its existing first mortgage loan and fund expenses incurred in connection with closing this loan. This 10-year loan with an option to renew for one additional

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5-year period shall consist of principal and interest payments payable in equal monthly installments calculated on a 30-year amortization schedule from the date of issuance until the maturity date on February 27, 2018. This mortgage loan is secured by the Hospital's Park Care Pavilion site property and plant.

(c) On November 29, 2006, the Hospital obtained a $350 loan from a bank to be used for the purchase of property. As collateral, the bank holds the first mortgage on the property.

(d) In August 2011, the Hospital obtained a $600 loan from Hudson Valley Bank to be used for the purchase of equipment. As collateral, the bank holds the first priority interest in the equipment.

(e) In August 2013, the Hospital obtained an $800 loan from Hudson Valley Bank to be used for the purchase of equipment. As collateral, the bank holds the first priority interest in the equipment.

(f) In April, 2014, the Hospital obtained a $1,000 loan from Hudson Valley Bank to be used for the purchase of equipment. As collateral, the bank holds the first priority interest in the equipment.

(g) Scheduled principal payments on long-term debt, including capital leases, are as follows:

Year ending December 31:	
2015	$ 1,631
2016	1,455
2017	1,499
2018	1,387
2019	1,129
Thereafter	19,620
	$ 26,721

(7) Line of Credit

The Hospital has a $2.0 million revolving line of credit with Hudson Valley Bank. The maturity date of the revolving line of credit is August 5, 2015. The line of credit bears interest of 3.25%. The Hospital has not drawn down on the line of credit as of December 31, 2014 and 2013.

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(8) Leases

Future minimum payments, in the aggregate, under capitalized leases and noncancelable operating leases with initial or remaining terms in excess of one year, are as follows:

		Capitalized leases	Operating leases
Year ending December 31:			
2015	$	475	2,027
2016		322	1,056
2017		285	508
2018		151	255
2019		55	70
Thereafter		—	112
		1,288	4,028
Less amount representing interest		90	—
	$	1,198	4,028

Total rental expense charged to operations for the years ended December 31, 2014 and 2013 was approximately $1.9 million and $2.1 million, respectively, and is reported in supplies and other expenses in the consolidated statements of operations.

(9) Benefit Plans

(a) The Andrus Pavilion has a noncontributory defined-benefit pension plan covering a majority of its employees. Benefits are based on employees' compensation during all their years of credited service. It is the Hospital's policy to fund pension costs throughout the plan year based on regulatory requirements.

During 2000, the Andrus Pavilion curtailed the noncontributory defined-benefit plan and the postretirement benefit plan discussed below to, in effect, freeze defined plan benefits for those participants who, in October 2000, joined a bargaining unit. Effective July 1, 2007, no new employee shall become an active participant of the noncontributory defined-benefit plan, and no inactive participant or former participant shall again become an active participant of this plan.

(b) The Andrus Pavilion provides postretirement healthcare benefits through age 65 to all retired employees who have met the minimum requirements of achieving age 60 and 20 years of service. Thereafter, benefits are only provided to the extent not covered by Medicare. Participants are subject to an annual contribution. Attribution of postretirement benefits commences at age 35. It is the Hospital's policy to fund postretirement costs on a pay-as-you-go basis.

During 2003, the Andrus Pavilion amended the postretirement benefit plan as to the eligibility requirement. Effective December 31, 2003, the minimum age requirements changed from 58 and 20 years of service to 60 and 20 years of service.

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Effective January 1, 2011, the Andrus Pavilion postretirement healthcare benefit was amended to offer the choice of a Health Retirement Account (HRA) or a Blue Cross Medicare Advantage Program for current and future Medicare retirees. The annual maximum HRA reimbursement is $3 multiplied by a percentage based on years of service of retirement. In December 2014, the benefit plan design was modified whereby effective January 1, 2015, the benefit currently provided to certain groups of plan participants will be changed from a percentage of the medical premium to a flat dollar amount. These plan changes resulted in a reduction in the benefit obligation and are being amortized on a straight-line basis over the average remaining service of full eligibility for active employees expected to receive benefits under the plan.

(c) Effective October 1, 1996, all employees of the Andrus Pavilion are eligible to participate in a defined-contribution retirement plan, whereby contributions are made on a quarterly basis up to 2% of employees' qualifying salary. Effective July 1, 2007, all new employees participate in a defined-contribution plan, whereby contributions are made on an annual basis equal to 2% of the employee's qualifying salary plus the Hospital matches 100% of an employee's contribution up to 4%. Five-year vesting is a requirement for this defined-contribution plan. The Hospital recorded pension expense of $1,342 and $1,176 for the years ended December 31, 2014 and 2013, respectively, in relation to this plan.

Effective July 1, 1994, certain employees at the Park Care Pavilion have participated in a defined-contribution retirement plan, whereby contributions are made on an annual basis equal to 2% of the employees' qualifying salary. In addition, certain employees of the Park Care Pavilion participate in a defined-contribution plan, whereby the Park Care Pavilion matches 100% of an employee's contributions up to 3%. Effective July 1, 2007, the employer match was changed to 100% of an employee's contribution up to 4%. Five-year vesting is a requirement for these defined-contribution plans. The Hospital recorded pension expense related to these plans of $432 and $445 for the years ended December 31, 2014 and 2013, respectively.

For the years ended December 31, 2014 and 2013, the Hospital recorded pension expense of $410 and $406, respectively, for the various defined-contribution plans in place for Dobbs Ferry Pavilion employees.

(d) The Hospital participates in a multiemployer union pension plan, covering substantially all employees not eligible for the Hospital's plans. The Employer Identification Number is 13-3604862 and the three-digit Pension Plan number is 001. The most recent Pension Protection Act (PPA) zone status is green at both December 31, 2014 and 2013, which is for the plan years ended December 31, 2013 and 2012, respectively. The zone status is based on information that the Hospital received from the plan sponsor and, as required by the PPA, is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded.

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The financial improvement plan (FIP) or a rehabilitation plan (RP), as required by PPA, has been implemented by the plan's sponsor. The expiration date of the collective-bargaining agreement requiring contributions to the plan is September 30, 2018. The contributions by the Hospital to the union pension fund were $3,569 and $3,861 for the years ended December 31, 2014 and 2013, respectively. There have been no significant changes that affect the comparability of 2014 and 2013 contributions. At the date the consolidated financial statements were issued, Form 5500 was not available for the plan year ended December 31, 2014.

(e) The Hospital recognizes the funded status (the difference between the fair value of plan assets and projected benefit obligation for its defined benefit plan and difference between the fair value of plan assets and accumulated postretirement benefit obligation for its postretirement plan) of its defined-benefit pension plan and postretirement benefit plan as an asset or liability in the consolidated balance sheets and also recognizes changes in the funded status in the year in which the changes occur through changes in unrestricted net assets (deficit).

The measurement date used to determine pension and other postretirement benefit measures for the pension plan and the postretirement benefit plan is December 31.

The following table sets forth the benefit obligations and fair value of plan assets at December 31:

		Defined-benefit plan		Postretirement benefit plan	
		2014	2013	2014	2013
Reconciliation of the benefit obligation:					
Benefit obligation at beginning of year	$	149,331	160,433	10,888	19,076
Service cost		3,926	4,722	463	675
Interest cost		7,104	6,391	518	742
Actuarial loss (gain)		30,356	(17,790)	2,065	(8,956)
Benefits paid and administrative expenses		(4,834)	(4,425)	(761)	(649)
Projected benefit obligation at end of year	$	185,883	149,331	13,173	10,888
Change in plan assets:					
Fair value of plan assets at beginning of year	$	105,938	97,157	—	—
Actual return on plan assets		5,352	8,268	—	—
Employer contributions		6,799	4,938	761	649
Benefits paid and administrative expenses		(4,834)	(4,425)	(761)	(649)
Fair value of plan assets at end of year	$	113,255	105,938	—	—

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The accumulated benefit obligation for the defined-benefit pension plan was $176,867 and $141,807 at December 31, 2014 and 2013, respectively.

The funded status and amounts recognized in the consolidated balance sheets at December 31 are as follows:

	Defined-benefit plan		Postretirement benefit plan	
	2014	2013	2014	2013
Funded status, end of year:				
Fair value of plan assets	$ 113,255	105,938	—	—
Projected benefit obligation	(185,883)	(149,331)	(13,173)	(10,888)
Funded status	$ (72,628)	(43,393)	(13,173)	(10,888)

	2014	2013
Amounts recognized in the consolidated balance sheets, end of year:		
Accrued benefit costs	$ (85,801)	(54,281)
Included in unrestricted net assets (deficit) are the following amounts that have not yet been recognized in net periodic benefit cost:		
Net actuarial loss	$ 79,482	49,976
Prior service benefit	(15,727)	(19,011)
	$ 63,755	30,965

The estimated amounts that will be amortized from unrestricted net assets into net periodic pension cost in 2015 are as follows:

Net actuarial loss	$ 6,798
Prior service benefit	(2,744)
	$ 4,054

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The components of net periodic benefit cost for the years ended December 31 are as follows:

	Defined-benefit plan		Postretirement benefit plan	
	2014	2013	2014	2013
Service cost	$ 3,926	4,722	463	675
Interest cost	7,104	6,391	518	742
Expected return on assets	(6,616)	(5,962)	—	—
Amortization of prior service cost (benefit)	2	2	(2,800)	(2,170)
Recognized net actuarial loss	2,734	5,670	959	1,241
Net periodic benefit cost	$ 7,150	10,823	(860)	488

	Defined-benefit plan		Postretirement benefit plan	
	2014	2013	2014	2013
Weighted average assumptions used to determine benefit obligation:				
Discount rate	3.95%	4.85%	3.95%	4.90%
Rate of compensation increase	3.00	3.00	—	—
Weighted average assumptions used to determine net benefit cost:				
Discount rate	4.85%	4.05%	4.90%	3.95%
Expected long-term rate of return on plan assets	6.25	6.25	—	—
Rate of compensation increase	3.00	3.00	—	—

The expected long-term rate of return on plan assets is based on the portfolio as a whole and not the sum of the returns on the individual asset categories. The return is based exclusively on historical returns, without adjustments.

For measurement purposes, the annual healthcare cost trend rates used for preage and postage 65 begin at 7.5% and then decrease gradually to 4.0% in the year 2084 and thereafter.

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Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plan. A one-percentage-point change in assumed healthcare cost trend rates would have the following effects:

	One-percentage-point increase	One-percentage-point decrease
Effect on total of service and interest cost components	$ 232	(173)
Effect on postretirement benefit obligation	2,135	(1,632)

Plan Assets

The fair value of the Hospital's pension plan assets at December 31 by asset category is as follows:

	Fair value	Fair value measurements at December 31, 2014 using		
		Level 1	Level 2	Level 3
Asset category:				
Equity securities:				
U.S. large cap equity	$ 20,659	—	20,659	—
U.S. small/mid cap equity	5,088	—	5,088	—
International equity	8,259	—	8,259	—
Fixed-income securities:				
Fixed-income commingled funds	67,926	—	67,926	—
U.S. real estate property and real asset commingled funds	11,323	—	5,493	5,830
Total	$ 113,255	—	107,425	5,830

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	Fair value	Fair value measurements at December 31, 2013 using		
		Level 1	Level 2	Level 3
Asset category:				
Equity securities:				
U.S. large cap equity	$ 19,686	—	19,686	—
U.S. small/mid cap equity	4,795	—	4,795	—
International equity	8,090	—	8,090	—
Fixed-income securities:				
Fixed-income commingled funds	62,652	—	62,652	—
U.S. real estate property and real asset commingled funds	10,715	—	5,318	5,397
Total	$ 105,938	—	100,541	5,397

There were no significant transfers between Levels 1, 2, and 3 during the years ended December 31, 2014 and 2013.

The effect of fair value measurements using significant unobservable inputs (Level 3) on change in plan assets for the years ended December 31 is as follows:

	2014	2013
Beginning balance, January 1	$ 5,397	5,486
Actual return on plan assets held	690	685
Purchases	340	296
Sales	(597)	(1,070)
Ending balance, December 31	$ 5,830	5,397

The weighted average asset allocation of the pension plan assets at December 31 was as follows:

	2014	2013
Equity securities	30%	31%
Fixed income	60	59
Other	10	10
	100%	100%

The Hospital's financial and investment objectives are to meet present and future obligations to beneficiaries while minimizing the Hospital's contributions over the long term, by earning an adequate return on assets with moderate volatility. The Hospital's plan assets consist of investments in pooled separate accounts. The weighted average asset allocations in the preceding table are representative of the target asset allocation for the Hospital's pension plan. The investment strategy is to build an efficient, well-diversified portfolio based on a long-term strategic outlook of the investment markets. The investment market outlook utilizes both historical-based and forward-looking return forecasts to establish future return expectations for various asset classes. These return expectations are used to develop a core asset allocation based on the needs of the plan. The core asset allocation utilizes investment portfolios of various asset classes and multiple investment managers in order to help maximize the plan's return while providing multiple layers of diversification to help minimize risk. The investment performance is reviewed and presented to an investment committee on a quarterly basis in total as well as by asset class and individual manager, relative to one or more benchmarks.

Cash Flows

The Hospital expects to contribute $7,337 to its pension plan and $403 to its postretirement benefit plan in 2015. On March 14, 2007, an application for a waiver of the minimum funding standard under Section 412(d) of the Code and Section 303 of the Employee Retirement Security Act of 1974 (ERISA) was submitted by the Hospital for the 2006 pension plan year in the amount of $5,386. On February 22, 2008, the Hospital received the final ruling letter from the Internal Revenue Service approving this waiver request. Certain conditions were agreed to by the Hospital as part of the waiver request approval, which included a requirement that the Hospital reach agreement with the Pension Benefit Guarantee Corporation (PBGC) within 120 days of the final ruling letter on collateral acceptable for the full amount of the approved waiver amount. This requirement was met, and the Hospital signed a collateral security agreement with the PBGC effective September 29, 2008, whereby the Hospital granted to the PBGC a second mortgage on specific hospital property in an amount not to exceed $6 million. The Hospital's pension actuary has certified that the Hospital has satisfied all minimum contribution requirements associated with the waiver and the Hospital has received from the PBGC a pension funding waiver lien release in September 2013 noting that this obligation has been satisfied.

The benefits expected to be paid for the pension plan in each year 2015–2019 are $6,270, $6,390, $6,770, $7,090, and $7,460, respectively. The aggregate benefits expected to be paid in the five years from 2020 to 2024 are $45,690. The expected benefits are based on the same assumptions used to measure the Hospital's benefit obligation at December 31 and include estimated future employee service.

The benefits expected to be paid for the postretirement plan in each year 2015–2019 are $403, $403, $406, $419, and $449, respectively. The aggregate benefits expected to be paid in the five years from 2020 to 2024 are $2,670. The expected benefits are based on the same assumptions used to measure the Hospital's benefit obligation at December 31 and include estimated future employee service.

(10) Insurance Arrangements

(a) Professional Liabilities

Effective July 1989 and April 1995, the Park Care Pavilion and the Andrus Pavilion, respectively, became self-insured for a portion of losses, which may arise from medical malpractice claims filed against them, including incidents that have occurred but have not been reported. A self-insurance program was established for medical malpractice coverage, augmented by an umbrella policy.

(Dollars in thousands)

In April 1999, both the Park Care Pavilion and the Andrus Pavilion discontinued the self-insured medical malpractice program and began purchasing medical malpractice coverage on a claims-made basis from the Captive. Accordingly, management recorded a liability for claims incurred but not reported (IBNR) that is recorded in current portion of other liabilities in the consolidated balance sheets, in the amounts of approximately $1,379 and $1,583, respectively, at December 31, 2014 and 2013. The Captive currently provides coverage for the Hospital of up to $5,000 per each and every occurrence, which is augmented by an umbrella policy of $10,000 per occurrence, and $10,000 in aggregate. The Hospital pays as premiums to the Captive an estimate of the ultimate cost of losses payable by the Captive. Effective July 2001, the Captive provided loss portfolio transfer coverage for the Hospital, which retroactively transferred the liability of the Hospital for certain professional liability losses. The loss portfolio transfer period of coverage was for Andrus Pavilion for claims occurring prior to April 24, 1999 and for Park Care Pavilion for claims occurring prior to July 1, 1999. The Captive has reported assets necessary to cover the outstanding losses of the Captive, which are determined by an independent actuary.

The Hospital has accrued medical malpractice claims liability incurred claims discounted at a rate of 2%. Such amounts are included in other current assets and current portion of other liabilities of $2,379 and $2,570 and other noncurrent assets, net and other liabilities of $4,998 and $3,954, at December 31, 2014 and 2013, respectively.

As of December 31, the Hospital has recorded a liability and a related insurance receivable as follows:

	2014	2013
Estimated malpractice liabilities including IBNR	8,756	8,107
Estimated insurance recovery receivable	(7,377)	(6,524)

(b) Professional Liabilities Settled

During 2009, certain medical malpractice litigation matters were settled. The Hospital structured these medical malpractice settlements with a long-term payment arrangement. The annual cash flow requirements for these settlements were $801 for 2013 and 2014, and are $801 for the years 2015-2021, $737 for the year 2021, $418 for the years 2022–2029, and $237 for the year 2030. The net present value of the liability for these settled litigation matters has been recorded on the Hospital's consolidated balance sheet in the amount of approximately $7,158 and $7,677 for the years ended December 31, 2014 and 2013, respectively, included in other current and long-term liabilities.

There are known incidents that have occurred 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 ultimate outcome of these cases cannot be predicted at this time. Management does not believe that the ultimate outcome of these matters will have a material adverse effect on the Hospital's consolidated financial position, results of operations, or liquidity.

(Dollars in thousands)

(c) Workers' Compensation

The Hospital purchases workers' compensation and employer liability insurance from an unrelated insurance company. The program provided coverage with a $350 deductible, and limits of $1 million per accident, $1 million by disease per employee, and $1 million by disease in total.

From October 1, 1998 to December 31, 2006, the Hospital had also purchased a workers' compensation insurance deductible reimbursement policy from the Captive. This policy had been renewed annually. The policy had a limit of $350 per occurrence and $1.4 million in the aggregate.

In December 2006, the Hospital completed a loss portfolio transaction, which transferred the workers' compensation outstanding loss reserve and IBNR liability from the Captive to the Hospital in exchange for a reduction of premiums due to the Captive by the Hospital.

In connection with the loss portfolio transaction, the Hospital engaged an independent actuary to estimate the undiscounted liability for uninsured claims for all occurrences of workers' compensation after October 1, 1998 for both reported claims and claims IBNR. Included in current portion of other liabilities at December 31, 2014 and 2013 is $1,106 and $915, respectively; included in other liabilities is $4,300 and $3,498, respectively.

The Hospital has accrued undiscounted workers' compensation claims liability and an insurance recoveries receivable of $1,547 and $1,713 on the consolidated balance sheets at December 31, 2014 and 2013, respectively. Such amounts are included in other noncurrent assets, net and other liabilities, respectively, at December 31, 2014 and 2013.

As of December 31, the Hospital has recorded a liability and a related insurance receivable as follows:

	2014	2013
Estimated workers' compensation liabilities	6,953	6,126
Estimated insurance recovery receivable	(1,547)	(1,713)

(11) Commitments and Contingencies

(a) The Hospital is involved in general liability litigation and claims in the normal course of business. The ultimate outcome of these cases cannot be predicted at this time. Management does not believe that the ultimate outcome of these matters will have a material adverse effect on the Hospital's consolidated financial position, results of operations, or liquidity.

(b) Approximately 70% of the Hospital's employees are covered under a collective-bargaining agreement with various unions.

(c) During 2010, the Hospital entered into a Community Benefit Grant Agreement with Hudson River Healthcare, Inc. (HRH), a Federally Qualified Health Center, whereby HRH assumed prospective responsibility for operating the Hospital's Prenatal Care Clinic in exchange for a grant award to be made by the Hospital to provide financial support to HRH in the amount of $2,300 over the initial five-year term. The agreed-upon payments for the initial five-year period were $460 per annum to cover the costs of HRH's anticipated uncompensated expenses in providing prenatal, postpartum, gynecological services, and programs to the residents of the communities served by the Clinic. Effective January 1, 2013, an amendment was made to this agreement whereby the annual payment was reduced to $230 per annum and the term of the agreement now expires on December 31, 2032. The grant award is expensed as paid. This agreement may be terminated at any time by mutual consent of the parties.

(Dollars in thousands)

(12) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets at December 31 are available for the following purposes:

		2014	2013
Restricted use property and equipment	$	1,002	1,002
Healthcare services		1,009	1,013
Health education		565	606
Capital campaign (restricted for property and equipment)		—	133
	$	2,576	2,754

During the years ended December 31, 2014 and 2013, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes of patient care, health education, and capital in the amounts of $931 and $1,373, respectively.

The Hospital has adopted investment and spending policies for endowment or permanently restricted assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. The Hospital's endowment includes donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Permanently restricted net assets at December 31 are as follows:

		2014	2013
Investments to be held in perpetuity, the income from which is expendable to support healthcare services (reported as investment income)	$	2,130	2,130

(Dollars in thousands)

(13) Related-Party Transactions

The components of due from affiliates at December 31 are as follows:

Noninterest bearing:		2014	2013
Noninterest bearing:			
RMSO (a)	$	683	683
Nursing Home (b)		640	3,224
Due from affiliates, noninterest bearing, net		1,323	3,907
Interest bearing:			
Nursing Home (b)		4,778	5,010
Due from affiliates, interest bearing		4,778	5,010
Total due from affiliates, net	$	6,101	8,917

(a) The Hospital has advanced RMSO funds for working capital, start-up costs, renovations, and daily operations.

(b) The Hospital has advanced funds for certain costs associated with the building of the Nursing Home. The balance represents amounts for the funding of start-up and certain operating costs for the Nursing Home. During 2014 and 2013, respectively, the Hospital charged the Nursing Home approximately $3.2 million and $2.5 million, at the Hospital's cost, for various services. These amounts have been offset by payments received from the Nursing Home of approximately $6.0 million and $1.6 million during years ended December 31, 2014 and 2013, respectively.

The Nursing Home, which is not controlled by the Hospital, has entered into an agreement to sell the Michael Malotz Skilled Nursing Pavilion (MMSNP) facility and its operations to an unrelated party. The sale is expected to be finalized during calendar year 2015. The Hospital has committed to supporting MMSNP for the calendar year 2015 or until the sale date, whichever comes first. The agreed upon sales price with the unrelated party, and a recent independent appraisal value of the MMSNP property and its operations, supports the satisfaction of the total liabilities for MMSNP, including the $5,418 receivable due to the Hospital from the Nursing Home as of December 31, 2014.

Since inception on each of the advances, interest rates charged on interest bearing amounts due from the Nursing Home are at a fixed rate of 2.14%.

The Hospital owes the Captive, an affiliated captive insurance company, $679 and $519 for the years ended December 31, 2014 and 2013, respectively. Premiums for professional and general insurance coverage amounted to approximately $2,695 and $2,058 for the years ended December 31, 2014 and 2013, respectively, and are reported in supplies and other expenses in the consolidated statements of operations. The Hospital contributed capital in the amount of $1,860 and $2,311 during the years ended December 31, 2014 and 2013, respectively, to the Captive, an affiliate of the Hospital, to maintain compliance with the

(Continued)

ST. JOHN'S RIVERSIDE HOSPITAL AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(Dollars in thousands)

Bermuda Monetary Authority Liquidity and Solvency Ratio Requirements. The Hospital may be directed by its parent (RHCS) to commit to provide additional capital to the Captive during 2015, if needed.

(14) Functional Expenses

The Hospital provides general healthcare services to residents within its geographic location, including general acute care with a full range of inpatient and outpatient services. Program expenses for the years ended December 31, 2014 and 2013 related to providing these services are as follows:

		2014	2013
Healthcare services	$	219,944	223,002
Administrative and general		24,438	22,055
	$	244,382	245,057

(15) Concentration of Credit Risk

At December 31, 2014 and 2013, the Hospital had cash balances in a financial institution that exceeded federal depository insurance limits.

The Hospital routinely invests its surplus operating funds in money market funds. These funds generally invest in highly liquid U.S. government and agency obligations. Investments in money market funds are not insured or guaranteed by the U.S. government.

(16) Fair Value of Financial Instruments

Fair value of financial instruments is defined as the amount at which the instruments could be exchanged in a current transaction between willing parties. See note 4, for disclosures on the fair value of the Hospital's marketable investment securities. The Hospital's mortgage loans approximate their fair value based upon their respective rates of interest. The Hospital's IDA Bonds have a fair value of $20,778 and $21,284 as of December 31, 2014 and 2013, respectively, based on quoted market prices. The carrying amount reported in the consolidated balance sheets for cash and cash equivalents, patient accounts receivable, accounts payable and accrued expenses, and due to and from third-party payors approximates their fair value based on the short-term nature of these assets and liabilities.

(Continued)

(17) Smithers Fund

On February 12, 2008, funds in the amount of $6,231 were temporarily transferred to the Hospital by the Christopher D. Smithers Foundation to be held and managed by the Hospital in accordance with the investment guidelines and the designated use of the funds as defined in the agreement between the parties. The Certificate of Incorporation for the new Smithers Foundation (Foundation) was issued by the State of New York on March 24, 2010, and upon approval as a tax-exempt organization under Section 501(c)(3) these funds were transferred to the Foundation. Effective June 30, 2014, the Smithers Foundation agreement was terminated by mutual consent of the parties and the funds were transferred to a third party designated by the Christopher D. Smithers Foundation in accordance with the terms and conditions of the termination agreement. The sole member of the Foundation is RHCS, which is the sole member of the Hospital. At December 31, 2013, the market value of the funds held by the Hospital for the Foundation was $6,704 and the Hospital has accounted for these funds as current assets limited or restricted as to use and as a refundable advance in the consolidated balance sheets as of December 31, 2013.

(18) Subsequent Events

Management evaluated all events and transactions that occurred after December 31, 2014 and through May 29, 2015. The Hospital did not have any material recognizable subsequent events during this period.

ST. JOHN'S RIVERSIDE HOSPITAL AND SUBSIDIARIES

Consolidated Schedule of Expenditures of Federal Awards

Year ended December 31, 2014

Federal grants/program title	CFDA number		Federal expenditures
U.S. Department of Justice:			
Pass through from Westchester County Department of Community Mental Health:			
Family Based Offender Grant	16.812	$	122,297
Total U.S. Department of Justice			122,297
U.S. Department of Health and Human Services:			
Outpatient Early Intervention Services with Respect to HIV Disease	93.918		440,244
Pass through from Health Research, Inc.:			
Ryan White Title II HIV Healthcare and Supportive Service	93.917		316,049
Westchester Medical Center HIV Treatment Adherence	93.917		28,334
Subtotal pass through from Health Research, Inc.			344,383
Pass through from NYS Office of Alcoholism & Substance Abuse Services:			
Methadone Maintenance Program	93.558		224,228
HIV Emergency Relief Project Grants:			
Pass through from Westchester County Department of Health:			
Ryan White Title I Outreach/Access to Primary Care	93.914		205,072
Total U.S. Department of Health and Human Services			1,213,927
U.S. Department of Education:			
Student Financial Assistance Cluster:			
Federal Pell Grant Program	84.063		104,389
Federal Direct Student Loans Program (note 2)	84.268		580,113
Subtotal Student Financial Assistance Cluster			684,502
Total U.S. Department of Education			684,502
Total expenditures of federal awards		$	2,020,726

See accompanying notes to consolidated schedule of expenditures of federal awards.

ST. JOHN'S RIVERSIDE HOSPITAL AND SUBSIDIARIES

Notes to Consolidated Schedule of Expenditures of Federal Awards

Year ended December 31, 2014

(1) Basis of Presentation

The accompanying consolidated schedule of expenditures of federal awards includes the federal grant activity of St. John's Riverside Hospital and Subsidiaries (the Hospital) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the Hospital's consolidated financial statements.

(2) Federal Direct Student Loans Program

With respect to the Federal Direct Student Loans Program, the Hospital is only responsible for the performance of certain administrative duties; therefore, the transactions and the balances of loans outstanding related to this program are not included in the Hospital's financial statements. The consolidated schedule of expenditures of federal awards includes the amounts loaned to students during the year ended December 31, 2014. It is not practical to estimate the outstanding balance of loans under this program.

KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Trustees
St. John's Riverside Hospital and Subsidiaries:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of St. John's Riverside Hospital and Subsidiaries (the Hospital), which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations, changes in net assets (deficit), and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated May 29, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

May 29, 2015

KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*

The Board of Trustees
St. John's Riverside Hospital and Subsidiaries:

Report on Compliance for Each Major Federal Program

We have audited St. John's Riverside Hospital and Subsidiaries' (the Hospital) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Hospital's major federal program for the year ended December 31, 2014. The Hospital's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Hospital's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Hospital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Hospital's compliance.

Opinion on Each Major Federal Program

In our opinion, St. John's Riverside Hospital and Subsidiaries complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2014.

Report on Internal Control over Compliance

Management of the Hospital is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Hospital's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program, on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the consolidated financial statements of St. John's Riverside Hospital and Subsidiaries as of and for the years ended December 31, 2014 and 2013, and have issued our report thereon dated May 29, 2015, which contained an unmodified opinion on those financial statements. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidated schedule of expenditures of federal awards for the year ended December 31, 2014 is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the 2014 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 2014 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2014 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 2014 consolidated financial statements or to the 2014 consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the

KPMG

United States of America. In our opinion, the consolidated schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the 2014 consolidated financial statements as a whole.

KPMG LLP

September 18, 2015

ST. JOHN'S RIVERSIDE HOSPITAL AND SUBSIDIARIES

Schedule of Findings and Questioned Costs

Year ended December 31, 2014

(1) Summary of Auditors' Results

(a) An unmodified opinion was issued on the consolidated financial statements of St. John's Riverside Hospital and Subsidiaries (the Hospital) as of and for the year ended December 31, 2014.

(b) Significant deficiencies in internal control disclosed by the audit of the consolidated financial statements: **None reported.** Material weaknesses: **None reported.**

(c) Noncompliance that is material to the consolidated financial statements: **None reported.**

(d) Significant deficiencies in internal control over the major program: **None reported.** Material weaknesses: **None reported.**

(e) An unmodified opinion was issued on the Hospital's compliance with its major federal programs for the year ended December 31, 2014.

(f) There were no audit findings that were required to be reported under Section 510(a) of federal OMB Circular A-133 for the year ended December 31, 2014.

(g) The major federal program of the Hospital for the year ended December 31, 2014 was as follows:

Agency	Program title	CFDA number
U.S. Department of Education	Student financial assistance cluster:	
	Federal Pell Grant Program	84.063
	Federal Direct Student Loans	84.269

(h) The dollar threshold to distinguish between Type A and Type B programs, as described in Section 520(b) of OMB Circular A-133, was $300,000.

(i) The Hospital qualified as a low-risk auditee under Section 530 of OMB Circular A-133 for the year ended December 31, 2014.

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

No findings that are required to be reported.

(3) Findings and Questioned Costs Relating to Federal Awards

No findings or questioned costs that are required to be reported.