

CONSOLIDATED FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION AND AUDIT
REPORTS AND SCHEDULES RELATED TO OFFICE OF
MANAGEMENT AND BUDGET CIRCULAR A-133

North Shore-Long Island Jewish Health System, Inc.
Year Ended December 31, 2014
With Report of Independent Auditors

Ernst & Young LLP



Building a better
working world

North Shore-Long Island Jewish Health System, Inc.

Consolidated Financial Statements, Supplementary Information and
Audit Reports and Schedules Related to Office of
Management and Budget Circular A-133

Year Ended December 31, 2014

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Report of Independent Auditors

The Board of Trustees
North Shore-Long Island Jewish Health System, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of North Shore-Long Island Jewish Health System, Inc. and its member corporations and other affiliated entities (collectively, the System), which comprise the consolidated statements of financial position as of December 31, 2014 and 2013, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States 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 financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of North Shore-Long Island Jewish Health System, Inc. and its member corporations and other affiliated entities at December 31, 2014 and 2013, and the consolidated results of their operations, changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards for the year ended December 31, 2014 as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated April 17, 2015 on our consideration of the System'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 System's internal control over financial reporting and compliance.

Ernst + Young LLP

April 17, 2015, except for the schedule of expenditures of federal awards for which the date is December 22, 2015.

North Shore-Long Island Jewish Health System, Inc.

Consolidated Statements of Financial Position

(In Thousands)

	December 31	
	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 194,570	\$ 210,601
Marketable securities and other investments	1,905,161	1,739,386
Accounts receivable for services to patients, net of allowance for doubtful accounts of \$91,200 in 2014 and \$90,500 in 2013	774,831	700,198
Accounts receivable for physician activities, net	74,058	68,443
Assets limited as to use, current portion	104,566	78,956
Pledges receivable, current portion	36,129	35,577
Insurance claims receivable, current portion	83,268	98,399
Other current assets	172,369	159,931
Total current assets	<u>3,344,952</u>	<u>3,091,491</u>
Assets limited as to use, net of current portion	1,365,666	1,159,721
Pledges receivable, net of current portion	101,423	112,821
Property, plant and equipment, net	3,762,104	3,550,093
Insurance claims receivable, net of current portion	289,953	334,073
Other assets	182,254	175,155
Total assets	<u>\$ 9,046,352</u>	<u>\$ 8,423,354</u>
Liabilities and net assets		
Current liabilities:		
Short-term borrowings	\$ 110,218	\$ 110,540
Accounts payable and accrued expenses	607,224	529,423
Accrued salaries and related benefits	595,405	568,164
Current portion of capital lease obligations	5,902	6,308
Current portion of long-term debt	55,357	52,954
Current portion of insurance claims liability	83,268	98,399
Current portion of malpractice and other insurance liabilities	81,344	74,252
Current portion of third-party payer structured liabilities	4,346	5,438
Current portion of estimated payable to third-party payers	247,935	210,437
Total current liabilities	<u>1,790,999</u>	<u>1,655,915</u>
Accrued retirement benefits, net of current portion	706,145	341,044
Capital lease obligations, net of current portion	197,825	76,814
Long-term debt, net of current portion	1,856,298	1,665,372
Insurance claims liability, net of current portion	289,953	334,073
Malpractice and other insurance liabilities, net of current portion	781,199	716,902
Third-party payer structured liabilities, net of current portion	13,266	18,288
Other long-term liabilities	577,276	626,020
Total liabilities	<u>6,212,961</u>	<u>5,434,428</u>
Commitments and contingencies		
Net assets:		
Unrestricted	2,340,552	2,508,405
Temporarily restricted	357,127	346,046
Permanently restricted	135,712	134,475
Total net assets	<u>2,833,391</u>	<u>2,988,926</u>
Total liabilities and net assets	<u>\$ 9,046,352</u>	<u>\$ 8,423,354</u>

See accompanying notes.

North Shore-Long Island Jewish Health System, Inc.

Consolidated Statements of Operations

(In Thousands)

	Year Ended December 31	
	2014	2013
Operating revenue:		
Net patient service revenue	\$ 6,078,845	\$ 5,853,492
Physician practice revenue	961,772	875,088
Provision for bad debts	(103,871)	(91,288)
Total patient revenue, net of provision for bad debts	<u>6,936,746</u>	<u>6,637,292</u>
Other operating revenue	367,374	323,306
Health insurance premium revenue	85,808	1,301
Net assets released from restrictions used for operations	45,119	39,932
Total operating revenue	<u>7,435,047</u>	<u>7,001,831</u>
Operating expenses:		
Salaries	3,816,925	3,568,991
Employee benefits	947,744	928,220
Supplies and expenses	2,156,716	2,029,125
Depreciation and amortization	331,036	307,345
Interest	95,113	84,193
Total operating expenses	<u>7,347,534</u>	<u>6,917,874</u>
Excess of operating revenue over operating expenses	87,513	83,957
Non-operating gains and losses:		
Investment income	100,817	100,320
Change in net unrealized gains and losses and change in value of equity method investments	(24,354)	105,971
Change in fair value of interest rate swap agreements designated as derivative instruments	841	965
Early retirement program costs	-	(33,179)
Other non-operating gains and losses	25,967	(6,344)
Total non-operating gains and losses	<u>103,271</u>	<u>167,733</u>
Excess of revenue and gains and losses over expenses	190,784	251,690
Net assets released from restrictions for capital asset acquisitions	27,136	46,068
Change in fair value of interest rate swap agreements designated as cash flow hedges	1,310	2,931
Pension and other postretirement liability adjustments	(359,743)	248,815
Other changes in net assets	(27,340)	(600)
(Decrease) increase in unrestricted net assets	<u>\$ (167,853)</u>	<u>\$ 548,904</u>

See accompanying notes.

North Shore-Long Island Jewish Health System, Inc.

Consolidated Statements of Changes in Net Assets
(In Thousands)

Years Ended December 31, 2014 and 2013

	Total	Unrestricted	Temporarily Restricted	Permanently Restricted
Net assets, January 1, 2013	\$ 2,430,081	\$ 1,959,501	\$ 341,669	\$ 128,911
Contributions and grants	92,827	–	87,263	5,564
Investment income	8,904	–	8,904	–
Change in net unrealized gains and losses and change in value of equity method investments	11,537	–	11,537	–
Excess of revenue and gains and losses over expenses	251,690	251,690	–	–
Net assets released from restrictions for:				
Capital asset acquisitions	–	46,068	(46,068)	–
Operations	(39,932)	–	(39,932)	–
Non-operating activities	(17,327)	–	(17,327)	–
Change in fair value of interest rate swap agreements designated as cash flow hedges	2,931	2,931	–	–
Pension and other postretirement liability adjustments	248,815	248,815	–	–
Other changes in net assets	(600)	(600)	–	–
Increase in net assets	558,845	548,904	4,377	5,564
Net assets, December 31, 2013	2,988,926	2,508,405	346,046	134,475
Contributions and grants	96,230	–	94,993	1,237
Investment income	8,834	–	8,834	–
Change in net unrealized gains and losses and change in value of equity method investments	(2,314)	–	(2,314)	–
Excess of revenue and gains and losses over expenses	190,784	190,784	–	–
Net assets released from restrictions for:				
Capital asset acquisitions	–	27,136	(27,136)	–
Operations	(45,119)	–	(45,119)	–
Non-operating activities	(18,177)	–	(18,177)	–
Change in fair value of interest rate swap agreements designated as cash flow hedges	1,310	1,310	–	–
Pension and other postretirement liability adjustments	(359,743)	(359,743)	–	–
Other changes in net assets	(27,340)	(27,340)	–	–
(Decrease) increase in net assets	(155,535)	(167,853)	11,081	1,237
Net assets, December 31, 2014	\$ 2,833,391	\$ 2,340,552	\$ 357,127	\$ 135,712

See accompanying notes.

North Shore-Long Island Jewish Health System, Inc.

Consolidated Statements of Cash Flows
(In Thousands)

	Year Ended December 31	
	2014	2013
Cash flows from operating activities		
(Decrease) increase in net assets	\$ (155,535)	\$ 558,845
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Permanently restricted contributions	(1,237)	(5,564)
Depreciation and amortization	331,036	307,345
Net realized gains and losses, change in net unrealized gains and losses and change in value of equity method investments	(50,121)	(190,505)
Change in fair value of interest rate swap agreements	(2,151)	(3,896)
Changes in operating assets and liabilities:		
Accounts receivable for services to patients, net	(74,633)	(2,982)
Accounts receivable for physician activities, net	(5,615)	(8,292)
Pledges receivable	9,514	10,725
Current portion of estimated payable to third-party payers	37,498	72,237
Accrued retirement benefits, net of current portion	365,101	(319,312)
Malpractice and other insurance liabilities	71,389	78,404
Net change in all other operating assets and liabilities	46,230	101,111
Net cash provided by operating activities	<u>571,476</u>	<u>598,116</u>
Cash flows from investing activities		
Capital expenditures	(454,113)	(485,287)
Net cash invested in marketable securities and other investments and assets limited as to use	(308,080)	(339,559)
Payments for joint venture acquisitions, net	-	(34,220)
Net cash used in investing activities	<u>(762,193)</u>	<u>(859,066)</u>
Cash flows from financing activities		
Principal payments on long-term debt and capital lease obligations	(59,062)	(55,434)
Redemption of long-term debt	(10,005)	-
Payments on short-term borrowings	(52,103)	(36,650)
Principal payments on third-party payer structured liabilities	(6,114)	(5,663)
Proceeds from short-term borrowings	51,781	36,650
Proceeds from long-term debt	250,000	249,307
Payments for financing costs	(2,380)	(2,664)
Proceeds from permanently restricted contributions	2,569	2,747
Net cash provided by financing activities	<u>174,686</u>	<u>188,293</u>
Net decrease in cash and cash equivalents	(16,031)	(72,657)
Cash and cash equivalents, beginning of year	210,601	283,258
Cash and cash equivalents, end of year	<u>\$ 194,570</u>	<u>\$ 210,601</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest (exclusive of amounts capitalized)	<u>\$ 89,453</u>	<u>\$ 79,817</u>
Supplemental disclosure of noncash investing and financing activities		
Assets acquired under capital lease obligations and long-term debt	<u>\$ 133,001</u>	<u>\$ -</u>

See accompanying notes.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements

(In Thousands)

December 31, 2014

1. Organization and Principles of Consolidation

North Shore-Long Island Jewish Health System, Inc. and its member corporations and other affiliated entities (collectively, the System) is an integrated health care delivery system in the New York metropolitan area. Various entities within the System are exempt from Federal income taxes under the provisions of Section 501(a) of the Internal Revenue Code (the Code) as organizations described in Section 501(c)(3), while other entities are not exempt from such income taxes. The exempt organizations also are exempt from New York State and local income taxes.

The accompanying consolidated financial statements include the accounts of the following principal operating organizations. All interorganization accounts and activities have been eliminated in consolidation.

Hospitals

- North Shore University Hospital (NSUH), including the accounts of Syosset Hospital
- Long Island Jewish Medical Center (LIJMC), including Long Island Jewish Hospital, Steven and Alexandra Cohen Children's Medical Center of New York and Zucker Hillside Hospital
- Staten Island University Hospital (Staten Island)
- Lenox Hill Hospital (Lenox)
- Southside Hospital (Southside)
- Forest Hills Hospital (Forest Hills)
- Franklin Hospital (Franklin), including the accounts of North Shore-LIJ Orzac Center for Rehabilitation
- Glen Cove Hospital (Glen Cove)
- Huntington Hospital Association (Huntington)
- Plainview Hospital (Plainview)
- South Oaks Hospital (South Oaks)

Other Entities

- North Shore-Long Island Jewish Health System, Inc. and North Shore-Long Island Jewish Health Care, Inc. (HCI) – parent holding companies
- North Shore-LIJ Stern Family Center for Rehabilitation (Stern) – skilled nursing facility and rehabilitation center
- North Shore-Long Island Jewish Health System Laboratories – laboratory services
- The Feinstein Institute for Medical Research – medical research
- North Shore-Long Island Jewish Health System Foundation, Inc. – fundraising

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

1. Organization and Principles of Consolidation (continued)

Other Entities (continued)

- Broadlawn Manor Nursing and Rehabilitation Center (Broadlawn) – skilled nursing facility and rehabilitation center
- North Shore Health System Enterprises, Inc. and North Shore Health Enterprises, Inc. – holding companies for certain for-profit related entities
- RegionCare, Inc. – infusion therapy, diagnostic laboratory, nurse staffing and licensed home health agency services
- North Shore Community Services, Inc. – real estate holdings and related services
- North Shore University Hospital Housing, Inc., North Shore University Hospital at Glen Cove Housing, Inc. and Hillside Hospital Houses, Inc. – housing and auxiliary facilities for staff members, students and employees
- Regional Claims Recovery Service – billing and collection services
- Endoscopy Center of Long Island, LLC (ECLI) – outpatient endoscopy center
- North Shore Medical Accelerator, P.C. (NSMA) – outpatient radiation oncology center
- North Shore-LIJ and Yale New Haven Medical Air Transport, LLC – medical air transport company which commenced operations in 2014 and is 90% owned by the System
- Hospice Care Network, Inc. – hospice services
- North Shore-LIJ Health Plan Inc. (Health Plan) – tax-exempt health insurance entity authorized by the State of New York to operate a partial capitation Medicaid Managed Long-Term Care Plan
- North Shore-LIJ CareConnect Insurance Company Inc. (CareConnect) – for-profit health insurance entity licensed to issue commercial health insurance products in the State of New York
- Regional Insurance Company Ltd. (Regional Insurance) – captive insurance company providing excess professional liability insurance
- North Shore LIJ Physicians Insurance Company Risk Retention Group (RRG) – captive insurance company providing physician professional liability insurance
- Huntington Hospital Dolan Family Health Center – community health center
- Other affiliated professional corporations

Certain members of the System (the Obligated Group) are jointly and severally liable for obligations under bond indentures (see Note 7). The Obligated Group consists of HCI, NSUH, LIJMC, Staten Island, Lenox, Southside, Huntington, Glen Cove, Plainview, Forest Hills, Franklin and Stern.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

1. Organization and Principles of Consolidation (continued)

Acquisitions

During 2013, the System purchased 70% controlling interests in NSMA and ECLI for \$4,941 and \$29,850, respectively. The purchase price of NSMA and ECLI was determined based on independent valuations. Results of the operations of NSMA and ECLI have been included in the consolidated financial statements since their respective acquisition dates. The non-controlling interest in these entities at December 31, 2014 and 2013 is immaterial to the consolidated financial statements.

On January 1, 2015, the System acquired Phelps Memorial Hospital Association (Phelps), a not-for-profit 238 bed acute care hospital located in Westchester County, New York. Also on January 1, 2015, the System acquired Northern Westchester Hospital Association (NWH), a not-for-profit 245 bed acute care hospital in Westchester County. The System will account for these business combinations by applying the acquisition method and will determine the inherent contribution received on January 1, 2015, based on the fair value of Phelps' and NWH's assets in excess of liabilities; such determination has not been finalized. On December 31, 2014, the System contributed \$25,000 to NWH to be used for future capital expenditures, which is reported in the accompanying 2014 consolidated statement of operations within other changes in net assets. Phelps and NWH are not members of the Obligated Group. The operating revenue of Phelps and NWH for the year ended December 31, 2014 was approximately \$230,000 and \$250,000, respectively, however, the operating results of Phelps and NWH are not included in the consolidated financial statements of the System as of and for the year ended December 31, 2014.

2. Summary of Significant Accounting Policies

Consolidated Statements of Operations

The accompanying consolidated statements of operations include the excess of revenue and gains and losses over expenses as the performance indicator. For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenue and operating expenses; peripheral or incidental transactions and unusual, nonrecurring items are reported as non-operating gains and losses.

Net assets released from restrictions for capital asset acquisitions, the change in fair value of interest rate swap agreements designated as cash flow hedges, pension and other postretirement liability adjustments and other changes in net assets are excluded from the System's performance indicator.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Recent Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. (ASU) 2014-09, *Revenue from Contracts with Customers*. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance in ASU 2014-09 supersedes the FASB's current revenue recognition requirements and most industry-specific guidance. The provisions of ASU 2014-09 are effective for the System for annual reporting periods beginning after December 15, 2016. Early application is not permitted. The System has not completed the process of evaluating the impact of ASU 2014-09 on its consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, including accounts receivable for services to patients, and liabilities, including estimated payables to third-party payers, accrued retirement benefits and malpractice and other insurance liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

During 2014 and 2013, the System revised estimates made in prior years to reflect the passage of time and the availability of more recent information. Changes in estimates primarily relate to estimates made by management for third-party payer liabilities and malpractice and other insurance liabilities. For the year ended December 31, 2014, the change in estimates for third-party payer liabilities related to prior years was not significant, while the estimates for malpractice and other insurance liabilities related to prior years decreased by approximately \$24,000. For the year ended December 31, 2013, the estimates for third-party payer liabilities and malpractice and other insurance liabilities related to prior years decreased by approximately \$15,000 and \$20,000, respectively.

Cash and Cash Equivalents

The System classifies all highly liquid financial instruments purchased with a maturity of three months or less, other than those held in the investment portfolio and assets limited as to use, as cash equivalents. The System maintains cash on deposit with major banks and invests in money market securities with financial institutions which exceed federally-insured limits. Management believes the credit risk related to these deposits is minimal.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Accounts Receivable and Patient Revenue

Net patient service revenue and physician practice revenue (collectively, patient revenue) are reported at estimated net realizable amounts due from patients, third-party payers and others for services rendered and include estimated retroactive revenue adjustments due to ongoing and future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are provided and are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

The System recognizes accounts receivable and patient revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates, governmental rates or established charges for the services rendered. For uninsured patients who are ineligible for any government assistance program, the System provides services without charge or at amounts less than its established rates for patients who meet the criteria of its charity care policy. Because the System does not pursue collection of amounts determined to qualify as charity care, such services are not reported as patient revenue. For patients who were determined by the System to have the ability to pay but do not, the estimated uncollectible amounts are recorded as the provision for bad debts. In distinguishing charity care from the provision for bad debts, a number of factors are considered, certain of which require a high degree of judgment.

Patient revenue, net of contractual and charity care allowances, but before the provision for bad debts, from insured and self-pay patients was approximately \$6,950,000 and \$91,000, respectively, for the year ended December 31, 2014, and approximately \$6,641,000 and \$88,000, respectively, for the year ended December 31, 2013. Deductibles and copayments due from patients under third-party payment programs are included in the insured amount above.

The allowance for doubtful accounts represents the System's estimate of the uncollectible accounts receivable related to bad debts. Additions to the allowance for doubtful accounts result from the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance for doubtful accounts. The allowance for doubtful accounts is based upon the System's assessment of historical and expected net collections, business and economic conditions, trends in health care coverage and other collection indicators.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

For receivables associated with services provided to patients who have third-party payer coverage, the System analyzes amounts due from third-parties and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for third-party payers who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay balances, which includes amounts for patients without insurance, patients with deductible and copayment balances due after third-party coverage and balances for services not covered by insurance, the System records an allowance for doubtful accounts and a provision for bad debts in the period of service based on past experience. The allowances for both doubtful accounts and anticipated charity care for self-pay patients were approximately 87% and 84% of the gross self-pay accounts receivable balance as of December 31, 2014 and 2013, respectively.

The System's allowance for doubtful accounts relating to accounts receivable for services to patients and accounts receivable for physician activities totaled approximately \$102,300 and \$102,100 at December 31, 2014 and 2013, respectively.

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

Non-Medicare Reimbursement

In New York State, hospitals and all non-Medicare payers, except Medicaid, workers' compensation and no-fault insurance programs, negotiate hospitals' payment rates. If negotiated rates are not established, payers are billed at hospitals' established charges. Medicaid, workers' compensation and no-fault payers pay hospital rates promulgated by the New York State Department of Health (NYSDOH). Effective December 1, 2009, the New York State prospective payment methodology was updated such that payments to hospitals for Medicaid, workers' compensation and no-fault inpatient services are based on a statewide rate, with retroactive adjustments for certain rate components paid concurrently with the settlement of the final rate. Prior to December 1, 2009, the retroactive adjustments were paid in future years as a component of the hospital-specific rate. Outpatient services also are paid based on a statewide prospective system that was effective December 1, 2008. Medicaid rate methodologies are subject to approval at the Federal level by the Centers for Medicare and Medicaid Services (CMS), which may routinely request information about such methodologies prior to approval. Revenue related to specific rate components that have not been approved by CMS is not recognized until the System is reasonably assured that such amounts are realizable. Adjustments to the current and prior years' payment rates for those payers will continue to be made in future years.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Medicare Reimbursement

Hospitals are paid for most Medicare inpatient and outpatient services under the national prospective payment system and other methodologies of the Medicare program for certain other services. Federal regulations provide for certain adjustments to current and prior years' payment rates, based on industry-wide and System-specific data.

The System has established estimates, based on information presently available, of amounts due to or from Medicare and non-Medicare payers for adjustments to current and prior years' payment rates, based on industry-wide and System-specific data. The current Medicaid, Medicare and other third-party payer programs are based upon extremely complex laws and regulations that are subject to interpretation. Noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs. The System is not aware of any allegations of noncompliance that could have a material adverse effect on the accompanying consolidated financial statements and believes that it is in compliance with all applicable laws and regulations. Medicare cost reports, which serve as the basis for final settlement with the Medicare program, have been audited by the Medicare fiscal intermediary and settled through years ranging from 2000 to 2012. Other years remain open for audit and settlement, as do certain issues related to the New York State Medicaid program for prior years. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount when open years are settled and additional information is obtained.

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

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

In 2014, CMS offered hospitals the opportunity to settle certain denied claims related to prior years that were in various stages of appeal under the Medicare recovery audit contractor and other claim review programs, for 68% of the original claim value. The System's hospitals entered into settlement agreements with CMS and as a result, received a cash settlement payment of approximately \$48,200 in January 2015. The settlement amount was included in the consolidated statement of financial position at December 31, 2014 within accounts receivable for services to patients and in the consolidated statement of operations for the year ended December 31, 2014 within other non-operating gains and losses.

The System grants credit without collateral to its patients, most of whom are insured under various third-party agreements. Government payer programs account for a significant portion of net patient service revenue. For both the years ended December 31, 2014 and 2013, revenue from the Medicare and Medicaid programs, including Medicare and Medicaid managed care programs, accounted for approximately 50% of the System's net patient service revenue.

The significant concentrations of gross accounts receivable for services to patients from third-party payers and patients at December 31, 2014 and 2013 are as follows:

	December 31	
	2014	2013
Medicare and Medicare managed care	36%	35%
Medicaid and Medicaid managed care	19	19
Self-pay	8	8
Other third-party payers	37	38
	100%	100%

Charity Care

Together, charity care and the provision for bad debts represent uncompensated care. The estimated cost of total uncompensated care was approximately \$181,900 and \$183,000 for the years ended December 31, 2014 and 2013, respectively. The estimated cost of uncompensated care is based on the ratio of cost to charges, as determined by System-specific data.

The estimated cost of charity care provided was approximately \$141,400 and \$149,300 for the years ended December 31, 2014 and 2013, respectively. The estimated cost of charity care is based on the ratio of cost to charges, as determined by System-specific data.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

For the years ended December 31, 2014 and 2013, the provision for bad debts, primarily at charges, was \$103,871 and \$91,288, respectively. The provision for bad debts is multiplied by the ratio of cost to charges for purposes of inclusion in the total estimated cost of uncompensated care amount identified above.

The NYSDOH Hospital Indigent Care Pool (the Pool) was established to provide funds to hospitals for the provision of uncompensated care and is funded, in part, by a 1% assessment on hospital net inpatient service revenue. For the years ended December 31, 2014 and 2013, the System received \$77,763 and \$73,176, respectively, in Pool distributions, of which approximately \$62,000 and \$58,000 was related to charity care. The System made payments into the Pool of \$40,652 and \$39,349 for the years ended December 31, 2014 and 2013, respectively, for the 1% assessment.

See Note 8 for additional disclosure on charity care relating to Staten Island's settlement with the New York State Attorney General.

Pledges Receivable

Pledges (promises to give), less an allowance for uncollectible amounts, are recorded as receivables in the year made at net present value and are recorded as temporarily or permanently restricted net assets. Pledges receivable that are due more than one year from the balance sheet date are discounted to reflect the present value of future cash flows.

Marketable Securities and Other Investments

Marketable securities are classified as trading securities. Investments in debt securities, equity securities and mutual funds with readily determinable fair values are reported at fair value, based on quoted market prices.

The System has invested in investment funds of hedge funds (funds of hedge funds), hedge funds, private equity funds and private real estate funds, which are included in marketable securities and other investments and assets limited as to use in the accompanying consolidated statements of financial position. These System investments are not readily marketable and are reported under the equity method of accounting, which approximates fair value. The equity method reflects the System's share of the net asset value of the respective funds.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Individual investment holdings of the funds of hedge funds, hedge funds, private equity funds and private real estate funds may include investments in both nonmarketable and market-traded securities. Valuations of these investments, and therefore the System's holdings, may be determined by the investment managers or general partners. Values may be based on estimates that require varying degrees of judgment. Recorded estimates may change by a material amount in the near term. The investments may indirectly expose the System to securities lending, short sales of securities and trading in futures and forwards contracts, options and other derivative products. However, the System's risk is limited to its amounts invested. The financial statements of the funds of hedge funds, hedge funds, private equity funds and private real estate funds are audited annually by independent auditors. At December 31, 2014, the System has future commitments of \$113,276 and \$13,012 to invest in private equity and private real estate funds for pension and restricted assets, respectively.

Other investments also include investments in commingled fixed income, equity and risk-parity funds. The individual investment holdings of these commingled funds are predominantly marketable securities. These investments are reported under the equity method of accounting, which approximates fair value. The equity method reflects the System's share of the net asset value of these investments. The financial statements of the commingled fixed income, equity and risk-parity funds are audited annually by independent auditors.

Investment income (including realized gains and losses on investments, interest and dividends) and the change in net unrealized gains and losses and change in value of equity method investments are included in the performance indicator, unless the income or loss is restricted by donor or law. Effective in 2014, interest and dividend income earned on the System's internally designated malpractice and other self-insurance assets is recorded in other operating revenue.

Assets Limited as to Use

Assets limited as to use include funds held pursuant to debt financing arrangements, medical malpractice claims trust agreements, internally designated funds, including internally designated malpractice and other self-insurance assets, deferred employee compensation plans and temporarily and permanently restricted assets. Amounts required to meet current liabilities are reported as current assets.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Inventory of Supplies

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

Insurance Claims Receivable and Liability

For medical malpractice and similar contingent liabilities, the System does not net insurance recoveries against related claims liabilities and determines such claims liabilities without consideration of insurance recoveries. Accordingly, the System recognizes insurance receivables at the same time that it recognizes the liabilities, measured on the same basis as the liabilities, subject to the need for a valuation allowance for uncollectible amounts in the accompanying consolidated statements of financial position. Such amounts represent the actuarially determined present value of medical malpractice and other claims that are anticipated to be covered by insurance, discounted at a rate of 2.0%.

Property, Plant and Equipment

Property, plant and equipment is stated at cost or, in the case of gifts, at fair value at the date of the gift, less accumulated depreciation and amortization. Property, plant and equipment of South Oaks and Broadlawn (collectively, The Long Island Home) and Lenox that existed at their acquisition dates (July 1, 2012 and May 19, 2010, respectively), was recorded at fair value based upon an independent valuation. Depreciation and amortization of land improvements, buildings, fixed equipment and major movable equipment is computed by the straight-line method based upon the estimated useful lives of the assets ranging from three to forty years.

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

During the period of construction of capital assets, interest costs are capitalized as a component of the cost of assets. When assets are disposed of, the carrying amounts of the assets and the related accumulated depreciation are removed from the accounts, and any resulting gain or loss on disposal is included in the performance indicator. When assets become fully depreciated, the carrying amounts of such assets and the related accumulated depreciation are removed from the accounts (see Note 6).

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Long-Lived Assets

Gifts of long-lived assets are reported at fair value established at the date of contribution as changes in unrestricted net assets, excluded from the performance indicator, unless explicit donor stipulations specify how the donated asset must be used.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If long-lived assets are deemed to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value. Assets to be disposed of are reported at the lower of the carrying amount or the fair value, less costs to sell.

Intangible Assets

In connection with various acquisitions, the System has intangible assets of approximately \$55,000. The intangible assets are subject to impairment testing on an annual basis. At December 31, 2014, the System determined that there has been no impairment of these intangible assets.

In addition, in 2011, Staten Island purchased from Richmond University Medical Center (RUMC) the remainder interest in a joint venture between the hospitals for \$30,500. The purchase price was determined based upon an independent valuation, and as a result, an intangible asset was recorded for the purchase price which is being amortized over a five and one-half year useful life. At December 31, 2014 and 2013, the value of the intangible asset, net of accumulated amortization, was \$9,242 and \$14,788, respectively.

Intangible assets are included within other assets in the accompanying consolidated statements of financial position.

Deferred Financing Costs

Deferred financing costs, included in other assets, represent costs incurred to obtain financing for various System projects and initiatives. Amortization of these costs is provided over the term of the applicable indebtedness. Deferred financing costs, net of accumulated amortization, are \$33,555 and \$33,524 at December 31, 2014 and 2013, respectively. Amortization, included in interest expense in the accompanying consolidated statements of operations, is \$2,349 and \$2,276 for the years ended December 31, 2014 and 2013, respectively.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

During 2014 and 2013, the System issued new debt (see Note 7) and, as a result, incurred deferred financing costs of \$2,380 and 2,664, respectively.

Interest Rate Swap Agreements

Interest rate swap agreements are reported at fair value. Fair value is estimated using discounted cash flow analyses based on current and projected interest rates with consideration of the risk of non-performance. Changes in fair value of interest rate swap agreements designated as derivative instruments are recognized in the System's performance indicator. Changes in fair value of interest rate swap agreements designated as cash flow hedges are excluded from the performance indicator.

Other Long-Term Liabilities

Other long-term liabilities included in the accompanying consolidated statements of financial position primarily consist of the long-term portion of estimated payable to third-party payers, lease incentive obligations, deferred rent payable, asset retirement obligations, deferred revenue, and the fair value of the interest rate swap agreements.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are restricted by donors or other external parties to be used for designated purposes or over specified time periods. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions.

Permanently restricted net assets have been restricted by donors to be maintained in perpetuity. Income from these net assets is available to support certain teaching, research and training programs.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Donor Gifts

Gifts of cash and other assets, including unconditional promises to give cash and other assets (pledges), are reported at fair value when the gift is received (or promise is made). Donor-restricted contributions whose restrictions are met within the same year as received are classified as unrestricted contributions in the accompanying consolidated financial statements.

The System receives conditional pledges, which are not reflected in the accompanying consolidated financial statements. The conditional pledges primarily relate to the establishment of certain programs. As the conditions of the pledges are met, the pledges are recognized. At December 31, 2014 and 2013, \$4,221 and \$6,724, respectively, of conditional pledges have not been recognized in the consolidated statements of financial position.

Contributions and pledges raised through fundraising efforts for the years ended December 31, 2014 and 2013 are summarized as follows:

	<u>2014</u>	<u>2013</u>
Unrestricted	\$ 1,977	\$ 4,311
Temporarily restricted	70,064	56,876
Permanently restricted	1,237	5,564
	<u>\$ 73,278</u>	<u>\$ 66,751</u>

Health Insurance Premium Revenue

Health insurance premium revenue for Health Plan and CareConnect (collectively, the Health Insurance Companies) is earned over the term of the related insurance policies and recorded in the month for which members are entitled to health care services at estimated net realizable value. Unearned premium reserves are established to cover the unexpired portion of premiums written and are included in accounts payable and accrued expenses in the accompanying consolidated statements of financial position.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Medical Claims Expense and Accrued Medical Claims

The Health Insurance Companies contract with various health care providers, including the System, to provide care to their members. The Health Insurance Companies compensate these providers on either a capitated or fee-for-service basis. The cost of health care services is accrued in the period provided to enrollees and is based on estimates for such services which have been incurred but not reported. Adjustments to these estimates are recorded in future periods as amounts become known. Included in supplies and expenses in the accompanying consolidated statements of operations for the years ended December 31, 2014 and 2013, is \$40,289 and \$1,117, respectively, of medical claims expense. For the year ended December 31, 2014, this amount is net of \$34,420 of medical claims expense eliminated in consolidation, along with a corresponding amount of total patient revenue, related to transactions between the Health Insurance Companies and the System's health care providers.

Early Retirement Program Costs

During 2013, the System offered an early retirement option to certain employees aged 62 and older. Under the program, eligible employees who opted for early retirement will receive salary continuation payments based on years of service, and medical benefits until Medicare eligible. A charge of \$33,179 for the early retirement program costs is reflected within the non-operating gains and losses section of the accompanying consolidated statement of operations for the year ended December 31, 2013. A corresponding liability for the same amount is included in accrued salaries and related benefits and accrued retirement benefits, net of current portion in the accompanying consolidated statement of financial position at December 31, 2013. At December 31, 2014, a remaining liability totaling \$3,535 is included in accrued salaries and related benefits and accrued retirement benefits, net of current portion.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Functional Expenses

The System provides health care services to residents primarily within its geographic areas. Expenses related to providing these services pertain to the following functional categories for the years ended December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Health care services	\$ 6,348,640	\$ 6,073,806
General and administrative	998,894	844,068
Total operating expenses	<u>\$ 7,347,534</u>	<u>\$ 6,917,874</u>

Tax Status

Certain entities included in the System's consolidated financial statements are taxable entities under Federal or state laws. U.S. generally accepted accounting principles require that the asset and liability method of accounting for income taxes be utilized by these organizations. Under the asset and liability method, deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities.

The effect on deferred taxes of a change in tax rates is recognized in income in the period of enactment. At December 31, 2014 and 2013, the System has a deferred income tax asset which has been fully offset by a related valuation allowance. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax asset will not be realized. Significant components of the deferred tax asset relate to the allowance for doubtful accounts and net operating loss carryforwards. Certain entities have net operating loss carryforwards aggregating approximately \$165,000, which expire in varying amounts through 2034, and are available to offset future taxable income.

Reclassifications

Certain 2013 amounts in the accompanying consolidated financial statements have been reclassified from amounts previously reported to conform to the 2014 presentation. These reclassifications have no impact on the net assets previously reported.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

3. Marketable Securities and Other Investments

Marketable securities and other investments, stated at fair value or under the equity method of accounting, as applicable based on the appropriate measurement basis as described in Note 2, consist of the following at December 31, 2014 and 2013:

	2014	2013
Cash and short-term investments	\$ 133,689	\$ 65,433
U.S. Government obligations	70,590	173,500
Corporate and other bonds	296,199	277,707
Fixed income mutual funds	235,262	377,422
Commingled fixed income funds	236,295	18,685
Equity securities	314,967	265,776
Equity mutual funds	190,094	185,638
Commingled equity funds	121,365	154,524
Commingled risk-parity funds	89,083	82,723
Funds of hedge funds	214,108	134,798
Interest and other receivables	3,509	3,180
	<u>\$ 1,905,161</u>	<u>\$ 1,739,386</u>

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

3. Marketable Securities and Other Investments (continued)

Investment income and the change in net unrealized gains and losses and change in value of equity method investments are comprised of the following for the years ended December 31, 2014 and 2013:

	2014		
	Unrestricted	Temporarily Restricted	Total
Investment income:			
Interest and dividend income	\$ 39,159	\$ 1,767	\$ 40,926
Net realized gains and losses	69,722	7,067	76,789
Less interest and dividend income on malpractice and other self-insurance assets (see Note 2)	(8,064)	–	(8,064)
	\$ 100,817	\$ 8,834	\$ 109,651
Change in net unrealized gains and losses and change in value of equity method investments:			
Change in net unrealized gains and losses	\$ (6,207)	\$ (1,285)	\$ (7,492)
Equity method investment gains and losses	(23,085)	(1,029)	(24,114)
Equity method investment gains – other assets	4,938	–	4,938
	\$ (24,354)	\$ (2,314)	\$ (26,668)
	2013		
	Unrestricted	Temporarily Restricted	Total
Investment income:			
Interest and dividend income	\$ 34,631	\$ 1,596	\$ 36,227
Net realized gains and losses	65,689	7,308	72,997
	\$ 100,320	\$ 8,904	\$ 109,224
Change in net unrealized gains and losses and change in value of equity method investments:			
Change in net unrealized gains and losses	\$ 53,313	\$ 7,300	\$ 60,613
Equity method investment gains and losses	44,958	4,237	49,195
Equity method investment gains – other assets	7,700	–	7,700
	\$ 105,971	\$ 11,537	\$ 117,508

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

4. Assets Limited as to Use

Assets limited as to use, including marketable securities and other investments stated at fair value or under the equity method of accounting, as applicable based on the appropriate measurement basis as described in Note 2, consist of the following at December 31, 2014:

	2014			
	Bond Indenture, Third-party Agreements and Other	Malpractice and Other Self-Insurance Assets	Temporarily and Permanently Restricted Assets (Including Investment Return)	Total
Cash and short-term investments	\$ 107,257	\$ 24,909	\$ 26,251	\$ 158,417
U.S. Government obligations	160,625	14,857	2,346	177,828
Corporate and other bonds	83,860	47,010	7,269	138,139
Fixed income mutual funds	77,620	109,893	7,817	195,330
Commingled fixed income funds	47,228	66,965	9,888	124,081
Equity securities	76,847	59,397	40,984	177,228
Equity mutual funds	88,393	82,658	20,878	191,929
Commingled equity funds	27,890	27,432	23,146	78,468
Target-age mutual funds	18,781	-	-	18,781
Commingled risk-parity funds	21,740	26,046	14,323	62,109
Funds of hedge funds	52,252	62,097	23,524	137,873
Hedge funds	-	-	107	107
Private equity funds	-	-	4,556	4,556
Private real estate funds	-	-	3,461	3,461
Interest and other receivables	974	638	313	1,925
	\$ 763,467	\$ 521,902	\$ 184,863	1,470,232
Less current portion				104,566
				\$ 1,365,666

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

4. Assets Limited as to Use (continued)

Assets limited as to use, including marketable securities and other investments stated at fair value or under the equity method of accounting, as applicable based on the appropriate measurement basis as described in Note 2, consist of the following at December 31, 2013:

	2013			
	Bond Indenture, Third-party Agreements and Other	Malpractice and Other Self-Insurance Assets	Temporarily and Permanently Restricted Assets (Including Investment Return)	Total
Cash and short-term investments	\$ 55,099	\$ 15,484	\$ 18,945	\$ 89,528
U.S. Government obligations	236,353	27,447	3,477	267,277
Corporate and other bonds	78,433	57,460	7,893	143,786
Fixed income mutual funds	77,036	116,936	10,140	204,112
Commingled fixed income funds	474	11,106	3,531	15,111
Equity securities	41,037	47,287	36,848	125,172
Equity mutual funds	64,524	77,707	21,194	163,425
Commingled equity funds	22,497	25,229	26,836	74,562
Target-age mutual funds	13,120	–	–	13,120
Commingled risk-parity funds	12,812	21,302	13,487	47,601
Funds of hedge funds	20,878	43,922	22,856	87,656
Hedge funds	–	–	107	107
Private equity funds	–	–	2,682	2,682
Private real estate funds	–	–	3,193	3,193
Interest and other receivables	744	406	195	1,345
	<u>\$ 623,007</u>	<u>\$ 444,286</u>	<u>\$ 171,384</u>	<u>1,238,677</u>
Less current portion				<u>78,956</u>
				<u>\$ 1,159,721</u>

Included in bond indenture, third-party agreements and other above are depreciation funds and other internally designated funds of approximately \$67,000 and \$65,000 at December 31, 2014 and 2013, respectively, which are included in the System's days cash on hand calculation (see Note 7).

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

5. Pledges Receivable

Pledges receivable at December 31, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Amounts expected to be collected in:		
Less than one year	\$ 49,215	\$ 45,543
One to five years	95,687	102,746
More than five years	52,696	60,628
	<u>197,598</u>	<u>208,917</u>
Less:		
Discount to present value of future cash flows (discount rates ranging from 0.25% to 6.0%)	13,819	14,469
Allowance for uncollectible amounts	46,227	46,050
Current portion of pledges receivable	36,129	35,577
Pledges receivable, net of current portion	<u>\$ 101,423</u>	<u>\$ 112,821</u>

6. Property, Plant and Equipment

Property, plant and equipment and accumulated depreciation and amortization at December 31, 2014 and 2013 are summarized as follows:

	<u>2014</u>	<u>2013</u>
Land	\$ 633,801	\$ 602,997
Land improvements	19,880	17,067
Buildings and fixed equipment	3,225,943	3,046,149
Movable equipment	1,295,146	1,132,966
Leasehold improvements	14,597	22,715
	<u>5,189,367</u>	<u>4,821,894</u>
Less accumulated depreciation and amortization	1,682,447	1,552,034
	<u>3,506,920</u>	<u>3,269,860</u>
Construction-in-progress	255,184	280,233
	<u>\$ 3,762,104</u>	<u>\$ 3,550,093</u>

The System wrote off approximately \$201,000 and \$152,000 of fully depreciated assets in 2014 and 2013, respectively.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

6. Property, Plant and Equipment (continued)

Net interest capitalized for the years ended December 31, 2014 and 2013 was approximately \$6,200 and \$3,800, respectively.

Certain leases are considered to be the equivalent of installment purchases for purposes of accounting presentation. The liabilities relating to these assets are included in capital lease obligations. The cost, less accumulated amortization, of these assets is included in property, plant and equipment at December 31, 2014 and 2013 as follows:

	2014	2013
Land	\$ 29,973	\$ —
Buildings and fixed equipment	124,863	78,850
Movable equipment	19,641	19,641
	<u>174,477</u>	<u>98,491</u>
Less accumulated amortization	41,291	39,206
	<u>\$ 133,186</u>	<u>\$ 59,285</u>

7. Debt

Long-Term Debt

Long-term debt at December 31, 2014 and 2013 consists of the following:

	2014	2013
Bonds payable at varying dates through November 2043, at fixed and floating interest rates ranging from 0.89% to 6.15%	\$ 1,527,695	\$ 1,574,130
Other long-term debt payable at varying dates through June 2049 at variable and fixed interest rates ranging from 1.66% to 5.69%	372,020	130,575
Total long-term debt	<u>1,899,715</u>	<u>1,704,705</u>
Less current portion of bonds payable	37,775	36,430
Less current portion of other long-term debt	17,582	16,524
Add net unamortized bond premium	11,940	13,621
	<u>\$ 1,856,298</u>	<u>\$ 1,665,372</u>

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

7. Debt (continued)

Annual aggregate principal payments applicable to long-term debt for years subsequent to December 31, 2014 are as follows:

	Bonds Payable	Other Long-Term Debt	Total
Year ended December 31:			
2015	\$ 37,775	\$ 17,582	\$ 55,357
2016	38,005	12,194	50,199
2017	39,650	12,445	52,095
2018	40,050	10,188	50,238
2019	38,905	34,009	72,914
Thereafter	1,333,310	285,602	1,618,912
	<u>\$ 1,527,695</u>	<u>\$ 372,020</u>	<u>\$ 1,899,715</u>

Most of the System's debt arrangements include security agreements of various types. The agreements may include the pledging as collateral of certain of the System's assets and revenues and limitations on the use of System assets, including restrictions on the transfer of assets to entities outside the System. At December 31, 2014 and 2013, the majority of the System's assets were pledged as collateral under the terms of various debt agreements. In addition, certain debt agreements contain covenants related to the maintenance of financial ratios, including debt service coverage ratios and days cash on hand, and the maintenance of certain debt service and other reserve funds included in assets limited as to use. At December 31, 2014 and 2013, the System was in compliance with the financial covenants.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

7. Debt (continued)

Bonds Payable

Bonds payable by the Obligated Group consists of the following at December 31, 2014:

	Interest Structure	Final Maturity	Outstanding Principal
Series 2013A (taxable)	Fixed	2043	\$ 250,000
Series 2012A	Fixed	2023	48,930
Series 2012B (taxable)	Fixed	2042	135,000
Series 2011A	Fixed	2041	363,180
Series 2009A	Fixed	2037	234,615
Series 2009B	Fixed	2039	50,000
Series 2009C	Fixed	2039	37,500
Series 2009D	Fixed	2039	37,500
Series 2009E	Fixed	2033	60,890
Series 2007A	Fixed	2037	140,965
Series 2007B	Floating Rate Notes*	2018	44,400
Series 2005A	Fixed	2034	98,125
Series 2005B	Fixed	2034	8,620
Series 2003	Fixed	2018	17,970
			<u>\$ 1,527,695</u>

*Refer to “Interest Rate Swap Agreements” herein

All of the System’s bonds are tax-exempt and were issued through the Dormitory Authority of the State of New York (DASNY) on behalf of the Obligated Group, except for the Series 2013A, as described below, and 2012B bonds, which are taxable bonds and were issued by HCI as a joint and several obligation of the Obligated Group.

In September 2013, HCI issued \$250,000 of taxable North Shore-Long Island Jewish Health System Series 2013A bonds. The Series 2013A bonds were issued by HCI as a joint and several general obligation of the Obligated Group. The Series 2013A bonds bear interest at fixed interest rates, payable semi-annually with a final maturity date of November 1, 2043. The proceeds of the Series 2013A bonds are being used to reimburse prior capital expenditures and fund future investments.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

7. Debt (continued)

In 2015, the Obligated Group intends to issue tax-exempt revenue bonds through DASNY. The proceeds of the bonds will be used primarily to refund certain prior bond issues, which may include the Series 2003, 2005A, 2005B, 2007A, 2009A and 2009E bonds. In addition, approximately \$75,000 of the proceeds will be used to fund capital expenditures of the Obligated Group. The plan of financing and refunding has been approved by DASNY.

Other Long-Term Debt

Other long-term debt consists of the following at December 31, 2014:

	Interest Structure	Final Maturity	Outstanding Principal
HCI Senior Secured Notes	Fixed	2030	\$ 250,000
Real Estate Financing	Fixed	2049	7,970
Staten Island Term Loan ^(a)	Variable ^(b)	2023	34,000
Lenox Mortgage	Variable	2029	27,445
The Long Island Home Mortgage ^(c)	Variable ^(b)	2019	26,391
Staten Island Note Payable	Variable	2015	6,100
LIJMC Tax-Exempt Lease Financing	Fixed	2019	11,363
Staten Island Tax-Exempt Lease Financing	Fixed	2018	8,751
			<u>\$ 372,020</u>

^(a) The lender has an April 2018 call option.

^(b) Refer to "Interest Rate Swap Agreements" herein.

^(c) The Long Island Home mortgage is the only debt above not included in the Obligated Group.

In October 2014, HCI issued \$250,000 of senior secured notes as a joint and several general obligation of the Obligated Group. The notes bear interest at a fixed interest rate of 4.20%, payable semiannually, with a final maturity date of May 1, 2030. The proceeds of the notes are being used to finance a portion of the Obligated Group's capital expenditures in 2014 and 2015.

During 2014, the System entered into two real estate transactions to finance the purchase of buildings and land directly with the seller. As a result of these financing transactions, an obligation of \$7,970 exists at December 31, 2014 and payments of principal and interest are due monthly through 2049.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

7. Debt (continued)

In March 2015, the System entered into a real estate transaction to purchase a building and land that it previously occupied under a capital lease agreement. In conjunction with the transaction, the System obtained a mortgage for \$211,000, with principal and interest payable in monthly installments through March 2045, at a fixed interest rate of 4.47%. The proceeds of the mortgage were primarily used to purchase the property, with approximately \$76,000 put into an escrow fund to be used to fund future capital improvements. As a result of the transaction, capital lease obligations of approximately \$70,000 will be removed from the System's statement of financial position.

Interest Rate Swap Agreements

In 2007, the Obligated Group entered into an interest rate swap agreement (2007 Swap) with a financial institution, matched to the term and rate of the Series 2007B bonds. Under the terms of the agreement, the Obligated Group receives variable interest payments and pays fixed interest payments on the notional value of the 2007 Swap. The notional value of the interest rate swap agreement amortizes. The swap agreement fixes the interest rate at a level viewed as acceptable by the Obligated Group. The terms of this swap agreement designate the 2007 Swap as a cash flow hedge under U.S. generally accepted accounting principles. Accordingly, changes in the fair value of the swap agreement are excluded from the performance indicator. The aggregate fair value of the 2007 Swap is a liability of \$2,479 and \$3,735 at December 31, 2014 and 2013, respectively, and is reflected in other long-term liabilities in the accompanying consolidated statements of financial position.

In 2008, Staten Island entered into interest rate swap agreements with financial institutions to fix the interest rate of its term loan at a level viewed as acceptable by Staten Island. Under the terms of the agreements, Staten Island receives variable interest payments and pays fixed interest payments. The notional values of the interest rate swap agreements amortize. The System guarantees payments to the swap contract counterparties. The terms of these swap agreements designate them as derivative instruments under U.S. generally accepted accounting principles. Accordingly, changes in the fair value of the swap agreements are recognized in the performance indicator. The aggregate fair value of the swap agreements is a liability of \$1,146 and \$1,987 at December 31, 2014 and 2013, respectively, and is reflected in other long-term liabilities in the accompanying consolidated statements of financial position.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

7. Debt (continued)

The Long Island Home entered into interest rate swap agreements with a financial institution in 2008 to fix the interest rate of its variable rate mortgage at a level viewed as acceptable by The Long Island Home. Under the terms of the agreements, The Long Island Home receives variable interest payments and pays fixed interest payments. The notional values of the interest rate swap agreements amortize. The terms of these swap agreements designate them as cash flow hedges under U.S. generally accepted accounting principles. Accordingly, changes in the fair value of the swap agreements are excluded from the performance indicator. The aggregate fair value of the swap agreements is a liability of \$1,380 and \$1,434 at December 31, 2014 and 2013, respectively, and is reflected in other long-term liabilities in the accompanying consolidated statements of financial position.

Swap agreements expose the System to credit risk in the event of nonperformance by the counterparties. The System believes that the risk of material impact to its consolidated financial position arising from nonperformance by the counterparties is low.

Capital Lease Obligations

The System has entered into various capital lease agreements for land, buildings and equipment. Capital lease obligations at December 31, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Minimum lease payments	\$ 498,647	\$ 237,642
Less executory costs	90,457	95,577
Less interest	204,463	58,943
Less current portion at net present value	5,902	6,308
Present value of net minimum long-term lease payments	<u>\$ 197,825</u>	<u>\$ 76,814</u>

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

7. Debt (continued)

Future minimum lease payments under capital lease obligations as of December 31, 2014 are as follows:

Year ending December 31:	
2015	\$ 22,399
2016	21,040
2017	20,640
2018	20,733
2019	21,113
Thereafter	<u>392,722</u>
Total minimum lease payments	<u>\$ 498,647</u>

During 2014, the System entered into several real estate leases for buildings and land that were accounted for as capital lease obligations, valued in total for approximately \$125,000. One of the leases included an escrow fund for approximately \$42,000, included in assets limited as to use in the accompanying consolidated statement of financial position at December 31, 2014, to be used to fund future capital improvements on the property. Payments of principal and interest on these 2014 capital lease obligations are due monthly and extend through 2049.

Short-Term Borrowings

Certain members of the System have entered into several unsecured revolving credit facilities with commercial banks. Borrowings are primarily used to provide interim financing for capital improvement projects, with repayment to be provided from bond proceeds and the receipt of fundraising proceeds from capital campaigns. Additionally, amounts can be used to provide backup financing for the support of the certificate of need process as required by the NYSDOH and short-term working capital to support the monthly operating cash conversion cycle. Interest options include prime-based rates, LIBOR-based rates and bank cost of funds rates. Total credit under such arrangements was \$312,000 at December 31, 2014 and 2013. Balances outstanding from borrowings are \$110,218 and \$110,540 at December 31, 2014 and 2013, respectively.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

8. Third-Party Payer Structured Liabilities

In 1999, Staten Island agreed to settle an outstanding matter with the New York State Attorney General. This matter related to Staten Island receiving payments at various part-time clinics during the period January 1, 1994 through August 31, 1998 at an enhanced rate known as Products of Ambulatory Care. As a result of this matter, Staten Island agreed to remit to the State of New York (the State) the gross sum of \$41,200, payable over an extended period. Payments commenced in November 1999 and are being made monthly, totaling \$2,000 per year for 20 years. Included in third-party payer structured liabilities is the present value of this agreement based upon a 6% discount factor. For 2014 and 2013, payments made under such arrangement totaled \$2,000 for each year, including \$572 and \$655 recorded as interest expense in the accompanying consolidated statements of operations for 2014 and 2013, respectively. Additionally, in accordance with Staten Island's mission and commitment to provide uncompensated care, Staten Island agreed to continue to provide uncompensated care and services to individuals unable to pay for such services. Such uncompensated care and services shall have value, as defined in the agreement, of not less than \$1,950 per year for 20 years. As the provision of uncompensated care is not considered incremental to those uncompensated services already provided by Staten Island, no liability was recorded for such amounts. Staten Island was in compliance with such provision in 2014 and 2013.

In 2005, Staten Island agreed to settle an action commenced by the New York State Attorney General. The settlement related to the recovery of prior Medicaid payments to Chaps Community Health Center, Inc., a subsidiary of Staten Island. Pursuant to the settlement, Staten Island agreed to remit to the State \$76,500. This amount includes approximately \$8,000 of Medicaid reimbursement previously withheld in 2004 by the State, in connection with its investigation of this matter. The remaining amounts are payable to the State over a 13-year period which began in 2005. In 2015 and 2016, payments are \$3,000 each year, and the required payment for 2017 is \$4,000. Staten Island has recorded the present value of these settlement payments based upon a 6% discount factor in the accompanying consolidated statements of financial position. Payments made under this settlement for 2014 and 2013 totaled \$5,500 each year, including approximately \$814 and \$1,078 recorded as interest expense in the accompanying consolidated statements of operations for the years ended December 31, 2014 and 2013, respectively. As part of the 2005 settlement agreement, Staten Island adopted a number of managerial and operational reforms that will govern the conduct of Staten Island officers, employees and Board members. The amounts payable under the 2005 settlement agreement are in addition to the amounts which continue to be payable under the 1999 settlement described previously.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

8. Third-Party Payer Structured Liabilities (continued)

In 2008, Staten Island executed a settlement with the United States Department of Health and Human Services, Office of the Inspector General (the HHS-OIG) and the New York State Attorney General's Office (NYSAG) with respect to various issues. In settlement of the HHS-OIG claims, Staten Island made a one-time payment of \$76,513. Staten Island funded the amount with a bank loan of \$60,000 (see Note 7) and the balance from operating cash. With respect to the NYSAG claim, Staten Island agreed to make payments totaling \$12,400. Staten Island paid a lump-sum payment of \$6,200 and the remaining balance of \$6,200 was paid in equal amounts over a three-year period, through 2011.

In connection with the HHS-OIG and NYSAG settlement, Staten Island also entered into a five-year Corporate Integrity Agreement (CIA) with the HHS-OIG. This agreement obligates Staten Island to strengthen the current compliance program and implement certain management practices and initiatives. Such terms of this agreement include engaging an independent third party to act as an Independent Review Organization, enhancing the contract management policies and procedures, and expanding employee education. A material breach of the CIA could subject Staten Island to substantial monetary penalties and exclusion from participation in the Medicare and Medicaid programs. Management believes that Staten Island has remained in compliance with the terms and provisions of the CIA, which ended in 2013.

9. Fair Values of Financial Instruments

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

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

9. Fair Values of Financial Instruments (continued)

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

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

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

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

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

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

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

9. Fair Values of Financial Instruments (continued)

Financial assets and liabilities carried at fair value as of December 31, 2014 are classified in the following table in one of the three categories described previously:

	2014			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and short-term investments	\$ 486,676	\$ –	\$ –	\$ 486,676
Fixed income obligations:				
U.S. Government obligations	57,482	190,936	–	248,418
Corporate and other bonds	–	434,338	–	434,338
Fixed income mutual funds	430,592	–	–	430,592
Equity securities:				
Value	73,993	–	–	73,993
Small cap	76,573	–	–	76,573
Global	275,826	–	–	275,826
Growth	65,803	–	–	65,803
Equity mutual funds	382,023	–	–	382,023
Target-age mutual funds	18,781	–	–	18,781
Interest and other receivables	5,434	–	–	5,434
Liabilities				
Interest rate swap agreements	–	(5,005)	–	(5,005)
	\$ 1,873,183	\$ 620,269	\$ –	\$ 2,493,452

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

9. Fair Values of Financial Instruments (continued)

Financial assets and liabilities carried at fair value as of December 31, 2013 are classified in the following table in one of the three categories described previously:

	2013			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and short-term investments	\$ 365,562	\$ –	\$ –	\$ 365,562
Fixed income obligations:				
U.S. Government obligations	275,725	165,052	–	440,777
Corporate and other bonds	–	421,493	–	421,493
Fixed income mutual funds	581,534	–	–	581,534
Equity securities:				
Value	62,332	–	–	62,332
Small cap	74,633	–	–	74,633
Global	253,983	–	–	253,983
Equity mutual funds	349,063	–	–	349,063
Target-age mutual funds	13,120	–	–	13,120
Interest and other receivables	4,525	–	–	4,525
Liabilities				
Interest rate swap agreements	–	(7,156)	–	(7,156)
	<u>\$ 1,980,477</u>	<u>\$ 579,389</u>	<u>\$ –</u>	<u>\$ 2,559,866</u>

Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets.

The amounts reported in the previous tables exclude investments reported under the equity method of accounting in the amounts of \$1,071,506 and \$621,642 at December 31, 2014 and 2013, respectively (see Note 2), and assets invested in the System's pension plans (see Note 10).

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

9. Fair Values of Financial Instruments (continued)

The fair values and carrying values of the System's financial instruments that are not required to be carried at fair value are as follows at December 31, 2014 and 2013:

	2014		2013	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Debt (including short-term borrowings; excluding capital lease obligations)	\$ 2,204,070	\$ 2,021,873	\$ 1,836,121	\$ 1,828,866

The fair value of the System's bonds payable is based on quoted market prices for the related bonds. The fair value of other debt is based upon discounted cash flow analyses. Fair value of bonds payable at December 31, 2014 and 2013 is classified as Level 1 (\$1,721,832 and \$1,595,006, respectively), while fair value of other debt is classified as Level 2 (\$482,238 and \$241,115, respectively).

10. Pension Plans

The System maintains several pension plans for its employees. The following are descriptions of such plans and the respective pension expense for the years ended December 31, 2014 and 2013.

Certain members of the System provide pension and similar benefits to their employees through defined contribution plans. Contributions to the defined contribution plans are based on percentages of annual salaries. It is the policy of these members to fund accrued costs under these plans on a current basis. Pension expense for 2014 and 2013 related to the defined contribution plans amounted to \$105,974 and \$96,952, respectively.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

10. Pension Plans (continued)

Certain members of the System contribute to various multiemployer defined benefit pension plans under the terms of collective-bargaining agreements that cover union-represented employees. The risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:

- a. Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- c. If the System stops participating in any of its multiemployer plans, the System may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The System's significant participation in certain plans for the annual period ended December 31, 2014 is outlined in the following table. The following information for the 1199SEIU Health Care Employees Pension Fund (the 1199 Plan) and the New York State Nurses Association Pension Plan (the NYSNA Plan) is included within the table:

- a. The "EIN/Pension Plan Number" column provides the plans' Employee Identification Number (EIN) and the three-digit plan number.
- b. The "Pension Protection Act Zone Status" is based on information that the System received from the plans and is certified by the plans' actuaries. 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.
- c. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented.
- d. The last column lists the expiration dates of the collective bargaining agreements to which the plans are subject.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

10. Pension Plans (continued)

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status Pending/ Implemented	Contributions of the System		Surcharge Imposed	Expiration Date of Collective-Bargaining Agreements
		2014	2013		2014	2013		
1199 Plan ^(a)	13-3604862/001	Green	Green	N/A	\$ 58,494	\$ 62,557	No	9/30/2018, 4/30/2015
NYSNA Plan ^(a)	13-6604799/001	Green	Green	N/A	\$ 8,949	\$ 8,314	No	12/31/2014 to 10/12/2017

a. System contributions represent more than 5% of total contributions to the 1199 and NYSNA Plans for the plan years ended December 31, 2014 and 2013.

In addition to the plans noted in the table above, the System also participates in several other multiemployer plans. Contributions for these other plans totaled \$825 and \$761 for the years ended December 31, 2014 and 2013, respectively.

Certain of the System's employees participate in deferred compensation plans. The liability for these plans totaled \$3,948 and \$3,891 at December 31, 2014 and 2013, respectively. In connection with these plans, the System deposits amounts with trustees on behalf of the participating employees. Under the terms of the plans, the System is not responsible for investment gains or losses incurred. The assets are restricted for payments under the plans, but may revert to the System under certain specified circumstances.

In addition, the System maintains various deferred compensation plans pursuant to Section 457(b) of the Code (the 457(b) Plans). Eligible employees may defer compensation under a salary reduction agreement, subject to certain dollar limitations. Non-elective employer contributions may also be made for some of the 457(b) Plans. Payments upon retirement or termination of employment are based on amounts credited to the individual accounts. The assets and corresponding liability for the 457(b) Plans, included in assets limited as to use and accrued retirement benefits in the accompanying consolidated statements of financial position, totaled \$90,158 and \$71,763 at December 31, 2014 and 2013, respectively.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

10. Pension Plans (continued)

Certain employees, except for certain members of the medical staff and certain employees represented by collective bargaining agreements, are covered by noncontributory defined benefit plans (the Plans).

Effective December 31, 2014, the Lenox Hill Health Services Retirement Plan was merged into the North Shore-Long Island Jewish Health System Cash Balance Plan.

The System recognizes the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of the defined benefit plans in its consolidated statements of financial position.

The following tables provide a reconciliation of the changes in the Plans' projected benefit obligation and fair value of plan assets for the years ended December 31, 2014 and 2013 and the funded status and accumulated benefit obligation of the Plans as of December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Reconciliation of the projected benefit obligation		
Obligation at January 1	\$ 1,699,932	\$ 1,792,325
Service cost	55,662	63,532
Interest cost	88,216	75,468
Plan amendments	312	-
Actuarial loss (gain)	306,864	(162,930)
Benefit payments	(182,723)	(68,463)
Obligation at December 31	<u>\$ 1,968,263</u>	<u>\$ 1,699,932</u>
Reconciliation of fair value of plan assets		
Fair value of plan assets at January 1	\$ 1,468,616	\$ 1,236,773
Actual return on plan assets	60,423	140,654
Employer contributions	63,025	159,652
Benefit payments	(182,723)	(68,463)
Fair value of plan assets at December 31	<u>\$ 1,409,341</u>	<u>\$ 1,468,616</u>
Funded status		
Funded status at December 31	<u>\$ (558,922)</u>	<u>\$ (231,316)</u>
Accumulated benefit obligation at December 31	<u>\$ 1,823,619</u>	<u>\$ 1,592,468</u>

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

10. Pension Plans (continued)

The current portion of accrued retirement benefits related to the Plans, included in accrued salaries and related benefits in the accompanying consolidated statements of financial position, is \$2,023 and \$9,907 at December 31, 2014 and 2013, respectively.

The actuarial loss in 2014 is primarily due to the decrease in the discount rate and a change in the mortality table and mortality projection scale. The actuarial gain in 2013 was primarily due to an increase in the discount rate.

Included in unrestricted net assets at December 31, 2014 and 2013 are the following amounts that have not yet been recognized in net periodic benefit cost:

	2014		
	Defined Benefit Plans	Postretirement Benefit Plans (see Note 11)	Total
Unrecognized actuarial (loss) gain	\$ (569,514)	\$ 25,931	\$ (543,583)
Unrecognized prior service (cost) credit	(17,939)	5,120	(12,819)
	<u>\$ (587,453)</u>	<u>\$ 31,051</u>	<u>\$ (556,402)</u>
	2013		
	Defined Benefit Plans	Postretirement Benefit Plans (see Note 11)	Total
Unrecognized actuarial (loss) gain	\$ (221,739)	\$ 40,047	\$ (181,692)
Unrecognized prior service (cost) credit	(21,680)	6,713	(14,967)
	<u>\$ (243,419)</u>	<u>\$ 46,760</u>	<u>\$ (196,659)</u>

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

10. Pension Plans (continued)

The net loss (gain) and prior service cost (credit) included in unrestricted net assets expected to be recognized in net periodic benefit cost during the year ended December 31, 2015 are as follows:

	Defined Benefit Plans	Postretirement Benefit Plans (see Note 11)	Total
Net loss (gain)	\$ 37,075	\$ (1,332)	\$ 35,743
Prior service cost (credit)	3,983	(1,677)	2,306
Increase (decrease) to net periodic benefit cost	<u>\$ 41,058</u>	<u>\$ (3,009)</u>	<u>\$ 38,049</u>

The following table provides the components of the net periodic benefit cost for the Plans for the years ended December 31, 2014 and 2013:

	2014	2013
Service cost	\$ 55,662	\$ 63,532
Interest cost on projected benefit obligation	88,216	75,468
Expected return on plan assets	(109,600)	(95,147)
Amortization of net loss	8,234	29,243
Amortization of prior service cost	4,078	3,654
Settlement loss	207	136
Net periodic benefit cost	<u>\$ 46,797</u>	<u>\$ 76,886</u>

Assumptions

Prior service costs are amortized over the average remaining service period of active participants. Gains and losses in excess of 10% of the greater of the projected benefit obligations and the market-related value of assets are amortized over the average remaining service period of active participants.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

10. Pension Plans (continued)

The range of weighted-average assumptions used in the measurement of the System's benefit obligations at December 31, 2014 and 2013 are shown in the following table:

	2014	2013
Discount rate	3.25% – 4.30%	3.40% – 5.15%
Rate of compensation increase	0.00% – 4.00%	0.00% – 4.00%

The range of weighted-average assumptions used in the measurement of the System's net periodic benefit cost for the years ended December 31, 2014 and 2013 are shown in the following table:

	2014	2013
Discount rate	3.40% – 5.15%	2.65% – 4.15%
Expected long-term rate of return on plan assets	7.50%	7.50%
Rate of compensation increase	0.00% – 4.00%	0.00% – 4.00%

Estimated Future Benefit Payments

Benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

2015	\$ 78,183
2016	86,047
2017	85,949
2018	91,689
2019	99,190
2020 to 2024	570,881

Cash Flows

The System expects to make contributions of approximately \$53,000 to the Plans in 2015.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

10. Pension Plans (continued)

The fair values of the Plans' assets at December 31, 2014, by asset category, are as follows:

Asset Category	Level 1	Level 2	Level 3	Total
Cash and short-term investments	\$ 27,238	\$ –	\$ –	\$ 27,238
Fixed income obligations:				
U.S. Government obligations	8,600	14,887	–	23,487
Corporate and other bonds	–	119,149	–	119,149
Fixed income mutual funds	101,128	–	–	101,128
Commingled fixed income funds	–	181,350	–	181,350
Equity securities:				
Value	36,516	–	–	36,516
Small cap	46,731	–	–	46,731
Global	157,131	–	–	157,131
Growth	35,994	–	–	35,994
Equity mutual funds	127,043	–	–	127,043
Commingled equity funds:				
Large cap	–	68,669	–	68,669
Small cap	–	19,687	–	19,687
International	–	52,258	–	52,258
Commingled risk-parity funds	–	135,652	–	135,652
Alternative investments:				
Funds of hedge funds	–	219,578	–	219,578
Hedge funds	–	1,013	–	1,013
Private equity funds	–	–	29,008	29,008
Private real estate funds	–	–	26,188	26,188
Interest and other receivables	1,521	–	–	1,521
	\$ 541,902	\$ 812,243	\$ 55,196	\$ 1,409,341

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

10. Pension Plans (continued)

The fair values of the Plans' assets at December 31, 2013, by asset category, are as follows:

Asset Category	Level 1	Level 2	Level 3	Total
Cash and short-term investments	\$ 72,351	\$ –	\$ –	\$ 72,351
Fixed income obligations:				
U.S. Government obligations	5,817	27,492	–	33,309
Corporate and other bonds	–	144,038	–	144,038
Fixed income mutual funds	109,195	–	–	109,195
Commingled fixed income funds	–	129,103	–	129,103
Equity securities:				
Value	37,891	–	–	37,891
Small cap	51,771	–	–	51,771
Global	182,928	–	–	182,928
Equity mutual funds	143,831	–	–	143,831
Commingled equity funds:				
Large cap	–	113,469	–	113,469
Small cap	–	20,396	–	20,396
International	–	56,218	–	56,218
Commingled risk-parity funds	–	130,129	–	130,129
Alternative investments:				
Funds of hedge funds	–	209,167	–	209,167
Hedge funds	–	1,275	–	1,275
Private equity funds	–	–	13,988	13,988
Private real estate funds	–	–	17,581	17,581
Interest and other receivables	1,976	–	–	1,976
	\$ 605,760	\$ 831,287	\$ 31,569	\$ 1,468,616

Most investments classified in Levels 2 and 3 in the above tables consist of shares or units in investment funds, as opposed to direct interests in the funds' underlying holdings, which may be marketable. The classification of investments in the fair value hierarchy is not indicative of the investment risk associated with the underlying assets.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

10. Pension Plans (continued)

Assets invested in the Plans are carried at fair value. Debt and equity securities with readily determinable values are carried at fair value, as determined based on independent published sources. Commingled funds and alternative investments are stated at fair value, as estimated in an unquoted market. Fair value for commingled funds and alternative investments is determined by using net asset value as a practical expedient, as permitted by generally accepted accounting principles, rather than using another valuation method to independently estimate fair value (see Note 2).

The following is a summary of assets in the Plans at December 31, 2014 (by asset category), with redemption restrictions:

	Fair Value	Redemption Period (Including Notice Period)
Commingled fixed income funds	\$ 181,350	1 day to 13 days
Commingled equity funds	140,614	3 days to 51 days
Commingled risk-parity funds	135,652	5 days to 36 days
Funds of hedge funds	219,578	61 days to 299 days

Hedge fund investments of the Plans are in the process of being fully redeemed at December 31, 2014. Private equity and private real estate funds have long lifecycles with distributions not expected for several years. In the instance of certain redemptions, some investments noted above may require an extended waiting period to receive a remainder portion of the redemption.

The following table sets forth a summary of changes in the fair value of the Plans' Level 3 assets for the years ended December 31, 2014 and 2013:

	2014	2013
Fair value at January 1	\$ 31,569	\$ 18,236
Purchases	29,568	18,449
Sales	(6,608)	(6,574)
Net realized and unrealized gains and losses	667	1,458
Fair value at December 31	<u>\$ 55,196</u>	<u>\$ 31,569</u>

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

10. Pension Plans (continued)

Basis Used to Determine the Expected Long-Term Rate of Return on Assets

The overall expected long-term rate of return on assets assumption is based upon a long-term building-block approach adjusted for current market conditions. First, return expectations for each asset class are developed with economic and fundamental drivers such as inflation, dividends and real earnings growth for stocks and real yields, defaults and recoveries for bonds. These expectations assume that market levels at the beginning of the forecast period are in a state of equilibrium. With the understanding that markets are more often than not in some state of disequilibrium, the “next ten year” return forecasts are adjusted to reflect the starting point for inflation expectations, interest rate levels and market risk premiums relative to historically normal market levels. The fundamental building blocks used to develop the long-term equilibrium return expectations are based on a combination of consensus forecasts and long-term historical averages. The historical data is adjusted to reflect any fundamental changes that have occurred in the relative markets.

Once long-term equilibrium forecasts are developed, returns are adjusted for the next ten years to reflect the current environment as it relates to the key economic variables that influence returns across the capital markets. In doing so, the expected path for breakeven inflation, real interest rates and investment grade corporate bond spreads are modeled for the next ten years. In this framework, the investment grade corporate spreads are used as a proxy for the risk premium priced broadly into all asset classes within the capital markets.

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

Description of Investment Policies and Strategies

The Plans’ overall investment strategy is to achieve wide diversification of asset types, fund strategies, and fund managers. Equity securities include investments in domestic, international, global and emerging markets equities. Fixed income securities include corporate bonds of companies from diversified industries, mortgage-backed securities, emerging markets debt and U.S. Treasuries. Other types of investments include investments in commingled commodity funds and alternative investments that follow several different strategies.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

10. Pension Plans (continued)

There are specific guidelines and diversification standards for each investment manager. Eligible investments are specifically outlined. Each manager must disclose its strategies and report that it abides by the Employee Retirement Income Security Act of 1974 (ERISA) rules, where applicable.

The Plans' weighted average asset allocations at December 31, 2014 and 2013, by asset category, are as follows:

	2014	2013	Target Allocation
Cash and short-term investments	2.0%	5.1%	1.0%
Fixed income obligations	30.2	28.3	32.0
Equity securities, including commingled equity funds	38.6	41.3	38.0
Commingled risk-parity funds	9.6	8.9	10.0
Alternative investments	19.6	16.4	19.0
	100.0%	100.0%	100.0%

Target allocations generally have permitted variances of plus/minus five points.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

11. Postretirement Benefits Other Than Pensions

Certain employees are covered by the North Shore-Long Island Jewish Health System Retiree Medical and Life Insurance Plan (the NS-LIJ Plan) and other postretirement benefit plans other than pensions. Effective December 31, 2013, the Huntington Hospital Retiree Medical Plan was merged into the NS-LIJ Plan.

The NS-LIJ Plan is contributory with a 2% per year service subsidy up to 30 years (maximum 60%) for non-union employees hired prior to January 1, 2001. The subsidy for future retirees is as follows: for pre-65 retirees, a 2% per year service subsidy for years of service through 2000 and a 1% per year service subsidy for years of service for 2001 and thereafter, up to 30 years. For post-65 retirees, a 1% per year service subsidy for years of service through 2000 and a 0.5% per year service subsidy for years of service for 2001 and thereafter, up to 30 years. For non-union employees hired after January 1, 2001, the NS-LIJ Plan provides a defined dollar benefit subsidy of \$2,500 per year prior to age 65 and \$1,000 per year age 65 and later. To be eligible for the medical benefits, the employee must be at least 55 years old and be employed for at least fifteen years or after age 65, be employed for at least five years. Only pre-1994 retirees are eligible for the life insurance benefits. The life insurance benefit is not available to active employees. The NS-LIJ Plan is unfunded.

The early retirement program offered to certain employees in 2013 (see Note 2) included an enhanced retiree medical benefit for those eligible employees between the ages of 62 and 65. The NS-LIJ Plan benefit obligation at December 31, 2013 included a one-time charge for the value of these medical benefits for the employees who accepted the offer.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

11. Postretirement Benefits Other Than Pensions (continued)

The following tables provide a reconciliation of the changes in the plans' benefit obligations and fair value of plan assets for the years ended December 31, 2014 and 2013 and a statement of the funded status of the plans as of December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Reconciliation of the benefit obligation		
Obligation at January 1	\$ 48,772	\$ 52,860
Service cost	826	1,212
Interest cost	2,381	2,204
Plan participants' contributions	2,383	2,349
Actuarial loss (gain)	11,625	(10,912)
Benefit payments	(7,471)	(3,935)
Federal subsidy on benefits paid	269	317
Early retirement program benefits	-	4,677
Obligation at December 31	<u>\$ 58,785</u>	<u>\$ 48,772</u>
Reconciliation of fair value of plan assets		
Fair value of plan assets at January 1	\$ -	\$ -
Employer contributions	5,088	1,586
Plan participants' contributions	2,383	2,349
Benefit payments	(7,471)	(3,935)
Fair value of plan assets at December 31	<u>\$ -</u>	<u>\$ -</u>
Funded status		
Funded status at December 31	<u>\$ (58,785)</u>	<u>\$ (48,772)</u>

The current portion of accrued retirement benefits related to the plans, included in accrued salaries and related benefits in the accompanying consolidated statements of financial position, is \$3,645 and \$4,791 at December 31, 2014 and 2013, respectively.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

11. Postretirement Benefits Other Than Pensions (continued)

The actuarial loss in 2014 is primarily due to a decrease in the discount rate and a change in the mortality table, partially offset by favorable demographic and claims experience. The actuarial gain in 2013 is primarily due to an increase in the discount rate and favorable demographic and claims experience.

The following table provides the components of the net periodic benefit (credit) cost for the plans for the years ended December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Service cost	\$ 826	\$ 1,212
Interest cost on benefit obligation	2,381	2,204
Amortization of net gain	(2,394)	(1,603)
Amortization of prior service credit	(1,731)	(1,731)
Net periodic benefit (credit) cost	<u>\$ (918)</u>	<u>\$ 82</u>

Assumptions

The range of weighted-average discount rates used in the measurement of benefit obligations for the plans was 3.75% to 4.25% and 4.40% to 5.15% at December 31, 2014 and 2013, respectively. The range of weighted-average discount rates used in the measurement of net periodic benefit (credit) cost for the plans was 4.40% to 5.15% and 3.55% to 4.15% for 2014 and 2013, respectively.

Assumed Health Care Cost Trends

The assumed health care cost trend rates used in measuring the postretirement benefit obligation for the plans for 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Health care cost trend rate assumed for next year	7.00%	7.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2022	2017

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

11. Postretirement Benefits Other Than Pensions (continued)

Assumed health care cost trend rates have a significant effect on the amounts reported. A 1% change in assumed health care cost trend rates would have the following effects on the plans:

	2014		2013	
	1% Increase	1% Decrease	1% Increase	1% Decrease
Effect on total of service and interest cost components of net periodic postretirement health care benefit cost	\$ 224	\$ (189)	\$ 246	\$ (205)
Effect on the health care component of the postretirement benefit obligation	4,768	(3,992)	3,922	(3,325)

Estimated Future Benefit Payments

Benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

2015	\$ 4,053
2016	3,238
2017	2,702
2018	2,871
2019	3,010
2020 to 2024	16,101

Prescription Drug Benefits

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 provides for a prescription drug benefit under Medicare (Medicare Part D), as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. The subsidy did not have a material impact on net postretirement benefit cost for the 2014 and 2013 plan years.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

11. Postretirement Benefits Other Than Pensions (continued)

Expected federal subsidies to be received in future years for the plans are as follows:

2015	\$	361
2016		414
2017		429
2018		386
2019		349
2020 to 2024		1,668

12. Malpractice and Other Insurance Liabilities

Malpractice

The System provides for potential medical malpractice losses through a combination of a self-insurance program and purchased primary and excess insurance, on both a claims-made and occurrence basis, as follows:

Primary Insurance Coverage

Effective January 2003, the System purchases primary malpractice insurance on an occurrence basis. The policy provides coverage with limits of \$1,000 per claim and a \$50,000 annual policy in the aggregate through 2009. Effective January 2010, the program retained \$750 of the primary coverage per indemnity claim, while aggregate limits increased to \$60,000. Effective January 2013, the retention level increased to \$900 per claim.

From January 1, 1997 to December 31, 2002, the System's hospitals primarily participated in a combined insurance program, which provided coverage on a claims-made basis. In December 2002, the System purchased a tail insurance policy to cover unreported occurrences from these prior claims-made policy periods.

The estimated undiscounted liability for the retained primary coverage and losses in excess of the primary aggregate at December 31, 2014 and 2013 was \$447,291 and \$393,322, respectively. At December 31, 2014 and 2013, the liability is recorded at the actuarially determined present value of \$412,183 and \$359,971, respectively, based on a discount rate of 2.0%. Malpractice and other insurance liabilities are discounted based on the expected timing of the actuarially estimated future claim payments under the programs, using a risk-free rate. Such estimates are reviewed and updated on an annual basis.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

12. Malpractice and Other Insurance Liabilities (continued)

Excess Insurance Coverage

Regional Insurance covers excess malpractice losses above the primary per claim limit, on a claims-made basis. Regional Insurance purchases reinsurance coverage for certain excess coverage layers. Reinsurance balances recoverable, included in other assets in the accompanying consolidated statements of financial position, are \$22,216 and \$19,182 at December 31, 2014 and 2013, respectively.

Regional Insurance's estimated undiscounted reserves for losses and loss expenses outstanding at December 31, 2014 and 2013 were \$310,470 and \$333,459, respectively, and are recorded at the actuarially determined present value of \$283,097 and \$303,515, respectively, based on a discount rate of 2.0%.

The estimated undiscounted incurred but not reported liability for claims in excess of primary layers at December 31, 2014 and 2013 was \$94,734 and \$91,244, respectively, and is recorded at the actuarially determined present value of \$81,208 and \$78,499, respectively, based on a discount rate of 2.0%.

Self-Insurance Coverage

For certain years, certain System hospitals were covered for malpractice claims under self-insured arrangements. For self-insured claims and incidents, the System has accrued \$1,100 at both December 31, 2014 and 2013, based on actuarial determinations and other analyses, as its best estimates of the ultimate cost of such losses.

RRG provides medical malpractice coverage to certain employed and voluntary physicians affiliated with the System. RRG's liability for insured losses and related expenses was \$17,539 and \$13,117 at December 31, 2014 and 2013, respectively. RRG purchases reinsurance for certain layers of coverage. Reinsurance balances recoverable, included in other assets in the accompanying consolidated statements of financial position, are \$6,687 and \$3,390 at December 31, 2014 and 2013, respectively.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

12. Malpractice and Other Insurance Liabilities (continued)

Malpractice claims have been asserted against the System by various claimants. These claims are in various stages of processing, and some may ultimately be brought to trial. There are known incidents that have occurred through December 31, 2014 that may result in the assertion of additional claims, and other claims may be asserted arising from services provided to patients in the past. It is the opinion of the System's management that adequate insurance, including self-insurance, and malpractice reserves are being maintained to cover potential malpractice losses.

Workers' Compensation

In June 2013, the System changed its workers' compensation insurance program from a guaranteed cost program to a high deductible program with a \$1,000 per claim retention level. Effective July 2013, the employees of Lenox and The Long Island Home became covered under the System's high deductible program. At December 31, 2014 and 2013, the liability for retained losses under this program was recorded at the actuarially determined present value of \$59,643 and \$23,467, respectively, based on a discount rate of 2.0%.

Prior to joining the System's high deductible program, Lenox had a self-insured program for workers' compensation claims since 1979 that included excess insurance coverage for claims above certain amounts. At December 31, 2014 and 2013, the liability for the self-insured losses is recorded at the actuarially determined present value of \$6,291 and \$9,693, respectively, based on a discount rate of 2.0%.

The Long Island Home participated in a self-insurance trust (the Trust) administered through the New York Association of Homes and Services for the Aging, along with other New York not-for-profit facilities to provide its workers' compensation insurance. The Trust provides a retrospectively rated insurance policy to its policy holders. The Long Island Home resigned from the Trust effective June 30, 2011. Effective December 31, 2011, the Trust ceased operations and is currently in a run-off phase. Under the terms of the Trust, the policy holders are responsible for the obligations of the Trust until all claims are fully matured. At December 31, 2014 and 2013, a liability for retrospective premium adjustments is recorded at the actuarially determined present value of \$1,482 and \$1,792, respectively.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

13. Other Operating Revenue

Other operating revenue consists of the following for the years ended December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Grants and contracts	\$ 83,532	\$ 78,285
Laboratory and other ancillary services	153,382	129,624
Electronic Health Record meaningful use revenue	23,597	19,702
Health plan risk pool distributions	22,517	13,591
Group purchasing rebates	9,695	9,013
Miscellaneous	31,130	30,277
Investment income (see Note 3)	8,064	–
Rental income	15,432	16,420
Cafeteria sales and vending machines	12,645	12,641
Insurance recoveries	–	6,155
Parking garage	5,136	4,670
Telephone and television	314	549
Resident rotations	1,930	2,379
	<u>\$ 367,374</u>	<u>\$ 323,306</u>

14. Net Assets

Temporarily restricted net assets at December 31, 2014 and 2013 are available for the following health care services:

	<u>2014</u>	<u>2013</u>
Teaching, research, training, and other	\$ 220,331	\$ 221,563
Major modernization and purchases of equipment	136,796	124,483
	<u>\$ 357,127</u>	<u>\$ 346,046</u>

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

14. Net Assets (continued)

The System follows the requirements of the New York Prudent Management of Institutional Funds Act (NYPMIFA) as they relate to its permanently restricted endowments. The System has interpreted NYPMIFA as requiring the preservation of the fair value of the original gift, as of the gift date, of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the System classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment funds.

The System's endowments consist of donor-restricted funds established for a variety of purposes. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The System requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the System classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment funds that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure. The System considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purpose of the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, and (6) the investment policies of the System.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

14. Net Assets (continued)

The System's investment and spending policies for endowment assets seek to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the System must hold in perpetuity or for a donor-specified term. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that expects to generate an average annual return in excess of 5.0%. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the System relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The System targets a diversified asset allocation that consists of equities, fixed income and alternative investments.

The System has a policy of appropriating for distribution each year, no more than a 5% return on its endowment funds' corpus. In establishing this policy, the System considered the long-term expected return on its endowments.

For the year ended December 31, 2014, the System had the following endowment-related activities:

	2014		
	Temporarily Restricted	Permanently Restricted	Total
Endowment balance, beginning of year	\$ 31,693	\$ 134,475	\$ 166,168
Investment return:			
Investment income	8,834	–	8,834
Net depreciation	(2,314)	–	(2,314)
Total investment return	6,520	–	6,520
Contributions	–	1,237	1,237
Amounts appropriated for expenditure	(4,563)	–	(4,563)
Net change in endowment funds	1,957	1,237	3,194
Endowment balance, end of year	<u>\$ 33,650</u>	<u>\$ 135,712</u>	<u>\$ 169,362</u>

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

14. Net Assets (continued)

For the year ended December 31, 2013, the System had the following endowment-related activities:

	2013		
	Temporarily Restricted	Permanently Restricted	Total
Endowment balance, beginning of year	\$ 16,524	\$ 128,911	\$ 145,435
Investment return:			
Investment income	8,904	–	8,904
Net appreciation	11,537	–	11,537
Total investment return	20,441	–	20,441
Contributions	–	5,564	5,564
Amounts appropriated for expenditure	(5,272)	–	(5,272)
Net change in endowment funds	15,169	5,564	20,733
Endowment balance, end of year	<u>\$ 31,693</u>	<u>\$ 134,475</u>	<u>\$ 166,168</u>

From time to time, due to unfavorable market fluctuations, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the System to retain as a fund of perpetual duration. The individual donor-restricted endowment funds with deficiencies will retain future income and appreciation to restore the required fair value of the assets. There was no such deficiency as of December 31, 2014 and 2013.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

15. Commitments and Contingencies

LIJMC was the only entity within the System that held minority ownership interests in captive and commercial insurance companies (the FOJP Companies) affiliated with a pooled insurance program (the FOJP program) through December 31, 2010. LIJMC has not purchased insurance from the FOJP Companies since 1998. LIJMC's ownership interests ranged from 1.3% to 17.6%, and LIJMC accounted for its interests using the equity method of accounting. LIJMC has been informed that sometime in 2014, the FOJP program and the various affiliated captive insurance companies began an internal review of several insurance regulatory and related matters that had come to the attention of the FOJP Companies' management, and thereafter reported the preliminary results of the internal review to the New York State Department of Financial Services (DFS), the primary State insurance regulator. LIJMC has also been informed that DFS has initiated its own review of this matter and that the period under review extends to the time period in which LIJMC maintained its ownership interest in the FOJP Companies. As of December 31, 2014, it is not possible to predict the final outcome of the DFS review or any review that other regulators might undertake in connection with this matter. However, the System reserved approximately \$14,900 for a note receivable from the sale of LIJMC's minority interest in the FOJP Companies and its share of an investment trust related to the FOJP program, which is included in other non-operating gains and losses in the consolidated statement of operations for the year ended December 31, 2014. It is possible that an adverse outcome with respect to this matter could have an additional impact on the System's consolidated financial statements, although such outcome cannot be estimated at this time.

Litigation and Claims

The System is involved in litigation and claims which are not considered unusual to the System's business. While the ultimate outcome of these lawsuits cannot be determined at this time, it is the opinion of management that the ultimate resolution of these claims will not have a material adverse effect on the accompanying consolidated financial statements.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

15. Commitments and Contingencies (continued)

Operating Leases

The System leases certain office facility space, patient care facility space and equipment under operating leases that have initial or remaining noncancelable terms in excess of one year. Aggregate minimum operating lease payments are amortized on the straight-line basis over the terms of the respective leases. Rent expense under such leases was \$89,025 and \$78,330 for 2014 and 2013, respectively.

Future minimum lease payments under noncancelable operating leases with terms of one year or more are as follows:

2015	\$ 76,131
2016	73,576
2017	67,783
2018	61,502
2019	53,477
Thereafter	293,042

Collective Bargaining Agreements

At December 31, 2014, approximately 38% of the System's employees are union employees who are covered under the terms of various collective bargaining agreements. Certain collective bargaining agreements, which represent approximately 27% of union employees (10% of total employees), have expired, or will expire, within the next year and are currently being renegotiated.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

15. Commitments and Contingencies (continued)

Letters of Credit

Two commercial banks are providing a total of \$57,815 in commitments to provide letters of credit to replace debt service reserve funds for certain Obligated Group bond issues. At December 31, 2014, \$37,433 in secured irrevocable direct-pay letters of credit were maintained with these banks, replacing various debt service reserve funds, and \$20,382 of the commitments remained available for future letters of credit.

As a result of the 2013 change in the workers' compensation insurance program (see Note 12), three commercial banks are providing a total of \$164,900 in commitments, solely to support letters of credit required for the high deductible program. At December 31, 2014, \$41,376 in secured irrevocable direct-pay letters of credit were maintained with one of the banks for the high deductible workers' compensation insurance program and \$123,524 of the commitments remain available for future letters of credit.

Other Commitments

In 2008, Hofstra University (the University) and the System entered into a joint academic agreement to work in close collaboration in the development of a medical school, known as the Hofstra North Shore-LIJ School of Medicine (the Medical School), at the University, while remaining as separate corporations with separate governance. In 2010, the Medical School received preliminary accreditation from the Liaison Committee on Medical Education and in February 2015 was granted full accreditation. The System has agreed to reimburse the University for a portion of the Medical School's annual costs each year through June 30, 2017 in an aggregate amount of up to \$50,000. Reimbursement payments after June 30, 2017 will be a minimum of \$5,000 for each academic year, with amounts indexed to the Medical School tuition. Reimbursement payments are contingent upon annual approval by the boards of the System and the University. The System shall not advance funds to the University that have not yet been spent in connection with the Medical School. To date, the System has recorded approximately \$37,500 of these costs related to the Medical School. The System also provides \$2,000 annually for funding of Medical School scholarships and up to \$2,000 annually for funding of student loans, with amounts indexed to the Medical School tuition.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

15. Commitments and Contingencies (continued)

In the normal course of business, the System enters into multi-year contracts with vendors, suppliers and service providers for goods or services to be provided to the System. Under the terms of such agreements, the System may be contingently liable for termination or other fees in the event of contract termination or default. The System does not believe that such contingent liabilities, should they become due, would have a material impact on the System's consolidated financial position.

16. Subsequent Events

Management has evaluated the impact of subsequent events through April 17, 2015 representing the date at which the consolidated financial statements were issued. No events, aside from the acquisition of Phelps and NWH disclosed in Note 1, the debt transactions disclosed in Note 7, and the full accreditation of the Medical School disclosed in Note 15, have occurred that require disclosure in, or adjustment to, the consolidated financial statements.

Supplementary Information and Audit Reports
and Schedules Related to Office of Management
and Budget Circular A-133

North Shore-Long Island Jewish Health System, Inc.

Schedule of Federal Expenditures

Year Ended December 31, 2014

Federal Grantor/Program Title/Project Title	Federal CFDA Number	Pass-through Grantor	Pass-through ID Number/Contract Number	R&D Cluster	Federal Expenditures
U.S. Department of Health and Human Services					
Direct grants and contracts:					
National Institute of Health	93.095, 93.121, 93.173, 93.213, 93.226, 93.242, 93.262, 93.273, 93.281, 93.393, 93.396, 93.399, 93.610, 93.HHSN-271-2009-00019C, 93.837, 93.838, 93.839, 93.846, 93.847, 93.853, 93.855, 93.859, 93.866				
ARRA – Trans-NIH Recovery Act Research Support	93.701			\$ 25,082,754 61,701	\$ 25,082,754 61,701
U.S. Center for Disease Control:					
Queens World Trade Center Clinical Center of Excellence	93.200-2011-39388		200-2011-39388	–	1,164,779
Subtotal direct grants and contracts:				25,144,455	26,309,234
Pass-through programs:					
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.074	Health Research Inc.	5U90TP00051502	–	228,500
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.074	Health Research Inc.	13-NSLIJ-01	–	145,000
Total 93.074				–	373,500
HHS Programs for Disaster Relief Appropriations Act – Non Construction	93.095	NYS Department of Health	C029171	–	872,983
HHS Programs for Disaster Relief Appropriations Act – Non Construction	93.095	NYS Department of Health	C029197	–	305,226
HHS Programs for Disaster Relief Appropriations Act – Non Construction	93.095	NYS Department of Health	C029198	–	553,509
HHS Programs for Disaster Relief Appropriations Act – Non Construction	93.095	NYS Department of Health	C029212	–	143,750
HHS Programs for Disaster Relief Appropriations Act – Non Construction	93.095	NYS Department of Health	C029219	–	229,620
HHS Programs for Disaster Relief Appropriations Act – Non Construction	93.095	NYS Department of Health	C029184	–	1,072,188
HHS Programs for Disaster Relief Appropriations Act – Non Construction	93.095	NYS Department of Health	C029232	–	98,420
HHS Programs for Disaster Relief Appropriations Act – Non Construction	93.095	NYS Department of Health	C029229	–	69,531
HHS Programs for Disaster Relief Appropriations Act – Non Construction	93.095	NYS Department of Health	C029185	–	643,731

North Shore-Long Island Jewish Health System, Inc.

Schedule of Federal Expenditures (continued)

Year Ended December 31, 2014

Federal Grantor/Program Title/Project Title	Federal CFDA Number	Pass-through Grantor	Pass-through ID Number/Contract Number	R&D Cluster	Federal Expenditures
U.S. Department of Health and Human Services (continued)					
Pass-through programs (continued):					
HHS Programs for Disaster Relief Appropriations Act – Non Construction	93.095	NYS Department of Health	C029190	\$ –	\$ 750,615
HHS Programs for Disaster Relief Appropriations Act – Non Construction	93.095	NYS Department of Health	C029230	–	90,544
HHS Programs for Disaster Relief Appropriations Act – Non Construction	93.095	NYS Department of Health	C029238	–	105,487
HHS Programs for Disaster Relief Appropriations Act – Non Construction	93.095	NYS Department of Health	C029175	–	1,750,550
	Total 93.095			–	6,686,154
Maternal and Child Health Federal Consolidated Programs	93.110	Icahn School of Medicine at Mount Sinai	5 H30 MC24048-04-00	24,834	24,834
Oral Diseases And Disorders Research	93.121	University of Alabama	N01-A1-30025	758	758
Emergency Medical Services for Children	93.127	Hofstra University	H34MC26200	162,860	162,860
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153	Health Research Inc.	12-01975	–	19,290
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153	Health Research Inc.	H12HA24869	–	704,400
	Total 93.153			–	723,690
Research Related To Deafness And Communication Disorders	93.173	Research Foundation for Mental Hygiene	R01DC007658	24,020	24,020
Research and Training in Complementary and Integrative Health	93.213	Partners Healthcare	5U01AT000613-11	15,974	15,974
Family Planning Services	93.217	NYS Department of Health	C027029	–	43,036
Family Planning Services	93.217	NYS Department of Health	C-027056	–	47,172
	Total 93.217			–	90,208
Mental Health Research Grants	93.242	Research Foundation for Mental Hygiene	1P50MH086385	70,145	70,145
Mental Health Research Grants	93.242	Trustees of University of Illinois	5R01MH096744	40,320	40,320
	Total 93.242			110,465	110,465
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	Research Foundation for Mental Hygiene	5U79TI025102	–	1,455,573
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	Research Foundation for Mental Hygiene	5U79SP016444	–	9,495

North Shore-Long Island Jewish Health System, Inc.

Schedule of Federal Expenditures (continued)

Year Ended December 31, 2014

Federal Grantor/Program Title/Project Title	Federal CFDA Number	Pass-through Grantor	Pass-through ID Number/Contract Number	R&D Cluster	Federal Expenditures
U.S. Department of Health and Human Services (continued)					
Pass-through programs (continued):					
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	Research Foundation for Mental Hygiene	1HT9TI025213	\$ -	\$ 15,509
	Total 93.243			-	1,480,577
Occupational Safety and Health Program	93.262	Icahn School of Medicine at Mount Sinai	T42OH008422	11,163	11,163
Immunization Cooperative Agreements	93.268	City of NY Department of Health and Mental Hygiene		-	127,604
Drug Abuse and Addiction Research Programs	93.279	Research Foundation for Mental Hygiene	2U10DA013035	8,933	8,933
Drug Abuse and Addiction Research Programs	93.279	Trustees of Dartmouth College	R01DA032533	16,005	16,005
	Total 93.279			24,938	24,938
Nurse Education, Practice Quality and Retention Grants	93.359	Health Resources and Services Administration	D11HP22203-01-00	-	234,427
Cancer Cause and Prevention Research	93.393	Trustees of Dartmouth College	R21CA158863	109,423	109,423
Cancer Cause and Prevention Research	93.393	Rector & Visitors of the University of Virginia	5R01CA157409	12,067	12,067
	Total 93.393			121,490	121,490
Cancer Detection and Diagnosis Research	93.394	Trustees of the University of Alabama	R33CA161731	13,888	13,888
Cancer Treatment Research	93.395	Oklahoma Health Sciences Center	U10 multiple	16,381	16,381
Cancer Treatment Research	93.395	University of California at San Diego	P01 CA081534	65,271	65,271
	Total 93.395			81,652	81,652
Cancer Research Manpower	93.398	Icahn School of Medicine at Mount Sinai	5K07CA166462	12,630	12,630
Affordable Care Act (ACA) Grants for School-Based Health Center Capital Expenditures	93.501	Health Resources and Services Administration	C12CS21920	-	465,608
Health Care Innovation Awards (HCIA)	93.610	Centers for Medicare & Medicaid Services	1C1CMS331339-01-00	-	65,201
Health Care Innovation Awards	93.610	Trustees of Dartmouth College	C1CMS331029	436,310	436,310
	Total 93.610			436,310	501,511

North Shore-Long Island Jewish Health System, Inc.

Schedule of Federal Expenditures (continued)

Year Ended December 31, 2014

Federal Grantor/Program Title/Project Title	Federal CFDA Number	Pass-through Grantor	Pass-through ID Number/Contract Number	R&D Cluster	Federal Expenditures
U.S. Department of Health and Human Services (continued)					
Pass-through programs (continued):					
ARRA –Recovery Act – Comparative Effectiveness Research – AHRQ	93.715	New York University School of Medicine	801685	\$ 26,980	\$ 26,980
Medical Assistance Program	93.778	New York State Department of Health	C028944/C023912	–	12,166
Medical Assistance Program	93.778	New York State Department of Health	C028943/C023911	–	23,089
Medical Assistance Program	93.778	New York State Department of Health	C027002	–	159,880
Medical Assistance Program	93.778	New York State Department of Health	C-027001	–	127,389
	Total 93.778			–	322,524
Cardiovascular Diseases Research	93.837	New England Research Institutes, Inc (NERI)	U01HL107407	3,278	3,278
Cardiovascular Diseases Research	93.837	Icahn School of Medicine at Mount Sinai	5 U01 HL098123-05	131,832	131,832
Cardiovascular Diseases Research	93.837	University of Michigan	1R01HL093338-01A1	20,719	20,719
	Total 93.837			155,829	155,829
Lung Diseases Research	93.838	University of Pennsylvania	5U01HL086622	20,210	20,210
Blood Diseases and Resources Research	93.839	Baylor College	R01 HL095647-04	51,080	51,080
Blood Diseases and Resources Research	93.839	Duke University	5U01HL087229	27,029	27,029
	Total 93.839			78,109	78,109
Arthritis, Musculoskeletal And Skin Diseases Research	93.846	University of Michigan	R01AR062066	797	797
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	Temple University	R01DK079954	125,518	125,518
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	Emory University	U01NS038455	70,473	70,473
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	AECOM of Yeshiva University	U10NS077308	2,615	2,615
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	Massachusetts General Hospital	5U01 NS052592-03	43,506	43,506
	Total 93.853			116,594	116,594
Allergy, Immunology and Transplantation Research	93.855	Boston University	R01AI08680	18,728	18,728
Allergy, Immunology and Transplantation Research	93.855	Duke University	5U19AI056363	55,099	55,099
Allergy, Immunology and Transplantation Research	93.855	University of California – San Francisco	N01-AI-15416	16,556	16,556
	Total 93.855			90,383	90,383

North Shore-Long Island Jewish Health System, Inc.

Schedule of Federal Expenditures (continued)

Year Ended December 31, 2014

Federal Grantor/Program Title/Project Title	Federal CFDA Number	Pass-through Grantor	Pass-through ID Number/Contract Number	R&D Cluster	Federal Expenditures
U.S. Department of Health and Human Services (continued)					
Pass-through programs (continued):					
Child Health and Human Development Extramural Research	93.865	Columbia University	U01HD055651	\$ 18,133	\$ 18,133
National Bioterrorism Hospital Preparedness Program	93.889	Health Research Inc.	1U3RHS0593401/ 2045-08	–	79,178
National Bioterrorism Hospital Preparedness Program	93.889	Health Research Inc.	1210State0009	–	90,000
	Total 93,899			–	169,178
HIV Emergency Relief Project Grants	93.914	United Way	13104/14104	–	12,332
HIV Emergency Relief Project Grants	93.914	United Way	13802/14802	–	286,425
HIV Emergency Relief Project Grants	93.914	United Way	13650/14650	–	73,869
HIV Emergency Relief Project Grants	93.914	United Way	13 MAI 11/14MAI 11	–	32,404
HIV Emergency Relief Project Grants	93.914	United Way	421-20/421-21	–	150,448
HIV Emergency Relief Project Grants	93.914	Community Health Action-Care Coordination	09-MCC-630	–	55,663
	Total 93,914			–	611,141
HIV Care Formula Grants	93.917	New York State Department of Health	4004-04/4004- 05/2X07HA00025240 2	–	157,963
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	US Department of Health and Human Services	11-01994	–	51,913
Ryan White HIV/AIDS Dental Reimbursement and Community Based Dental Partnership Grants	93.924	Health Resources and Services Administration	THA142227500	–	112,493
HIV Prevention Activities Health Department Based	93.940	Health Research Inc.	5U62PS00369203	–	72,215
Block Grants For Prevention And Treatment Of Substance Abuse	93.959	New York State Office of Alcoholism and Substance Abuse Services:	CQHS13-000-135	–	118,499
Preventive Health Services Sexually Transmitted Diseases Control Grants	93.977	New York State Department of Health	C-027056	–	47,553
Maternal and Child Health Services Block Grant to the States	93.994	New York State Department of Health	C022458	–	152,108
Maternal and Child Health Services Block Grant to the States	93.994	New York State Department of Health	C023853/C029428	–	165,855
Maternal and Child Health Services Block Grant to the States	93.994	New York State Department of Health	C027029	–	31,778
Maternal and Child Health Services Block Grant to the States	93.994	New York State Department of Health	C-027056	–	34,832
	Total 93,994			–	384,573

North Shore-Long Island Jewish Health System, Inc.

Schedule of Federal Expenditures (continued)

Year Ended December 31, 2014

Federal Grantor/Program Title/Project Title	Federal CFDA Number	Pass-through Grantor	Pass-through ID Number/Contract Number	R&D Cluster	Federal Expenditures
U.S. Department of Health and Human Services (continued)					
Pass-through programs (continued):					
Adaptive sequential study evaluating prevention of neonatal HSV	93.HHSN272201100034C	University of Alabama Birmingham	HHSN272201100034C	\$ 6,091	\$ 6,091
A Pharmacokinetic/Pharmacodynamic & Resistance Evaluation of Intravenous Ganciclovir in Premature Infants	93.HHSN272201100037C	University of Alabama Birmingham	HHSN272201100037C	7,057	7,057
Subtotal pass-through programs				1,686,683	13,981,704
Total – U.S. Department of Health and Human Services				26,831,138	40,290,938
U.S. Department of Defense					
Direct grants and contracts:					
Military Medical Research and Development	12.420		W81XWH-13-1-0223	57,668	57,668
Military Medical Research and Development	12.420		W81XWH-10-2-0177	26,279	26,279
Military Medical Research and Development	12.420		W81XWH-10-1-0978	446,175	446,175
Military Medical Research and Development	12.420		W81XWH-12-1-0084	174,845	174,845
Total	12.420			704,967	704,967
ARRA-Basic Scientific Research	12.431		W911NF-09-1-0125	155,501	155,501
Total – U.S. Department of Defense				860,468	860,468
National Science Foundation					
Direct grants and contracts:					
Engineering Grants	47.041		CMMI-1151605	162,203	162,203
Total – National Science Foundation				162,203	162,203
U.S. Department of Agriculture					
Pass-through programs:					
Special Supplemental Nutrition Program For Women, Infants, and Children	10.557	New York State Department of Health	C025759	–	508,580
Special Supplemental Nutrition Program For Women, Infants, and Children	10.557	New York State Department of Health	C-025800	–	702,195
Special Supplemental Nutrition Program For Women, Infants, and Children	10.557	New York State Department of Health	VOUCHERS	–	6,145,741
Total	10.557			–	7,356,516
Total U.S. Department of Agriculture				–	7,356,516

North Shore-Long Island Jewish Health System, Inc.

Schedule of Federal Expenditures (continued)

Year Ended December 31, 2014

Federal Grantor/Program Title/Project Title	Federal CFDA Number	Pass-through Grantor	Pass-through ID Number/Contract Number	R&D Cluster	Federal Expenditures
U.S. Department of Justice					
Pass-through programs:					
Crime Victim Assistance	16.575	NYS Crime Victims Board	C501193	\$ –	\$ 78,893
Total U.S. Department of Justice				–	78,893
U.S. Department of Labor					
Pass-through programs:					
H-1B Job Training Grants	17.268	NYS Department of Labor	C014604	–	55,125
Total U.S. Department of Labor				–	55,125
U.S. Department of Education					
Pass-through programs:					
Rehabilitation Services Vocational Rehabilitation Grants to States	84.126	New York State Department of Education	C011475	–	175,453
Total U.S. Department of Education				–	175,453
U.S. Department of Homeland Security					
Direct grants and contracts:					
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036		PW01154	–	6,698
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036		PW02971	–	4,914
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036		PW03055	–	1,207
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036		PW03048	–	76,577
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036		PW03000	–	3,420
	Total 97.036			–	92,816
Total U.S. Department of Homeland Security				–	92,816
Total Expenditures of Federal Awards				\$ 27,853,809	\$ 49,072,412

North Shore-Long Island Jewish Health System, Inc.

Notes to Schedule of Expenditures of Federal Awards

Year Ended December 31, 2014

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activities of North Shore-Long Island Jewish Health System, Inc. and its member corporations and other affiliated entities (collectively, the “System”) 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 consolidated financial statements.

Awards for reimbursable expenditures involving the U.S. Department of Homeland Security – Federal Emergency Management Agency (“FEMA”) are reported by the System on the Schedule in the year that FEMA approves the applicable Award Worksheet, pursuant to guidance issued by the U.S. Department of Homeland Security (see Note 4).

2. Food and Nutrition Awards

During the year ended December 31, 2014, the System participated in the New York State Department of Health, Special Supplemental Nutrition Program for Women, Infants, and Children (“WIC”) through the provision of nutritional counseling and the distribution of food vouchers. The United States Department of Agriculture, the federal agency that sponsors the WIC program under CFDA number 10.557, has determined that WIC food instruments are considered “property in lieu of money” and, therefore, should be reported as federal awards received by the System.

The total amount reported as federal awards on the Schedule represents the value of food vouchers redeemed in the amount of \$6,145,741 plus administrative costs of \$1,210,775 for the year ended December 31, 2014. As New York State funds are commingled with federal funds, federal funding percentages were applied to determine the total amount of federal funds to be reported above. These percentages were supplied by the New York State Department of Health as follows:

	Federal Percentage	
	October 1, 2013 to September 30, 2014	October 1, 2012 to September 30, 2013
Administrative costs	83%	85%
Food vouchers redeemed	100	97

North Shore-Long Island Jewish Health System, Inc.

Notes to Schedule of Expenditures of Federal Awards (continued)

3. Subrecipients

Of the federal expenditures presented in the Schedule, the System provided federal awards to subrecipients as follows:

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
Military Medical Research and Development	12.420	\$ 29,972
Basic Scientific Research	12.431	76,041
HHS Programs for Disaster Relief Appropriations Act–Non Construction	93.095	31,667
Emergency Medical Services for Children	93.127	98,852
Mental Health Research Grants	93.242	260,303
Cancer Cause and Prevention Research	93.393	13,782
Health Care Innovation Awards (HCIA)	93.610	1,630,189
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	4,335
Diabetes, Digestive, and Kidney Diseases Extramural Research Extramural Research Programs in the Neurosciences and Neurological Disorders	93.847 93.853	100,403 575,907
Allergy, Immunology and Transplantation Research	93.855	125,413
Recovery After Initial Schizophrenia Episode (RAISE)	93.HHSN-271- 2009-00019C	1,161,208
Trans-NIH Recovery Act Research Support	93.701	250,812
		<u>\$ 4,358,884</u>

4. Federal Emergency Management Agency Awards (CFDA 97.036)

The System incurred certain costs in 2012 which are or may be reimbursable by FEMA. Costs totaling \$92,816 incurred in 2012 were approved by FEMA in 2014 and are included on the accompanying Schedule for the year ended December 31, 2014 under CFDA number 97.036.



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Report of Independent Auditors 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
North Shore-Long Island Jewish Health System, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of North Shore-Long Island Jewish Health System, Inc. and its member corporations and other affiliated entities (collectively, the System), which comprise the consolidated statement of financial position as of December 31, 2014, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 17, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System'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 System's financial statements are free of 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 result of that testing, and not to provide an opinion on the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

April 17, 2015



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Report of Independent Auditors on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133

The Board of Trustees
North Shore-Long Island Jewish Health System, Inc.

Report on Compliance for Each Major Federal Program

We have audited North Shore-Long Island Jewish Health System, Inc. and its member corporations and other affiliated entities' (collectively, the System) compliance with the types of compliance requirements described in the US Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the System's major federal programs for the year ended December 31, 2014. The System's major federal programs are identified in the summary of auditor's 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.

Auditor's Responsibility

Our responsibility is to express an opinion on each of the System's major federal programs 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; 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 System'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 each major federal program. However, our audit does not provide a legal determination of the System's compliance.

Basis for Qualified Opinion on HIV Emergency Relief Project Grants

As described in the accompanying schedule of findings and questioned costs, the System did not comply with requirements regarding CFDA 93.914 HIV Emergency Relief Project Grants as described in finding number 2014-001 for Eligibility. Compliance with such requirements is necessary, in our opinion, for the System to comply with requirements applicable to that program.

Qualified Opinion on HIV Emergency Relief Project Grants

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the HIV Emergency Relief Project Grants for the year ended December 31, 2014.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs that are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended December 31, 2014.

Report on Internal Control Over Compliance

Management of North Shore-Long Island Jewish Health System, Inc. and its member corporations and other affiliated entities 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 System's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major 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 System's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2014-001 that we consider to be a significant deficiency.

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 a 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, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2014-001 related to CFDA 93.914 HIV Emergency Relief Project Grants for Eligibility to be a significant deficiency.

The System's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The System's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

Ernst + Young LLP

December 22, 2015

North Shore-Long Island Jewish Health System, Inc.

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2014

Section I – Summary of Auditor’s Results

Financial Statements Section

Type of auditor’s report issued (unmodified, qualified, adverse or disclaimer):

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	<u> </u>	Yes	<u> X </u>	No
Significant deficiency(ies) identified?	<u> </u>	Yes	<u> X </u>	None reported
Noncompliance material to financial statements noted?	<u> </u>	Yes	<u> X </u>	No

Federal Awards Section

Internal control over major federal programs:

Material weakness(es) identified?	<u> </u>	Yes	<u> X </u>	No
Significant deficiency(ies) identified?	<u> X </u>	Yes	<u> </u>	None reported

Type of auditor’s report issued on compliance for major federal programs (unmodified, qualified, adverse or disclaimer):

Unmodified for all major programs except for HIV Emergency Relief Project Grants which was qualified

Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133?

<u> X </u>	Yes	<u> </u>	No
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North Shore-Long Island Jewish Health System, Inc.

Schedule of Findings and Questioned Costs (continued)

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
12.420, 12.431, 47.041, 93.RD, 93.095, 93.110, 93.121, 93.127, 93.173, 93.213, 93.226, 93.242, 93.262, 93.273, 93.279, 93.281, 93.393, 93.394, 93.395, 93.396, 93.398, 93.399, 93.610, 93.837, 93.838, 93.839, 93.846, 93.847, 93.853, 93.855, 93.859, 93.866, 93.701, 93.715, 93.865	Research and Development Cluster
93.095	HHS Programs for Disaster Relief Appropriations Act – Non Construction
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance
93.501	Affordable Care Act (ACA) Grants for School- Based Health Center Capital Expenditures
93.914	HIV Emergency Relief Project Grants
Dollar threshold used to distinguish between Type A and Type B programs:	\$1,472,172

Auditee qualified as low-risk auditee? X **Yes** **No**

Section II – Financial Statement Findings

There are no matters that are required to be reported.

North Shore-Long Island Jewish Health System, Inc.

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs

Finding 2014-001

Federal program information:

93.914 HIV Emergency Relief Project Grants

Criteria or specific requirement (including statutory, regulatory or other citation):

Pursuant to Section 2605(a)(7)(A)(i), Section 2616(b)(1-2) and Section 2617(b)(7)(B) of title XXVI of the Public Health Service Act, client files should be developed and maintained that document the client's eligibility including HIV/AIDS diagnosis, low income status, uninsured or underinsured status, determination of eligibility and enrollment in other third party insurance programs, proof of compliance with eligibility and documentation evidencing that the process for establishing eligibility, assessment and reassessment takes place within time frames established.

Condition:

The System did not maintain the appropriate patient files evidencing its evaluation of each patient's satisfaction of the eligibility requirements under the program passed-through by United Way.

Questioned costs:

None identified.

North Shore-Long Island Jewish Health System, Inc.

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2014-001 (continued)

Context:

For approximately 43% of our testing selections (sample sizes were approximately 60 patients per test), documentation of assessments and/or reassessments of patient eligibility, was not available for review. This documentation related to participants under the grant passed-through from United Way.

Effect:

Evidence of patient eligibility was not available for our testing.

Cause:

The System did not maintain the appropriate patient files evidencing its evaluation of each patient's satisfaction of the eligibility requirements under the program passed-through by United Way.

Recommendation:

The System should implement proper internal controls to ensure that necessary documentation is created and retained in patient files and training programs should be established for those employees working on this grant.

North Shore-Long Island Jewish Health System, Inc.

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2014-001 (continued)

Views of responsible officials and planned corrective actions:

In June 2015, the United Way conducted a program and fiscal monitoring site visit. As of this visit, the System has achieved the minimum 70% compliance rate for eligibility documentation. The System will conduct regular monitoring and quality improvement activities to maintain compliance with eligibility requirements and documentation.

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