



**BASIC FINANCIAL STATEMENTS, REQUIRED
SUPPLEMENTARY INFORMATION AND
SUPPLEMENTARY INFORMATION**

**Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)
Years Ended December 31, 2011 and 2010
With Reports of Independent Auditors**

Ernst & Young LLP

 **ERNST & YOUNG**

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)

Basic Financial Statements,
Required Supplementary Information
and Supplementary Information

Years Ended December 31, 2011 and 2010

Contents

Report of Independent Auditors.....	1
Management’s Discussion and Analysis	3
Basic Financial Statements	
Balance Sheets	8
Statements of Revenues, Expenses and Changes in Net Assets (Deficiency)	9
Statements of Cash Flows	10
Notes to Financial Statements.....	11
Required Supplementary Information	
Schedule of Funding Progress for the Postemployment Retiree Healthcare Plan	45
Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	46
Supplementary Information	
Combining Balance Sheets	48
Combining Statements of Revenues, Expenses and Changes in Net Assets (Deficiency).....	50

Report of Independent Auditors

The Board of Directors
Nassau Health Care Corporation and Subsidiaries

We have audited the accompanying basic financial statements of Nassau Health Care Corporation and Subsidiaries (component unit of Nassau County) (the “Corporation”) as of December 31, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Corporation’s management. 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. We were not engaged to perform an audit of the Corporation’s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nassau Health Care Corporation and Subsidiaries as of December 31, 2011 and 2010, and the changes in their financial position and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 26, 2012 on our consideration of the Corporation’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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States require that the accompanying management's discussion and analysis on pages three through seven and the schedule of funding progress for the postemployment retiree healthcare plan on page 45 presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Corporation's basic financial statements. The accompanying combining balance sheets as of December 31, 2011 and 2010 and combining statements of revenues, expenses and changes in net assets (deficiency) for the years then ended are presented for purposes of additional analysis and are not a required part of the basic 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 basic financial statements as a whole.

Ernst + Young LLP

July 26, 2012

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)

Management's Discussion and Analysis

Year Ended December 31, 2011

Introduction

This section of the Nassau Health Care Corporation and Subsidiaries' (the "Corporation") annual financial report presents management's discussion and analysis of the Corporation's financial performance during the years ended December 31, 2011, 2010, and 2009. It should be read in conjunction with the basic financial statements and accompanying notes, which follow this section.

Overview of the Basic Financial Statements

The Corporation is supported by fees charged for the services it provides. Accordingly, the Corporation is considered an Enterprise Fund and utilizes the accrual basis of accounting. The Basic Financial Statements for an Enterprise Fund include: balance sheet; statement of revenues, expenses and changes in net assets (deficiency); and statement of cash flows. These basic financial statements provide, respectively, a view of the Corporation's financial position as of the end of the year, a description of the financial activity during the year, and a description of the cash activity during the year. The Corporation operates in a manner similar to a private business.

Condensed Financial Information

The following table represents the condensed balance sheets as of December 31, 2011, 2010 and 2009 (in thousands):

	2011	2010	2009
Current assets and other	\$ 201,132	\$ 285,191	\$ 253,076
Capital assets	183,428	176,550	150,908
Total assets	\$ 384,560	\$ 461,741	\$ 403,984
Long-term liabilities outstanding	\$ 524,225	\$ 462,413	\$ 410,876
Other liabilities	169,345	162,569	118,145
Total liabilities	\$ 693,570	\$ 624,982	\$ 529,021
Net assets (deficiency):			
Invested in capital assets, net of related debt	\$ 100,428	\$ 93,550	\$ 68,908
Restricted for specific operating purposes by donors	1,851	1,964	1,675
Unrestricted	(411,289)	(258,755)	(195,620)
Total net assets (deficiency)	\$ (309,010)	\$ (163,241)	\$ (125,037)

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)

Management's Discussion and Analysis (continued)

Condensed Financial Information (continued)

The following table represents the revenues, expenses and net assets (deficiency) for the years ended December 31, 2011, 2010 and 2009 (in thousands):

	2011	2010	2009
Operating revenue:			
Net patient service revenue (net of the provision for bad debts of \$40,394 in 2011, \$43,873 in 2010 and \$46,044 in 2009)	\$ 449,832	\$ 472,867	\$ 459,237
Other operating revenue	40,178	46,705	47,459
Investment income	1,230	536	563
Total operating revenue before other operating items	491,240	520,108	507,259
Operating expenses:			
Salaries and wages	260,263	257,569	260,142
Employee benefits	111,918	95,056	89,314
Supplies and other	132,892	136,570	126,473
Interest and amortization	11,979	11,546	12,592
Depreciation	19,683	18,721	17,934
Total operating expenses before other operating items	536,735	519,462	506,455
(Deficiency) excess of operating revenue over operating expenses before other operating items	(45,495)	646	804
Other operating items:			
Employee benefits expense (unfunded postemployment benefits other than pensions)	(52,754)	(42,585)	(39,370)
Change in fair value of derivative instruments	(19,186)	(7,758)	21,912
Amortization of deferred loss on refunding (interest expense)	(2,278)	(2,301)	(2,317)
Changes to Medicaid eligibility estimates within net accounts receivable and other accounts receivable estimation changes	(27,000)	-	-
Third-party retroactive rate adjustment	-	-	(15,572)
Deficiency of operating revenue over operating expenses	(146,713)	(51,998)	(34,543)
Grants for capital asset acquisitions and retirement of long-term debt	944	13,794	42,768
(Decrease) increase in net assets	(145,769)	(38,204)	8,225
Net assets (deficiency), beginning of year	(163,241)	(125,037)	(133,262)
Net assets (deficiency), end of year	\$ (309,010)	\$ (163,241)	\$ (125,037)

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)

Management's Discussion and Analysis (continued)

Financial Analysis of the Corporation (in thousands of dollars)

Financial Highlights

- (Deficiency) excess of operating revenue over operating expenses before other operating items decreased by \$46,141 from 2010 to 2011. Deficiency of operating revenue over operating expenses before other operating items decreased by \$158 from 2009 to 2010.
- Net patient service revenue decreased by \$23,035, or 4.9% from 2010 to 2011. Net patient service revenue increased by \$13,630 or 3.0% from 2009 to 2010.
- Other operating revenue decreased by \$6,527, or 14.0% from 2010 to 2011. Other operating revenue decreased by \$754, or 1.6% from 2009 to 2010.
- Salaries and wages increased by \$2,694 or 1.0% from 2010 to 2011. Salaries and wages decreased by \$2,573, or 1.0% from 2009 to 2010.
- Employee benefits increased by \$16,862, or 17.7% from 2010 to 2011. Employee benefits increased by \$5,742, or 6.4% from 2009 to 2010.
- Employee benefits expense (unfunded portion of postemployment benefits other than pensions) decreased net assets by \$52,754, \$42,585, and \$39,370 in 2011, 2010 and 2009, respectively.
- Grants for capital asset acquisitions increased net assets by \$944, \$13,794, and \$42,768 in 2011, 2010 and 2009, respectively.
- Total net assets (deficiency) changed by (\$145,769) or (89.3%) from 2010 to 2011. Total net assets (deficiency) changed by (\$38,204) or (30.6%) from 2009 to 2010.

Operating Activities

General

For the year ended December 31, 2011, the (deficiency) excess of operating revenue over operating expenses before other operating items decreased by \$46,141 from the prior year. For the year ended December 31, 2010, the excess of operating revenue over operating expenses before other operating items decreased by \$158 from the prior year.

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)

Management's Discussion and Analysis (continued)

Operating Activities (continued)

Net Patient Service Revenue

Total net patient service revenue of \$449,832 for the year ended December 31, 2011 decreased \$23,035 (4.9%) from the prior year. Total net patient service revenue of \$472,867 for the year ended December 31, 2010 increased \$13,630 (3.0%) from the prior year. Net patient service revenue decreased primarily as a result the reduction in New York State reimbursement rates.

Other Operating Revenue

Other operating revenue of \$40,178 for the year ended December 31, 2011 decreased \$6,527 (14.0%) from the prior year. Other operating revenue of \$46,705 for the year ended December 31, 2010 decreased \$754 (1.6%) from the prior year. The decrease consists primarily of the reduction of services provided to the Nassau County Correctional Facility.

Expenses

Total operating expenses before other operating items (including interest, amortization, and depreciation) of \$536,735 for the year ended December 31, 2011 increased 3.3% from the prior year. Total operating expenses before other operating items (including interest, amortization and depreciation) of \$519,462 for the year ended December 31, 2010 increased 2.6% from the prior year.

Salaries and wages of \$260,263 increased \$2,694 (1.0%) from 2010 to 2011. Salaries and wages of \$257,569 decreased \$2,573 (1.0%) from 2009 to 2010. The increase is primarily due to a reduction in full-time equivalents, offset by an increase in payroll-related accruals.

Employee benefits of \$111,918 increased \$16,862 (17.7%) from 2010 to 2011. Employee benefits of \$95,056 increased \$5,742 (6.4%) from 2009 to 2010. The increase is attributable mostly to an increase in pension and health insurance.

The Corporation recorded unfunded postemployment benefit expense of \$52,754, \$42,585 and \$39,370 in 2011, 2010 and 2009, respectively. The cost is actuarially calculated based on plan benefits (other than pensions) that current and retired employees have accrued as a result of their respective years of employment service.

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)

Management's Discussion and Analysis (continued)

Operating Activities (continued)

Capital Assets

During 2011, the Corporation purchased \$26,723 in capital assets and incurred \$19,683 in depreciation expense. In 2011, the Corporation received \$944 of grants, which are restricted for capital projects.

During 2010, the Corporation purchased \$44,363 in capital assets and incurred \$18,721 in depreciation expense. In 2010, the Corporation received \$13,794 of grants, which are restricted for capital projects.

Debt

During 2011 and 2010, the Corporation made principal and interest payments on its outstanding bonds of approximately \$2,438 and \$2,420, respectively.

Contacting the Corporation's Financial Management

If there are any questions about this report or if additional financial information is needed, contact the Office of Public Affairs, Nassau Health Care Corporation, 2201 Hempstead Turnpike, East Meadow, NY 11554.

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)

Balance Sheets

	December 31	
	2011	2010
	<i>(In Thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,962	\$ 4,368
Restricted cash and cash equivalents, current portion	16,844	42,276
Patient accounts receivable – net of estimated uncollectibles of \$239,115 in 2011 and \$220,073 in 2010	85,713	103,684
Inventories	5,357	5,542
Prepaid expenses	2,514	2,700
Other receivables	12,119	38,155
Due from third-party payers	13,040	5,719
Due from County of Nassau – net	12,509	11,745
Total current assets	155,058	214,189
Restricted cash and cash equivalents, net of current portion	28,467	56,614
Capital assets – net (depreciable)	170,930	164,052
Capital assets (non-depreciable)	12,498	12,498
Deferred bond issuance costs	1,117	1,227
Other assets	16,490	13,161
Total assets	\$ 384,560	\$ 461,741
Liabilities and net assets (deficiency)		
Current liabilities:		
Accounts payable and accrued expenses	42,162	\$ 42,115
Accrued salaries, wages, and payroll taxes	20,824	20,656
Accrued vacation and sick pay	45,791	43,265
Accrued pension benefits	26,467	19,822
Accrued interest payable	1,281	1,458
Due to third-party payers	23,505	24,415
Current portion of professional and other insurance liabilities	4,500	4,500
Current portion of long-term debt	4,815	2,438
Total current liabilities	169,345	158,669
Long-term debt	227,340	230,014
Professional and other insurance liabilities	38,414	36,000
Postemployment benefits other than pensions	213,930	161,176
Derivative instruments	44,541	25,355
Other long-term liabilities	–	13,768
Total liabilities	693,570	624,982
Net assets (deficiency):		
Invested in capital assets, net of related debt	100,428	93,550
Restricted for specific operating purposes by donors	1,851	1,964
Unrestricted	(411,289)	(258,755)
Total net assets (deficiency)	(309,010)	(163,241)
Total liabilities and net assets (deficiency)	\$ 384,560	\$ 461,741

See accompanying notes.

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)

Statements of Revenues, Expenses
and Changes in Net Assets (Deficiency)

	Year Ended December 31	
	2011	2010
	<i>(In Thousands)</i>	
Operating revenue:		
Net patient service revenue (net of the provision for bad debts of \$40,394 in 2011 and \$43,873 in 2010)	\$ 449,832	\$ 472,867
Other operating revenue	40,178	46,705
Investment income	1,230	536
Total operating revenue before other operating items	491,240	520,108
Operating expenses:		
Salaries and wages	260,263	257,569
Employee benefits	111,918	95,056
Supplies and other	132,892	136,570
Interest and amortization	11,979	11,546
Depreciation	19,683	18,721
Total operating expenses before other operating items	536,735	519,462
(Deficiency) excess of operating revenue over operating expenses before other operating items	(45,495)	646
Other operating items:		
Employee benefits expense (unfunded portion of postemployment benefits other than pensions)	(52,754)	(42,585)
Change in fair value of derivative instruments	(19,186)	(7,758)
Amortization of deferred loss on refunding (interest expense)	(2,278)	(2,301)
Changes to Medicaid eligibility estimates within net accounts receivable and other accounts receivable estimation changes	(27,000)	-
Deficiency of operating revenue over operating expenses	(146,713)	(51,998)
Grants for capital asset acquisitions	944	13,794
Decrease in net assets	(145,769)	(38,204)
Net assets (deficiency), beginning of year	(163,241)	(125,037)
Net assets (deficiency), end of year	\$ (309,010)	\$ (163,241)

See accompanying notes.

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)

Statements of Cash Flows

	Year Ended December 31	
	2011	2010
	<i>(In Thousands)</i>	
Cash flows from operating activities		
Cash received from patients and third-party payers	\$ 417,587	\$ 476,233
Cash received from other operating revenue	65,494	14,097
Cash paid to employees	(362,842)	(330,819)
Cash paid to suppliers	(130,824)	(125,926)
Net cash (used in) provided by operating activities	<u>(10,585)</u>	<u>33,585</u>
Cash flows from noncapital and related financing activities		
Cash paid for interest	(8,071)	(7,859)
Payment of debt	(2,438)	(2,420)
Net cash used in noncapital and related financing activities	<u>(10,509)</u>	<u>(10,279)</u>
Cash flows from capital and related financing activities		
Proceeds from Revenue Anticipation Notes	55,700	50,300
Payment of Revenue Anticipation Notes	(55,700)	(50,300)
Purchases of capital assets	(26,723)	(44,363)
Cash paid for interest, net of amounts capitalized	(4,112)	(4,003)
Grants for capital asset acquisitions and retirement of long-term debt	944	13,794
Net cash used in capital and related financing activities	<u>(29,891)</u>	<u>(34,572)</u>
Cash flows from investing activities		
Net change in restricted cash and cash equivalents	53,579	(2,894)
Net cash provided by (used in) investing activities	<u>53,579</u>	<u>(2,894)</u>
Net increase (decrease) in cash and cash equivalents	2,594	(14,160)
Cash and cash equivalents, beginning of year	4,368	18,528
Cash and cash equivalents, end of year	<u>\$ 6,962</u>	<u>\$ 4,368</u>
Reconciliation of deficiency of operating revenue over operating expenses to net cash provided by operating activities		
Deficiency of operating revenue over operating expenses	\$ (146,713)	\$ (51,998)
Interest paid, net of amounts capitalized	12,183	11,862
Depreciation	19,683	18,721
Amortization, including refunding loss	2,251	2,239
Change in fair value of derivative instruments	19,186	7,758
Changes in operating assets and liabilities:		
Patient accounts receivable	17,971	3,646
Accounts payable and accrued expenses, accrued salaries, wages and payroll taxes and accrued vacation and sick pay	2,562	17,632
Due from County of Nassau – net	(764)	(10,517)
Due to/from third-party payers – net	(8,231)	1,734
Professional and other insurance liabilities	2,414	3,500
Postemployment benefits other than pensions	52,754	42,585
Net change in all other operating assets and liabilities	16,119	(13,577)
Net cash (used in) provided by operating activities	<u>\$ (10,585)</u>	<u>\$ 33,585</u>

See accompanying notes.

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)

Notes to Financial Statements

December 31, 2011
(In Thousands)

1. Organization

The Nassau Health Care Corporation (d/b/a NuHealth) (“NHCC”) is a public benefit corporation created pursuant to Public Authorities Law 3401, *et. seq.*, (“PAL”) by New York State (“State”) in 1997 for the purposes of acquiring the health facilities owned by Nassau County, New York (“County”), operating these facilities more efficiently than the County could, and competing with other health care providers in a rapidly changing health care marketplace. These facilities were formally acquired by NHCC from the County on September 29, 1999.

NHCC has a governing board consisting of fifteen voting directors and three non-voting directors. Eight of the voting directors are appointed by the Governor of the State of New York on the recommendation of various State and County elected officials. Seven of the voting directors, and two of the non-voting directors, are appointed directly by the County Executive or the County Legislature. The Chief Executive Officer of NHCC is the final non-voting director.

NHCC operates the 530-bed Nassau University Medical Center (“NUMC”), the 589-bed A. Holly Patterson Extended Care Facility (“AHP”), a Faculty Practice Plan (“FPP”), and co-operates with Long Island FQHC, Inc. (“LIFQHC”), four treatment centers and one school-based clinic.

Except for LIFQHC (discussed below), the following active corporate entities are either owned or controlled wholly or in part by NHCC by virtue of NHCC being the sole corporate member pursuant to the New York State Not-for-Profit Corporation Law (“N-PCL”), through membership interests, or otherwise having the ability to approve the board and/or shareholders of the entity:

Nassau Health Care Foundation, Inc. (“NHCF”): NHCF was incorporated on June 24, 1964 as a type B membership corporation under the N-PCL with NHCC as its sole corporate member. The Certificate of Incorporation was amended on March 5, 2008 to, among other things, change the name of the corporation to Nassau Health Care Foundation, Inc. (“2008 Amendment”). The 2008 Amendment also restated the purposes of NHCF to support, maintain and otherwise benefit and be responsive to the needs and objectives of the hospital, skilled nursing facility and related facilities operated by NHCC. In accordance with its mission, NHCF has been supplying non-permanent employees to NHCC through a series of agreements that reimburse NHCF for the cost of such employees. NHCF also receives support from NHCC Medical Faculty Practice Plan revenues and maintains discretionary

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)

Notes to Financial Statements (continued)

(In Thousands)

1. Organization (continued)

funds that can be used by the Chairman of each NHCC department for educational and mission-related purposes. In March of 2011, NHCF applied to the Department of Labor to obtain status as a Professional Employer Organization (“PEO”) pursuant to the New York Professional Employer Act of 2003. As a result of this action, NHCF officially became a co-employer of certain NHCC employees as of May 18, 2011.

Long Island Medical Foundation, Inc. (d/b/a NuHealth Foundation) (“LIMF”): LIMF was incorporated on May 3, 2002 and obtained federal tax-exempt status in October 2003 as a 501(c)(3) support organization. The corporation was specifically established to be the fundraising arm of NHCC. It was established as a membership corporation and NHCC is its sole member. LIMF currently has no employees. The individuals currently dedicated to LIMF are employed through NHCF.

Newco ALP, Inc. (“NewCo”): NewCo was formed on May 22, 2009 for the purpose of becoming the licensed operator of a 150-bed Medicaid Assisted Living Program (“ALP”) and a related Licensed Home Services Agency (“LHCSA”). The ALP will be a primary component of a State mandated rightsizing of AHP. The New York State Department of Health (“NYSDOH”) has approved NewCo’s application for a license to operate an ALP at an expanded 200-bed size, and approved a LCHSA for this purpose in a building, which previously served as the Hempstead General Hospital, situated at 820 Front Street, Hempstead (Nassau County), New York 11550 (the “Site”). NewCo received 501(c)(3) status as of August 10, 2010. NewCo has had no operating activities since its formation.

NHCC, Ltd.: NHCC Ltd. is a corporation organized under the Companies Law of Cayman Islands on September 24, 1999. NHCC is the sole shareholder. NHCC, Ltd. was established as an off-shore captive insurance company (the “Captive”) for NHCC, for its medical malpractice coverage, and is licensed under the Insurance Law (1999 Revision) of Cayman Islands as of April 1, 2000 (see Note 10).

NHCC Medical Faculty Practice Plan, PC (d/b/a Nassau Medical Associates) (“NMA”): NMA was organized and incorporated in December 12, 2008 as a multi-specialty professional corporation (“PC”) with the Chief Medical Officer of NHCC as its sole shareholder. The shares of NMA are expressly held by the Chief Medical Officer for the exclusive benefit of NHCC. This type of PC arrangement is a common organizational model in states, such as New York. Historically, NuHealth has operated NUMC and its health care

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)

Notes to Financial Statements (continued)

(In Thousands)

1. Organization (continued)

centers almost exclusively with its employed physicians. An employed physician model aligns physician and health system incentives. However, as a PC, NMA can employ physicians working in community practice sites. NHCC has entered into agreements with NMA to advance funds to support the start-up and operations of NMA, subject to repayment when funds are available.

South Ocean Care, LLC (“SOC”): SOC is a for-profit corporation that owns and operates a diagnostic and treatment center in Freeport, New York, which provides primary and specialty services predominantly to patients enrolled in Medicaid and Medicare Managed Care plans. In 2008, the NHCC Board of Directors authorized the acquisition of an 80% membership interest in SOC. NHCC filed a Certificate of Need (“CON”) with the New York State Department of Health (“NYSDOH”) to acquire this membership interest. DOH approved this CON on November 9, 2010. The acquisition by NHCC of a majority membership interest in SOC and its inclusion in NHCC’s network of health care facilities enables its continued operation and its delivery of primary care services to the residents of Freeport, New York. NHCC is in the process of acquiring the remaining 20% membership interests, and has provided financial support to SOC in accordance with agreements entered into at the time of the acquisition.

LIFQHC is an independent not-for-profit corporation formed on May 14, 2009 and established by NYSDOH on June 15, 2010, as a co-operator of the four treatment centers and a school-based clinic, previously operated solely by NHCC, in order to meet federal governance requirements and obtain designation from the Health Resources and Services Administration (“HRSA”) as a public entity federally qualified health center (“FQHC”) “Look-Alike” organization. HRSA recognizes two governance models through which the operations of a FQHC can be overseen: the *voluntary model* and the *public-entity model*. In the voluntary model, HRSA requires the governing entity to be a not-for-profit corporation with at least 51% of the directors on the board obtaining health care services from the FQHC. In the public entity model, HRSA permits health centers to be co-operated by a public entity, such as a public benefit corporation, in conjunction with an independent not-for-profit FQHC entity, again with at least 51% of the directors of the not-for-profit board obtaining care from the FQHC. In the public entity model, the public entity’s board and the not-for-profit’s FQHC operate under a Co-Applicant Agreement. The Co-Applicant Agreement delineates the rights and responsibilities of each governing board, consistent with the minimum governance requirements set forth by HRSA. NHCC and LIFQHC

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)

Notes to Financial Statements (continued)

(In Thousands)

1. Organization (continued)

executed a Co-Applicant Agreement. LIFQHC, through the Co-Applicant Agreement, was empowered to adopt health center policies, including those on the scope and availability of services, location and hours of services, and quality control; approve the annual budget (subject to limitations imposed by NHCC); approve the selection and dismissal of the Executive Director of the FQHC; approve the application for subsequent grants and FQHC recertification; evaluate FQHC activities; and implement a compliance program. NHCC retained the right to establish personnel policies and procedures; provide staff to the current health centers; develop financial and operational management systems, and guide the long range strategic planning process. HRSA granted Lookalike status under the public entity model, and the NHCC-LIFQHC project became operational in June 2010.

Concurrent with the September 29, 1999 acquisition of the aforementioned entities, \$259,735 of Nassau Health Care Corporation Health System Revenue Bonds, Series 1999 (the "Series 1999 Revenue Bonds"), were issued. Of the proceeds received from the issuance of the Series 1999 Revenue Bonds, \$82,000 was used to fund the Corporation's above-mentioned purchase. On October 8, 2004, \$303,355 of Nassau Health Care Corporation Bonds, Series 2004 (the "Series 2004 Bonds") were issued to refund the Corporation's Series 1999 Revenue Bonds, fund certain capital projects and provide working capital. In 2009, a portion of the Series 2004 Bonds were redeemed with the issuance of Series 2009 bonds (see Note 5).

In September 2004, the Corporation and the County executed a stabilization agreement (the "Stabilization Agreement"), amending the original acquisition agreement. The Stabilization Agreement intended to resolve disputed charges, clarify language in existing agreements and identify the principles to govern more comprehensive successor arrangements.

Effective November 2007, the Corporation and the County executed a successor agreement (the "Successor Agreement"), superseding the Stabilization Agreement. The Successor Agreement clarifies the services provided by the Corporation to the County and establishes the mechanism for payments to the Corporation by the County. The Successor Agreement also provides the Corporation with capital funding and is in effect until 2029.

The Corporation is considered to be a component unit of the County and is included as a discretely presented component unit in the general purpose financial statements of the County.

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)

Notes to Financial Statements (continued)

(In Thousands)

1. Organization (continued)

At December 31, 2011 and 2010, the Corporation had a total net asset deficiency of \$309,010 and \$163,241, respectively. The deficiency arose from operating losses and the postemployment benefits other than pension liability (see Note 9). The Corporation is continuously striving to improve its net asset position by returning to profitability before other operating items, by continuing to progress with collecting on patient accounts, and through cash flows provided by government subsidies for the funding of capital projects (see Notes 2 and 6). The Corporation has undertaken a number of initiatives to return to positive cash flows. Such actions include continued revenue cycle enhancements, renegotiation of all commercial managed care contracts, changes to medical management practices, improved supply chain, inventory management and further cost reductions from the major modernization program undertaken over the past several years. The modernization program included significant investments in real estate consolidation, facility improvements, clinical equipment and information technology, and enhancements to the community health centers. In addition to the Corporation's initiatives, the County is the direct-pay guarantor of the Corporation's bonds, as well as guarantor to its swap counterparties.

In June 2012, the Corporation received a capital funds grant for \$18,000 under the Health Care Efficiency and Affordability Law for New Yorkers ("HEAL NY") program from the NYSDOH. The Corporation sought these funds to restructure its care delivery model as part of an overall proposal to reduce inpatient beds (through reductions in unnecessary admissions, ambulatory sensitive admissions, and readmissions), expand primary care and addiction outpatient capacity, develop a care management infrastructure, and build information technology interfaces with the North Shore-LIJ Health System to facilitate clinical integration.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accounts of the Corporation are maintained on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles.

The accompanying basic financial statements include the accounts of NUMC, AHP, FPP, NHCC activities with LIFQHC, NHCF and NHCC, Ltd. All intercompany transactions and balances have been eliminated in combination.

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)

Notes to Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

In its accounting and financial reporting, the Corporation follows the pronouncements of the Governmental Accounting Standards Board (“GASB”). In addition, the Corporation has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (“FASB”), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Net Assets (Deficiency)

Net assets (deficiency) of the Corporation are classified into three components. *Net assets invested in capital assets, net of related debt* consist of capital assets, net of accumulated depreciation, reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted for specific operating purposes by donors* are noncapital net assets that must be used for a particular purpose, as specified by contributors external to the Corporation. *Unrestricted* are remaining net assets (deficiency) that do not meet the definition of *invested in capital assets, net of related debt* or *restricted for specific operating purposes by donors*.

Use of Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, including estimated uncollectibles and allowances for accounts receivable, receivables from and payables to third-party payers, estimated professional and other insurance liabilities and postemployment benefits other than pensions and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the amounts of revenue and expenses reported during the period. Actual results could differ materially from those estimates.

Cash and Cash Equivalents

The Corporation considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents, except for assets whose use has been restricted. Cash and cash equivalents consist of cash and money market funds. All cash and cash equivalents are insured through Federal Deposit Insurance Corporation insurance or collateralized by U.S. government securities held by the Corporation’s third-party trustee or the pledging financial institution’s trust department in the name of the Corporation, to the full extent of the deposits.

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)

Notes to Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Net Patient Service Revenue and Accounts Receivable for Services to Patients

Net patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payers and others for services rendered, and includes 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 adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

Patient accounts receivable result from the health care services provided by the Corporation and physicians of the clinical practices. 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 amount of the allowance for doubtful accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid health care coverage and other collection indicators.

Medicare Reimbursement

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

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 payment methodology was updated such that payments to hospitals for Medicaid, workers' compensation and no-fault inpatient services are based on a statewide prospective payment system, with retroactive adjustments; prior to December 1, 2009, the payment system provided for retroactive adjustments to payment rates, using a prospective payment formula. Outpatient services also are paid based on a statewide prospective system that was

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)

Notes to Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

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 Corporation 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.

The Corporation 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 Corporation-specific data. 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 2006. Other years remain open for audit and settlement as are numerous issues related to the New York State Medicaid program for prior years. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount when open years are settled and additional information is obtained. 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 Corporation is not aware of any allegations of noncompliance that could have a material adverse effect on the financial statements and believes that it is in compliance with all applicable laws and regulations.

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

Net patient service revenue decreased by approximately \$2,600 and increased by approximately \$3,364 for the years ended December 31, 2011 and 2010, respectively, for settlements related to prior years and changes in estimates made by management related to third-party payer accounts.

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)

Notes to Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Additionally, the Corporation routinely reevaluates the estimates that it has established in relation to collections expected to be received for patient accounts receivable. Approval of a patient's Medicaid eligibility creates a significant timing delay in the collection process and requires projections of collectable balances. During 2011, a significant backlog of patients pending Medicaid approval was resolved unfavorably. Based on information presently available related to accounts which are ineligible for Medicaid and other accounts for which the collection status is uncertain, the Corporation reduced its estimate of net patient accounts receivable by approximately \$17,000 at December 31, 2011. Also, based on the Corporation's view of the existing billing and collection process and initiatives necessary to continually improve on these practices, an additional reduction to net accounts receivable of \$10,000 at December 31, 2011 was recorded. These amounts are reported as an other operating item in the accompanying 2011 statement of revenues, expenses and changes in net assets (deficiency).

On March 30, 2010, the Corporation was notified that the NYSDOH was issuing rate revisions dating back to 1996 for certain Medicaid issues. The amount of the retroactive recovery was approximately \$15.6 million and was recorded as a liability in 2009. The Corporation filed a legal affidavit on May 12, 2010 protesting the recovery for the periods 1996 through 2002, although the outcome is uncertain.

Charity Care

The Corporation provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue. The Corporation maintains records to identify and monitor the level of charity care it provides. The amount of charges foregone for the Corporation's services and supplies furnished under its charity care policy aggregated \$58,866 in 2011 and \$48,133 in 2010. The estimated cost of charity care, estimated using a ratio of cost to gross charges, totaled \$44,605 and \$36,841 in 2011 and 2010, respectively.

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)

Notes to Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Intergovernmental Transfers

The intergovernmental transfer (“IGT”) program is a federal and locally sponsored funding mechanism to assist certain public benefit hospitals in fulfilling their mission of providing health care services to the Medicaid and the uninsured population. The IGT amount is based on a formula that calculates losses on Medicaid and the uninsured from the Corporation’s cost report each year, referred to as the disproportionate share calculation. The Federal government funds a portion of the IGT amount with the remainder funded locally. The IGT amount recorded in 2011 was approximately \$67,312, which was recognized in net patient service revenue. The Corporation received IGT payments of approximately \$62,698 in 2011 and has recorded an IGT receivable of approximately \$4,614 within other receivables as of December 31, 2011. The amount of IGT revenue recognized by the Corporation in 2011 specific to AHP, approximately \$6,611, is estimated based upon New York State Public Health Law, which increased Upper Payment Limit (“UPL”) funding for nursing homes from \$150,000 to \$300,000 for the New York State (“NYS”) fiscal year beginning April 1, 2009. However, final resolution regarding actual UPL funding for nursing homes by NYS has not yet been determined. The Corporation has established its estimate of the UPL to be approximately \$189,000 based upon the latest information available and communicated to it; however, there is at least a reasonable possibility that the recorded estimate will change by a material amount.

The IGT amount recorded in 2010 was approximately \$85,098, which was recognized as net patient service revenue.

The Corporation recognizes IGT assets when all of its applicable eligibility requirements are met or resources are received, whichever is first, and revenues are recognized when all of its applicable eligibility requirements or similar conditions are met.

Concentration of Credit Risk

The Corporation provides health care services through its inpatient, outpatient and long-term care facilities located in Nassau County, New York. The Corporation grants credit to patients, substantially all of whom reside or are employed in the Corporation’s primary service area.

The Corporation generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients’ benefits payable under their health insurance programs, plans or policies (e.g., Medicare, Medicaid, Blue Cross, health maintenance organizations and commercial insurance policies).

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)

Notes to Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

The significant concentrations of accounts receivable for services to patients at December 31, 2011 and 2010 are as follows:

	2011	2010
Medicare	18%	16%
Medicaid	27	37
Commercial	20	17
Commercial HMO	10	10
Medicare HMO	3	3
Medicaid HMO	5	4
Other	17	13
	100%	100%

The components of net patient service revenue consist of the following:

	Year Ended December 31	
	2011	2010
Services provided to patients (net of contractual allowances of approximately \$449,427 in 2011 and \$323,005 in 2010)	\$ 411,559	\$ 420,409
Intergovernmental transfer – Federal	54,312	72,098
Intergovernmental transfer – County	13,000	13,000
Article VI health center subsidies – County	5,000	5,000
Federal and state grants	6,355	6,233
Provision for bad debts	(40,394)	(43,873)
	\$ 449,832	\$ 472,867

The Corporation is paid by third-party payers for patient services rendered generally at negotiated or otherwise predetermined amounts established by the applicable coverage program. For each of the years ended December 31, 2011 and 2010, revenue from the Medicaid and Medicare programs accounted for approximately 76% and 79%, respectively, of net revenue for services provided to patients.

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)

Notes to Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents consist of cash and money market funds. These may include amounts held by the NHCF and the Captive, restricted for capital and internally-designated for capital, payment of professional and other insurance liabilities, pension liabilities, debt service and amounts held by FPP for FPP-related expenditures. The Board of Directors may authorize the use of internally-designated amounts for other purposes. Amounts required to meet current liabilities are reported as current assets.

Inventories

Inventories are carried at the lower of cost or market. Cost is determined by the first-in, first-out method.

Capital Assets

Capital assets are stated at cost, less accumulated depreciation. Depreciation is computed by the straight-line method based upon the estimated useful lives of the assets ranging from three to forty years. The carrying amounts of assets and the related accumulated depreciation are removed from the accounts when such assets are disposed of and any resulting gain or loss is included in operations. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Deferred Bond Issuance Costs

Deferred bond issuance costs consist principally of debt acquisition costs. Amortization of these costs is provided over the term of the applicable indebtedness using the effective interest method.

Deferred Loss on Refunding

The difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. The deferred loss amount is reported as a reduction of long-term debt in the accompanying balance sheets and is amortized over the life of the debt using the effective interest method.

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)

Notes to Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Accrued Vacation and Sick Pay

The Corporation's employees are permitted to accumulate unused vacation time, sick pay and compensation time up to certain maximum amounts as established by employment contracts. The Corporation accrues the expense related to vested vacation, sick pay and compensation time based on pay rates in effect at year-end.

Professional and Other Insurance Liabilities

Professional and other insurance liabilities, including loss adjustment expenses, represent management's best estimate using case basis evaluations and actuarial analysis. The estimate is based on the ultimate settlement cost of all unpaid losses and loss adjustment expenses incurred through December 31 of each policy year on a discounted basis. The incurred but not reported reserves are estimated with the assistance of an independent actuary.

The ultimate settlement costs of all unpaid losses and loss adjustment expenses are necessarily subject to the impact of future changes in loss severity and other factors. Management believes the liability for losses and loss adjustment expenses is adequate and recognizes the variability inherent in the data used in determining the liabilities. However, there is an absence of a significant amount of experience as to whether the actual incurred losses and loss adjustment expenses will conform to the assumptions inherent in the determination of the liability. Accordingly, the ultimate settlement of losses and the related loss adjustment expenses may vary significantly from the estimated amounts included in the accompanying financial statements, and the differences could be material. The estimates are periodically reviewed and, as adjustments to these liabilities become necessary, they are reflected in current operations.

Derivative Instruments

Derivative instruments are reported at fair value. Fair value is determined using forward interest rate estimates and present value techniques and considers the risk of nonperformance by the counterparties and the Corporation. The change in fair value of derivative instruments is included in the accompanying statements of revenues, expenses and changes in net assets (deficiency) (see Note 5).

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)

Notes to Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Investment in Limited Liability Company

The Corporation accounts for its investment in a limited liability company (“LLC”) using the equity method of accounting. For the years ended December 31, 2011 and 2010, the Corporation recorded its equity in the income of the LLC of \$4,813 and \$3,727, respectively.

Statements of Revenues, Expenses and Changes in Net Assets (Deficiency)

The Corporation provides health care services to residents primarily within its geographic area. Expenses, excluding other operating items and bad debt expense, related to providing these services relate to the following functional categories:

	Year Ended December 31	
	2011	2010
Health care services	\$ 485,730	\$ 467,337
General and administrative	51,005	52,125
	<u>\$ 536,735</u>	<u>\$ 519,462</u>

Reclassifications

Certain reclassifications have been made to 2010 balances previously reported to conform to the 2011 presentation.

Grants and Subsidies

Grants that represent deficit financing of specific patient-related programs are recorded as net patient service revenue (\$6,355 and \$6,233 in 2011 and 2010, respectively). Grants for specific operating purposes are recorded as other operating revenue in the period in which qualified expenditures are made (see Note 12). Grants for capital asset acquisitions, restricted for purposes of capital expansion, are reported after the deficiency of operating revenue over operating expenses in the accompanying statements of revenues, expenses and changes in net assets (deficiency).

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)

Notes to Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Income Taxes

The Corporation and each of its subsidiaries are exempt from Federal income taxes on income related to their tax-exempt purposes because of the Corporation's status as a public benefit corporation.

The Captive has not elected to be treated as a U.S. taxpayer. There is presently no taxation imposed on income or premiums by the Government of the Cayman Islands. If any form of taxation were to be enacted, the Captive has been granted an exemption through June 6, 2020.

Recent Accounting Pronouncements

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34* ("GASB No. 61"). This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. This Statement also clarifies the reporting of equity interests in legally separate organizations. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. The Corporation has not completed the process of evaluating the impact of GASB No. 61 on its financial statements.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* ("GASB No. 63"). The objective of this Statement is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position. Amounts that are required to be reported as deferred outflows should be reported in a statement of financial position in a separate section following assets. Similarly, amounts to be reported as deferred inflows of resources should be reported in a separate section following liabilities. The statement of net position should report the residual amount as net position, rather than net assets. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. The adoption of this Statement is not expected to affect the results of operations or cash flows; however, it will result in changes to the presentation of the financial statements.

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)

Notes to Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (“GASB No. 65”). The objective of this Statement is to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The Corporation has not completed the process of evaluating the impact of GASB No. 65 on its financial statements.

In June 2012, the GASB voted to approve a new standard that will substantially change the accounting and financial reporting of public employee pensions by state and local governments. Statement No. 68, *Accounting and Financial Reporting for Pensions* (“GASB No. 68”), revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. GASB No. 68 replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. GASB No. 68 also enhances accountability and transparency through revised and new note disclosures and required supplementary information. GASB No. 68 requires governments that participate in defined benefit pension plans to report in their statement of net position a net pension liability. The net pension liability is the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. GASB No. 68 requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. GASB No. 68 also will improve the comparability and consistency of how governments calculate the pension liabilities and expense. The provisions in GASB No. 68 are effective for fiscal years beginning after June 15, 2014. The Corporation has not completed the process of evaluating the impact of GASB No. 68 on its financial statements.

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)

Notes to Financial Statements (continued)

(In Thousands)

3. Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents at December 31, 2011 and 2010, consist of the following:

	2011	2010
Cash and cash equivalents	\$ 42,464	\$ 96,594
Certificates of deposit	1,587	1,038
Mutual funds – U.S. securities	10	9
U.S. Treasury bills	1,250	1,249
Total	\$ 45,311	\$ 98,890

Investment income on cash and cash equivalents and restricted cash and cash equivalents consists of interest and dividend income of \$1,230 and \$536 for the years ended December 31, 2011 and 2010, respectively.

4. Capital Assets

Capital asset activity for the year ended December 31, 2011 is as follows:

	December 31, 2011				
	Beginning Balance	Additions	Write-offs and Disposals	Transfers	Ending Balance
Land (non-depreciable)	\$ 12,498	\$ –	\$ –	\$ –	\$ 12,498
Land improvements	12,646	36	(6)	–	12,676
Buildings and improvements	184,403	86	(1,090)	34,983	218,382
Fixed equipment	108,988	490	(700)	–	108,778
Movable equipment	168,831	4,247	(27,911)	8,887	154,054
Construction-in-progress	33,780	21,864	–	(43,870)	11,774
	521,146	26,723	(29,707)	–	518,162
Less accumulated depreciation	344,596	19,683	(29,545)	–	334,734
Total	\$ 176,550	\$ 7,040	\$ (162)	\$ –	\$ 183,428

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)

Notes to Financial Statements (continued)

(In Thousands)

4. Capital Assets (continued)

Capital asset activity for the year ended December 31, 2010 was as follows:

	December 31, 2010				
	Beginning Balance	Additions	Write-offs and Disposals	Transfers	Ending Balance
Land (non-depreciable)	\$ 12,498	\$ –	\$ –	\$ –	\$ 12,498
Land improvements	12,575	71	–	–	12,646
Buildings and improvements	169,364	4,834	–	10,205	184,403
Fixed equipment	107,998	374	(56)	672	108,988
Movable equipment	152,267	5,380	(173)	11,357	168,831
Construction-in-progress	22,310	33,704	–	(22,234)	33,780
	477,012	44,363	(229)	–	521,146
Less accumulated depreciation	326,104	18,721	(229)	–	344,596
Total	\$ 150,908	\$ 25,642	\$ –	\$ –	\$ 176,550

The Corporation wrote off approximately \$29,545 and \$229 of fully depreciated assets in 2011 and 2010, respectively. Net interest capitalized for the years ended December 31, 2011 and 2010 was approximately \$1,559 and \$1,507, respectively.

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)

Notes to Financial Statements (continued)

(In Thousands)

5. Long-term Debt

Long-term debt at December 31, 2011 and 2010 consists of the following:

	December 31	
	2011	2010
2004 Series B Bonds payable at varying dates through August 1, 2014, bearing interest at tax-exempt, fixed interest rates ranging from 3.0% to 5.0%	\$ 9,812	\$ 12,250
2009 Series A Bonds payable at varying dates through August 1, 2022; variable rate demand bonds bearing interest at taxable variable rates with an effective average of approximately 4.61% in 2011	25,995	25,995
2009 Series B, C and D Bonds payable at varying dates through August 1, 2029; variable rate demand bonds bearing interest at tax-exempt variable rates with an effective average of approximately 3.46% in 2011	220,840	220,840
	256,647	259,085
Deferred loss on refunding	(24,653)	(26,931)
Net unamortized bond premium	161	298
Current portion	(4,815)	(2,438)
	\$ 227,340	\$ 230,014

In October 2004, Series 2004 A, B and C Bonds were issued to refund the Corporation's Series 1999 Revenue Bonds, finance capital projects and pay the costs of issuance, including the required premium of the Bond Insurer. The transaction resulted in the Corporation receiving approximately \$41,000 of cash, of which \$26,000 was available for working capital and \$15,000 for new capital project financing.

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)

Notes to Financial Statements (continued)

(In Thousands)

5. Long-term Debt (continued)

In April 2009, Series 2009 A (taxable), B, C and D Bonds were issued as variable rate demand bonds (“VRDBs”) secured by new letters of credit (“LOCs”) to redeem the 2004 Series A and 2004 Series C outstanding bank term bonds. The LOCs were scheduled to expire in May 2012 and were extended with expiration dates for the various series of bonds ranging from February 2015 to April 2015. If the Corporation draws on the LOCs to purchase the Series 2009 Bonds, the VRDBs will convert to bank term bonds and repayment will commence no earlier than 270 days from the drawing date. Principal amounts related to the Series 2009 A Bonds mature annually each August 1, beginning in fiscal year 2013 through fiscal year 2022. Principal amounts related to the Series 2009 B, C, and D Bonds mature annually each August 1, beginning in fiscal year 2015 through fiscal year 2029. The interest rates under the VRDBs are determined on a periodic basis (weekly or quarterly depending on the series of bonds) through a remarketing process.

The County guarantees to the Trustee and the owners of Series 2009 Bonds the full and prompt payment of the principal and interest of the Series 2004 and Series 2009 Bonds. The County guaranty may be amended without consent of the bond owners.

In connection with the issuance of the Series 2004 and 2009 Bonds, the Corporation incurred a loss of approximately \$38,000 and \$3,700, respectively. The loss (the difference between the reacquisition price and the net carrying amount of the old debt) is carried as a deferred item, net in long-term debt in the accompanying balance sheets. The total deferred loss to be amortized has not been adjusted for a prepayment in 2008 of a portion of outstanding debt and the issuance of the Series 2009 Bonds; however, future amortization of the deferred loss was so adjusted. Amortization of the deferred loss is \$2,278 and \$2,301 for the years ended December 31, 2011 and 2010, respectively.

Pursuant to the Stabilization Agreement and, subsequently, the Successor Agreement (see Note 6), the County deposits subsidies, payable to the Corporation monthly, in an escrow account reserved for payment of the Series 2009 Bonds.

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)

Notes to Financial Statements (continued)

(In Thousands)

5. Long-term Debt (continued)

In connection with the issuance of the Series 2004 Bonds, the Corporation entered into interest rate swap agreements with commercial banks to effectively convert interest payments on the variable interest rate Series C Bonds to a fixed interest rate based on a total initial notional amount of \$220,000 that declines as debt is repaid. The fixed interest rate paid by the Corporation under the swap agreements is 3.46% and the variable rate received is based on LIBOR. Subsequent to the redemption of the Series 2004 C Bonds through the issuance of the Series 2009 Bonds, the swap agreements remain in place for the Series 2009 Bonds and expire on August 1, 2029.

The Corporation also entered into a cancelable swap agreement with a commercial bank to effectively convert interest payments on the variable interest rate for the Series 2004 A Bonds to a fixed interest rate based on an initial notional amount of \$65,000 that declines as debt is repaid. The fixed interest rate paid by the Corporation under the swap agreement is 4.61% and the variable rate received is based on LIBOR. Subsequent to the redemption of the Series 2004 A Bonds through the issuance of the Series 2009 Bonds, the swap agreement remains in place for the Series 2009 Bonds and expires on August 1, 2012.

The swap agreements expose the Corporation to market risk, in the event of changes in interest rates, and credit risk, in the event of nonperformance by the counterparty. However, the Corporation believes that the risk of a material impact to its financial condition arising from such events is low. The County guarantees payments to the swap contract counterparties. The fair value of the derivative instruments was a liability of approximately \$41,769 and \$25,355 at December 31, 2011 and 2010, respectively.

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)

Notes to Financial Statements (continued)

(In Thousands)

5. Long-term Debt (continued)

Principal payments on long-term debt are due annually on August 1. Interest payments are due semiannually on February 1 and August 1. Estimated interest is based on the original amortization schedules. Payments applicable to long-term debt for years subsequent to December 31, 2011 are as follows:

	Principal	Estimated Interest
2012	\$ 4,815	\$ 9,940
2013	4,360	9,700
2014	4,522	9,484
2015	13,005	9,261
2016	13,545	8,754
2017 to 2021	76,575	35,372
2022 to 2026	84,940	19,667
2027 to 2030	54,885	4,103
	\$ 256,647	\$ 106,281

In March 2011, the Corporation issued \$55.7 million of taxable 2011 Revenue Anticipation Notes (“2011 RANs”) that were due in December 2011 and secured by scheduled IGT payments. The 2011 RANs were repaid in full in December 2011.

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)

Notes to Financial Statements (continued)

(In Thousands)

6. Transactions with the County of Nassau

The following amounts are included in the accompanying statements of revenues, expenses and changes in net assets (deficiency), and represent transactions that occurred between the County and the Corporation during the years ended December 31, 2011 and 2010:

	2011	2010
Revenue earned from the County:		
Patient care	\$ 5,525	\$ 7,626
Space charges	1,325	1,857
Non-patient care	14,282	22,089
Health insurance for retiree charges	9,263	8,237
Intergovernmental transfer – County	13,000	13,000
Article VI health center subsidies	5,000	5,000
	48,395	57,809
County pass-through transactions:		
Amounts paid on behalf of the County	2,193	2,949
State aid and other amounts collected by the County	1,370	1,541
Total transactions with the County	\$ 51,958	\$ 62,299

Payments from the County for patient care, space charges, health insurance for retirees and non-patient care are made to the Corporation through quarterly advances. Non-patient care charges consist of salaries, fringe benefits and other expenses necessary to operate the infirmary at the Nassau County Correctional Facility. Also included are nursing salaries and fringe benefits to provide home health care to eligible Nassau County residents. Payments from the County for patient care, IGT and Article VI health center subsidies are recorded as net patient service revenue in the accompanying financial statements. Payments from the County for space charges, health insurance for retirees and non-patient care are recorded as other operating revenue.

Amounts paid on behalf of the County represent payments made by the Corporation for pension, vacation, sick and termination benefits. Under the terms of the Acquisition Agreement, these benefits, including the health insurance for retiree charges, are to be allocated between the County and the Corporation based on the employees' years of service pre- and post-Acquisition Agreement.

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)

Notes to Financial Statements (continued)

(In Thousands)

7. Retirement Plans

Retirement Plan Descriptions

Substantially all employees are covered by retirement plans of the New York State and Local Employees' Retirement System and the Public Employees' Group Life Insurance Plan (the "Retirement Systems"). These are cost-sharing, multiemployer defined benefit retirement plans. The Retirement Systems provide retirement, death and disability benefits. Obligations of employers and employees to contribute and benefits to employees, are governed by the New York State Retirement and Social Security Law ("NYSRSSL"). As set forth in the NYRSSL, the Comptroller of the State of New York (the "Comptroller") serves as sole trustee and administrative head of the Retirement Systems. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the Retirement Systems and for the custody and control of their funds. The Retirement Systems issue publicly available financial reports that include financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, Gov. Alfred E. Smith State Office Building, Albany, NY 12244.

Retirement Plans Funding Policy

The Retirement Systems are noncontributory, except for those employees who joined the New York State and Local Employees' Retirement System after July 27, 1976 who contribute 3% of their salaries. The State Legislature passed legislation in 2000 that suspended the 3% contribution for employees who have attained ten years or more of credited service. In addition, members who meet certain eligibility requirements will receive one month's additional service credit for each completed year of service up to a maximum of two additional years of service credit. Under the authority of the NYRSSL, the Comptroller shall annually certify the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by the employers to the pension accumulation fund.

The cash contribution to the Retirement Systems for the year ended December 31, 2011 was approximately \$30,379. The Corporation did not pay any contributions to the Retirement Systems in 2010. For the years ended December 31, 2011 and 2010, pension expense was approximately \$32,024 and \$23,108, respectively.

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)

Notes to Financial Statements (continued)

(In Thousands)

8. Health Insurance Plan

Employees of the Corporation are provided health care benefits in accordance with New York State Health Insurance Rules and Regulations administered by the New York State Department of Civil Service (the “NYSHIP plan”). The Corporation’s union contract and ordinances require the Corporation to provide all eligible enrollees with either the NYSHIP plan or other equivalent health insurance. The plan offers comprehensive benefits through an indemnity insurance plan with managed care features, consisting of hospital, medical, health, substance abuse and prescription drug programs. For the years ended December 31, 2011 and 2010, expenses related to health insurance benefits totaled approximately \$56,847 and \$47,437, respectively.

9. Postemployment Retirement Healthcare Benefit Plan

Plan Description

Substantially all employees are eligible for health insurance benefits upon retirement from the Corporation. Retirees of the Corporation are provided health care benefits in accordance with the NYSHIP plan. The New York State Department of Civil Service administers the plan and has the authority to establish and amend the benefit provisions offered. The NYSHIP plan, considered an agent multiple-employer defined benefit plan, is not a separate entity or trust and does not issue stand-alone financial statements. The Corporation recognizes postemployment benefits other than pensions (“OPEB”) expenses on an accrual basis.

Funding Policy

There are no employee contributions required for the NYSHIP plan. The Corporation contributes, through the County, a proportionate amount of the health insurance premiums for all employees who retire. The Corporation’s responsibility is based on the proportion of time the individual was employed by the Corporation compared to the time employed by the County. The Corporation funds such expenditures as incurred. Amounts paid relative to these benefits amounted to approximately \$5,602 and \$3,891 for the years ended December 31, 2011 and 2010, respectively.

Annual OPEB Cost

The Corporation’s annual OPEB cost for the NYSHIP plan is calculated based on the annual required contribution (“ARC”), an amount actuarially determined in accordance with GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)

Notes to Financial Statements (continued)

(In Thousands)

9. Postemployment Retirement Healthcare Benefit Plan (continued)

The NYSHIP plan's annual OPEB cost and the related information at December 31, 2011 and 2010 are as follows:

	2011	2010
Annual required contribution	\$ 61,113	\$ 48,504
Interest on net OPEB obligation	6,850	5,040
Adjustment to ARC	(9,607)	(7,068)
Contributions made (reported in operating expenses)	(5,602)	(3,891)
Increase in net OPEB obligation (reported as other operating item)	52,754	42,585
Net OPEB obligation – beginning of year	161,176	118,591
Net OPEB obligation – end of year	\$ 213,930	\$ 161,176

The NYSHIP plan's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation were as follows:

	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2011	\$ 58,356	9.6%	\$ 213,930
December 31, 2010	46,476	8.4	161,176

As of December 31, 2011 and 2010, the actuarial accrued liability for benefits was \$419,616 and \$374,779, respectively, all of which was unfunded. As of December 31, 2011 and 2010, the covered payroll (annual payroll of active employees covered by the NYSHIP plan) was \$165,128 and \$178,943, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 242.6% and 209.4%, respectively.

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)

Notes to Financial Statements (continued)

(In Thousands)

9. Postemployment Retirement Healthcare Benefit Plan (continued)

The actuarial valuation date is January 1, 2011. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplementary information provides multi-year trend information for the actuarial accrued liability for benefits.

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the employer and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

For the December 31, 2011 and 2010 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.25% discount rate in 2011 and 2010 and an annual health care cost trend rate of 8.00% in 2011 and 2010 and grading down to an ultimate rate of 5%. The unfunded actuarial accrued liability is being amortized over 30 years as a level dollar amount. The remaining amortization period at December 31, 2011 was 25 years.

10. Professional and Other Insurance Liabilities

For the policy years ended (or ending) September 29, 2008 to 2012, the Captive issued hospital professional and employee benefits policies on a claims-made basis and commercial general policies on an occurrence basis. The Captive's liability on the hospital professional and employee benefits policies is \$7,000 per person (\$10,000 for policy years prior to 2008) with no aggregate limit and \$1,000 per claim up to an aggregate of \$1,000, respectively. The liability on commercial general policies is \$1,000 per occurrence, except for fire damages, where the limit is \$50 for any one fire, and medical payment, where the limit is \$5 for any one person, up to an aggregate of \$3,000.

The Captive is subject to minimum capital requirements as established by the Cayman Islands Monetary Authority (the "Monetary Authority"). The Corporation has committed to fund any shortfalls of capital relative to the minimum statutory requirements and to provide any necessary financial support to the Captive as may be deemed necessary. The Captive's ability to operate is dependent upon such support.

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)

Notes to Financial Statements (continued)

(In Thousands)

10. Professional and Other Insurance Liabilities (continued)

In 2006, the Captive loaned the Corporation \$10,000. The loan is re-payable on demand and has been renewed until December 31, 2012. The loan bears interest at a rate of 5% per annum, payable semiannually. At December 31, 2011, the full loan amount of \$10,000 remains outstanding.

Additionally, in January 2012, the Captive loaned the Corporation an additional \$10,000. The loan is repayable on demand and matures on December 31, 2012. The loan bears interest at a rate of 4% per annum and is payable semiannually.

The Captive has entered into a note agreement with the Corporation in the amount of \$5,500 (the "Note"). The Note is unfunded. The Note is unsecured, noninterest bearing and has no specific terms of repayment. The Captive may cancel the Note at any time. In order to support the ability for the Captive to continue operations, the Captive may call the Note to provide cash flow as the loss reserves develop. The ability of the Captive to receive payment under the Note is dependent on the Corporation's financial strength. The Monetary Authority has indicated that it recognizes the Note as funds available to meet the Captive's minimum statutory requirements for net worth in the Cayman Islands. At December 31, 2011 and 2010, the Captive was in compliance with its minimum capital requirement.

The Captive's activity in the loss reserves and loss adjustment expenses is summarized as follows:

	2011	2010	2009
Balance at beginning of year	\$ 40,500	\$ 37,000	\$ 42,856
Incurred related to:			
Current year	10,859	10,525	11,448
Prior years	(967)	(1,378)	(2,126)
Total incurred	9,892	9,147	9,322
Paid relating to:			
Current year	715	702	751
Prior years	6,763	4,945	14,427
Total paid	7,478	5,647	15,178
Balance at end of year	\$ 42,914	\$ 40,500	\$ 37,000

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)

Notes to Financial Statements (continued)

(In Thousands)

10. Professional and Other Insurance Liabilities (continued)

Losses and loss adjustment expenses for incurred claims for prior years reflect changes in estimates of the ultimate settlement of such losses. In 2011 and 2010, the Captive experienced favorable loss development where the actual settlements were better than expected for claims that occurred previously.

Insurance reserves and the related insurance losses and loss adjustment expenses, recorded through the Captive, have been discounted based on an assumed interest rate of 4.0% in 2011 and 2010.

In addition to the insurance coverage purchased from the Captive, the Corporation purchases umbrella and other coverage from commercial insurers. For the years ended December 31, 2011 and 2010, insurance expense totaled \$12,436 and \$12,955, respectively.

11. Commitments and Contingencies

Operating Leases

The Corporation leases certain facility space under operating leases that have initial or remaining noncancelable terms in excess of one year. Rent expense under such leases was \$1,130 and \$926 in 2011 and 2010, respectively, and is included in supplies and other expenses in the accompanying statements of revenues, expenses and changes in net assets (deficiency).

Future approximate minimum lease payments under these agreements with one or more years are as follows:

Year ending December 31:	
2012	\$ 799
2013	823
2014	845
2015	869
2016	883
Thereafter	1,808
	<u>\$ 6,027</u>

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)

Notes to Financial Statements (continued)

(In Thousands)

11. Commitments and Contingencies (continued)

Collective Bargaining Agreements

Substantially all of the Corporation's employees are union employees who are covered under the terms of a collective bargaining agreement with the Civil Service Employees Association. A contract was executed, effective January 1, 2005, and expired on December 31, 2009. The Corporation is currently negotiating a new contract with the union.

Litigation and Claims

The Corporation is involved in litigation and claims which are not considered unusual to the Corporation's business. It is the opinion of management that such claims will not have a material adverse effect on the accompanying financial statements.

Berger Commission

The Commission on Health Care Facilities in the 21st Century (the "Berger Commission") released its final report on November 28, 2006. The report provides a series of recommendations to rightsize and restructure the health care system in New York State. The Berger Commission issued a number of specific recommendations regarding AHP and NUMC. The Berger Commission recommended that AHP downsize to approximately 300 skilled nursing facility beds; that a replacement nursing home be constructed on the Corporation's existing Uniondale campus; that, in conjunction with consolidation within the NUMC facility, AHP's sub-acute services be transferred to the empty floors at NUMC, provided that such sub-acute services continue to be operated by AHP; and that a 150-bed Medicaid assisted living facility and possibly other noninstitutional services be added. NUMC has complied with the Berger Commission recommendation to downsize its certified bed capacity from 631 to 530 beds, inclusive of the addition of 73 behavioral health beds.

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)

Notes to Financial Statements (continued)

(In Thousands)

11. Commitments and Contingencies (continued)

The Corporation intends to comply with the remainder of the Berger Commission’s recommendations, and management continues to work closely with the NYSDOH to provide for their cost-effective implementation. To begin the implementation of the recommendations of the Berger Commission, the Corporation’s Board of Directors authorized an initial surrender of 309 skilled nursing facility beds at AHP, while authorizing the surrender of 101 certified inpatient beds at NUMC. The Corporation also filed Certificate of Need Applications (“CONs”) with NYSDOH to construct a new facility to replace AHP and to pour the three empty floors at NUMC. To date, the Corporation has begun the process of securing financing to begin the construction of the new nursing home and has poured the three empty floors at NUMC. In addition, NYSDOH has accepted the surrender of 300 skilled nursing facility beds at AHP, reducing its total licensed bed capacity from 889 to 589 skilled nursing facility beds, and 101 certified inpatient beds at NUMC. However, NYSDOH has made no decision regarding the authorized surrender of nine additional beds at AHP or any of the CONs filed by the Corporation that are associated with the Berger Commission’s recommendations. The ultimate effect of these matters on the Corporation’s financial statements cannot be estimated presently.

12. Other Operating Revenue

Other operating revenue consists of the following:

	Year Ended December 31	
	2011	2010
Other non-patient related County billings	\$ 24,661	\$ 33,239
Medical staff housing	1,442	1,918
Equity in investment in LLC	4,813	3,727
Cafeteria	396	253
Rotating residents	838	2,076
Parking	183	370
Medical resident tax recovery	–	1,254
Other miscellaneous revenue	7,845	3,868
	\$ 40,178	\$ 46,705

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)

Notes to Financial Statements (continued)

(In Thousands)

12. Other Operating Revenue (continued)

In March 2010, the Internal Revenue Service (“IRS”) announced that for periods ending before April 1, 2005, medical residents would be eligible for the student exception of Federal Insurance Contributions Act (“FICA”) taxes. As a result, organizations that had filed timely FICA refund claims covering periods up through that date are eligible for refunds of both the employer and employee portions of FICA taxes paid, plus statutory interest. As a result of the decision made by the IRS, the Corporation recorded estimated net revenue of approximately \$1.2 million presented as medical resident tax recovery for the year ended December 31, 2010. The Corporation has established its estimate based on information presently available; the estimate is subject to change as the IRS adjudicates the claims.

13. Long-Term Debt and Other Noncurrent Liabilities

A schedule of changes in the Corporation’s long-term debt and noncurrent liabilities for 2011 follows:

	Balance December 31, 2010	Additions	Deductions	Balance December 31, 2011	Amounts Due Within One Year
Long-term debt (Note 5):					
2004 Series B Bonds	\$ 12,250	\$ –	\$ (2,438)	\$ 9,812	\$ 4,815
2009 Series A Bonds	25,995	–	–	25,995	–
2009 Series B-D Bonds	220,840	–	–	220,840	–
Deferred loss on refunding	(26,931)	–	2,278	(24,653)	–
Bond premium	298	–	(137)	161	–
Current portion	(2,438)	(2,377)	–	(4,815)	–
Total long-term debt	<u>230,014</u>	<u>(2,377)</u>	<u>(297)</u>	<u>227,340</u>	<u>4,815</u>
Other long-term liabilities:					
Professional and other insurance liabilities (Note 10)	36,000	2,414	–	38,414	–
Postemployment benefits other than pensions (Note 9)	161,176	52,754	–	213,930	–
Derivative instruments	25,355	19,186	–	44,541	–
Other long-term liabilities	13,768	–	(13,768)	–	–
Total noncurrent liabilities	<u>\$ 466,313</u>	<u>\$ 71,977</u>	<u>\$ (14,065)</u>	<u>\$ 524,225</u>	<u>\$ 4,815</u>

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)

Notes to Financial Statements (continued)

(In Thousands)

13. Long-Term Debt and Other Noncurrent Liabilities (continued)

A schedule of changes in the Corporation's long-term debt and noncurrent liabilities for 2011 follows:

	Balance December 31, 2009			Balance December 31, 2010		Amounts Due Within One Year
	2009	Additions	Deductions	2010		
Long-term debt (Note 5):						
2004 Series B Bonds	\$ 14,670	\$ –	\$ (2,420)	\$ 12,250	\$ 2,438	
2009 Series A Bonds	25,995	–	–	25,995	–	
2009 Series B-D Bonds	220,840	–	–	220,840	–	
Deferred loss on refunding	(29,232)	–	2,301	(26,931)	–	
Bond premium	472	–	(174)	298	–	
Current portion	(2,420)	(18)	–	(2,438)	–	
Total long-term debt	230,325	(18)	(293)	230,014	2,438	
Other long-term liabilities:						
Professional and other insurance liabilities (Note 10)	32,500	3,500	–	36,000	–	
Postemployment benefits other than pensions (Note 9)	118,591	42,585	–	161,176	–	
Derivative instruments	17,597	7,758	–	25,355	–	
Other long-term liabilities	15,363	–	(1,595)	13,768	–	
Total noncurrent liabilities	\$ 414,376	\$ 53,825	\$ (1,888)	\$ 466,313	\$ 2,438	

14. County of Nassau, New York, Financial Situation

The County provides the Corporation historic mission subsidies, Article VI service payments, payments for inmate health services, IGT and various other payments throughout each fiscal year. Additionally, the County is the direct-pay guarantor of the Corporation's Series 2004 and Series 2009 Bonds, as well as guarantor to its swap counterparties. It is not possible to predict the effect, if any, the County's current or future operations will have on the financial statements of the Corporation, taken as a whole.

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)

Notes to Financial Statements (continued)

(In Thousands)

15. Subsequent Events

In January 2012, the Captive loaned the Corporation an additional \$10,000. The loan is repayable on demand and matures on December 31, 2012. The loan bears interest at a rate of 4% per annum and is payable semiannually (see Note 10).

In February 2012, the Corporation issued \$40.0 million of taxable 2012 Revenue Anticipation Notes (“2012 RANs”) due in December 2012. The 2012 RANs were issued in anticipation of receipt by the Corporation of Federal IGT payments. The Corporation has pledged its 2012 Federal IGT payments and other New York State payments for the payment of the principal and interest on the 2012 RANs.

In June 2012, the Corporation received a capital funds grant for \$18,000 under the Health Care Efficiency and Affordability Law for New Yorkers (“HEAL NY”) program from the NYSDOH (see Note 1).

Required Supplementary Information

Nassau Health Care Corporation and Subsidiaries
 (Component Unit of Nassau County)

Schedule of Funding Progress for the
 Postemployment Retiree Healthcare Plan
 (In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Level Dollar (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
January 1, 2011	–	\$ 419,616	\$ 419,616	0%	\$ 165,128	254.1%
January 1, 2010	–	374,779	374,779	–	178,943	209.4
January 1, 2009	–	328,353	328,353	–	185,986	176.5

Report of Independent Auditors on Internal
Control Over Financial Reporting and on
Compliance and Other Matters Based on an
Audit of the Financial Statements
Performed in Accordance With
Government Auditing Standards

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

The Board of Directors
Nassau Health Care Corporation and Subsidiaries

We have audited the basic financial statements of Nassau Health Care Corporation and Subsidiaries (component unit of Nassau County) (the “Corporation”) as of and for the year ended December 31, 2011, and have issued our report thereon dated July 26, 2012. We conducted our audit 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.

Internal control over financial reporting

Management of the Corporation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Corporation’s internal control over financial reporting as a basis for designing our auditing procedures 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 Corporation’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation’s internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and other matters

As part of obtaining reasonable assurance about whether the Corporation'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*.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity and Nassau County is not intended to be, and should not be, used by anyone other than these specified parties.

Ernst + Young LLP

July 26, 2012

Supplementary Information

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)

Combining Balance Sheet

December 31, 2011

	NUMC	AHP	Health Centers*	FPP**	NHCC, Ltd.	Foundation	Eliminations	Total
	(In Thousands)							
Assets								
Current assets:								
Cash and cash equivalents	\$ 5,241	\$ 1,496	\$ 225	\$ -	\$ -	\$ -	\$ -	\$ 6,962
Restricted cash and cash equivalents, current portion	7,977	1,678	345	2,344	4,500	-	-	16,844
Patients accounts receivable, net	68,576	11,276	600	5,261	-	-	-	85,713
Inventories	5,199	158	-	-	-	-	-	5,357
Prepaid expenses	2,308	123	79	-	1	3	-	2,514
Other receivables	7,006	4,591	522	-	-	-	-	12,119
Due from third-party payers	7,280	-	5,760	-	-	-	-	13,040
Investment in NHCC, Ltd.	13,620	-	-	-	-	-	(13,620)	-
Due from County of Nassau – net	12,407	102	-	-	-	-	-	12,509
Due from other funds – net	-	52,296	-	3,462	17,245	-	(73,003)	-
Total current assets	129,614	71,720	7,531	11,067	21,746	3	(86,623)	155,058
Restricted cash and cash equivalents, net of current portion	-	-	-	-	24,998	3,469	-	28,467
Capital assets – net (depreciable)	147,372	12,090	11,386	-	-	82	-	170,930
Capital assets (non-depreciable)	98	12,400	-	-	-	-	-	12,498
Deferred bond issuance costs	891	187	39	-	-	-	-	1,117
Other assets	16,240	-	250	-	-	-	-	16,490
Total assets	\$ 294,215	\$ 96,397	\$ 19,206	\$ 11,067	\$ 46,744	\$ 3,554	\$ (86,623)	\$ 384,560
Liabilities and net assets (deficiency)								
Current liabilities:								
Accounts payable and accrued expenses	\$ 32,772	\$ 6,173	\$ 1,322	\$ 1,803	\$ 92	\$ -	\$ -	\$ 42,162
Accrued salaries, wages and payroll taxes	15,913	2,292	275	2,344	-	-	-	20,824
Accrued vacation and sick pay	32,805	11,640	1,346	-	-	-	-	45,791
Accrued pension benefits	20,749	4,629	1,089	-	-	-	-	26,467
Accrued interest payable	1,022	215	44	-	-	-	-	1,281
Due to third-party payers	-	23,505	-	-	-	-	-	23,505
Due to other funds – net	30,393	-	35,915	-	-	-	(66,308)	-
Current portion of professional and other insurance liabilities	-	-	-	-	4,500	-	-	4,500
Current portion of long-term debt	3,684	1,011	120	-	-	-	-	4,815
Total current liabilities	137,338	49,465	40,111	4,147	4,592	-	(66,308)	169,345
Long-term debt	173,916	47,741	5,683	-	-	-	-	227,340
Professional and other insurance liabilities	-	-	-	-	38,414	-	-	38,414
Postemployment benefits other than pensions	170,673	36,561	6,696	-	-	-	-	213,930
Derivative instruments	35,530	7,474	1,537	-	-	-	-	44,541
Other long-term liabilities	-	-	-	-	6,695	-	(6,695)	-
Total liabilities	517,457	141,241	54,027	4,147	49,701	-	(73,003)	693,570
Net assets (deficiency):								
Invested in capital assets, net of related debt	86,050	2,910	11,386	-	-	82	-	100,428
Restricted for specific operating purposes by donors	-	-	-	-	-	1,851	-	1,851
Unrestricted	(309,292)	(47,754)	(46,207)	6,920	(2,957)	1,621	(13,620)	(411,289)
Total net assets (deficiency)	(223,242)	(44,844)	(34,821)	6,920	(2,957)	3,554	(13,620)	(309,010)
Total liabilities and net assets (deficiency)	\$ 294,215	\$ 96,397	\$ 19,206	\$ 11,067	\$ 46,744	\$ 3,554	\$ (86,623)	\$ 384,560

* Refer to Note 1 to the accompanying financial statements, the Health Centers column represents NHCC's activities with Long Island FQHC, Inc.

** Refer to Note 1 to the accompanying financial statements, FPP is an operational division of NUMC.

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)

Combining Balance Sheet

December 31, 2010

	NUMC	AHP	Health Centers*	FPP**	NHCC, Ltd.	Foundation	Eliminations	Total
	(In Thousands)							
Assets								
Current assets:								
Cash and cash equivalents	\$ 3,142	\$ 1,041	\$ 185	\$ -	\$ -	\$ -	\$ -	\$ 4,368
Restricted cash and cash equivalents, current portion	28,316	5,956	1,224	2,280	4,500	-	-	42,276
Patients accounts receivable, net	83,373	12,249	996	7,066	-	-	-	103,684
Inventories	5,388	154	-	-	-	-	-	5,542
Prepaid expenses	2,635	-	54	-	11	-	-	2,700
Other receivables	19,439	18,043	673	-	-	-	-	38,155
Due from third-party payers	1,452	-	4,267	-	-	-	-	5,719
Investment in NHCC, Ltd.	13,620	-	-	-	-	-	(13,620)	-
Due from County of Nassau – net	10,494	1	1,250	-	-	-	-	11,745
Due from other funds – net	-	43,096	-	2,803	17,868	-	(63,767)	-
Total current assets	167,859	80,540	8,649	12,149	22,379	-	(77,387)	214,189
Restricted cash and cash equivalents, net of current portion	22,020	4,631	3,903	-	22,537	3,523	-	56,614
Capital assets – net (depreciable)	138,637	12,575	12,721	-	-	119	-	164,052
Capital assets (non-depreciable)	98	12,400	-	-	-	-	-	12,498
Deferred bond issuance costs	979	206	42	-	-	-	-	1,227
Other assets	13,161	-	-	-	-	-	-	13,161
Total assets	\$ 342,754	\$ 110,352	\$ 25,315	\$ 12,149	\$ 44,916	\$ 3,642	\$ (77,387)	\$ 461,741
Liabilities and net assets (deficiency)								
Current liabilities:								
Accounts payable and accrued expenses	\$ 33,828	\$ 6,414	\$ 825	\$ 949	\$ 99	\$ -	\$ -	\$ 42,115
Accrued salaries, wages and payroll taxes	15,893	2,239	244	2,280	-	-	-	20,656
Accrued vacation and sick pay	30,845	11,152	1,268	-	-	-	-	43,265
Accrued pension benefits	15,532	3,474	816	-	-	-	-	19,822
Accrued interest payable	1,164	244	50	-	-	-	-	1,458
Due to third-party payers	-	24,415	-	-	-	-	-	24,415
Due to other funds – net	22,100	-	34,671	-	-	-	(56,771)	-
Current portion of professional and other insurance liabilities	-	-	-	-	4,500	-	-	4,500
Current portion of long-term debt	1,865	512	61	-	-	-	-	2,438
Total current liabilities	121,227	48,450	37,935	3,229	4,599	-	(56,771)	158,669
Long-term debt	175,880	48,296	5,838	-	-	-	-	230,014
Professional and other insurance liabilities	-	-	-	-	36,000	-	-	36,000
Postemployment benefits other than pensions	128,586	27,545	5,045	-	-	-	-	161,176
Derivative instruments	20,226	4,254	875	-	-	-	-	25,355
Other long-term liabilities	10,817	-	2,951	-	6,996	-	(6,996)	13,768
Total liabilities	456,736	128,545	52,644	3,229	47,595	-	(63,767)	624,982
Net assets (deficiency):								
Invested in capital assets, net of related debt	77,055	3,655	12,721	-	-	119	-	93,550
Restricted for specific operating purposes by donors	-	-	-	-	-	1,964	-	1,964
Unrestricted	(191,037)	(21,848)	(40,050)	8,920	(2,679)	1,559	(13,620)	(258,755)
Total net assets (deficiency)	(113,982)	(18,193)	(27,329)	8,920	(2,679)	3,642	(13,620)	(163,241)
Total liabilities and net assets (deficiency)	\$ 342,754	\$ 110,352	\$ 25,315	\$ 12,149	\$ 44,916	\$ 3,642	\$ (77,387)	\$ 461,741

* Refer to Note 1 to the accompanying financial statements, the Health Centers column represents NHCC's activities with Long Island FQHC, Inc.

** Refer to Note 1 to the accompanying financial statements, FPP is an operational division of NUMC.

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)

Combining Statement of Revenues, Expenses and Changes in Net Assets (Deficiency)

Year Ended December 31, 2011

	NUMC	AHP	Health Centers*	FPP**	NHCC, Ltd.	Foundation	Eliminations	Total
	<i>(In Thousands)</i>							
Operating revenue:								
Net patient service revenue (net of the provision for bad debts)	\$ 369,169	\$ 55,105	\$ 13,709	\$ 21,538	\$ -	\$ -	\$ (9,689)	\$ 449,832
Other operating revenue	38,913	508	14	-	9,294	4,199	(12,750)	40,178
Investment income	1,023	76	11	106	507	7	(500)	1,230
Total operating revenue before other operating items	<u>409,105</u>	<u>55,689</u>	<u>13,734</u>	<u>21,644</u>	<u>9,801</u>	<u>4,206</u>	<u>(22,939)</u>	<u>491,240</u>
Operating expenses:								
Salaries and wages	207,768	31,356	8,874	9,122	-	3,143	-	260,263
Employee benefits	90,170	17,426	3,676	365	-	281	-	111,918
Supplies and other	113,097	13,878	5,297	12,157	10,079	823	(22,439)	132,892
Interest and amortization	8,699	3,384	396	-	-	-	(500)	11,979
Depreciation	17,604	1,343	689	-	-	47	-	19,683
Total operating expenses before other operating items	<u>437,338</u>	<u>67,387</u>	<u>18,932</u>	<u>21,644</u>	<u>10,079</u>	<u>4,294</u>	<u>(22,939)</u>	<u>536,735</u>
Deficiency of operating revenue over operating expenses before other operating items	(28,233)	(11,698)	(5,198)	-	(278)	(88)	-	(45,495)
Other operating items:								
Employee benefits expense (unfunded portion of postemployment benefits other than pensions)	(42,087)	(9,016)	(1,651)	-	-	-	-	(52,754)
Change in fair value of derivative instruments	(14,198)	(4,413)	(575)	-	-	-	-	(19,186)
Amortization of deferred loss on refunding (interest expense)	(1,686)	(524)	(68)	-	-	-	-	(2,278)
Changes to Medicaid eligibility estimates within net accounts receivable and other accounts receivable estimation changes	(24,000)	(1,000)	-	(2,000)	-	-	-	(27,000)
Deficiency of operating revenue over operating expenses	<u>(110,204)</u>	<u>(26,651)</u>	<u>(7,492)</u>	<u>(2,000)</u>	<u>(278)</u>	<u>(88)</u>	<u>-</u>	<u>(146,713)</u>
Grants for capital asset acquisitions	944	-	-	-	-	-	-	944
Decrease in net assets (deficiency)	(109,260)	(26,651)	(7,492)	(2,000)	(278)	(88)	-	(145,769)
Net assets (deficiency), beginning of year	(113,982)	(18,193)	(27,329)	8,920	(2,679)	3,642	(13,620)	(163,241)
Net assets (deficiency), end of year	<u>\$ (223,242)</u>	<u>\$ (44,844)</u>	<u>\$ (34,821)</u>	<u>\$ 6,920</u>	<u>\$ (2,957)</u>	<u>\$ 3,554</u>	<u>\$ (13,620)</u>	<u>\$ (309,010)</u>

* Refer to Note 1 to the accompanying financial statements, the Health Centers column represents NHCC's activities with Long Island FQHC, Inc.

** Refer to Note 1 to the accompanying financial statements, FPP is an operational division of NUMC.

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)

Combining Statement of Revenues, Expenses and Changes in Net Assets (Deficiency)

Year Ended December 31, 2010

	NUMC	AHP	Health Centers*	FPP**	NHCC, Ltd.	Foundation	Eliminations	Total
	<i>(In Thousands)</i>							
Operating revenue:								
Net patient service revenue (net of the provision for bad debts)	\$ 375,297	\$ 71,908	\$ 14,343	\$ 23,237	\$ –	\$ –	\$ (11,918)	\$ 472,867
Other operating revenue	44,177	832	50	–	9,235	3,441	(11,030)	46,705
Investment income	280	107	15	108	515	11	(500)	536
Total operating revenue before other operating items	419,754	72,847	14,408	23,345	9,750	3,452	(23,448)	520,108
Operating expenses:								
Salaries and wages	207,437	30,656	8,609	8,613	–	2,254	–	257,569
Employee benefits	76,907	14,499	3,108	338	–	204	–	95,056
Supplies and other	117,418	14,281	3,260	14,394	9,365	800	(22,948)	136,570
Interest and amortization	8,134	3,541	371	–	–	–	(500)	11,546
Depreciation	16,835	1,432	396	–	–	58	–	18,721
Total operating expenses before other operating items	426,731	64,409	15,744	23,345	9,365	3,316	(23,448)	519,462
(Deficiency) excess of operating revenue over operating expenses before other operating items	(6,977)	8,438	(1,336)	–	385	136	–	646
Other operating items:								
Employee benefits expense (unfunded portion of postemployment benefits other than pensions)	(33,974)	(7,278)	(1,333)	–	–	–	–	(42,585)
Change in fair value of derivative instruments	(5,741)	(1,784)	(233)	–	–	–	–	(7,758)
Amortization of deferred loss on refunding (interest expense)	(1,707)	(525)	(69)	–	–	–	–	(2,301)
(Deficiency) excess of operating revenue over operating expenses	(48,399)	(1,149)	(2,971)	–	385	136	–	(51,998)
Grants for capital asset acquisitions	13,794	–	–	–	–	–	–	13,794
(Decrease) increase in net assets (deficiency)	(34,605)	(1,149)	(2,971)	–	385	136	–	(38,204)
Net assets (deficiency), beginning of year	(79,377)	(17,044)	(24,358)	8,920	(3,064)	3,506	(13,620)	(125,037)
Net assets (deficiency), end of year	\$ (113,982)	\$ (18,193)	\$ (27,329)	\$ 8,920	\$ (2,679)	\$ 3,642	\$ (13,620)	\$ (163,241)

* Refer to Note 1 to the accompanying financial statements, the Health Centers column represents NHCC's activities with Long Island FQHC, Inc.

** Refer to Note 1 to the accompanying financial statements, FPP is an operational division of NUMC.

Ernst & Young LLP

Assurance | Tax | Transactions | Advisory

About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 152,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

For more information, please visit www.ey.com.

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. This Report has been prepared by Ernst & Young LLP, a client serving member firm located in the United States.

