

FINANCIAL STATEMENTS

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)
Years Ended December 31, 2012 and 2011
With Reports of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

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

Financial Statements

Years Ended December 31, 2012 and 2011

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Report of Independent Auditors

The Board of Directors
Nassau Health Care Corporation and Subsidiaries

Report on Financial Statements

We have audited the accompanying basic financial statements of Nassau Health Care Corporation and Subsidiaries (component unit of Nassau County) (the Corporation), as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nassau Health Care Corporation and Subsidiaries as of December 31, 2012 and 2011, 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.

Required Supplementary Information

U.S. generally accepted accounting principles require that the accompanying management's discussion and analysis on pages 4 through 9 and the schedule of funding progress for the postemployment retiree healthcare plan on page 47 be 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 which 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.

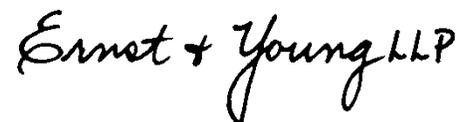
Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Corporation's basic financial statements. The accompanying combining statements of net position as of December 31, 2012 and 2011 and combining statements of revenue, expenses and changes in net position 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audits 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the combining statements of net position as of December 31, 2012 and 2011 and combining statements of revenue, expenses and changes in net position for the years then ended are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated June 27, 2013 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* in considering the Corporation's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads 'Ernst & Young LLP'.

June 27, 2013

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

Management's Discussion and Analysis

Years Ended December 31, 2012 and 2011

This Management's Discussion and Analysis (MD&A) of Nassau Health Care Corporation and Subsidiaries (the Corporation) provides an introduction to the basic financial statements for the year ended December 31, 2012, with selected comparative information for the years ended December 31, 2011 and 2010. Management prepared this MD&A, which should be read in conjunction with the Corporation's financial statements, the notes and the required supplementary information.

Basic Financial Statements

This annual financial report consists of four parts: Management's Discussion and Analysis (this section), the basic financial statements, required supplementary information and supplementary information. 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. Enterprise fund statements offer short- and long-term financial information about the activities and operations of the Corporation. The Corporation operates in a manner similar to a private business.

Financial Position Summary

The statements of net position depict the Corporation's financial position at December 31, the end of the Corporation's fiscal year. Net position represents the Corporation's residual interest after liabilities and deferred inflows of resources are deducted from assets and deferred outflows of resources. Net position is displayed in three components: net investment in capital assets, restricted and unrestricted.

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

Management's Discussion and Analysis (continued)

Condensed Financial Information

A condensed summary of the Corporation's total net position at December 31, 2012, 2011 and 2010 is set forth below (in thousands):

	2012	2011	2010
Assets:			
Capital assets	\$ 178,063	\$ 183,428	\$ 176,550
Other assets	217,925	201,132	285,191
Total assets	395,988	384,560	461,741
Liabilities:			
Long-term liabilities outstanding	553,644	524,225	466,313
Other liabilities	195,966	169,345	158,669
Total liabilities	749,610	693,570	624,982
Net position:			
Net investment in capital assets	\$ 95,063	\$ 100,428	\$ 93,550
Restricted	2,066	1,851	1,964
Unrestricted (deficit)	(450,751)	(411,289)	(258,755)
Total net position	\$ (353,622)	\$ (309,010)	\$ (163,241)

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 position for the years ended December 31, 2012, 2011 and 2010 (in thousands):

	2012	2011	2010
Operating revenue:			
Net patient service revenue (net of the provision for bad debts of \$40,465 in 2012, \$40,394 in 2011 and \$43,873 in 2010)	\$ 484,655	\$ 449,832	\$ 472,867
Other operating revenue	32,356	40,178	46,705
Investment income	534	1,230	536
Total operating revenue before other operating items	<u>517,545</u>	<u>491,240</u>	<u>520,108</u>
Operating expenses:			
Salaries and wages	240,352	260,263	257,569
Employee benefits	114,937	111,918	95,056
Supplies and other	132,620	132,892	136,570
Interest and amortization	11,946	11,979	11,546
Depreciation	20,216	19,683	18,721
Total operating expenses before other operating items	<u>520,071</u>	<u>536,735</u>	<u>519,462</u>
(Deficiency) excess of operating revenue over operating expenses before other operating items	(2,526)	(45,495)	646
Other operating items:			
Employee benefits expense (unfunded postemployment benefits other than pensions)	(33,609)	(52,754)	(42,585)
Change in fair value of derivative instruments	1,045	(19,186)	(7,758)
Amortization of deferred loss on refunding (interest expense)	(2,257)	(2,278)	(2,301)
Changes to Medicaid eligibility estimates within net accounts receivable and other accounts receivable estimation changes	(10,000)	(27,000)	-
Deficiency of operating revenue over operating expenses	<u>(47,347)</u>	<u>(146,713)</u>	<u>(51,998)</u>
Grants for capital asset acquisitions	2,735	944	13,794
Change in net position	(44,612)	(145,769)	(38,204)
Net position, beginning of year	(309,010)	(163,241)	(125,037)
Net position, end of year	<u>\$ (353,622)</u>	<u>\$ (309,010)</u>	<u>\$ (163,241)</u>

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 of operating revenue over operating expenses before other operating items decreased by \$42,969 from 2011 to 2012. (Deficiency) excess of operating revenue over operating expenses before other operating items changed negatively by \$46,141 from 2010 to 2011.
- Net patient service revenue increased by \$34,823, or 7.7% from 2011 to 2012. Net patient service revenue decreased by \$23,035, or 4.9% from 2010 to 2011.
- Other operating revenue decreased by \$7,822, or 19.5% from 2011 to 2012. Other operating revenue decreased by \$6,527, or 14.0% from 2010 to 2011.
- Salaries and wages decreased by \$19,911 or 7.7% from 2011 to 2012. Salaries and wages increased by \$2,694 or 1.0% from 2010 to 2011.
- Employee benefits increased by \$3,019, or 2.7% from 2012 to 2011. Employee benefits increased by \$16,862, or 17.7% from 2010 to 2011.
- Employee benefits expense (unfunded portion of postemployment benefits other than pensions) decreased net position by \$33,609, \$52,754 and \$42,585 in 2012, 2011 and 2010, respectively.
- Grants for capital asset acquisitions changed net position by \$2,735, \$944 and \$13,794 in 2012, 2011 and 2010, respectively.
- Total net position changed negatively by \$44,612 or 14.4% of net position at the beginning of the year during 2012. Total net position changed negatively by \$145,769 or 89.3% of net position at the beginning of the year during 2011.

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

Management's Discussion and Analysis (continued)

Operating Activities

General

For the year ended December 31, 2012, the deficiency of operating revenue over operating expenses before other operating items decreased by \$42,969 from the prior year. For the year ended December 31, 2011, the (deficiency) excess of operating revenue over operating expenses before other operating items changed negatively by \$46,141 from the prior year.

Net Patient Service Revenue

Total net patient service revenue of \$484,655 for the year ended December 31, 2012 increased \$34,823 (7.7%) from the prior year. Total net patient service revenue of \$449,832 for the year ended December 31, 2011 decreased \$23,035 (4.9%) from the prior year. Net patient service revenue increased in 2012 due to an acceleration of intergovernmental transfers and an increase in contractual rates with third-party insurance companies and decreased in 2011 primarily as a result of the reduction in New York State reimbursement rates.

Other Operating Revenue

Other operating revenue of \$32,356 for the year ended December 31, 2012 decreased \$7,822 (19.5%) from the prior year. Other operating revenue of \$40,178 for the year ended December 31, 2011 decreased \$6,527 (14.0%) from the prior year. The decreases in both years consist primarily of the reduction of services provided to the Nassau County Correctional Facility, effective June 1, 2011.

Expenses

Total operating expenses before other operating items (including interest, amortization, and depreciation) of \$520,071 for the year ended December 31, 2012 decreased (3.1%) from the prior year. 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.

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

Management's Discussion and Analysis (continued)

Operating Activities (continued)

Salaries and wages of \$240,352 decreased \$19,911 (7.7%) from 2011 to 2012. Salaries and wages of \$260,263 increased \$2,694 (1.0%) from 2010 to 2011. The 2012 decrease is primarily due to a reduction in full-time equivalent employees.

Employee benefits of \$114,937 increased \$3,019 (2.7%) from 2011 to 2012. Employee benefits of \$111,918 increased \$16,862 (17.7%) from 2010 to 2011. The increase is attributable mostly to an increase in pension and health insurance offset by the reduction in full-time equivalent employees.

The Corporation recorded unfunded postemployment benefit expense of \$33,609, \$52,754 and \$42,585 in 2012, 2011 and 2010, 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.

Capital Assets

During 2012, the Corporation purchased \$14,851 in capital assets and incurred \$20,216 in depreciation expense. In 2012, the Corporation received \$2,735 of grants, which are restricted for capital projects.

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.

Debt

During 2012 and 2011, the Corporation made principal and interest payments on its outstanding bonds of approximately \$12,748 and \$10,509, 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)

Statements of Net Position

	December 31	
	2012	2011
	<i>(In Thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 16,978	\$ 6,962
Cash and cash equivalents – restricted, current portion	27,141	16,844
Patient accounts receivable – less estimated allowances and uncollectibles of \$220,881 in 2012 and \$239,115 in 2011	72,117	85,713
Inventories	5,757	5,357
Prepaid expenses	1,928	2,514
Other receivables	20,464	12,119
Due from third-party payers	20,703	13,040
Due from County of Nassau – net	12,700	12,509
Total current assets	<u>177,788</u>	<u>155,058</u>
Noncurrent assets:		
Cash and cash equivalents – restricted, net of current portion	17,779	28,467
Capital assets – net (depreciable)	165,565	170,930
Capital assets (non-depreciable)	12,498	12,498
Deferred bond issuance costs	1,006	1,117
Other assets	21,352	16,490
Total noncurrent assets	<u>218,200</u>	<u>229,502</u>
Total assets	<u>395,988</u>	<u>384,560</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	57,318	42,162
Accrued salaries, wages, and payroll taxes	20,372	20,824
Accrued vacation and sick pay	48,248	45,791
Accrued pension benefits	38,371	26,467
Accrued interest payable	1,238	1,281
Due to third-party payers	21,559	23,505
Current portion of professional and other insurance liabilities	4,500	4,500
Current portion of long-term debt	4,360	4,815
Total current liabilities	<u>195,966</u>	<u>169,345</u>
Noncurrent liabilities:		
Long-term debt	225,141	227,340
Professional and other insurance liabilities	37,468	38,414
Postemployment benefits other than pensions	247,539	213,930
Derivative instruments	43,496	44,541
Total noncurrent liabilities	<u>553,644</u>	<u>524,225</u>
Total liabilities	<u>749,610</u>	<u>693,570</u>
Net position		
Net investment in capital assets	95,063	100,428
Restricted	2,066	1,851
Unrestricted (deficit)	(450,751)	(411,289)
Total net position	<u>\$ (353,622)</u>	<u>\$ (309,010)</u>

See accompanying notes.

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

Statements of Revenues, Expenses
and Changes in Net Position

	Year Ended December 31	
	2012	2011
	<i>(In Thousands)</i>	
Operating revenue:		
Net patient service revenue (net of the provision for bad debts of \$40,465 in 2012 and \$40,394 in 2011)	\$ 484,655	\$ 449,832
Other operating revenue	32,356	40,178
Investment income	534	1,230
Total operating revenue before other operating items	517,545	491,240
Operating expenses:		
Salaries and wages	240,352	260,263
Employee benefits	114,937	111,918
Supplies and other	132,620	132,892
Interest and amortization	11,946	11,979
Depreciation	20,216	19,683
Total operating expenses before other operating items	520,071	536,735
Deficiency of operating revenue over operating expenses before other operating items	(2,526)	(45,495)
Other operating items:		
Employee benefits expense (unfunded portion of postemployment benefits other than pensions)	(33,609)	(52,754)
Change in fair value of derivative instruments	1,045	(19,186)
Amortization of deferred loss on refunding (interest expense)	(2,257)	(2,278)
Changes to Medicaid eligibility estimates within net accounts receivable and other accounts receivable estimation changes	(10,000)	(27,000)
Deficiency of operating revenue over operating expenses	(47,347)	(146,713)
Grants for capital asset acquisitions	2,735	944
Change in net position	(44,612)	(145,769)
Net position, beginning of year	(309,010)	(163,241)
Net position, end of year	\$ (353,622)	\$ (309,010)

See accompanying notes.

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

Statements of Cash Flows

	Year Ended December 31	
	2012	2011
	<i>(In Thousands)</i>	
Cash flows from operating activities		
Cash received from patients and third-party payers	\$ 476,862	\$ 417,587
Cash received from other operating revenue	21,463	65,494
Cash paid to employees	(341,380)	(362,842)
Cash paid to suppliers	(118,415)	(130,824)
Net cash provided by (used in) operating activities	<u>38,530</u>	<u>(10,585)</u>
Cash flows from noncapital and related financing activities		
Cash paid for interest	(7,933)	(8,071)
Payment of debt	(4,815)	(2,438)
Proceeds from Revenue Anticipation Notes	40,000	55,700
Payment of Revenue Anticipation Notes	(40,000)	(55,700)
Net cash used in noncapital and related financing activities	<u>(12,748)</u>	<u>(10,509)</u>
Cash flows from capital and related financing activities		
Purchases of capital assets	(14,851)	(26,723)
Cash paid for interest, net of amounts capitalized	(4,041)	(4,112)
Grants for capital asset acquisitions and retirement of long-term debt	2,735	944
Net cash used in capital and related financing activities	<u>(16,157)</u>	<u>(29,891)</u>
Cash flows from investing activities		
Net change in restricted cash and cash equivalents	391	53,579
Net cash provided by investing activities	<u>391</u>	<u>53,579</u>
Net increase in cash and cash equivalents	10,016	2,594
Cash and cash equivalents, beginning of year	6,962	4,368
Cash and cash equivalents, end of year	<u>\$ 16,978</u>	<u>\$ 6,962</u>
Reconciliation of deficiency of operating revenue over operating expenses to net cash provided by (used in) operating activities		
Deficiency of operating revenue over operating expenses	\$ (47,347)	\$ (146,713)
Interest paid, net of amounts capitalized	11,974	12,183
Depreciation	20,216	19,683
Amortization, including refunding loss	2,272	2,251
Change in fair value of derivative instruments	(1,045)	19,186
Changes in operating assets and liabilities:		
Patient accounts receivable	13,596	17,971
Accounts payable and accrued expenses, accrued salaries, wages and payroll taxes and accrued vacation and sick pay	17,118	2,562
Due from County of Nassau – net	(191)	(764)
Due to/from third-party payers – net	(9,609)	(8,231)
Professional and other insurance liabilities	(946)	2,414
Postemployment benefits other than pensions	33,609	52,754
Net change in all other operating assets and liabilities	(1,117)	16,119
Net cash provided by (used in) operating activities	<u>\$ 38,530</u>	<u>\$ (10,585)</u>

See accompanying notes.

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

Notes to Financial Statements

December 31, 2012
(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. The members of the Board of Directors of NHCC are automatically members of the NHCF Board of Directors. 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’s tax exempt status was revoked in 2012 for the failure to file required documentation. A letter requesting the retroactive reinstatement of NewCo’s 501(c)(3) status was submitted to Internal Revenue Service in April 2013. 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

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

Notes to Financial Statements (continued)

(In Thousands)

1. Organization (continued)

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 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 NYSDOH to acquire this membership interest. NYSDOH 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

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

Notes to Financial Statements (continued)

(In Thousands)

1. Organization (continued)

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 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, 2012 and 2011, the Corporation had a deficit in its total net position of (\$353,622) and (\$309,010), respectively. The deficit arose from operating losses and the postemployment benefits other than pension liability (see Note 9). The Corporation is continuously striving to improve its net 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, rightsizing of personnel 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 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, build information technology interfaces with the North Shore-LIJ Health System to facilitate clinical integration and to pay down approximately \$9,000 of debt. At December 31, 2012, the Corporation recorded a \$4,800 receivable related to the HEAL NY grant.

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 based on the pronouncements of the Governmental Accounting Standards Board ("GASB").

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)

Net Position

Net position of the Corporation is composed of three components. *Net investment in capital assets* consists 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* consists of noncapital resources that must be used for a particular purpose, as specified by contributors external to the Corporation, such as contributions with donor-imposed stipulations that either expire by the passage of time or actions by the Corporation pursuant to those stipulations. *Unrestricted* are remaining resources that are available to meet any of the Corporation's ongoing obligations that do not meet the definition of previous net position components. The Corporation had a deficit in unrestricted net position at December 31, 2012 and 2011.

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 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

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)

are paid based on a statewide prospective system that was effective December 1, 2008. Medicaid rate methodologies are subject to approval at the Federal level by the Centers for Medicare and Medicaid Services (“CMS”), which may routinely request information about such methodologies prior to approval. Revenue related to specific rate components that have not been approved by CMS is not recognized until the 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 2007. 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 accompanying 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 was increased by approximately \$2,500 and decreased by approximately \$2,600 for the years ended December 31, 2012 and 2011, 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)

In addition, in April 2012 CMS settled a series of lawsuits filed in 2007 that challenged the calculation involving the use of the rural floor provision of the Balanced Budget Act of 1997. The Corporation participated in this lawsuit and as a result received a cash settlement of approximately \$2,540 from Medicare for fiscal years 2004 through 2011, which increased net patient service revenue for the year ended December 31, 2012. Fees associated with participating in this lawsuit were approximately \$645 and increased administrative and other general services for the year ended December 31, 2012.

Additionally, the Corporation routinely reevaluates the estimates that it has established in relation to collections expected to be received for patient accounts receivable. The process of gaining approval of a patient's Medicaid eligibility creates a significant timing delay in the accounts receivable collection process and requires projections of collectable balances. The Corporation develops estimated collection projections based on the most recently available information at the time of preparing the financial statements. During 2012 and 2011, significant backlogs of patients pending Medicaid approval were resolved unfavorably in relation to historical approval levels for similar patients. Based on information available to the Corporation related to accounts which were determined to be ineligible for Medicaid and other accounts for which the collection status is uncertain, the Corporation reduced its estimates for net patient accounts receivable by approximately \$10,000 and \$17,000 at December 31, 2012 and 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 within other operating items in the accompanying statements of revenues, expenses and changes in net position. The estimates related to patient accounts receivable and the Medicaid approval processes are complex due to the volume of patient activity and the documentation requirements, which are subject to interpretation. Such estimates are continually updated and adjustments to the estimates will be recorded in future periods as amounts become known. As a result, there is at least a reasonable possibility that the recorded estimates will change by a material amount in the near term.

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 \$15,600 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.

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)

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 \$74,297 in 2012 and \$58,866 in 2011. The estimated cost of charity care, estimated using a ratio of cost to gross charges, totaled \$45,835 and \$44,605 in 2012 and 2011, respectively.

Electronic Health Records Incentive Payments

The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act ("HITECH"). The provisions were designed to increase the use of electronic health record ("EHR") technology and establish the requirements for a Medicare and Medicaid incentive payment program beginning in 2011 for eligible providers that adopt and meaningfully use certified EHR technology. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. Initial Medicaid incentive payments are available to providers that adopt, implement or upgrade certified EHR technology. In subsequent years, providers must demonstrate meaningful use of such technology to qualify for additional Medicaid incentive payments. Hospitals that do not successfully demonstrate meaningful use of EHR technology are subject to payment penalties or downward adjustments to their Medicare payments beginning in federal fiscal year 2015.

The Corporation uses a grant accounting model to recognize revenue for the Medicare and Medicaid EHR incentive payments. Under this accounting policy, EHR incentive payment revenue is recognized when the Corporation is reasonably assured that the EHR meaningful use criteria for the required period of time were met and that the grant revenue will be received. EHR incentive payment revenue totaling approximately \$8,400 and \$1,700 for the years ended December 31, 2012 and 2011, respectively, is included in net patient service revenue in the accompanying statements of revenues, expenses and changes in net position. Income from Medicare incentive payments will be subject to retrospective adjustment upon final settlement of the applicable cost report from which payments are calculated. Additionally, the Corporation's attestation of compliance with the meaningful use criteria is subject to audit by the federal government.

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 2012 was approximately \$69,860, which was recognized in net patient service revenue. The Corporation received IGT payments of approximately \$64,580 in 2012 and has recorded an IGT receivable of approximately \$9,893 within other receivables as of December 31, 2012. The amount of IGT revenue recognized by the Corporation in 2012 specific to AHP, approximately \$8,087, 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 statewide UPL to be approximately \$172,500 based upon the latest information available and communicated to it; however, there is at least a reasonable possibility that the recorded AHP IGT amount based on the UPL estimate will change by a material amount.

The IGT amount recorded in 2011 was approximately \$67,312, 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.

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 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).

The significant concentrations of accounts receivable for services to patients at December 31, 2012 and 2011 are as follows:

	2012	2011
Medicare	22%	18%
Medicaid	26	27
Commercial	20	20
Commercial HMO	10	10
Medicare HMO	3	3
Medicaid HMO	4	5
Other	15	17
	100%	100%

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

	Year Ended December 31	
	2012	2011
Services provided to patients (net of contractual allowances of approximately \$538,473 in 2012 and \$449,427 in 2011)	\$ 434,992	\$ 411,559
Intergovernmental transfer – Federal	56,860	54,312
Intergovernmental transfer – County	13,000	13,000
Article VI health center subsidies – County	5,000	5,000
Federal and state grants	15,268	6,355
Provision for bad debts	(40,465)	(40,394)
	\$ 484,655	\$ 449,832

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 the years ended December 31, 2012 and 2011, revenue from the Medicaid and Medicare programs accounted for approximately 77% and 76%, 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)

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 the years ended December 31, 2012 and 2011, revenue from the Medicaid and Medicare programs accounted for approximately 77% and 76%, respectively, of net revenue for services provided to patients.

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 using 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.

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)

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 statements of net position and is amortized over the life of the debt using the effective interest method.

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.

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)

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 position (see Note 5).

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, 2012 and 2011, the Corporation recorded its equity in the income of the LLC of \$4,973 and \$4,813, respectively.

Statements of Revenues, Expenses and Changes in Net Position

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	
	2012	2011
Health care services	\$ 471,144	\$ 485,730
General and administrative	48,927	51,005
	<u>\$ 520,071</u>	<u>\$ 536,735</u>

Reclassifications

Certain reclassifications have been made to 2011 balances previously reported to conform to the 2012 presentation.

Grants and Subsidies

Grants that represent deficit financing of specific patient-related programs are recorded as net patient service revenue (\$15,268 and \$6,355 in 2012 and 2011, respectively). Grants for specific operating purposes are recorded as other operating revenue in the period in which qualified expenditures are made. 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 position.

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 is required to adopt GASB No. 61 in 2013; however, it 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 are reported in a statement of financial position in a separate section following assets. Similarly, amounts to be reported as deferred inflows of resources are reported in a separate section following liabilities. The statement of net position reports 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 in 2012 did not affect the results of operations or cash flows; however, certain changes to the presentation of the financial statements were made to reflect the requirements of GASB No. 63.

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 (see Note 8; the Corporation participates in certain cost-sharing, multiemployer defined benefit plans). 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, 2012 and 2011, consist of the following:

	2012	2011
Cash and cash equivalents	\$ 42,174	\$ 42,464
Certificates of deposit	1,686	1,587
Mutual funds – U.S. securities	11	10
U.S. Treasury bills	1,049	1,250
Total	\$ 44,920	\$ 45,311

Investment income on cash and cash equivalents and restricted cash and cash equivalents consists of interest and dividend income of \$534 and \$1,230 for the years ended December 31, 2012 and 2011, respectively.

4. Capital Assets

Capital asset activity for the year ended December 31, 2012 is as follows:

	December 31, 2012				
	Beginning Balance	Additions	Write-offs and Disposals	Transfers	Ending Balance
Land (non-depreciable)	\$ 12,498	\$ –	\$ –	\$ –	\$ 12,498
Land improvements	12,676	40	–	1,817	14,533
Buildings and improvements	218,382	528	–	5,594	224,504
Fixed equipment	108,778	1,240	–	–	110,018
Movable equipment	154,054	2,832	(489)	1,664	158,061
Construction-in-progress	11,774	10,211	–	(9,075)	12,910
	518,162	14,851	(489)	–	532,524
Less accumulated depreciation	334,734	20,216	(489)	–	354,461
Total	\$ 183,428	\$ (5,365)	\$ –	\$ –	\$ 178,063

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, 2011 was 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

The Corporation wrote off approximately \$489 and \$29,545 of fully depreciated assets in 2012 and 2011, respectively. Net interest capitalized for the years ended December 31, 2012 and 2011 was approximately \$534 and \$1,559, 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, 2012 and 2011 consists of the following:

	December 31	
	2012	2011
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%	\$ 4,997	\$ 9,812
2009 Series A (taxable) 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 4.86% and 4.61% in 2012 and 2011, respectively	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 3.71% and 3.46% in 2012 and 2011, respectively	220,840	220,840
	251,832	256,647
Deferred loss on refunding	(22,396)	(24,653)
Net unamortized bond premium	65	161
Current portion	(4,360)	(4,815)
	\$ 225,141	\$ 227,340

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.

In April 2009, Series 2009 A (taxable), B, C and D Bonds were issued as variable rate demand bonds ("VRDBs") secured by 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 May 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 over various long-term

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

Notes to Financial Statements (continued)

(In Thousands)

5. Long-term Debt (continued)

periods as stipulated in each LOC 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 \$2,257 and \$2,278 for the years ended December 31, 2012 and 2011, respectively.

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

Initially 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.

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

Notes to Financial Statements (continued)

(In Thousands)

5. Long-term Debt (continued)

The Corporation also initially 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 was 4.61% and the variable rate received was based on LIBOR. The swap agreement was in place for the Series 2009 Bonds and expired 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 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 \$43,496 and \$44,541 at December 31, 2012 and 2011, respectively.

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, 2012 are as follows:

	Principal	Estimated Interest
2013	\$ 4,360	\$ 9,700
2014	4,522	9,484
2015	13,005	9,261
2016	13,545	8,754
2017	14,115	8,226
2018 to 2022	80,185	32,370
2023 to 2027	85,075	16,479
2028 to 2031	37,025	2,067
	\$ 251,832	\$ 96,341

In February 2012, the Corporation issued \$40,000 of taxable 2012 Revenue Anticipation Notes (“2012 RANs”) that were due in December 2012 and secured by scheduled IGT payments. The 2012 RANs were repaid in full in December 2012.

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 position, and represent transactions that occurred between the County and the Corporation during the years ended December 31, 2012 and 2011:

	2012	2011
Revenue earned from the County:		
Patient care	\$ 2,190	\$ 5,525
Space charges	1,156	1,325
Non-patient care	6,957	14,282
Health insurance for retiree charges	10,241	9,263
Intergovernmental transfer – County	13,000	13,000
Article VI health center subsidies	5,000	5,000
	38,544	48,395
County pass-through transactions:		
Amounts paid on behalf of the County	2,522	2,193
State aid and other amounts collected by the County	1,329	1,370
Total transactions with the County	\$ 42,395	\$ 51,958

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 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 NYSRSSL, 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 NYSRSSL, 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 years ended December 31, 2012 and 2011 was approximately \$30,258 and \$30,379, respectively. The Corporation did not pay any contributions to the Retirement Systems in 2010. For the years ended December 31, 2012, 2011, and 2010 pension expense was approximately \$36,930, \$32,024, and \$23,108, respectively. The Corporation's accompanying financial statements reflect the cash contributions and expense above. As described in Note 2, beginning in January 2015, the Corporation will be required to record a liability and expense equal to its proportionate share of the collective net liability and expense for the cost-sharing plans.

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, 2012, 2011 and 2010, expenses related to health insurance benefits totaled approximately \$54,736 and \$56,847, \$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 \$4,548 and \$5,602 for the years ended December 31, 2012 and 2011, 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)

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.

The NYSHIP plan's annual OPEB cost and the related information at December 31, 2012 and 2011 are as follows:

	2012	2011
Annual required contribution	\$ 39,044	\$ 61,113
Interest on net OPEB obligation	9,092	6,850
Adjustment to ARC	(8,239)	(9,607)
Contributions made (reported in operating expenses)	(6,288)	(5,602)
Increase in net OPEB obligation (reported as other operating item)	33,609	52,754
Net OPEB obligation – beginning of year	213,930	161,176
Net OPEB obligation – end of year	\$ 247,539	\$ 213,930

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, 2012	\$ 39,897	15.8%	\$ 247,539
December 31, 2011	58,356	9.6	213,930
December 31, 2010	46,476	8.4	161,176

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)

As of December 31, 2012 and 2011, the actuarial accrued liability for benefits was \$345,319 and \$419,616, respectively, all of which was unfunded. As of December 31, 2012 and 2011, the covered payroll (annual payroll of active employees covered by the NYSHIP plan) was \$165,071 and \$165,128, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 209.2% and 254.1%, respectively.

The actuarial valuation date is January 1, 2012. 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.

The 2012 actuarial valuation reflects changes to certain assumptions utilized in the 2011 and prior actuarial valuations. These assumption changes included revisions to health care trend rates, mortality rates, participation rates, retirement rates and other assumptions, from rates which were generally applicable to the County and/or the New York State and Local Employees' Retirement System, to rates more reflective of Corporation-specific experience. These assumption changes, along with other actuarial experience during 2012, resulted in a decrease in the unfunded actuarial liability of approximately \$74,000.

For the December 31, 2012 and 2011 actuarial valuations, the projected unit credit cost method was used. The actuarial assumptions included a 4.25% discount rate in 2012 and 2011 and an annual health care cost trend rate of 8.00% in 2012 and 2011 and grading down to an ultimate rate of 5%. The unfunded actuarial accrued liability is being amortized over a rolling 30-year period, as a level percentage of payroll.

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

Notes to Financial Statements (continued)

(In Thousands)

10. Professional and Other Insurance Liabilities

For the policy years ended (or ending) September 29, 2008 to 2013, 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. An excess buffer limit of \$3,000 per person/\$3,000 in the aggregate was introduced above the \$7,000 per person primary limit on the hospital professional policy for the September 29, 2012 renewal. 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.

In 2006, the Captive loaned the Corporation \$10,000. The loan is re-payable on demand and has been renewed until December 31, 2013. The loan bears interest at a rate of 5% per annum, payable semiannually. At December 31, 2012, 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, 2013. The loan bears interest at a rate of 4% per annum and is payable semiannually. At December 31, 2012, the full loan amount of \$20,000 remains outstanding.

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, non-interest 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, 2012 and 2011 the Captive was in compliance with its minimum capital requirement.

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)

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

	2012	2011	2010
Balance at beginning of year	\$ 42,914	\$ 40,500	\$ 37,000
Incurred related to:			
Current year	8,648	10,859	10,525
Prior years	(892)	(967)	(1,378)
Total incurred	7,756	9,892	9,147
Paid relating to:			
Current year	499	715	702
Prior years	8,203	6,763	4,945
Total paid	8,702	7,478	5,647
Balance at end of year	\$ 41,968	\$ 42,914	\$ 40,500

Losses and loss adjustment expenses for incurred claims for prior years reflect changes in estimates of the ultimate settlement of such losses. In 2012 and 2011, 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% at December 31, 2012 and 2011.

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, 2012 and 2011, insurance expense totaled \$11,526 and \$12,436, respectively.

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

Notes to Financial Statements (continued)

(In Thousands)

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 \$898 and \$1,130 in 2012 and 2011, respectively, and is included in supplies and other expenses in the accompanying statements of revenues, expenses and changes in net position.

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

Year ending December 31:	
2013	\$ 823
2014	843
2015	868
2016	894
2017	921
Thereafter	2,931
	<u>\$ 7,280</u>

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 negotiated a new contract that was ratified in February 2013, effective January 1, 2010. The contract contains no retroactive adjustments to years prior to 2013.

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.

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

Notes to Financial Statements (continued)

(In Thousands)

11. Commitments and Contingencies (continued)

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.

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 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 Corporation’s Board of Directors continues to assess all feasible options to replace or downsize the current AHP facility. The ultimate effect of these matters on the Corporation’s financial statements cannot be estimated presently.

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

Notes to Financial Statements (continued)

(In Thousands)

12. Other Operating Revenue

Other operating revenue consists of the following:

	Year Ended December 31	
	2012	2011
Other non-patient related County billings	\$ 17,426	\$ 24,661
Medical staff housing	1,444	1,442
Equity in investment in LLC	4,973	4,813
Cafeteria	358	396
Rotating residents	1,117	838
Parking	37	183
Clerkship fees	1,988	1,186
Anesthesia staffing reimbursement	2,776	4,636
Other miscellaneous revenue	2,237	2,023
	\$ 32,356	\$ 40,178

13. Long-Term Debt and Other Noncurrent Liabilities

A schedule of changes in the Corporation's long-term debt and noncurrent liabilities for 2012 follows:

	Balance December 31, 2011			Balance December 31, 2012		Amounts Due Within One Year
	Additions	Deductions	2012	2012		
Long-term debt (Note 5):						
2004 Series B Bonds	\$ 9,812	\$ —	\$ (4,815)	\$ 4,997	\$ 2,485	
2009 Series A Bonds	25,995	—	—	25,995	1,875	
2009 Series B-D Bonds	220,840	—	—	220,840	—	
Deferred loss on refunding	(24,653)	—	2,257	(22,396)	—	
Bond premium	161	—	(96)	65	—	
Current portion	(4,815)	—	455	(4,360)	—	
Total long-term debt	227,340	—	(2,199)	225,141	4,360	
Other long-term liabilities:						
Professional and other insurance liabilities (Note 10)	38,414	—	(946)	37,468	—	
Postemployment benefits other than pensions (Note 9)	213,930	33,609	—	247,539	—	
Derivative instruments	44,541	—	(1,045)	43,496	—	
Total noncurrent liabilities	\$ 524,225	\$ 33,609	\$ (4,190)	\$ 553,644	\$ 4,360	

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, 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	230,014	(2,377)	(297)	227,340	4,815
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	\$ 466,313	\$ 71,977	\$ (14,065)	\$ 524,225	\$ 4,815

14. County of Nassau, New York, Financial Situation

The County provides the Corporation historic mission subsidies, Article VI service payments, payments for certain 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 2013, the Corporation issued \$40,000 of taxable 2013 Revenue Anticipation Notes (“2013 RANs”) due in December 2013. The 2013 RANs were issued in anticipation of receipt by the Corporation of Federal IGT payments. The Corporation has pledged its 2013 Federal IGT payments and other New York State payments for the payment of the principal and interest on the 2013 RANs.

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, 2012	–	\$ 345,319	\$ 345,319	0%	\$ 165,071	209.2%
January 1, 2011	–	419,616	419,616	0	165,128	254.1
January 1, 2010	–	374,779	374,779	0	178,943	209.4

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, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Nassau Health Care Corporation and Subsidiaries (component unit of Nassau County) (the Corporation) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated June 27, 2013.

Internal control over financial reporting

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

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

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

Compliance and other matters

As part of obtaining reasonable assurance about whether the 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*.

Purpose of this report

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

Ernst + Young LLP

June 27, 2013

Supplementary Information

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

Combining Statement of Net Position

December 31, 2012

	NUMC	AHP	Health Centers*	FPP**	NHCC, Ltd.	Foundation	Eliminations	Total
<i>(In Thousands)</i>								
Assets								
Current assets:								
Cash and cash equivalents	\$ 12,327	\$ 3,002	\$ 1,649	\$ -	\$ -	\$ -	\$ -	\$ 16,978
Cash and cash equivalents – restricted, current portion	15,954	3,356	690	2,641	4,500	-	-	27,141
Patients accounts receivable, net	55,652	9,666	570	6,229	-	-	-	72,117
Inventories	5,616	141	-	-	-	-	-	5,757
Prepaid expenses	1,680	118	78	-	43	9	-	1,928
Other receivables	9,412	9,893	1,159	-	-	-	-	20,464
Due from third-party payers	12,617	-	8,086	-	-	-	-	20,703
Investment in NHCC, Ltd.	13,620	-	-	-	-	-	(13,620)	-
Due from County of Nassau – net	11,450	-	1,250	-	-	-	-	12,700
Due from other funds – net	-	43,879	-	1,968	27,486	-	(73,333)	-
Total current assets	138,328	70,055	13,482	10,838	32,029	9	(86,953)	177,788
Noncurrent assets:								
Cash and cash equivalents – restricted, net of current portion	-	-	-	-	14,003	3,776	-	17,779
Capital assets – net (depreciable)	142,722	12,070	10,721	-	-	52	-	165,565
Capital assets (non-depreciable)	98	12,400	-	-	-	-	-	12,498
Deferred bond issuance costs	802	169	35	-	-	-	-	1,006
Other assets	21,102	-	250	-	-	-	-	21,352
Total noncurrent assets	164,724	24,639	11,006	-	14,003	3,828	-	218,200
Total assets	303,052	94,694	24,488	10,838	46,032	3,837	(86,953)	395,988
Liabilities								
Current liabilities:								
Accounts payable and accrued expenses	44,270	8,054	4,175	1,277	76	-	(534)	57,318
Accrued salaries, wages and payroll taxes	15,055	2,379	297	2,641	-	-	-	20,372
Accrued vacation and sick pay	34,751	12,074	1,423	-	-	-	-	48,248
Accrued pension benefits	29,960	6,708	1,703	-	-	-	-	38,371
Accrued interest payable	987	208	43	-	-	-	-	1,238
Due to third-party payers	-	21,559	-	-	-	-	-	21,559
Due to other funds – net	29,533	-	37,809	-	-	-	(67,342)	-
Current portion of professional and other insurance liabilities	-	-	-	-	4,500	-	-	4,500
Current portion of long-term debt	3,335	916	109	-	-	-	-	4,360
Total current liabilities	157,891	51,898	45,559	3,918	4,576	-	(67,876)	195,966
Noncurrent liabilities:								
Long-term debt	172,234	47,279	5,628	-	-	-	-	225,141
Professional and other insurance liabilities	-	-	-	-	37,468	-	-	37,468
Postemployment benefits other than pensions	197,486	42,305	7,748	-	-	-	-	247,539
Derivative instruments	34,696	7,299	1,501	-	-	-	-	43,496
Other long-term liabilities	-	-	-	-	5,457	-	(5,457)	-
Total noncurrent liabilities	404,416	96,883	14,877	-	42,925	-	(5,457)	553,644
Total liabilities	562,307	148,781	60,436	3,918	47,501	-	(73,333)	749,610
Net position								
Net investment in capital assets	81,400	2,890	10,721	-	-	52	-	95,063
Restricted	-	-	-	-	-	2,066	-	2,066
Unrestricted (deficit)	(340,655)	(56,977)	(46,669)	6,920	(1,469)	1,719	(13,620)	(450,751)
Total net position	\$ (259,255)	\$ (54,087)	\$ (35,948)	\$ 6,920	\$ (1,469)	\$ 3,837	\$ (13,620)	\$ (353,622)

* 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 Net Position

December 31, 2011

	NUMC	AHP	Health Centers*	FPP**	NHCC, Ltd.	Foundation	Eliminations	Total
<i>(In Thousands)</i>								
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
Noncurrent assets:								
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 noncurrent assets	164,601	24,677	11,675	-	24,998	3,551	-	229,502
Total assets	294,215	96,397	19,206	11,067	46,744	3,554	(86,623)	384,560
Liabilities								
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
Noncurrent liabilities:								
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 noncurrent liabilities	380,119	91,776	13,916	-	45,109	-	(6,695)	524,225
Total liabilities	517,457	141,241	54,027	4,147	49,701	-	(73,003)	693,570
Net position								
Net investment in capital assets	86,050	2,910	11,386	-	-	82	-	100,428
Restricted	-	-	-	-	-	1,851	-	1,851
Unrestricted (deficit)	(309,292)	(47,754)	(46,207)	6,920	(2,957)	1,621	(13,620)	(411,289)
Total net position	\$ (223,242)	\$ (44,844)	\$ (34,821)	\$ 6,920	\$ (2,957)	\$ 3,554	\$ (13,620)	\$ (309,010)

* 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 Position

Year Ended December 31, 2012

	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)	\$ 392,116	\$ 62,455	\$ 18,591	\$ 20,244	\$ -	\$ -	\$ (8,751)	\$ 484,655
Other operating revenue	30,833	586	22	-	8,568	5,335	(12,988)	32,356
Investment income	285	110	15	101	907	16	(900)	534
Total operating revenue before other operating items	423,234	63,151	18,628	20,345	9,475	5,351	(22,639)	517,545
Operating expenses:								
Salaries and wages	190,341	30,343	6,435	9,470	-	3,763	-	240,352
Employee benefits	93,113	17,915	3,105	354	-	450	-	114,937
Supplies and other	113,298	13,638	8,095	10,521	7,987	820	(21,739)	132,620
Interest and amortization	9,193	3,295	358	-	-	-	(900)	11,946
Depreciation	18,328	1,180	673	-	-	35	-	20,216
Total operating expenses before other operating items	424,273	66,371	18,666	20,345	7,987	5,068	(22,639)	520,071
(Deficiency) excess of operating revenue over operating expenses before other operating items	(1,039)	(3,220)	(38)	-	1,488	283	-	(2,526)
Other operating items:								
Employee benefits expense (unfunded portion of postemployment benefits other than pensions)	(26,813)	(5,744)	(1,052)	-	-	-	-	(33,609)
Change in fair value of derivative instruments	774	240	31	-	-	-	-	1,045
Amortization of deferred loss on refunding (interest expense)	(1,670)	(519)	(68)	-	-	-	-	(2,257)
Changes to Medicaid eligibility estimates within net accounts receivable and other accounts receivable estimation changes	(10,000)	-	-	-	-	-	-	(10,000)
(Deficiency) excess of operating revenue over operating expenses	(38,748)	(9,243)	(1,127)	-	1,488	283	-	(47,347)
Grants for capital asset acquisitions	2,735	-	-	-	-	-	-	2,735
Change in net position	(36,013)	(9,243)	(1,127)	-	1,488	283	-	(44,612)
Net position, beginning of year	(223,242)	(44,844)	(34,821)	6,920	(2,957)	3,554	(13,620)	(309,010)
Net position, end of year	\$ (259,255)	\$ (54,087)	\$ (35,948)	\$ 6,920	\$ (1,469)	\$ 3,837	\$ (13,620)	\$ (353,622)

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

Combining Statement of Revenues, Expenses and Changes in Net Position

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	409,105	55,689	13,734	21,644	9,801	4,206	(22,939)	491,240
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	437,338	67,387	18,932	21,644	10,079	4,294	(22,939)	536,735
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	(110,204)	(26,651)	(7,492)	(2,000)	(278)	(88)	–	(146,713)
Grants for capital asset acquisitions	944	–	–	–	–	–	–	944
Change in net position	(109,260)	(26,651)	(7,492)	(2,000)	(278)	(88)	–	(145,769)
Net position, beginning of year	(113,982)	(18,193)	(27,329)	8,920	(2,679)	3,642	(13,620)	(163,241)
Net position, end of year	\$ (223,242)	\$ (44,844)	\$ (34,821)	\$ 6,920	\$ (2,957)	\$ 3,554	\$ (13,620)	\$ (309,010)

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