FINANCIAL STATEMENTS

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)
Year Ended December 31, 2013
With Reports of Independent Auditors

Ernst & Young LLP

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

Financial Statements

Year Ended December 31, 2013

Contents

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Report of Independent Auditors

The Board of Directors
Nassau Health Care Corporation and Subsidiaries

Report on the 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 year ended December 31, 2013, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

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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, 2013, and the changes in their financial position and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Adoption of GASB Statement No. 61, The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34

As discussed in Note 2 to the financial statements, the Corporation restated its financial statements as a result of the adoption of Governmental Accounting Standards Board ("GASB") Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34," effective January 1, 2013. Our opinion is not modified with respect to this matter.

Adoption of GASB Statement No. 65, Items Previously Reported as Assets and Liabilities

As discussed in Note 2 to the financial statements, the Corporation restated its financial statements as a result of the adoption of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities,* effective January 1, 2013. Our opinion is not modified with respect to this matter.

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 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB 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.

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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 statement of net position as of December 31, 2013 and combining statement of revenues, expenses and changes in net position for the year 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 audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 statement of net position as of December 31, 2013 and combining statement of revenues, expenses and changes in net position for the year 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 26, 2014 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.

Ernst & Young LLP

June 26, 2014

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, 2013, with selected information for the year ended December 31, 2012 (as previously reported).

In 2013, the Corporation adopted Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34*, and Statement No. 65, *Items Previously Reported as Assets and Liabilities*, retroactive to January 1, 2013. Amounts included within the MD&A as of and for the year ended December 31, 2012 are as previously reported, prior to the adoption of Statement Nos. 61 and 65. Refer to Note 2 in the accompanying financial statements for additional information regarding the adoption in 2013 of these GASB Statements.

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 statement of net position depicts 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.

Condensed Financial Information

A condensed summary of the Corporation's total net position at December 31, 2013 and 2012 is set forth below (in thousands):

	2013	2012 *(As Previously Reported)*
Assets:		
Capital assets	**$ 188,640**	$ 178,063
Other assets	**198,410**	217,925
Total assets	**387,050**	395,988
Deferred outflows of resources:		
Deferred loss on refunding	**20,183**	–
Liabilities:		
Long-term liabilities outstanding	**589,365**	553,644
Other liabilities	**205,216**	195,966
Total liabilities	**794,581**	749,610
Net position:		
Net investment in capital assets	**93,142**	95,063
Restricted	**2,066**	2,066
Unrestricted (deficit)	**(482,556)**	(450,751)
Total net position	**$ (387,348)**	$ (353,622)

Condensed Financial Information (continued)

The following table represents the revenues, expenses and net position for the years ended December 31, 2013 and 2012 (in thousands):

	2013	2012 *(As Previously Reported)*
Operating revenue:		
Net patient service revenue (net of the provision for bad debts of $44,684 in 2013 and $40,465 in 2012)	**$ 457,581**	$ 484,655
Other operating revenue	**63,119**	32,356
Investment income	**163**	534
Total operating revenue before other operating items	**520,863**	517,545
Operating expenses:		
Salaries and wages	**248,558**	240,352
Employee benefits	**119,257**	114,937
Supplies and other	**141,891**	132,620
Interest and amortization	**10,404**	11,946
Depreciation	**20,189**	20,216
Loss on disposal of capital assets	**2,149**	–
Total operating expenses before other operating items	**542,448**	520,071
Deficiency of operating revenue over operating expenses before other operating items	**(21,585)**	(2,526)
Other operating items:		
Employee benefits expense (unfunded postemployment benefits other than pensions)	**(33,279)**	(33,609)
Change in fair value of derivative instruments	**18,616**	1,045
Amortization of deferred loss on refunding (interest expense)	**(2,214)**	(2,257)
Changes to Medicaid eligibility estimates within net accounts receivable and other accounts receivable estimation changes	**–**	(10,000)
Deficiency of operating revenue over operating expenses	**(38,462)**	(47,347)
Grants for capital asset acquisitions	**13,800**	2,735
Change in net position	**(24,662)**	(44,612)
Net position, beginning of year[1]	**(362,686)**	(309,010)
Net position, end of year	**$ (387,348)**	$ (353,622)

[1] 2013 Net position, beginning of year reflects the adoption of GASB Statements 61 and 65.

Financial Analysis of the Corporation (in thousands of dollars)

Financial Highlights

- Deficiency of operating revenue over operating expenses before other operating items increased by $19,059 from 2012 to 2013.
- Net patient service revenue decreased by $27,074, or 5.6% from 2012 to 2013.
- Other operating revenue increased by $30,763, or 95.1% from 2012 to 2013.
- Salaries and wages increased by $8,206, or 3.4% from 2012 to 2013.
- Employee benefits increased by $4,320, or 3.8% from 2012 to 2013.
- Employee benefits expense (unfunded portion of postemployment benefits other than pensions) decreased net position by $33,279 and $33,609 in 2013 and 2012, respectively.
- Grants for capital asset acquisitions increased net position by $13,800 and $2,735 in 2013 and 2012, respectively.
- Total net position changed negatively by $24,662 or 6.8% of net position at the beginning of the year during 2013 (after the adoption of GASB Statements 61 and 65).

Operating Activities

General

For the year ended December 31, 2013, the deficiency of operating revenue over operating expenses before other operating items increased by $19,059 from the prior year.

Net Patient Service Revenue

Total net patient service revenue of $457,581 for the year ended December 31, 2013 decreased $27,074 (5.6%) from the prior year. Net patient service revenue decreased in 2013 due to patient volume declines and classification differences for Health Centers revenue.

Operating Activities (continued)

Other Operating Revenue

Other operating revenue of $63,119 for the year ended December 31, 2013 increased $30,763 (95.1%) from the prior year. The increase resulted from classification differences for Health Center revenue and growth in State aid.

Expenses

Total operating expenses before other operating items (including interest, amortization, and depreciation) of $542,448 for the year ended December 31, 2013 increased 4.3% from the prior year.

Salaries and wages of $248,558 increased $8,206 (3.4%) from 2012 to 2013. The increase is primarily due to an increase in full-time equivalent employees.

Employee benefits of $119,257 increased $4,320 (3.8%) from 2012 to 2013. The increase is attributable mostly to increased health insurance costs and the increase in full-time equivalent employees.

The Corporation recorded unfunded postemployment benefit expense of $33,279 and $33,609 in 2013 and 2012, 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 2013, the Corporation purchased $32,915 in capital assets and incurred $20,189 in depreciation expense. In 2013, the Corporation received $13,800 of grants which are restricted for capital projects.

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.

Operating Activities (continued)

Debt

During 2013 and 2012, the Corporation made principal and interest payments on its outstanding bonds of approximately $11,400 and $12,748, 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)

Statement of Net Position

December 31, 2013
(*In Thousands*)

Assets		
Current assets:		
Cash and cash equivalents	$	12,837
Cash and cash equivalents – restricted, current portion		31,993
Patient accounts receivable – less estimated allowances and uncollectibles of $192,472		71,881
Inventories		7,287
Prepaid expenses		1,933
Other receivables		29,052
Due from third-party payers		868
Due from County of Nassau – net		4,734
Total current assets		160,585
Noncurrent assets:		
Cash and cash equivalents – restricted, net of current portion		14,087
Capital assets – net (depreciable)		176,142
Capital assets (non-depreciable)		12,498
Other assets		23,738
Total noncurrent assets		226,465
Total assets		387,050
Deferred outflows of resources		
Deferred loss on bond refunding		20,183
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses		48,949
Accrued salaries, wages, and payroll taxes		20,343
Accrued vacation and sick pay		52,856
Accrued pension benefits		47,756
Accrued interest payable		1,065
Due to third-party payers		20,566
Current portion of professional and other insurance liabilities		9,159
Current portion of long-term debt		4,522
Total current liabilities		205,216
Noncurrent liabilities:		
Long-term debt		242,966
Professional and other insurance liabilities		39,486
Postemployment benefits other than pensions		280,818
Derivative instruments		24,880
Other long-term liabilities		1,215
Total noncurrent liabilities		589,365
Total liabilities		794,581
Net position		
Net investment in capital assets		93,142
Restricted		2,066
Unrestricted (deficit)		(482,556)
Total net position	$	(387,348)

See accompanying notes.

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

Statement of Revenues, Expenses and Changes in Net Position

Year Ended December 31, 2013
(*In Thousands*)

Operating revenue:	
Net patient service revenue (net of the provision for bad debts of $44,684)	$ 457,581
Other operating revenue	63,119
Investment income	163
Total operating revenue before other operating items	520,863
Operating expenses:	
Salaries and wages	248,558
Employee benefits	119,257
Supplies and other	141,891
Interest and amortization	10,404
Depreciation	20,189
Loss on disposal of capital assets	2,149
Total operating expenses before other operating items	542,448
Deficiency of operating revenue over operating expenses before other operating items	(21,585)
Other operating items:	
Employee benefits expense (unfunded portion of postemployment benefits other than pensions)	(33,279)
Change in fair value of derivative instruments	18,616
Amortization of deferred loss on refunding (interest expense)	(2,214)
Deficiency of operating revenue over operating expenses	(38,462)
Grants for capital asset acquisitions	13,800
Change in net position	(24,662)
Net position, beginning of year (as previously reported)	(353,622)
Cumulative effect of changes in accounting *(Note 2)*	(9,064)
Net position, beginning of year (as adjusted)	(362,686)
Net position, end of year	$ (387,348)

See accompanying notes.

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

Statement of Cash Flows

Year Ended December 31, 2013
(In Thousands)

Cash flows from operating activities		
Cash received from patients and third-party payers	$	467,938
Cash received from other operating revenue		49,015
Cash paid to employees		(353,851)
Cash paid to suppliers		(131,981)
Net cash provided by operating activities		31,121
Cash flows from noncapital and related financing activities		
Cash paid for interest		(7,040)
Payment of debt		(2,888)
Proceeds from Revenue Anticipation Notes		40,000
Payment of Revenue Anticipation Notes		(40,000)
Net cash used in noncapital and related financing activities		(9,928)
Cash flows from capital and related financing activities		
Purchases of capital assets		(32,915)
Payment of debt		(1,472)
Cash paid for interest, net of amounts capitalized		(3,587)
Grants for capital asset acquisitions and retirement of long-term debt		13,800
Net cash used in capital and related financing activities		(24,174)
Cash flows from investing activities		
Net change in restricted cash and cash equivalents		(1,160)
Net cash used in investing activities		(1,160)
Net decrease in cash and cash equivalents		(4,141)
Cash and cash equivalents, beginning of year		16,978
Cash and cash equivalents, end of year	$	12,837
Reconciliation of deficiency of operating revenue over operating expenses to net cash provided by operating activities		
Deficiency of operating revenue over operating expenses	$	(38,462)
Interest paid, net of amounts capitalized		10,627
Depreciation		20,189
Amortization, including refunding loss		2,164
Change in fair value of derivative instruments		(18,616)
Changes in operating assets and liabilities:		
Patient accounts receivable		236
Accounts payable and accrued expenses, accrued salaries, wages and payroll taxes and accrued vacation and sick pay		(5,023)
Due from County of Nassau – net		7,966
Due to/from third-party payers – net		9,069
Professional and other insurance liabilities		6,677
Postemployment benefits other than pensions		33,279
Net change in all other operating assets and liabilities		3,015
Net cash provided by operating activities	$	31,121

See accompanying notes.

1. Organization

Organization Structure

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 (the "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 was formed as the public benefit corporation entity with Nassau University Medical Center ("NUMC"), representing the operating body comprising all activities. NUMC is a 530-bed hospital located in East Meadow, New York. In addition to its tertiary care medical center, NUMC includes the following operating divisions: A. Holly Patterson Extended Care Facility ("AHP"), a 589-bed nursing home located in Uniondale, New York; Faculty Practice Plan ("FPP"); and health center management and services (the "Health Centers") for five treatment centers and one school-based clinic which are independently owned.

The following are active corporate entities for which NHCC has financial accountability based on certain criteria established within Governmental Accounting Standards Board ("GASB") Statement No. 61 (see Note 2):

Nassau Health Care Foundation, Inc. ("NHCF"): NHCF was incorporated on June 24, 1964 as a type B membership corporation under the New York State Not-for-Profit Corporation Law ("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

(In Thousands)

1. Organization (continued)

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 funds that can be used by the Chairman of each NHCC department for educational and mission-related purposes. In March 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.

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 on December 12, 2008 as a multi-specialty professional corporation ("PC") with the Chief Medical Officer of NHCC as its sole shareholder. The shares of NMA are expressly held by the Chief Medical Officer for the exclusive benefit of NHCC. This type of PC arrangement is a common organizational model in the State of New York. Historically, NHCC operated NUMC primarily with 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 continued operations of NMA, subject to repayment when funds are available.

(In Thousands)

1. Organization (continued)

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 2010, NHCC acquired an 80% membership interest in SOC. 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. In 2013, NHCC acquired the remaining 20% membership interest, continues to provide financial support, and the former SOC site has been added as a co-operated site with Long Island FQHC, Inc.

The financial reporting entity which results from the blending of NHCC and the above entities is collectively referred to as the "Corporation."

Additionally, NHCC is the sole member of several inactive entities, certain of which mirror the present operating divisions of NUMC but have not been operationalized. Also, Newco ALP, Inc. ("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 Care Services Agency ("LHCSA"). The ALP was intended to be a primary component of a State mandated rightsizing of AHP (see Note 11). 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 LHCSA 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 the Internal Revenue Service in April 2013. NewCo has had no operating activities since its formation. In 2014, NewCo commenced operations as an adult home pending approval of ALP status by NYSDOH.

The Health Centers provide services to Long Island FQHC, Inc. ("LIFQHC"). 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 five 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 an FQHC can be overseen: the voluntary

(In Thousands)

1. Organization (continued)

model and the public-entity model. In the voluntary model, HRSA requires the governing entity to be a not-for-profit corporation with at least 51% of the directors on the board obtaining health care services from the FQHC. In the public entity model, HRSA permits health centers to be co-operated by a public entity, such as a public benefit corporation, in conjunction with an independent not-for-profit FQHC entity, again with at least 51% of the directors of the not-for-profit board obtaining care from the FQHC. In the public entity model, the public entity's board and the not-for-profit's FQHC operate under a Co-Applicant Agreement. The Co-Applicant Agreement delineates the rights and responsibilities of each governing board, consistent with the minimum governance requirements set forth by HRSA. NHCC and LIFQHC 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. NHCC does not have financial accountability for LIFQHC based on the GASB 61 criteria (see Note 2); accordingly, LIFQHC is not a component unit of NHCC and is not included in the accompanying financial statements.

Nassau County Relationship

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.

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.

(In Thousands)

2. Summary of Significant Accounting Policies

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.

Liquidity and Operating Results

At December 31, 2013, the Corporation had a working capital deficiency of approximately ($44,631) and a deficit in its total net position of approximately ($387,348) and incurred a deficiency of operating revenue over operating expense of approximately ($38,462) for the year ended December 31, 2013. The deficit arose primarily 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 indigent care and 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 ongoing initiatives, the County is the direct-pay guarantor of the Corporation's bonds, as well as guarantor to its swap counterparties.

The Corporation also has in place a revolving credit agreement with the Captive which would allow for the use of cash invested by the Captive. This agreement has been used infrequently on a very short-term basis with amounts drawn being repaid several days subsequent to the borrowing. The agreement's terms are such that any amounts unpaid are due on demand and no later than December 31, 2015.

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

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

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, 2013, the Corporation recorded a $9,240 receivable related to the HEAL NY grant.

Management of the Corporation is also pursuing additional financial support from other New York State and federal sources available to health care providers, such as funding under the Interim Access Assurance Fund, Delivery System Reform Incentive Payment Program, Vital Access Provider grants, and other capital funding grants.

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 GASB.

All intercompany transactions and balances have been eliminated in the accompanying financial statements.

Net Position

Net position of the Corporation is composed of three components: net investment in capital assets, restricted and unrestricted. *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, 2013.

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

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.

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.

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Medicare Reimbursement

Hospitals are paid for most Medicare inpatient and outpatient services under the national prospective payment system and other methodologies of the Medicare program for certain other services. Federal regulations provide for certain adjustments to current and prior years' payment rates, based on industry-wide and 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 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 2009. 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

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

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 decreased by approximately $5,002 for the year ended December 31, 2013 for settlements related to prior years and changes in estimates made by management related to third-party payer accounts.

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.

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 $69,255 in 2013. The estimated cost of charity care, estimated using a ratio of cost to gross charges, totaled $41,110 in 2013.

2. Summary of Significant Accounting Policies (continued)

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 $5,075 for the year ended December 31, 2013 is included in other operating revenue in the accompanying statement 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.

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 uninsured populations. 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 2013 was approximately $71,400 and was recognized in net patient service revenue. The Corporation

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

received IGT payments of approximately $65,300 in 2013 and has recorded an IGT receivable of approximately $16,000 within other receivables as of December 31, 2013. The amount of IGT revenue recognized by the Corporation in 2013 specific to AHP, approximately $14,600, 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 $290,000 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 Corporation recognizes IGT assets when all of its applicable eligibility requirements are met or resources are received, whichever is first, and revenues are recognized when all of its applicable eligibility requirements or similar conditions are met.

Concentration of Credit Risk

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

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

The significant concentrations of accounts receivable for services to patients at December 31, 2013 are as follows:

Medicare	18%
Medicaid	25
Commercial	22
Commercial HMO	13
Medicare HMO	3
Medicaid HMO	6
Other	13
	100%

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

The components of net patient service revenue consist of the following for the year ended December 31, 2013:

Services provided to patients (net of contractual allowances of approximately $637,892 in 2013)	$ 430,832
Intergovernmental transfer – Federal	58,433
Intergovernmental transfer – County	13,000
Provision for bad debts	(44,684)
	$ 457,581

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 year ended December 31, 2013, revenue from the Medicaid and Medicare programs accounted for approximately 79% 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. It is the Corporation's policy to capitalize assets in excess of one hundred dollars. Depreciation is computed using the straight-line method based upon the estimated useful lives of the assets ranging from three to forty years.

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

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.

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 recorded in operations.

Derivative Instruments

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

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Investment in Limited Liability Company

The Corporation accounts for its investment in HF Management Services, LLC, a limited liability company (the "LLC"), using the equity method of accounting. For the year ended December 31, 2013, the Corporation recorded its equity in the income of the LLC of approximately $4,200.

Statement 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 for the year ended December 31, 2013:

Health care services	$ 487,242
General and administrative	55,206
	$ 542,448

Grants

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 statement of revenues, expenses and changes in net position.

Income Taxes

NHCC is exempt from Federal income taxes because of its status as a public benefit corporation.

The organization status of NHCF, LIMF, NewCo, NMA and SOC is as described in Note 1. No provision for income taxes is included in the accompanying financial statements.

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.

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Recent Adoption of GASB 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 based on the financial accountability of the primary government. 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 adopted GASB No. 61 effective January 1, 2013. Refer to the table below for further information regarding the adoption of GASB 61 on the Corporation's financial statements.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* ("GASB 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 and were adopted by the Corporation effective January 1, 2013. As a result of the adoption of GASB 65, gains or losses in connection with advanced debt refundings are recorded as either a deferred outflow (loss) or a deferred inflow (gain) of resources and amortized as an adjustment to interest expense over the original life of the refunded bonds or the life of the refunding bonds, whichever is shorter. Additionally, debt issuance costs previously were amortized over the life of the related debt. Under GASB 65, such costs are expensed as incurred. Refer to the table below for further information regarding the impact of the adoption of GASB 65 on the Corporation's financial statements.

Impact of the Adoption of GASB 61 and 65

As a result of the adoption of GASB 61, the Corporation reevaluated the legal and financial relationships it has with subsidiary and other organizations previously included in its financial statements. Based on the criteria of GASB 61 related to financial accountability and other considerations which would result in the inclusion of an entity in the primary government's financial statements, management concluded that LIFQHC should no longer be included as a

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

component within the Corporation's financial statements. The table below summarizes the impact of this change. The adoption of GASB 65 resulted in the modification of the method previously used to account for the cost of issuance associated with the Corporation's bond issuances and the reclassification of the Corporation's deferred loss on refunding to a deferred outflow of resources.

In accordance with the requirements of these new standards, the Corporation's net position as of January 1, 2013 was restated. The impact on net position and other account balances effective January 1, 2013 was as follows:

	As Previously Reported	Change Due to Adoption of GASB 61 and 65	Restated
Cash and cash equivalents	$ 16,978	$ (1,117)	$ 15,861
Patient accounts receivable	72,117	(570)	71,547
Other receivables	20,464	(520)	19,944
Due from third-party payers	20,703	(8,086)	12,617
Deferred bond issuance costs	1,006	(1,006)	–
Accounts payable and accrued expenses	57,318	(2,235)	55,083
Long-term debt	229,501	20,183	249,684
Deferred outflows of resources	–	20,183	20,183
Total net position	(353,622)	(9,064)	(362,686)

Upcoming Accounting Pronouncements

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans* ("GASB 67"). The objective of this Statement is to improve the usefulness of pension information included in the general purpose external financial reports of state and local governmental pension plans for making decisions and assessing accountability. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013. Since this standard impacts the financial reporting of pension plans, the Corporation does not anticipate that the implementation of this standard will have an impact on its financial statements.

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

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 68"), revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. GASB 68 requires governments providing defined benefit pension benefits 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 68 also enhances accountability and transparency through revised and new note disclosures and required supplementary information. GASB 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 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 7; the Corporation participates in certain cost-sharing, multiemployer defined benefit plans). GASB 68 also will improve the comparability and consistency of how governments calculate the pension liabilities and expense. The provisions in GASB 68 are effective for fiscal years beginning after June 15, 2014. The Corporation has not completed the process of evaluating the impact of GASB 68 on its financial statements.

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations* ("GASB 69"). The objective of this Statement is to improve the accounting for mergers and acquisitions among state and local governments by providing guidance specific to the situations and circumstances encountered within the governmental environment. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2013. The Corporation does not anticipate that the implementation of this standard will have an impact on its financial statements.

In February 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* ("GASB 70"). The objective of this Statement is to improve the comparability of financial statements among governments by requiring consistent reporting by those governments that extend and/or receive nonexchange financial guarantees. The

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013. The Corporation does not anticipate that the implementation of this standard will have an impact on its financial statements.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB 68* ("GASB 71"). The objective of this Statement is to address an issue regarding application of the transition provisions of GASB 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. The Corporation has not completed the process of evaluating the impact of GASB 71 on its financial statements.

3. Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents at December 31, 2013 consist of the following:

Cash and cash equivalents	$ 43,059
Certificates of deposit	1,656
Mutual funds – U.S. securities	15
U.S. Treasury bills	1,350
Total	$ 46,080

Investment income on cash and cash equivalents and restricted cash and cash equivalents consists of interest and dividend income of $163 for the year ended December 31, 2013.

(In Thousands)

4. Capital Assets

Capital asset activity for the year ended December 31, 2013 is as follows:

	December 31, 2013				
	Beginning Balance	**Additions**	**Write-offs and Disposals**	**Transfers**	**Ending Balance**
Land (non-depreciable)	$ 12,498	$ –	$ –	$ –	$ 12,498
Land improvements	14,533	–	(6)	–	14,527
Buildings and improvements	224,504	342	(8,530)	10,415	226,731
Fixed equipment	110,018	1,413	(879)	–	110,552
Movable equipment	158,061	9,259	–	3,714	171,034
Construction-in-progress	12,910	21,901	–	(14,129)	20,682
	532,524	32,915	(9,415)	–	556,024
Less accumulated depreciation	354,461	20,189	(7,266)	–	367,384
Total	$ 178,063	$ 12,726	$ (2,149)	$ –	$ 188,640

The Corporation wrote off approximately $9,415 of partially depreciated assets in 2013. The loss on disposal of these assets was approximately $2,149 for the year ended December 31, 2013. Net interest capitalized for the year ended December 31, 2013 was approximately $673.

5. Long-term Debt

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

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%	$ 2,512
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 5.24% in 2013	24,118
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% in 2013	220,840
	247,470
Net unamortized bond premium	18
Current portion	(4,522)
	$ 242,966

(In Thousands)

5. Long-term Debt (continued)

Concurrent with the September 29, 1999 acquisition of the NUMC entities by NHCC (see Note 1), $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 A, B and C Bonds (the "Series 2004 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 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 classified as a deferred outflow of resources in the accompanying statement of net position. 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 $2,214 for the year ended December 31, 2013.

(In Thousands)

5. Long-term Debt (continued)

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.

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 is reported as a liability of approximately $24,880 at December 31, 2013 in the accompanying statement of net position. The change in fair value for the year ended December 31, 2013 totaled $18,616 (increase to net position) and is reported as an other operating item in the accompanying statement of revenues, expenses and changes in net position.

(In Thousands)

5. Long-term Debt (continued)

Principal payments on long-term debt are due annually on August 1. Interest payments are due semiannually on February 1 and August 1. Estimated interest is based on the original amortization schedules. Payments applicable to long-term debt for years subsequent to December 31, 2013 are as follows:

	Principal	Estimated Interest
2014	$ 4,522	$ 9,484
2015	13,005	9,261
2016	13,545	8,754
2017	14,115	8,226
2018	14,695	7,674
2019 to 2023	81,675	29,222
2024 to 2028	87,174	13,325
2029 to 2032	18,739	695
	$ 247,470	$ 86,641

In January 2013, the Corporation issued $40,000 of taxable 2013 Revenue Anticipation Notes (“2013 RANs”) that were due in December 2013 and secured by scheduled IGT payments and other New York state payments. The 2013 RANs were repaid in full in December 2013.

(In Thousands)

6. Transactions with the County of Nassau

The following amounts are included in the accompanying statement of revenues, expenses and changes in net position, and represent transactions that occurred between the County and the Corporation during the year ended December 31, 2013:

Revenue earned from the County:	
Patient care	$ 2,406
Space charges	1,174
Non-patient care	6,714
Health insurance for retiree charges	10,406
Intergovernmental transfer – County	13,000
	33,700
County pass-through transactions:	
Amounts paid on behalf of the County	4,546
State aid and other amounts collected by the County	1,019
Total transactions with the County	$ 39,265

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 and IGT 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.

(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, 2013, 2012 and 2011 was approximately $33,445, $30,258 and $30,379, respectively. For the years ended December 31, 2013, 2012 and 2011, pension expense was approximately $37,400, $36,930 and $32,024, 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.

(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 year ended December 31, 2013, expenses related to health insurance benefits totaled approximately $58,000.

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 $4,794 for the year ended December 31, 2013.

(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, 2013 are as follows:

Annual required contribution	$ 39,353
Interest on net OPEB obligation	10,520
Adjustment to ARC	(9,533)
Contributions made (reported in operating expenses)	(7,061)
Increase in net OPEB obligation (reported as other operating item)	33,279
Net OPEB obligation – beginning of year	247,539
Net OPEB obligation – end of year	$ 280,818

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

	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2013	$ 40,340	17.5%	$ 280,818
December 31, 2012	39,897	15.8	247,539
December 31, 2011	58,356	9.6	213,930

(In Thousands)

9. Postemployment Retirement Healthcare Benefit Plan (continued)

As of December 31, 2013, the actuarial accrued liability for benefits was $368,433, all of which was unfunded. As of December 31, 2013, the covered payroll (annual payroll of active employees covered by the NYSHIP plan) was $161,738, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 227.8%.

The actuarial valuation date is January 1, 2013. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplementary information provides multi-year trend information for the actuarial accrued liability for benefits.

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

For the December 31, 2013 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.25% discount rate in 2013 and an annual health care cost trend rate of 8.00% in 2013 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.

10. Professional and Other Insurance Liabilities

For the policy years ended (or ending) September 29, 2007 to 2014, 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

(In Thousands)

10. Professional and Other Insurance Liabilities (continued)

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 March 2014, the Corporation funded approximately $1,200 to meet the Captive's minimum capital requirements at December 31, 2013.

In 2006, the Captive loaned the Corporation $10,000. The loan is re-payable on demand and has been renewed until December 31, 2014. The loan bears interest at a rate of 5% per annum, payable semiannually. Additionally, in January 2012, the Captive loaned the Corporation an additional $10,000. The loan is repayable on demand and matures on December 31, 2014. The loan bears interest at a rate of 4% per annum and is payable semiannually. At December 31, 2013, the full loan amount of $20,000 under both loans remains outstanding; such balance is eliminated in the accompanying statement of net position.

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 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, 2013, the Captive was in compliance with its minimum capital requirement due to the funding provided by the Corporation in March 2014.

(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 for the year ended December 31, 2013:

Balance at beginning of year	$ 41,968
Incurred related to:	
Current year	9,184
Prior years	3,970
Total incurred	13,154
Paid relating to:	
Current year	186
Prior years	8,287
Total paid	8,473
Balance at end of year	$ 46,649

Losses and loss adjustment expenses for incurred claims for prior years represent changes in estimates of the ultimate settlement of such losses. In 2013, the Captive experienced unfavorable loss development in which the actual settlements were worse 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, 2013.

In addition to the insurance coverage purchased from the Captive, the Corporation purchases umbrella and other coverage from commercial insurers. For the year ended December 31, 2013, insurance expense totaled $11,789.

An actuarially determined tail liability for estimated exposure from claims incurred but not reported under the Captive's claims-made coverage of approximately $1,995, based on a discount rate of 4.0% at December 31, 2013, is included in the professional and other insurance liabilities in the accompanying statement of net position.

(In Thousands)

11. Commitments and Contingencies

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. The new agreement expires on December 31, 2015. Substantively, the agreement calls for two bonus payments, one in 2013 and one in 2014, and a 4% wage increase effective January 1, 2015.

Litigation and Claims

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

Berger Commission

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

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

(In Thousands)

11. Commitments and Contingencies (continued)

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.

12. Other Operating Revenue

Other operating revenue consists of the following for the year ended December 31, 2013:

Other non-patient related County billings	$ 17,320
State aid	20,344
Health Centers – LIFQHC staffing reimbursement	6,452
Medical staff housing	970
Equity in investment in LLC	4,210
Cafeteria	450
Rotating residents	252
Parking	34
Clerkship fees	1,604
Anesthesia staffing reimbursement	3,150
Other miscellaneous revenue	8,333
	$ 63,119

(In Thousands)

13. Long-Term Debt and Other Noncurrent Liabilities

A schedule of changes in the Corporation's long-term debt and noncurrent liabilities for 2013 follows:

	Balance December 31, 2012	Additions	Deductions	Balance December 31, 2013	Amounts Due Within One Year
Long-term debt *(Note 5)*:					
2004 Series B Bonds	$ 4,997	$ –	$ (2,485)	$ 2,512	$ 2,512
2009 Series A Bonds	25,995	–	(1,877)	24,118	2,010
2009 Series B-D Bonds	220,840	–	–	220,840	–
Bond premium	65	–	(47)	18	–
Current portion	(4,360)	(162)	–	(4,522)	–
Total long-term debt	247,537	(162)	(4,409)	242,966	4,522
Other long-term liabilities:					
Professional and other insurance liabilities – non-current *(Note 10)*	37,468	2,018	–	39,486	–
Postemployment benefits other than pensions *(Note 9)*	247,539	33,279	–	280,818	–
Derivative instruments	43,496	–	(18,616)	24,880	–
Other long-term liabilities	–	1,215	–	1,215	–
Total noncurrent liabilities	$ 576,040	$ 36,350	$ (23,025)	$ 589,365	$ 4,522

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 or financial position will have on the financial statements of the Corporation.

(In Thousands)

15. Subsequent Events

In January 2014, the Corporation issued $40,000 of taxable 2014 Revenue Anticipation Notes ("2014 RANs") due in December 2014. The 2014 RANs were issued in anticipation of receipt by the Corporation of Federal IGT payments. The Corporation has pledged certain Medicaid related program payments to be received from the State of New York and certain other funds for the payment of the principal and interest on the 2014 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, 2013	–	$ 368,433	$ 368,433	0%	$ 161,738	227.8%
January 1, 2012	–	345,319	345,319	0	165,071	209.2
January 1, 2011	–	419,616	419,616	0	165,128	254.1

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*

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Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of 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, 2013, 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 26, 2014. Our report includes emphasis-of-matter paragraphs regarding accounting changes adopted in 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 26, 2014

Supplementary Information

Nassau Health Care Corporation and Subsidiaries

(Component Unit of Nassau County)

Combining Statement of Net Position

December 31, 2013

	NUMC	AHP*	Health Centers*	FPP*	NHCC, Ltd.	Foundation	Eliminations	Total
				(In Thousands)				
Assets								
Current assets:								
Cash and cash equivalents	$ 9,928	$ 2,481	$ 428	$ –	$ –	$ –	$ –	$ 12,837
Cash and cash equivalents – restricted, current portion	15,954	3,356	690	2,834	9,159	–	–	31,993
Patients accounts receivable, net	50,084	13,806	–	7,991	–	–	–	71,881
Inventories	6,956	331	–	–	–	–	–	7,287
Prepaid expenses	1,698	122	76	–	11	26	–	1,933
Other receivables	12,789	15,997	266	–	–	–	–	29,052
Due from third-party payers	868	–	–	–	–	–	–	868
Investment in NHCC, Ltd.	13,620	–	–	–	–	–	(13,620)	–
Due from County of Nassau – net	4,734	–	–	–	–	–	–	4,734
Due from other funds – net	–	41,117	–	–	26,717	–	(67,834)	–
Total current assets	116,631	77,210	1,460	10,825	35,887	26	(81,454)	160,585
Noncurrent assets:								
Cash and cash equivalents – restricted, net of current portion	–	–	–	–	9,994	4,093	–	14,087
Capital assets – net (depreciable)	154,161	11,787	10,164	–	–	30	–	176,142
Capital assets (non-depreciable)	98	12,400	–	–	–	–	–	12,498
Other assets	23,388	–	350	–	–	–	–	23,738
Total noncurrent assets	177,647	24,187	10,514	–	9,994	4,123	–	226,465
Total assets	294,278	101,397	11,974	10,825	45,881	4,149	(81,454)	387,050
Deferred outflows of resources								
Deferred loss on bond refunding	15,440	4,238	505	–	–	–	–	20,183

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

Combining Statement of Net Position (continued)

December 31, 2013

	NUMC	AHP*	Health Centers*	FPP*	NHCC, Ltd.	Foundation	Eliminations	Total
				(In Thousands)				
Liabilities								
Current liabilities:								
Accounts payable and accrued expenses	$ 41,905	$ 6,375	$ 581	$ 12	$ 87	$ –	$ (11)	$ 48,949
Accrued salaries, wages and payroll taxes	14,731	2,476	302	2,834	–	–	–	20,343
Accrued vacation and sick pay	38,365	12,924	1,567	–	–	–	–	52,856
Accrued pension benefits	37,159	8,365	2,232	–	–	–	–	47,756
Accrued interest payable	1,749	179	37	–	–	–	(900)	1,065
Due to third-party payers	–	20,066	–	500	–	–	–	20,566
Due to other funds – net	23,855	–	36,816	559	–	–	(61,230)	–
Current portion of professional and other insurance liabilities	–	–	–	–	9,159	–	–	9,159
Current portion of long-term debt	3,459	950	113	–	–	–	–	4,522
Total current liabilities	161,223	51,335	41,648	3,905	9,246	–	(62,141)	205,216
Noncurrent liabilities:								
Long-term debt	185,869	51,023	6,074	–	–	–	–	242,966
Professional and other insurance liabilities	1,995	–	–	–	37,491	–	–	39,486
Postemployment benefits other than pensions	224,036	47,992	8,790	–	–	–	–	280,818
Derivative instruments	19,847	4,175	858	–	–	–	–	24,880
Other long-term liabilities	29	–	1,186	–	5,693	–	(5,693)	1,215
Total noncurrent liabilities	431,776	103,190	16,908	–	43,184	–	(5,693)	589,365
Total liabilities	592,999	154,525	58,556	3,905	52,430	–	(67,834)	794,581
Net position								
Net investment in capital assets	92,741	(9,793)	10,164	–	–	30	–	93,142
Restricted	–	–	–	–	–	2,066	–	2,066
Unrestricted (deficit)	(376,022)	(39,097)	(56,241)	6,920	(6,549)	2,053	(13,620)	(482,556)
Total net position	$ (283,281)	$ (48,890)	$ (46,077)	$ 6,920	$ (6,549)	$ 4,149	$ (13,620)	$(387,348)

**Refer to Note 1 to the accompanying financial statements. AHP, the Health Centers and FPP are operational divisions 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, 2013

	NUMC	AHP*	Health Centers*	FPP*	NHCC, Ltd.	Foundation	Eliminations	Total
				(In Thousands)				
Operating revenue:								
Net patient service revenue (net of the provision for bad debts)	$ 370,535	$ 74,047	$ –	$ 24,994	$ –	$ –	$ (11,995)	$ 457,581
Other operating revenue	52,967	561	8,997	–	7,432	5,912	(12,750)	63,119
Investment income	132	14	4	–	902	11	(900)	163
Total operating revenue before other operating items	423,634	74,622	9,001	24,994	8,334	5,923	(25,645)	520,863
Operating expenses:								
Salaries and wages	199,213	29,910	4,720	10,563	–	4,152	–	248,558
Employee benefits	98,004	17,752	2,541	395	–	565	–	119,257
Supplies and other	122,298	13,779	2,237	14,036	13,414	872	(24,745)	141,891
Interest and amortization	8,062	2,927	315	–	–	–	(900)	10,404
Depreciation	18,472	1,021	674	–	–	22	–	20,189
Loss on disposal of capital assets	2,149	–	–	–	–	–	–	2,149
Total operating expenses before other operating items	448,198	65,389	10,487	24,994	13,414	5,611	(25,645)	542,448
(Deficiency) excess of operating revenue over operating expenses before other operating items	(24,564)	9,233	(1,486)	–	(5,080)	312	–	(21,585)
Other operating items:								
Employee benefits expense (unfunded portion of postemployment benefits other than pensions)	(26,550)	(5,687)	(1,042)	–	–	–	–	(33,279)
Change in fair value of derivative instruments	15,992	2,066	558	–	–	–	–	18,616
Amortization of deferred loss on refunding (interest expense)	(1,902)	(246)	(66)	–	–	–	–	(2,214)
(Deficiency) excess of operating revenue over operating expenses	(37,024)	5,366	(2,036)	–	(5,080)	312	–	(38,462)
Grants for capital asset acquisitions	13,800	–	–	–	–	–	–	13,800
Change in net position	(23,224)	5,366	(2,036)	–	(5,080)	312	–	(24,662)
Net position, beginning of year (as previously reported)	(259,255)	(54,087)	(35,948)	6,920	(1,469)	3,837	(13,620)	(353,622)
Cumulative effect of changes in accounting	(802)	(169)	(8,093)	–	–	–	–	(9,064)
Net position, beginning of year (as adjusted)	(260,057)	(54,256)	(44,041)	6,920	(1,469)	3,837	(13,620)	(362,686)
Net position, end of year	$ (283,281)	$ (48,890)	$ (46,077)	$ 6,920	$ (6,549)	$ 4,149	$ (13,620)	$ (387,348)

**Refer to Note 1 to the accompanying financial statements. AHP, the Health Centers and FPP are operational divisions of NUMC.*

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